Jhaveri Flexo India Limited

January 28, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	62.08 (Enhanced from 45.09)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	36.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	98.08 (Rupees Ninety eight crore and Eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Jhaveri Flexo India Ltd (JFIL) continue to derive strength from the long track record of the company along with extensive experience of its promoters, having well-established relationship with its diversified and reputed clientele base along with moderate capital structure/debt protection metrics and consistent growth in revenues.

However, the rating strengths are tempered by JFIL's modest scale and working capital intensive nature of operations, low profit margins and its susceptibility to volatile raw material prices and forex fluctuations, sensitivity to any adverse government regulations along with high competition in the packaging (plastic) industry.

Going forward the company's ability to increase its scale of operations, improve its profit margins and capital structure/debt coverage indicators while efficiently managing its working capital cycle, shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

JFIL is promoted by Jhaveri family since 1998. Mr. Sandeep Jhaveri (Managing Director), a first generation entrepreneur, has rich experience of more than two decades in the packaging industry and has worked in many fields including Investment activities, steel industry, construction etc. Besides, he is well assisted by Mr. Alay Jhaveri (Executive Director) having extensive experience in the field of packaging. The promoters of the company are assisted by professionals from varied backgrounds in their day to day activities. Furthermore, JFIL also benefits from the resourceful nature of its promoters as they infuse the funds to the company as and when required. As on March 31, 2018 the company had unsecured loans amounting to Rs.14.06 crore from the promoters and their relatives to support the operations of the company.

Diversified and well established customer base

JFIL derives around 70-80% of its revenues from domestic market and remaining from export of the packaging solutions to the countries such as USA and Saudi Arabia. Moreover, the domestic customers profile includes some of the leading players in the consumer goods, confectionary, engineering as well as food and beverages industry. Strong credit profile of its customers helps JFIL to realize its debtors' on time. Moreover, diversification of revenues to different user industries may help the company to reduce its dependence on any particular industry as well as reduce revenue volatility.

Total operating income continues to grow

Rising demand of packaging solutions continued to drive the company's revenues in FY18. JFIL's sales volume grew by approximately 13.12% on y-o-y basis in FY18 leading to 11.08% growth in its total operating income from Rs.301.85 crore in FY17 to Rs.335.31 crore in FY18.

JFIL's laminates segment which is the largest revenue contributor to the company grew by healthy 14.55% on y-o-y basis; however due to marginal decline in realizations, the segments revenue grew at lower rate of 12.49% from Rs.221.69 crore in FY17 to Rs.249.39 crore in FY18.

Moderate capital structure and debt coverage indicators

The company continues to have moderate capital structure, as seen from overall gearing of 1.09 times as on March 31, 2018 which improved marginally from 1.12 times as on march 31, 2017. Moreover, moderate gross cash accruals generated from the business during the year coupled with moderate use of debt financing leads to adequate debt

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

coverage indicators for the company as seen from PBILDT interest coverage ratio of 3.61 times (P.Y:2.57 times) and total debt to GCA ratio of 5.96 times (P.Y:6.62 times) as on March 31, 2018.

Key Rating Weaknesses

Moderate scale of operations

The company's scale of operations continues to be moderate; albeit marginally improved on y-o-y basis. For the year ending March 31, 2018 the company had total operating income of Rs.335.31 crore and tangible net worth of Rs.83.74 crore.

High competition in the industry leading to low profit margins

The packaging industry in India is characterized by presence of large number of unorganized players. Moreover, low differentiation in the packaging solutions leads to intensely competitive market translating into low pricing power for the players in the industry. Moreover, threat of new players also remains due to low entry barriers in the industry owing to moderate capital requirement in setting-up plastic packaging company and easily available manufacturing technology. These factors along with higher raw material costs result in low profit margins for the players in the industry.
For the year ending March 31, 2018 the company's PBILDT margin declined to 6.31% as compared to 7.41% in FY17 as the company could only partially pass on the increase in its raw material prices. Nonetheless, decline in interest and finance charges helped the company to improve its PBT margin from 1.54% in FY17 to 1.76% in FY18.

Susceptibility of the profit margins to volatility in raw material prices and forex rates

JFIL's primary raw materials are polyethylene granules, which are derivatives of crude oil. Crude oil being volatile in nature, prices of polyethylene is also remain volatile. However, owing to high competition prevailing in the packaging industry, passing on this volatile raw material prices becomes difficult for the players in the industry.
Moreover, the company imports part of its raw material requirements for which it pays in USD. The company also finances part of its working capital requirements in USD denominated loans. A part of these USD payments is naturally hedged by the company's exports for which the company receives revenues in USD, and the company also enters into forex hedging to protect its margins against any short term volatility. Nonetheless, some portion of the payments still remains un-hedged which may affect the company's profit margins. As on March 31, 2018 the company had un-hedged foreign currency exposure of Rs.3.52 crore. During FY18 JFIL had forex gain of Rs.1.22 crore viz-a-viz Rs.1.36 crore forex gains in FY17.

Moderate working capital cycle

The company procures majority of its raw materials domestically by paying in advance and for imports the company gets LC backed credit of about 90 to 180 days. On the other hand, the company gives credit in the range of 30 to 60 days. Additionally, the company needs to maintain inventory of around two months. This leads to average operating cycle of in the range of 50 to 60 days and hence a large portion of capital is used to fund the working capital requirements of the company. Furthermore, the company funds a large portion of its net working capital requirements through working capital bank borrowings resulting in moderate to high utilization of fund based limits at around 84%.

Modest liquidity position

The company liquidity position was modest with cash and bank balances of Rs.0.26 crore as on March 31, 2018 and average un-utilized fund based limits of around Rs.6.00 crore for the last twelve months ended December 31 2018. Nonetheless, the promoters of the company are resourceful as they have infused funds in the past to meet any short term liquidity needs.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Rating
CARE's default recognition policy
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Rating Methodology-Manufacturing Companies

About the Company

Incorporated in 1998 by Mr. Sandeep Jhaveri, Jhaveri flexi Laminate Pvt. ltd. was merged into Flexo Film Wraps (India) Ltd in 2006 and renamed as Jhaveri Flexo India Ltd. JFIL is engaged in manufacturing of customized flexible packaging solutions such as laminates, cling films, surface protection film, stretch films, shrink films etc. The packaging solutions manufactured by the company are extensively used in fast moving consumer goods, confectionary, engineering as well as food and beverages industry. JFIL's manufacturing facilities are located at Luhari (Silvasa) and Aurangabad.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	301.85	335.31
PBILDT	22.38	21.14
PAT	3.82	2..83
Overall gearing (times)	1.12	1.09
Interest coverage (times)	2.57	3.61

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.
Any other information: Not Applicable.
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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-Cash Credit	-	-	-	44.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	36.00	CARE A3
Term Loan-Long Term	-	-	March 2024	10.23	CARE BBB-; Stable
Non-fund-based - LT-Letter of credit	-	-	November 2021	7.85	CARE BBB-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	44.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Feb-18)	1)CARE BB+; Stable (17-Mar-17)	-
2.	Non-fund-based - ST-BG/LC	ST	36.00	CARE A3	-	1)CARE A3 (22-Feb-18)	1)CARE A4+ (17-Mar-17)	-
3.	Term Loan-Long Term	LT	10.23	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Feb-18)	1)CARE BB+; Stable (17-Mar-17)	-
4.	Non-fund-based - LT-Letter of credit	LT	7.85	CARE BBB-; Stable	-	-	-	-

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