SINTEX INDUSTRIES LIMITED

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	3,768.63 (enhanced by Rs.1,220.00 crore)	CARE AA (Double A)	Reaffirmed
Long/Short-term Bank Facilities	300.00	CARE AA / CARE A1+ (Double A / A One Plus)	Reaffirmed
Total Facilities	**4,068.63**		
Proposed Long-term Debt including Non-Convertible Debentures	500.00	CARE AA (Double A)	Assigned
Short-term Debt / Commercial Paper (Carved Out)	400.00	CARE A1+ (A One Plus)	Reaffirmed
Short-term Debt / Commercial Paper (Standalone)	100.00	CARE A1+ (A One Plus)	Reaffirmed

Rating Rationale

The ratings of Sintex Industries Limited (SIL) continue to derive strength from its leadership position in prefabricated structures (prefabs) and water tank business in the domestic market; wide product portfolio, well-established distribution network with strong brand name and its diversified clientele. The ratings are further underpinned by SIL's competent management; augmented technical strength and wider geographical reach through its subsidiaries along with its strong financial risk profile marked by strong capitalization and healthy but moderating profitability.

The long-term rating, however, continues to be constrained on account of SIL's increasing debt level to fund organic and inorganic growth, working capital intensive nature of its operations and susceptibility to volatility in crude-based raw material prices. Further, CARE also takes note of SIL's large-sized debt-funded diversification project in textile division proposed during H2FY14 (refers to the period April 1 to March 31).

The ability of SIL to improve its working capital cycle, successful completion of its ongoing projects within the envisaged parameters along with realization of the envisaged benefits thereof and undertaking of any further capex plan and its funding profile would be the key rating sensitivities.

Background

Incorporated in 1931, SIL commenced its operations with its textile mill at Kalol in Gujarat and diversified into manufacturing of water storage tanks in 1975. At present, the company operates in two segments viz textiles and plastics which contributed around 10% and 90% respectively, to SIL's total consolidated operating income in FY13. SIL's product mix in the plastics division primarily comprises prefabs, monolithic constructions, industrial custom moulding, water tanks, transmission & distribution accessories, fibre reinforced plastics (FRP), storage tanks, etc. It enjoys leadership position in water tanks and prefabs segments in India. Its established presence in the water tanks business has made brand 'Sintex' a generic name. In textiles, SIL is mainly into manufacturing of various type of yarn dyed structured fabrics, catering to the high-end segment of fashion shirting and readymade garment. The manufacturing facility for its textile division is located at Kalol in Gujarat, while production facilities for its plastics division are at various locations across India. Further, during H2FY14, SIL has proposed a diversification project in the textile division for setting up of 319,872 spindles spinning unit at Amreli, Gujarat with an investment outlay of around Rs.1,650 crore which is being funded through a sanctioned term loan of Rs.1,220 crore and the balance through internal accruals.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Credit Risk Assessment

Strong product portfolio, diversified revenue stream and multiple end-use industries

SIL's plastic division has built up a strong product portfolio over the years through continuous innovation and customization in order to suit customer's demands. Over the years, SIL has evolved into a projects and solution provider company from a purely plastics products oriented company. SIL's plastic division manufactures more than 3,500 types of plastics & related products of various shapes using 15 different processes at its nine manufacturing facilities located across India. SIL is the leading Indian plastic processing company with a pan-India manufacturing presence and manufacturing operations in nine nations to cater to the global demand. The main products of SIL comprises prefabs, monolithic construction panels, industrial custom mouldings for various applications, water tanks, power transmission & distribution accessories and FRP storage tanks. Its products have diversified applications spanning across industries and catering to residential, commercial and government segments.

SIL's textiles division manufactures high-end fabric used in suiting and shirting and primarily caters to readymade garment manufacturers (RMG) in the domestic market. It is also one of the largest manufacturers of corduroy fabric in India.

