Jindal Poly Films Limited

October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	154.52 (Reduced from 186.73)	**CARE A+; Positive (Single A Plus; Outlook: Positive)**	**Reaffirmed and outlook revised from stable**
Long Term / Short Term Bank Facilities	159.00 (Enhanced from 139.00)	**CARE A+; Positive / CARE A1+ (Single A Plus ; Outlook: Positive / A One Plus)**	**Reaffirmed and outlook revised from stable**
Total Facilities	**313.52 (Rs. Three Hundred Thirteen Crore and Fifty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the outlook of the long term rating of JPFL to 'Positive' from 'Stable' while reaffirming the ratings. The reaffirmation of the ratings continues to factor in the strength of JPFL's established market position in the Indian packaging film industry, the promoter group having a long track record of operations, its healthy operational performance with a comfortable financial profile characterized by a healthy capital structure, above-average debt coverage indicators and strong liquidity position. The ratings take into cognizance the resilient financial performance of the company in Q1FY21 despite Covid'19 lockdown restrictions. The ratings favourably factor in the debt prepayment by the company during H1FY21 and reduction in debt levels going forward.

These rating strengths are, however, partially offset by 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 unit contribution across segments on sustained basis, leading to strong PBILDT margin on sustained basis
- Significant improvement in leverage on sustained basis

Negative Factors

- Inability to ramp up capacity utilization in brownfield projects, leading to lower cash accrual
- Significant cost or time over-run in the ongoing expansions
- Aggressive debt-funded capex and acquisitions, un-related investments leading to moderation in overall gearing (adjusted for investments) to beyond 0.7x

Outlook: Positive

The outlook of the rating is positive on account of expectation of reduction in net debt level of JPFL due to strong cash accrual on account of favourable demand supply characteristics in flexible packaging and non-woven segment. This is expected to further improve the financial risk profile of the company. The outlook may be revised to 'stable' if there is lower than envisaged increase in net debt level.

Detailed description of the key rating drivers

Key Rating Strengths

Established market position in flexible packaging and non-woven segment

JPFL, through continuous capacity expansion in the past, commands leadership position in India in biaxially oriented polypropylene (BOPP), biaxially oriented polyester (BOPET) and non-woven segments, and has sizable presence in the metallized film segment as well. Its single-unit operation (which is one of the largest integrated BOPP and BOPET manufacturing facilities in India) with multi-layers of forward and backward integration, leads to economies of scale and lower per unit cost of production. JPFL enjoys strong bargaining power with its customers in terms of pricing and credit term, owing to its scale of operation coupled with diversity and granularity in customer profile.

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

Part of strong promoter group with professional management
JPFL is the flagship company of the B.C Jindal Group and has business vintage of over three decades. The group is a global flexible packaging solutions provider with manufacturing operations in India, Europe and US with sales footprint in over 40 countries. Although the Board has no representation from the promoters, the board and the senior management comprises professionals with several decades of experience in various functions of finance and marketing across varied manufacturing sectors.

Healthy operational performance
JPFL was also able to ramp up output from its 6th line of BOPET (commissioned in FY20), due to which capacity utilization in BOPET remained healthy at above 83% in FY20. It continued to witness stable capacity utilization in BOPP (about 59%) and metallized film (about 72%) segment in FY20. In terms of volume, domestic sales in all the segments have witness considerable growth in FY20. The capacity utilization of the non-woven division was 102% in FY20 (PY: 96%). The non-woven segment is expected to have strong capacity utilization and volume sales in FY21 due to its newly added 2nd line and incidental surge in demand in medical textile upon the spread of covid-19.

Improvement in profitability and comfortable gearing and coverage metrics
JPFL registered higher PBILDT margin of 19.48% in FY20 (PY: 13.21%), driven by higher gross margin and lower overheads. JPFL has not fully passed on the benefit of reduction in price of raw material to its customers due to the favourable market dynamics, leading to higher gross margin. Profitability metrics further improved in Q1FY21, particularly in the non-woven segment. Despite sizable debt funded capex in FY20, overall gearing marginally improved to 0.78x as on March 31, 2020 (PY: 0.84x) due to profit plough-back. JPFL's interest coverage and total debt/ gross cash accrual (TD/GCA) stood comfortable at 11.99x and 2.78x respectively in FY20.
The company has prepaid costlier long term loan of around Rs. 290 cr in H1FY21. With no major capex commitment in FY21, overall gearing, interest cover and TD/GCA is expected to significantly improve the short term. However, leverage and coverage metrics is expected to slightly moderate when the company implements its capacity addition plan.
CARE has not factored any significant unrelated diversification or any further sizable investment in the erstwhile thermal asset of the group. Any material deviation to the same shall be sensitive to the credit profile of the company.

Liquidity: Strong
JPFL's strong liquidity profile is characterized by healthy cash and liquid investment, moderate fund based working capital utilization, small net operating cycle and healthy current ratio. JPFL cash and equivalent stood at Rs. 625 cr as on June 30, 2020. GCA is projected to remain strong in FY21 at Rs. 573 cr vis a vis its scheduled debt obligation of Rs. 208 cr. JPFL's capex requirement is modular and may rely on debt funding for the same. Utilization of fund based bank limits is 40% in trailing 12 months ended Jun'20. By virtue of its cash-and-carry model, its average collection and creditor period is small with reasonable inventory level. Current ratio was 1.74x as on March 31, 2020 (PY: 1.67x). JPFL's financial flexibility is also demonstrated by access to cheaper debt market overseas with elongated tenor and competitive rates. The company has not availed moratorium otherwise available under covid-19 package announced by RBI nor has it applied for one-time restructuring

Key Rating Weaknesses
Debt funded capex
JPFL has regular capex addition programme to maintain its market dominance. As per the management, its ongoing brownfield expansions are running as per schedule. JPFL has projected considerable debt funded capex during FY21-FY23. Moreover, the requirement of debt vis a vis the current envisaged plan may increase if JPFL faces significant headwinds on its profitability. 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 in terms of raw material, labor and overheads not only for export but also for domestic demand.

Profitability linked to raw material price fluctuation
JPFL's major raw materials required 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 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. Post the write-off of investment in Jindal India Powertech Ltd in FY19, there is no significant investment or support to its group companies.

Applicable Criteria
Definition of Default
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Consolidation and factoring linkages in rating

About the company
JPFL was incorporated in 1974 and started production of polyester yarn in 1985 at Bulandshahr. 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. Its installed capacity in BOPP film is 251,000 tonnes per annum (TPA), BOPET film is 177,500 TPA, metallized film is 71,000 TPA, coated film is 19,678 TPA, non-woven fabric is 36,000 TPA and in polyester chips it is 320,400 TPA.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3,758	3,558
PBILDT	496	693
PAT	-353	478
Overall gearing (times)	0.84	0.78
Interest coverage (times)	10.66	11.99

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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’2025	154.52	CARE A+; Positive
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	159.00	CARE A+; Positive/ 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	154.52	CARE A+; Positive	-	1)CARE A+; Stable (17-Mar-20)	1)CARE A+; Stable (07-Jan-19) 2)CARE A+; Stable (19-Apr-18)	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	159.00	CARE A+; Positive / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (17-Mar-20)	1)CARE A+; Stable / CARE A1+ (07-Jan-19) 2)CARE A+; Stable / CARE A1+ (19-Apr-18)	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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