Ester Industries Limited

August 23, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Term Loan	95.0	[ICRA]BBB-; reaffirmed; Outlook revised to Stable from Negative
Long term fund based	60.0	[ICRA]BBB-; reaffirmed; Outlook revised to Stable from Negative
Short Term fund Based	90.0	[ICRA]A3; reaffirmed
Short term non-fund based	126.0	[ICRA]A3; reaffirmed
Total	**371.0**	

Material Event

Ester Industries Limited (EIL) has announced its quarterly results on August 14, 2018. The company reported operating income of Rs.227.8 crore with operating profit (OPBITDA) of Rs. 26.7 crore and Profit after tax (PAT) of Rs. 7.4 crore in Q1 FY2019 against operating income of Rs. 188.5 crore with OPBITDA of Rs. 16.0 crore and net loss of Rs 0.1 crore in Q1 FY2018.

Impact of the Material Event

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and short-term rating of [ICRA]A3 (pronounced ICRA A three) for the bank lines of EIL. The outlook on the long term rating has been revised to “Stable” from “Negative”.

Rationale

The revision in the outlook takes into account the significant improvement in the profitability of the company driven by improvement in the performance of the Polyethylene Terephthalate (PET) film segment and availing of fresh term loans with longer repayment terms resulting in improvement in liquidity of the company. Owing to a pause in capacity additions in the domestic PET film industry and healthy demand growth primarily from the Fast-Moving Consumer Goods (FMCG) industry, the PET film industry has witnessed improvement in supply-demand balance leading to rise in profitability which is reflected in improved performance for EIL. The company has also availed long term loans during YTD FY2019 to the tune of ~Rs. 49.2 crore with longer repayment period and thus will provide adequate liquidity cushion to the company in the near term.

The ratings continue to factor in the established position of the company in the PET film segment and long experience of the management. The ratings are constrained by the continued subdued performance of the Specialty Polymer (SPM) segment of the company and the segment is not expected to generate adequate returns for the company in the near term. The ratings also factor in cyclical nature of PET film industry. The company does not have any major capex plans in the near term. Any large debt funded capex will remain a key rating sensitivity.

Key rating drivers

Credit strengths

Long track record and experience of the management in PET Films business: Ester has been in the business of manufacturing PET films since 1988. EIL has increased its PET film capacity in a phase-wise manner and is also engaged in manufacturing of Engineering Plastics.

Location related advantages provide some support to the cost structure: Ester's plant is located in Khatima which provides certain locational advantages like access to low cost power, access to alternative energy sources like rice husk and access to northern markets which are major demand centre for PET films.

Improvement in demand-supply balance for PET films driven by healthy demand for PET film and no major capacity additions in near term: Domestic PET film industry has witnessed improvement in demand supply balance over last few quarters driven by healthy demand for the PET film and a pause on capacity additions in the industry. As a result, PET film segment has seen significant improvement in its performance over last few quarters and the trend is expected to continue in the near term.

Credit weaknesses

Cyclical nature of PET film industry: PET film industry, being capital intensive in nature witnesses lumpy capacity additions while the demand growth remains steady leading to over-supply and pressure on margins in the years ensuing large capacity additions. The profitability of the PET segment of EIL remains exposed to the cyclicality associated with the industry as has been witnessed in the past.

Moderate capital structure driven by high debt levels and weak profitability: The capital structure of the company remains moderate given the high debt levels and moderate profitability as witnessed in recent years. EIL also has significant debt repayments lined up in the near term, which however the company should be able to meet with the improvement in profitability and availing of new term loans with longer tenure to shore up its liquidity position.

Continued underperformance of the Specialty Polymer (SPM) Segment: Specialty polymer segment continues to underperform with the recent pullback in volumes by a major client. With the outlook for the segment subdued, the returns from the segment are expected to remain unattractive in the near term for EIL.

Outlook: Stable

The stable outlook on the rating reflects expectation of continued stable performance of the PET film segment driven by improved demand supply balance in the domestic industry.

The previous detailed rating rationale is available on the following link: Click here

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	700.6	806.7
PAT (Rs. crore)	-10.9	5.3
OPBDIT/OI (%)	6.00%	8.78%
RoCE (%)	2.90%	6.88%
Total Debt/TNW (times)	1.0	1.1
Total Debt/OPBDIT (times)	6.3	4.3
Interest coverage (times)	1.3	2.2

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