

ESTER**INDUSTRIES LTD.**

CIN : L24111UR1985PLC015063

Date: 26th July 2024

To,

National Stock Exchange of India Limited (NSE)Exchange Plaza,
Plot no. C/1, G Block,
Bandra-Kurla Complex,
Bandra (E), Mumbai – 400051**Symbol: ESTER**

Dear Sir/Madam,

Subject: Intimation of Credit rating by CRISIL

With reference to our earlier intimation dated 18th December 2023 pertaining to Credit Rating and email received from NSE on 25th July 2024 regarding the clarification for not mentioning the rating rationale in the earlier disclosure dated 18th December 2023, we are hereby again submitting the below disclosure pertaining to revision in credit ratings by CRISIL Ratings Limited of the Credit facilities of the Company as under:

Facility	Tenure	Previous Rating	Revised Rating
Fund based	Long Term	CRISIL A/Negative (Outlook revised from 'Stable'; Rating Reaffirmed)	CRISIL A-/Negative (Downgraded from 'CRISIL A/Negative')
Fund based	Short Term	CRISIL A1 (Reaffirmed)	CRISIL A2+ (Downgraded from 'CRISIL A1')
Non-Fund Based			

A copy of the detailed rating rationale given by the rating agency is enclosed herewith.

Please take the same on your records.

Thanking You,

Yours Faithfully,
For **Ester Industries Limited**

Poornima Gupta
Company Secretary & Compliance Officer

Encl: As Above

Ester Industries Limited

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RL/ESFILI/333034/BLR/1223/75145
December 18, 2023



Mr. Pradeep Kumar Rustagi
Executive Director Corporate Affairs
Ester Filmtech Limited
Block-A, Plot No-11, Infocity-1
Sector-33&34
Gurgaon - 122001
9958090013

Dear Mr. Pradeep Kumar Rustagi,

Re: Review of CRISIL Ratings on the bank facilities of Ester Filmtech Limited

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL Ratings on the ratings as on date.

Total Bank Loan Facilities Rated	Rs.564 Crore
Long Term Rating	CRISIL BBB/Negative (Downgraded from 'CRISIL A- / Negative')
Short Term Rating	CRISIL A3+ (Downgraded from 'CRISIL A2+')

(Bank-wise details as per Annexure 1)

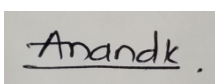
As per our Rating Agreement, CRISIL Ratings would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL Ratings reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the ratings. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL Ratings will be necessary.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,



Anand Kulkarni
Director - CRISIL Ratings



Nivedita Shibu
Associate Director - CRISIL Ratings



Disclaimer: A rating by CRISIL Ratings reflects CRISIL Ratings' current opinion on the likelihood of timely payment of the obligations under the rated instrument, and does not constitute an audit of the rated entity by CRISIL Ratings. Our ratings are based on information provided by the issuer or obtained by CRISIL Ratings from sources it considers reliable. CRISIL Ratings does not guarantee the completeness or accuracy of the information on which the rating is based. A rating by CRISIL Ratings is not a recommendation to buy / sell or hold the rated instrument; it does not comment on the market price or suitability for a particular investor. CRISIL Ratings has a practice of keeping all its ratings under surveillance and ratings are revised as and when circumstances so warrant. CRISIL Ratings is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of its ratings. CRISIL Ratings' criteria are available without charge to the public on the web site, www.crisilratings.com. CRISIL Ratings or its associates may have other commercial transactions with the company/entity. For the latest rating information on any instrument of any company rated by CRISIL Ratings, please visit www.crisilratings.com or contact Customer Service Helpdesk at CRISILratingdesk@crisil.com or at 1800-267-1301

CRISIL Ratings Limited

A subsidiary of CRISIL Limited, an S&P Global Company
Corporate Identity Number: U67100MH2019PLC326247

Annexure 1 - Bank-wise details of various facility classes (outstanding facilities)

