EsselPropack Limited

August 17, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	214.00	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	105.00	**CARE A1+ [A One Plus]**	Reaffirmed
Long/Short-term Bank Facilities	145.00	**CARE AA;Stable/A1+ [Double A; Outlook: Stable/ A One Plus]**	Reaffirmed
Total Facilities	**464.00 (Rs. Four hundred sixty four crore only)**		
Non-Convertible Debenture (NCD)	90.00 (Rs. Ninetycrore only)	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and NCDs of Essel Propack Ltd (EPL) reflect strengths derived 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, moderate overall gearing and comfortable 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 segment, although the same is reducing gradually.

Any unevisaged large debt funded capex, unrelated diversification and better than expected management of forex risk by the company remain the key rating sensitivities. The company's ability to maintain its market share and the profitability margins will also be critical from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group: EPL is managed by Mr. Ashok Goel led Essel group, who 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 manufacturer of laminated tubes, plastic tubes and laminates. Its products 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 has 19 manufacturing facilities across 11 countries through its direct and step down subsidiaries, joint ventures and associates. The Company is selling more than six billion tubes annually and had a market share of ~36% in volume terms in oral care segment.

Globally diversified presence

EPL's 19 manufacturing units across 11 locations 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 including flexible packaging business) and EAP-East Asia Pacific (China, Philippines and Indonesia). Sales remain well diversified across geographical segment. Globally diversified presence assists EPL to reduce geopolitical and macroeconomic risk emanating from specific region/country.

Stable working capital cycle

Gross working capital cycle (consolidated) continues to be stable at 2.5 monthswith average collection period at around 2 months and average inventory period at 1.5 month. Due to healthy cash accruals, large amount of working capital requirement is met from internally accruals thereby resulting in lower dependence on working capital related bank limits.

Strongoperational risk profile

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

During FY17,net sales (consolidated) grew 8% y-o-y to Rs.2,260 crore led by the acquisition of 100% stake in the German tubing joint venture with effect from 30 September 2016. The revenue growth was however impacted by weaker sales in India post demonetization in November 2016, persistent off take issues at large oral care customers in China and lower than envisaged sales in Colombia due to extended ramp up of the new capacity.EPL continues to deliver healthy profitability margins due to operational efficiencies, increasing share of non-oral care offerings and efficient management of debt. During FY17, the oral care segment contributed 60% to the overall revenue.

The company isreducing revenue exposure to oral care segment and is focussing on increasing business from non-oral care segment which have relatively superior operating margins.

Healthy financial risk profile

EPL's financial risk profile is marked by healthy profitability and strong operating cashflows resulting in healthy capital structure and debt coverage ratios. Overall gearing (consolidated) stoodat0.84x as on March 31, 2017 vis-à-vis 0.77x as on March 31, 2016. The increase in debt was primarily on account of acquisition of 100% stake in the German JV in October 2016. The company continues to post strong operational cash-flow for last couple of years and during FY17 it posted operating cash-flow to the tune of Rs.369 crore.

Key Rating Weaknesses

Raw material price volatility

The principal raw material consumed in EPL's products is polymer granules which is a derivative of crude oil and is highly sensitive to any volatility in crude oil prices exposing it to input price volatility. In the oral care category, the Company has raw material cost pass-through clauses in its customer contracts which enables the prices to be revised periodically to reflect fluctuation in raw material costs. This reduces the risk of any volatility in raw material prices.

Foreign exchange fluctuation risk

The global nature of operations exposes the company to fluctuation in foreign exchange rates as the company deals with multiple currencies. Appropriate pass through clauses have been built into long term contracts in Oral Care categories whereby prices get reviewed/revised in the event of significant currency movement. The company also has the policy of systematically hedging its trade and capital exposures using forward contracts. Wherever possible, transactional currencies are aligned to the reporting currency in order to reduce exchange fluctuation impact. Ability of the company to effectively manage its foreign exchange exposure remains critical to the credit profile.

Industry prospects

EPL is primarily into specialty packaging industry i.e. laminated tubes. The laminated tube business has entry barriers because of industry expertise and innovative production and is supported by ongoing research and development efforts. The major customers for EPL belong to FMCG (mainly oral care, toothpaste), Beauty & Cosmetics (basic beauty products like shampoo, creams and lotions), Pharmaceutical (ointment tubes, derma care), etc. Oral care segment generally experiences inelastic demand and is non-cyclical in nature**.** EPL is an established brand name in the global market and with its economies of scale, it is expected to benefit from growth in demand.

Analytical approach:

Consolidated – All the subsidiaries and Joint ventures of EPL are consolidated as they exhibit strong operational and financial linkages.

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

About the Company

Incorporated in 1982, EsselPropack Limited (EPL), managed by Mr. Ashok Goel led Essel group, is one of the leading specialty packaging manufacturer of laminated tubes, plastic tubes and laminates. Its products 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 has 19 manufacturing facilities across 11 countries through its direct and step down subsidiaries, joint ventures and associates. The company is selling more than six billion tubes annually holding a market share of 36% in volume terms globally in Oral Care.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2152.45	2321.88
PBILDT	429.23	440.89
PAT	175.49	114.19

Overall gearing (times)	0.77	0.84
Interest coverage (times)	7.05	7.66

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information:NA

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.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	2024-25	69.00	CARE AA; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	55.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	100.00	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	-	-	-	50.00	CARE A1+
Fund-based - LT/ ST-Working Capital Limits	-	-	-	50.00	CARE AA; Stable / CARE A1+
Debentures-Non Convertible Debentures	December 18, 2014	SBI Base rate +145 bps p.a	3 annual instalments commencing from April 25, 2019	90.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	69.00	CARE AA; Stable	-	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)	1)CARE A (16-Sep-14)
2.	Fund-based/Non-fund-based-Short Term	ST	55.00	CARE A1+	-	1)CARE A1+ (08-Sep-16)	1)CARE A1+ (08-Sep-15)	1)CARE A2+ (16-Sep-14)
3.	Fund-based - LT-Cash Credit	LT	100.00	CARE AA; Stable	-	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)	1)CARE A (16-Sep-14)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	95.00	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (08-Sep-16)	1)CARE AA- / CARE A1+ (08-Sep-15)	1)CARE A / CARE A2+ (16-Sep-14)
5.	Non-fund-based - LT-BG/LC	LT	45.00	CARE AA; Stable	-	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)	1)CARE A (16-Sep-14)
6.	Term Loan-Long Term	-	-	-	-	-	1)CARE AA- (08-Sep-15)	1)CARE A (16-Sep-14)
7.	Debentures-Non Convertible Debentures	LT	90.00	CARE AA; Stable	-	1)CARE AA (08-Sep-16)	1)CARE AA- (08-Sep-15)	1)CARE A (05-Nov-14)
8.	Fund-based-Short Term	ST	50.00	CARE A1+	-	1)CARE A1+ (08-Sep-16)	-	-
9.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	50.00	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (08-Sep-16)	-	-

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