Sintex Industries Limited

May 29, 2019

Rating

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture (NCD) Issue	500.00	**CARE B; Negative; ISSUER NOT COOPERATING* (Single B; Outlook: Negative; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)
Total	**500.00 (Rupees Five Hundred Crore only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated January 04, 2018, placed the rating of Sintex Industries Limited (SIL) under the 'issuer non-cooperating' category as SIL had failed to provide information for monitoring of the rating and had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. CARE had further reviewed the rating on the above NCD issue of SIL under the 'issuer non-cooperating' category vide its press release dated May 17, 2018 and July 26, 2018. SIL continues to be non-cooperative despite repeated requests for submission of information through e-mail dated May 22, 2019 as well as phone calls. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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

The revision in rating assigned to the NCD issue of SIL takes into account deterioration in its debt coverage indicators during FY19 (refers to the period from April 1 to March 31) arising from lower than envisaged total operating income along with net loss incurred during Q4FY19 due to very sharp decline in its operating profitability (PBILDT) margins and increase in its finance & interest cost. Further, the revision in rating also takes in to consideration SIL's stretched debt coverage and liquidity indicators on the back of large near term debt repayment obligation especially in light of cash loss incurred in Q4FY19 and continued high proportion of pledge of promoters' shares in SIL, 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.

The rating of the NCD Issue of SIL continues to remain constrained on account of saleability risk associated with recently commissioned large-size cotton yarn manufacturing capacities, continued weak Return on Capital Employed (RoCE) and low fixed asset turnover ratio along with working capital intensive nature of operations, susceptibility of profitability margins to volatility in raw cotton and cotton yarn prices and SIL's presence in a highly fragmented and cyclical textile industry.

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 installed 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.

Outlook: Negative

The outlook on the rating is negative on the expectation that SIL's debt coverage indicators would worsen further on the back of high debt repayment obligations in the near-term especially in the light of elevated raw cotton prices and competitive cotton yarn market which is likely to exert pressure on its profitability margins and cash flows going forward. The outlook may be revised to stable if there is significant and meaningful improvement in its debt coverage indicators.

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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*

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in financial risk profile due to loss incurred in Q4FY19: During Q4FY19, total operating income of SIL declined by 30% on Q-o-Q basis and by 10% on Y-o-Y basis. Moreover, SIL reported net loss of Rs.91 crore due to significant increase in other expenses (Rs.181 crore) during Q4FY19 which has increased by 85% and by 34% on Q-o-Q basis and Y-o-Y basis respectively, this is in contrast to decline in total operating income. Lower scale of operations along with lower operating profitability (PBILDT) margins led to cash loss of Rs.45 crore during Q4FY19 as against cash profit of Rs.96 crore during Q4FY18. Deterioration in financial performance led to decline in interest coverage and debt coverage indicators for Q4FY19 and FY19 which was further exacerbated by significant increase in interest and finance cost during this period. The profitability margins earned by SIL during FY19 are lower than what was previously articulated by the company management during investor concall post FY18 financial results.
Further, SIL has added significant cotton yarn manufacturing capacity over past two years ended FY19. Continuous addition of capex without commensurate returns has resulted in subdued fixed asset turnover and ROCE for SIL. Its ROCE is showing declining trend over past two years ended FY19 and remained at 2.57% during FY19.

Stretched debt coverage indicators: Total debt of SIL as on March 31, 2019 (excluding acceptances) stood at Rs.5,950 crore as against Rs.5,511 crore as on March 31, 2018. It's TOL/TNW deteriorated from 1.49x as on March 31, 2018 to 1.77 times as on March 31, 2019. Moreover, gross cash accruals during FY19 remained at Rs.264 crore as against Rs.300 crore during FY18. SIL has large scheduled debt repayments due in FY20, which are expected to be disproportionately higher than the envisaged operating cash accruals of the company, leading to heightened refinancing risk and significant moderation of its debt coverage indicators. Further, investors have put option available with scheduled repayment of NCDs due in June 2019 and September 2019. Hence, in case the investors exercise the put option, SIL is liable to repay entire NCDs of Rs.250 crore in H1FY20 instead of Rs.83 crore of scheduled repayment. With large near term debt repayments and lower than envisaged profitability and cash accruals, SIL's debt coverage indicator is expected to be significantly lower than envisaged previously. Due to deterioration in financial performance, the refinancing of debt is expected to pose challenge to the company.

Continued high proportion of 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 March 31, 2019 published on the stock exchange, the proportion of pledged shares of promoters as a percentage of its total shareholding in SIL continued to remain high at ~84%. This coupled with significant erosion in SIL's market capitalization continues to restrict the financial flexibility of the promoters for supporting the operations of the company, especially in light of its weakened debt coverage indicators due to large upcoming instalment repayments. On May 23, 2019, SIL's market capitalization stood at ~Rs.388 crore vis-à-vis its tangible net worth (consolidated) of Rs.4,413 crore as on March 31, 2019.

