Date: 7th April, 2022

BSE Limited Department of Corporate services Phirojee Jeejeebhoy Towers Dalal Street, Mumbai – 400023	National Stock Exchange of India Limited Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai – 400051
Scrip Code: 500136	**Symbol: ESTER**

Sub – Intimation of Credit rating by CRISIL (Rating upgrade)

Pursuant to the requirements of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform you that CRISIL Ratings Limited has upgraded Credit Ratings of Credit facilities of the Company as under-

FACILITY	TENURE	PREVIOUS RATING	REVISED RATING
Fund Based	Long term	CRISIL A-/Positive	CRISIL A/Stable **(Upgrade)**
Fund Based Non Fund Based	Short term	CRISIL A2+	CRISIL A1 **(Upgrade)**

A copy of the rating rationale is attached herewith this letter.

Please take the same on your record.

For Ester Industries Limited

ESTER INDUSTRIES LTD. Block-A Plot No-11 Infocity-1, Sector-33 & 34 Gurgaon 122001 Haryana

Diwaker Dinesh
Head- Legal & Company Secretary

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

April 06, 2022 | Mumbai

Ester Industries Limited

Ratings upgraded to 'CRISIL A/Stable/CRISIL A1'

Rating Action

Total Bank Loan Facilities Rated	**Rs.490.93 Crore**
Long Term Rating	**CRISIL A/Stable (Upgraded from 'CRISIL A-/Positive')**
Short Term Rating	**CRISIL A1 (Upgraded from 'CRISIL A2+')**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Ester Industries Limited (EIL) to '**CRISIL A/Stable/CRISIL A1**' from 'CRISIL A-/Positive/CRISIL A2+'.

The upgrade factors in the improved credit risk profile of EIL and sustained operating performance. In the first nine months of fiscal 2022, the company generated revenue of Rs 1,018 crore with operating margin of 17.7%, against Rs 696 crore and 25.3%, respectively, in the corresponding period of the previous fiscal. High operating margins during last fiscal has now been normalized in current fiscal. Improvement in operating performance is driven by continuation of favourable demand-supply dynamics in the packaging films business and maturing of products.

The engineering plastics and specialty polymers segments have also seen healthy improvement in demand over the past nine months. Therefore, despite the expected decline of margin in packaging films business, the overall operating profit before depreciation, interest and tax (OPBDIT) margin of EIL is expected to sustain around 15% over the medium term, benefitting from a diverse product portfolio.

Product mix and diversification should improve as the company is adding capacities of value-added products, specialty polymers and engineering plastics for capital expenditure (capex) of Rs 225 crore, which is likely to be completed in fiscal 2023. Furthermore, revenue of the packaging films business is expected to improve with the new greenfield BOPET (biaxially-oriented polyethylene terephthalate) line (48,000 tonne per annum [tpa] in Telangana) expected to be commissioned by October 2022. The progress of the project will remain a monitorable.

The ratings reflect the company's established market position and long track record in the packaging films business, healthy operating efficiency supported by strong capacity utilisation and diversified product profile. These strengths are partially offset by susceptibility to volatile raw material costs and realisations driven by demand-supply dynamics and large, debt-funded ongoing projects.

Analytical Approach

To arrive at the ratings, CRISIL Ratings has combined the business and financial risk profiles of EIL and Ester Filmtech Ltd (EFL), together referred to as Ester, given their business and financial linkages and a common management. EFL has been formed as a wholly owned subsidiary of EIL, to implement the new greenfield BOPET line of 48,000 TPA in Telangana, and benefit from lower taxation. EIL will support the new project in EFL, by providing equity support and guarantee on bank debt.

