

Date: 2nd September, 2021

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

Dear Sir

Subject : Intimation of assignment of Credit rating by CRISIL Limited

Dear Sir

Pursuant to the requirements of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform you that CRISIL Limited has assigned credit rating for credit facilities of the company as under –

TENURE	PREVIOUS RATING	REVISED RATING ASSIGNED
Long term Rating	CRISIL A-/Stable	CRISIL A-/Positive (Outlook revised from Stable to Positive; rating reaffirmed)
Short term Rating	CRISIL A2+	CRISIL A2+ (Reaffirmed)

A Copy of the rating letter issued by CRISIL Limited is attached herewith.

Please take the same on your record.

Yours Faithfully
For **Ester Industries Limited**



Diwakar Dinesh
Head-Legal & Company Secretary

Encls: As above

Ester Industries Limited

Corporate Office : Block-A, Plot No. 11, Infocity-I, Sector-34, Gurgaon - 122001 Haryana, India
Phone : +91-124-2656100, 4572100 Fax : +91-124-4572199, 2656199 E-Mail : info@ester.in Website : www.esterindustries.com

Regd. Office & Works : Sohan Nagar, P. O. Charubeta, Khatima - 262308 Distt. Udham Singh Nagar, Uttarakhand
Phone : EPABX No. (05943) 250153-57 Fax No.: (05943) 250158

Rating Rationale

September 01, 2021 | Mumbai

Ester Industries Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.490.93 Crore (Enhanced from Rs.411 Crore)
Long Term Rating	CRISIL A-/Positive (Outlook revised from 'Stable'; rating reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

Rs.40 Crore Commercial Paper	CRISIL A2+ (Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Ester Industries Limited (EIL) to **'Positive'** from **'Stable'** while reaffirming the rating at **'CRISIL A-'**. The short term rating and commercial paper programme of the entity reaffirmed at **'CRISIL A2+'**.

The revision in outlook reflects a belief that the credit risk profile of EIL will improve over the medium term with sustenance of operating performance driven by benefits of a diverse product portfolio and timely commissioning of the ongoing projects. Operating performance improved significantly over the past two fiscals driven by continuation of favourable demand-supply dynamics in the packaging film business and maturing of products. The operating profit before depreciation, interest and taxes (OPBDIT) margin increased to 23.7% during fiscal 2021 from 11.0% during fiscal 2019. Cash accruals increased to Rs 139 crore from Rs 64 crore. The engineering plastics and speciality polymers segments have also seen healthy improvement in demand over the past six months. Therefore, despite the expected decline of margins in packaging films business, the overall OPBDIT margin of EIL is expected to sustain at around 15% over the medium term benefitting from a diverse product portfolio. Product mix and diversification should improve since the company is adding the capacities of value-added products, speciality polymers and engineering plastics for Rs 225 crore, which is expected to be completed by the first quarter of fiscal 2023. Furthermore, scale of packaging films business is expected to improve with the new greenfield BOPET (biaxially-oriented polyethylene terephthalate) line (48,000 tpa in Telangana) commissioning in the middle of next fiscal. The progress of the project implementation would remain a monitorable.

The ratings continue to factor established market position along with long track record in 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 75-80% of 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 the Ester sustain volume in the packaging films business over the medium term.

Healthy operating efficiency supported by strong capacity utilisation

Profitability is susceptible to volatility 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 speciality polymers division. Despite upcoming BOPET capacities of over 2,00,000 TPA over the next three fiscals, the robust demand growth for the films is expected to keep the operating efficiency healthy over the medium.

The operating performance of the speciality polymers segment has also started improving with the recent launch of commercial sales of one of the speciality 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 speciality polymers division and this is expected to support the operating margin of the segment. The engineering plastics division has also seen improved demand from the automotive segment during the second half of fiscal 2021 and continues to remain strong during the first quarter of current fiscal as well. Overall, while the realisations have started easing, the OPBDIT margin should remain healthy at more than 15% over the medium term.

