Signet Industries Limited

September 12, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	151.39	**CARE BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE BBB (Triple B) on the basis of best available information
Long-term/Short-term Bank Facilities	210.00	**CARE BB+/CARE A4+; ISSUER NOT COOPERATING* (Double B Plus / A Four Plus; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE BBB/ CARE A3+ (Triple B/ A Three Plus) on the basis of 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 August 24, 2017 including e-mails dated July 24, 2017, August 4, 2017, August 17, 2017, August 22, 2017, August 24, 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 annual 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 BB+/CARE A4+; 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 revision in ratings takes into account significant decline in Signet's operating profit margin as per published results for FY17 (refers to the period April 1 to March 31) vis-à-vis FY16 (Audited) results on account of increase in proportion of low margin trading business in its revenue profile. The revision in the ratings is also on account of significantly lower than previously envisaged operating profit margins and debt coverage indicators for FY17. Further, as per interaction with its bankers, the utilization of working capital limits was very high.

The ratings continue to remain constrained due to Signet's high leverage, high working capital intensity of its operations due to presence in the micro irrigation segment (MIS), exposure to volatile prices of raw materials that are derivatives of crude oil and its presence in a competitive industry.

The ratings, however, continue to draw strength from Signet's established operations and vast experience of promoters in polymer trading and plastic products business.

Signet's ability to significantly improve its operating profit margins, debt coverage indicators and capital structure while efficiently managing its working capital requirements shall be the key rating sensitivities.

CARE also notes the inclusion of Signet's name in the list of suspected shell companies released by Securities and Exchange Board of India (SEBI) in its letter dated August 7, 2017 and the submissions made by Signet to the stock exchanges in this regard. CARE has also sought clarification from the company in this regard in email dated August 22, 2017, however, the company has not provided the requisite information. Any adverse development in this regard having material impact on the credit risk profile of Signet shall also be a key monitorable.

Detailed description of the key rating drivers

At the time of last rating on March 30, 2017 the following were the rating strengths and weaknesses (updated for the information available from stock exchange):

Key Rating Weaknesses

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

** Issuer did not cooperate; Based on best available information*

Significant decline in operating profit margin: The PBILDT margin of the company decreased from 8.76% during FY16 to 6.78% during FY17 on account of increase in proportion of low margin trading business in its revenue profile.

Significantly lower than previously envisaged operating profit margin and debt coverage indicators for FY17: The operating profit margin of Signet was 6.78% which was significantly lower than what was previously envisaged for FY17 and also PBILDT interest coverage ratio was 1.71x, significantly lower than previously envisaged of above 2x as per company's earlier submissions.

Working capital intensive nature of operations: Signet's operations are working capital intensive due to presence in micro irrigation segment (MIS), where large part of revenue is received in the form of subsidies from state governments, leading to very high utilization of its working capital limits.

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.

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 good foothold in the plastic products business, including MIS, with over four decades of experience of its principal promoter in the business.

Growth in total operating income: Signet's total operating income (TOI) grew by 16.77% y-o-y to Rs.931.90 crore as per its published FY17 results. However, this growth was largely aided by increase in proportion of trading revenue.

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.

Brief Financials (Rs. crore)	FY16 (A)	#FY17 (A)
Total operating income	798.04	931.90
PBILDT	69.93	63.14
PAT	17.41	19.30
Overall gearing (times)	NA	NA
Interest coverage (times)	1.74	1.71

A: Audited; NA – Not available; # - brief published results on Stock Exchange

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 BB+ / CARE A4+; ISSUER NOT COOPERATING*
Term Loan-Long Term	-	-	March 2023	39.47	CARE BB+; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	104.00	CARE BB+; ISSUER NOT COOPERATING*
Fund-based - LT-Working capital Term Loan	-	-	March 2017	7.92	CARE BB+; ISSUER NOT COOPERATING*

** Issuer did not cooperate; Based on best available information*

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	210.00	CARE BB+ / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BBB / CARE A3+; ISSUER NOT COOPERATING* (30-Mar-17) 2)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 BB+; ISSUER NOT COOPERATING*	-	1)CARE BBB; ISSUER NOT COOPERATING* (30-Mar-17) 2)CARE BBB (01-Apr-16)	-	-
3.	Fund-based - LT-Cash Credit	LT	104.00	CARE BB+; ISSUER NOT COOPERATING*	-	1)CARE BBB; ISSUER NOT COOPERATING* (30-Mar-17) 2)CARE BBB (01-Apr-16)	-	-
4.	Fund-based - LT-Working capital Term Loan	LT	7.92	CARE BB+; ISSUER NOT COOPERATING*	-	1)CARE BBB; ISSUER NOT COOPERATING* (30-Mar-17) 2)CARE BBB (01-Apr-16)	-	-

** Issuer did not cooperate; Based on best available information*

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