Jindal Poly Films Limited

January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
LT - bank facilities – fund based – TL	224.13 (enhanced from 194.65)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Re-affirmed**
LT/ST – bank facilities – fund/ non fund based - CC/BG/LC/PCFC/PSCFC	109.00 (enhanced from 99.00)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Re-affirmed**
Total	**333.13 (Rupees three hundred thirty three crore and thirteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings of the bank facilities of JPFL factor in the strength of the promoter group with long track record of operations, JPFL's established market position in the Indian film packaging industry, improved operational performance evidenced from higher capacity utilization and improved average realization, 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 to 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, implementing the envisaged capex within time and cost estimates 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 40 countries. It commands leadership position in Biaxially Oriented Polypropylene (BOPP), Biaxially Oriented Polyester (BOPET) segment and also has significant presence in metalized 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..

Improved operational performance

JPFL has witnessed healthy increase in effective capacity utilization in BOPET segment in the last three years driven by higher demand. It has increased from 82.3% in FY17 to 87.9% in FY18. The annualized effective capacity utilization in BOPET segment in H1FY19 was high at 93.8% (H1FY18: 83.6%). Production in BOPP and metallized segment has also increased, keeping pace with capacity addition in FY17 in these segments.

JPFL had witnessed increase in average sales realization in almost all the segments (both in domestic as well as export) in FY18 on account of higher demand supply gap in flexible packaging globally. The BOPET segment had particularly witnessed higher sales realization. Domestic volume sales remained flat. The nonwoven division had registered positive EBIT in FY18 for the first time, on account of improved capacity utilization which led to 43% increase in sales.

Improvement in profitability and comfortable gearing and coverage metrics

PBILDT margin improved 158 bps to 12.29%, driven by lower overheads and improvement in gross margin on account of higher realization. However, PAT was thin at 0.48% in FY18, largely on account of fair value adjustment in preference share investment in the thermal project of Rs. 159.28 crore.

Overall gearing level remained stable at 0.54x as on March 31, 2018. Coverage metrics slightly moderated with interest cover and TD/GCA of 4.07x and 11.64x respectively as on March 31, 2018 (PY: 6.11x and 4.81x respectively).

Adequate liquidity

The liquidity position of JPFL is adequate reflected from healthy cash flow from operations and small net operating cycle. Current ratio has been 1.41x as on March 31, 2018 with net operating cycle remaining less than 40 days in last three years. The company maintains healthy cash and liquid investments balance which stood at Rs. 261.57 crore as on March 31, 2018.

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

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 has reduced from Rs. 811 crore as on March 31, 2017 to Rs. 652 crore as on March 31, 2018. The significant investment in group concern along with sharp write-off of investment in the thermal power asset in FY18 has affected JPFL's ROCE which declined from 6.31% in FY17 to 3.81% in FY18.

Debt funded capex

JPFL has been focused in increasing its capacity to gain economies of scale. In view of the increasing utilization in BOPET segment, JPFL it is adding lines in this segment. Moreover, due to favourable cash generation presently and in anticipation of higher demand in medium term, JPFL is planning to add the 8th line in BOPP segment, 2nd line of Cast Polypropylene (CPP) and 2nd Nonwoven spunmelt fabric line. This is expected to add to the debt in near term. The successful implementation of the projects without any significant cost/ time overrun along with increasing revenue from the projects as envisaged shall remain key credit perspective.

Overcapacity in India and stiff competition

The film packaging industry has witnessed cyclicality in the past with large fluctuation in profitability of manufacturers. 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 not only for export but also for domestic demand.

Profitability linked to raw material price fluctuation

The major raw materials are derivatives of crude oil and hence the finished goods prices fluctuate with crude oil price. Moreover, the metallized segment has aluminium as one of the key raw material which has also witnessed volatility in the recent past. Material cost makes up ~70% of the final packaging film. Hence, ability of the manufacturer to pass on raw material price increase is crucial.

Analytical approach: Standalone

Applicable Criteria

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

About the Company

JPFL 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 metallized film and acquired Rexor SAS, France to enter into metallized 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 40 countries.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,644	3,013
PBILDT	283	370
PAT	95	15
Overall gearing (times)	0.58	0.54
Interest coverage (times)	6.11	4.07

A - Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Refer 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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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'25	224.13	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-CC/BG/LC/PCFC/PSCFC	-	-	-	109.00	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	224.13	CARE A+; Stable	1)CARE A+; Stable (19-Apr-18)	-	-	-
2.	LT/ST Fund-based/Non-fund-based-CC/BG/LC/PCFC/PSCFC	LT/ST	109.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (19-Apr-18)	-	-	-

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