Diversified product profile

The company has a diversified product portfolio in the polyester films, engineering plastics and speciality polymers divisions. Though revenue is dominated by the films segment (75-80%), 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 businesses was adversely affected due to the pandemic led slowdown, higher profit from the packaging film business helped maintain profitability during the first half of previous fiscal. With economic recovery, the demand for the engineering plastics and speciality polymers started improving from the second half of fiscal 2021 and should remain strong during the first half of fiscal 2022 providing stability to cash flows.

Weaknesses

Susceptibility to volatile raw material costs and realisations driven by demand-supply dynamics

The packaging films business remains prone to cyclicalities, 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 a fall in product realisations. Further, key raw materials, PET resin/chips, pure terephthalic acid, and mono ethylene glycol are all derivatives of crude and hence, profitability remains susceptible to volatility in crude prices. Players have the flexibility to pass on raw material price fluctuations to customers to an 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. Ester benefits from the diversified product profile, however, the OPBDIT margin has eased off during the first quarter of fiscal 2021 (first quarter of fiscal 2022: 20%; first quarter of fiscal 2021: 27%). 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 at Rs 586 crore 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 partly mitigated since it has already infused over Rs. 110 crore of equity contribution and the debt tie-up is in place. The civil 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 times 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 speciality polymers and engineering plastics division. The company has already initiated the capex and it is expected to get completed by the first quarter of fiscal 2023. Timely implementation and ramp-up of the project remains critical for sustenance of the profitability and will be closely monitored.

Liquidity: Adequate

Expected cash accrual of around Rs 130-140 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 23% during the 12 months through June 2021 and should be sufficient for meeting the incremental working capital requirements over the medium term.

Outlook: Positive

EIL's business risk profile could improve over the medium term, supported by timely commissioning and stabilisation of the ongoing projects while sustaining the operating performance.

Rating Sensitivity Factors

Upward Factors:

- Significant and sustained improvement in operating performance leading to cash accruals of Rs 140-150 crore
- Timely completion of the 48000 TPA BOPET project by October 2022 without any cost overruns.

Downward Factors

- Lower-than-expected operating performance leading to a significant decline in margins and cash accruals
- Delay in ramp-up of new capacities, new sizeable debt-funded capex/acquisitions, leading to gearing ratio of more than 1.2 times on a sustained basis

About the Company

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

For the three months of fiscal 2022, total income was Rs 321 crore and profit after tax (PAT) Rs 37 crore, against Rs 189 crore and Rs 29 crore, respectively, in the corresponding period last 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 networkth	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 levels	Rating assigned with outlook
NA	Proposed long-term bank loan facility	NA	NA	NA	40	NA	CRISIL A-/Positive
NA	Cash credit*	NA	NA	NA	125	NA	CRISIL A-/Positive
NA	Bill discounting**	NA	NA	NA	25	NA	CRISIL A-/Positive
NA	Inland/import letter of credit	NA	NA	NA	120.0	NA	CRISIL A2+
NA	Bank guarantee	NA	NA	NA	4.0	NA	CRISIL A2+
NA	Foreign exchange forward	NA	NA	NA	9.30	NA	CRISIL A2+
NA	Term loan	NA	NA	Mar-27	167.63	NA	CRISIL A-/Positive
NA	Commercial paper	NA	NA	NA	40.00	Simple	CRISIL A2+

