EPL Limited
(Formerly known as Essel Propack Limited)

September 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	150.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	50.00 (Enhanced from 47.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Long-term / Short-term Bank Facilities	30.00 (Enhanced from 25.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed and reclassified from Short term to Long Term/ Short Term
Long-term / Short-term Bank Facilities	120.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed and reclassified from Long term to Long Term/ Short Term
Short-term Bank Facilities	5.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**355.00 (Rs. Three hundred fifty five crore only)**		
Non-Convertible Debentures	50.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	-	-	Withdrawn
Total Long-term Instruments	**50.00 (Rs. Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of EPL Limited (hereinafter referred to as the company or EPL) takes into consideration the established global market position of the company in the laminated tubes segment and its long-standing relationship with reputed global clientele. The financial risk profile continued to remain strong, characterized by low overall gearing and healthy debt coverage indicators. The ratings assigned also factor in stable operational performance of EPL despite challenging macro-economic scenario owing to outbreak of COVID-19. The prospects are also favourable for the industry in which EPL operates with many product categories such as food, pharma, etc., shifting to laminated tubes, thereby replacing traditional packaging such as bottles and age-old aluminium tubes.

Additionally, EPL is also benefitted from deep industry expertise of the Blackstone group.

These strengths are, however, tempered by limited pricing flexibility in oral care segment, where the profitability is constrained to an extent. Moreover, volatility in raw material prices and foreign exchange fluctuation risk are few of the risk factors affecting EPL's profitability which management addresses through measures like pass through contracts and other forex risk management measures.

CARE Ratings has withdrawn the ratings assigned to the long-term instruments (non-convertible debentures), bearing ISIN number: INE255A08AV3 post redemption and receipt of No Dues Certificate from the Debenture Trustee.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Improvement in the scale of operations > Rs.5,000 crore and PBILDT margins in range of 22% - 25% on a sustainable basis
- Improvement in Overall Gearing below 0.25x

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 PBILDT margin in the range of 15%-17% 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 51.96% stake in EPL as on March 31, 2021 (P.Y.74.99%) is one of the leading investment firms in the world with an 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. Mr Anand Kripalu, who has been appointed as the MD & CEO of EPL has more than 30 years of experience in fast-moving consumer goods (FMCG) industry is supported by a team of experienced professionals.

Established global market position with a strong and diversified business 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 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 including India), 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 oral care segment, EPL has gradually diversified to other personal care segments such as Beauty & Cosmetics, Pharma & Health, Foods, etc. With heightened awareness on personal hygiene in the backdrop of Covid-19 pandemic, EPL started catering to tube-based hand sanitizer tubes and handwash segment in FY21 (refers to the period April 1 to March 31). In the oral care segment, EPL commands almost one-third 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. During FY21, EPL also acquired 72.46% stake in Creative Stylo Packs Ltd (CSPL, a reputed manufacturer of laminated tubes, plastic co-ex tubes, caps and corrugated boxes) to complement its existing product profile, categories and customers. The remaining 27.54% stake will be purchased through issuance of EPL shares to founders of CSPL post the merger process which is currently underway. EPL has long-standing relationship with reputed clientele such as P&G, Colgate, Unilever, GSK, Reckitt Benckiser, Johnson & Johnson, Dabur, Emami, Himalaya, Patanjali, etc.

Sustained stable operational performance, during challenging economic scenario

EPL has delivered a stable operational performance reporting a y-o-y growth of 12% in consolidated total operating income (TOI) from Rs.2,769 crore in FY20 to Rs.3100 crore in FY21. This was achieved despite challenging macroeconomic conditions and disruptions caused by the Covid-19 pandemic. Focus on higher-margin personal care segment, product innovation extended to hand sanitizers tube/handwash and improved performance in Europe were some of the key growth drivers. During FY21, personal care segment contributed to 46% of the total sales (P.Y. 45%) with the balance 54% (P.Y. 55%) being contributed by the oral care segment. Despite covid-related headwinds in Beauty & Cosmetics, personal care segment held its share owing to increased demand of Hygiene Products, i.e., tube-based sanitizers and hand wash. Personal Care has grown at a 15.70% compounded annual growth rate (CAGR) over the last ten years (v/s 10% CAGR for Oral Care over last ten years) and is expected to continue being major growth driver going forward. The PBILDT margins was maintained at around 20% during FY21, primarily supported by cost optimization and productivity improvement measures implemented post Blackstone's acquisition. During Q1FY22, the company's consolidated TOI increased at a comparatively lower rate of 7.80% (due to shutdown of Russia manufacturing operations and hand sanitizer pipeline filling in Q1FY21), as it was partly impacted by lingering effect and further uncertainty surrounding second wave of outbreak. The PBILDT margins also moderated to 18.64% during Q1FY22 on account of steep increase in raw material prices and higher freight operating environment globally.

Strong financial risk profile

EPL's financial risk profile is supported by healthy profitability, strong cash flows and debt coverage indicators. Overall gearing (consolidated) improved to 0.42x as on March 31, 2021 (P.Y. 0.51x). Strong operating cash flows, prudent capital allocation and lower interest rates resulted in finance cost lower by 22.8% in FY21 compared with FY20. The interest coverage ratio thus improved to 14.45x during FY21 (P.Y. 10.18x). EPL follows the policy of keeping the average capex (which includes both replacement and capacity addition) for a year equal to the depreciation amount; except for some strategic opportunities such as M&A which may entail higher capital outlay. The acquisition of CSPL during FY21 was carried out through internal accruals. The company's overall gearing of below 0.50x provides sufficient headroom for raising debt, if required although EPL does not have a high propensity of undertaking very aggressive debt-funded capex. EPL management has indicated likelihood of raising debt of around Rs.150 crore to incur modular capex over the next 1-2 years, subject to availability of competitive interest rates and prevailing market conditions.

