2 November 2021

Corporate Service Department **BSE Limited** 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001	The Listing Department **National Stock Exchange of India Ltd** Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex, Bandra (E) Mumbai 400 051
Scrip: Equity 500135. NCDs 960308, 960310 & 960311.	**Trading Symbol:** EPL

Ref.: EPL Limited (EPL)

Sub.: Upgrade of Long term issuer rating to IND AA+ from IND AA and reaffirmation of short term rating in relation to Commercials paper.

Dear Sirs,

We wish to inform you that the rating agency India Rating & Research Private Limited has upgraded long term issuer rating to "**IND AA+**" from "**IND AA**" with stable outlook.

The rating agency "India Rating & Research Private Limited" has reaffirmed short term credit rating in relation to issue of Commercial Paper by the Company at IND A1+, please refer to details in the below table.

Instrument	Amount (Rs. Crores)	Rating
Commercial Papers	100 (Hundred Crores only)	IND A1+

Letter dated 2 November 2021, received from aforesaid Rating Agency is enclosed herewith.

The above is pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, for your information and record.

Thanking You

Yours faithfully,
For **EPL Limited**

EPL LIMITED Mumbai

Suresh Savaliya
SVP - Legal & Company Secretary

Encl.: As above

Filed online

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India Ratings
& Research
A Fitch Group Company

India Ratings Upgrades EPL to 'IND AA+'/Stable and Affirms CP at 'IND A1+'

02

NOV 2021

By Prateek Goyal

India Ratings and Research (Ind-Ra) has upgraded EPL Limited's (EPL) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Commercial paper (CP)*	-	-	Up to 365 days	INR1,000	IND A1+	Affirmed

*The CP has been carved out of the existing working capital facility

Analytical Approach: Ind-Ra continues to take a consolidated view of EPL and its subsidiaries while arriving at the ratings, as the subsidiaries are in the same line of business and there are strong legal, operational and strategic linkages between the entities.

The upgrade reflects EPL's continued focus on developing green solutions; enhanced business profile as a strategic partner in the customers' value chain, and an improvement in the company's financial flexibility as well as sustained strong credit metrics over trailing-twelve months (TTM) 1QFY22. While the agency believes the margin pressure from raw material price volatility and global supply chain disruption may exert pressure on the company's FY22 profitability, its market leadership position in oral care category and stable nature of the business coupled with cost-saving initiatives will ensure mid-single digit EBITDA growth over the medium-term. Moreover, the promoter's intention of maintaining a conservative financial policy, with the net leverage not exceeding 1.25x, strengthens the overall credit profile.

KEY RATING DRIVERS

Focus on Innovation; Strategic Partnership with Customers: EPL has been focusing on research and development (FY21: INR212 million; FY20: INR156 million) and has been working closely with customers to identify their requirements. At FYE21, the company had filed over 160 patent applications, of which 66 patents were granted. Ind-Ra believes EPL's focus on product and process innovation to develop sustainable packaging solutions across product categories would bolster its customers' efforts to reach out to environmentally-responsible end-users.

EPL has received recognition from the Washington-based Association of Plastic Recyclers for its new product offerings in the oral care and personal care categories that have been launched over the past few years. Another new innovative offering is the Etain tube, which is a post-consumer recycled product that is manufactured by using a percentage of recycled plastic, and is suitable for skin care, hair care and oral products. The agency believes these innovative and sustainable offerings will help EPL to develop strategic ties with suppliers and customers, enabling it to become an integral part of its value chain. The agency is also of the view that these offering would strengthen EPL's long-term customer relationships and provide new business opportunities, thereby giving it an edge over competitors.

Established Market Position: EPL has a global presence and operates in four geographical segments: i) Africa, Middle East and South Asia (AMESA; 30.4% contribution to the total revenue in FY21), ii) East Asia Pacific (EAP; 23.7%), iii) Americas (21.0%), and iv) Europe (24.9%). The company has an established position in the global oral care tubes market, commanding more than a third of the global market share. The oral care segment accounted for 54% of the company's revenue in FY21 (FY20: 55%). EPL also caters to the personal care segment, which includes pharmaceutical, beauty and healthcare products, and food industries. As the personal care segment offers higher EBITDA margins than the oral care segment, the company has been focusing on increasing the former's revenue share (1QFY22: 46%; FY21: 46%). The personal category witnessed a rebound following the easing of the COVID-19 related restrictions, and the agency believes that new customer acquisition will continue to ensure the growth of the personal care segment, even though the demand from new categories such as hand sanitizers has tapered off after initial stocking.

EPL benefits from backward integration, as it is engaged in an end-to-end process. The company manufactures plastic laminate sheets at its plants in India and China, and supplies them to other plants, which convert these sheets into tubes. This is followed by the printing and capping of the tubes before they are sold to customers. EPL is increasing the in-house manufacturing capabilities for caps and closures which would provide further integration to the operations. The company sells around eight billion tubes annually.

Strong Business Fundamentals; But Near-Term Margin Pressure Remains: Despite the tough operating environment due to the increasing raw material prices and supply chain disruptions, EPL's TTM consolidated revenue grew 9.6% yoy in 1QFY22 to INR31,482 million, driven by growth across AMESA (growth of 13.5%), EAP (14.5%), Americas (5.1%), and Europe (3.6%). The agency believes the company's Europe operations would be impacted in the short-term by the closure of its Russia manufacturing operations. Major raw material prices such as linear low-density polyethylene and high-density polyethylene have increased by over 50% over the last 12 months, and remain elevated. Additionally, global container shortages and port congestion has led to a sharp increase in logistics cost, while also leading to certain loss of revenues. The consolidated TTM EBITDA margins declined to 19.4% in 1QFY22 (TTM 1QFY21: 20.7%) due to the increased costs, which are passed on to the customers only after a lag of one-to-three months.

