April 30, 2024

The Manager - Listing Department, National Stock Exchange of India Limited, Exchange Plaza, NSE Building, Bandra Kurla Complex, Bandra East, Mumbai- 400 051 **SYMBOL: POLYPLEX**	The General Manager - Listing Department, BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001 **BSE Scrip Code: 524051**

Dear Sir(s),

Sub: Regulation 30(2) - Para A.3 of Part A of Schedule III to SEBI (LODR), Regulations, 2015- **Credit Rating**

This is to inform that India Ratings and Research Private Limited (Ind-Ra) has revises outlook to **Stable** and affirmed Company's Rating as follows:

a) Fund-based working capital limits for INR 2,370 million - **"IND AA-/Stable/IND A1+"** ;

b) Non Fund - based working capital limits for INR 300 million - **"IND AA-/Stable/IND A1+"**.

c) Long-term loans for INR 201.4 million – **Withdrawn (Paid in full)**

A copy of rating report in respect of above is attached herewith.

Thanking you,

Yours faithfully,
For Polyplex Corporation Limited

Ashok Kumar Gurnani
Digitally signed by Ashok Kumar Gurnani
Date: 2024.04.30 18:39:34 +05'30'

Ashok Kumar Gurnani
Company Secretary
Encl: As above

Email : akgurnani@polyplex.com

India Ratings Revises Outlook on Polyplex Corporation's Bank Facilities to Stable; Affirms 'IND AA-'

Apr 30, 2024 | Packaging

India Ratings and Research (Ind-Ra) revised the Outlook on Polyplex Corporation Limited's (PCL) bank facilities to Stable from Positive while affirming the ratings as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limit	-	-	-	INR2,370	IND AA-/Stable/IND A1+	Outlook revised to Stable from Positive; Affirmed
Non-fund-based limits	-	-	-	INR300	IND AA-/Stable/IND A1+	Outlook revised to Stable from Positive; Affirmed
Term loan	-	-	-	INR201.4	WD	Withdrawn (Paid in full)

Analytical Approach

Ind-Ra continues to take a consolidated view of PCL and its subsidiaries Polyplex (Asia) Pte Limited (100% shareholding) and Polyplex (Thailand) Public Co. Limited (Polyplex Corporation Limited: 17.19%, Polyplex (Asia) Pte. Ltd: 33.81%), due to the strong operational and strategic linkages among them. The financials of PCL's other large subsidiaries, namely Polyplex America Holdings Inc., Polyplex (Singapore) Pte. Ltd., Polyplex Europe B.V., EcoBlue Limited and PT Polyplex Films Indonesia, are consolidated at Polyplex (Thailand) Public Co., together referred to as the group, and hence form a part of Ind-Ra's consolidated approach.

Detailed Rationale of the Rating Action

The Stable Outlook reflects Ind-Ra's belief that the group's profitability levels will not grow in the line agency's earlier expectations over the next 12-18 months owing to the ongoing oversupply situation in the biaxially oriented polypropylene (BOPP) and biaxially oriented polyethylene terephthalate (BOPET) industry, which is impacting the realisation and EBITDA/kg. That said, the agency continues to believe the ratings continue to be supported by the company's strong position in the flexible packaging industry and its continued strong credit profile.

List of Key Rating Drivers

Strengths

- Strong market positioning
- Diversified revenue profile and backward integration
- Focus on specialty films ((D-PAC), supporting profitability
- Strong credit metrics

Weaknesses

- Deterioration in the operating performance during FY23 and 9MFY24
- Profitability susceptible to cyclical nature of packaging films industry; volatility in raw material prices
- Forex and regulatory risk
- Material change in shareholding

Detailed Description of Key Rating Drivers

Strong Market Positioning: Incorporated in 1984, PCL is a leading manufacturer of plastic films with a consolidated capacity of 385,837MT of base films, including a capacity of 262,800MT of BOPET films, 95,000MT of BOPP films, 10,000MT of cast polypropylene (CPP) films and 18,037MT of blown PP films at end-March 2024. With an operational history of nearly 30 years, the company has a global leadership in the flexible packaging segment. The company has one of the largest capacities of thin films and operates seven manufacturing facilities across five locations including India, Thailand, Turkey, the US and Indonesia. While the company operates a manufacturing facility in India, it operates its manufacturing facilities across the international locations through the Thailand subsidiary (holding 51%) and its subsidiaries (step-down subsidiaries). Besides, the company has capacities in the value-added segments such as coated films, metallised films across its manufacturing facilities. The company is adding a new brownfield BOPET film line in the US which will help it further strengthen its market positioning in the region.

