

Press Release

22 June 2017

Epitome Petropack Limited

Rating Upgraded



Total Bank Facilities Rated *	Rs.35.50Cr.
Long Term Rating	SMERA B+/ Outlook: Stable (Upgraded from SMERA B-/Stable)
Short Term Rating	SMERA A4 (Reaffirmed)

Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating of '**SMERA B+**' (read as **SMERA B plus**) from **SMERA B-**' (read as **SMERA B minus**) and reaffirmed short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.35.50 crore bank facilities of Epitome Petropack Limited. The outlook is '**Stable**'.

Incorporated in 2011 by Mr. Ashok Surana and Mr. Sumit Poddar – Epitome Petropack Limited is engaged in manufacturing of PET preforms required for making bottles for carbonated soft drinks, packaged drinking water and juices used in the bottling industry. The manufacturing unit is located in Howrah(West Bengal) with an installed capacity of 30 metric tonnes per day (mtpd).

The rating upgrade takes into account significant improvement in operating profit resulting in improvement in debt protection metrics and overall financial risk profile, improvement in capacity utilization coupled by rise in overall sales volume and healthy revenue visibility from the current orders in hand.

Key Rating Drivers

Strengths

Relationship with reputed customers

The company benefits from its association with some of the big names in the bottling and beverage industries in the form of Hindustan Coca- Cola Beverages Ltd, Varun Beverages Private Limited, Diamond Beverages Private Limited and Bengal Beverage Private Limited. The revenue from the reputed clientele constituents around 90 per cent of its revenue. In addition, EPL has current orders in hand of 7,900 MT from its reputed client base, thereby providing healthy revenue visibility for FY 2017-18.

Significant improvement in net cash accrual

EPL reported increase in net cash accruals (NCA) to Rs 6.71 crs in FY 2016 as against Rs 1.46 crs in FY 2015. The rise in NCA is mainly on account of sustained rise in operating margins on account of fall in pet resin prices. Also during FY 2017, EPL has achieved NCA of Rs 5.26 crs (provisional).

SMERA believes the EPL's ability to maintain sustained growth in net cash flows vis-à-vis its total outstanding debt levels shall be critical towards maintaining a healthy credit profile.

Moderate Financial Risk profile

EPL has shown consistent improvement in financial risk profile as envisaged from improved gearing, interest coverage and DSCR. Gearing in FY 2017 has improved to 1.44 times (provisional) from 2.56 times in FY 2015. The improvement in gearing is primarily on account of considering unsecured loan of Rs 8.50 crs from promoters as quasi equity based on the undertaking received from the management confirming the maintenance of the said amount in the company over the medium term. In addition, the unsecured loan of Rs 8.50 crs is subordinated to bank. The improvement in gearing coupled with rise in operating margins resulted in rise in interest coverage ratio to 2.11 times in FY 2017 (provisional) from 1.15 times in FY 2015. The DSCR has improved to 1.20 times in FY 2017 (provisional) from 0.85 times in FY 2015.

Weaknesses

Working capital intensive operations

The operations are working capital intensive as reflected from the GCA days of 177 and 190 in FY 2017 (provisional) and FY 2016 respectively. The GCA days can be mainly attributed to the inventory levels of 140-150 days of inventory which the company has to maintain during in the peak season from February to September. The inventory days stood at 143 in FY2017 (provisional) as against 156 in FY 2016. . The company on an average utilizes its bank limit facility to the extent of 90 per cent during last 12 months.

Susceptibility to volatility in raw material prices

The major raw material used by the company is pet resin. Any adverse movement in the prices of this will impact the profitability as envisaged from the volatile operating margin of 4.18 per cent in FY 2014 to 23.40 per cent in FY 2016. In FY 2017, the operating margin of EPL declined to 16.30 per cent (provisional).

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of EPL.

Outlook: Stable

SMERA believes EPL will continue to benefit over the medium term from its experienced management and relationship with reputed customers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenues or fall in the margins or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

For FY2016, EPL reported Profit after Tax (PAT) of Rs.0.85 cr on total operating income of Rs.46.16 cr as compared with PAT of Rs.(5.27) cr on total operating income of Rs.56.45 cr in FY2015. In FY 2017, EPL has reported Profit after Tax (PAT) of Rs.0.98 cr on total operating income of Rs.56.29 cr (provisional).

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

Rating History (Upto last three years)

Rating History for the last three years:

Date	Name of Instruments/Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
8-Feb- 2017	Term Loan	Long Term	17.00	SMERA B- (Issuer not Cooperating)
	Cash Credit	Long Term	7.50	SMERA B- (Issuer not Cooperating)
	Letter of Credit	Short Term	9.00	SMERA A4 (Issuer not Cooperating)
	Bank Guarantee	Short Term	1.50	SMERA A4 (Issuer not Cooperating)
	Derivative Exposure	Short Term	0.50	SMERA A4 (Issuer not Cooperating)
4- Jan 2016	Term Loan	Long Term	17.00	SMERA B- /Stable(Assigned)
	Cash Credit	Long Term	7.50	SMERA B- /Stable(Assigned)
	Letter of Credit	Short Term	9.00	SMERA A4 (Assigned)
	Bank Guarantee	Short Term	1.50	SMERA A4 (Assigned)
	Derivative Exposure	Short Term	0.50	SMERA A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Dec'2019	17.00	SMERA B+ (Upgraded from SMERA B-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA B+ (Upgraded from SMERA B-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A4 (Reaffirmed)
Derivative Exposure	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4 (Reaffirmed)

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ABOUT SMERA

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