November 26, 2021

Epack Durable Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	54.00	54.00	[ICRA]BBB+ (Positive); reaffirmed, outlook revised from Stable
Fund based- Term Loan	38.00	28.00	[ICRA]BBB+ (Positive); reaffirmed, outlook revised from Stable
Non-fund based	23.00	33.00	[ICRA]A2; reaffirmed
Total	**115.00**	**115.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the business and financial risk profiles of Epack Durable Private Limited (Epack Durable) and Epack Components Private Limited (Epack Components; a 100% subsidiary of Epack Durable), which are also referred to as the company.

The revision in outlook factors the expected improvements in the company's operational and financial profile led by the ongoing capacity expansion and backward integration project. The ratings favourably note the private equity investment received in the current financial year, which would primarily fund the aforementioned initiatives enabling the company to tap the healthy industry demand. It has witnessed a healthy revival in orders for the upcoming season after experiencing pressures during the pandemic. ICRA notes that the company's planned investment is approved under the Government's Production Linked Incentive (PLI) Scheme. ICRA continues to consider the extensive experience of the promoters and its established position in the consumer durables industry as one of the leading contract manufacturers in the Room AC (RAC) segment. The ratings further note its reputed and diversified clientele.

The ratings, however, continue to be constrained by the intense competition in the industry and limited pricing power of the contract manufacturers. Further, in the RAC segment, apart from moderate exposure to raw material price fluctuation risk, the profitability remains relatively low on account of moderate complexity. However, the same is expected to improve after successful backward integration. The ratings are also constrained by the of working capital-intensive nature of operations and the need for regular capex to upgrade the technology, which keeps the company dependent on debt facilities particularly working capital facilities. Thus, it has modest debt coverage indicators with interest coverage of 1.7 times and 1.6 times and DSCR of 0.9 times and 1.2 times, respectively, for FY2020 and FY2021 and high leverage as evidenced by total debt/OPBIDTA of 6.3 times and 5.9 times in FY2020 and FY2021. The company's ability to improve its credit metrics through revenue and profit expansion on the back of successful backward-integrated capacity expansion remains to be seen.

Key rating drivers and their description

Credit strengths

Private equity investment by ICICI Ventures; focus on backward integration – In September 2021, the company received Rs. 160 crore as private equity from ICICI Ventures, which is being utilised in the ongoing capacity expansion and backward integration. It is enhancing the capacity from 1 million to 1.2 million in the RAM segment, which together will entail a capex of Rs. 170 crore (including backward integration) on a consolidated basis. Further, it is implementing backward integration to enable in-house manufacturing of most critical RAC components, thereby improving cost competitiveness. The company's expansion plan has been selected for the Government's PLI scheme, which will lend benefits on achievement of the desired revenue growth.

Favourable demand outlook for consumer durable industry – The demand outlook is favourable for the consumer durable industry, driven by a growing urban population and rising disposable income. In the RAC segment, the penetration level is low in India and the industry is likely to witness healthy growth. While there was some impact of the pandemic, the company reported subdued profit margins in FY2020 and FY2021. It has a healthy order pipeline for the upcoming season.

Experience of promoters in consumer durable industry – The promoters have been involved in manufacturing consumer durables for more than a one and half decade with thorough knowledge of the market. Over the years, the company has become one of the leading players in the RAC contract manufacturing segment.

Long relationships with reputed clientele – The company has reputed clients, including Voltas, Haier Appliances, Philips India, Godrej, Whirlpool India, Havells India, Blue Star, with whom it has established long-standing relationships. Majority of the revenues come from the AC segment mainly from Voltas, Blue Star, etc. However, various customers have been added in portfolio during the last two financial years.

