

Press Release

Sintex Prefab and Infra Limited (SPIL) (the Erstwhile Sintex Infra Projects Limited)

12 August, 2017



Rating Assigned

Total Instruments Rated	Rs. 1876.54 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 minus) and '**SMERA A1+**' (read as SMERA A One Plus) to the above mentioned bank facilities of Sintex Prefab and Infra Limited (SPIL). The outlook is '**Stable**'. SPIL is a wholly owned subsidiary of Sintex Plastics Technology Limited (plastic business arm of the Sintex group), a company proposed to be listed on the stock exchange.

SPIL, incorporated in December 2009, is a Gujarat-based company engaged in the manufacturing of prefab structures and monolithic construction material. The company also undertakes execution of various centre and state sponsored infrastructure and power projects such as affordable housing. SPIL caters to government and semi government departments. As on 31 March, 2017, Sintex Prefab has an installed capacity of 76,800 numbers per annum of prefabricated structure with manufacturing facility located at Kalol near Ahmedabad, Bhachau (Kutch) and Daman.

Analytical Approach: SMERA has considered the standalone financial and business risk profile of the company to arrive at the ratings.

List of key rating drivers and their detailed description:

Strengths:

Established position in prefab, monolithic construction, long operational track record and experienced management: Sintex Industries Limited (SIL) has an established position in plastic products since 1975. As per a recent demerger arrangement, the prefab, monolithic construction business of SIL was transferred to SPIL while custom moulding business was transferred to Sintex BAPL Limited (SBAPL) and only the textiles division was retained in SIL.

SPIL is the market leader in prefabs and monolithic construction panels. SPIL has been able to augment its leadership position in these product segments through continuous introduction of new products in a fast growing market for prefabs structures and monolithic construction materials. Prefabs manufactured by SPIL cater to various industries including construction, telecom and industrial construction. Its panels are used for monolithic construction by various public sector entities including local administrations, municipal government bodies for construction of low-budget housing, schools, health centres, waste management as well as by the defence sector.

The management team of SPIL is headed by Mr. Amit Patel (Director) and other promoters with extensive experience in the plastic industry. They are well supported by professionals who possess over three decades of experience in the industry.

SMERA believes that SPIL will continue to benefit from its established market position and long standing relationship with government and quasi government entities.

Healthy financial risk profile and liquidity position: SPIL has healthy net worth of Rs. 1139.75 crore and low gearing (debt to equity ratio) of 1.02 times as on 31 March, 2017. The total debt of Rs. 1159.85 crore mainly includes term loans of Rs.284.38 crore and working capital limits of Rs. 378.00 crore. The Interest coverage ratio (ICR) stood at 4.68 times and debt service coverage ratio (DSCR) stood at 1.92 times in FY2017. SMERA believes that with repayment of existing debt and absence of any debt funded capex, gearing and coverage indicators are expected to remain comfortable in the medium term. The net cash accruals to total debt stood at 0.14 times in FY2017. The same is expected to improve to 0.23 times in FY2018 and 0.29 times in FY2019.

The average utilisation of working capital limits till March 2017 stood at ~90 per cent, which gradually improved to ~60 per cent due to realisation of debtors of the monolithic business. The management has adopted a cautious strategy to prune down its exposure to monolithic business, where high credit period was required and focus on prefab business in future. This is expected to reduce the working capital intensity and maintain the liquidity position at comfortable levels.

Weaknesses

Susceptibility of operating performance to offtake in the prefab segment:

For FY2017, SPIL booked operating income of Rs. 2057.48 crore. The prefab business accounted for Rs. 1544.00 crore while the monolithic business constituted Rs. 339.00 crore with the rest being generated from EPC contracts. The management has adopted a cautious strategy to prune down its exposure to monolithic business which may restrict the scale of operations further. Thus SPIL's revenue growth is heavily dependent on growth in the business of prefabricated structures which is expected to grow at ~20 per cent year on year. SPIL has moderate order book position with unexecuted orders of ~Rs. 1300.00 crore as on 30 June, 2017 largely consisting of orders for prefabricated structures. Further, the company has unexecuted orders of ~Rs. 250.00 crore for the monolithic business and none for infrastructure business. The unexecuted order book provides moderate revenue visibility for the medium term.

The fortunes of the prefab business depend on the policies of government entities in India as well as the demand for low-cost public housing, construction of social infrastructure and urban redevelopment. Demand for the same may or may not continue to grow at the same pace. Thus slower than expected capex due to fiscal or budgetary constraints would impact the off take of prefabricated structures. The risk is mitigated to an extent as the recent government schemes such as the Swachh Bharat Abhiyan, Sarva Shiksha Abhiyan, Housing for all, Clean Ganga Mission, among others are expected to spur the demand for prefabricated structures.

Tender based business and high dependence on government orders: SPIL's business is mainly tender based. The company caters to semi-government and government entities. Thus, the operating scale depends on the value of contracts won and executed during the year.

Susceptibility of profit margins to volatility in raw material prices against the backdrop of intense competition: SPIL's profitability is susceptible to volatility in prices and availability of key inputs like LLDPE, HDPE and PVC and other high-quality raw materials which are crude oil derivatives. As a result, the operating margins are vulnerable to changes in the supply and volatility in the prices of raw materials. SPIL has reported operating profit (EBITDA) margin of 21.32 per cent and net profit after tax (PAT) margin of 4.82 per cent in FY2017.

SMERA believes that SPIL's ability to pass on increase in the cost of raw material to end users and maintaining profitability will remain key rating sensitivities.

Analytical Approach: As mentioned above

Rating Sensitivity Factors:

- Improvement in revenues while maintain profitability
- Movement in capital structure and coverage indicators
- Working capital management

Outlook: Stable

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

About the rated entity - Key Financials

For FY2016-17, SPIL reported profit after tax (PAT) of Rs. 99.14 crore on operating income of Rs. 2057.48 crore. The total net worth stood at Rs. 1139.75 crore as on 31 March, 2017.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Infrastructure Entities: <https://www.smera.in/criteria-infra.htm>
- 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 2021	109.38	SMERA AA-/Stable
Term Loan	NA	NA	March 2020	90.00	SMERA AA-/Stable
Proposed Cash Credit	NA	NA	NA	378.00	SMERA AA-/Stable
Cash Credit	NA	NA	NA	100.00*	SMERA AA-/Stable
Proposed NCD	NA	NA	NA	112.50	SMERA AA-/Stable
Proposed NCD	NA	NA	NA	137.50	SMERA AA-/Stable
Proposed NCD	NA	NA	NA	250.00	SMERA AA-/Stable
Proposed NCD	NA	NA	NA	15.00	SMERA AA-/Stable
Proposed NCD	NA	NA	NA	85.00	SMERA AA-/Stable
Proposed Bank Guarantee	NA	NA	NA	100.00	SMERA A1+
Letter of Credit	NA	NA	NA	170.00**	SMERA A1+
Letter of Credit	NA	NA	NA	105.00#	SMERA A1+
Proposed non fund based	NA	NA	NA	224.16	SMERA A1+

includes bank guarantee as a sub limit * One way interchangeable with LC ** fully interchangeable between bank guarantee and letter of credit

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

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ABOUT SMERA

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