S.No.	Bank Facility	Bank	Amount (Rs. in Crore)	Outstanding Rating
1	Bank Guarantee	Bank of India	12	CRISIL BBB/Negative
2	Fund-Based Facilities	HDFC Bank Limited	19	CRISIL BBB/Negative
3	Fund-Based Facilities	Bank of India	44	CRISIL BBB/Negative
4	Fund-Based Facilities	Bank of Baroda	42	CRISIL BBB/Negative
5	Letter of credit & Bank Guarantee	Bank of India	15	CRISIL A3+
6	Letter of credit & Bank Guarantee	Bank of Baroda	14.8	CRISIL A3+
7	Letter of credit & Bank Guarantee	HDFC Bank Limited	7.2	CRISIL A3+
8	Term Loan	Bank of Baroda	69.32	CRISIL BBB/Negative
9	Term Loan	Bank of India	73.13	CRISIL BBB/Negative
10	Term Loan	Oldenburgische Landesbank AG, Germany	239.06	CRISIL BBB/Negative
11	Term Loan	HDFC Bank Limited	28.49	CRISIL BBB/Negative
	Total		564	

10. equivalent to EUR 26.95 million

Disclaimer: A rating by CRISIL Ratings reflects CRISIL Ratings' current opinion on the likelihood of timely payment of the obligations under the rated instrument, and does not constitute an audit of the rated entity by CRISIL Ratings. Our ratings are based on information provided by the issuer or obtained by CRISIL Ratings from sources it considers reliable. CRISIL Ratings does not guarantee the completeness or accuracy of the information on which the rating is based. A rating by CRISIL Ratings is not a recommendation to buy / sell or hold the rated instrument; it does not comment on the market price or suitability for a particular investor. CRISIL Ratings has a practice of keeping all its ratings under surveillance and ratings are revised as and when circumstances so warrant. CRISIL Ratings is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of its ratings. CRISIL Ratings' criteria are available without charge to the public on the web site, www.crisilratings.com. CRISIL Ratings or its associates may have other commercial transactions with the company/entity. For the latest rating information on any instrument of any company rated by CRISIL Ratings, please visit www.crisilratings.com or contact Customer Service Helpdesk at CRISILratingdesk@crisil.com or at 1800-267-1301

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Rating Rationale

Ester Industries Limited

Ratings downgraded to 'CRISIL A-/Negative/CRISIL A2+'

Rating Action

Total Bank Loan Facilities Rated	Rs.523.9 Crore
Long Term Rating	CRISIL A-/Negative (Downgraded from 'CRISIL A/Negative')
Short Term Rating	CRISIL A2+ (Downgraded from 'CRISIL A1')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

The downgrade in rating factors in weak operating performance of EIL over the last several quarters as well as expectation of continuation of the same this fiscal due to adverse demand-supply scenario in the flexible packaging industry. The BOPET industry added around 45% of its existing capacity in fiscal 2023, leading to oversupply and sharp correction in product prices. The industry's performance is expected to remain subdued this fiscal, with recovery expected in fiscal 2025. Additionally, EIL's specialty polymer segment's sales were impacted due to slowdown in the US market.

The revenue of the company declined by 21% y-o-y in fiscal 2023 and by 17% y-o-y in H1 fiscal 2024. The operating margins fell to 8.8% in fiscal 2023 and to -1.9% in H1 fiscal 2024, from 17.6% in fiscal 2022. The margins have been on a declining trend over the last few quarters and the pressure is expected to continue this fiscal as well. EIL's operating margins are expected to decline to 1-2% in fiscal 2024 followed by expected improvement in margins to 8-9% in fiscal 2025. Consequently, the net cash accruals of the company for fiscal 2024 and 2025 are estimated to be much lower than the earlier expectations. The key ratio of debt to earnings before interest, tax, depreciation, and amortisation (Ebitda) stood at 8.3 times as on March 31, 2023, and is estimated to remain higher than expected going forward as well and hence remains monitorable. Going forward, improvement in industry dynamics and consequent expansion in operating profitability will remain critical from a credit perspective.

The financial risk profile of the company has weakened with gearing more than 1 time and interest coverage declining to 2.8 time in fiscal 2023 followed by 0.3 time in H1 fiscal 2024 and is expected to remain below 2.0 time in the medium term. Nevertheless, the financial flexibility of the company remains currently supported by cash and equivalent of ~Rs 140 crore.

