Polyplex Corporation Limited
January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	357.00 (enhanced from 196.36)	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	48.00 (enhanced from 42.00)	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**405.00 (Rupees four hundred and five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Polyplex Corporation Ltd (PCL) continue to derive strength from established market position, extensive experience of promoters and the management backed by long track record of operations and stable operating performance marked by steady rise in capacity utilization, cost optimization and stable contribution from value added segment. Furthermore the ratings also derive comfort from strong liquidity position and healthy debt coverage indicators. The ratings strengths are, however, partially offset by the inherent risks associated with the demand supply disparity affecting PET films industry, susceptibility of group's margins to volatility in raw material prices and exposure to foreign exchange fluctuation risk and regulatory risk.

Going forward, the ability of the group to scale up its operations while improving its profitability margins without any adverse impact on its capital structure would remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: PCL has a long track record of operations of more than 25 years. The company has a diversified product portfolio along with geographical spread across the globe including manufacturing facilities in Thailand, Turkey, USA and Indonesia. PCL is promoted by Mr Sanjiv Saraf who is the chairman of the company and has more than 35 years of experience in the corporate world. The top management of the company comprises qualified professionals from diverse fields ably supported by experienced staff with long industry experience.

Comfortable financial risk profile: During FY18, Polyplex group, on a consolidated basis reported total operating income of Rs. 3602.03 crore as against total operating income of Rs. 3312.57 crore in FY17, registering a growth of around 8.74% on the back of improved capacity utilization for all the product lines. PCL's PBILDT margin, however has declined from 16.75% in FY17 to 14.66% in FY18 due to forex loss (notional) amounting 42.26 crore (as compared with forex gain of Rs.76.35 crore in FY17) on account reinstatement of forex debt (as nearly 41.50% of term debt is in foreign currency i.e USD followed by Euro). Adjusted PBILDT margin (adjusted for notional gain/loss on forex due to restatement of foreign currency loans), although increased from 14.45% in FY 17 to 15.84% in FY18 on account of increase in contribution from value-added business. The overall gearing stood at a comfortable level of 0.24x as on March 31, 2018 on account of scheduled repayments and accretion of reserves to net-worth. Polyplex group continues to enjoy strong liquidity position at consolidated level marked by free cash and bank balance of Rs.677.27 crore as on September 30, 2018 (as compared with Rs.779.48 crores as on March 31, 2018 and Rs.383.75 crore as on March 31, 2017). At standalone level, the India operations have witnessed decline in gross margin amidst highly competitive scenario in the Asian region which has continued to exert pressure on the profitability. The profitability has, however improved significantly in the current half year with the PBILDT margin improving from 12.12% in H1FY18 (refers to the period from April 1 to September 30) to 16.50% in H1FY19 owing to

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

increased contribution from valued added product sales and increase in realizations on the back of temporary supply imbalance.

Stable operational performance: During FY18, the capacity utilization for all the product lines improved supported by healthy demand. Furthermore, the group has an equitable distribution of revenue among India, Thailand, Turkey and United States which are distributed based on factors like product range, delivered cost to customer, supply lead times and preferential duty access. The group replicated best practices and operational efficiency across units, leveraging on in-house R&D and cost optimization in electrical and thermal energy consumption and inventory management to bring about cost efficiency across all units. Further the company has reputed clientele across the globe with well diversified geographical coverage which provides company a competitive edge over the large local manufacturers as it insulates the company from any adversities or economic downturn in a particular region.

Liquidity: Polyplex group has a strong liquidity position at consolidated level marked by free cash and bank balance of Rs.677.27 crore as on September 30, 2018 (as compared with Rs.779.48 crores as on March 31, 2018 and Rs.383.75 crore as on March 31, 2017). The cash balance on March 2018 includes unencumbered fixed deposits of Rs. 597.25 crore (PY: Rs. 321.12 crore), cash of Rs.0.37 crore (PY: Rs.1.12 crore) and current account balance of Rs.181.84 crore (PY: Rs.61.51 crore).

Industry: The outlook for PET film industry remains positive on account of growth in flexible packaging industry as well as emerging application of PET films in photovoltaic, display and optical films driven by increased demand for renewable energy sources and expanding sales of smartphones, tablets, flat screen TVs.

Key Rating Weaknesses

Susceptibility of profitability margins to volatility in raw material prices: The major raw material used for the production of PET films is PET resin, which is mostly manufactured in-house. Purified Terephthalic Acid (PTA) and Monoethylene Glycol (MEG) are the major raw materials used for manufacturing of PET resin. PTA and MEG, being derivatives of crude oil, their prices move in tandem with crude oil prices. With raw material costs forming around 59% of total operating income in FY18 (PY: 58%), Polyplex group's profitability margins remain susceptible to any adverse movement in the prices of raw materials.

