India Equity Research | Miscellaneous

Initiating coverage

SINTEX INDUSTRIES

INR 231

Plastic money

BUY

Innovating growth in plastics

We like Sintex Industries (Sintex) for its track record of innovating new uses for plastics, creating new markets in the process, and generating return accretive growth. Ever since the commoditization of its original water tank business, the company has moved on to providing *technology intensive* products and/ or *complete business solutions* based on plastics. Sintex now has a leadership position in pre-fabricated structures, custom moulding and other businesses with high entry barriers, which are driven by technology, execution capabilities, and client relationships. Continuing the momentum, we expect Sintex to focus more on composite materials based offerings & services in the next phase.

Play on infrastructure build-up/corporate capex, government spend

Sintex's plastics business growth is driven by some of the most vibrant parts of the infrastructure-build up and corporate/ government capex happening in India. This includes capex on power T&D/ utilities (through electrical accessories), telecommunication infrastructure (BT shelters), auto components; as well as spend on education/ healthcare/ housing/ roads. Sintex will continue to derive growth from increasing plastics penetration in India (one-fourth of world average now) and by innovating new offerings based on plastics.

Textile business: A steady cash generator

In textiles, (30% of total revenue) Sintex's products are skewed towards the high-end, design-intensive segment of the market, which give high operating margins of ~28%. This division is a steady source of cash for the overall business although its share in total revenues is decreasing.

Valuations- strong growth; low risk

Sintex's revenues and EPS have grown strongly over the past four years, with increasing return ratios. Given the strong traction in its plastics business, we expect revenue and EPS CAGR of 36% and 41% respectively over FY07-09E.

Sintex trades at a P/E of 15.4x and 10.6x, EV/EBITDA of 8.5x and 6.2x our FY08E and FY09E numbers. It has ~INR 5 bn of cash reserves, which is expected to be deployed in overseas acquisitions (~INR 0.8 bn has already being used in the recent US acquisition). Ex-cash, the stock trades at a P/E of ~13.7X FY08E. Given the high return ratios (RoE>20%) and EPS CAGR of >40% (FY07-09E), we initiate coverage with a **'BUY'** reccommendation.

Financials

Year to March	FY06	FY07U	FY08E	FY09E
Revenue (INR mn)	8,534	11,653	15,898	21,386
Rev. growth (%)	*29.6*	*36.5*	*36.4*	*34.5*
EBITDA (INR mn)	1,443	2,227	3,023	4,039
Net profit (INR mn)	920	1,335	1,819	2,659
Shares outstanding (mn)	98.7	120.3	120.3	120.3
EPS growth (%)	*70.7*	*44.3*	*35.7*	*46.0*
P/E (x)	30.7	21.2	15.4	10.6
EV/EBITDA (X)	16.6	12.9	8.5	6.2
ROE (%)	18.9	24.0	21.7	23.2
ROCE (%)	15.1	18.6	21.7	26.3

Edelweiss
Ideas create, values protect

June 6, 2007

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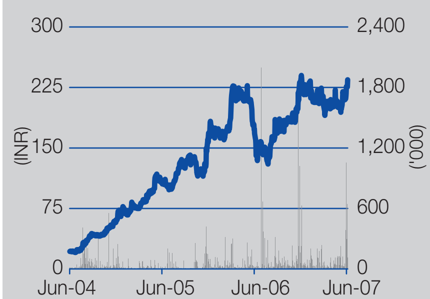
Reuters	:	SNTX.BO
Bloomberg	:	BVML IN

Market Data

52-week range (INR)	:	263 / 125
Share in issue (mn)	:	111.9
M cap (INR bn/USD mn)	:	25.8 / 637.9
Avg. Daily Vol. BSE/NSE ('000)	:	197.8`

Share Holding Pattern (%)

Promoters	:	33.1
MFs, FIs & Banks	:	10.1
FIIs	:	16.8
Others	:	40.0



Investment Rationale

Innovating growth in plastics

- **A market creator for plastics in India**

  Sintex is almost synonymous with the ubiquitous black water tank on top of many Indian houses. It is actually way beyond that.

