Press Release

Eastern Polycraft Industries Limited

July 21, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.90.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.90.00 Cr bank facilities of Eastern Polycraft Industries Limited (EPIL). The outlook is '**Stable**'.

The rating on EPIL factors in the moderate business risk profile of the company marked by its long track record, experienced management and steady flow of orders from reputed clientele. Further, the rating also takes cognizance of the average financial risk profile of the company characterized by moderate networth base, high gearing levels and modest debt protection indicators. These strengths are however partly offset by the working capital intensity in EPIL's operations and susceptibility of margins to volatility in raw material prices.

About the company

Eastern Polycraft Industries Limited (EPIL) was incorporated in 1997 as Bala Shah Industries Limited. Subsequently in 1999, it was taken over by the Padia Group and the operations commenced in April, 2000. The company's board of directors include Mr. K. C. Padia, Mr. Vijay Padia and Mr. Ajay Padia. It is an ISO 9001:2015 certified company, engaged in the manufacture of plastic moulded container products through injection & blow moulding which are primarily used in the lubricants, edible oil, paint and fertilizer industry. The Company has four units, two at Bhadreswar and Uluberia in West Bengal and the other two at Bhiwadi in Rajasthan. EPIL's customers are spread across West Bengal, Rajasthan and Delhi NCR regions.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of EPIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of the company and its management**

EPIL's management has long experience spanning over four decades. The company's board of directors include Mr. K. C. Padia, Mr. Vijay Padia and Mr. Ajay Padia. Further, the company has an established track record of over two decades in the same line of business and it is supported by a professional team to look after the day to day operations. . Acuité believes the company will benefit from its established track record of operations and management expertise, going forward.

- **Strong business relationships**

The company has established strong business relationships with reputed PSU giants like Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Haldia Petrochemicals Limited (HPL) and reputed private players like Reliance Industries Limited, NPL BlueSky Automotive Private Limited, Asian Paints Limited, Castrol India Limited only to name a few. Acuité believes the long standing relationships of over a decade with these entities will continue to support the business over the medium term.

- **Moderate business risk profile**

The company has an order book position to the tune of about Rs.364 Cr which will be executed in the next 24-30 months which provides moderate revenue visibility over the medium term. PSUs constitute around 40 per cent of the order book and the rest is from corporate clients. The total order book is 2.6 times the total revenue achieved in FY21. Capacity utilization decreased to 66 per cent in FY2021 from 71 per cent in the previous year, due to low demand and reduction in sales on account of Covid-19 pandemic.

The company has reported a revenue decrease of around 5 per cent in FY21. The revenue stood at Rs.140.23 Cr in FY2021 (provisional) as compared to revenues of Rs.147.77 Cr in FY2020. The decline in operating income is majorly on account of the impact of Covid-19 pandemic. Also, the selling price of the company's finished goods decreased due to the declining prices of raw materials like HDPE and PPCP which are directly linked to the movement of crude oil prices (which was low for from Apr-Dec, 2020). However, the crude oil and hence the raw material prices have improved in Q1FY22. The company has achieved revenues of Rs.45.61 Cr till 30th June 2021 (Provisional).

The operating margin of the company contracted to 11.02 per cent in FY2021 (provisional) as compared to 12.44 per cent in the previous year. The PAT margins dropped to 0.88 per cent in FY2021 (prov.) as against 1.49 per cent as on FY2020. The reduction in profitability margins is due to the decrease in the top line but the costs for the company remained constant. The RoCE levels stood at a comfortable level of 13.53 per cent in FY2021 (prov.) as against 17.82 per cent in FY2020. Acuité believes the improvement in raw material prices and continuous order flow will improve the scale of EPIL's operations, going forward.

