

## Rating Rationale

October 03, 2023 | Mumbai

### Ecoplast Limited

*Rating outlook revised to 'Stable'; Ratings Reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.31.5 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Stable (Outlook revised from 'Negative', rating reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

*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 revised its rating outlook on the long-term bank facilities of Ecoplast Limited (Ecoplast; part of the Ecoplast group) to '**Stable**' from 'Negative' and reaffirmed the 'CRISIL BBB-' rating. The short-term rating also reaffirmed at 'CRISIL A3'.

The outlook revision reflects the improvement in business risk profile, backed by steady demand from key customers and healthy recovery in profitability. While revenues remained rangebound around Rs 97 crores, operating margins bounced back to 7% in fiscal 2023. Consequently, cash accruals also improved to Rs 6.9 crores in fiscal 2023 from Rs 1 crore in fiscal 2022. Financial risk profile will remain comfortable, supported by comfortable capital structure and debt protection metrics and adequate liquidity.

The ratings continue to reflect the company's established market position, diversification into industrial films and comfortable financial risk profile. These strengths are partially offset by modest scale of operations amid intense competition and susceptibility to volatility in raw material prices.

#### Analytical approach

CRISIL Ratings has combined the business and financial risk profiles of Ecoplast and its wholly owned subsidiary, Synergy Films Pvt Ltd (SFPL). The two companies, together referred to as the Ecoplast group, have a common management team.

*Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

#### Key rating drivers and detailed description

##### **Strengths:**

- **Established market position and diversification into industrial films:** The Ecoplast group has been manufacturing multilayer extrusion films for more than 40 years. It produces industrial films, such as aluminium composite and surface protection films, which are widely used in the construction and durable goods industries. It has also introduced several variants of multilayer co-extruded films used for packaging and non-packaging applications. Ability to provide customised solutions has enabled the group to build strong relationships with key customers and sustain revenue.
- **Comfortable financial risk profile:** The capital structure has been healthy due to low reliance on external funds, as indicated by gearing of 0.03 time and total outside liabilities to adjusted networth ratio of 0.32 time as on March 31, 2023. The debt protection metrics have also been healthy due to low leverage and adequate profitability. The interest coverage and net cash accrual to total debt ratio were 10.86 times and 6.55 times, respectively, for fiscal 2023 and are expected at similar levels over the medium term.

##### **Weaknesses:**

- **Modest scale of operations amid intense competition:** The Ecoplast group primarily manufactures multilayer coextruded plastic films used for flexible packaging and other speciality applications. The plastic packaging industry is highly fragmented, with several unorganised players catering to regional demand. Intense competition restricts growth opportunities to expand into new geographies and scalability, as reflected in revenue of Rs 97.19 crore in fiscal 2023.
- **Susceptibility to volatility in raw material prices:** The key raw material, polymer resin, being a crude derivative, its price is volatile. The operating margin of the Ecoplast group ranged from 1.3% to 7.2% over the three fiscals through 2023 because of volatility in the raw material price. Sustenance of the operating margin remains a key monitorable.

#### Liquidity: Adequate

Bank limit utilisation was low at 2.7% on average for the 12 months through July 2023. Cash accrual is expected at Rs 6.9-7.7 crore against term debt obligation of Rs 0.31-0.75 crore in fiscal 2024 and 2025 and will cushion liquidity. Current ratio was healthy at 3.05 times and the group had moderate cash and bank balance of Rs 2.38 crore as on March 31, 2023. Low gearing and moderate networth provide financial flexibility to withstand adverse conditions or downturn in the business.

#### Outlook: Stable

CRISIL Ratings believes the business risk profile of the Ecoplast group will continue to benefit from the extensive experience of its promoter and established relationships with clients.

#### Rating sensitivity factors

##### **Upward factors**

- Increase in revenue and operating margin above 7% leading to cash accrual of more than Rs 11 crore
- Efficient working capital management, strengthening the financial risk profile

##### **Downward factors**

- Decline in revenue or operating margin leading to cash accrual less than Rs 3 crore
- Large, debt-funded capital expenditure or stretch in the working capital cycle weakening the financial risk profile

**About the group**

Incorporated in 1981, Ecoplast manufactures multilayer extrusion films used in flexible packaging, and industrial films, such as aluminium composite and surface protection films, which are used widely in the construction and durable goods industries. It is listed on the Bombay Stock Exchange and is promoted by Mr Jaymin B Desai.

Incorporated in 2007, SFPL is engaged in trading. Its manufacturing operations were discontinued in December 2019.

**Key financial indicators (consolidated)**

As on / for the period ended March 31		June 30, 2023	2023	2022
Operating income	Rs crore	25.43	97.19	94.39
Reported profit after tax	Rs crore	1.78	4.45	-1.75
PAT margin	%	6.99	4.57	-1.85
Adjusted debt/adjusted network	Times	-	0.03	0.46
Interest coverage	Times	-	10.86	1.09

**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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). 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	Bank Guarantee	NA	NA	NA	0.15	NA	CRISIL A3
NA	Cash Credit	NA	NA	NA	14.29	NA	CRISIL BBB-/Stable
NA	Letter of Credit	NA	NA	NA	6.5	NA	CRISIL A3
NA	Long Term Loan	NA	NA	Mar-25	1.05	NA	CRISIL BBB-/Stable
NA	Proposed Term Loan	NA	NA	NA	9.51	NA	CRISIL BBB-/Stable

**Annexure – List of entities consolidated**

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Ecoplast Ltd	Full	Same business and common management
Synergy Films Pvt Ltd	Full	

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	24.85	CRISIL BBB-/Stable		--	14-09-22	CRISIL BBB-/Negative	26-07-21	CRISIL BBB-/Stable	25-11-20	CRISIL BBB-/Stable	CRISIL BBB-/Stable
					--		--	21-07-21	CRISIL BBB-/Stable		--	--
Non-Fund Based Facilities	ST	6.65	CRISIL A3		--	14-09-22	CRISIL A3	26-07-21	CRISIL A3	25-11-20	CRISIL A3	CRISIL A3
					--		--	21-07-21	CRISIL A3		--	--

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	0.15	Bank of Baroda	CRISIL A3
Cash Credit	14.29	Bank of Baroda	CRISIL BBB-/Stable
Letter of Credit	6.5	Bank of Baroda	CRISIL A3
Long Term Loan	1.05	Bank of Baroda	CRISIL BBB-/Stable
Proposed Term Loan	9.51	Not Applicable	CRISIL BBB-/Stable

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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