The ratings continue to reflect the company's established market position and long track record in the packaging films business diversified product profile. These strengths are partially offset by susceptibility to volatile raw material costs and realisations driven by demand-supply dynamics and pending stabilisation of operations of the recently commissioned capex.

Analytical Approach

To arrive at the ratings, CRISIL Ratings has combined the business and financial risk profiles of EIL and Ester Filmtech Ltd (EFL; a wholly owned subsidiary), together referred to as Ester, given their business and financial linkages and a common management.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their 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 plant in Uttarakhand. Though it has diversified into various other segments (such as specialty polymers) over the years, it still derives a major portion of its revenue from the packaging films business. The installed capacity comprises BOPET (105,000 tpa), metallised films

(23,000 tpa), and specialty polymers (30,000 tpa). Capacity utilisation in the BOPET line should remain supported by moderately strong demand in the industry over the near to medium term. Established customer relationships should also help EIL sustain volumes in the packaging films business over the medium term.

- **Diversified product profile**

The company has a diversified product portfolio in the polyester films and specialty polymers divisions. Though revenue is dominated by the films segment, share of the other segment has increased in the past two years. While the demand for specialty polymers is adversely affected in the current fiscal year due to the global slowdown, going forward the volumes are expected to pick up and drive the business.

Weaknesses:

- **Susceptibility to volatility in raw material cost and realisations, driven by demand-supply dynamics**

The packaging films business remains prone to cyclicalities, as evident from fluctuations in product realisations and profitability, owing to the demand-supply mismatch. 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 leads to a 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. Currently the industry is going through an oversupply situation due to the addition of over 45% of capacity in fiscal 2023, impacting the Ebitda margins of the company. The margins declined from 18.3% in Q1 fiscal 2023 to 3.3% in Q4 fiscal 2023 and further to -4% in Q2 fiscal 2024. The operating margins are expected to remain under pressure with recovery expected from fiscal 2025.

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 projects and stabilization of recently commissioned project**

Due to the growing demand in the films business, the players add capacities every 4-5 years to keep up with the industry dynamics and maintain its market share. These capacities are bulky in nature and hence result in intermittent imbalance of demand and supply. The company (in its subsidiary EFL) has commissioned 48,000 MTPA capacity in Telangana in January 2023, the commercial operations of which started in Q4 fiscal 2023. EIL (in its subsidiary EFL) has taken debt in the ratio of 60:40 for the newly commissioned capacity. Stabilization and profitably ramping up the capacity utilisation will remain a key monitorable.

Liquidity: Adequate

The impact on business has weakened the cash accruals. However, liquidity in the company is expected to be supported by , unutilized bank lines and cash and equivalent of Rs 140 Crs in November 2023. The bank limit (Fund based and Non fund based) of over Rs 160 crore was utilised at an average of 65% during the 6 months through September 2023.

Outlook: Negative

CRISIL Ratings believes EIL's operating performance may get impacted over the near to medium term as adverse demand-supply situation impacted operating profitability and coverage ratios. The outlook may be revised to 'Stable' in case of significant improvement in profitability and healthy revenue growth.

Rating Sensitivity factors

Upward factors:

- Significant and sustained improvement in operating profitability leading to a Debt to Ebitda of less than 2.5 times
- Stabilisation of new capacity resulting in sustained and significant increase in revenue

Downward factors:

- Continued weak operating performance and inability to improve operating margin as well as cash accruals
- Debt to Ebitda ratio remaining more than 4 times on a sustained basis

About the Company

Promoted by Mr Arvind Singhania and incorporated in 1985, EIL manufactures packaging films and specialty polymers. Its manufacturing facility is in Khatima, Uttarakhand. Total operational capacity for BOPET is 57,000 tpa, metallised films is 13,000 tpa and specialty polymers is 30,000 tpa. The commissioned new capacity of 48,000 MTPA in Telangana in December 2022.

Key Financial Indicators*

As on / for the period ended March 31		2023	2022
Operating income [^]	Rs crore	1119	1411
PAT [^]	Rs crore	137	137
PAT margin	%	12.2	9.7
Adjusted debt / adjusted networkth	Times	1.10	1.03
Interest coverage	Times	2.78	10.0

[^]Includes revenue and profit from Engineering Plastics division which was sold off in September 2022

*as per analytical adjustments made by CRISIL Ratings