Essel Propack Limited

September 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	270 (enhanced from 220)	**CARE AA; Stable [Double A; Outlook: Stable]**	**Reaffirmed**
Short term Bank Facilities	30 (enhanced from 5)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Long-term/Short-term Bank Facilities	47 (reduced from 117)	**CARE AA; Stable/CARE A1+ [Double A; Outlook: Stable/ A One Plus]**	**Reaffirmed**
Total	**347 (Rs. Three Hundred and Forty Seven crore only)**		
Non-Convertible Debenture (NCD)	50.00	**CARE AA; Stable [Double A; Outlook: Stable]**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of ratings is owing to stable operational performance of EPL despite challenging macro-economic scenario owing to outbreak of COVID-19. EPL's leading market position in laminated tubes resulted in strong operational performance and stable profitability margins. The company is also benefitted from wide spread geographical outreach coupled with established and reputed clientele. The financial risk profile continued to remain strong characterized by low overall gearing and healthy debt protection metrics. Additionally, EPL is also benefitted from deep industry expertise of Blackstone Group for onboarding new customers in personal care as well as oral care segments thereby increasing market penetration across globe.

These strengths are however tempered by limited pricing flexibility in oral care segment, where the profitability is constrained to an extent. The oral care segment contributed 55% of overall revenue in FY20. Moreover, volatility in raw materials 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 & other forex risk management measures. Further, the ongoing economic slowdown owing to COVID-19 is expected to have an impact on growth in personal care segment.

The management's ability to increase share of non-oral care segment while maintaining its present market share and improve profitability margins would remain key rating sensitivities.

Key rating sensitivities

Positive factors:

- Improvement in PBILDT margins in the range of 22% to 25% on a sustainable basis
- Improvement in ROCE above 20% through improvement in cash flows

Negative factors

- Increase in operating cycle above 120 days on a sustained basis
- Decline in PBILDT margin in the range of 15%-17% on a sustainable basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group – Blackstone group (post acquisition of the majority stake from the earlier promoter group i.e. Ashok Goel Trust)

On August 22, 2019, the Blackstone group acquired a majority stake in the company. The Blackstone Group have taken control over the board of the company and has accordingly become its promoter.

The Blackstone Group 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 Group's operating professionals have deep industry expertise which helped EPL in on boarding new customers in AMERICAS and EUROPE region in both oral care and personal care segments. The acquisition of the controlling stake by Blackstone Group has improved financial flexibility of the company owing to superior financial strength of the group.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Additionally, in April, 2020 Mr. Sudhanshu Vats is appointed as MD and CEO of Essel Propack Limited. Mr. Vats has more than 28 years of experience in FMCG and Media industries.

Established and strong business profile

The Laminated Plastic Tubes produced by EPL are extensively used in the packaging of products across categories such as Beauty & Cosmetics, Pharma & Health, Foods, Home and Oral Care. EPL functions through 20 state of the art facilities in eleven countries, operated through its direct and step down subsidiaries and associates. The company is selling around 8 billion tubes annually. In India, it enjoys huge franchise having pioneered laminated tubes over three decades and is an established player providing innovative packaging solutions. The company has limited competition owing to its huge scale of operations and niche product offering. The company operates in all major geographies resulting in competitive advantage.
It has established strong relationships with reputed multi-national and Indian clients such as P&G, Colgate, Unilever, GSK, Reckitt Benckiser, Johnson & Johnson, Dabur, Emami, Himalaya, Patanjali, etc. Established client base, versatile product mix and long term contracted revenue in Oral Care segment provide comfort of being the preferred supplier of tubes.

Geographically diversified revenue base

EPL's 20 state of the art facilities in eleven countries are classified into four geographical segments viz. Americas (USA, Mexico and Colombia), Europe (UK, Germany, Poland and Russia), AMESA (Africa, Middle East & South Asia with operations in Egypt and India) and EAP-East Asia Pacific (with operations in China and Philippines). Sales remain well diversified across the geographical segments. Such globally diversified presence assists EPL to mitigate the geopolitical and macroeconomic risks emanating from specific region/country.

Sustained strong operational and financial performance

During FY20, the consolidated revenue grew by a low 1.37% y-o-y to Rs. 2,768 crore (as compared to Rs. 2,730 crore in FY19) owing to de-growth in sales in AMESA and EAP segment due to COVID-19 outbreak during the Q4FY20. Post-acquisition, Blackstone Group implemented cost optimization and productivity improvement measures that resulted in improved profitability. The company's PBILDT margins improved to 20.45% in FY20 compared to 19.19% in previous year.
In Q1FY21, the company recorded revenue from operations of Rs.746.64 crore against revenue of Rs.636.46 crore in Q1FY20. The increase in scale of operations is mainly contributed by sales growth in EUROPE, AMERICA, and EAP regions.
During FY19, the company designed laminated tubes that are recognised by Association of Plastic Recyclers (APR) namely 'Platina laminates' and 'Green Maple'. The said products are 100% recyclable hence it will help to reduce plastics in packaging. EPL launched both the products during FY20 and witnessed demand from oral, cosmetics, and hair care segments. Additionally, amidst the COVID-19 pandemic, company launched sanitizers in tube forms which are widely accepted across globe. EPL on boarded 50 new customers across globe for the said product. As per management, the revenue from tube based hand sanitiser has compensated for revenue loss from beauty and cosmetics segment to an extent during Q1FY21.

