

March 18, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	45.00	SMERA BBB-/Negative (downgraded from SMERA BBB/Stable)
Term Loans	114.36	SMERA BBB-/Negative (downgraded from SMERA BBB/Stable)
Non-fund based facilities	39.17	SMERA A3 (downgraded from SMERA A2)

SMERA has downgraded the bank loan ratings of Xpro India Limited (XIL) to '**SMERA BBB-/SMERA A3**' from '**SMERA BBB/SMERA A2**'. SMERA has also revised XIL's rating outlook (on the long-term bank facilities) to '**Negative**' from '**Stable**'.

The ratings downgrade and outlook revision reflect deterioration in the company's business and financial risk profiles. XIL has incurred net losses in the past six quarters. Consequently, the company's interest coverage ratio have deteriorated from 1.33 times in FY2012-13 (refers to financial year, April 01 to March 31) to 0.52 times in 9MFY2013-14 (refers to period, April 01 to December 31). SMERA believes that XIL's interest coverage ratio is likely to decline further in FY2013-14 on account of anticipated net loss in the current quarter (January 2014 to March 2014). XIL's leverage (debt-equity ratio) deteriorated from 0.51 times as on March 31, 2012 to 1.28 times as on March 31, 2013. Moreover, the company's leverage is likely to deteriorate further as on March 31, 2014 on account of incremental borrowings. The company's ability to register a sustained improvement in profitability and debt protection metrics remains a key rating sensitivity factor.

XIL's ratings continue to remain constrained by the company's weak financial risk profile, marked by high leverage, low interest coverage ratio and large working capital requirements. The ratings also reflect the company's exposure to raw material price volatility and high level of customer concentration. However, the ratings continue to draw comfort from the company's established position as a major domestic producer of dielectric capacitor films. The ratings also continue to benefit from the company's experienced management, comfortable liquidity position and Networth.

Update

For 9MFY2013-14, XIL reported a net loss of Rs.8.78 crore on net sales of Rs.169.66 crore, as compared with a net loss of Rs.4.01 crore on net sales of Rs.163.91 crore for the corresponding period of the previous year. For FY2012-13, XIL registered net loss of Rs.4.11 crore on operating income of Rs.225.02 crore, as compared with net profit of Rs.5.26 crore on operating income of Rs.245.75 crore for FY2011-12.

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Refrigerator liners, sheets, doors and cabinets continue to be the major products of the company's coextruded (COEX) products segment, which accounts for ~73 per cent of the total revenues. Biaxially Oriented Polypropylene (BOPP) films and dielectric capacitor films are the major products of XIL's Biaxially (BIAX) segment, which accounts for ~27 per cent of the company's total revenues. Refrigerator manufacturers (major customers under XIL's COEX segment) continue to face a challenging environment given subdued demand. As per discussion with XIL's management, SMERA understands that the company's performance was severely impacted by production cuts initiated by major customers on account of sluggish economic conditions.

XIL is highly susceptible to foreign exchange fluctuation risk. The company has availed external commercial borrowing in the nature of term loan for capex (new dielectric capacitor film line) at Barjora, West Bengal. The outstanding balance of the term loan is €9,373,887.00 (equivalent to ~Rs.79.67 crore) as on March 18, 2014. The aforementioned term loan is repayable from October 2014 in 16 semi-annual installments of €585,867.94 each, along with interest. The rupee depreciation has significantly increased the company's foreign currency debt obligation. Consequently, XIL's leverage (debt-equity ratio) is likely to remain high in the medium term.

XIL's operations are working capital-intensive in nature. The company's average bank limit utilization is high at ~90 per cent during January 2013 to December 2013. However XIL has a comfortable liquidity position reflected in cash and cash equivalents of Rs.43.26 crore as on December 31, 2013. Moreover, the company's cash credit limits have been enhanced from Rs.33.85 crore to Rs.45.00 crore.

XIL is exposed to high level of customer concentration risk. The company's top five customers account for 65 percent of the total sales during April 2013 to December 2013.

Outlook: Negative

SMERA believes that XIL's business risk profile will remain under pressure in the medium term on account of the sluggish business environment. The ratings may be downgraded in case the company continues to report losses over the medium term on account of subdued demand in key business segments and delays in stabilization of operations at the new dielectric capacitor film line. The ratings may also be downgraded in case of further deterioration in the company's debt protection metrics, or in case the company registers lower-than-expected revenues and profitability in the coextruded products and BOPP film segments. Conversely, the outlook may be revised to 'Stable' in case the company successfully stabilizes its operations and achieves improvement in profitability and debt protection metrics.

About the company

XIL, incorporated in 1997, is a part of the Sidharth Birla Group (the Birla family holds 47.31 per cent stake in the company, while aggregate public shareholding is 52.69 per cent). XIL manufactures BOPP films, dielectric capacitor films, cast films, coextruded plastic sheets, refrigerator sheets, liners and cabinets. The company has manufacturing facilities in Barjora (West Bengal), Greater Noida (Uttar Pradesh), Ranjangaon (Maharashtra), Pithampur (Madhya Pradesh) and Faridabad (Haryana). XIL has two wholly-owned subsidiaries, namely Xpro Global Ltd. (India) and Xpro Global Pte Ltd. (Singapore).

For FY2012-13, XIL reported a net loss of Rs.4.11 crore on operating income of Rs.225.02 crore, as compared with PAT of Rs.5.26 crore on operating income of Rs.245.75 crore for FY2011-12. Further, the company reported net loss of Rs.8.78 crore on net sales of Rs.169.66 crore during April 2013 to December 2013, as compared with net loss of Rs.4.01 crore on net sales of Rs.163.91 crore for the corresponding period of the previous year. XIL's tangible net worth stood at Rs.133.79 crore as on December 31, 2013, as compared with Rs.140.09 crore as on March 31, 2013.

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