Jindal Poly Film Limited

April 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
LT - bank facilities – fund based – TL	194.65	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Assigned**
LT/ST – bank facilities – fund/ non fund based - CC/BG/LC/PCFC/PSCFC	99.00	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Assigned**
Total Facilities	**293.65 (Rupees two hundred ninety three crore and sixty five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JPFL takes into consideration the strength of the promoter group with long track record of operations, JPFL's established market position in the Indian film packaging industry, stable operational performance evidenced from increasing volume sales in domestic Biaxially Oriented Polypropylene (BOPP) segment and higher capacity utilization in Biaxially-oriented polyethylene terephthalate (BOPET) segment, comfortable financial profile characterized by healthy capital structure, above-average debt coverage indicators and healthy liquidity position.

These rating strengths are however, partially constraint by JPFL's exposure in its subsidiaries, considerable debt-funded capacity addition and stiff competition in the industry on account of demand supply disparity. Moreover, JPFL's margin remains susceptible to the volatility in raw material prices. Going forward, ability of JPFL in achieving envisaged revenue and profitability and reduction in exposure in group companies shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group with established market position

JPFL is the flagship company of the B.C Jindal Group and has business vintage of over three decades. It is a global flexible packaging solutions provider with manufacturing operations in India, Europe and US with sales footprint in over 30 countries. JPFL has one of the largest single-unit BOPP manufacturing facility in the world at Nashik and is the largest producer in India. It is the largest player among BOPP manufacturers in India, 2nd largest in BOPET segment and also has significant presence in metalized/ coated film segment. For manufacturing BOPET films, the company has achieved backward integration with 176,400 TPA polyester chips plant (used entirely for captive consumption) at Nashik. Also JPFL has forward integration, through presence in flexible packaging. JPFL's size of operation provides bargaining power with its diversified customers as well as its suppliers. The company has diversified customer base with top 10 customers contributing to less than 15% of the total sales.

Stable operational performance

JPL has maintained its dominance in BOPP segment in India through continuous increase in volume sales – it increased strongly at about 13% average in last two years. The domestic BOPP segment, at 86,019 tonnes, contributed to ~37% of the total volume sales in FY17. The volume of metalized film (which generally has higher price realization) sold has also increased at an average of 6.6% in last two years. The capacity utilization in BOPET segment has been continuously

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

increasing in the last 3 years with steady utilization in BOPP segment. The effective capacity utilization in BOPET segment has increased year on year basis from 78.51% in FY15 to 82.31% in FY17. In H1FY18, the same was 83.64%.

Comfortable financial risk profile

Financial risk profile of the company is comfortable characterised by decline in topline with high volatility in margin, healthy capital structure, adequate debt coverage indicators and liquidity.

Income from operations has declined from Rs. 2,670.72 crore in FY16 to Rs. 2,504.39 crore in FY17, primarily due to decline in realization. PBILDT has declined from 11.75% in FY15 to 10.05% in FY17 largely driven by higher overheads. PAT margin declined from 5.68% in FY15 to 4.50% in FY17 due to increased depreciation and interest. Overall gearing level remained stable at 0.40x as on March 31, 2017 (PY16: 0.44x). The liquidity position of JPFL is strong reflected from increasing cash flow from operations and low working capital utilization (less than 40%) of fund based limit. The company maintains healthy cash and liquid investments balance which stood at Rs. 213.96 crore as on March 31, 2017.

Key Rating Weaknesses

Exposure towards subsidiaries/group companies

JFPL has extended support to its subsidiaries in the form of investments, loans & advances and corporate guarantee. The value of this support (excluding investments and corporate guarantee for loan availed by GNL) was Rs. 759.22 crore as on March 31, 2017 (vs Rs. 753.80 crore as on March 31, 2016). This exposure as a percent of JPFL's networth was 41.44% as on March 31, 2017 (vs 43.67% as on March 31, 2016). A significant portion of the exposure is to Jindal India Powertech Limited (JIPL, the holding company for Jindal India Thermal Power Ltd (JITPL) which operates 1,200 MW thermal power project in Orissa). The significant investment in group concern has affected its ROCE which declined from 13.46% in FY16 to 7.34% in FY17. Given the significant exposure towards the subsidiaries, the extent of diminution of investment by JPFL in JIPL along with timely realization of the loan and advances from the above-mentioned entities would remain important for the risk profile of JPFL going forward.

Debt funded capex

JPFL has been focussed in increasing its capacity to gain economies of scale. JPFL is currently ramping up its BOPET capacity, adding a new Cast Polypropylene (CPP) line and increasing its Metallizer capacity. The total project cost is envisaged at Rs. 375 crore to be funded in debt to equity ratio of 85:15. During last three years i.e from the period April 01, 2015 to March 31, 2018, the company had incurred or is planning to add capacity across various product segments to the extent of Rs. 464.20 crore.

Overcapacity in India and stiff competition

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 terms of sourcing of cheaper raw material, labour and most importantly on scale of operations to manage overheads, in order to be cost-competitive not only for export but also for domestic demand.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies

About the Company

JPFL is the flagship company of the B.C Jindal Group. It was incorporated in 1974 and started production of polyester yarn in 1985 at Bulandshar. JPFL started manufacturing polyester chips for captive use in 1993. In 1996, JPFL diversified into manufacturing of bi-axially oriented polyethylene terephthalate (BOPET) film. JPFL commenced production of bi-axially oriented polypropylene (BOPP) film and metallised film and acquired Rexor SAS, France to enter into metallised film segment in 2003. The company stopped production of polyester yarn in 2006 and made packaging films its core business. After acquiring the BOPP film division of Exxon Mobil in Oct'13, through its subsidiary JPF Netherland BV, JPFL became one of the world's largest producers of BOPP and supplies to several global players in the FMCG sector. JPFL is an ISO 9001:2008 certified company and has a network of distributors in more than 30 countries.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,670.72	2,504.39
PBILDT	406.42	251.64
PAT	194.50	112.59
Overall gearing (times)	0.44	0.40
Interest coverage (times)	10.39	5.91

A: Audited

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	December 2022	194.65	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	99.00	CARE A+; Stable / CARE A1+

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-Term Loan	LT	194.65	CARE A+; Stable	-	-	-	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	99.00	CARE A+; Stable / CARE A1+	-	-	-	-

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