

Press Release

Sintex BAPL Limited (SBAPL)

04 August, 2017

Rating Assigned



Total Instruments Rated	Rs. 2412.10 Cr*
Long Term Rating	SMERA AA/Stable (Assigned)
Short Term Rating	SMERA A1+ (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned rating of '**SMERA AA**' (read as **SMERA double A**) and '**SMERA A1+**' (read as **SMERA A One Plus**) to the above mentioned bank facilities of Sintex- BAPL Limited (SBAPL). The outlook is '**Stable**'. SBAPL is a wholly owned subsidiary of Sintex Plastics Technology Limited (business arm of the Sintex group), a company proposed to be listed on stock exchanges.

SBAPL, incorporated in 2007, is engaged in the manufacture of custom moulded auto and non-auto components for Original Equipment Manufacturers (OEM) and tier I suppliers. The SBAPL group (SBAPL and its subsidiaries) has a global footprint with 38 plants across India, France, US and Poland.

Analytical Approach: SMERA has consolidated the financial and business risk profiles of SBAPL - along with its subsidiaries i.e. BAPL Rototech Private Limited, Sintex NP France and Sintex Wausaukee Composites INC. Together these entities will be referred to as the 'SBAPL Group'.

List of key rating drivers and their detailed description:

Strengths:

Established position in the plastics segment, long operational track record and experienced management: Sintex Industries Limited (SIL) has an established position in plastic since 1975. As per a recent demerger arrangement, the plastics (custom moulding, auto components etc.) business was transferred to SBAPL while prefab and monolithic businesses were transferred to Sintex Prefab and Infra Limited (SPIL). The textiles division was retained by SIL.

SBAPL's range of products includes industrial custom mouldings for auto and non- auto applications, water tanks, power transmission and distribution accessories and FRP storage tanks. Its clientele includes marquee names such as BMW, Ford, Audi, Phillips, Bosch, ABB among others across automobiles, electrical, engineering and aerospace and defence, medical segments.

SBAPL manufactures more than 4,000 types of plastic products of various shapes using 15 different processes at its 38 manufacturing facilities across India, France, US and Poland. The company has established a strong distribution network throughout India for its diverse product portfolio. The group has 14 branch offices spread across India catering to various geographic segments in the

domestic market. Apart from these offices, its products are also being distributed by a network of over 3500 dealers/distributors and over 25,000 retailers spread across the country. The SBAPL group is the pioneer in the water tanks market. The 'Sintex' brand has become a generic name for water tanks in India and to leverage on the same, SBAPL also markets custom mouldings under the 'Sintex' brand.

The management team of SBAPL is led by Mr. Amit Patel (Managing Director) and other promoters with extensive experience in the plastic industry. Besides, the team is supported by professionals in key areas with over three decades of experience in the plastic industry.

SMERA believes that SBAPL will continue to benefit from its established market position, diversified product lines and long standing relationship with reputed clientele.

Equity infusion likely to support improvement in the financial risk profile: The total net worth stood at Rs. 1,922.14 crore and gearing (debt to equity ratio) at 1.51 times as on 31 March, 2017. The total debt of Rs. 2902.70 crore mainly consists of long term debt of Rs. 1709.93 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 3.58 times in FY2016-17 (Provisional). As indicated by the management, the private equity funding of ~Rs. 750.00 crore to Rs. 1,000.00 crore is expected by September 2017 to be used exclusively for deleveraging. The timely infusion of equity and subsequent reduction in debt levels will remain as key rating sensitivity.

SBAPL has unencumbered cash and cash equivalents of ~Rs. 230.00 crore in FY2017. Further, the average cash credit limit utilization has been ~75 per cent in the last three months ended June 2017. SMERA believes, that the company will maintain a healthy liquidity position in the medium term with total unencumbered funds of ~Rs.200.00 crore at any point of time.

SMERA believes that equity infusion couple with plough back of earnings will result in a significant improvement in gearing and debt protection indicators in near to medium term.

