EPL Limited

October 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	193.75	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	182.00	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	5.00	CARE A1+	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities 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 FY23 (refers to the period April 1 to March 31) and Q1FY24 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 continue to 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. 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-19 in China, unprecedented volatility in the input costs and devaluation of Egyptian pound as a result of which the earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins moderated to 15.65%. The input prices, which have recently been depicting a softening trend, are expected to stabilise the margins going forward. In Q1FY24, the EBITDA margin recovery has persisted. EPL reported EBITDA margin of 18.37%, an improvement of 284 basis points year-on-year. 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 despite a proposed debt-funded capex.

These strengths are, however, partially tempered due to lag effect in price pass through in respect of contracted customers and competitive intensity of the business. CARE Ratings Limited (CARE Ratings) notes that the company has entered 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.

CARE has withdrawn the rating assigned to Non-Convertible Debenture (ISIN - INE255A08AX9 and INE255A08AY7) as the same has been repaid in full and there is no outstanding against the same.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations > ₹5,000 crore and profit before interest, lease rentals, depreciation and taxation (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.

Negative factors

- 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.

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

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, 2023, is provided in **Annexure-6.**

Outlook: Stable

The stable outlook reflects the sustenance of the improvement in the operating and financial risk profile of the company amidst healthy cash flow generation from operations and absence of any large debt-funded capex or acquisition plans in the medium term.

Detailed description of the key rating drivers:

Key strengths

Presence of strong promoter group, supported by experienced management: EPL's promoter is the Blackstone Group, which holds 51.53% stake in EPL as on June 30, 2023, and is one of the leading investment firms in the world, with an asset under management (AUM) of around USD 1 Trillion 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 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, Brazil 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 37% 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 globally.

Steady performance during challenging business scenario: FY23 continued to be challenging environment persisting for a major part of the year, impacting businesses globally. Nevertheless, EPL has delivered a steady performance reporting a y-o-y growth of 7.7% in total operating income (TOI) from FY22 to FY23. The growth was driven by AMESA, EUROPE and AMERICAS posting double digit revenue growth while EAP was subdued due to the pandemic. Also, AMESA was partly impacted by devaluation of Egyptian pound. 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, the PBILDT margins of EPL resultantly declined by 115 bps from 16.80% in FY22 to 15.65% in FY23. 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. In Q1FY24, EPL reported EBITDA margin of 18.37%, an improvement of 284 basis points year-on-year.

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). The personal care segment has grown at a 15 % compounded annual growth rate (CAGR) over the last 12 years as compared with the relatively stable oral care segment, which has grown at a CAGR of 10.1% over the same period. EPL has expanded through a project in Brazil, which will open new categories to tap into. The offtake risk is low and the revenues are expected to ramp up from FY25 onwards.

Debt metrics to remain comfortable: Due to high input costs- and dividend payout, EPL's overall retained earnings (accretion to net worth) were lower in FY23 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. Furthermore, there was increase in the term loan position from ₹ 440.60 crore in FY22 to ₹ 648.60 crore in FY23, majorly on account of increase in the term loan to fund the greenfield project in Brazil, along with term loans availed in other geographies. The above factors resulted in marginal decline in the debt metrics, nevertheless stood comfortable. EPL's overall gearing stood at 0.49x as on March 31, 2023 (P.Y. 0.46x).

However, despite higher debt, better negotiation and lower interest rates resulted in interest costs remaining under control. EPL has undertaken a capex of around ₹240 crore till June 2023 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 instalment repayment and expected higher cash accruals, EPL's debt metrics are expected to continue remaining comfortable going forward.

Key weaknesses

Exposure to raw material volatility and 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. Loss on account of exchange difference was ₹ 21.3 crore for FY23 (P.Y. ₹ 2.2 crore) which was mainly due to 36% depreciation of Egyptian pound. 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, 2023, the company's cash and cash equivalents stood at around ₹ 240 crore on a consolidated basis (P.Y. ₹ 188 crore). The company's liquidity is also supported by a current ratio above unity. EPL has scheduled debt repayment of ₹ 214 crores including lease liability and NCD already paid in FY24 and it is expected to generate gross cash accruals (GCA) of around ₹ 450 to 500 crore annually which are sufficient to meet debt repayment. 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. Working capital borrowings are largely in overseas subsidiaries.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	The company faces environmental risks related to compliance with that are inherent to the packaging industry as a result of polymer usage. By focusing on recyclable products, the company is driving more and more sustainable solutions, and is focussed on improving its manufacturing and process efficiencies.
Social	EPL undertakes its welfare activities directly and through its CSR activities and spent around ₹ 3.29 crores in FY23. The company has focused primarily on upgradation of educational facilities, educational assistance to downtrodden and economically deprived students of the society, promoting healthcare including sanitation and preventive healthcare, employment enhancing vocation skills amongst industrial workers etc.
Governance	Neither governance issues as per auditor's report nor any qualified opinion.

Applicable criteria

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

About the company and industry

Industry classification

Macro economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Packaging

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, Brazil, 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 10 countries, selling approximately 8 billion tubes on an annual basis.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	3,432.80	3,694.10	910.20
PBILDT	578.30	578.20	169.00
PAT	221.30	230.70	55.60
Overall gearing (times)	0.46	0.49	-
Interest coverage (times)	14.31	8.58	7.19

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE255A08AX9 INE255A08AY7	14/12/2020	6.50%	14/06/2023	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	08/09/2027	193.75	CARE AA+; Stable
Fund-based-Short Term		-	-	-	5.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	40.00	CARE AA+; Stable / CARE A1+
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+

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	193.75	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Oct-22) 2)CARE AA+; Stable (30-Aug-22)	1)CARE AA; Stable (07-Sep-21)	1)CARE AA; Stable (11-Sep-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	30.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (06-Oct-22)	1)CARE AA; Stable / CARE A1+ (07-Sep-21)	1)CARE A1+ (11-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						2)CARE AA+; Stable / CARE A1+ (30-Aug-22)		
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	112.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (06-Oct-22) 2)CARE AA+; Stable / CARE A1+ (30-Aug-22)	1)CARE AA; Stable / CARE A1+ (07-Sep-21)	1)CARE AA; Stable (11-Sep-20)
4	Non-fund-based - LT-BG/LC	LT	-	-	-	-	-	1)Withdrawn (11-Sep-20)
5	Fund-based-Short Term	ST	5.00	CARE A1+	-	1)CARE A1+ (06-Oct-22) 2)CARE A1+ (30-Aug-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1+ (11-Sep-20)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	40.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (06-Oct-22) 2)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)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Sep-21)	1)CARE AA; Stable (11-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
8	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA+; Stable (06-Oct-22) 2)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 covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
Debt service coverage ratio	Should not be below 1.20x
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.

Annexure-4: Complexity level of the various instruments rated.

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: Lender details

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

Annexure 6:

Particulars of subsidiaries as on March 31, 2023 (March 31, 2022)	% 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 #	Nil (72.46%)	India

Particulars of subsidiaries as on March 31, 2023 (March 31, 2022)	% holding (direct + indirect)	Country of Incorporation
EPL Brasil LTDA@	100%(Nil)	Brazil
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*	Nil (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

Amalgamated with Holding Company on September 16, 2022.
* Completed voluntary dissolution process on June 30, 2022.
@ Incorporated on May 25, 2022.

Note on the 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.

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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.

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