Essel Propack Limited

September 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	220 (reduced from 290)	**CARE AA; Stable [Double A; Outlook: Stable]**	**Rating removed from 'credit watch with developing implications' and Reaffirmed**
Short term Bank Facilities	5 (reduced from 60)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Long/Short term Bank Facilities	117 (reduced from 125)	**CARE AA; Stable/ CARE A1+ [Double A; Outlook: Stable/ A One Plus]**	**Rating removed from 'credit watch with developing implications' and Reaffirmed**
Total	**342 (Rs. Three Hundred and Forty Two crore only)**		
Non-Convertible Debenture (NCD)	50.00 (Rs. Fifty crore only)	**CARE AA; Stable [Double A; Outlook: Stable]**	**Long term rating removed from 'credit watch with developing implications' and Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The long-term rating was placed on credit watch with developing implications following the announcement that the Ashok Goel Trust (acting through its trustees, Mr. Ashok Goel and Ms. Kaveeta Goel) and Mr. Ashok Goel have entered into a share purchase agreement with Epsilon BidCo Pte. Ltd. (the acquirer) along with Blackstone Capital Partners Asia L.P. and Blackstone Capital Partners (Cayman) VII L.P. (in their capacity as persons acting in concert); to sell his majority stake in the company. The acquisition process has been completed as on August 22, 2019. Presently, Blackstone Group holds 75% of company's shares and Mr. Ashok Goel and his affiliates hold minority stake. With the completion of the acquisition process and evaluation of this development on the credit quality of the company, the ratings have been removed from 'credit watch with developing implications'.

The reaffirmation of ratings derive comfort from EPL's strong leading market position in laminated tubes resulting in strong operational performance, diversified geographical footprints with established and reputed clientele, strong profitability margins as well as strong financial risk profile characterized by low overall gearing and healthy debt protection metrics. Going forward, EPL is expected to benefit from strong support of Blackstone Group in improving presence in non-oral care segment.

These strengths are partially offset by concentration risk associated with oral care segment. In FY19, about 58% of company's revenue was contributed by oral care segment. Due to limited pricing flexibility, the profitability is constrained to an extent. 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 is expected to have an impact on growth.

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.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group

On August 22, 2019, the Blackstone group acquired a majority stake in EPL. The Blackstone Group has taken control over the board of the company and has accordingly become its promoter. Presently, Mr. Ashok Goel and his affiliates has a minority stake in the company of approximate 8%.

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

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

would help in improvement of operating efficiencies in EPL. The acquisition of the controlling stake by Blackstone Group would also enable enhancement of the financial flexibility of the company led by superior financial strength of the group. Additionally, Blackstone Group's worldwide clientele from non-oral care business would accelerate the growth.

Established and strong business profile resulting in consistently strong operational and financial performance
EPL is one of the leading global specialty packaging manufacturers of laminated tubes and laminates. The Laminated tubes produced by EPL are extensively used in packaging of products across categories such as Beauty & Cosmetics, Pharma & Health, Foods, Home and Oral care. In India, it enjoys huge franchise having pioneered laminated tubes over three decades and is an established player providing innovative packaging solutions. EPL functions through 20 state of the art facilities in ten countries, operated through its direct and step down subsidiaries and associates. The Company is selling around eight billion tubes annually and as per management it holds a market share of around 36% in volume terms globally in oral care segment.
During FY19, the consolidated revenue (exclusive of excise duty) grew by 11.70 % y-o-y to Rs. 2,707 crore on account of increase in revenue across geographies. However, the sales growth in India was muted by 2% mainly due to lower off take by some of the customers. PBILDT margin was stable at 19.19% in FY19 as compared to 19.75% in FY18. During Q1FY20, the consolidated revenue (exclusive of excise duty) declined by 1.42% y-o-y basis to Rs. 636 crore mainly due to volatile market conditions in India and China. Accordingly, PBDIT margin also declined to 18.10% during this period.

Geographically diversified revenue base
EPL's 20 state of the art facilities in ten 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 risk emanating from specific region/country.

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) improved to 0.49x as on March 31, 2019 vis-à-vis 0.63x as on March 31, 2018. The interest coverage ratio slightly decreased to 8.55x during FY19 as compared to 8.78x during FY18 owing to higher interest cost. The total outside Liabilities to net worth ratio also improved to 0.77x as on March 31, 2019 vis-à-vis 0.93x as on March 31, 2018. The company continues to post strong operational cash flow from the past couple of years and during FY19, it posted an operating cash flow to the tune of Rs.356 crore. Due to strong accruals, debt coverage ratios look comfortable with total debt/GCA further improving to 1.65x for FY19 vis-à-vis 2.23x for FY18.

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.
Going forward packaging industries are expected to experience volatility in demand on account of ongoing USA and China trade war.

Liquidity: Strong
As on March 31, 2019, the company had cash balances to the extent of Rs. 134.40 Crore. The company has an overall gearing of below 1 which provides sufficient headroom for debt, if required. The company's liquidity is also supported by a current ratio above unity. Moreover, company's net cash accruals are sufficient to meet its debt repayments over medium term. The company's debt repayment for FY20 and FY21 is Rs.98.94 crore and 166.73 crore respectively and as on March 31, 2019 company's gross cash accruals (consolidated) stood healthy at 394.33 crore. On a standalone basis, the company's fund based working capital limit utilization 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, 15 step-down subsidiaries and 1 associate company/joint venture.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

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 ten countries, selling approx. 8 billion tubes on an annual basis.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2441	2730
PBILDT	482	524
PAT	174	195
Overall gearing (times)	0.63	0.49
Interest coverage (times)	8.78	8.55

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	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	100.00	CARE AA; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	55.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	120.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn
Non-fund-based - LT-BG/LC	-	-	-	45.00	CARE AA; Stable
Fund-based-Short Term	-	-	-	5.00	CARE A1+
Fund-based - LT/ ST-Working Capital Limits	-	-	-	17.00	CARE AA; Stable / CARE A1+
Debentures-Non Convertible Debentures	December 21, 2017	1 year treasury bill YTM rate + 145 bps p.a.	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	100.00	CARE AA; Stable	1)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)	1)CARE AA (08-Sep-16)
2.	Fund-based/Non-fund-based-Short Term	ST	55.00	CARE A1+	1)CARE A1+ (03-May-19)	1)CARE A1+ (24-Aug-18)	1)CARE A1+ (17-Aug-17)	1)CARE A1+ (08-Sep-16)
3.	Fund-based - LT-Cash Credit	LT	120.00	CARE AA; Stable	1)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)	1)CARE AA (08-Sep-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	1)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)	1)CARE AA / CARE A1+ (08-Sep-16)

5.	Non-fund-based - LT-BG/LC	LT	45.00	CARE AA; Stable	1)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)	1)CARE AA (08-Sep-16)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (24-Aug-18)	1)CARE AA; Stable (17-Aug-17)	1)CARE AA (08-Sep-16)
7.	Fund-based-Short Term	ST	5.00	CARE A1+	1)CARE A1+ (03-May-19)	1)CARE A1+ (24-Aug-18)	1)CARE A1+ (17-Aug-17)	1)CARE A1+ (08-Sep-16)
8.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	17.00	CARE AA; Stable / CARE A1+	1)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)	1)CARE AA / CARE A1+ (08-Sep-16)
9.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA; Stable	1)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
Arista Tubes Limited	100% (100%)	United Kingdom
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

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.*

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