Jindal Poly Films Limited

March 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
LT - bank facilities – fund based – Term loan	186.73 (reduced from 224.13)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
LT/ST – bank facilities – fund/non fund – CC/BG/ LC/ EPC/PCFC/FBP/FBD	139.00 (enhanced from 109.00)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Total	**325.73 (Rs. Three hundred twenty five crore and seventy three 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 factors in the strength of the promoter group having a long track record of operations, JPFL's established market position in the Indian packaging film industry, an improving operating performance evidenced by higher capacity utilization and improved average realization, a comfortable financial profile characterized by a healthy capital structure (albeit weaker in FY19), above-average debt coverage indicators and an adequate liquidity position.

These rating strengths are, however, partially offset by considerable 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.

Rating Sensitivities

Positive factors:

- High capacity utilization and average realization across segments on sustained basis, leading to strong PBILDT margin of 18%
- Timely implementation of expansion within estimated cost
- Significant improvement in leverage on sustained basis (i.e below 0.5x)

Negative factors:

- Inability to ramp up capacity utilization in brownfield projects, leading to lower cash accruals
- Cost or time over-run in the ongoing expansions
- Aggressive debt-funded capex/ acquisitions leading to further moderation in overall gearing beyond 1.0x

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) and non-woven segments, and has sizable presence in the metallized film segment as well. JPFL's BOPET business is backward-integrated with a 320,400 tonnes per annum (tpa) polyester chips plant, while the availability of an extrusion coating line provides for forward integration.

Improved operational performance

JPFL has witnessed increase in effective capacity utilization in BOPP, BOPET and metallized film segments in FY19. The company has been able to quickly ramp up the output from the newly commissioned 6th line of BOPET, leading to strong utilization in this segment in H1FY20 itself. JPFL had witnessed favourable increase in average sales realization in almost all the segments (both in domestic as well as export) in FY19, particularly in BOPET. In terms of volume, domestic sales and metallized film export has witness considerable growth. The non-woven division had consistently clocked significant increase in capacity utilization over the year (more than 95% in FY19). JPFL is expected to commission its second non-woven line to meet the increasing demand in this segment.

Improvement in profitability and comfortable gearing and coverage metrics

JPFL registered higher PBILDT margin in FY19, driven by lower overheads and better realizations. Its gross cash accruals (GCA) and cash flow from operations improved due to better profitability. As exhibited in nine-month results, the company's PBILDT

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

margin and GCA has remained strong in the current year as well. Going forward, ROCE is expected to improve on account of better margins. However, its overall gearing increased to 0.84x as on March 31, 2019, as against 0.60x a year back, on account of ongoing capex activities and decline in net worth due to the write-off of its thermal plant investment. JPFL's overall gearing is expected to peak out as on March 31, 2020 and persist at the elevated level in the near term.

Liquidity: Adequate
JPFL has sufficient cushion in accruals and cash balance/ mutual fund investments (Rs. 435 cr as on March 31, 2019) to take care of its repayment obligations and growth capex commitments. Its capex requirements are modular across segments and are expected to be funded largely through debt. Utilization of fund based bank limits is 45% in trailing 12 months ended Dec'19. This is supported by a healthy current ratio (1.67x as on March 31, 2019), strong cash flow from operations (Rs. 397 cr in FY19) and a short net operating cycle (averaging less than 40 days in last three years).

Key Rating Weaknesses
Debt funded capex
JPFL has been focused on increasing its capacity to gain economies of scale. The ongoing brownfield expansion in BOPP, cast polypropylene (CPP) and non-wovens (having a combined planned outlay of Rs. 750 cr) are running as per schedule. The board of JPFL has also approved a capex plan of Rs. 700 cr for the 9th line of BOPP and polyester recently, which would add to the project execution risk. 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 not only for export but also for domestic demand.

Profitability linked to raw material price fluctuation
JPFL's major raw materials 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 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 critical.

Analytical approach: Standalone. The management has cited limited linkages between the foreign and domestic subsidiaries/ associates of JPFL. Subsequent to the company writing off the investment in Jindal India Powertech Ltd in FY19, there is no significant investment or support to its group companies.

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
CARE's Methodology on factoring linkages in ratings

About the Company
JPFL was incorporated in 1974 and started production of polyester yarn in 1985 at Bulandshar. The company 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 October 2013 through its subsidiary JPF Netherland BV, JPFL became one of the world's largest producers of BOPP and currently supplies to several global players in the FMCG sector. JPFL is an ISO 9001:2008 certified company, with a network of distributors in more than 40 countries.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3,013	3,758
PBILDT	370	496
PAT	15	-353
Overall gearing (times)	0.60	0.84
Interest coverage (times)	4.07	10.66

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Refer Annexure II

Annexure-1: Details of Facilities

Name of the facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT - bank facilities – fund based – Term loan	-	-	Jan'25	186.73	CARE A+; Stable
LT/ST – bank facilities – fund/non fund – CC/BG/ LC/ EPC/PCFC/FBP/FBD	-	-	-	139.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	LT - bank facilities – fund based – Term loan	LT	186.73	CARE A+; Stable	-	1)CARE A+; Stable (07-Jan-19) 2)CARE A+; Stable (19-Apr-18)	-	-
2.	LT/ST – bank facilities – fund/non fund – CC/BG/ LC/ EPC/PCFC/FBP/FBD	LT/ST	139.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Jan-19) 2)CARE A+; Stable / CARE A1+ (19-Apr-18)	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name – Sudhir Kumar
Contact no.- 011-4533 3232
Email ID- sudhir.kumar@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no. : 011-45333200
Email ID : swati.agrwal@careratings.com

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