

Rating Rationale

September 12, 2023 | Mumbai

Sintex Industries Limited

'CRISIL AA+/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.2050 Crore
Long Term Rating	CRISIL AA+/Stable (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA+/Stable**' rating to the bank loan facilities of Sintex Industries Ltd (SIL)

The rating centrally factors the strong parentage of Reliance Industries Ltd (RIL; 'CRISIL AAA/Stable/CRISIL A1+') and the financial, operational and managerial support SIL receives from RIL given the strategic importance of former to the latter. RIL has 70% shareholding in SIL and has provided unconditional and irrevocable guarantee to the entire term debt of SIL. The rating also factors in RIL's ability to successfully turn around stressed assets and nurture businesses by leveraging its experience across diverse sectors including textiles.

The assets and operations of SIL bode well in the overall textile value chain of RIL and provide for synergy benefits at group level by way of optimization with RIL's fibre/yarn/fabric/garment segment on the supply side and with the apparel & fashion segment housed under Reliance Retail Ventures Ltd (RRVL; CRISIL AAA/Stable/CRISIL A1+) on the demand side.

SIL itself has established market position with capability to produce a wide range of yarn count, value added blends and special blends along with established relationships with suppliers and customers. These strengths are partially offset by modest financial risk profile, and susceptibility to sharp volatility in cotton and yarn prices.

Operating income grew 1.9% during fiscal 2023 with earnings before interest, tax, depreciation and amortization (EBITDA) margin declining from 14.4% in fiscal 2022 to 4.0% in fiscal 2023 due to narrower spread between cotton and yarn prices. The operating performance is expected to improve over the medium-term post acquisition as synergy benefits accrue owing to linkages with RIL group.

SIL was under financial stress and recently got acquired at the end of March 2023 by RIL and Assets Care & Reconstruction Enterprise Limited (ACRE) after their resolution plan was accepted by the NCLT. As such, the financial risk profile remains modest due to large bank debt and weak cash accruals during fiscal 2023. Net debt to EBITDA (excluding optionally fully convertible debenture [OFCD] subscribed by RIL) stood at around 14.5 times in fiscal 2023. Debt protection metrics also remained modest with adjusted interest coverage at 0.2 times. However, with expected ramp up in operations post takeover by RIL and ACRE, the operating profits should ramp up gradually over the medium term and shall result in improvement in the financial risk profile.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of SIL and its subsidiary, as they have operational, financial linkages and common management.

CRISIL Ratings has also applied its parent notch-up framework to factor in the support available to SIL from RIL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Expected synergy benefits from linkages with textile business of RIL group

RIL is present across the entire value chain of the textile business. The textile related manufacturing facilities of RIL and other group entities are primarily located in Gujarat and surrounding areas. SIL is expected to benefit from RIL's domain experience in the textile business and track record of turning around stressed assets. The benefit of forward integration could also be accrued as yarn manufactured by SIL can be used for garment manufacturing in group's facilities. The common sourcing of raw material and proximity of RIL group's plant with SIL's plant will lead to cost and logistics savings.

Strong support from parent; RIL

RIL is the majority shareholder having equity stake of 70% post implementation of resolution plan. The company has received financial support from RIL which has infused Rs 1,500 crore in the company by way of equity and OFCD. Further, RIL has extended unconditional and irrevocable guarantee to the entire term debt of SIL. Besides this, SIL will get operational and managerial support as highlighted above.

Established market position

SIL is amongst the larger cotton yarn players and has manufacturing capacity of over 6.6 lakh spindles as on March 31, 2023. It also has a huge network with established suppliers and customers. It has capability to manufacture wider range of yarn count and specialised yarn leading to reduced dependence on market prices of yarn and increased customer stickiness. The product portfolio is also diversified with capability to manufacture blended yarn such as polyester cotton and special blend cotton modal, flax/ viscose etc which is supplied to marquee domestic and global customers.

It is further aided by proximity of its plant to the port which provides easy access to export markets which it undertakes through its subsidiary, BVM Overseas Ltd leading to geographical diversification. The market position will be further enhanced with RIL's network of suppliers and customers.

Weaknesses:

Modest financial risk profile

SIL's financial risk profile is modest owing to weak operating performance during fiscal 2023 and limited track record post takeover by RIL and ACRE which was completed at the end of March 2023. Net debt to EBITDA (excluding OFCD subscribed by RIL) stood at around 14.5 times in fiscal 2023 after fresh debt which was availed for payment to the existing lenders. However, with operating performance expected to improve post takeover, it is expected to improve to around 8.0 times in fiscal 2024. Debt protection metrics also remained modest with adjusted interest coverage at 0.2 time. However, with expected ramp up in operations post takeover by RIL, the operating profits shall ramp up gradually over the medium term and result in improvement in the financial risk profile.

Additionally, the financial risk profile is supported by presence of long tenure debt with ballooning repayment which will lead to minimal repayment in the initial years. Any capex outlay over the medium term is expected to be carried out of accruals.