  Sintex has evolved its plastics business over the years from the water tanks business (where it created the *Sintex* brand), The company entered the plastics business in 1975, with 'Sintex' brand of water tanks as its sole product. That market has since seen entry of many local competitors and hence commoditization. Sintex is one of the few organized players (plastic sales of ~INR 9 bn) in the highly fragmented Indian plastics market (~INR 200 bn). Sintex has been a market creator for innovative plastic products in India, finding new applications to drive growth, ever since its entry into the plastic business in 1974.

  This explains Sintex's shift to pre-fabricated structures and custom molding businesses with higher entry barriers, which are driven by technology, execution capabilities, and client relationships. We expect Sintex to move on to composite materials for the next growth phase.

- **Innovating its way to better returns**

  Sintex has come up with innovative solutions based on plastics to create better and higher return businesses. Ever since the commoditization of the water tank business, the company has been consciously reducing the share of water tank revenues in its overall revenue mix to ~10% currently, which it intends to reduce further. Instead, it is focusing on offering technology intensive products and/ or providing complete business solutions targeted at institutional markets, to remain at the higher end of the value chain.

  We like Sintex Industries (Sintex) for its track record of innovating new uses for plastics, creating new markets in the process, and generating return accretive growth.

- **Higher entry barriers**

  Sintex's new businesses in the plastic segment are typically ones with higher entry barriers driven by technology, execution capabilities and client relationships. The company has worked hard over the years in developing new markets and has been able to erect a good entry barrier with its proven track record and established relationships with government agencies, corporates, and other institutions.

Play on infrastructure build-up/corporate capex

- **Diversified product portfolio with secular growth drivers around infrastructure build-up/ corporate capex happening in India**

  Over the years, Sintex has built up a cross-section of products (including prefabricated structures and custom moulded products) with different applications, which has improved the company's return ratios substantially. Its growth accelerated 2003 onwards, as pre-fabricated buildings and BT shelters picked up momentum. Demand of these products is poised to increase with the ongoing capex in some of the most vibrant parts of the infrastructure-build up happening in India currently. This includes capex on power transmission and distribution/ utilities (electrical accessories), telecommunication infrastructure (BT shelters), small cars/ components manufacturing (auto accessories), oil drilling (pre-fabricated structures); as well as government and corporate spend on education/ sanitation/ healthcare/ housing/ roads.

- **Prefabricated residential and commercial structures**: There is strong traction in this business currently. Sintex has developed the market for this business and has strong relationships with nearly eleven state governments to whom it sells 50% of its pre-fabs. It is now in the process of increasing penetration in the private sector. With the existing impetus in the country on infrastructure and social spend, and strong demand for sanitation, healthcare, and education products, Sintex stands to benefit from the capex as a provider of quick, reliable, and economical solutions.

- **BT shelters**- Private sector penetration is especially strong in the BT shelters space with the Zeppelin acquisition in May 2006. This is a direct function of the capex happening in the telecom transmission towers space. The potential for standalone tower business in India can be gauged from the fact that the country will need about 3,50,000 towers by 2010 compared with ~1,11,000 at present, as per TRAI estimates.

- **Electrical accessories**- this business derives growth from the ongoing capex in creating power transmission and distribution infrastructure in the country. Capex budgeted for transmission network in the country for the eleventh five-year plan is almost twice of the tenth plan.

- Next phase of growth is likely to come from cold chain solutions management, owing to the capex in the organized retailing space in India. Sintex also has a pipeline of offerings, the markets for which are expected to get triggered over the coming years.

