EPL Limited

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	193.75 (Enhanced from 150.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	182.00	CARE AA+; Stable / CARE A1+ (Double A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**380.75 (₹ Three Hundred Eighty Crore and Seventy-Five Lakhs Only)**		
Non Convertible Debentures	40.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**40.00 (₹ Forty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of EPL Limited (hereinafter referred to as the company or EPL) continues to draw strength from the strong business risk profile driven by strong operating performance of the company during FY22 (refers to the period April 1 to March 31) and Q1FY23 amidst global challenging macroeconomic conditions, its ability to retain its established market position in the speciality packaging industry and healthy financial risk profile. The ratings also draw strength from EPL's strong business model encompassing a wide-spread geographical distribution network globally and a product portfolio for which the demand would continue to remain steady, given its essential nature of usage. The prospects of the industry also remain strong considering its diversified end usage (oral, beauty & cosmetics, pharma & health, food & nutrition, homecare etc.) and increasing preference of usage of laminated tubes for the manifold advantages it offers. The company also benefits from backward integration, as it is engaged in an end-to-end process, from manufacturing of sheets to tubes followed by printing and capping. Additionally, EPL is also benefitted from deep industry expertise of the Blackstone group.

Nevertheless, the company faced several headwinds during the year from the lingering impact of covid, unprecedented volatility and rise in the input costs, supply chain disruptions, absenteeism and overtime. The aforementioned factors led to a moderation in profitability. The input prices, which have recently been depicting a softening trend, are expected to stabilise the margins going forward. The future growth is expected to be driven by increasing contribution from margin-accretive personal care segment and commercialisation of a new project in Brazil. The debt metrics are also expected to remain comfortable although there is a moderate debt-funded capex proposed.

These strengths are, however, partially tempered due to lag effect in price pass through in respect of contracted customers and also due to increase in input cost frequently in one direction and unprecedented. CARE Ratings Limited (CARE Ratings) notes that the company is planning to enter Brazil, which is a new geography by setting up a greenfield project. Although capex execution risk is low considering EPL's track record in similar product line, its ability to establish its presence in a new geography would be monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations > ₹5,000 crore and PBILDT margins above 22-25% on a sustainable basis.
- Ability to increase its global market share significantly to 50% or above in both the segments.
- Improvement in the overall gearing below 0.20x.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in the operating cycle above 120 days on a sustained basis.
- Decline in the PBILDT margin in the range of 12%-14% on a sustainable basis.
- Any large debt-funded organic or inorganic investment leading to deterioration in the overall gearing above 0.75x.

Detailed description of the key rating drivers

Key rating strengths

Presence of strong promoter group, supported by experienced management: EPL's promoter is the Blackstone group, which holds 51.91% stake in EPL as on June 30, 2022, and is one of the leading investment firms in the world, with an asset under management (AUM) of around USD 511 billion across sectors like private equity, real estate, hedge fund solutions and credit businesses. The group has an exposure in the packaging industry through acquisition of varied companies, such as the USA-based Graham Packaging, Owens-Illinois Inc, Ohio and China-based packaging firm, ShyaHsin. The onboarding of the Blackstone group has also improved the financial flexibility of EPL and would also support enhancing EPL's global market share growth, both in the oral and the personal care segments. Mr. Anand Kripalu, who is the MD and CEO of EPL, has more than 30 years of experience in the fast-moving consumer goods (FMCG) industry, and is supported by a team of experienced professionals.

Established global market position with a strong and well-diversified business & product profile: EPL is in the business of manufacturing of multilayer plastic-laminated collapsible tubes, which are used in packaging of oral care, beauty and cosmetics, pharma, food, home and industrial products. It is engaged in an end-to-end backward-integrated process starting right from manufacturing of laminates to conversion into tubes followed by printing and capping. EPL is a global player with their facilities located across multiple geographies divided into regional setups such as AMESA (Africa, Middle East & South Asia - India and Egypt), EAP (East Asia Pacific – China and Philippines), Americas (USA, Mexico and Colombia) and Europe (UK, Poland, Russia and Germany). Erstwhile catering primarily to packaging in the oral care segment, EPL has gradually diversified to other personal care segments, such as Beauty & Cosmetics, Pharma & Health, Foods, etc.
In the oral care segment, EPL commands almost 36% of the market share globally and it is endeavouring to increase its share in the personal care segment where it foresees strong potential going forward. Although oral care, i.e., toothpaste forms a large part of the product portfolio, revenue dependency is mitigated by its essential day-to-day use nature and stable demand. EPL has long-standing relationship with reputed clientele, such as P&G, Colgate, Unilever, GSK, Reckitt Benckiser, Johnson & Johnson, Dabur, Emami, Himalaya, Patanjali, Loreal etc.

