

Jhaveri Flexo India Limited

February 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Term Loan	40.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long-term Bank Facilities – Fund Based Facilities	5.09 (Reduced from 6.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short-term Bank Facilities – Non Fund based Facilities	36.00 (Enhanced from 34.00)	CARE A3 (A Three)	Revised from CARE A4+ (CARE A Four Plus)
Total Facilities	81.09 (Rs. Eighty one crore and nine lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Jhaveri Flexo India Limited (JFIL) takes into account improvement in financial risk profile of the company marked by growth in revenues, improvement in the profit margins, capital structure as well as debt coverage indicators. The rating continues to factor in vast experience of the promoters in the industry, well established clientele base across different user industries.

The rating strengths, however, are tempered by JFIL's modest scale of operations, low entry barrier in the industry leading to highly competitive market, susceptibility of the profit margins to volatile raw material prices, foreign exchange fluctuation, and its working capital intensive nature of operations.

Going forward the company's ability to increase its scale of operations as well as profit margins while efficiently managing its working capital cycle and improving capital structure will be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the 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 and has worked in many fields including Investment activities, steel industry, construction and manufacturing. 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.

Well established client base across different user industries

JFIL continues to cater to a reputed client base across different user industries through its customized flexible packaging solutions. The majority of clients of the company are well established players in consumer goods, confectionary, engineering as well as Food and beverages industry. The company provides flexible packaging solutions such as laminates,

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

cling films, surface protection films, stretch films, shrink films etc. to these clients. Furthermore, with the company deriving about 61.41% of its revenues from top 10 clients, the client concentration is moderate.

Growth in revenues coupled with improvement in profit margins

During FY17, JFIL's total operating income grew by 11.38% in FY17 to Rs.310.85 crore in FY17 as compared to Rs.271.01 crore in FY16. Besides, JFIL's focus towards profitable growth has helped the company to turn profitable during FY17 and the company generated net profit of Rs.3.82 crore as against losses at PAT levels reported by the company in FY16. The company was able to generate higher profitability owing to lower interest cost charged to revenue as a result of overall reduction in total debt.. Thus, improvement in profitability coupled with higher volumes has resulted in reporting higher gross cash accruals.

Furthermore, for the nine month ending December 31, 2017, the total operating income of the company grew at 10.85% to Rs.261.36 crore as compared to total operating income of Rs.235.78 crore earned in 9MFY17. The company has been able to report higher profitability at both PBILDT and PBT levels on the back of higher revenues during 9MFY18. Going forward, the ability of the company to improve and maintain profit margins at PAT levels is critical from credit perspective and is a key rating monitorable.

Improvement in capital structure and debt coverage indicators

For the year ending March 31, 2017, JFIL generated GCA of Rs.13.67 crore which the company largely used to pay off its long term debt taken from bank as well as related parties. Reduction in long term borrowings coupled with increase in net-worth due to plowback of profits to the reserves resulted in improvement in capital structure as indicated by overall gearing of 1.00 times as on March 31, 2017 as against 1.26 times as on March 31, 2016. Furthermore, owing to reduction in debt and consequently interest expense, JFIL's debt coverage indicators also improved in FY17. The total debt to gross cash accruals as well as Interest coverage ratio improved from 7.03 times and 2.21 times as on March 31, 2016 to 5.08 times and 2.57 times as on March 31, 2017 respectively.

Key Rating Weaknesses

Modest scale of operations

With total income from operations at Rs.301.85 crore in FY17 JFIL is considered to be a relatively moderate-sized entity. Also, the company's net worth as on March 31, 2017, stood at Rs.80.91 crore.

Margins susceptibility to foreign exchange fluctuation

For the year ending March 31, 2017, JFIL earned about Rs.64.22 crore of revenues from exports, mainly from United States. The company also imports part of its raw material requirements from countries such as U.S, Japan, and Qatar. During FY17 the company's import was about Rs.66.73 crore forming 33.72% of total raw material requirements. Thus, JFIL is exposed to foreign exchange fluctuation risk. However, as large portion of the company's revenues are naturally hedged, any effect of the currency fluctuation in the company's profitability is expected to be minimal. For the year ending March 31, 2017 the company had exchange gain of Rs.1.36 crore.

Working capital intensive nature of operations

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 about 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 high utilization of fund based limits. For the last twelve months ending November 2017 the average utilization of working capital bank facilities was around 81.49% of the sanctioned limits.

Low entry barriers in the industry leading to highly competitive market

The flexible packaging industry in India is characterized by presence of large number of organized as well unorganized players, due to low entry barrier in the industry. Presence of large number of players in the industry leads to intense competition in the industry resulting into low pricing power for the company. Furthermore, as the company is relatively smaller player in the industry, passing on any increase in raw material price may not be easy for the company which may result in suppression in the profitability margins.

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)	FY16 (A)	FY17 (A)
Total operating income	271.01	301.85
PBILDT	24.92	22.38
PAT	-1.18	3.82
Overall gearing (times)	1.26	1.00
Interest coverage (times)	2.21	2.57

A: Audited

Status of non-cooperation with previous CRA: Brickworks classified JFIL as non-cooperative with its PR dated December 31, 2016. As per the PR, JFIL had not provided requisite information for carrying out a review of rating.

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	-	-	-	40.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	36.00	CARE A3
Term Loan-Long Term	-	-	December-2022	5.09	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (17-Mar-17)	-	-
2.	Non-fund-based - ST-BG/LC	ST	36.00	CARE A3	-	1)CARE A4+ (17-Mar-17)	-	-
3.	Term Loan-Long Term	LT	5.09	CARE BBB-; Stable	-	1)CARE BB+; Stable (17-Mar-17)	-	-

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