Sintex Industries Limited (Revised)

July 26, 2018

Rating

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture (NCD) issue	500.00	**CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE BBB; Negative (Triple B; Outlook: Negative), on the basis of best available information
Total	**500.00 (Rupees Five hundred crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Sintex Industries Limited (SIL) to monitor the rating of the above NCD issue vide e-mail communications dated May 7, 2018, May 10, 2018, May 14, 2018, May 23, 2018 and July 5, 2018 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 rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on SIL's instruments will now be denoted as **CARE BB+; Stable; 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 rating(s).

The revision in rating assigned to the NCD issue of SIL is on account of significant increase in the proportion of shares pledged by the promoters of SIL from ~61% of their shareholding as on March 31, 2018 to ~85% of their shareholding as on June 30, 2018, which coupled with significant erosion in SIL's market capitalization has reduced the financial flexibility of the promoter group to support the operations of the company and heightened the refinancing risk especially in light of its large upcoming instalment repayments leading to weakening of its debt coverage indicators.
Further, due to recent increase in cotton prices, SIL's working capital requirements are expected to increase which along with hardening of the interest rates could increase its borrowing cost and thereby put pressure on its profitability and the already constrained debt coverage indicators.
The rating assigned to NCD Issue of SIL continues to remain constrained on account of lower than envisaged capacity utilization of its Phase – II cotton spinning project along with saleability risk associated with the on-going capex, its low Return on Capital Employed (RoCE) and fixed asset turnover, working capital intensive nature of operations, susceptibility of profitability to volatility in cotton prices and SIL's presence in a highly fragmented and cyclical textile industry. The rating also factors in significant cost overrun in its cotton spinning project due to change in scope of project with installation of additional machineries and construction of additional infrastructure.
The rating, however, continues to take into account wide experience of the promoters with an established track record in the cotton fabric and plastic product manufacturing and SIL's association with reputed clientele in domestic and overseas market. The rating further takes into account strategic location of SIL's manufacturing unit in the cotton producing belt of Gujarat along with various central and state government fiscal benefits available to SIL.
Ability of SIL to efficiently grow its scale of operations and significantly improve its profitability through optimum utilization of its operational and upcoming capacities and thereby improve its return and turnover ratios, improve its debt coverage indicators, effectively manage its profitability against raw material price volatility and efficient management of its working capital are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses
Significant increase in the pledge of promoters' shares in SIL thereby restricting the financial flexibility of the promoters to support its operations
As per the shareholding pattern as on June 30, 2018 published on the stock exchange, the proportion of pledge of promoters' shareholding as a percentage of its total shareholding in SIL increased sharply from ~61% as on March 31,

[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*

2018 to ~85% as on June 30, 2018. This coupled with significant erosion in SIL's market capitalization has reduced the financial flexibility of the promoters to support the operations of the company especially in light of its weakened debt coverage indicators due to large upcoming instalment repayments. On July 24, 2018 SIL's market capitalization stood at ~Rs.840 crore vis-à-vis its tangible net worth (consolidated) of Rs.4,410 crore as on March 31, 2018.

Lower than envisaged profitability and higher than envisaged debt level leading to deterioration in debt coverage indicators

As per the published result for Q1FY19 (Consolidated), the company reported a total operating income of Rs.925 crore with a PBILDT margin of 17.61%. Post subdued performance in FY18, the company's profitability has continued to be lower than previously envisaged even in Q1FY19. As was articulated by the management in its investor conference call post its FY18 financial results, this was largely due to reduction in import duty on yarn by government post-GST leading to heightened competition and lower sales realisation in the domestic market. Further, cost of raw material, i.e. raw cotton, increased without corresponding increase in cotton yarn prices and the share of low margin trading business increased during FY18. Also, capacity utilisation of Phase-II of its cotton yarn spinning plant remained low during the year which had an adverse impact on its profitability; albeit it improved gradually during the course of the year. Further, SIL incurred nearly Rs.1,972 crore towards capital expenditure on a consolidated basis during FY18 which was significantly higher than envisaged. Moreover, as on March 31, 2018, on a consolidated basis, SIL's total debt (excluding LC-Acceptances) increased beyond previously envisaged level to Rs.5,511 crore as against Rs.4,116 crore as on March 31, 2017. The increase in debt levels was largely to fund its capital expenditure and meet its increased working capital requirement (higher inventory). Higher than envisaged debt level along with lower than envisaged profitability led to weakening of debt coverage indicators in medium term. Also, the capital structure of SIL remained moderate marked by overall gearing of 1.25 times as on March 31, 2018.

Further, in December 2017, the Enforcement Directorate (ED) has seized properties worth Rs.48.87 crore of SIL in connection with its transactions in the Panama Papers leak case. As per ED, SIL had violated the rules and regulation of FEMA Act and acquired the properties overseas. However, as clarified by the company in its response submitted to stock exchanges, the orders issued by ED is not a final order or outcome of any legal case as per the investigation continue to be in progress. Moreover, the management also clarified in its submission to stock exchanges that provisional seizure does not affect the operation or profitability of the company.