Deterioration in Sintex group's credit profile: Deterioration in financial risk profile is also observed in various group companies of SIL, viz. Sintex Prefab and Infra Limited (rated CARE D/ CARE C); Sintex-BAPL Limited (rated CARE BB+; Stable/ CARE A4; Issuer Not Cooperating) which reduce likelihood of support from group companies.

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 long due to higher credit period extended to the customers in order to push its cotton yarn sales in a competitive environment. 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 increase in its borrowing cost is expected to put pressure on its profitability and already constrained debt coverage indicators.

Susceptibility of profitability margins to volatility in raw cotton and cotton yarn prices apart from present elevated raw cotton prices may put pressure on the profitability of SIL: SIL's profitability is susceptible to the movement in the prices of raw cotton and cotton yarn which remain volatile in nature due to linkages to various factors such as area under production, yield, international demand-supply scenario, minimum support price (MSP) fixed by the government and seasonal availability. As per CARE Ratings, going forward, the cotton price is expected to increase with further cut in the production estimate. With limited supply in the market, prices are expected to average at about Rs.127-130 per kg for Cotton Season 2018-19. Further, cotton prices are also expected to be supported by weakened rupee and rising consumption in both the domestic and overseas markets. However, the cotton yarn demand is expected to stagnate at the current levels majorly on account of weak demand from China which is the world's largest consumer. In medium to long term the decrease in demand from China is likely to be offset by improvement in demand from Bangladesh, Pakistan and Vietnam. Prices are also expected to be affected by the ongoing trade conflict between US and China. Considering present high cotton prices along with subdued demand scenario for cotton yarn, the financial performance of SIL is expected to remain significantly lower than previously envisaged.

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 Strength

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 fabric business and reputed clientele: SIL has a long presence in the textile industry since 1931 when it was incorporated 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 yarn manufacturing facilities 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 Up gradation Fund Scheme (RTUFS) apart from interest subsidy, power subsidy and refund of SGST under Gujarat Textile Policy-2012.

Liquidity Analysis

Liquidity of SIL is expected to have weakened due to cash loss incurred by it in Q4FY19. Further, its current ratio deteriorated to below unity at 0.74 times as on March 31, 2019. The liquidity of SIL is likely to remain tight on the back of large scheduled term debt repayment obligations due in FY20, which are expected to be disproportionately higher than the envisaged operating cash accruals of the company. CARE had sought latest updates on liquidity available with SIL to gauge its forthcoming debt servicing capability considering large upcoming scheduled debt repayments. However, despite numerous requests, the company has not shared requisite information in this regard and consequently there remains a probability of moderation in its liquidity. In absence of availability of latest updates on the liquidity position of the company such as monthly working capital utilization, it is difficult to take cognizance of any liquidity backup which could be available to bridge any operational cash flow mismatches. CARE has reviewed the rating on the basis of the best available information.

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 amongst various Sintex group companies, 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 fabric 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 is also undertaking capex of 1,52,000 spindles towards linen, melange, silk, wool and other value added yarns which is expected to be commissioned by H1FY20. SIL also has one wholly owned subsidiary namely BVM Overseas

Limited (BVMOL) through which SIL undertakes trading of cotton yarn. However, Board of Directors of SIL in its meeting held on May 22, 2019 has approved disinvestment in BVMOL upto 24.99% and thus, BVMOL will cease to be a wholly owned subsidiary company.

(Rs. Crore)

Brief Financials of SIL (Consolidated)	FY18 (A)	FY19 (A) *
Total operating income	3,022	3,376
PBILDT	436	496
PAT	142	22
Overall gearing (times) #	1.25	1.35
PBILDT Interest coverage (times)	3.83	2.20
Total Debt / GCA	18.37	22.54
Total Debt / PBILDT	12.63	12.00

 # Total debt excluding acceptances;
** As per published results submitted to stock exchanges*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments

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 (ISIN - INE429C07040)	June 11, 2014	10.70	June 11, 2021	112.50	CARE B; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Debentures-Non Convertible Debentures (ISIN- INE429C07057)	September 30, 2014	10.70	September 30, 2021	137.50	CARE B; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Debentures-Non Convertible Debentures (SIN- INE429C07065)	October 08, 2015	9.41	October 8, 2020	250.00	CARE B; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	112.50	CARE B; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (26-Jul-18) 2)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)
2.	Debentures-Non Convertible Debentures	LT	137.50	CARE B; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (26-Jul-18) 2)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)
3.	Debentures-Non Convertible Debentures	LT	250.00	CARE B; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (26-Jul-18) 2)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)
4.	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)
5.	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)
6.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	1)Withdrawn (28-Dec-17) 2)CARE A; Stable / CARE A1 (14-Sep-17)	1)CARE AA+ / CARE A1+ (Under Credit Watch) (13-Oct-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
							3)CARE A; Stable / CARE A1 (25-Jul-17)	2)CARE AA+ / CARE A1+ (14-Jul-16)
7.	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)
8.	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)
9.	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)

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 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.

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