Key Rating Weaknesses

Exposure to raw material volatility & forex fluctuation

The major raw material 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 raw material cost escalation pass through clause albeit with a short lag of 3 months. The global nature of operations exposes the company's margins to fluctuations in foreign exchange rates. Forex risk is mitigated by minimizing cross currency transactions, using natural hedge and the use of currency forwards.

Moderate competition from unorganized segment

EPL faces competition from unorganized 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 competitiveness and ability to withstand competition.

Industry Outlook

Tube as a packaging format is being increasingly preferred for products in paste/ gel/ cream/ointment base and even viscous liquid form for reasons of ease of dispensing, convenience, resource reduction, capability for branding and decoration. They are ideal packaging solution as they are light, offer a tough barrier, and protect the product from sunlight, air, and moistures, making it a reliable product to transport goods over long distances. In Pharmaceuticals, use of high barrier, safe laminated tubes with features like tamper evidence, anti - counterfeit & innovative dispensing tubes are replacing age old aluminium tubes. Categories like shampoo, foods, nutrition & home care are also now seeing tubes as replacement to bottles & other traditional packaging. Additionally, exponentially expanding e-commerce market and rising demand for packaged foods have a direct bearing on the packaging sector. These ensure huge growth opportunities for the company.

Liquidity indicator: Strong

As on March 31, 2021, the company's unencumbered cash and cash equivalents stood at around Rs.237 crore on a consolidated basis and Rs.17 crore on a standalone basis. The company's liquidity is also supported by a current ratio above unity. The company has made debt repayments of Rs.12 crore in Q1FY22 out of total scheduled borrowing repayments of Rs. 66 crore in FY22. The company's gross cash accruals are sufficient to meet debt repayment obligations. EPL's average utilisation of fund-based limits (including CP) for last 12 months ending June 30, 2021, was around 25%, whereas non-fund-based limits utilization was negligible.

Analytical approach: Consolidated

The consolidated financials of EPL have been considered for analytical purposes owing to financial and operational linkages between the company and its subsidiaries. The consolidated financials include the financials of four direct subsidiaries, fourteen step-down subsidiaries and one associate company. CARE Ratings has also considered the business and risk profile of CSPL, which became a subsidiary of EPL w.e.f. February 1, 2021. The list of companies considered in consolidation as on March 31, 2021, is provided in Annexure-6

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Consolidation
Rating Methodology- Manufacturing Companies
Financial ratios-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

EPL Limited (erstwhile Essel Propack 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, 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, Russia, 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 nineteen facilities in nine countries, selling approximately 8 billion tubes on an annual basis.

Brief Financials (Rs. crore) : Consolidated	FY20 (A)	FY21 (A)
Total operating income	2769	3100
PBILDT	566	620
PAT	212	244
Overall gearing (times)*	0.51	0.42
Interest coverage (times)	10.18	14.45

A: Audited
**Debt Inclusive of LC acceptances and lease liabilities as per Ind-AS 116*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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 no.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Dec 2025	150.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	30.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	120.00	CARE AA; Stable / CARE A1+
Fund-based-Short Term		-	-	-	5.00	CARE A1+
Non-fund-based-LT/ST		-	-	-	50.00	CARE AA; Stable / CARE A1+
Debentures-Non Convertible Debentures	-	December 21, 2017	7.80% pa	December 21, 2020	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE255A08AW1 INE255A08AX9 INE255A08AY7	December 14, 2020	6.50% pa	June 14, 2023	50.00	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (11-Sep-20)	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (CWD) (03-May-19)	1)CARE AA; Stable (24-Aug-18)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	30.00	CARE AA; Stable / CARE A1+	-	1)CARE A1+ (11-Sep-20)	1)CARE A1+ (30-Sep-19) 2)CARE A1+ (03-May-19)	1)CARE A1+ (24-Aug-18)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	120.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable (11-Sep-20)	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (CWD) (03-May-19)	1)CARE AA; Stable (24-Aug-18)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	1)Withdrawn (30-Sep-19) 2)CARE AA / CARE A1+ (CWD) (03-May-19)	1)CARE AA; Stable / CARE A1+ (24-Aug-18)
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)	1)CARE AA; Stable (24-Aug-18)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (24-Aug-18)
7.	Fund-based-Short Term	ST	5.00	CARE A1+	-	1)CARE A1+ (11-Sep-20)	1)CARE A1+ (30-Sep-19) 2)CARE A1+ (03-May-19)	1)CARE A1+ (24-Aug-18)
8.	Non-fund-based-LT/ST	LT/ST	50.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (11-Sep-20)	1)CARE AA; Stable / CARE A1+ (30-Sep-19)	1)CARE AA; Stable / CARE A1+ (24-Aug-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
							2)CARE AA / CARE A1+ (CWD) (03-May-19)	
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (11-Sep-20)	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (CWD) (03-May-19)	1)CARE AA; Stable (24-Aug-18)
10.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Dec-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / 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	Promoter Group shall hold minimum 51% equity stake in the company. Promoter Group shall exercise 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 the 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

Click here to view Bank Lender Details

Annexure 6: List of subsidiaries in consolidation

Particulars of subsidiaries as on 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 Stylopack Pvt Ltd (w.e.f. Feb 1, 2021)	72.46% (Nil)	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
Essel Propack Philippines, Inc.	100% (100%)	Philippines
MTL DE Panama SA Panama	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	100% (100%)	Colombia
Laminate Packaging Columbia S.A.S.	100% (100%)	Colombia
LLC EPL Propack	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

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

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