

**April 26, 2016**

Facility	Amount (Rs. Crore)	Rating
<b>Non-convertible Debentures (Proposed)</b>	<b>200.00</b>	<b>SMERA AA+/Stable (Assigned)</b>

SMERA has assigned rating of '**SMERA AA+**' (read as **SMERA double A plus**) on the Rs.200.00 crore secured, redeemable non-convertible debenture issue of Sintex Industries Limited (SIL). The outlook is '**Stable**'. For arriving at the rating, SMERA has considered the consolidated financial and business risk profiles of SIL, its 32 subsidiaries, step down subsidiaries and one associate company. SIL's domestic as well as overseas subsidiaries have contributed ~43 percent of its consolidated sales in FY2014-15.

The rating draws support from the established operational track record, large size of operations, experienced management and wide geographic reach of the company. The rating is also strengthened by the diversified revenue streams, strong brand name of 'Sintex' and established relations with diversified clientele. Further, the rating also factors in the healthy financial risk profile and liquidity position. However, the rating is constrained by risks associated with the ongoing debt funded capex and susceptibility of profitability to volatility in raw material prices.

SIL incorporated in 1931, is a holding company of the Sintex Group. Based out of Gujarat, the company is engaged in the manufacture of plastic products and fabric. From FY2011-12 to FY2014-15 (refers to financial year, April 1 to March 31) its revenue grew at a healthy compounded annual growth rate (CAGR) of 16 per cent and operating margin remained healthy at 14.00 to 16.95 per cent. In FY2015-16, the company is expected to register growth of ~10 to 11 per cent in revenues and ~15 to 16 per cent in operating profitability owing to the continuous addition of value added products. SIL's plastic division account for nearly 89 per cent of the company's consolidated revenues. Of this 46 per cent can be attributed to the building materials division (comprising prefabs, monolithic construction and water storage tanks) while the remaining 43 per cent was contributed by the custom mouldings division that caters to the auto sector. The textile division contributed nearly 11 per cent in total revenues in FY2014-15 and with expansion plans in the offing; its share is expected to increase significantly.

SIL has 38 plants in nine countries spread across four continents. The plastic division manufactures over 4,000 types of plastic and related products at its 14 manufacturing facilities across India. The company's established presence in the water storage tanks business made the 'Sintex' brand a name to reckon with. In textiles, SIL caters to the high-end niche segment of fashion shirting and readymade garments through its production facility located at Kalol, Gujarat. Over the years, SIL has established a strong distribution network throughout India for its diverse product portfolio. It has 14 branch offices that cater to various geographies in the domestic market. The distribution network includes 4000 dealers/distributors and over 25,000 retailers spread across the country. Further, with expected increase in scale of operations, the market reach of SIL will be even stronger in the domestic and overseas markets.

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Over the years, the company has been successfully securing repeat orders from marquee brand names in automobiles such as BMW, Ford, Audi for its custom moulding products. Accordingly, SIL has built a strong portfolio of reputed clientele that caters to diverse industries across the globe including defence, aviation, auto among others.

SIL's financial risk profile is marked by strong net worth base of Rs.4,419.80 crore in FY2014-15 as against Rs.3,207.67 crore in FY2013-14. As on date, SIL has successfully converted all its Foreign Currency Convertible Bond (FCCB) into equity which has further strengthened its net worth. The gearing (debt to equity) stood at 1.05 times as on March 31, 2015. However, as per SMERA projections, the overall gearing is expected to remain at the same level after considering debt funded capex of Rs. 1660.00 crore. The interest coverage ratio (ICR) was healthy at 4.19 times while debt service coverage ratio (DSCR) stood at 2.28 times in FY2014-15. Going forward, with healthy profitability, the interest coverage ratio is expected to remain healthy. However, with high debt obligations DSCR is expected to range between 1.60 percent to 2.00 percent.

The net cash accruals to total debt (NCA to TD) stood at 0.16 times in FY2014-15. Owing to focused recovery efforts leading to realisation of receivables, SIL's working capital cycle improved during the period under study from 91 days in FY2012-13 to 68 days in FY2014-15. Further, SMERA believes that the working capital cycle will remain comfortable going forward.

SIL's healthy liquidity position is reflected in an unencumbered cash and bank balance of Rs.425.00 crore and liquid investments (mutual funds) of Rs.277.24 crore as on March 31, 2015. The average working capital limit utilisation was 67 per cent in the last six months ended March 2016 which lends further cushioning to the liquidity position of the company. SIL is expected to maintain its healthy liquidity position in the coming years with total unencumbered funds of ~Rs. 800 to Rs. 1,000 crore, to mitigate any cash flow mismatches in future.

In FY2013-14, SIL decided to expand the textile unit in a phased manner targeting 620,000 spindles. Under Phase I, a unit with 320,000 spindles has been set up at Pipava, Gujarat at an investment of around Rs.1,650.00 crore. This has been funded through a term loan of Rs.1,220.00 crore and balance of Rs.430 crore through internal accruals. The operations of the plant commenced in April 2016 (with 100,000 spindles) and the balance 220,000 spindles are expected to be operational by June 2016. SIL can consume up to 50 per cent of Phase I output for captive consumption which will further strengthen the operating profitability of the company. SMERA believes that Phase I of the spinning project will also add to revenue growth.

Under textile expansion, SIL is planning to set up a facility with 300,000 spindles, which would be funded through equity of Rs. 400- 500 crore and balance would be funded through internal accruals and debt. The unit is likely to commence operations by Q1 of FY2017-18. Further, the company's investment in textile is eligible for various fiscal benefits from the state as well as central government. The successful project completion and stabilisation risk associated with the ongoing textile spinning project will remain the key rating sensitivity.

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SIL's operating profits will remain susceptible to volatility in raw material prices. Given the linkages of raw material (in the plastic division) to crude oil and fluctuating cotton prices, any adverse movements in the prices of raw material is likely to impact SIL's profitability. However, continuous introduction of value added products and ability to pass on prices to customers mitigates the risk to an extent.

### Rating Sensitivity Factors

- Larger than envisaged debt funded capex
- Impact of raw material volatility on profitability
- Working capital management

### Outlook: Stable

SMERA believes SIL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its strong brand, established track record and experienced management. The outlook may be revised to 'Positive' if the company registers sustained growth in scale of operations while improving profit margins and achieving improvement in the financial risk profile particularly coverage indicators. The outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability amidst intensifying competition in its area of operations. Besides, any deterioration in the financial risk profile on account of higher-than-expected debt-funded capex, stretched working capital cycle or acquisitions may also entail a 'Negative' outlook.

### About the Company

SIL, incorporated in 1931, is a Gujarat-based company engaged in the manufacture of yarn and plastic products at Kalol, Gujarat. The company is headed by Mr. Rahul Patel (Group MD), Mr. Amit Patel (Group MD), Mr. S. B. Dangayach (MD) among others. It commenced textile operations in 1931 and subsequently ventured into plastic product manufacturing in 1975.

On a consolidated basis, for FY2014-15, SIL reported net profit after tax (PAT) of Rs.528.81 crore on operating income of Rs.7,006.61 crore as against PAT of Rs.364.69 crore on operating income of Rs.5,842.62 crore. SIL reported PAT of Rs.393.83 crore on operating income of Rs.5,432.88 crore for the period April 2015 to December 2015. The tangible net worth stood at Rs.4,419.80 crore in FY2014-15 as against Rs.3,207.67 crore in the previous year.

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SMERA RATINGS LIMITED

# Sintex Industries Limited (SIL)

## Rating Rationale

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