Rating Rationale

05 April 2022

Uflex Ltd.

Brickwork Ratings assigns the ratings of BWR AA- (Stable) for the Bank Loan Facilities of Rs 440 Crs of Uflex Ltd.

Particulars

Facility	Amount (Rs Crs)	Tenure	Rating*
Fund based**	440.00	Long Term	BWR AA - (Stable) (Assignment)
Total	440.00	Rupees Four Hundred Forty Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities provided in Annexure

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) has assigned the long-term rating of BWR AA- (Stable) of Uflex Limited (Uflex or the company) for the fund-based bank loan facilities. The rating has, inter alia, factored in the company's experienced and professional management, long track record in the packaging industry and a large and improving scale of operations over the years, coupled with a diversified product offering with a widespread geographical reach, strong product innovation, improved financial performance and comfortable capitalisation. The rating is, however, constrained by the industry's highly competitive nature, lower-than-expected revenues from aseptic packaging materials in the past, semi-commoditised nature of raw materials resulting in volatility in margins and currency risk for the unhedged portion.

The Stable outlook factors in the company's improved y-o-y financial performance on a sustained basis in FY21 and 9MFY22 due to the essential nature of the industry and BWR expectations that the company's scale of operations will expand further in the medium term on account of added capacity in overseas operations. BWR also notes ongoing strong demand for the flexible packing industry in the domestic market, which is growing at 15%-16%, which was further bolstered by the Covid-19 pandemic.

Rating Strengths-:

- **<u>Experienced and professional management:-</u>** The company is listed, and daily operations are managed by experienced and qualified managerial personnel under the supervision of the board of directors. Mr. Ashok Chaturvedi (CMD) has more than three decades of industry experience and is well-known in the packaging materials industry in India. The company has a diversified board with five independent directors.

- **Widespread geographical reach:-** In addition to the plants in India, the company has manufacturing units at eight other locations, including the US, Egypt, Mexico, the UAE, Hungary, Nigeria, Poland and Russia. The company sells its products to more than 140 countries in the world, and this widespread geographic reach helps the company lower its dependence on some particular geography.
- **Strong R&D in place:-** The company focuses on building in-house capabilities by investing considerable amounts of human and financial capital in research and development. The company has several patents in its name, including the one granted in the US for the BOPET film being used for blister packs for 20 years. This helps the company remain above its peers in terms of growth and margins.
- **Diversified product offering with widespread geographical reach:-** Uflex is engaged in the business of flexible packaging materials and provides end-to-end packaging solutions to its customers globally. The company has customers in 140 countries. The main products include the following: ○ Value-added flexible packaging material; aseptic packaging material ○ Packaging films (plain, metalised, corona and other barrier-coated films).
- **Improvement in scale of operations and profitability over the years:-** The company's standalone total operating income increased to Rs. 4635.07 Crs in FY21 from Rs 4069.71 Crs in FY20 at a growth rate of 13.9% in FY21, driven by volume growth of 9.47% in FY21 and an improvement in price realisation by 4.04% in FY21 as the company is in the packaging industry with essential end-user segments that have resilient and growing demand. Furthermore, in 9MFY22, the standalone operating income improved by 18.20% to ~Rs 4009.37 Crs in 9MFY22 from Rs 3391.81 Crs in 9MFY21 due to improved volume and price growth. At a consolidated level, the company's scale of operations also improved, as indicated by an improvement in the total operating income to Rs 8890.76 Crs in FY21 as compared to Rs 7404.84 Crs in FY 20 at a growth rate of ~20.06% due to an improvement in volume sold by 22%, offset by a contraction in prices by 2%.

  The improvement in the scale of operations at the consolidated level is due to the completion of capex in foreign/overseas subsidiaries in FY21 and FY22. The PAT at the consolidated level improved to Rs 843.68 Crs in FY21, compared with Rs 370.87 Crs in FY20. Furthermore, in 9MFY22, the consolidated operating income improved by 46.37% to Rs 9260.731 Crs in 9MFY 22 from Rs 6326.84 Crs in 9MFY21 due to improved volume growth resulting from increased capacity in global operations. The PAT improved by 29.51% in 9MFY22 to Rs 748.84 Crs from Rs 578.19 Crs in 9MFY21.

- **Comfortable capitalisation over the years:-** On a consolidated basis, the company had a tangible net worth (TNW) of Rs. 5515.05 Crs as on 31 March 2021, which has led to the leverage levels being maintained within a comfortable range. The company's total debt (TD)/TNW and total outside liabilities (TOL)/TNW stood at 0.73 times and 1.14 times, respectively, as on 31 March 2021 as against 0.77 x and 1.14 x as on 31 March 2020. The TOL/TNW stood at comfortable levels as it stood at 1.12 x in 9MFY22 as against 1.14 x in 9MFY21. The net debt /EBITDA stood at 1.68 x in 6MFY22 as against 1.70 x in 6MFY21.