Strong performance during challenging business scenario; margins tempered, likely to recover gradually: Although Covid - 19 related challenges started to subside in FY22, headwinds emerged on other fronts, viz., unprecedented volatility and rise in the input costs, supply chain disruptions, absenteeism and overtime. Nevertheless, EPL has delivered a strong operational performance reporting a y-o-y growth of 11% in TOI from FY21 to FY22. The growth was mainly led by AMESA, EAP and AMERICAS regions. The demand was impacted in EUROPE on account of the Beauty and Cosmetic category due to Covid-19 and partly in EAP due to the covid related lockdown in China towards the end of the year. Despite EPL achieving a y-o-y growth in the revenue, the higher RM costs in a volatile environment along with inflationary pressure impacted its profitability margins negatively. Following high input costs and high freight environment, PBILDT margins of EPL resultantly declined by 320 bps from 20% in FY21 to 16.80% in FY22. Although key RM prices seem to be showing modest signs of softening towards the end of Q1FY23, however, they continue to remain higher than historical average at which the company's profitability margins were healthy. To counter the increase in RM costs, EPL is undertaking price increase to the customers, accelerated cost savings, and improvement in procurement and production planning process.

Margin accretive personal care segment and expansion in new geography to be key growth drivers: Erstwhile catering only to the oral segment and few segments under personal care (mainly face care), EPL, over the past few years, has diversified into multiple sub-categories of personal care (viz., hair care, beauty cosmetics, pharma, food products, etc.). The personal care segment is a margin-accretive segment (requires more customisation and innovation in terms of printing, visual appeal, etc). In the oral care segment, EPL already has a strong market share of 36% globally, whereas it has relatively moderate market share of single digit globally in the Personal care segment, and hence, envisages more opportunities in the latter. The personal care segment has grown at a 15.3% compounded annual growth rate (CAGR) over the last 10 years as compared with the relatively stable oral care segment, which has grown at a CAGR of 10.1% over the same period. EPL shall also be expanding through a project in Brazil, which will open new categories to tap into. The offtake risk is low and the revenues are expected to accrue from FY24 onwards.

Debt metrics to remain comfortable despite debt-funded capex planned: Due to high input costs, EPL's overall retained earnings (accretion to net worth) were lower in FY22 than the previous year. EPL also incurred higher financing cost in working capital due to supply chain disruption, RM price rise and incurred higher investment in capital expenditure to create future capabilities. The above factors resulted in marginal decline in the debt metrics, nevertheless stood comfortable. EPL's overall gearing stood at 0.46x as on March 31, 2022 (P.Y. 0.42x).
However, despite higher debt, better negotiation and lower interest rates resulted in interest costs remaining under control. Going forward, EPL is undertaking a capex of ₹130 crore in Brazil in addition to regular growth capex in its existing facilities. However, with expected tempering of RM prices going forward, CARE Ratings expects working capital requirement to be comparatively lower. Along with scheduled term debt installment repayment and expected higher cash accruals, EPL's debt metrics are expected to continue remaining comfortable going forward.

Key rating weaknesses

Exposure to raw material volatility & forex fluctuation: The major RM consumed is polymer granules (linear low-density polyethylene [LLDPE], high-density polyethylene [HDPE], which is a derivative of crude oil and is highly sensitive to any volatility in crude oil prices, thereby exposing the operating performance of the company. To mitigate such risk, the long-term contracts executed with the company's oral care customers have inbuilt a RM cost escalation pass through clause albeit with a lag of three months. The global nature of operations exposes the company's margins to fluctuations in foreign exchange rates. The forex risk is mitigated by minimising cross currency transactions, using natural hedge and the use of currency forwards.

Moderate competition from unorganised segment: EPL faces competition from unorganised players due to low entry barriers in the industry. However, EPL's scale, technology, integrated manufacturing process, innovation capability and operational efficiencies are factors which further strengthen its competitive advantage and ability to withstand competition.

Liquidity: 'Strong' - As on March 31, 2022, the company's cash and cash equivalents stood at around ₹188 crore on a consolidated basis (P.Y.: ₹237 crore). These are maintained in current account and short-term deposit with the banks. The company has an overall gearing of below 0.50x, which provides sufficient headroom for debt, if required, although EPL does not have a high propensity of undertaking aggressive debt-funded capex. EPL has scheduled debt repayment of ₹132.70 crore in FY23 and it is expected to generate gross cash accruals (GCA) of ₹450 crore annually, which are sufficient to meet debt repayment. The company has access to capital market avenues and good market reputation to raise capital or refinance high-cost debt if need arises. On a standalone basis, the company's fund-based working capital limit utilisation stands low thus providing additional liquidity cushion. The working capital borrowings are largely in overseas subsidiaries.

Analytical approach

The consolidated financials of EPL have been considered for analytical purposes owing to the financial and operational linkages between the company and its subsidiaries. The list of companies considered in consolidation as on March 31, 2022, is provided in **Annexure-6.**

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Rating Outlook and Credit Watch
Manufacturing Companies

About the company

EPL Limited, founded in 1982, is a global manufacturer of laminated plastic tubes and laminates. Its products are extensively used in the packaging of products across categories, such as oral care, beauty and cosmetics, pharma and health, foods, and home care. EPL is one of the world's largest manufacturers holding oral care market share of around one-third in volume terms globally with business in four geographical segments, namely, Americas (with operations in the USA, Mexico, and Colombia), Europe (with operations in the UK, Germany, , Poland), AMESA (Africa, Middle East & South Asia – with operations in Egypt and India) and EAP (East Asia Pacific, with operations in China and Philippines). EPL functions through 20 facilities in 9 countries, selling approximately 8 billion tubes on an annual basis.

