

## Chiripal Poly Films Limited

November 16, 2017

**Chiripal Poly Films Limited: Long Term rating upgraded to [ICRA]A-(Stable); Short term rating reaffirmed at [ICRA]A2+**

### Summary of rated instruments

| Instrument*  | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action   |
|--|--------------------------------------|-------------------------------------|---|
| Fund Based - Term Loans                            | 295                                  | 295                                 | [ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Positive) |
| Fund Based - Cash Credit Limit                     | 160                                  | 160                                 | [ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Positive) |
| Non Fund Based - Letter of Credit / Bank Guarantee | 155                                  | 155                                 | [ICRA]A2+; reaffirmed                                 |
| <b>Total</b>                                       | <b>610</b>                           | <b>610</b>                          |   |

### Rating action

ICRA has upgraded the long-term rating on the Rs 295 crore<sup>1</sup> term loans and the Rs. 160 crore cash credit limit of Chiripal Poly Films Limited (CPFL)<sup>2</sup> to [ICRA]A- (pronounced as ICRA A minus) from [ICRA]BBB+ (pronounced as ICRA triple B plus). The outlook on the long term rating is 'Stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) on the Rs. 155 crore non-fund based facilities of CPFL.

### Rationale

The rating upgrade takes into account the anticipated improvement in the company's return and leveraging metrics on the back of ramp-up in sales from the PET chips plant. The H1 FY 2018 performance shows a steady growth in revenues from the new capacity as the company has been successful in stabilizing the plant and achieving healthy sales to customers. The ratings continue to favourably take into account the experience of the management, which has enabled CPFL to be among the top five domestic players in terms of capacity in the flexible packaging industry within a short span of time. The rating further continues to derive comfort from the steady volumes with its key customers (converters/wholesalers/dealers) and the adherence to quality standards as required by its ultimate users for packaging—largely constituted by large FMCG and textile players. The rating further notes the track record of the promoter to mobilise equity for carrying out capacity additions as well as expected benefits from successful commencement of backward integration of its plant for manufacturing PET chips, which would allow CPFL to have a relatively better control over its margins, going forward.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

The ratings are, however, constrained by the vulnerability of profit margins to any adverse fluctuations in crude prices, although mitigated to some extent by the in-house manufacturing of PET chips. The ratings are also constrained by the commoditised nature of the products and the high competitive pressures in the flexible packaging industry, which result in modest margins and return indicators. Further, ICRA believes that the significant capital expenditure incurred for backward integration would maintain pressure on the debt protection metrics over the medium term.

## Outlook: Stable

ICRA believes that the outlook for large players in the packaging industry remains positive despite the domestic situation of over-capacity in the case of flexible packaging on account of the healthy demand growth of over 15% envisaged annually for the next few years. CPFL's foray into backward integration by starting a PET manufacturing plant would partly cater to group company requirements; and improve its overall operating profitability and ability to better manage its cost structure during cyclical downturns, going forward. The outlook may be revised to 'Positive' if the growth in the company's profitability results in a significant improvement in return and leveraging indicators from current levels. The outlook may be revised to 'Negative' if there is a weakening of the financial risk profile on account of a drop in volumes, increase in working capital intensity or announcement of large scale debt funded capex.

## Key rating drivers

### Credit strengths

**Experience of the management in the flexible packaging industry which has helped CPFL to establish itself as one of the top 5 packaging film manufacturers:** CPFL, incorporated in 2009, manufactures Biaxially-Oriented Polypropylene (BOPP) films, Biaxially-Oriented Polyethylene Terephthalate (BOPET) films and metalised films, widely used in packaging industry. CPFL is part of Ahmedabad based Chiripal group having a long experience in the textile industry which forms a considerable proportion of the target market for the company. Further, the key management team has strong experience of over 15 years in the thin film packaging industry. Their experience in terms of the operational best practices, marketing network and knowledge of the market requirements has helped establish CPFL as one of the top 5 manufacturers of thin film domestically within a very short span of time. The promoters have also mobilized significant equity funding from investors for the expansion projects during this period.