Increase in cost of commissioning of its cotton yarn spinning projects

Due to change in scope of project along with installation of additional machineries, the cost of the projects (Phase I and Phase II) increased to Rs.4,090 crore from earlier envisaged of Rs.3,300 crore. The major cost overrun as explained by the management pertains to construction of new infrastructure and installation of additional machineries for automation. However, there is no direct benefit expected in terms of additional revenue and hence it will lead to decline in return ratio and fixed asset turnover ratios. However, comfort can be drawn from the fact that the company has funded increased cost through internal accruals and FCCB, which have been converted into equity (80% already converted as on June 30, 2018). Also, considering the large size capacity and the cyclical nature of cotton yarn industry, saleability risk remains elevated for SIL.

Lower than envisaged capacity utilization of Phase-II of its cotton yarn spinning project and further capex being undertaken leading to low return and fixed asset turnover ratios

During FY18, SIL commissioned its phase – II of the cotton spinning project of over 3,00,000 spindles in addition to its operating phase – I project. SIL achieved capacity utilization of 98% (with efficiency of 97%) in the phase – I of the project. For phase – II, the capacity utilisation was low during the year, however, its was gradually ramped up to reach around 80% (with efficiency of 95%) as on March 31, 2018 and which was lower than envisaged. Further, as per the management's investor concall, SIL is undertaking additional capex of 1,52,000 spindles towards linen, mélange, silk, wool and other value added natural yarns which are expected to be commissioned gradually over the next five quarters. Major part of the Capital WIP of Rs.2,350 crore as on March 31, 2018 pertains to this new capex which the management believes will earn them superior margins going forward. Continuous addition of capex without commensurate returns has resulted in subdued fixed asset turnover and ROCE for SIL. Its ROCE has remained below 4% during last two years ended FY18.

Working capital intensive industry

The cotton spinning operation is inherently working capital intensive due to the seasonality associated with availability of raw cotton. SIL's operating cycle remained high due to higher credit period extended to the customers in order to push its cotton yarn sales. Further, due to recent increase in cotton prices and time taken for subsidy disbursement by the government, working capital requirement of SIL is expected to increase. This along with hardening of interest rates could increase the borrowing cost and thereby put pressure on its profitability and already constrained debt coverage indicators. Also, its total inventory level increased significantly from Rs.207 crore as on March 31, 2017 to Rs.630 crore as on March 31, 2018 exhibiting high working capital intensity of its operations.

Susceptibility of profitability to volatility in cotton prices and fluctuation in forex rates

The cotton prices in India are regulated through fixation of minimum support price (MSP) by the government. As per recent developments, the government has raised the MSP for cotton for FY19 to Rs.5,150 per quintal. Exports of cotton are also regulated by government through quota systems to suffice domestic demand for cotton. Hence, any adverse change in government policy may negatively impact the prices of raw cotton and could result in lower realizations and profitability. Also, cotton being an agri-commodity and its output being dependent upon the vagaries of the monsoon makes its prices susceptible to weather conditions. Further, SIL also exports cotton yarn, thus exposing the company to foreign exchange fluctuation risk.

During FY18, government reduced import duty on yarn from 25% (pre-GST) to 5% (Post-GST) which led to dumping of yarn from overseas suppliers and increased competition in domestic market, ultimately leading to lower domestic sales realisation for SIL.

Cyclicality associated with textile Industry

SIL operates in a cyclical and fragmented cotton yarn industry, including both organised as well as unorganised players, which limits the pricing ability of the players in the industry. However, the risk is partly mitigated to a large extent as SIL targets the higher count (finer) yarn and value added yarns which faces limited competition.

Key Rating Strengths

Wide experience of the promoters

SIL's promoters have wide experience in the textile and plastic businesses with an established operational track record of close to eight decades.

Established operations in cotton fabrics business and reputed clientele

The textile segment is the oldest business segment of SIL which was incorporated in 1931 as Bharat Vijay Mills (BVM) in Kalol, Gujarat. The company manufactures and processes high-end structured dyed yarn fabrics. Majority of these fabrics are supplied to apparel companies. It has alliances with various domestic and European design houses like Arrow, Tommy Hilfiger, Marks & Spencer, Armani, Hugo, Versace, Burberry, Zegna, Zara, Guess, Nike etc. The brand "BVM" is among the popular brand in cotton fabric segment within the branded apparel manufactures. Further, SIL supplies cotton yarn to leading textile companies in India and overseas.

Locational as well as central and state government fiscal benefits available to the company

Gujarat State produces more than 30-35% of total national production of cotton; hence SIL derives benefit of lower logistic expenditure (both on transportation and storage) and easy availability of raw cotton. Further, SIL's project being located in Saurashtra, Gujarat having close proximity to two major ports i.e. Mundra and Pipavav provides logistic advantage in terms of saving in transportation cost for export. Moreover, SIL is also eligible for various incentives by the state and central government such as capital subsidy and interest subsidy from Government of India under the Revised Technology Upgradation Fund Scheme (RTUFS) apart from interest subsidy, power subsidy and refund of SGST under Gujarat Textile policy-2012.