- **Increasing plastics penetration to drive long term growth**

Beyond the immediate opportunities outlined above, we believe Sintex being one of the few organized players in the Indian plastics industry with a track record of innovation, stands in good stead for the long term. Plastic consumption, per capita, is a good proxy for economic development. As the Indian economy has prospered over the last decade and half, domestic per capita consumption of plastics has increased from 1.16 kg in 1990-91 to 3.87 in 2001-02, to 4.1 in 2004-05. This growth momentum is likely to be sustained, given buoyant economic growth, driven especially by high spend on infrastructure build-up. With this, we expect India's per capita consumption of plastics to catch up with the corresponding global average of 19.7 kgs. Hence, it is likely that plastics consumption in India will increase at a significant delta to the GDP growth. Thanks to the rapid liberalization during 2000-10, India's projected annual increase in plastic consumption of 14% is expected to be the fastest among the major consuming markets. Sintex enjoys leadership in the plastic products segment in India.

Textile business: a steady cash generator

In textiles, the company's products are completely skewed towards the high-end design-intensive segment of the market, a niche which gives it higher profitability, steady cash flow. Besides, this division also offers revenue diversification to Sintex, contributing ~30% to the company's total revenues.. A substantial and growing chunk of its business comprises selling collections, which it designs and develops through its tie-ups with *Canclini,* an Italian design house and another European design house. Further, it has a diverse clientele comprising of mostly high-street retailers and brands.

We believe that Sintex's focus on the design-intensive fabric market, targeted at the high end of the market, gives it significantly higher pricing power. This business has very high EBITDA margin (28-29%), however lower asset turns keeps the RoCE low at 12-13%.

Sintex is strategically well-positioned in textiles industry to provide good returns and strong cash flows. This business is focused on creating a niche in low volume high-margin product categories. We expect Sintex to derive growth through increased off-take by its foreign design partners- Canclini, a European design house, and more such collaborations which are likely to come up. The domestic organized apparel market is also seeing good traction. Sintex will continue to cater to the upper end of this market.

Financials: Excellent track record of growth to continue

Sintex has grown its revenues and EPS at CAGR of 28% and 38% respectively over the past four years, expanding its return ratios simultaneously. We expect this performance to continue, given the strong traction in its plastic business. We expect revenue CAGR of 36% and EPS CAGR of 41% over FY07-09.

- Strong revenue growth in plastics

  Pre-fabricated structures, BT shelters, cold chain management solutions (through Zeppelin), and electrical accessories are expected to be the key growth drivers in the coming two years, with each of these businesses likely to deliver growth in the range of 40-60%. In pre-fabricated structures, it has an order book of INR 12 bn as on March 31, 2007 (FY07 sales of INR 4.13 bn). It has also done ~ INR1.2-1.4 bn of contractual work, by supplying accesories to power transmission and distribution (T&D) companies, a business which is growing at ~70-80% Y-o-Y.

  In textiles, Sintex is focussed on high-margin structured fabrics and has ventures with Canclini and the other partner, which are likely to drive growth in future. Besides, the domestic market is looking strong, with much demand from the higher middle classes. The up-coming garmenting facility and the expansion in the fabric facility should give a fillip to its textile exports, driving the top-line growth in the textiles' division. We expect Textile sales to grow at a CAGR of 10% over FY07-09E.

- Ongoing capex program to add further impetus to growth

  Growth is likely to be driven by the ongoing capex and scale up of expansion programs. We estimate INR 2.2 bn of organic capex in FY08-09, which still leaves surplus cash, given strong and increasing cash flow from operations. Sintex is undergoing a capacity expansion of INR 2.3 bn in plastics (partially complete). Moreover, it is quadrupling its Kutch facility of electrical accessories like insulators, meter boxes, cross arms, and cable trays (parts of custom-moulding business) to 16,000 tonnes at a cost of INR 700 mn. The facility will be operational by December 2007. Further, it is investing INR 1.1 bn to create new prefab facilities in Nagpur and Kolkata (20,000 sq. ft. per day for each place). The Nagpur facility commenced operation in December 2006 and Kolkata will do so in September, 2007. The entire project will be funded through internal accruals. Post this expansion, Sintex will be present in 8 locations, which will help it cater to the requirements of 24 states that constitute 70% of India's geography. The expansion will also enable Sintex to minimize transportation costs, which form a significant part of the total expenditure, and reduce turnaround time.