Market leader in prefab, monolithic construction and water tank business

SIL is the market leader in various product segments like prefabs, monolithic construction panels and water tanks. SIL 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. Further, technically and operationally monolithic business is witnessing acceptability in the market. Furthermore, SIL is pre-qualified with 17 state governments for its prefabs and monolithic construction panels. Qualification with the governments is the primary entry barrier for monolithic construction and prefabs industry. Prefabs manufactured by SIL cater to various industries like construction, telecom, industrial construction, etc. Its monolithic construction panels are used for various civil constructions by public sector entities including local administrations, municipal government bodies, etc for the construction of low-budget housing, schools, health centres, waste management, etc as well as the defence sector.

During FY13, the plastics division contributed nearly 91% of SIL's consolidated gross revenues; of which 43% was from Building Materials division (comprises prefabs and monolithic construction) while remaining 57% was from Custom Mouldings division. The monolithic construction business reported a subdued performance during FY13 due to the optimisation of the company's exposure towards it. During FY13, revenue from monolithic construction declined by 8% over FY12; this is further declined by 18% during 9MFY14 y-o-y. SIL has intentionally slowed down the bidding for new projects as this segment has caused stretched receivable cycle over the past from some of the government projects which had impacted project profitability and business liquidity of SIL. However, revenue from plastics products division as whole grew nearly 16% during FY13 over the previous year. At a standalone level, SIL had healthy order book as on December 31, 2013 which translates into nearly one year revenue visibility.

Well established distribution network throughout India and strong brand name

Over the years, SIL has established a strong distribution network throughout India for its diverse product portfolio. SIL 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 1,000 dealer/distributor and 20,000 retailers spread across the country. Its widespread distribution network provides SIL with a distinct advantage of being located closer to its target customer segments. Also, SIL is pioneer in water tanks market and brand 'Sintex' has become a generic name for water tank products in the country. In order to leverage upon its existing brand recognition, SIL also markets prefabs, monolithic structure panels, custom mouldings, etc. under brand 'Sintex'.

Wider access to global markets and long standing relationships with its established clientele

Since its incorporation in 1931, SIL has established operations in plastic as well as textile division through its 36 manufacturing plants spread over nine countries and four continents enabling wider access to markets across the globe. With an accepted brand name and established track record of operations, the company has built a strong portfolio consisting of reputed clientele who caters to diverse industries across the globe. Over the years, the company has been successfully securing repeat orders from marquee brand names in automobile, electrical, engineering, aerospace and defence, medical like BMW, Ford, Audi, Nissan, Hyundai, Honda, General Motors, Volkswagen, Caterpillar, Tata, Mahindra, Hitachi, LeGrand, ABB, Bosch, Philips, General Electric, Schneider Electric, Siemens, John Deere among others towards its custom moulding products. On the other side, for building material products, majority of customers are Government PSUs.

Further, apart from the organic growth of its various divisions, SIL has also grown inorganically through acquisitions in the domestic as well as overseas markets and has augmented SIL's technical strength. During CY12, SIL acquired two units of the German group Poschmann - one in Germany, now renamed as NP Poschmann and the other in Poland, named NP Polska which would enable SIL with geographic diversity and access to German origin global brands both in the automotive (Bosch, Porsche, Pier burg, etc.) and non-automotive (Siemens, Grohe, Wilo, Vorwerk, etc.) spaces. The cost of acquisition was Euro 2.90 million which was funded entirely through internal accruals. Further, during CY12, Wausaukee Composites Inc. (WCI) renamed to Sintex Wausaukee Composite Inc. (SWCI) to strengthen the 'Sintex' brand visibility in the American markets.

All these acquisitions have augmented the technical capabilities of SIL and have provided SIL with reputed clientele in their respective industries, thereby providing SIL the opportunity to cross-sell its products across customer segments. Over the last three years, SIL's domestic as well as overseas subsidiaries have contributed almost 40% of its consolidated sales. With large contribution from its overseas subsidiaries (USA and Europe) and due to concerns of a slowdown in the Eurozone countries, SIL's consolidated performance would largely depend on performance of its overseas subsidiaries going forward.

Strong financial risk profile with sustained income growth and healthy profitability

In recent years, SIL's total operating income has grown at a healthy rate due to strong growth in the plastics division on the back of continuous introduction of new products and also due to healthy inorganic growth. At a consolidated level, SIL's total operating income, which registered a CAGR of nearly 13% over the last four years ended FY13, grew by nearly 15% during the year over FY12 primarily due to healthy growth in the prefab business which has also offset the subdued performance of monolithic business.

