Sintex Prefab and Infra Limited

April 09, 2019

Ratings

Facilities / Instruments	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	50.00	**CARE C (Single C)**	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Total Facilities	**50.00 (Rupees Fifty crore only)**		
Non-Convertible Debentures - I (NCD)	112.50 **(Rupees One hundred Twelve crore and Fifty lakh only)**	**CARE C (Single C)**	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Non-Convertible Debentures - II (NCD)	137.50 **(Rupees One hundred Thirty Seven crore and Fifty lakh only)**	**CARE C (Single C)**	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Non-Convertible Debentures - III (NCD)	250.00 **(Rupees Two hundred Fifty crore only)**	**CARE D (Single D)**	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)

Details of facilities/instruments in Annexure – 1

Detailed Rationale and Key Rating Drivers

The revision in rating assigned to the NCD-III (ISIN: INE972T07035) of Sintex Prefab and Infra Limited (Sintex Prefab) is on account of one day delay in servicing of its interest. The interest payment which was due on April 8, 2019 was paid on April 9, 2019.

Further, the revision in ratings of NCD-I, NCD-II and bank facilities is on account of stress in its liquidity arising from subdued performance which has resulted in delays in servicing of the above-rated NCD-III and certain bank facilities (which are however not rated CARE).

The rating is further constrained on account of low revenue visibility with gradual reduction of business from two out of its three business segments resulting in significant reduction in its scale of operations, profitability and return ratios along with vulnerability of its profitability to volatility in crude-based raw material prices. Further, as large portion of debt was still outstanding (despite buy back of a portion of NCDs in September 2018) there is heightened need to refinance/buy back the debt since the scheduled debt repayments are expected to be disproportionate to the envisaged cash accruals from the continuing business, despite available liquidity/proposed equity infusion arising from issue of share warrants to the promoters in its parent entity Sintex Plastics Technology Ltd. (SPTL), which, as was earlier articulated by the company's management, was expected to be largely utilized for providing timely need-based support to Sintex Prefab.

Ability of Sintex Prefab to establish its debt servicing track record along with significant increase in its scale of operations along with improvement in its profitability and debt coverage indicators would be the key rating sensitivities. Further, timely support from SPTL for uninterrupted operations of Sintex Prefab would also be a key credit monitorable.

Detailed description of the key rating drivers

Key Rating Weaknesses

Delay in servicing of debt obligations

Sintex Prefab has delayed in the payment of its interest on above-rated NCD-III. For NCD-III (ISIN: INE972T07035) the interest which was due on April 8, 2019 has been paid on April 9, 2019 as per the company's submission on the Stock Exchange. Further, for one term loan (not rated by CARE) there are ongoing delays as per due diligence with the banker.

However, for NCD-I (ISIN: INE972T07019), NCD-II (ISIN: INE972T07043) and for other bank facilities rated by CARE the debt servicing is regular as per declaration of the company and confirmation from the concerned lender and by the debenture trustee.

Sharp deterioration in operating profitability and debt coverage indicators along with lower revenue visibility

During FY18, Sintex Prefab had reported a total operating income of Rs.1,705 crore with a PBILDT margin of 10.45%. The PBILDT margin had declined sharply by 1093 bps compared to FY17 and it was also significantly lower than previously envisaged. This was mainly due to higher cost of material consumed as key raw materials are crude oil derivatives, along with significant decline in the sales revenue by over 50% in the relatively high-margin prefab business during FY18. As a consequence, its debt coverage indicators also witnessed sharp deterioration during FY18 with interest coverage getting more than halved compared to FY17 and Total Debt/GCA deteriorating from 4.51 times during FY17 to 11.64 times during

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

FY18. Consequently, its Return on Capital Employed (RoCE) fell very sharply from ~25% in FY17 to 3.70% during FY18. Factoring the above deterioration in the credit quality of Sintex Prefab, its credit rating was downgraded in May and October 2018. The deterioration in its performance continued in 9MFY19, where, as per the provisional results published on stock exchange, it reported a total operating income of Rs.679 crore along with PBIT of Rs.56 crore. As articulated by the management, the company expects a significant reduction in its revenue going forward mainly due to its plans to curtail some government business where there were long receivables. As of June 2018, Sintex Prefab had outstanding orders of Rs.850 crore which reflects low revenue visibility; also it is less diversified across various segments than previously envisaged. Due to continued lower cash accruals and significantly high scheduled debt repayment liabilities, the company has encountered stressed liquidity recently.

Vulnerability of profitability to volatility in raw material prices
Plastic resins, granules and powder are the key raw materials of Sintex Prefab. Since most of the raw materials required by Sintex Prefab are crude oil derivatives, their prices are also subject to volatility in line with those of global crude oil prices.