The company is planning to expand its fabric capacity from 21 mn meters to 24 mn meters in the next two years, at an estimated cost of INR 700 mn. Subsequently, the capacity will be raised to 29 mn meters in Phase II, at an estimated cost of INR 800 mn. The total project cost of INR 1.5 bn will funded through internal accruals and borrowings under the TUF scheme. The expansion will mainly focus on women's shirtings. The company is also setting up a new garmenting facility to be commissioned by September, 2007 at a cost of INR 350 mn.

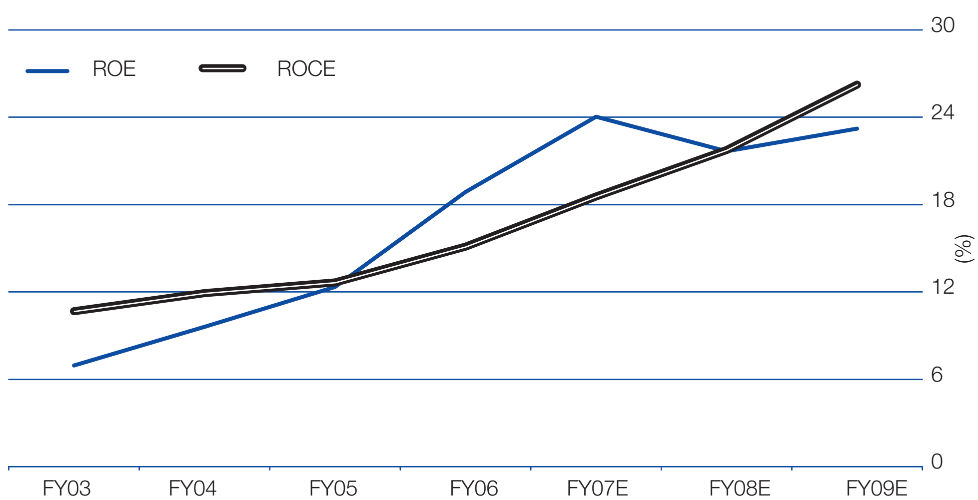
- **EBITDA to expand with higher capacity utilization, despite flat gross margins**

  We expect gross margins to decline with increasing raw material costs—especially in plastics, given rising polymer prices. Cost of polymers comprises almost 50% of revenues for plastics and we have assumed polymer prices to remain firm in FY08 and FY09, driven by firm crude prices. We estimate gross margins to decline 110bps over FY07-09E, as the effects of improving product mix plateau and input prices increase. We estimate EBITDA margin to decline only 20bps over FY07-09E, driven by decreased power cost and operating leverage benefits, as new facilities acquire scale. We expect EBITDA to grow at 35% CAGR over FY07-09E.

- **Net income to grow at 43% CAGR over FY07-FY09E**

  We forecast net income to grow to INR 2.7 bn by FY09 from INR 1.34 bn in FY06, a CAGR of 43%. EPS is likely to get diluted, assuming conversion of FCCB and warrant. We have assumed full FCCB conversion in FY08, as a conversion price at INR 183.5 is attractive compared with the current market price (USD 11 mn out of the USD 50 mn issue is already converted). We estimate fully diluted consolidated EPS to be INR 15.4 for FY08 and INR 22.6 for FY09. We expect RoE to be in the 22-24% range in FY08-09. Growth should continue to be return accretive, as the share of plastics increases in the overall mix. RoCE should hence continue to expand.

Chart 1: Expanding return ratios



Source: Edelweiss research

- **High cash balance is an added trigger**

  Sintex raised almost INR 1.4 bn through a preferential allotment to Warburg Pincus and promoters in FY05 and INR 2.2 bn through a FCCB in FY06. As on March 31, 2007, Sintex has a cash reserve of ~INR 5 bn, bulk of which is to be deployed in capex and cross-border acquisitions in the composites/engineering plastics space. With these acquisitions, the company intends to increase its technological capabilities, to be able to introduce new products in the domestic market and cater to international markets through outsourcing (using India's skilled and inexpensive labour advantage). We have however not assumed any acquisition related upsides in our estimates. In the past, Sintex has resorted to technology tie-ups/ joint ventures for entering into new markets, improving product portfolio, and driving RoCE accretive growth.