While supply chain-related disruptions and elevated raw material prices impacted the operations during 4QFY21-1QFY22 and are expected by the agency to persist for the remainder of FY22, Ind-Ra expects some recovery in margins over the remainder of the year owing to price increases taken across the portfolio. Ind-Ra expects the company to report stable revenue growth of 6%-8% over FY22-FY23 from higher realisations and stable volumes, and the EBITDA margins at 18.5%- 19% in FY22, improving to around 20% thereafter.

At a standalone level, the revenue increased by 4.6% yoy to INR8,409 million in FY21 owing to tough market conditions, while the EBITDA margin declined by 200bp yoy to 19.5% driven by higher raw material prices.

Strong Credit Metrics: EPL's TTM interest coverage (EBITDA/interest expense) improved to 17.1x in 1QFY22 (1QFY21: 10.2x) due to the improvement in the scale and lower interest costs; the company reduced its interest expense by lowering the borrowing costs. Based on the estimated net adjusted debt of about INR4,000 million as on 30 September 2021, the net adjusted leverage (net adjusted debt/EBITDA) remained at 0.7x (FY21: 0.7x) for TTM 1QFY22. Ind-Ra expects the credit metrics to remain strong over FY22-FY23, driven by healthy operating profitability and the company's prudent debt-led capex policy.

On a standalone basis, the interest coverage was 11.1x in FY21 (FY20: 8.6x), while the net adjusted leverage was 1.0x (FY20: 0.8x).

Strong Promoter Group: As on 30 September 2021, the Blackstone Group L.P. (Blackstone), through Epsilon Bidco Pte. Limited (Epsilon; an affiliate of funds managed or advised by The Blackstone Group), owned 51.91% stake in EPL (FY21: 51.96%). Blackstone is a large global alternative asset management company, with assets under management of over USD510 billion and a track record of around 30 years.

Ind-Ra believes the presence of Blackstone brings professional as well as technical expertise in the packaging sector through its portfolio companies that are spread across the globe. Ind-Ra expects Blackstone to continue to leverage EPL's global leadership position in the oral care segment and accelerate growth in the personal care segment as well as in new geographies. As the sponsor, Blackstone also provides robust financial backing to EPL, improving its financial flexibility.

Liquidity Indicator - Adequate: For the 12 months ended September 2021, EPL's average utilisation of fund-based limits (including CP) was around 51%, while that of non-fund-based limits was minimal. The company has estimated cash and equivalents of about INR2,165 million as on 30 September 2021.

With the exception of FY19, EPL's free cash flow was positive during FY15-FY21 (FY21: INR1,549 million; FY20: INR2,000 million) due to strong operating profitability, a stable net working capital cycle (FY21: 125 days; FY20: 123 days) and despite increasing dividends (FY21: INR1,341 million; FY20: INR888 million; FY19: INR478 million).

Ind-Ra expects the free cash flows to remain subdued but positive over FY22-FY23 on the back of stable operating profits, a stable working capital cycle, but higher capex and dividend pay-outs. The company follows the policy of keeping the average capex for a year equal to the depreciation amount, except for some strategic investments that may lead to higher capex in certain years, as in FY19.

Industry Risks: EPL continues to face competition from unorganised players due to the low entry barriers in the industry. Also, the company remains susceptible to a demand slowdown in the regions where it operates. However, long-standing customer relationships and EPL's focus on innovation to cater to customer needs mitigates the competition risk to a large extent. Volatility in raw material prices (crude derivatives) is another risk that the company has been managing effectively via pass-through clauses in its contracts, albeit with a lag. Given the global footprint of the company, EPL is also exposed to foreign exchange fluctuation risk, though this too is being managed effectively through the incorporation of necessary clauses in the pricing contracts, use of forex risk management measures such as forward contracts as well as the presence of a natural hedge from the overseas borrowings.

Oral care products contributed around 54% to EPL's total revenue in FY21, exposing the company to a substantial segment concentration risk.

However, EPL has increasingly been focusing on enhancing the revenue share of the personal care segment (beauty, cosmetics and pharma among others). The risk is further mitigated by the presence of stable demand for oral care consumer products.

RATING SENSITIVITIES

Negative: The loss of key customers, inability to pass on the raw material volatility and high logistics cost to the end customers, leading to operating margin contraction with net leverage exceeding 1.25x on a sustained basis.

COMPANY PROFILE

EPL manufactures multilayer plastic laminated collapsible tubes, providing specialty packaging solutions to fast moving consuming goods sector. EPL has 19 manufacturing plants in 9 countries across the world; the company's Russia manufacturing facility was shut down during FY21 to consolidate its European operations.

FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	30,916	27,614
EBITDA (INR million)	6,111	5,575
EBITDA margin (%)	19.8	20.2
Interest coverage (x)	14.2	10.0
Net leverage (x)	0.7	0.7
Source: EPL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch				
	Rating Type	Rated Limits (million)	Rating	3 November 2020	11 November 2019	30 April 2019	26 September 2018	15 June 2018
Issuer rating	Long-term		IND AA+/Stable	IND AA/Positive	IND AA/Positive	IND AA/RWE	IND AA/Stable	IND AA/Stable
CP	Short-term	INR1,000	IND A1+	IND A1+	IND A1+	IND A1+/RWE	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
CP programme	Low

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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