The PBILDT margin, although declined marginally by 112 bps during FY13 continues to remain healthy in the range of 15-20% over the past four years ended FY13. The PBILDT margin declined during the year mainly on account of an increase in the crude based raw material consumption cost coupled with slower than expected execution of its monolithic construction projects work in India. SIL's PAT margin, declined on the back of a decline in the PBILDT margin coupled with an increase in interest cost and forex losses on its FCCB liability. However, in absolute term, both the PBILDT and PAT have grown by 7.02% and 5.50% respectively during FY13 over FY12.

Gearing ratios of SIL as on March 31, 2013 have improved as compared to a year before. The overall gearing improved to a moderate level of 1.09 times as on March 31, 2013 on the back of healthy accretion of profit for the year coupled with fresh equity infusion. During FY13, SIL raised fresh equity of around Rs.297 crore through Qualified Institutional Placement (QIP) and share issue to the promoters' to repay partly its FCCB liability. However, debt level as on March 31, 2013 increased over the previous year even after redemption of FCCB liability of around Rs.1,414 crore as it was majorly replaced through new 7.5% FCCB loan of around Rs.761 crore (USD 140 mn).

The liquidity position of the company continues to remain comfortable marked by healthy cash accruals, strong current ratio and moderate (62%) average fund based working capital limit utilization for the last 12 months ended with December 2013. However, the concern on an elongated collection period due to slow recovery of receivables in SIL's monolithic construction business continues to remain during FY13. However there has been an improvement in debtor recovery during H1FY14.

Un-audited 9MFY14 Result (Consolidated)

During 9MFY14, SIL reported a total operating income of Rs.3,881 crore, the PBILDT of Rs.618 crore and PAT of Rs.202 crore with PBIDLT and PAT margin of 15.91% and 5.21% respectively.

Working capital intensive nature of operations

Despite having a strong market position and business model, SIL's operations have traditionally been highly working capital intensive. Due to its large product range, SIL needs to maintain high inventory levels. Further, the order book of monolithic construction business (more than 40%) has larger contribution in SIL's total order book, which largely caters to the government segment and many of its customers are large PSUs demanding longer credit period. Hence, SIL also needs to fund large amount of receivables as reflected by the higher collection period of 119 days in FY13.

As on September 30, 2013, on a standalone basis, SIL had outstanding debtors of Rs.1,252 crore; top 10 debtors contributed almost 48% of the debtors majority of which consists of government clients only and debtors outstanding for more than 6 months were only upto 5% level of the total debtors.

Increasing debt level to fund organic and inorganic growth

Over the years, SIL has invested heavily in capacity expansion of its plastics division through introduction of new products and also by adding new capacity to already existing product lines. Further, it has also been on an acquisition spree over the last four years by acquiring companies in infrastructure and plastics industry, both domestically and globally. While SIL has been successful in significantly scaling up its operations through organic and inorganic growth, it has also increased the amount of debt to achieve the same. Further, over the last three years, its working capital borrowings have also increased due to elongation in its working capital cycle on the back of slow pace of recovery of its receivables in its monolithic construction business. However there has been an improvement in recovery from Monolithic debtors during H1FY14.

During FY08, SIL had raised zero coupon FCCBs of nearly USD 225 million (mn) for funding its overseas acquisitions. During FY13, SIL has availed 7.5% fresh FCCB loan aggregating to USD 140 mn (aggregating to Rs.761 crore) for redemption of its earlier FCCB issue.

The debt level is further expected to increase going forward during FY15 and FY16 on account of SIL's ongoing large-sized capacity enhancement as well as diversification projects both in the plastic and textile division.

Large sized ongoing capex plans

During FY13, SIL has undertaken large-sized capacity expansion cum modernisation projects both in the textile as well as plastic segment. SIL is implementing a project of around Rs.691 crore in the textile division and a project of around Rs.802 crore in plastic division; together combined project costs of Rs.1,493 crore which is proposed to be funded through a term loan of Rs.1,051 crore and balance through internal accruals. SIL also had incurred combined capex of around Rs.1,225 crore till December 31, 2013. Both these expansions cum modernization plans of SIL would not only enhance capacities but also lead to better quality product with savings in operating costs.