Table 1: Sintex sales break up

Divisional sales	FY05	FY06	FY07U	FY08E	FY09E
A) Textile	28.6	28.1	26.1	22.1	17.8
a) Collections	4.7	9.9	6.4	5.6	4.2
b) Ready made garments (RMG)	20.5	16.5	17.8	15.1	12.6
c) Others	3.4	1.7	1.8	1.4	1.0
B) Plastics	71.4	71.9	70.1	72.9	75.8
a) Prefab	31.4	31.8	33.8	35.8	36.3
b) Water Storage	18.8	14.1	10.8	8.5	6.7
c) Custom Molded	14.4	21.4	20.2	24.8	30.0
d) Others	6.8	4.6	5.2	3.7	2.8
C) Zeppelin	0.0	0.0	3.8	5.1	6.4

Source: Company, Edelweiss research

- **Tax free locations to keep tax liability low**

  Most of Sintex's plants are located in tax free zones in Kalol, Baddi, Bachau, and Daman. Thus, the effective tax rate is around 20%, which we expect to remain in the 20-22% range over the next three years.

- **Raw material**

  Plastics for tanks are made using linear low density polyethylene (LLDE) and high density polyethylene (HDPE) as raw materials. Prefabricated structures use cement and steel as base materials, apart from plastics made of poly-venyl chloride (PVC) and polyurethane. For custom-molding products, fibre-glass and polyester resin are the raw materials..

- **Power cost**

  Power is a major cost factor for Sintex. The current oil-based captive power plant has seen cost escalating, after the oil price rise. Realizing this, the company has set up a gas-based power plant of 14 MW. This is expected to result in savings of INR 12-15 mn per month.

Risks and Concerns

Sintex's business segments serve diverse end-user categories and the risks are different for each segment. However, for the business as a whole, following are the over-arching risks:

- **Execution risk**

  Sintex's growth businesses of pre-fabricated structures and BT shelters have a high service and labor component. Hence, Sintex's ability to execute end-to-end projects is critical. Inability to execute on-time regularly would be a risk to the top-line growth.

- **Raw material costs**

  For Sintex's plastic business, the raw materials are crude derivatives and hence sharp rises in crude prices could cause raw material costs to rise significantly. However, this risk is mitigated to an extent as these products are downstream derivatives of crude and petro-chemical supply-demand balance plays a crucial role in price determination. A lot of such supply is expected to come up as capacities go on-stream, especially in the middle-east. An appreciating INR environment is also favorable for Sintex as crude and its derivatives' landed cost should reduce. Also, Sintex's offerings being ~25-30% cheaper than substitute products, gives it significant pricing advantages.

- **Macro-economic slowdown**

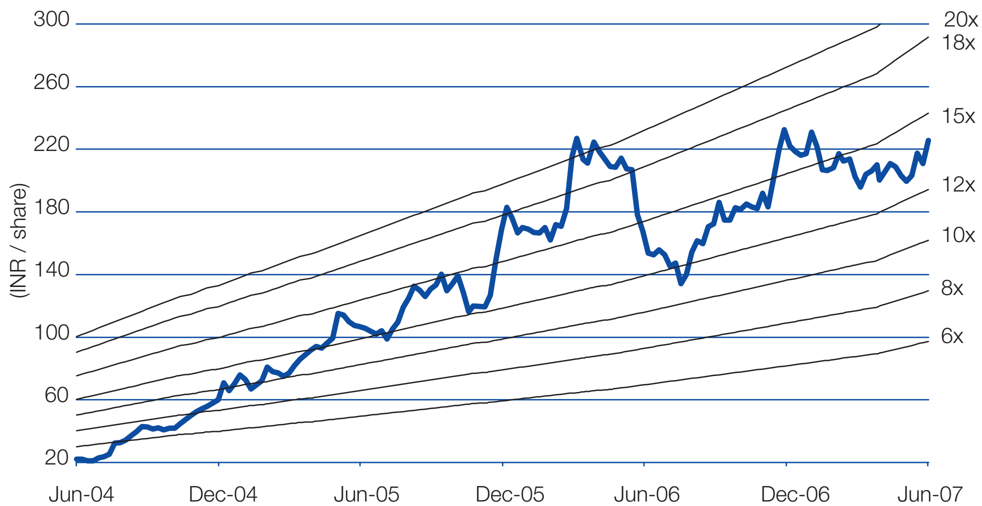
  Sintex's businesses derive growth from India's robust economic growth and the resultant infrastructure, social & corporate spends. Any strong and sustained slowdown in the economy could hence dampen the growth drivers.