Credit challenges

Modest debt coverage ratios due to highly capital-intensive nature of operations – The company's operations are working capital intensive. Moreover, continued technology upgrades and expansion requires capex. It has thus remained dependent on external debt as evidenced by high utilisation of working capital facilities keeping its finance costs high. However, the utilisation of non-fund based limits remained comfortable. Additionally, its margins remain moderate in line with the value addition. Thus, its return metrics remained modest as reflected by RoCE of 11.2% in FY2021. However, with implementation of backward integration and scale benefits from capacity expansion, the credit metrics are expected to improve.

Exposure to raw material fluctuation risk – The margins are volatile owing to exposure to fluctuation in the raw material prices. However, the key raw materials such as copper, compressor, etc, are covered under price escalation with most of the customers, which mitigates the risk to a large extent.

Intense competition in industry – The consumer durable industry is intensely competitive due to presence of various organised and unorganised players. However, the company's strong position as a contract manufacturer act as an entry barrier. About 80-85% of the company's revenues comes from sale of RACs and its components, demand for which is seasonal and susceptible to changes in weather conditions. This leads to significant variations in working capital requirements during the year and, consequently, impacts its cash flows.

Liquidity position: Adequate

The company's liquidity position is **adequate** with modest buffer in cash credit limits, adequate sales invoice discounting and purchase order funding facilities, which is utilised against orders and receivables from its major customers, as and when required. The cash generation from business, bill discounting facility and the buffer in cash credit would be sufficient to meet its term loan repayment obligations and working capital requirement, if any.

Rating sensitivities

Positive factors – A ratings upgrade would be driven by the sustained improvement in scale and profitability, coupled with improvement in liquidity position and debt coverage indicators.

Negative factors – The outlook would be revised to Stable if the company is unable to register the estimated revenue growth and margin expansion or if it witnesses deterioration in working capital cycle, thereby diminishing its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Epack Durable and its wholly-owned subsidiary Epack Components. The two entities have common management and strong operational synergies.

About the company

Epack Durables (formally known as Epack Durables Solutions Private Limited) manufactures AC, induction cooktops, juicer-mixer grinders and water dispensers for customers, such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips, Bajaj, etc. Epack Components (formally known as E-Durable Prefab Private Limited) has become a 100% subsidiary of Epack Durable since August 2021 and acts as a captive manufacturing unit for AC components. The company has the capacity to manufacture 1.0-million outdoor unit (ODU) and indoor unit (IDU) of RAC, 0.8-million induction cooktops, 0.2-million mixer grinders and 0.1 million of water dispensers.

The promoters consisting of Singhania and Bothra families also have interests in E-Pack Polymers Private Limited and East India Technologies Private Limited, which are involved the manufacturing EPS products, prefabricated structures and printed circuit boards.

Key financial indicators (audited)

Epack Durable & Epack Components – Consolidated	FY2020*	FY2021
Operating Income (Rs. crore)	787.0	805.5
PAT (Rs. crore)	(2.9)	9.2
OPBDIT/OI (%)	5.6%	5.5%
PAT/OI (%)	(0.4%)	1.1%
Total Outside Liabilities/Tangible Net Worth (times)	6.7x	6.1x
Total Debt/OPBDIT (times)	6.3x	5.9x
Interest Coverage (times)	1.7x	1.6x

*Source: Company, *consolidated revenue and PAT for FY2020 is Rs. 830.0 crore and (Rs. 1.9), reconciled data provided by the company later on*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 26, 2021	Sep 1, 2020	Mar 29, 2019	-
1	Cash Credit	Long Term	54.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2.	Term Loans	Long Term	28.00	28.00	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3.	LC/BG	Short Term	33.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-

Source: Company, as on October 31, 2021

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Term Loan	Simple
Long Term – Cash Credit	Simple
Short Term – LC/BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	54.00	[ICRA]BBB+ (Positive)
NA	Term Loans	April 2020	NA	March 2026	28.00	[ICRA]BBB+ (Positive)
NA	LC/BG	NA	NA	NA	33.00	[ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Epack Durable Private Limited	100%	Full consolidation
Epack Components Private Limited	100%	Full consolidation

Source: Company

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About ICRA Limited:

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