- **Completion of brownfield expansion/growth capex:-** To pace growth, Uflex in FY20, proposed to add four more locations, namely Nigeria, Hungary, Russia and Poland, for the production of packaging films globally. Of the planned capex of ~Rs 1800 Crs, 100% cost has been incurred till September 2021; thus, there is no time and cost overrun as per the initial timelines, and the completion of capex was done in a timely manner. The manufacturing plants in Russia and Poland commenced commercial production by Q2FY21. In Hungary, operations commenced by Q4FY21. In Nigeria, the commencement was by Q2FY22. This has and will help increase the company's scale of operations over the medium term. The company does not have fresh capex plans in all these countries until FY23. Capacity utilisation stood at 95% until December 2021 in all overseas operations in Hungary, Russia and Poland and Egypt, and in Nigeria, it stood at around 60%. The improvement in the capacity utilisation in Nigeria is expected to lead to an increase in the scale of operations further in FY23.

Rating weakness-:

- **Volatility in raw material prices:-** The semi-commoditized nature of the product keeps pressure on profitability margins due to volatility in raw material prices; however, this risk is mitigated as there was a pass through hedge and moderate inventory holding of 57 days in FY21.
- **Competitive industry scenario:-** Difficulty in differentiating the value proposition to the client, rising raw material costs and rapid changes in technology render the industry scenario highly competitive in nature. Some of this risk is mitigated by the company's R&D capability, which provides it the ability to mould itself in line with the industry and stay above its peer group.
- **Slow start for new product segment (aseptic packaging):-** In March 2018, the company launched its aseptic packaging material product, which is taking some time to generate revenue. The management has informed that the product goes through elaborate testing, which effectively requires around a year's time to get approval from its buyers. During the last few years, the company has on-boarded some clients for the product, due to which, capacity utilisation was expected at around ~80% in FY22 as compared to capacity utilisation of 60-65% in FY20. Additionally, in the aseptic packaging division, capacity is expected to be doubled to 7 bn packs from 3.5 bn packs in FY23.
- **Currency risk:-** The group is exposed to currency risk from transaction and translation exposure. The management keeps a close watch on the maturity of financial assets in foreign currency and the payment obligations of financial liabilities. Moreover, there is a natural hedge as the proportion of export and import is almost the same in FY21. Currency risk for unhedged portions persists. Net revenues for overseas operations are substantially greater than that of total debt outstanding for overseas operations, which reduces forex risk in consolidated operations.
- **Project execution risk for additional growth capex: -**In India, the company, after a gap of 16 years, is planning to add capacity for packaging films and setting up a greenfield plant in Karnataka that will house a BOPET and CPP line with a capacity of 63 000 tonnes and will thus, cater to South India. Additionally, the company plans to come up

with a brownfield CPP films line at the UAE plant, which will add production capacity of 18000 TPA. (The total project cost is ~Rs 964 Crs, which is expected to be funded in a D:E ratio of 3.74:1). The commencement of operations is expected in around March 2023. However, this risk is partially mitigated by the fact that as on 31 December 2021, ~29 % of the cost had been incurred, and commencement is expected by 31st March 2023. The commencement of commercial operations will increase the scale of operations in the medium term.

Analytical Approach
BWR has taken a consolidated approach while arriving at the rating. For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: BWR may revise the ratings upwards, led by a sustained improvement in profitability, return on capital employed and deleveraging.
Negative: BWR may revise the ratings downwards if there is a sustained deterioration in the profitability, leverage position and liquidity. BWR also notes that any cost and time overrun in the proposed enhanced capacity in domestic operations will be negative.

LIQUIDITY POSITION (Strong) - Working capital utilisation for the last 12 months ending January 2022 is 64% and 48% for fund-based and non-fund-based, respectively. Therefore, headroom is available for further utilisation. The current ratio stood at 1.41x in FY21. The company had cash accruals of Rs 1299.41 Crs in FY21 against a minimal repayment of Rs 219 Crs in FY21. The company's cash accruals are expected at around Rs 1615.2 Crs in FY22 against a minimal repayment of Rs 424 Crs in FY22. Furthermore, the company had cash and cash equivalents of Rs 659.05 Crs in FY21 on a consolidated basis. On a consolidated basis, the company had cash and cash equivalents of ~Rs 623 Crs as on 30 September 2021.