Valuations

Strong growth; low risk likely to keep stock price moving upward

Sintex is trading at PE of 15.3x and 10.6x, EV/EBITDA of 8.1x and 6.0x our FY08E and FY09E numbers. Moreover, it has ~4.9 bn of cash on its balance sheet (yielding <5% as of now), bulk of which is expected to be deployed in overseas acquisitions (~INR 0.8 bn has already being used in the recent Wausaukee Composites, Inc. acquisition). Ex-cash Sintex trades at a P/E of ~13.8X FY08E. Given the high (and increasing) return ratios (RoE>20%) and strong EPS CAGR of ~40% over FY07-09E, we initiate coverage with a **'BUY'**. We like the stock for its strong traction in current businesses and for its track-record of return accretive innovation & growth.

Chart 2: 1-yr forward P/E band



Source: Edelweiss research

Business Description

Plastic segment: Betting big on the country's plastic potential.

The plastic business of Sintex can be broadly divided into three segments- prefabricated structures, custom moulding and tanks.

- **Prefabricated structures -** These permanent, semi-permanent, and temporary structures are used in erecting schools, healthcare centres, army shelters, telecom shelters, kiosks, hospitals, and toilet blocks. Apart from plastic, these structures comprise steel and cement as base material. Pre-fabricated structures are fabricated in the factory and installed at the site, and find application in various applications including temporary and permanent residential, and industrial and commercial structures. Sintex offers end-to-end solutions including full installation of the structure, complete with plumbing and electrical fittings. Fixed asset turnover is high at 2.5- 3X at full capacity. Distance from the site is a critical factor here, as structures are fabricated and then transported. Therefore, logistics costs are high (25-30 per cent of total cost) and the erection site should be within 150 km from a plant location. Manufacturing prefabs require specific technology and one has to comply with stringent quality norms from various agencies. Though Gujarat

  Pre-fabricated structures is fast gaining acceptance in India with the government being the largest customer in this segment for Sintex (sales to the private sector is also accelerating and is now close to 50% of sales). In prefabricated structures, Sintex commands 60% market share. , MP, and Rajasthan are its key markets currently; the company may plan to move to other markets also.

  The new facilities at Baddi, meant to serve northern India, Salem in Tamil Nadu and Nagpur to serve central India have commenced production. The company plans another facility in Kolkata by September 2007, to cater to the eastern region.

  Advantages of prefabs manufactured by Sintex: Sintex plays a critical role in promoting rural infrastructure through its prefabs. These are 25% cheaper, erection time is just 10% of a concrete structure, and can withstand earthquakes up to seismic level of five and a wind speed of up to 150 km/hour.

  BT Shelter (part of prefab business)- These shelters, made out of polyurethane, are necessary to be installed at cellular sites providing GSM or CDMA connectivity. Sintex is one of the leading players, with clients like Bharati, Reliance, BSNL, and Tata Indicom. During the last financial year, Sintex acquired 74% stake in Zeppelin Mobile Systems India Ltd, an Indian subsidiary of Zeppelin Mobile Systems, Germany. Zeppelin is one of the leading players in designing and commissioning of internationally benchmarked shelters. With this acquisition, Sintex has emerged as a leader in BT shelter business in the country.

