

Sintex Industries Limited (SIL)

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Facilities	Amount (Rs. Crore)	Ratings/Outlook
Non-convertible Debentures (Proposed)	500.00	SMERA AA+/Stable (Assigned)
Non-convertible Debentures	200.00	SMERA AA+/Stable (Reaffirmed)

SMERA has assigned rating of '**SMERA AA+**' (**read as SMERA double A plus**) on the Rs.500.00 crore proposed secured, redeemable non-convertible debenture issue and reaffirmed 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 35 subsidiaries including step down subsidiaries and one associate company. SIL's domestic as well as overseas subsidiaries have contributed ~43 percent of its consolidated sales in FY2015-16.

The ratings continue to draw support from the established operational track record, large size of operations, experienced management and wide geographic reach of the company. The ratings are also strengthened by the diversified revenue streams, strong brand name of 'Sintex' and established relations with diversified clientele. Further, the ratings also continue to factors in the healthy financial risk profile and liquidity position. However, the ratings are 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 textile products like fabrics and yarn. From FY2011-12 to FY2015-16 (refers to financial year, April 1 to March 31) its revenue grew at a healthy compounded annual growth rate (CAGR) of 15 per cent and operating margin improved Y-O-Y and stood at 17.25 per cent in FY2015-16 as against 16.95 per cent in FY2014-15 and 16.15 per cent in FY2013-14 owing to the continuous addition of value added products. SIL's plastic division account for nearly 88 per cent of the company's consolidated revenues. Of this, 43 per cent can be attributed to the building materials division (comprising prefabs, monolithic construction and water storage tanks) while the remaining 45 per cent was contributed by the custom mouldings division that caters to the auto sector. The textile division contributed nearly 12 per cent in total revenues in FY2015-16 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.

Over the years, the company has been successfully securing repeat orders from marquee brand names in automobiles such as BMW, Ford and 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.5,230.64 crore in FY2015-16 as against Rs.4419.80 crore in FY2014-15. 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 1.22 times as on March 31, 2016. However, as per SMERA projections, the overall gearing is expected to remain at the same level after considering debt funded capex of Rs. 1,660.00 crore. The interest coverage ratio (ICR) was healthy at 5.06 times in FY2015-16. Going forward, with healthy profitability, the interest coverage ratio is expected to remain healthy, however, with high debt obligations DSCR is expected to be in the range of 1.60 times to 1.80 times in FY2016-17 and FY2017-18.

Owing to focused recovery efforts leading to realisation of receivables, SIL's working capital cycle remained comfortable at 68 days in FY2015-16. Further, SMERA believes that the working capital cycle will remain comfortable going forward as well.

SIL's healthy liquidity position is reflected in an unencumbered cash and bank balance of Rs.683.99 crore and liquid investments (mutual funds) of Rs.195.47 crore as on March 31, 2016. 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 and same can be used for debt servicing in contingencies.

In FY2013-14, SIL decided to expand the textile unit in a phased manner targeting 640,000 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). The company commenced operations with the balance 220,000 spindles in 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 the balance 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.

SIL's operating profits remained 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
- Efficient working capital management
- Augmenting net cash accruals

Outlook: Stable

SMERA believes that SIL will maintain a stable outlook over the medium term and 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.

Criteria applied to arrive at the ratings:

- Manufacturing Entities
- Consolidation

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 FY2015-16, SIL reported net profit after tax (PAT) of Rs.628.42 crore on operating income of Rs.7,733.53 crore as against PAT of Rs.528.81 crore on operating income of Rs.7,006.61 crore. The tangible net worth stood at Rs.5,230.64 crore in FY2015-16 as against Rs.4419.80 crore in the previous year.

Rating History:

Date	Name of the Instrument	Amount (Rs. Crore)	Rating		Rating/ Outlook
			Long Term	Short Term	
26 April, 2016	Non- Convertible Debentures (Proposed)	200.00	SMERA AA+ (Assigned)	-	Stable

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ABOUT SMERA

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