About the Company- The company is promoted by Mr. Ashok Chaturvedi and was incorporated in 1985. The company is listed on the BSE and NSE. It is engaged in providing end-to-end flexible packaging solutions to customers viz. packaging design and colour scheme, packaging structure, packaging products and filling machines. It is one of the largest flexible packaging companies in India and has a large global sales and distribution network with customers in around 140 countries. It has manufacturing facilities of packaging films in Noida (India), Dubai, Mexico, Egypt, Poland, the US, Nigeria, Hungary and Russia and of packaging products at multiple locations in India accredited by the ISO/BRC/HACCP. Certain products are manufactured and/or marketed through its various subsidiaries outside India.

KEY FINANCIAL INDICATORS (Standalone Level)

Key Parameters	Units	FY 20	FY 21
Result Type		**Audited**	**Audited**
Operating Income	Rs in Crs	**4069.71**	**4635.07**
EBITDA	Rs in Crs	**616.42**	**722.39**
PAT	Rs in Crs	**143.27**	**230.44**
Tangible Net Worth	Rs in Crs	**2259.59**	**2438.41**
Total Debt /Tangible Net Worth	Times	**0.5**	**0.53**
Current ratio	Times	**1.29**	**1.41**

KEY FINANCIAL INDICATORS (Consolidated Level)

Key Parameters	Units	FY 20	FY 21
Result Type		**Audited**	**Audited**
Operating Income	Rs in Crs	7404.84	8890.75
EBITDA	Rs in Crs	1080.98	1802.87
PAT	Rs in Crs	370.87	842.90
Tangible Net Worth	Rs in Crs	4654.74	5640.04
Total Debt /Tangible Net Worth	Times	0.77	0.73
Current ratio	Times	1.41	1.55

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED - Not applicable

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY Not applicable

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

S. No	Instrument	Current Rating (Year T -2022)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type (Long Term/ Short Term)	Amount (Rs Crs	Rating	Date(s)& Rating(S) assigned in year 24 Feb 2021	Date(s)& Rating(S) assigned in year 24 Feb 2020	Date(s)& Rating(S) assigned in year 21 Feb 2019
1	**Fund Based (Bank Loan)**	Long Term	440	**BWR AA (Stable) (Assignment)**	-	-	-
2	**Proposed NCD**	Long term	-	**Withdrawal (11 Feb 2022)**	**BWR A- (Stable)**	**BWR A- (Stable)**	**BWR A- (Stable)**
	Total		**440**	**(Rupees Four hundred Forty Crores only)**			

<u>COMPLEXITY LEVELS OF THE INSTRUMENTS -Simple</u>

<u>For more information, visit Complexity Levels</u>

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Sector**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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Uflex Limited-ANNEXURE I
Details of Bank loan facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term	Total (Rs Cr)
1	**Indian Overseas Bank**	Term Loans	**100.00**	**100.00**
2	**Bank of Bahrain & Kuwait**	Term Loans	**50.00**	**50.00**
3	**Punjab National Bank**	Term Loans	**290.00**	**290.00**
TOTAL : Rupees Four Hundred Forty Crores Only			**440.00**	**440.00**

ANNEXURE II

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
Flex Middle East FZE	100 %	Full Consolidation	Subsidiary
Uflex Europe Limited	100 %	Full Consolidation	Subsidiary
Uflex Packaging INC	100 %	Full Consolidation	Subsidiary
Upet Holdings Limited	100 %	Full Consolidation	Subsidiary
Flex Americas S.A .de C.V	100 %	Full Consolidation	Subsidiary
Flex P.FilmsEgypt) S.A.E	100 %	Full Consolidation	Subsidiary
Flex Films (USA) INC	100 %	Full Consolidation	Subsidiary
Flex Films Europa Korlatolt Felelossegu	100 %	Full Consolidation	Subsidiary
UPET PTE.Limited	100 %	Full Consolidation	Subsidiary
Flex Films Africa Private Limited	100 %	Full Consolidation	Subsidiary
Digicycl PTE Limited	50 %	Proportionate Consolidation	Joint Venture
Digicycl Limited	100 %	Full Consolidation	Subsidiary

Flex Chemicals Private Limited	100 %	Full Consolidation	Subsidiary
Flex Films Rus LLC	100 %	Full Consolidation	Subsidiary
USC Holograms Private Limited	68 %	Full Consolidation	Subsidiary
Flex Films Europa Sp. Zoo	100 %	Full Consolidation	Subsidiary
Flex Foods Limited	47.15 %	Proportional Consolidation	Associate

For print and digital media
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