- **Custom Moulding-** The company's custom-moulding division focuses on auto and electrical sectors. It manufactures customized plastic products for OEMs like Cummins, GE, New Holland Tractors, and French Railways. Sintex is the only company in Asia for Cummins Inc for outsourcing custom-moulded engineering components like diesel tanks for motor boats and covers for gensets, among other products.

  In the electrical segment, Sintex is the largest player in India for loop-in, loop-out boxes, cable trays, cross arms, and insulators in the mid and high-voltage segment (440 volt to 1200 volts) and high-end (which goes up to 11 KVA). These accessories are generally polymeric insulators.

- **Tanks-** Apart from water tanks, it manufactures underground storage tanks and fibre glass reinforced plastic tanks, used in chemical depots and petrol stations. The company has forged a 12-year technology alliance with Containment Solutions Inc, USA, one of the largest players in fibre glass reinforced plastic storage tanks with a 70% market share in the US.

Tie-ups/acquisitions in plastics

- Zeppelin Mobile Systems

  Sintex Industries bought 74% in Zeppelin Mobile System India (ZMSI) in May 2006 by paying INR 176 mn. Zeppelin had revenues of INR 550 mn and >10% EBITDA margin then. ZMSI is engaged in designing and commissioning shelters of international standards. ZMSI is also engaged in designing and commissioning of sophisticated polyurethane foam-based shelters and structures for the telecom sector, mobile hospitals, refrigerated bodies, and other multi-purpose shelters. ZMSI is expected to drive growth for Sintex through BT shelters and going forward through cold chain management solutions.

- Continental Solutions

  Sintex has an agreement with Continental Solutions Inc of US for purchase of equipment, licence, technology, and know-how on an exclusive basis to manufacture and install fiber glass reinforced plastic products such as above ground and underground storage tanks, automotive oil and lubricant storage tanks, oil/water separators and interceptors, water/waste water tanks, chemical storage tanks, retank retrofitsystems, fiberglass manholes and wetwells, and leak detection systems. This will enable the company to cater to the increasing demand for storage and handling of hazardous and non-hazardous, flamable and combustible liquids.

- Wausaukee Composites Inc (WCI)

  Sintex has recently acquired 81% stake in WCI for USD 20.5 mn in an all cash deal. WCI achieved revenues of USD 23.2 mn in FY06 with gross margins of 24%. WCI is a profit making (9% NPM), substantially debt-free company. Wausaukee is a leading manufacturer of highly-engineered composite components for OEM's - 50% of Wausaukee customers are Fortune 500 companies. This will provide Sintex an opportunity to develop cost efficient operating and marketing strategies. WCI has an established presence in the medical imaging, mass transit, industrial/agricultural equipment, wind energy, commercial furnishings, recreation, and corrosion-resistant materials handling sectors.

Capabilities in plastic:

- **Thermoplastics:** Rotational Moulding, Extrusion, Blow Moulding, Injection Moulding, Twin Sheet Thermoforming, Single Sheet Thermoforming.
- **Thermosets:** Sheet Moulding Compound, Dough Moulding Compound, Compression Moulding, Spray up, Hand lay up, Resin-Transfer Moulding, Chop Hoop Filament Winding.
- **Sandwich Panels:** With Metal/Plastic/FRP Facings with core of PUF, EPS, Mineral Wool
- **Post Moulding:** Welding, Finishing, Assembling, Painting
- **Metal Fabrications:** Metal forming, Metal Fabrication, Powder Coating
- **Civil Engineering and Concrete facility:** Design, Pre-casting, Plastocrete, Cellular Concrete, Light Weight Concrete Panels, Monolithic Concrete Construction, Plastic Formwork.