**Healthy capacity utilization supported by strong growth in sales volumes:** The company's plant capacities consist of Biaxially-Oriented Polypropylene films (Line 1&2: Combined capacity of 77,550 TPA) and BOPET films (Line 1: 37,800 TPA). The company has achieved healthy capacity utilization of more than 80% in the last five years of operation on account of their ability to attract and retain key customers.

**Successful commencement of PET chips line expected to result in vertical integration benefits and improvement in margin:** The company has successfully integrated backward in the value chain by setting up a PET chips manufacturing capacity adjacent to the existing facility. The plant has an operational capacity of 600 tpd (200,000 TPA). The total cost of setting up the plant was Rs 280 crore which was funded by equity infusion of Rs 80 crore and remaining through term loans. The plant became operational in March 2017. The company sources raw materials Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG) for manufacturing PET chips from domestic suppliers like Reliance industries Limited, JBF Industries etc. About 60% of the total capacity would be utilised together by CPFL (for manufacturing of BOPET film) and group company Chiripal Industries Limited (CIL-for manufacturing of POY/FDY), thereby safeguarding from sales risks to a large extent. In addition, the company also has off-take commitment from customers of other segments and has tied-up 95% of

the capacity planned. In terms of the BOPET capacity, the backward integration into chips shall strengthen the control over sourcing, quality thus improvement in profitability in the long run.

**Steady customers both domestic & export; established supply of film to key FMCG applications:** The company has a broad customer base of more than 70 customers. Majority of the customers are converters, who use the films to make packages which are used by FMCG, Textile, etc for their packaging requirements. CPFL's BOPP and BOPET films are ultimately being used by FMCG majors like Parle, Britannia, ITC, Unilever, Garden Sarees, etc. The company also conducts some proportion of its sales through wholesalers and dealers. The company derives ~25% of revenue from its top 10 customers indicating broad customer base of the company. Further, the company has been adding new customers and getting repeat orders from its top customers owing to the consistent good quality of its products, which has been instrumental in the company registering rapid growth over the last three years.

### Credit weaknesses

**Vulnerability of profitability to any adverse fluctuation in raw material prices though CPFL is protected to an extent:** PP granules, PTA and MEG are the major raw materials for CPFL and are all crude derivatives. Further, these raw materials also see price volatility on account of the variations in their own demand-supply balance. Operating margins remain susceptible to any adverse fluctuations in raw material prices which may not be passed on the end customers. The supplier base of the company remains moderately concentrated with top 3 suppliers contributing 90% to the total purchases in FY16 & FY17 which indicates limited bargaining power against large scale suppliers.

**Competitive pressures and commodity nature of the products results in pressure on margins:** PP /Polyester packaging film and its downstream products is a highly fragmented industry with the presence of large organized players as well as other smaller players. The competition is also intensified by the low entry barriers in terms of capital and technological requirements and limited product differentiation. As a result there is intense competition in the industry and margins remain under pressure. In FY 2017, operating margins were further affected on account of demonetisation. While the company did not face a decline in volumes due to demonetization, realisations had corrected by 10-15% during the November-December 2016 period on account of temporary decline in demand. Prices and demand have revived back to earlier levels in subsequent quarters.

**Moderate return indicators on account of the highly capital intensive nature of business:** CPFL's returns as indicated by its Return on Capital Employed (RoCE) have remained moderate in the range of 10-11% upto FY2016 and declined further to 8% in FY2017 as the company commissioned the PET Chips plant in March 2017. With ramp up of sales from the new capacity, RoCE is likely to witness improvement. However, going forward as well, given the low margins and high working capital intensity in the business, RoCE would continue to remain moderate in the range of 10-12%.

**Aggressive debt funded capital expenditure done in the recent past would maintain pressure on the debt protection metrics over the medium term:** While the backward integration will support profitability, given that the Rs 280 crore project entailed significant debt funded capital expenditure and the fact that the company has been in debt funded expansion mode for the last four years, leveraging (Total Debt/OPBDITA) is expected to remain elevated over the medium term. As there are no further expansions planned, over the next 3 year, ICRA expects deleveraging to happen gradually from the current levels of 6x as on March 2017 to 3x as OPBDITA from PET chips capacity builds up and debt levels decline. Interest coverage is also expected to remain moderate at 3x-4x over the next 2 fiscals (FY2018 and FY2019).