Analytical Approach: Consolidated; while assessing the credit risk profile of SIL, CARE has considered the consolidated financials of SIL which also includes its subsidiary, BVM Overseas Limited (engaged in trading of cotton yarn).

Applicable Criteria

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
CARE's Methodology for Cotton Yarn Industry
Financial ratios – Non-Financial Sector

About the Company

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. Previously till FY16 (refers to the period April 1 to March 31), SIL had three business segments i.e. Textile, Plastic and Infrastructure. However, under the composite scheme of arrangement, SIL had demerged its Plastic and Infrastructure business with effect from April 1, 2016 and continued with textile business. Currently, SIL manufactures and processes high-end structured dyed yarn fabrics and cotton yarn. In April 2016, SIL commissioned a green field project of cotton yarn manufacturing at Amreli, Saurashtra by installing 306,432 spindles (Phase – I) having an installed capacity to produce 62,500 Metric Tonne Per Annum (MTPA) of cotton yarn. Further, SIL also commissioned Phase – II of the cotton yarn project with another 306,432 spindles during FY18. SIL expects the project (Phase I & II) to achieve full capacity utilization in FY19. SIL has also undertaken additional capex of 1,52,000 spindles towards linen, melange, silk, wool and other value added yarns which is expected to be commissioned in the next five quarters. SIL also has one wholly owned subsidiary namely BVM Overseas Limited (BVMOL) through which SIL undertakes trading of cotton yarn.

(Rs. Crore)

Brief Financials of SIL (Consolidated)	FY17 (A)	FY18 (A)
Total operating income	2,018	3,022
PBILDT	367	436
PAT	134	142
Overall gearing (times)	1.09	1.25
PBILDT Interest coverage (times)	3.95	3.83
Total Debt/GCA	15.45	18.37
Total Debt/PBILDT	11.28	12.63

As per the results published on the stock exchange for Q1FY19, SIL reported a total operating income of Rs.925 crore with a PAT of Rs.39 crore.

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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
Debentures-Non Convertible Debentures	June 11, 2014	10.70	June 11, 2021	112.50	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Negative; ISSUER NOT COOPERATING* on the basis of best available information
Debentures-Non Convertible Debentures	September 30, 2014	10.70	September 30, 2021	137.50	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Negative; ISSUER NOT COOPERATING* on the basis of best available information
Debentures-Non Convertible Debentures	October 08, 2015	9.41	October 08, 2020	250.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Negative; ISSUER NOT COOPERATING* on the basis of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (25-Jul-17)	1)CARE AA+ (Under Credit Watch) (13-Oct-16) 2)CARE AA+ (14-Jul-16)	1)CARE AA+ (05-Jun-15)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (28-Dec-17) 2)CARE A1 (25-Jul-17)	1)CARE A1+ (Under Credit Watch) (13-Oct-16) 2)CARE A1+ (14-Jul-16)	1)CARE A1+ (05-Jun-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)Withdrawn (28-Dec-17) 2)CARE A; Stable / CARE A1 (14-Sep-17) 3)CARE A; Stable / CARE A1 (25-Jul-17)	1)CARE AA+ / CARE A1+ (Under Credit Watch) (13-Oct-16) 2)CARE AA+ / CARE A1+ (14-Jul-16)	1)CARE AA+ / CARE A1+ (05-Jun-15)
4.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (28-Dec-17) 2)CARE A; Stable (14-Sep-17) 3)CARE A; Stable (25-Jul-17)	1)CARE AA+ (Under Credit Watch) (13-Oct-16) 2)CARE AA+ (14-Jul-16)	1)CARE AA+ (05-Jun-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (20-Jul-15) 2)CARE AA+ (05-Jun-15)
6.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (28-Dec-17) 2)CARE A; Stable (14-Sep-17) 3)CARE A; Stable (25-Jul-17)	1)CARE AA+ (Under Credit Watch) (13-Oct-16) 2)CARE AA+ (14-Jul-16)	1)CARE AA+ (05-Jun-15)
7.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (28-Dec-17) 2)CARE A1 (25-Jul-17)	1)CARE A1+ (Under Credit Watch) (13-Oct-16) 2)CARE A1+ (14-Jul-16)	1)CARE A1+ (05-Jun-15)
8.	Debentures-Non Convertible Debentures	LT	250.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Negative; ISSUER NOT COOPERATING* on the basis of best available information	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (17-May-18)	1)CARE A-; Negative; ISSUER NOT COOPERATING* (04-Jan-18) 2)CARE A; Stable (25-Jul-17)	1)CARE AA+ (Under Credit Watch) (13-Oct-16) 2)CARE AA+ (14-Jul-16)	1)CARE AA+ (05-Jun-15)
9.	Debentures-Non Convertible Debentures	LT	250.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Negative; ISSUER NOT COOPERATING* on the basis of best available information	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (17-May-18)	1)CARE A-; Negative; ISSUER NOT COOPERATING* (04-Jan-18) 2)CARE A; Stable (25-Jul-17)	1)CARE AA+ (Under Credit Watch) (13-Oct-16) 2)CARE AA+ (14-Jul-16)	1)CARE AA+ (05-Jun-15)

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