Weaknesses

Susceptibility of operating performance to demand from key user sectors and volatility in raw material prices: SBAPL's operating performance is susceptible to demand from key user sectors, mainly automobiles. The global automobile sector is highly competitive and cyclical in nature with demand mainly driven by factors such as consumer spending, availability of credit, interest rates, fuel prices and emergence of substitutes (for instance, electronic vehicles) among others. The cyclicity faced by the end-user auto sector may impact demand for players like SBAPL. The revenue growth and margins will be a function of the offtake by the auto sector. SBAPL reported operating (EBITDA) margin of 15.47 per cent on operating income of Rs. 3,897.06 crore in FY2017 (Provisional). The overseas subsidiaries account for ~52 per cent of SBAPLs revenues. However, it contributed lower operating margins of ~11 per cent in FY2017 vis-a-vis higher operating margins of ~17 per cent in Indian operations. Further, improvement in profitability from overseas operations will remain critical for determining the operating performance of SBAPL.

The introduction of newer fuel-efficient electrical vehicles by OEMs also requires quick adoption of technology by their vendors like SBAPL. SBAPLs competitive positioning is also dependent on its ability to adapt to changing technologies and customer requirements.

SBAPL's profitability is also susceptible to volatility in prices, availability of key inputs (LLDPE, HDPE and PVC) and other high-quality raw materials which are crude oil derivatives. As a result, its operations and operating margins are vulnerable to changes in supply and volatility in the prices of raw materials.

SMERA believes that continuous introduction of a strong pipeline of value added products and ability to pass on prices will remain as key rating sensitivities.

Analytical Approach: As mentioned above

Rating Sensitivity Factors:

- Timely infusion of equity
- Movement in capital structure and coverage indicators
- Working capital management

Outlook: Stable

SMERA believes that the SBAPL group will maintain a stable outlook over the medium term owing to its strong brand, established track record of operations and experienced management. The outlook may be revised to 'Positive' if the company exhibits significantly higher than expected revenues or profitability margins translating to improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of sustained lower than expected net cash accruals, delays in equity infusion or significantly higher than expected debt funded capex.

About the rated entity - Key Financials

For FY2016-17 (Provisional), on consolidated basis SBAPL reported profit after tax (PAT) of Rs. 331.05 crore on operating income of Rs. 3897.06 crore. The total net worth stood at Rs. 1,922.14 crore as on 31 March, 2017.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Rating History for the last three years: Not Applicable
Annexure – Details of instruments rated:

Name of the Facilities/ Instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Term Loan	NA	NA	March 2035	15.00	SMERA AA/Stable (Assigned)
Term Loan	NA	NA	April 2038	63.64	SMERA AA/Stable (Assigned)
Term Loan	NA	NA	April 2032	31.80	SMERA AA/Stable (Assigned)
Cash Credit	NA	NA	NA	25.00	SMERA AA/Stable (Assigned)
Cash Credit	NA	NA	NA	10.48	SMERA AA/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	179.00	SMERA AA/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	125.00	SMERA AA/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	45.00	SMERA AA/Stable (Assigned)
Proposed Term Loan (ECB)	NA	NA	NA	778.06	SMERA AA/Stable (Assigned)
Proposed Term Loan (ECB)	NA	NA	NA	194.52	SMERA AA/Stable (Assigned)
Proposed Term Loan	NA	NA	NA	332.50	SMERA AA/Stable (Assigned)
Proposed Term Loan	NA	NA	NA	162.10	SMERA AA/Stable (Assigned)
Proposed Letter of Credit	NA	NA	NA	120.00	SMERA A1+ (Assigned)
Proposed Letter of Credit	NA	NA	NA	26.00	SMERA A1+ (Assigned)
Proposed Bank Guarantee	NA	NA	NA	39.00	SMERA A1+ (Assigned)
Proposed Letter of Credit	NA	NA	NA	15.00#	SMERA A1+ (Assigned)
Proposed non fund based	NA	NA	NA	50.00	SMERA A1+ (Assigned)
Proposed Non convertible Debentures	NA	NA	NA	200.00	SMERA AA/Stable (Assigned)

fully interchangeable with bank guarantee

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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