Liquidity Analysis
Sintex Prefab's debt coverage indicators are constrained on account of disproportionate cash accruals from its core operations as compared to its scheduled debt repayment obligations on the back of unavailability of fund based working capital facility. However, Sintex Prefab's liquidity was envisaged to take comfort from the available liquidity in its parent entity, SPTL which was also strongly articulated by the company management earlier. SPTL had issued convertible share warrants to its promoters which were fully subscribed till December 31, 2018, against which the company has allotted equity shares of ~Rs.400 crore. As previously articulated by the company management, these funds were expected to be largely utilized for providing timely need-based support to Sintex Prefab. However, the support from SPTL has not been timely which has led to delays in servicing of its debt obligations.
Further, as per the shareholding pattern of SPTL as on December 31, 2018 published on stock exchange, the proportion of pledge of promoters' shareholding as a percentage of their total shareholding in SPTL increased from 52.57% (i.e. 16.80% of total share capital) as on March 31, 2018 to 71.34% (i.e. 24.07%) as on December 31, 2018. This has further restricted the financial flexibility of the promoters for supporting the operations of the company.

Analytical Approach: Standalone
Sintex Prefab is a wholly owned subsidiary of Sintex Plastics Technology Limited (SPTL) and generates its revenue and cash flows from its prefabricated business, monolithic construction and execution of infrastructure projects. None of the debt raised by Sintex Prefab is with recourse to SPTL and hence, a standalone approach has been considered for analysis. However, Sintex Prefab is heavily reliant on promoter support to buyback the maturing debt obligations which has been factored centrally in the analysis.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Manufacturing Companies
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector
Rating Methodology – Factoring Linkages in Ratings

About the Company
Incorporated in November 2009, as Sintex Infra Projects Limited (SIPL), the name of the company was changed to Sintex Prefab and Infra Limited (Sintex Prefab) in March 2017. Sintex Prefab was initially promoted by Sintex Industries Limited [SIL; rated: CARE BB+; Stable; Issuer Not Cooperating], however, under the composite scheme of arrangement, SIL has divested its holdings in Sintex Prefab to Sintex Plastics Technology Limited (SPTL) with effect from April 1, 2016. Sintex Prefab is engaged in the execution of infrastructure projects such as affordable housing with monolithic construction, various centre and state sponsored infrastructure projects and power projects. Moreover, under the de-merger scheme of arrangement within the Sintex group, SIL has transferred its monolithic construction business and prefabricated business to Sintex Prefab. However, Sintex Prefab decided to discontinue its monolithic construction business from FY18 except the completion of on-going orders. As on March 31, 2018, Sintex-Prefab has an installed capacity of 76,800 Metric Tonnes (MT) per annum of prefabricated structure manufacturing located at Kalol near Ahmedabad, Bhachau (Kutch) and Daman.

(Rs. Crore)

Brief Financials of Sintex Prefab	FY17 (A)	FY18 (A)
Total operating income	2,053	1,705
PBILDT	439	178
PAT	87	52
Overall gearing (times)	1.02	0.69
PBILDT Interest coverage (times)	4.66	2.17

A: Audited

As per provisional results for 9MFY19, the company reported TOI of Rs.679 crore along with PBIT of Rs.56 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October 2019	50.00	CARE C
Debentures-Non Convertible Debentures – I (ISIN: INE972T07019)	June 11, 2014	10.70%	June 11, 2021	112.50	CARE C
Debentures-Non Convertible Debentures – II (ISIN: INE972T07043)	September 30, 2014	10.70%	September 30, 2021	137.50	CARE C
Debentures-Non Convertible Debentures – III (ISIN: INE972T07035)	October 08, 2015	9.41%	October 8, 2020	250.00	CARE D

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.	Fund-based - LT-Term Loan	LT	50.00	CARE C	-	1)CARE BBB+; Stable (08-Oct-18) 2)CARE A-; Negative (18-May-18)	1)CARE A+; Stable (25-Jul-17)	1)CARE A (Under Credit watch with Developing Implications) (29-Mar-17) 2)CARE A (Under Credit Watch) (13-Oct-16) 3)CARE A (03-Oct-16)
2.	Debentures-Non Convertible Debentures – I (ISIN: INE972T07019)	LT	112.50	CARE C	-	1)CARE BBB+; Stable (08-Oct-18) 2)CARE A-; Negative (18-May-18)	1)CARE A+; Stable (25-Jul-17)	-
3.	Debentures-Non Convertible Debentures – II (ISIN: INE972T07043)	LT	137.50	CARE C	-	1)CARE BBB+; Stable (08-Oct-18) 2)CARE A-; Negative (18-May-18)	1)CARE A+; Stable (25-Jul-17)	-
4.	Debentures-Non Convertible Debentures – III (ISIN: INE972T07035)	LT	250.00	CARE D	-	1)CARE BBB+; Stable (08-Oct-18) 2)CARE A-; Negative (18-May-18)	1)CARE A+; Stable (25-Jul-17)	-
5.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE A+; Stable (25-Jul-17)	1)CARE A (Under Credit watch with Developing Implications)

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
								(29-Mar-17) 2)CARE A (Under Credit Watch) (13-Oct-16) 3)CARE A (03-Oct-16)
6.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)Withdrawn (08-Oct-18) 2)CARE A-; Negative / CARE A2 (18-May-18)	1)CARE A+; Stable / CARE A1+ (25-Jul-17)	1)CARE A / CARE A1 (Under Credit watch with Developing Implications) (29-Mar-17) 2)CARE A / CARE A1 (Under Credit Watch) (13-Oct-16) 3)CARE A / CARE A1 (03-Oct-16)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (18-May-18)	1)CARE A+; Stable (25-Jul-17)	-

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