Healthy financial risk profile

EPL's financial risk profile is marked by healthy profitability and strong cash flows resulting in improved capital structure and debt coverage ratios. Overall gearing (consolidated) stood comfortable at 0.51 times as on March 31, 2020 compared to 0.49x as on March 31, 2019. The interest coverage ratio improved to 10.17 times during FY20 compared to 8.55 times during FY19 owing to decline in interest cost. Interest coverage ratio is expected to improve further in FY21 owing to reduction in interest expenses due to refinancing of exiting term loan amounting Rs.208 crore to avail interest cost benefit.
The total outside liabilities to net worth ratio is comfortable at 0.80 times as on March 31, 2020 mainly on account of healthy tangible net worth. Due to strong accruals, debt coverage ratios are also comfortable with total debt to Gross Cash Accruals further improving to 1.75 times as on March 31, 2020 compared to 1.65 times as on March 31, 2019. During FY21, the company plans to set up additional tubing lines in Poland plant (Rs.100 crore) along with regular maintenance capex (Rs.95 crore). The said capex will be funded partially through term loan of Rs.75 crore and balance using internal accruals. However, owing to strong tangible net worth, the overall gearing of the company is expected to remain comfortable over medium term.

Key Rating Weaknesses

Volatility in raw material prices

The principal raw material consumed is polymer granules 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 a raw material cost escalation pass through clause in the contract. Awards for manufacturing non-oral care products are generally short term in nature and accordingly any price variations in the raw material prices are considered while quoting the contract price.

Foreign exchange fluctuation risk

The global nature of operations exposes the company to fluctuations in foreign exchange rates. Appropriate pass through clauses are incorporated in the long term contracts executed in the Oral Care segment wherein prices are reviewed/revised in the event of significant currency movement. The overall exposure is generally managed by creating natural hedge, foreign currency borrowings and by entering into forward foreign exchange contracts etc. Ability of the company to effectively manage its foreign exchange exposure remains critical to the credit profile of the company.

Future prospects

The boom in the global packaging sector hinges on both the growth in the global economy as well as the performance of the diverse range of industries that this sector caters to – pharmaceuticals, food and beverages, cosmetics, and other consumer goods. Additionally, exponentially expanding e-commerce market and rising demand for packaged foods have a direct bearing on the packaging sector. Emerging markets in South America, Eastern Europe, and Asia have demonstrated rapid growth of packaging industry, thanks to the booming consumer goods sector in these regions offering a foray of new opportunities to packaging suppliers globally. The trending demand in convenient and sustainable packaging has galvanized the robust growth in tube packaging market over the last few years. 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 foods & home are now seeing tubes as replacement to bottles & other traditional packaging for a range of products like condensed milk, wasabi sauce, cheese spread. These ensure huge growth opportunity for the company. The sector has become highly competitive owing to the presence of a large number of manufacturers in the industry. Innovative packaging, flexible packaging, and lower cost high quality printing are the key drivers of tube packaging market.
However, packaging industry especially personal care segment is expected to experience low demand growth on account of COVID-19 outbreak.

Liquidity: Strong

As on July 31, 2020, the company had cash balances to the extent of Rs.327.00 Crore at consolidated basis and Rs.133 crore on standalone basis. The company has an overall gearing of below unity which provides sufficient headroom for debt, if required. The company's liquidity is also supported by a current ratio above unity. The company's gross cash accruals are sufficient to meet long term repayment obligations and maintenance capex in FY21. The company has repayment obligations of Rs.127 crore during FY21. The capex is expected to be in range of Rs.200-300 crore.
On a standalone basis, the company's fund based working capital limit utilisation stands very low at 5% thus providing additional liquidity cushion.

Analytical approach: Consolidated

The consolidated financials 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 3 direct subsidiaries, 14 step-down subsidiaries and 1 associate company/joint venture.