Please refer Annexure for the list of entities considered and the analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths

Established market position along with long track record in packaging films business

The company has been manufacturing packaging films for three decades at a single plant in Uttarakhand. Though it has diversified into engineering plastics and specialty polymers over the years, it still derives major portion of its revenue from the packaging films business. The installed capacity comprises BOPET (57000 tpa), metallised films (13000 tpa), engineering plastics (16500 tpa) and specialty polymers (30000 tpa). Capacity utilisation in the BOPET line should remain healthy over the near term given the demand situation, while share of the specialty polymers segment is also steadily increasing. The company is augmenting its BOPET capacity by 48000 tpa, to be implemented by October 2022. Established customer relationships should also help EIL sustain volumes in the packaging films business over the medium term.

Healthy operating efficiency supported by strong capacity utilisation
Profitability is susceptible to volatility in raw material prices and demand-supply factors. Supported by favourable demand of packaging films since the second half of fiscal 2019, the OPBDIT margin remained strong at 23.7% in fiscal 2021 (19%, 11% and 8.7% in fiscal 2020, 2019 and 2018 respectively). The company was able to maintain robust operating performance during the Covid-19 pandemic because of healthy demand of the films business supported by heightened hygiene consciousness, growing in-home consumption and benign input cost despite lower volumes in the specialty polymers division.

The operating performance of the specialty polymers segment has also started improving with the launch of commercial sales of one of the specialty polymer product as well as expected launch of the two more products over the near term. The company has also filed for seven patents for its specialty polymers division and this is expected to support the operating margin of the segment. The engineering plastics division has also seen improved demand during the second half of fiscal 2021 and continues to remain strong during first nine months of current fiscal as well. Overall, while operating margins have normalized to 17.7% during first nine months of fiscal 2022 due to increase in the raw material costs and slight decline in the realization in the films business. However, given the healthy demand outlook, they should sustain at 15% over medium term.

Diversified product profile
The company has a diversified product portfolio in the polyester films, engineering plastics and specialty polymers divisions. Though revenue is dominated by the films segment, market share of the other segments has increased in the past two years. Diversified revenue profile protects profitability from adverse conditions in any particular segment and adds stability to cash flow. While the demand for engineering plastics and specialty polymers was adversely affected due to the pandemic, large profit in the packaging films division helped maintain profitability in the first half of fiscal 2021. With economic recovery, the demand for engineering plastics and specialty polymers started improving from the second half of fiscal 2021 and remained strong during the nine months of fiscal 2022, providing stability to cash flow.

Weaknesses
Susceptibility to volatility in raw material cost and realisations, driven by demand-supply dynamics
The packaging films business remains prone to cyclicality, as evident from fluctuations in product realisations, owing to the demand-supply gap. The industry is also highly competitive, with aggressive capacity expansions by few large players exerting pressure on realisations. Players tend to add large capacities whenever prices pick up, which then leads to fall in product realisations. Further, key raw materials, such as polyethylene terephthalate (PET) resin or chips, pure terephthalic acid and mono ethylene glycol, are derivatives of crude, and hence, profitability remains susceptible to volatility in crude prices. Players such as EIL have the flexibility to pass on raw material price fluctuations to customers to some extent. Amid the current upcycle in the packaging films business, players may undertake capital expenditure (capex) to add new capacities over the next couple of years. EIL benefits from its diversified product profile, however, the OPBDIT margin has eased off during the nine months of fiscal 2021 (nine months of fiscal 2022: 17.7%; nine months of fiscal 2021: 25.3%). The margin remains susceptible to demand-supply dynamics and volatility in raw material prices, and hence, will continue to be a key monitorable.

Large debt-funded ongoing projects
EIL is exposed to risks related to implementation of projects. The company is setting up a new BOPET line (48000 tpa) in an industrial park in Telangana through its wholly owned subsidiary EFL. The project will be funded through internal accrual (30%) and debt (70%). The funding risk of the company is mitigated since it has already infused Rs. 176 crore of equity contribution and the debt tie-up is in place. The civil & erection work has already been initiated and the project is expected to be operational by October 2022. While the leverage may increase over the medium term (peak gearing ratio is expected to rise to more than 1 time over the medium term as compared to 0.40 time as on March 2021), commissioning of the project is expected to increase cash flow. Profitability from the project is also expected to be healthy with benefits from state government in the form of lower power cost and tax rebates etc., as the new facility is located within an industrial park. However, timely commissioning and stabilisation of the facility remains key monitorables.