*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

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	366.93	CRISIL A2+ / CRISIL A-/Positive	25-02-21	CRISIL A2+ / CRISIL A-/Stable	28-10-20	CRISIL A2+ / CRISIL A-/Stable		--		--	--
			--		--	08-10-20	CRISIL A2+ / CRISIL A-/Stable		--		--	--
Non-Fund Based Facilities	ST	124.0	CRISIL A2+	25-02-21	CRISIL A2+	28-10-20	CRISIL A2+		--		--	--
			--		--	08-10-20	CRISIL A2+		--		--	--
Commercial Paper	ST	40.0	CRISIL A2+	25-02-21	CRISIL A2+	28-10-20	CRISIL A2+		--		--	--
			--		--	08-10-20	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	1.14	Bank of India	CRISIL A2+
Bank Guarantee	1.1	Bank of Baroda	CRISIL A2+
Bank Guarantee	0.9	Union Bank of India	CRISIL A2+
Bank Guarantee	0.6	Canara Bank	CRISIL A2+
Bank Guarantee	0.26	HDFC Bank Limited	CRISIL A2+
Bill Discounting**	1.62	HDFC Bank Limited	CRISIL A2+
Bill Discounting**	7.12	Bank of India	CRISIL A-/Positive
Bill Discounting**	6.88	Bank of Baroda	CRISIL A-/Positive
Bill Discounting**	5.63	Union Bank of India	CRISIL A-/Positive
Bill Discounting**	3.75	Canara Bank	CRISIL A-/Positive
Cash Credit*	35.63	Bank of India	CRISIL A-/Positive
Cash Credit*	34.38	Bank of Baroda	CRISIL A-/Positive
Cash Credit*	28.12	Union Bank of India	CRISIL A-/Positive
Cash Credit*	18.75	Canara Bank	CRISIL A-/Positive

Cash Credit*	8.12	HDFC Bank Limited	CRISIL A-/Positive
Foreign Exchange Forward	2.14	Bank of India	CRISIL A2+
Foreign Exchange Forward	4.5	Bank of Baroda	CRISIL A2+
Foreign Exchange Forward	1.68	Union Bank of India	CRISIL A2+
Foreign Exchange Forward	0.98	Canara Bank	CRISIL A2+
Inland/Import Letter of Credit	34.2	Bank of India	CRISIL A2+
Inland/Import Letter of Credit	33	Bank of Baroda	CRISIL A2+
Inland/Import Letter of Credit	27	Union Bank of India	CRISIL A2+
Inland/Import Letter of Credit	18	Canara Bank	CRISIL A2+
Inland/Import Letter of Credit	7.8	HDFC Bank Limited	CRISIL A2+
Proposed Long Term Bank Loan Facility	40	-	CRISIL A-/Positive
Term Loan	4.87	Bank of India	CRISIL A-/Positive
Term Loan	4.68	Bank of Baroda	CRISIL A-/Positive
Term Loan	3.71	Union Bank of India	CRISIL A-/Positive
Term Loan	7.28	Canara Bank	CRISIL A-/Positive
Term Loan	27.01	Tata Capital Financial Services Limited	CRISIL A-/Positive
Term Loan	20	The Karnataka Bank Limited	CRISIL A-/Positive
Term Loan	34.25	IDFC FIRST Bank Limited	CRISIL A-/Positive
Term Loan	30	Bajaj Finance Limited	CRISIL A-/Positive
Term Loan	5.64	Axis Finance Limited	CRISIL A-/Positive
Term Loan	29.36	Axis Finance Limited	CRISIL A-/Positive
Term Loan	0.83	Tata Capital Financial Services Limited	CRISIL A-/Positive

This Annexure has been updated on 01-Sept-2021 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 manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for Consolidation](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations	Manish Kumar Gupta Senior Director	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301

CRISIL Limited

D: +91 22 3342 3895
B: +91 22 3342 3000
saman.khan@crisil.com

Naireen Ahmed

Media Relations

CRISIL Limited

D: +91 22 3342 1818
B: +91 22 3342 3000
naireen.ahmed@crisil.com

CRISIL Ratings Limited

B: +91 124 672 2000
manish.gupta@crisil.com

Nitesh Jain

Director

CRISIL Ratings Limited

D: +91 22 3342 3329
nitesh.jain@crisil.com

Snehil Shukla

Manager

CRISIL Ratings Limited

B: +91 22 3342 3000
Snehil.Shukla@crisil.com

For a copy of Rationales / Rating Reports:
CRISILratingdesk@crisil.com

For Analytical queries:
ratingsinvestordesk@crisil.com