Further to this, during H2FY14, SIL has proposed a new capex in the textile division for setting up of 319,872 spindles spinning unit (yielding production of 4.06 crore kg of yarn capacity per annum) at Amreli, Gujarat with an investment outlay of around Rs.1,650 crore. The capex is proposed to be funded through a fresh term loan of Rs.1,220 crore and balance Rs.430 crore through internal accruals with project gearing of 2.84 times. SIL has envisaged the implementation of the project over FY15 and FY16 and commercialisation from April 1, 2016. The financial closure for the said project is achieved. SIL has incurred cost of around Rs.100 crore till February 15, 2014 towards the project which was funded through internal accruals.

SIL's investment plan in textile is eligible for various fiscal benefits from the state as-well-as central government. SIL would be eligible for aggregate interest rate subvention of 11% (7% from GoG and 4% under TUFS). SIL would also get benefit of power subsidy at Rs.1/unit and refund of VAT paid on purchase of cotton/cotton yarn as per Gujarat Textile Policy - 2012. Further, SIL would also be eligible for investment allowance of 15% on capital investment of over Rs.100 crore as announced in the Union Budget 2013.

Considering large sized debt funded capex plans, the timely completion of the projects without any major time and cost overrun and consequent early stabilization of the plants and operations to realize the envisaged benefits would remain crucial going forward. Further, any more future debt-funded capex plans would be the key rating sensitivity.

Susceptibility to volatility in raw material prices

Since the major raw materials used by SIL are derivates of crude oil, there is significant fluctuation in raw material prices, which the company may not always be able to pass on to its customers, which results in a fluctuation in the company's margins. SIL has, however, in a bid to stabilize its margins, introduced a variety of value added and premium products within its plastic product portfolio.

Prospects

Going forward, SIL's growth would be primarily driven by its ability to optimise its long term resources leading to improvement in its profitability while maintaining its leadership position in the plastic business. Further, effective working capital management and performance of its overseas subsidiaries would also be crucial from credit perspective. Furthermore, the timely completion of the ongoing large-sized various projects and realising the envisaged benefits would also remain crucial.

Financial Performance (Consolidated)

(Rs.Crore)

For the period ended / as at March 31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Net Sales	4472	4437	5079
Total Operating income	4518	4490	5145
PBILDT	854	754	807
Interest	109	136	146
Depreciation	149	168	205
PBT	596	415	390
PAT (after deferred tax)	452	307	324
Gross Cash Accruals	638	^ 554	^ 669
Financial Position			
Equity Share capital	27	27	31
Net Worth	2242	2531	3033
Total capital employed	5644	5978	6641
Key Ratios			
Growth			
Growth in Total Operating income (%)	33.09	-0.62	14.58
Growth in PAT (after Def. Tax) (%)	36.56	-32.15	5.52
Profitability			
PBILDT/Total Op. income (%)	18.90	16.80	15.68
PAT (after deferred tax)/ Total income (%)	10.01	6.83	6.29
ROCE (%)	13.33	9.61	8.51
Solvency			
Long-term Debt Equity ratio (times)	1.06	1.01	0.87
Overall gearing ratio (times)	1.38	1.24	1.09
(Adj.) Overall gearing ratio (times) #	0.86	0.99	0.92
Interest coverage (times)	7.84	5.55	5.52
Term debt/Gross cash accruals (years)	3.74	4.62	3.93
Total debt/Gross cash accruals (years)	4.84	5.65	4.93
(Adj.) Total debt/Gross cash accruals (years) #	3.01	4.52	4.15
Liquidity			
Current ratio (times)	2.17	2.10	2.22
Quick ratio (times)	1.93	1.86	1.94
Turnover			
Average collection period (days)	95	122	119
Average inventory (days)	36	38	36
Average creditors (days)	56	59	48
Operating cycle (days)	75	101	106

A-Audited, ^ adjusted for unrealized forex loss of Rs.47 crore and Rs.90 crore respectively in FY12 and FY13
(Adj.) - Excluding the free cash and bank balance and liquid investment from debt

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(This follows our brief rationale for entity published on 12 March, 2014)

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