Diversified Revenue Profile and Backward Integration: PCL's business is diversified in terms of manufacturing capacities and revenue contribution across regions and product applications. The company enjoys a strong international presence with active sales across more than 75 countries and a diversified customer base. In FY23, the US, Europe, India accounted for 29%, 20% and 18% of its sales, respectively, while other markets made up 33% of its total sales. In 9MFY24, the US, Europe, India accounted for 26%, 22% and 18% of its sales, respectively, while other markets made up 34% of its total sales. The company also enjoys a healthy product diversification. While thin polyethylene terephthalate (PET) films accounted for 51%-52% of PCL's total revenue, the thick pet films, BOPP films and CPP and blown PP films together accounted for around 22% of the total revenue in FY23 and in 9MFY24. Other products (including specialty films) accounted for around 20% of the total sales in FY23 and in 9MFY24. The operating efficiency also emanates from the backward integration for PCL's BOPET facilities. The company has a manufacturing capacity of 450,100MT of PET chips. Apart from the internal consumption of the PET chips, the company sells its PET chips to external customers, supporting its revenue base. PET chips accounted for 8% of its total revenue in FY23 and 7% in 9MFY24.

Focus on Specialty Films ((D-PAC), Supporting Profitability: PCL's increased focused on specialty/value-added films namely - Differentiated Product, Application or Customer (D-PAC) products, continued to support its profitability in FY23 and 9MFY24. D-PAC offerings are mainly bifurcated in terms of the products offered, customers serviced and its applications. These are custom-made products have a special use case as required by the customer and hence have limited competition and at the same time offer improved margins to the company. Through this segment, PCL offers innovative and differentiated products across a variety of packaging, electronic and other industrial applications.

In FY23, while D-PAC contributed around 25% (FY22: 29%) to the overall volumes, its contribution to the overall EBITDA was more than 60% of the overall EBITDA of the company. Additionally, D-PAC's contribution to the overall volumes increased to 27% in 9MFY24, largely supporting the EBITDA generated by PCL in 9MFY24. The company's increased focus towards D-PAC products is likely to continue support profitability in the near to medium term.

Strong Credit Metrics: The group's credit profile is supported by its net cash surplus position and low-cost borrowings. Its overall debt (including lease liabilities and letter of credit (LC) acceptances) decreased to INR8 billion at FYE23 from INR9.7 billion at FYE22. The company incurred a capex of about INR2.7 billion in FY23 for the ongoing expansion of its BOPET project in the US and various other projects in the value-added segments, apart from the regular capex. The interest coverage (EBITDA/interest expense) declined to 26.8x in FY23 (FY22: 79.2x) but remains strong. The average interest expenses of the company stood at around 4% in FY23 (FY22: 2%). The working capital cycle improved to 122 days in FY23 (FY22: 158 days) primarily owing to a decrease in the receivable days to 44 (61) and inventory days to 104 (132). The working capital cycle lengthened in 1HFY24 to 135 days owing to an increase in the receivable (51) and inventory days (109).

PCL had plans to incur a substantial capex of INR4 billion-5 billion in FY24 out of which, it has already incurred capex of nearly INR3.7 billion during 9MFY24 and has plans to incur around INR4 billion of capex in FY25 for completing the BOPET project in the US and other smaller projects in the value-added segment including coating, recycling projects at its overseas locations besides regular capex. The company will fund the capex through a mix of debt and internal accruals. PCL's overall debt decreased to INR6.2 billion as on 30 September 2023. As against this, the company maintained cash and equivalents of around INR10.2 billion. During 1HFY24, the company incurred a capex of INR1.8 billion, which has been funded through a mix of debt and internal accruals. The elevated level of the capex in the near term, coupled with the increase in the working capital requirement due to the commencement of the new facility, could result in a moderate increase in the overall debt levels in the near term. Nonetheless, PCL's credit profile is likely to remain strong over the medium term, supported by the strong cash and equivalents and the company maintaining a net cash position end-1HFY24 and FYE23.

