Jindal Poly Films Limited

June 10, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Positive / CARE A1+ (Single A Plus; Outlook: Positive / A One Plus) and Withdrawn
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE A+; Positive (Single A Plus; Outlook: Positive) and Withdrawn
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reviewed and reaffirmed the ratings assigned to the bank facilities of JPFL and has simultaneously withdrawn it, with immediate effect.

The ratings continue to factor in the strength of JPFL's established market position in the Indian packaging film industry, the promoter group having a long track record of operations, its healthy operational performance with a comfortable financial profile characterized by a healthy capital structure, above-average debt coverage indicators and strong liquidity position. The ratings take into cognizance the resilient financial performance of the company in FY21 despite Covid'19 lockdown restrictions. The ratings also factor in the higher than scheduled debt repayments by the company during FY21 and reduction in debt levels going forward.

These rating strengths are, however, partially offset by debt-funded capacity addition and stiff competition in the industry on account of demand-supply disparity, which continues to be a key risk due to commoditized nature of the product. Moreover, JPFL's margin remains susceptible to the volatility in raw material prices.

The rating withdrawal is at the request of JPFL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

<u>Outlook: Positive</u>

The outlook of the rating is positive on account of expectation of reduction in net debt level of JPFL due to strong cash accrual on account of favourable demand supply characteristics in flexible packaging and non-woven segment. This is expected to further improve the financial risk profile of the company. The outlook may be revised to 'stable' if there is lower than envisaged increase in net debt level.

Detailed description of the key rating drivers

Key Rating Strengths

Established market position in flexible packaging and non-woven segment

JPFL, through continuous capacity expansion in the past, commands leadership position in India in biaxially oriented polypropylene (BOPP), biaxially oriented polyester (BOPET) and non-woven segments. It also has sizable presence in the metallized film segment as well. Its single-unit operation (which is one of the largest integrated BOPP and BOPET manufacturing facilities in India) with multi-layers of forward and backward integration, leads to economies of scale and lower per unit cost of production. JPFL enjoys strong bargaining power with its customers in terms of pricing and credit term, owing to its scale of operation coupled with diversity and granularity in customer profile.

Part of strong promoter group with professional management

JPFL is the flagship company of the B.C Jindal Group and has business vintage of over three decades. The group is a global flexible packaging solutions provider with manufacturing operations in India, Europe and US with sales footprint in over 40 countries. Although the Board has no representation from the promoters, the board and the senior management comprises professionals with several decades of experience in various functions of finance and marketing across varied manufacturing sectors.

Healthy operational performance

Despite the restrictions imposed due to lockdown, the capacity utilization for BOPET, BOPP and metallized films stood comfortable at about 69%, 56% and 85% during 9MFY21. In terms of volume, domestic sales in all the segments have witness considerable growth during 9MFY21. The volume sales and capacity utilization of the non-woven division continued to improve during FY21 due to higher output from its newly added second line and unexpected surge in demand for medical textile during lockdown upon the spread of covid-19.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Improvement in profitability and comfortable gearing and coverage metrics
JPFL registered five-year high PBILDT margin of 29.25% in FY21, driven by higher-than-expected demand and gross margin in non-woven segment, persisting favourable pricing and margin in BOPET segment and recovery of margin in BOPP segment. Despite sizable debt funded capex in FY21, overall gearing has improved to 0.35x as om March 31, 2021 (PY: 0.78x) due to profit plough-back leading to improvement in net-worth and more than scheduled reduction in total debt. JPFL's interest coverage and total debt/ gross cash accrual (TD/GCA) also improved to 22.90x and 0.98x in FY21 vis-à-vis 11.99x and 2.78x respectively in FY20. However, leverage and coverage metrics are expected to slightly moderate when the company implements its capacity addition plan over the medium term.

Liquidity: Strong
JPFL's strong liquidity profile is characterized by healthy cash and liquid investment, moderate fund based working capital utilization, small net operating cycle and healthy current ratio. GCA during FY21 stood healthy at Rs.930 cr (PY: Rs. 504 cr) and cash and liquid investments stood at Rs. 550 cr as on March 31, 2021. JPFL's capex requirement is modular and may rely on debt funding for the same. Utilization of fund-based bank limits was 22% in trailing 12 months ended Jan'21. By virtue of its cash-and-carry model, its average collection and creditor period is small with reasonable inventory level. JPFL's financial flexibility is also demonstrated by access to cheaper debt market overseas with elongated tenor and competitive rates.

Key Rating Weaknesses
Debt funded capex
JPFL has regular capex addition programme to maintain its market dominance. As per the management, its ongoing brownfield expansions are running as per schedule. JPFL has projected considerable debt funded capex during FY22-FY24. Moreover, the requirement of debt vis a vis the current envisaged plan may increase if JPFL faces significant headwinds on its profitability. The successful implementation of these projects without any significant cost/ time overrun, besides increasing revenue from the projects as envisaged, shall remain a key credit perspective.

Overcapacity in India and stiff competition
The packaging film industry has witnessed cyclicality in the past with significant fluctuation in profitability of the incumbent players. India's BOPET and BOPP production capacity is more than the domestic demand (due to slow demand pickup in comparison to significant capacity build-up) which has led to stiff competition. The Indian manufacturers also have to compete with its Asian counterparts, in order to be cost-competitive in terms of raw material, labour and overheads not only for export but also for domestic demand.

Profitability linked to raw material price fluctuation
JPFL's major raw materials required are derivatives of crude oil; consequently, the finished goods prices fluctuate with crude oil prices. Furthermore, one of the key raw materials for the metallized segment is aluminium, which has witnessed volatility in the past. Material cost makes up ~70% of the final packaging film. Hence, ability of the manufacturer to pass on raw material price increase is critical.

Analytical approach: Standalone.

Applicable Criteria
Policy on Withdrawal of ratings
Definition of Default
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Factoring Linkages Parent Sub JV Group

About the company
JPFL was incorporated in 1974 and started production of polyester yarn in 1985 at Bulandshahr. The company started manufacturing polyester chips for captive use in 1993. In 1996, JPFL diversified into manufacturing of BOPET film. JPFL commenced production of BOPP film and metallized film and acquired Rexor SAS, France to enter into metallized film segment in 2003. Its installed capacity in BOPP film is 303,500 tonnes per annum (TPA), BOPET film is 177,500 TPA, metallized film is 71,000 TPA, coated film is 19,678 TPA, non-woven fabric is 36,000 TPA and in polyester chips it is 320,400 TPA.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Abr.)
Total operating income	3,558	4,208
PBILDT	693	1,231
PAT	478	786
Overall gearing (times)	0.78	0.35
Interest coverage (times)	11.99	22.90

A: Audited; Abr.: Abridged

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Jan'2025	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Positive (08-Oct-20)	1)CARE A+; Stable (17-Mar-20)	1)CARE A+; Stable (07-Jan-19) 2)CARE A+; Stable (19-Apr-18)
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	-	-	-	1)CARE A+; Positive / CARE A1+ (08-Oct-20)	1)CARE A+; Stable / CARE A1+ (17-Mar-20)	1)CARE A+; Stable / CARE A1+ (07-Jan-19) 2)CARE A+; Stable / CARE A1+ (19-Apr-18)

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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