

Essel Propack Limited

August 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	290.00 (enhanced from 214)	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	60.00 (reduced from 105)	CARE A1+ [A One Plus]	Reaffirmed
Long/Short-term Bank Facilities	125.00 (reduced from 145)	CARE AA;Stable/ CARE A1+ [Double A; Outlook: Stable/ A One Plus]	Reaffirmed
Total Facilities	475.00 (Rs. Four hundred seventy five crore only)		
Non-Convertible Debenture (NCD)	50.00 (Rs. Fifty crore only)	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture (NCD)	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1

**the entire outstanding has been redeemed*

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instrument of Essel Propack Ltd (EPL) derives strength from its experienced promoter group and professional management, leading market position in laminated tubes, geographically diversified revenues, established and reputed clientele profile, healthy profitability margins as well as comfortable overall gearing and debt coverage ratios.

The rating strengths are however tempered by the company's limited pricing flexibility in the oral care segment and concentration risk associated with the said segment although the same is expected to reduce gradually, as well as volatility in raw materials prices and foreign exchange fluctuation risk albeit preventive actions taken by the management.

The company's ability to maintain its market share and profitability margins will be critical from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group

EPL, managed by Mr. Ashok Goel led Essel group, is a global manufacturer of Laminated Plastic Tubes and Laminates. Mr. Ashok Goel has extensive experience in specialty packaging business and has been closely involved in defining the overall vision and business strategy for the group. He is well supported by professional board and experienced management.

Established and strong business profile

EPL is one of the leading global specialty packaging manufacturers of laminated tubes and laminates. The Laminated Plastic 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 19 state of the art facilities in eleven countries, operated through its direct and step down subsidiaries and associates. The Company is selling around seven billion tubes annually and as per management it holds a market share of around 36% in volume terms globally in oral care segment.

Globally diversified presence

EPL's 19 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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

diversified across the geographical segments. Such globally diversified presence assists EPL to mitigate the geopolitical and macroeconomic risk emanating from specific region/country.

Strong operational risk profile

During FY18, the consolidated revenue (exclusive of excise duty) grew by 5% y-o-y to Rs. 2484 crore helped by the acquisition of 100% stake in the German tubing joint venture effective September 30, 2016. Weak sales in India in the wake of transition to the GST regime and lower than off take by customers in Europe (Poland unit) majorly impacted the sales growth during FY18. However, reduction in material costs and improvement in operating efficiencies enabled a growth in PBILDT margin by 76bps to 19.75% in FY18. During Q1FY19, the consolidated revenue (exclusive of excise duty) grew by 13% y-o-y basis to Rs. 635 crore largely driven by increase in sales in EAP & America region.

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 0.63x as on March 31, 2018 vis-à-vis 0.84x as on March 31, 2017. Due to improvement in the operating performance and reduction in debt facilities availed, the interest coverage ratio improved to 8.78x as on March 31, 2018 vis-à-vis 7.66x as on March 31, 2017. Debt coverage ratios also look comfortable with total debt/GCA further improving to 2.23x as on March 31, 2018 vis-à-vis 2.38x as on March 31, 2017.

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. With regards to the Non-Oral care segment, the exposure to currency fluctuations are hedged to a certain extent by natural hedge and foreign currency borrowings. The remaining exposure is generally 100% hedged by entering into forward foreign exchange contracts.

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. The laminated plastic tube manufacturing sector faces increasing competition by the presence of a major global player as well as various regional players in each market. Innovative packaging, flexible packaging, and high quality printing are the key drivers of tube packaging market.

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: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Policy on Withdrawal of ratings](#)

About the Company

Incorporated in 1982, EsselPropack Limited (EPL) managed by Mr. Ashok Goel led Essel group, is 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), EsselPropack 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 19 state of the art facilities in eleven countries, selling around 7 billion tubes on an annual basis.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2322	2441
PBILDT	441	482
PAT	196	174
Overall gearing (times)	0.84	0.63
Interest coverage (times)	7.66	8.78

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

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.

Analyst Contact:

Name: Sharmila Jain

Tel: 022 6754 3638

Email: sharmila.jain@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	125.00	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	-	-	-	95.00	CARE AA; Stable / CARE A1+
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	-	-	-	30.00	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
Debentures-Non Convertible Debentures	-	-	-	-	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	125.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Aug-17)	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)
2.	Fund-based/Non-fund-based-Short Term	ST	55.00	CARE A1+	-	1)CARE A1+ (17-Aug-17)	1)CARE A1+ (08-Sep-16)	1)CARE A1+ (08-Sep-15)
3.	Fund-based - LT-Cash Credit	LT	120.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Aug-17)	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	95.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (17-Aug-17)	1)CARE AA / CARE A1+ (08-Sep-16)	1)CARE AA- / CARE A1+ (08-Sep-15)
5.	Non-fund-based - LT-BG/LC	LT	45.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Aug-17)	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)
6.	Term Loan-Long Term	-	-	-	-	-	-	1)CARE AA- (08-Sep-15)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (17-Aug-17)	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)
8.	Fund-based-Short Term	ST	5.00	CARE A1+	-	1)CARE A1+ (17-Aug-17)	1)CARE A1+ (08-Sep-16)	-
9.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	30.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (17-Aug-17)	1)CARE AA / CARE A1+ (08-Sep-16)	-
10.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-17)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 9198190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 9198196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 9199675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 9198209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91-0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com