Brief Financials (₹ crore): Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	3,091.60	3,432.80	831.80
PBILDT	615.03	578.30	125.60
PAT	244.30	221.30	35.00
Overall gearing (times)	0.42	0.46	-
Interest coverage (times)	14.25	14.31	10.64

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	FY28	193.75	CARE AA+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	30.00	CARE AA+; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	112.00	CARE AA+; Stable / CARE A1+
Fund-based-Short term	-	-	-	-	5.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	40.00	CARE AA+; Stable / CARE A1+
Non-convertible debentures	INE255A08AX9 INE255A08AY7	December 14, 2020	6.50%	June 14, 2023	40.00	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	193.75	CARE AA+; Stable	1)CARE AA+; Stable (30-Aug-22)	1)CARE AA; Stable (07-Sep-21)	1)CARE AA; Stable (11-Sep-20)	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (CWD) (03-May-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	30.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (30-Aug-22)	1)CARE AA; Stable / CARE A1+ (07-Sep-21)	1)CARE A1+ (11-Sep-20)	1)CARE A1+ (30-Sep-19) 2)CARE A1+ (03-May-19)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	112.00	CARE AA+; Stable	1)CARE AA+; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (07-Sep-21)	1)CARE AA; Stable (11-Sep-20)	1)CARE AA; Stable (30-Sep-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
				/ CARE A1+	(30-Aug-22)			2)CARE AA (CWD) (03-May-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	-	-	-	1)Withdrawn (30-Sep-19) 2)CARE AA / CARE A1+ (CWD) (03-May-19)
5	Non-fund-based - LT-BG/LC	LT	-	-	-	-	1)Withdrawn (11-Sep-20)	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (CWD) (03-May-19)
6	Fund-based-Short Term	ST	5.00	CARE A1+	1)CARE A1+ (30-Aug-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1+ (11-Sep-20)	1)CARE A1+ (30-Sep-19) 2)CARE A1+ (03-May-19)
7	Fund-based/Non-fund-based-LT/ST	LT/ST*	40.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (30-Aug-22)	1)CARE AA; Stable / CARE A1+ (07-Sep-21)	1)CARE AA; Stable / CARE A1+ (11-Sep-20)	1)CARE AA; Stable / CARE A1+ (30-Sep-19) 2)CARE AA / CARE A1+ (CWD) (03-May-19)
8	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (07-Sep-21)	1)CARE AA; Stable (11-Sep-20)	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (CWD) (03-May-19)
9	Debentures-Non Convertible Debentures	LT	40.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Aug-22)	1)CARE AA; Stable (07-Sep-21)	1)CARE AA; Stable (04-Dec-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Particulars		Detailed explanation
A.	**Financial covenants**	
i)	Debt service coverage ratio	Should not be below 1.20x
ii)	Total debt/PBILDT	Should not exceed 3.0x
B.	**Non-financial covenants/Promoter covenants**	The promoter group shall hold minimum 51% equity stake in the company. The promoter group shall exercise

Particulars	Detailed explanation
	management control over the issuer at all times till tenor of the NCD.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based-Short term	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure-6:

Particulars of subsidiaries as on March 31, 2022 (March 31, 2021)	% holding (direct + indirect)	Country of Incorporation
Direct subsidiaries		
Arista Tubes, Inc.	100% (100%)	USA
Lamitube Technologies (Cyprus) Ltd	100% (100%)	Cyprus
Lamitube Technologies Ltd	100% (100%)	Mauritius
Creative Stylo Packs Pvt Ltd	72.46% (72.46%)	India
Step-down subsidiaries		
EPL MISR for Advanced Packaging S.A.E	75% (75%)	Egypt
EPL Packaging (Guangzhou) Ltd	100% (100%)	China
EPL Packaging (Jiangsu) Ltd	100% (100%)	China
EPL Propack Philippines, Inc.	100% (100%)	Philippines
MTL DE Panama, SA	100% (100%)	Panama
EPL Propack UK Limited	100% (100%)	United Kingdom
EPL Deutschland Gmbh& Co. KG	100% (100%)	Germany
EPL Deutschland Management GMBH	100% (100%)	Germany
EPL Propack de Mexico, SA de CV	100% (100%)	Mexico
Tubopack de Columbia S.A.S*	100% (100%)	Colombia
Laminate Packaging Columbia S.A.S.	100% (100%)	Colombia
EPL Propack LLC	100% (100%)	Russia
EPL Poland Sp z.o.o	100% (100%)	Poland
EPL America, LLC	100% (100%)	USA
Associate		
P.T. Lamipak Primula	30%	Indonesia

*Liquidated in June 2022

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Arti Roy
Phone: +91-22-6754 3456
E-mail: arti.roy@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in