Uflex Limited

Instrument	Amount Rated (In Rs. Crore)	Rating Action
Term Loans	225.00	[ICRA]BBB+ (Stable) assigned

The rating of [ICRA]BBB+ (pronounced ICRA triple B plus) has been assigned to the Rs. 225.00 crore* term loans of Uflex Limited (Uflex)†. The outlook on the long-term rating is stable.

While assigning the ratings, ICRA has taken a consolidated view of Uflex and its subsidiaries, in view of significant operational, financial and managerial linkages among these companies.

The assigned rating takes into account the company's large scale of operations and established market position in the packaging films and flexible packaging business; its geographically diversified portfolio with operations in both domestic and overseas markets; presence in the downstream value added flexible packaging business in the domestic market which partly insulates it against cyclicality risks associated with the commoditised films business and provides diversity of revenue streams; and the favourable growth prospects for the company's business driven by the expected growth in the retail sector and packaging applications. The rating factors in the company's moderate return and credit metrics, as well as positive fund flows from operations.

The rating is, however, constrained by the exposure of profit margins to cyclicality in the commoditized films manufacturing business; subdued outlook for margins in the near term, albeit recovering from the lows, because of significant over capacity in the industry and demand slowdown; fragmented nature of the flexible packaging industry resulting in high competition from organized as well as unorganized players in the domestic market and exposure to any adverse fluctuations in foreign exchange rates. The assigned rating also takes into account the relatively high debt repayment obligations of the company over the medium term following the recently concluded debt-funded capacity addition projects which, in turn, may keep the debt coverage metrics at subdued levels over the short to medium term.

Uflex is an integrated player in the packaging film business having presence across the entire value chain starting from (i) production of the major raw material viz. PET chips; (ii) manufacturing BOPET and other varieties of commoditised and specialised films (BOPP; CPP; embossed; coated; metallised) and (iii) downstream application of these films in flexible packaging products and laminates. The integrated business model gives a comprehensive product portfolio and better competitive positioning to the company; diversity of revenue streams also partly insulates it against cyclicality risks associated with the commoditised films business. Uflex has a 72,000 MTPA PET chips plant located in Madhya Pradesh wherein it manufactures chips using PTA and MEG. The internal production of PET chips is adequate for its domestic PET film input requirement and the surplus chips production is sold externally in the market.

The company's revenues enjoy moderate geographical diversity. The company operates out of three manufacturing locations in India- Noida in Uttar Pradesh, Madhya Pradesh and Jammu. Besides, Uflex has also established a significant overseas presence with film manufacturing facilities in Dubai, Mexico, Egypt, Poland and Kentucky (USA). In FY13, of the Indian operation revenues, approximately 83% came from domestic market; 7% from America; 5% from Europe and 3% from each Asia and Africa. However, consolidated revenues comprise ~60% of the sale in India while the rest from overseas markets. The overseas entities have been set up to overcome regulatory barriers by way of anti dumping duties/ other trade restrictions; facilitate access to lucrative international markets; besides enabling better cost competitiveness and taxation benefits.

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* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

The turnover of Uflex at a consolidated level has shown a robust growth at a CAGR of 25% increasing from Rs. 2123.15 crore in FY09 to Rs. 5161.08 crore in FY13 on the back of capacity expansion leading to higher sales volume and increase in realizations over the aforesaid period. Operating margins which were at around 17.96% in FY09 declined to 13.65% in FY13 primarily attributable to increased surplus in film capacity in the global and domestic market (surplus as % of domestic capacity has risen from 35% in FY09 to 49% in FY13). In H1FY14, the turnover of the company increased to Rs. 2913.78 crore (10% yoy growth) from Rs. 2626.30 crore in H1 FY13 primarily attributable to increase in overseas BOPET film capacities leading to higher sales volumes. However, the company's operating margins declined to 11.6% (compared to 13.8% in H1 FY13) driven primarily by the cyclical downturn being experienced in the packaging films business and some non-recurring expenses incurred by the company during the said period. The company's gearing level remains comfortable at 0.90 time as on March 31, 2013 due to steady accretion in net worth. Other debt protection metrics are moderate with NCA/Debt in the range of 18-21%; Debt/OBPDITA of 2-3 times and Interest Coverage of ~ 3 times over the last five years.

Going forward, realization levels and contribution margins of the company are expected to improve over the medium to long term on account of anticipated improvement in supply-demand balance in the packaging films industry and favourable demand outlook for flexible packaging and laminates business in the domestic market. However, debt coverage metrics of the company may remain at moderate levels over medium term considering the high repayment burden and modest profitability in the near to medium term. Lower than anticipated improvement in margins and delays in achieving optimum capacity utilisation of new capacities leading to pressure on the liquidity position and debt protection metrics of the company will be the key rating sensitivities.

Company Profile

Incorporated in 1988, Uflex Limited (erstwhile Flex Industries Limited) is engaged in the manufacturing of various varieties of packaging films and flexible packaging products in India and overseas- Dubai; Mexico, Egypt, Poland and Kentucky (USA). The company's total manufacturing capacity stands at: 70,000 MTPA of flexible packaging (entirely in India); 255,600 MTPA of bi-axially oriented polyethylene terephthalate (BOPET) films (of which 54,000 MTPA is in India while balance is overseas) and 81,000 MTPA of bi-axially oriented polypropylene (BOPP) films (of which 34,000 MTPA is in India and balance is located overseas).

Recent Results

As per unaudited results, Uflex Limited, at a consolidated level, posted a net profit of Rs. 87.00 crore on an operating income of Rs. 2913.78 crore in H1 FY14 (as against a net profit of Rs. 111.68 crore on an operating income of Rs. 2626.30 crore in H1 FY13). The company reported a net profit of Rs. 190.37 crore on an operating income of Rs. 5161.08 crore in FY13 (as against a net profit of Rs. 254.50 crore on an operating income of Rs. 4515.84 crore in FY12).

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