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 and Factoring Linkages in Ratings
Rating Methodology- Manufacturing Companies
Financial ratios-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Essel Propack Limited (EPL), founded in 1982, is presently a global manufacturer of Laminated Plastic Tubes and Laminates. Its products are extensively used in the packaging of products across categories such as Beauty & Cosmetics, Pharma & Health, Foods, Home and Oral care. Holding Oral Care market share of 36% in volume terms globally (as per management), Essel Propack is one of the world's largest manufacturer with business in four geographical segments namely Americas (with operations in the USA, Mexico, and Colombia), Europe (with operations in the UK, Germany, Poland and Russia), AMESA (Africa, Middle East & South Asia – with operations in Egypt and India) and EAP (with operations in China and Phillipines). EPL functions through 20 state of the art facilities in eleven countries, selling approx. 8 billion tubes on an annual basis.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2730	2768
PBILDT	524	566
PAT	195	212
Overall gearing (times)	0.49	0.51
Interest coverage (times)	8.55	10.17

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	FY23	150.00	CARE AA; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	-	25.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	120.00	CARE AA; Stable
Non-fund-based - LT-BG/LC	-	-	-	-	0.00	Withdrawn
Fund-based-Short Term	-	-	-	-	5.00	CARE A1+
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	47.00	CARE AA; Stable / CARE A1+
Debentures-Non Convertible Debentures	INE255A08AV3	December 21, 2017	7.8%	December 21, 2020	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (Under Credit watch with Developing Implications) (03-May-19)	1)CARE AA; Stable (24-Aug-18)	1)CARE AA; Stable (17-Aug-17)
2.	Fund-based/Non-fund-based-Short Term	ST	25.00	CARE A1+	-	1)CARE A1+ (30-Sep-19) 2)CARE A1+ (03-May-19)	1)CARE A1+ (24-Aug-18)	1)CARE A1+ (17-Aug-17)
3.	Fund-based - LT-Cash Credit	LT	120.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (Under Credit watch with Developing Implications) (03-May-19)	1)CARE AA; Stable (24-Aug-18)	1)CARE AA; Stable (17-Aug-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)Withdrawn (30-Sep-19) 2)CARE AA / CARE A1+ (Under Credit watch with Developing Implications) (03-May-19)	1)CARE AA; Stable / CARE A1+ (24-Aug-18)	1)CARE AA; Stable / CARE A1+ (17-Aug-17)
5.	Non-fund-based - LT-BG/LC	LT	-	-	-	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (Under Credit watch with Developing Implications) (03-May-19)	1)CARE AA; Stable (24-Aug-18)	1)CARE AA; Stable (17-Aug-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (24-Aug-18)	1)CARE AA; Stable (17-Aug-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
7.	Fund-based-Short Term	ST	5.00	CARE A1+	-	1)CARE A1+ (30-Sep-19) 2)CARE A1+ (03-May-19)	1)CARE A1+ (24-Aug-18)	1)CARE A1+ (17-Aug-17)
8.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	47.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (30-Sep-19) 2)CARE AA / CARE A1+ (Under Credit watch with Developing Implications) (03-May-19)	1)CARE AA; Stable / CARE A1+ (24-Aug-18)	1)CARE AA; Stable / CARE A1+ (17-Aug-17)
9.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Sep-19) 2)CARE AA (Under Credit watch with Developing Implications) (03-May-19)	1)CARE AA; Stable (24-Aug-18)	1)CARE AA; Stable (13-Dec-17)

Annexure-3: List of entities in consolidated financials

Particulars	% holding (direct + indirect)	Country of Incorporation
Direct Subsidiary		
Arista Tubes Inc.	100% (100%)	USA
Lamitube Technologies (Cyprus) Ltd	100% (100%)	Cyprus
Lamitube Technologies Ltd	100% (100%)	Mauritius
Step Down Subsidiary		
Essel Propack Misr for Advanced Packaging S.A.E	75% (75%)	Egypt
Essel Packaging (Guangzhou) Ltd	100% (100%)	China
Essel Packaging (Jiangsu) Ltd	100% (100%)	China
EsselPropack Philippines, Inc.	100% (100%)	Philippines
MTL DE Panama SA Panama	100% (100%)	Panama
Essel Propack UK Limited	100% (100%)	United kingdom
Essel Deutschland Gmbh& Co. KG	100% (100%)	Germany
Essel Deutschland Management GMBH	100% (100%)	Germany
Essel de Mexico, SA de CV	100% (100%)	Mexico
Tubopack de Columbia S.A	100% (100%)	Colombia
Essel de Columbia S.A.S.	100% (100%)	Colombia
Essel Propack LLC	100% (100%)	Russia
Essel Propack Polska Sp z.o.o	100% (100%)	Poland
Essel Propack America, LLC	100% (100%)	USA
Associate		
P.T. Lamipak Primula	30%	Indonesia

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-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT/ ST-Working Capital Limits	Simple
5.	Fund-based-Short Term	Simple
6.	Fund-based/Non-fund-based-Short Term	Simple
7.	Non-fund-based - LT-BG/LC	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Sharmila Jain
Contact no. – +91-22-6754 3638
Email ID: sharmila.jain@careratings.com

Relationship Contact
Saikat Roy
Contact no. - +91-22-6754 3404
Email ID: Saikat.roy@careratings.com

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