Susceptibility to volatility in cotton and yarn prices

SIL's key raw material, cotton, is a highly seasonal commodity. Further, good quality Indian cotton is available only during the peak cotton season i.e. October to March. Bulk procurement of cotton leads to high peak inventory holding period, thereby exposing the company's margin to any steep decline in cotton prices subsequent to procurement. However, the risk would be partly offset by procurement of cotton at group level leading to lower pressure on working capital requirements.

Liquidity: Strong

SIL's liquidity is primarily driven by the ample liquidity of its parent RIL, and SIL's ability to raise funds at competitive rates as a RIL group entity. RIL has exceptional financial flexibility given its demonstrated ability in accessing the capital markets, its large, reported cash and liquid investments of Rs 1,88,200 crore as on March 31, 2023, and significant bank lines, which remain moderately utilized. The liquidity of the company stood at Rs 153 crore as on March 31, 2023 with largely unutilised bank lines of Rs 150 crore.

Outlook: Stable

CRISIL Ratings believes SIL will continue to benefit from its strategic importance to RIL and established market position despite moderate financial risk profile. The stable outlook reflects CRISIL Rating's view of stable outlook on the credit ratings of RIL.

CRISIL Ratings believes RIL's credit risk profile will continue to be supported by the highly integrated operations in the core business of O2C, healthy profitability in its digital and retail businesses, and exceptional liquidity.

Rating Sensitivity factors**Upward factors**

- Realisation of expected synergies with RIL group leading to sustained improvement in RoCE
- Increase in shareholding of RIL to more than 80% along with majority representation on entity's board

Downward factors

- Sustained decline in operating performance on account of lower synergies leading to subdued RoCE
- Any weakening in the credit profile of RIL or reduction in ownership of SIL to less than 50%.
- Any weakening of support philosophy of RIL towards SIL.

About the Company

SIL is a leading manufacturer of yarns and fabrics which was incorporated in 1935 as Bharat Vijay Mills in Kalol, Gujarat. The yarn division is situated in Lunsapur, Gujarat and textile division is situated in Kalol, Gujarat. The capacity stood over 6.6 lakh spindles as on March 31, 2023. The company produces 100% cotton combed compact, 100% carded compact and 100% wet linen yarns and various blended yarns such as poly/cotton and special blends such as flax/cotton, flax/viscose, cotton/modal, cotton/bamboo etc.

On March 28, 2023, the company was acquired by RIL and ACRE post allotment of shares following the approval of their resolution plan by NCLT. RIL holds 70% stake while ACRE and erstwhile secured financial creditors holds stake of 10% and 20% respectively.

About the Parent

RIL is one of India's largest private sector companies, with diverse interests, including petrochemicals, oil refining, and upstream oil and gas exploration and production. RIL has strong competitiveness in the global oil refining and petrochemicals business, arising from its integrated business model with superior Complexity Index of 21.1 for its Jamnagar site, which makes it amongst the most complex sites in the world.

RIL has also established its presence in the consumer facing business space by providing retail and digital services, which currently are RIL's principal growth driver. RIL is India's largest retail entity by revenue, while RJIL has also become India's largest telecom service provider by revenue market share. The group is now in the process of establishing itself in the green energy space.

Key Financial Indicators (Consolidated) - Adjusted by CRISIL Ratings

Particulars	Units	2023	2022
Revenue	Rs crore	3,231	3,170
PAT	Rs crore	2,777*	(458)
PAT margin	%	85.9	(14.4)
Adjusted debt/adjusted networkth	Times	1.78	(1.54)
Interest coverage	Times	0.17	0.56

*PAT before exceptional items is -ve Rs 749 crore

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Fund Based Facilities*	NA	NA	NA	150	NA	CRISIL AA+/Stable
NA	Term Loan	28-Mar-23	NA	28-Mar-32	1,300	NA	CRISIL AA+/Stable
NA	Term Loan	28-Mar-23	NA	28-Mar-32	600	NA	CRISIL AA+/Stable

*Fungible with non-fund based facility

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
BVM Overseas Ltd	Full	Operational & financial linkage and common management

Annexure - Rating History for last 3 Years

		Current		2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2050.0	CRISIL AA+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities*	150	Axis Bank Limited	CRISIL AA+/Stable
Term Loan	1300	Axis Bank Limited	CRISIL AA+/Stable
Term Loan	600	ICICI Bank Limited	CRISIL AA+/Stable

*Fungible with non-fund based facility

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Cotton Textile Industry
CRISILs Criteria for Consolidation
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Manish Kumar Gupta Senior Director CRISIL Ratings Limited B:+91 124 672 2000 manish.gupta@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Naveen Vaidyanathan Director CRISIL Ratings Limited B:+91 22 3342 3000 naveen.vaidyanathan@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Nisheet Sood Manager CRISIL Ratings Limited B:+91 22 3342 3000 Nisheet.Sood@crisil.com	

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>