Weakness

- **Average financial risk profile**

The company's average financial risk profile is marked by moderate networth, high gearing and modest debt protection metrics. The tangible net worth of the company improved to Rs.31.09 Cr as on 31st March, 2021 (provisional) from Rs.28.70 Cr as on 31st March, 2020. Acuité has treated unsecured loans of Rs.2.11 Cr in FY21 as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing of the company stood high at 2.05 times as on 31st March, 2021 (prov.) as compared to 1.94 times as on 31st March, 2020. The gearing levels have increased in FY21 as the company has availed unsecured loans from body corporates. The debt of Rs.63.88 Cr in FY21 (prov.) comprises of unsecured loans of Rs.21.24 Cr, short term debt of Rs.21.38 Cr, long term facilities from bank of Rs.14.64 Cr and current portion of long term debt repayment of Rs.6.62 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.80 times as on 31st March, 2021 (prov.) as against 3.69 times as on 31st March, 2020. The modest debt protection metrics of the company is marked by Interest Coverage Ratio at 1.52 times and Debt Service coverage ratio at 1.08 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.08 times as on 31st March, 2021 (prov.). Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 244 days in FY2021 (provisional) as compared to 200 days in FY2020. The high GCA days are on account of high inventory period which stood at 135 days as on 31st March, 2021 (prov.) as compared to 117 days as on 31st March, 2020. High inventory period is required to mitigate raw material price volatility, save on the lead time due to import of raw materials and to cater to the immediate monthly demand from customers like Asian Paints in all the four units. Further, the debtor period stood at 83 days as on March 31, 2021 (prov.) as compared to 69 days as on March 31, 2020 due to delayed realisation from customers due to the pandemic. Acuite believes that the operations would remain working capital intensive mainly due to the inherently high inventory holding period.

- **Susceptibility of margins to volatility in raw material prices and competitive space**

EPIL's margins are susceptible to volatility in raw material prices. However, despite the same, EPIL has been able to maintain its EBITDA margins at comfortable levels of 10.5-12.5 percent over the last three years ending March 31, 2021. The key raw material required is plastic granules whose prices are directly linked to the movement of crude oil prices. Adverse changes in prices may affect the profitability of the company. The company is operating in a competitive and fragmented nature of the industry with several players engaged in the moulded plastic products industry in organized and unorganized sector. Thus, the company faces pricing pressure from other competitors which limits its bargaining power.

Rating Sensitivity

- Growth in the scale of operations and improvement in profitability margins
- Deterioration in the capital structure
- Elongation in working capital cycle

Material Covenant
None

Liquidity Profile: Moderate
The company's liquidity position is moderate marked by net cash accruals of Rs.4.91 Cr in FY2021 (prov.) as against long term debt repayment of Rs.3.72 Cr over the same period. The cash and bank balances of the company stood at Rs.1.74 Cr in FY2021 (prov.) as compared to Rs.0.42 Cr in FY2020. The current ratio stood moderate at 1.15 times as on 31st March, 2021 (prov.) as compared to 1.04 times as on 31st March, 2020. The fund based limit remained utilised at 82 per cent over six months ended June, 2021. The company availed a Covid loan of Rs.8.62 Cr and a loan moratorium. The company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 244 days in FY2021 (prov.) as compared to 200 days in FY2020. Acuité believes that going forward the liquidity position of the company will improve due to steady accruals.

Outlook: Stable
Acuité believes that the outlook on EPIL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and moderate business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its capital structure and working capital management while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	140.23	147.77
PAT	Rs. Cr.	1.23	2.20
PAT Margin	(%)	0.88	1.49
Total Debt/Tangible Net Worth	Times	2.05	1.94
PBDIT/Interest	Times	1.52	1.57

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

*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 Available	9.25%	Not Available	4.06	ACUITE BBB-/Stable (Assigned)
WCTL-GECL	Not Applicable	Not Applicable	Not Applicable	3.58	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.25	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	3.88	ACUITE BBB-/Stable (Assigned)
WCTL-GECL	Not Applicable	Not Applicable	Not Applicable	4.46	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.25	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.52	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:
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