Deterioration in the Profitability during FY23 and 9MFY24: In FY23, the consolidated revenue from operations grew 16% yoy to INR76.5 billion, supported by volume growth of 9% yoy and average realisation growth of 6% yoy. The ramp-up of the company's BOPP unit (commissioned in December 2021) in Indonesia primarily led to the volume growth in FY23. The increase in the sales realisation was primarily supported by the pass-through of the higher input prices. The BOPP and BOPET industry is going through an oversupply cycle now, where in there is oversupply of both BOPP and BOPET as compared to the demand which has pressurised the realisation and EBITDA/kg from 2QFY23. The pressure on realisation, along with the increase in other operational expenses such as power cost, led to a decrease in the absolute EBITDA to INR9 billion in FY23 from INR13 billion in FY22, and the EBITDA/kg declined to about INR27/kg (FY22: INR40/kg; FY21: INR40/kg).

During 9MFY24, the consolidated revenue decreased 23% yoy to INR46.2 billion, led by a 6% yoy decline in the volume and around 17% yoy fall in the average realisation. The decline in the volume during 9MFY24 was led primarily by the plant shut down for 15-18 days in the US and at an India location on account of operational maintenance. The decrease in the realisation was led by the pass-through of the decreasing input prices and a softening of the product demand. The EBITDA/kg decreased to about INR10/kg (9MFY23: INR32/kg), due to various reasons such as inventory losses arising from the declining raw material cost trend, higher fixed cost (mainly employee benefit), softer market conditions, one-time impact of higher freight cost on account of the Red Sea crisis and unrealised forex losses. The EBITDA stood at INR2.5 billion in 9MFY24.

Ind-Ra expects the commencement of the commercial operations of PCL's new brownfield BOPET facility in the US in 2HFY25 to support the volume growth over the medium term. Moreover, the company's major focus would be now on increasing the revenue share of speciality films (D-PAC products) in the overall revenue mix which is likely to support profitability. The recovery in profitability over the next 12 -18 months owing to increased revenue from speciality films business and/or a recovery in realisation will be a key monitorable.

Profitability Susceptible to Cyclical Nature of Packaging Films Industry; Volatility in Raw Material Prices: The company's business is cyclical. Players tend to add capacities when realisations are favourable, which leads to higher capacities in the industry, thereby exerting pressure on realisations. This demand-supply disparity leads to frequent price fluctuations in the packaging film business, which affects profitability. Currently, there is an oversupply situation especially in the BOPP and BOPET films segment which are major contributors to their revenue. The profitability remains susceptible to adverse movements in raw material prices, one of the main components of the cost structure. Raw material prices are vulnerable to volatility in crude oil prices as well as its demand-supply scenario. The demand-supply dynamics remain the primary driver of PCL's profitability as fluctuations in input prices are passed on to customers, although the company's ability to do so might remain limited.

Forex and Regulatory Risk: Any adverse movements in forex rates can negatively impact the profitability, given the entity's foreign currency-denominated loans and exposure to multiple currencies. The group derived about 82% of its revenues in FY23 and in 9MFY24 from overseas markets. It tries to create a natural hedge by choosing the right currencies for taking loans, i.e. match liability with cash flows. The remaining open exposure is hedged through a three-month rolling-forward contract. Additionally, the plastic packaging industry remains susceptible to adverse government regulations. Also, PCL remains exposed to any adverse international trade action, given its large presence in international markets.

