Signet Industries Limited

March 30, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long term Bank Facilities	151.39	**CARE BBB; ISSUER NOT COOPERATING (Triple B; ISSUER NOT COOPERATING)**	ISSUER NOT COOPERATING; Based on best available information
Long-term/Short-term Bank Facilities	210.00	**CARE BBB/CARE A3+; ISSUER NOT COOPERATING (Triple B / A Three Plus; ISSUER NOT COOPERATING)**	ISSUER NOT COOPERATING; Based on best available information
Total	**361.39 (Rupees Three Hundred Sixty One crore and Thirty Nine lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Signet Industries Ltd (Signet) to monitor the rating(s) vide e-mail communications/letters from October 06, 2016 till March 10, 2017, including emails dated February 13, 2017 and February 23, 2017, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the publicly available information which however, in CARE's opinion, is not sufficient to arrive at a fair rating. Further, Signet has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Signet's bank facilities will now be denoted as **CARE BBB/CARE A3+; ISSUER NOT COOPERATING**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings take into account Signet's established operations in polymer trading and plastic pipes & fittings manufacturing business, its experienced promoters, healthy operating margin of its manufacturing business segment and steady demand outlook for plastic pipes.

The rating also factors in increase in its scale of operations in FY16 (FY refers to the period from April 1 to March 31) and 9MFY17; albeit with dip in profitability; mainly due to increase in proportion of low margin trading business in the company's revenue profile.

The ratings, however, continue to be constrained by its high leverage and modest debt coverage indicators; albeit with marginal improvement in FY16, high working capital intensity of its operations due to presence in the micro irrigation segment (MIS), exposure to volatile prices of its raw materials that are derivatives of crude oil and its presence in a competitive industry.

Signet's ability to further scale up its operations, improve profitability and capital structure and efficiently manage its working capital requirements shall be the key rating sensitivities.

Detailed description of the key rating drivers

At the time of last rating on April 01, 2016 the following were the rating strengths and weaknesses (updated for the information available from stock exchange):

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

Key Rating Strengths

Established operations and experienced promoters in polymer trading and plastic products business: Signet has established operations of over two decades in polymer trading and has also established a strong foothold in the plastic products business, including MIS, with over four decades of experience of its principal promoter in the business.

The company had earlier envisaged buying out the engineering division of one of its group concerns; however, it has now shelved this acquisition plan.

Growth in income with healthy operating margin of manufacturing business segment, albeit with dip in probability FY16 and 9MFY17: Signet's total operating income (TOI) grew by 21% y-o-y in FY16 to Rs.798.04 crore and by 15% y-o-y in 9MFY17 to Rs.677.77 crore with healthy PBIT margin of 17-18% in its manufacturing business segment in the aforesaid period. However, PBILDT margin of the company as a whole witnessed dip of around 80-160 bps each in FY16 and 9MFY17; and stood at 7.77% in 9MFY17; mainly on account of increase in the proportion of low margin trading business in the company's revenue profile from 61% in FY15 to 66% in 9MFY17, alongwith dip in the PBIT margin from the trading business in the aforesaid period. Also, PBIT margin from manufacturing business segment dipped by 91 bps in 9MFY17, with no growth in the segment's income in 9MFY17.

The company had an order backlog of Rs.190 crore as on February 29, 2016, in its manufacturing business segment.

Steady demand outlook for the plastic pipes industry; albeit with intense competition: Demand outlook for the Indian plastic pipes is expected to be steady with increased government spending in construction & infrastructure sectors alongwith thrust on the agriculture sector and focus on MIS; by way of higher targeted production and improved productivity through greater availability of credit. However, the industry remains exposed to high competition and limited pricing power; on account of fragmentation in the industry which can put pressure on its profitability margins.

Key Rating Weaknesses

High overall gearing and modest debt coverage indicators; albeit with marginal improvement in FY16: Signet's overall gearing remained high at 2.10x as on March 31, 2016, albeit with marginal improvement from 2.45x as on March 31, 2015. Its overall gearing as on March 31, 2014 was at 3.84x; the improvement at FY15 end from FY14 levels was on account of reduction in debt and increase in subordinated unsecured loans and preference share capital from promoters, considered as a part of networth.

Further, the debt coverage indicators of the company also remained modest with total debt to GCA of over 11x in FY16, improved from 16x in FY15. During FY16, Signet refinanced its existing term loans with a new term loan of longer repayment tenure, which alongwith increase in cash accruals, resulted in improvement in its debt coverage indicators in FY16.

Working capital intensive nature of operations linked to its MIS business: Signet's operations are working capital intensive as indicated by its long operating cycle of around 80-90 days and largely full utilization of its working capital limits. This is mainly due to the company's presence in MIS; where large part of revenue is received in the form of subsidies from state governments, in around 180-200 days.

Profitability exposed to volatile raw material prices and forex rates: Signet's profitability remains exposed to volatile prices of its key raw material viz. polymers, since prices of polymers are closely linked to crude oil prices, forex rates and changes in import duty on polymers; and hence are inherently volatile.

Analytical Approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios - Non- Financial Sector

About the company

Incorporated in 1985, Signet is engaged in trading and distribution of polymers such as polypropylene (PP), high density polyethylene (HDPE), poly vinyl chloride resin (PVC); along with manufacturing of plastic pipes and fittings for MIS and construction segment and moulded plastic goods for household use and furniture. Manufacturing operations of the company commenced in 2011 at its plant in Pithampur, Madhya Pradesh, equipped with a capacity of 28,320 MTPA as on March 31, 2015.
Besides, the company also has a wind power generation capacity of 1.4 megawatts (MW) in the states of Maharashtra and Rajasthan.

Based on the audited financials for FY16, Signet registered a TOI of Rs.798.04 crore with a PAT of Rs.17.41 crore as compared with a TOI of Rs.661.79 crore with a PAT of Rs.11.70 crore in FY15. Furthermore, as per the unaudited results for 9MFY17, Signet registered a TOI of Rs.677.77 crore with a PAT of Rs.15.14 crore as compared with a TOI of Rs.588.94 crore with a PAT of Rs.15.28 crore in 9MFY16.

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	210.00	CARE BBB / CARE A3+; ISSUER NOT COOPERATING
Term Loan-Long Term	-	-	March 2023	39.47	CARE BBB; ISSUER NOT COOPERATING
Fund-based - LT-Cash Credit	-	-	-	104.00	CARE BBB; ISSUER NOT COOPERATING
Fund-based - LT-Working capital Term Loan	-	-	March 2017	7.92	CARE BBB; ISSUER NOT COOPERATING

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	210.00	CARE BBB / CARE A3+; ISSUER NOT COOPERATING	1)CARE BBB / CARE A3+ (01-Apr-16)	1)CARE BBB / CARE A3+ (29-Mar-16)	1)CARE BBB- / CARE A3 (26-Feb-15)	-
2.	Term Loan-Long Term	LT	39.47	CARE BBB; ISSUER NOT COOPERATING	1)CARE BBB (01-Apr-16)	-	-	-
3.	Fund-based - LT-Cash Credit	LT	104.00	CARE BBB; ISSUER NOT COOPERATING	1)CARE BBB (01-Apr-16)	-	-	-
4.	Fund-based - LT-Working capital Term Loan	LT	7.92	CARE BBB; ISSUER NOT COOPERATING	1)CARE BBB (01-Apr-16)	-	-	-

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