In addition, the company has capex plans of Rs. 225 crores for a new metallizer and for enhancing the capacity of special polymers and engineering plastics divisions. The company has initiated the capex which should be completed in fiscal 2023. Timely implementation and ramp-up of the project is critical for sustenance of profitability and will be closely monitored.

Liquidity: Adequate
Expected cash accrual of around Rs 140-150 crore, should be sufficient to service yearly maturing debt of less than Rs. 50 crore during fiscals 2022 and 2023 and meeting the equity requirements of the ongoing capex plans. The bank limit of Rs 150 crore was utilised at an average of 29% during the 12 months through January 2022 and should be sufficient for meeting the incremental working capital requirements over the medium term.

Outlook: Stable
CRISIL Ratings believes EIL will sustain its business risk profile over the medium term, supported by diversified product profile. The debt protection metrics, however, will remain average over this period on account of a debtfunded greenfield capex.

Rating Sensitivity Factors

Upward Factors

- Significant and sustained improvement in operating performance leading to cash accruals of Rs 170-180 crore
- Timely completion of the 48000 TPA BOPET project in the middle of next fiscal.without any major cost overrun

Downward Factors

- Lower-than-expected operating performance leading to a significant decline in margin and cash accrual
- Delay in ramp-up of new capacities, new sizeable debt-funded capex/acquisitions, leading to Debt to earnings before interest, tax, depreciation and amortisation (Ebitda) ratio of more than 3.5 times

About the Company

Promoted by Mr Arvind Singhania and incorporated in 1985, EIL manufactures packaging films, specialty polymers and engineering plastics. Its manufacturing facility is in Khatima, Uttarakhand. Total operational capacity for BOPET is 57,000 tpa, metallised films is 13,000 tpa, engineering plastics is 16,500 tpa and specialty polymers is 30,000 tpa.

For the first nine months of fiscal 2022, total income was Rs 1,018 crore and profit after tax (PAT) Rs 107 crore, against Rs 696 crore and Rs 108 crore, respectively, in the corresponding period of the previous fiscal.

Key Financial Indicators*

As on/for the period ended March 31	Unit	2021	2020
Operating income	Rs crore	996	1044
PAT	Rs crore	137	99
PAT margin	%	13.8	9.5
Adjusted debt/adjusted networth	Times	0.40	0.38
Interest coverage	Times	12.7	8.1

**As per analytical adjustments made by CRISIL Ratings*

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Term loan	Oct-2021	NA	Sept-2026	40	NA	CRISIL A/Stable
NA	Cash credit*	NA	NA	NA	125	NA	CRISIL A/Stable
NA	Bill discounting**	NA	NA	NA	23.38	NA	CRISIL A/Stable
NA	Bill discounting**	NA	NA	NA	1.62	NA	CRISIL A1
NA	Inland/import letter of credit	NA	NA	NA	120.0	NA	CRISIL A1
NA	Bank guarantee	NA	NA	NA	4.0	NA	CRISIL A1
NA	Foreign exchange forward	NA	NA	NA	9.30	NA	CRISIL A1
NA	Term loan	NA	NA	Mar-2027	167.63	NA	CRISIL A/Stable

**Interchangeable with packing credit*

***Interchangeable with foreign inland*

Annexure – List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Ester Filmtech Ltd	Full	Strong operational and financial linkages

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	366.93	CRISIL A1 / CRISIL A/Stable		--	16-09-21	CRISIL A2+ / CRISIL A-/Positive	28-10-20	CRISIL A2+ / CRISIL A-/Stable		--	--