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:** [Corporate Credit Rating Methodology](#)

### About the company:

CPFL, incorporated in 2009, manufactures Biaxially-Oriented Polypropylene (BOPP) films, Biaxially-Oriented Polyethylene Terephthalate (BOPET) films and metalised films, widely used in packaging industry. The company is part of the Ahmedabad-based Chiripal group, which has a presence in industries such as textiles, education, real estate, packaging, and chemicals. The company's operations are located at Vraj Integrated Textile Park near Ahmedabad, Gujarat. The company's plant capacities are as follows: BOPP films (Line 1&2: Combined capacity of 77550 TPA) and BOPET films (Line 1: 37800 TPA). The company has also set up a PET Chips manufacturing facility with capacity of 2.0 lakhs TPA, which was commissioned in March 2017.

In FY2017, the company reported a net profit of Rs. 42 crore on an operating income of Rs. 1204 crore, as compared to a net profit of Rs. 48 crore on an operating income of Rs. 1016 crore in the previous year. During H1FY2018, on a provisional basis the company reported a net profit of Rs. 39 crore on an operating income of Rs. 905 crore.

### Key Financial Indicators (Audited)

|                              | FY 2016 | FY 2017 |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 1016    | 1204    |
| PAT (Rs. crore)              | 48      | 42      |
| OPBDIT/ OI (%)               | 11.6%   | 10.4%   |
| RoCE (%)                     | 11.4%   | 8.0%    |
| Total Debt/ TNW (times)      | 1.7     | 1.3     |
| Total Debt/ OPBDIT (times)   | 5.5     | 6.1     |
| Interest coverage (times)    | 2.8     | 2.5     |
| NWC/ OI (%)                  | 26%     | 29%     |

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

|            |                       | Current Rating (FY2018)  |                               | Chronology of Rating History for the past 3 years |                              |                                   |                         |   |
|------------|-----------------------|--------------------------|-------------------------------|---|------------------------------|-----------------------------------|-------------------------|---|
| Instrument | Type                  | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating November 2017                       | Date & Rating September 2017 | Date & Rating in FY2017 June 2016 | Date & Rating in FY2015 |   |
| 1          | Cash Credit           | Long Term                | 160                           | 160   | [ICRA]A-(Stable)             | [ICRA]BBB+(Positive)              | [ICRA]BBB+(Stable)      | - |
| 2          | Term Loan             | Long Term                | 295                           | 295   | [ICRA]A-(Stable)             | [ICRA]BBB+(Positive)              | [ICRA]BBB+(Stable)      | - |
| 3          | Non Fund Based Limits | Short Term               | 155                           | 155   | [ICRA]A2+                    | [ICRA]A2+                         | [ICRA]A2+               | - |

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

| ISIN No | Instrument Name       | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA      | Term Loan 1           | Jan-2011                    | NA          | Mar-2021      | 20.6                     | [ICRA]A-(Stable)           |
| NA      | Term Loan 2           | Nov-2014                    | NA          | Sep-2025      | 97.5                     | [ICRA]A-(Stable)           |
| NA      | Term Loan 3           | Oct-2012                    | NA          | Mar-2021      | 48.16                    | [ICRA]A-(Stable)           |
| NA      | Term Loan 4           | Mar-2015                    | NA          | Sep-2025      | 62.5                     | [ICRA]A-(Stable)           |
| NA      | Term Loan 5           | Dec-2015                    | NA          | Mar-2027      | 50                       | [ICRA]A-(Stable)           |
| NA      | Term Loan 6           | Jan-2016                    | NA          | Mar-2027      | 50                       | [ICRA]A-(Stable)           |
| NA      | Cash Credit           | NA                          | NA          | NA            | 160                      | [ICRA]A-(Stable)           |
| NA      | Non Fund Based Limits | NA                          | NA          | -             | 155                      | [ICRA]A2+                  |

Source: Chiripal Poly Films Limited

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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