

Press Release
Sintex Prefab and Infra Limited (SPIL)

August 07, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 1276.54 Cr.
Non-Convertible Debenture	Rs. 600.00 Cr.
Long Term Rating	ACUITE A / Outlook: Negative (Downgraded)
Short Term Rating	ACUITE A1 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE AA-**' (read as **ACUITE double A**) and the short term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**ACUITE A1+**' (read as **ACUITE A one plus**) to the Rs. 1276.54 crore bank facilities of SPIL. The outlook assigned is '**Negative**'.

ACUITE has downgraded the long term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE AA-**' (read as **ACUITE double AA minus**) on the Rs. 600.00 crore non-convertible debentures of Sintex Prefab Limited.

SPIL is a wholly owned subsidiary of Sintex Plastics Technology Limited (SPTL; plastic business arm of the Sintex group), SPTL is listed at BSE. Sintex Prefab and Infra Limited (Erstwhile Sintex Infra Projects Limited), 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. SPIL caters to government and semi government departments. Moreover, after the merger and demerger scheme, monolithic construction business and Prefab business of Sintex Industries Limited (SIL) was transferred to SPIL. SPIL 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.

The downgrade is driven by year-on-year decline in the revenue and profitability of the company. The operating income stood at Rs. 1704.46 crore in FY2018 as compared to Rs.2054.54 crore in FY2017, while the operating margin of the company is estimated to have declined to ~10.39 percent in FY2018 (Provisional) from 21.44 percent in FY2016. Moreover the PAT margin is also declined to 3.06 percent in FY2018 (Provisional) from 9.34 percent in FY2016 even though the higher margin prefabrication business was transferred from SIL to SPIL.

Going forward, SPIL will reduce its focus on Monolithic and EPC businesses on account of high working capital intensity of these business segments, despite higher profitability margins

Acuité believes that the revenue and the profitability margin is likely to decline further over the medium term.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Sintex Prefab and Infra Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Established Market Presence and Long track record of operations**

Sintex Prefab and Infra Limited is part of Sintex group and fully owned subsidiary of Sintex Plastic Technology Limited. Sintex group has experience in plastic and textile business since its incorporation in 1931. Sintex Prefab and Infra Limited (erstwhile Sintex Infra Projects Limited) was incorporated in 2009. 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. 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.

- **Deleveraging by issue convertible share warrants by Parent company**

Sintex Plastic and Technology Limited, parent company of Sintex Prefab and Infra Limited is issuing 66,700,000 fully convertible warrants into equity share of face value of Re. 1.00 each with a premium of Rs. 89.00 aggregating upto Rs.600.30 crore. Further as on 30 June 2018, funds were raised through preferential issue for repayment of existing debt of the SPIL and proceeds of Rs.288 crore was received by the company. (Allotment of 20,433,334 equity share of face value of Re.1.00 each; at Rs.137.92 crore which is 75 percent of warrant price and subscription value of 66,700,000 fully convertible warrants into equity shares at Rs.90.00 per warrant at Rs.150.08 crore which is 25 percent of warrant price). Acuite believes that due to equity infusion capital structure is expected to improve and timely deleveraging will remain a key rating sensitivity factor.

Weaknesses

- **Y-o-Y decline in the revenue and profitability along with lower revenue visibility**

SPIL has booked revenue of Rs. 1704.46 crore in FY2018 (Provisional) as compared to Rs. 2054.54 crore in FY2017. The sharp decline in the revenue is on account of decline in the prefab business and monolithic business. Further, revenue from prefab business stood at Rs. 769.14 crore in FY2018 as compared to Rs. 1846 crore in FY2016 and revenue from monolithic business stood at Rs. 72.81 crore in FY2018 as compared to Rs.685 crore in FY2016.

