Polyplex Corporation Limited

March 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	196.36 (enhanced from 150)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	42 (reduced from 60)	**CARE A1+ (A One Plus)**	Revised from CARE A1 (A One)
Total Facilities	**238.36 (Rupees Two hundred thirty eight crore and thirty six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating of Polyplex Corporation Limited (PCL) takes into consideration its comfortable liquidity profile backed by improved profitability on the back of cost optimization, growing contribution from value added segment, and healthy net debt position of the group on account of large cash and bank balance. The ratings further factor in experienced promoters and management team coupled with long track record of operations, stable operational performance, strong capital structure and debt coverage indicators. These rating strengths are however, partially offset by exposure of the group to inherent risk associated with 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 increase its scale of 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. Over the years, PCL has increased its geographical presence by setting up manufacturing facilities across the globe including Thailand, Turkey and USA. 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 FY17, Polyplex group reported total operating income of Rs.3,300.18 crore as against total operating income of Rs.3,233.31 crore in FY16, registering a modest growth of around 2%. The PET film is a commoditized market and owing to the supply overhang, the off-take and the total operating income has been stagnant for over the past 3 FY's. Despite flat turnover, PCL's PBILDT margin improved from 11.90% in FY16 to 16.41% in FY17 owing to increased contribution from valued added products, cost efficient processes implemented across the group in FY17 and forex gain amounting 67.06 crore (as compared with forex loss of Rs.57.79 crore in FY16) on account reinstatement of forex debt (as nearly 77% of total debt is in foreign currency). The overall gearing improved from 0.44x as on March 31, 2016 to 0.25x as on March 31, 2017 on account of scheduled loan repayment and relatively lower working capital bowing due to strong operational cash flows. Polyplex group continues to enjoy strong liquidity position at consolidated level marked by free cash and bank balance of Rs.1114.30 crore as on September 30, 2017 as compared with Rs.980.46 crore as on March 31, 2017.

Stable operational performance: During FY17, the capacity utilization of base films (PET/BOPP/CPP/Blown PP) remained stable at 88% (PY: 86%). Furthermore, the group has an equitable policy for distribution of markets between its Indian, Thailand, Turkey and US operations based on factors like product range, delivered cost to customer, supply lead times

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

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. The company also changed its sales mix from dealer sales to corporate sales which provides a premium of Rs.2-3 per kg over dealers. 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.

Key Rating Weaknesses

Susceptibility of profitability margins to volatility in raw material prices: The major raw materials used for the production of PET films is PET resin, which is mostly manufactured in-house. Purified Terephthalic Acid (PTA) and Mono-ethylene 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 56% of total operating income in FY17 (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.

Demand-Supply disparity: 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. Furthermore, given the environment hazards of plastics, the sector remains sensitive to the government regulations. The company is also planning to set up greenfield PET Film line project for the capacity of 44000 TPA along with the upstream resin line and downstream coating plant in Indonesia which is currently under conceptualization stage. Besides, the company is also in process of augmenting its new metallizer plant in USA and new blown PP line in Thailand.

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, 270 million square metres for coated films and 77,600 MTPA for PET resin as on December 31, 2017. Over the years, PCL has increased its scale of operations and also has its manufacturing and distribution operations in other countries which include Thailand, Turkey, USA, China and Netherlands.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	3233.31	3300.18
PBILDT	384.73	541.51
PAT	16.25	351.11
Adjusted PAT*	81.40	293.28
Overall gearing (times)	0.44	0.25
Interest coverage (times)	8.00	15.29

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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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-Long Term	-	-	-	120.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	42.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	76.36	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	120.00	CARE A+; Stable	-	1)CARE A+; Stable (18-Jan-17) 2)CARE A (18-Apr-16)	-	1)CARE A (10-Nov-14)
2.	Non-fund-based-Short Term	ST	42.00	CARE A1+	-	1)CARE A1 (18-Jan-17) 2)CARE A1 (18-Apr-16)	-	1)CARE A1 (10-Nov-14)
3.	Fund-based - LT-Term Loan	LT	76.36	CARE A+; Stable	-	1)CARE A+; Stable (18-Jan-17) 2)CARE A (18-Apr-16)	-	1)CARE A (10-Nov-14)

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