Exposure to foreign currency movement: The overseas subsidiaries of PCL have availed term borrowing denominated in EURO and USD and hence remain exposed to foreign currency fluctuation on the payment date. Thus any movement (depreciation/appreciation) of Euro and USD against Thai Baht/ USD, mark-to-market unrealized FX fluctuation gain or loss is recognized as per the accounting standards in the profit & loss account of overseas entities.

Exposure to change in government policy, demand-supply disparity: Given the environment hazards of plastics, the sector remains sensitive to the government regulations. In March 2011, the environment ministry imposed ban on the plastic packing of tobacco products (Gutka and other smokeless tobacco products) which accounted for approximately 25-30% of the end-user industry for flexible packaging in India. The flexible packaging contributed approx. contributes 70% of total sales of Polyplex group. The group's business further remains susceptible to any trade defense measures by importing countries through imposition of anti-dumping and countervailing duties. Further the operations of the Polyplex group remain susceptible to demand supply disparity affecting PET films industry on account of significant oversupply situation in the PET films market. The demand drivers for PCL's products include population growth, improved quality of life, Increasing consumerism, economic growth and increasing disposable income, however increased capacity additions in the past have not only intensified competition but had also created a supply overhang situation which continues to remain key risk going forward owing to commoditized nature of the product.

Analytical approach: Consolidated. While arriving at the ratings of Polyplex Corporation Limited (PCL), CARE has taken a consolidated view of PCL and its subsidiaries [Polyplex (Asia) Pte. Ltd., PAR LLC, Polyplex (Thailand)

Public Co. Ltd., Polyplex America Holdings Inc., Polyplex USA LLC, EcoBlue Limited, Polyplex (Singapore) Pte. Ltd., Polyplex Trading (Shenzhen) Co. Ltd., Polyplex Europa Polyester Film Sanayi ve Ticaret Anonim Sirketi, Polyplex Europe B.V., Polyplex Paketleme Cozumleri Sanayi ve Ticaret Anonim Sirketi] on account of its global operations catering to the world market. These entities are collectively referred to as Polyplex group.

Applicable Criteria
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's Criteria for Factoring Linkages in Ratings
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1984, Polyplex Corporation Limited (PCL) is the flagship company of the Polyplex group, promoted by Mr Sanjiv Saraf. The company is engaged in manufacturing of PET films (Polyethylene terephthalate films) and BOPP films (Biaxially-oriented polypropylene films). PET and BOPP films find application in the flexible packaging market and several industrial applications. PCL has its manufacturing facilities located in Uttarakhand (Khatima and Bajpur) with total production capacity of 55,000 MTPA (metric tonne per annum) for PET films, 35,000 MTPA for BOPP films, 28,500 MTPA for metallized films, 286 million square meters for coated films and 77,600 MTPA for PET film resin and 2,640 MTPA for Holographic films as on March 31st, 2018. Over the years, PCL has increased its scale of operations and also has its manufacturing facilities in other countries which include Thailand, Turkey, USA and Indonesia. The company has also commenced construction of a new Greenfield facility near Jakarta in Indonesia for setting up the world's largest width PET film line (with proposed capacity of 44,000 MTPA) which is expected to start commercial production in FY20.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3312.57	3602.03
PBILDT	555.00	528.21
PAT	358.41	284.12
Adjusted PAT*	225.79	326.48
Overall gearing (times)	0.25	0.24
Interest coverage (times)	11.80	13.40

A: Audited
** Adjusted after excluding one-time extra-ordinary income/expense and forex gain/loss*

Status of non-cooperation with previous CRA: Not applicable

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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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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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-Long Term	-	-	-	207.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	48.00	CARE A1+
Fund-based - LT-Term Loan	-	-	June 2022	150.00	CARE A+; 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 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-Long Term	LT	207.00	CARE A+; Stable	-	1)CARE A+; Stable (26-Mar-18)	1)CARE A+; Stable (18-Jan-17) 2)CARE A (18-Apr-16)	-
2.	Non-fund-based-Short Term	ST	48.00	CARE A1+	-	1)CARE A1+ (26-Mar-18)	1)CARE A1 (18-Jan-17) 2)CARE A1 (18-Apr-16)	-
3.	Fund-based - LT-Term Loan	LT	150.00	CARE A+; Stable	-	1)CARE A+; Stable (26-Mar-18)	1)CARE A+; Stable (18-Jan-17) 2)CARE A (18-Apr-16)	-

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