Going forward, the company is not keen on continuing its monolithic business and on executing EPC work for third parties unless it fetches healthy margins. The operating margins have also declined to 10.39 percent in FY 2018 (Provisional) as compare to 21.44 percent in FY 2017. The decline in the margin is majorly on account of increase in the raw material prices. The key raw materials are the derivatives of the crude oil. The PAT margin sequentially declined to 3.06 percent in FY2018(Provisional) vis-à-vis 4.23 percent in FY2017 and 9.34 percent in FY2016.

The prefab business depends 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. The risk is partially mitigated to an extent as the recent government schemes such as the Swachh Bharat Abiyan, Sarva Shiksha Abhiyan, Housing for all, Clean Ganga Mission, among others are expected to spur the demand for prefabricated structures.

Acuite believes that the revenue and the profitability margin are likely to remain under pressure over the medium term due to reduced focus on monolithic and EPC business and therefore timely deleveraging will remain key rating sensitivity factor.

Outlook: Negative

Acuite believes that the outlook of SPIL will remain Negative over the medium term owing to sequential decline in revenue and profitability, and financial risk profile. The rating may be further downgraded in case of further decline in the revenue and operating margin or if the proposed deleveraging takes longer than expected. Conversely, the outlook may be revised to 'Stable' in case the company registers substantial and sustained growth in revenues while improving margins and debt coverage indicators.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1,704.46	2,054.54	NA
EBITDA	Rs. Cr.	177.09	440.42	NA
PAT	Rs. Cr.	52.21	86.89	NA
EBITDA Margin	(%)	10.39	21.44	NA
PAT Margin	(%)	3.06	4.23	NA
ROCE	(%)	4.05	14.04	NA
Total Debt/Tangible Net Worth	Times	0.69	1.02	NA
PBDIT/Interest	Times	1.90	4.68	NA
Total Debt/PBDIT	Times	5.24	2.63	NA
Gross Current Assets (Days)	Days	66	130	NA

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in the infrastructure sector - <http://acuite.in/view-rating-criteria-14.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-Aug-17	Term Loan	Long Term	109.38	ACUITE AA-/Stable (Assigned)
	Term Loan	Long Term	90.00	ACUITE AA-/Stable (Assigned)
	Proposed Cash Credit	Long Term	378.00	ACUITE AA-/Stable (Assigned)
	Cash Credit	Long Term	100.00*	ACUITE AA-/Stable (Assigned)
	Proposed NCD	Long Term	112.50	ACUITE AA-/Stable (Assigned)

	Proposed NCD	Long Term	137.50	ACUITE AA-/Stable (Assigned)
	Proposed NCD	Long Term	250.00	ACUITE AA-/Stable (Assigned)
	Proposed NCD	Long Term	15.00	ACUITE AA-/Stable (Assigned)
	Proposed NCD	Long Term	85.00	ACUITE AA-/Stable (Assigned)
	Proposed Bank Guarantee	Short Term	100.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	170.00**	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	105.00#	ACUITE A1+ (Assigned)
	Proposed non Fund Based	Short Term	224.16	ACUITE A1+ (Assigned)

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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	72.91	ACUITE A/Negative (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Negative (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00*	ACUITE A/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A/Negative (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Negative (Assigned)
Non Convertible Debenture	December, 2015	Not Applicable	October, 2020	112.50	ACUITE A/Negative (Downgraded)
Non Convertible Debenture	December, 2015	Not Applicable	October, 2020	137.50	ACUITE A/Negative (Downgraded)
Non Convertible Debenture	December, 2014	Not Applicable	September, 2021	250.00	ACUITE A/Negative (Downgraded)
Proposed Non Convertible Debenture	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A/Negative (Downgraded)

Proposed Non Convertible Debenture	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE A/Negative (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	210.00**	ACUITE A1 (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	105.00#	ACUITE A1 (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 (Assigned)
Proposed Non Fund Based	Not Applicable	Not Applicable	Not Applicable	543.63	ACUITE A1 (Downgraded)

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

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head – Corporate and Infrastructure Sector Ratings Tel: 022-67141191 aditya.gupta@acuite.in</p> <p>Vishal Choudhary Manager - Rating Operations Tel: 022-67141159 Vishal.choudhary@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.