Material Change in Shareholding: In 9MFY24, the company's promoter decreased its stake in PCL to 26.69% from 50.97% in FY23. The promoter sold shares of 24.28% in PCL to AGP Holdco limited (AGP) in October 2023 for a consideration of nearly INR11 billion. AGP, an investment firm, is part of the Al-Ghurair Group based in the UAE. Al-Ghurair Group is into diversified business segments such as packaging, metals, real estate and investments. As part of the transaction, AGP also had the right to appoint one director on the board of the company and on the board of directors of the identified subsidiaries of the company. As part of its right, AGP has appointed Iyad Malas on the board of PCL and its subsidiary in Thailand (Polyplex (Thailand) Public Co. Limited). The transaction also involves the rights to acquire/sell a further stake in the company in the form of call/put options exercisable over the next three-to-four years by AGP or the promoter. Despite the change in shareholding, there is no major change in the operational aspects of the business, as confirmed by the management.

Liquidity

Adequate: The consolidated cash and equivalents were INR12.4 billion as on 31 March 2023, with cash and quoted investments, including the investments in the listed bonds. Excluding the investments in the listed bonds, the consolidated cash and equivalents stood at about INR9.6 billion as on 31 March 2023. The average utilisation of PCL's standalone fund-based working capital limits stood at around 26% in the 12 months ended February 2024. In FY23, PCL paid a total dividend of nearly INR3.2 billion while it received dividend from its subsidiaries to the tune of INR2.3 billion. The company has a scheduled repayment of around INR1,100 million in FY25 and about INR1,300 million in FY26 against which the cash flows are likely to remain strong. As PCL benefits from its strong relationships with multiple banks, it enjoys a strong financial flexibility to raise funds in case of any need.

Rating Sensitivities

Positive: Developments that could, individually or collectively, lead to a positive rating action include:

- an improvement in the scale and operating EBITDA (in INR/kg terms) in line with Ind-Ra's expectations
- maintaining the share of value-added products in the overall revenue and EBITDA mix, while maintaining the credit metrics on a sustained basis

Negative: Developments that could, individually or collectively, lead to a negative rating action include:

- delays, cost over-runs or a slower-than-Ind-Ra-expected ramp-up for new projects;
- a decline in the consolidated revenue or sustained deterioration in the operating EBITDA (in INR/kg terms) below Ind-Ra's expectations
- large, debt-funded capex or acquisition, leading to sustained deterioration in the net leverage leading to it exceeding 1.25x
- any adverse government regulatory action negatively impacting the sector

Any Other Information

Standalone Performance: PCL's standalone revenue from operations and EBITDA accounted for 22% and 12% of the consolidated revenue and EBITDA in FY23. The standalone revenue declined 8% yoy to INR16.4 billion while the EBITDA margin stood at 6.9% in FY23 (FY22: 15.2%). In 9MFY24, the revenue declined by nearly 20% to INR10.4 billion and the EBITDA margins moderated close to 1%. The gross interest coverage ratio (EBITDA/gross interest expenses) stood at around 4x in 9MFY24, close to 159x in FY23 (FY22: 122.4x) while the net leverage (net debt/EBITDA) stood at 0.11x (0.13x).

About the Company

PCL's product portfolio includes PET films (thin & thick), BOPP, cast polypropylene and blown polypropylene. These products are used in flexible packaging besides several industrial applications such as tapes, labels, thermal lamination, imaging and graphics, photo-voltaic and optical applications. With its manufacturing facilities spread across India, the US, Thailand, Turkey and Indonesia, PCL has a diversified portfolio of products. It also has a sizeable presence in downstream capabilities such as metallising, holography and silicone coating.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Operating revenue (INR billion)	76.5	66.2
Operating EBITDA (INR billion)	9.4	13.1
Operating EBITDA margin %)	12.4	19.7
Interest coverage (x)	26.8	79.3
Net leverage (x)	-0.4	-0.2
Source: PCL's financials, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	22 September 2023	9 May 2023	7 March 2022
Issuer rating	-	-	-	WD	IND AA-/Positive	IND AA-/Positive
Term loans	Long-term	INR201.4	WD	-	IND AA-/Positive	IND AA-/Positive
Fund-based working capital limits	Long-/short-term	INR2,370	IND AA-/Stable/IND A1+	-	IND AA-/Positive/IND A1+	IND AA-/Positive/IND A1+
Non-fund-based working capital limits	Long-/short-term	INR300	IND AA-/Stable/IND A1+	-	IND AA-/Positive/IND A1+	IND AA-/Positive/IND A1+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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