			--		--	01-09-21	CRISIL A2+ / CRISIL A-/Positive	08-10-20	CRISIL A2+ / CRISIL A-/Stable		--	--
			--		--	25-02-21	CRISIL A2+ / CRISIL A-/Stable		--		--	--
Non-Fund Based Facilities	ST	124.0	CRISIL A1		--	16-09-21	CRISIL A2+	28-10-20	CRISIL A2+		--	--
			--		--	01-09-21	CRISIL A2+	08-10-20	CRISIL A2+		--	--
			--		--	25-02-21	CRISIL A2+		--		--	--
Commercial Paper	ST		--		--	16-09-21	Withdrawn	28-10-20	CRISIL A2+		--	--
			--		--	01-09-21	CRISIL A2+	08-10-20	CRISIL A2+		--	--
			--		--	25-02-21	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee**	0.26	HDFC Bank Limited	CRISIL A1
Bank Guarantee**	1.14	Bank of India	CRISIL A1
Bank Guarantee**	1.1	Bank of Baroda	CRISIL A1
Bank Guarantee**	0.9	Union Bank of India	CRISIL A1
Bank Guarantee**	0.6	Canara Bank	CRISIL A1
Bill Discounting**	1.62	HDFC Bank Limited	CRISIL A1
Bill Discounting**	7.12	Bank of India	CRISIL A/Stable
Bill Discounting**	6.88	Bank of Baroda	CRISIL A/Stable
Bill Discounting**	5.63	Union Bank of India	CRISIL A/Stable
Bill Discounting**	3.75	Canara Bank	CRISIL A/Stable
Cash Credit*	8.12	HDFC Bank Limited	CRISIL A/Stable
Cash Credit*	35.63	Bank of India	CRISIL A/Stable
Cash Credit*	34.38	Bank of Baroda	CRISIL A/Stable
Cash Credit*	28.12	Union Bank of India	CRISIL A/Stable
Cash Credit*	18.75	Canara Bank	CRISIL A/Stable
Foreign Exchange Forward	4.5	Bank of Baroda	CRISIL A1
Foreign Exchange Forward	1.68	Union Bank of India	CRISIL A1
Foreign Exchange Forward	0.98	Canara Bank	CRISIL A1
Foreign Exchange Forward	2.14	Bank of India	CRISIL A1
Inland/Import Letter of Credit	34.2	Bank of India	CRISIL A1
Inland/Import Letter of Credit	33	Bank of Baroda	CRISIL A1
Inland/Import Letter of Credit	27	Union Bank of India	CRISIL A1
Inland/Import Letter of Credit	18	Canara Bank	CRISIL A1
Inland/Import Letter of Credit	7.8	HDFC Bank Limited	CRISIL A1
Term Loan	4.68	Bank of Baroda	CRISIL A/Stable
Term Loan	3.71	Union Bank of India	CRISIL A/Stable

Term Loan	7.28	Canara Bank	CRISIL A/Stable
Term Loan	27.01	Tata Capital Financial Services Limited	CRISIL A/Stable
Term Loan	20	The Karnataka Bank Limited	CRISIL A/Stable
Term Loan	34.25	IDFC FIRST Bank Limited	CRISIL A/Stable
Term Loan	30	Bajaj Finance Limited	CRISIL A/Stable
Term Loan	5.64	Axis Finance Limited	CRISIL A/Stable
Term Loan	29.36	Axis Finance Limited	CRISIL A/Stable
Term Loan	40	Qatar National Bank (Q.P.S.C.)	CRISIL A/Stable
Term Loan	0.83	Tata Capital Financial Services Limited	CRISIL A/Stable
Term Loan	4.87	Bank of India	CRISIL A/Stable

This Annexure has been updated on 6-Apr-2022 in line with the lender-wise facility details as on 17-Aug-2021 received from the rated entity
**Interchangeable with packing credit*
***Interchangeable with foreign inland*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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Note for Media:

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