Textiles segment: Cash generator

Sintex is present in high-value, yarn-dyed structured fabrics for shirtings. These high-end fabrics are priced as high as USD7-8 per meter as against USD1.5-3 per meter for normal shirting fabric. The operating margin for these fabrics is around 25%. Currently, the company is the only producer of such high value fabrics in the country and ranks among top 10 manufacturers in the world. (Structured fabrics are woven design fabrics used for apparel and non-apparel usage). Sintex is the only organized manufacturer of corduroy in the country.

- **Canclini tie-up**

  One of the key growth drivers in textiles for Sintex is its tie-up with Canclini Tessile, Spa of Italy in 2002. Canclini is one of three leading structured fabric designers and manufacturers in Italy. Under the arrangement, Canclini supplies designs to its Indian partner and Sintex prepares the fabrics and supplies to its customers in Europe. Canclini's premium clientele include Massimo Dutti, Zara, SAITT, Timber Land, Yues Dorsey, Hugo Boss, Burberry, Hermes, and Marks & Spencer.

  Canclini provides 9,000 designs each season to Sintex. Sintex exported 2.75 mn meters of structured fabric to Canclini venture for close to INR 786 mn in FY07. Sintex and Canclini have an agreement for technology transfer, trend collection and development, training, identification of clients, and joint marketing of products. Sintex markets around 25% of its production with the help of these designs and the realisation for collection sales is much higher than other sales.

- **Tie-up with UK-based company**

  To provide further fillip to its direct exports, Sintex has recently tied up with a reputed UK-based company, which will give it access to 3,000 designs per quarter. Sintex will supply fabrics to 27 high-end brands, which include New and Lingwood, Budd, Michael Kors, Tumbull & Asser, Emma Willis, Hilditch & Key, Henry Jacobsen and Dunhill, among others. It plans to sell about 1 mn meters of fabric in the next one year and expects to ramp up to 4 mn meters in the coming years. Sintex will assist the UK-based company in designing and packing products and identification of clients for niche products. The UK-based entity will also train Sintex's people to work with these fabrics and to market these products to several leading brands. Sintex will pay a fixed royalty for the designs used and variable sales commission for the services rendered.

- **Domestic clients**

  In the domestic front, Sintex supplies fabrics to leading brands like Zodiac, Van Heusen, Louis Philippe, Allen Solly, Arrow, Color Plus, Indian Terrain, Wills, Raymond, Gokuldas, and other textile majors. The sales from this segment stood at INR 1.5 bn in FY06.

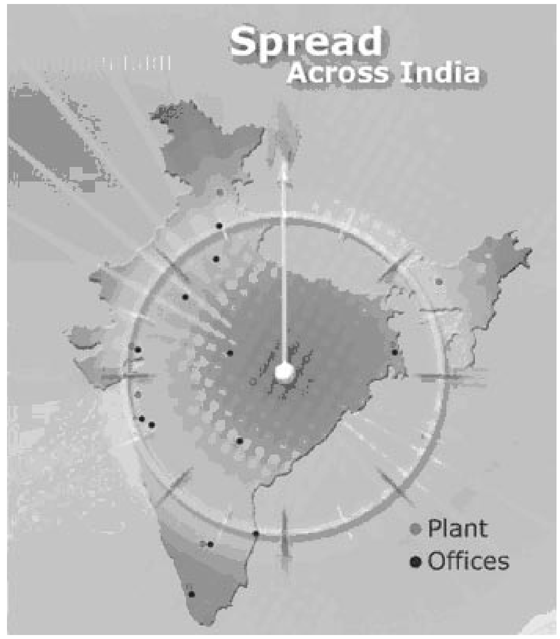
- **Garment integration**

  Looking forward, Sintex is integrating into garmenting, with a facility of 10,000 shirts per day, at a cost of INR 330 mn. The facility will be operational by September 2007. This would ultimately mean directly supplying garments rather than fabrics to international majors.

Plant Locations

Sintex has an effective network of 10 manufacturing plants, 12 branch offices, over 500 distributors, and around 10,000 retailers spread across India.

Fig. 1: Sintex locations



Source: Company, Website

Table 2: Major landmarks

1975	Moulded Polyethylene Industrial Containers and Tanks of sizes up to 10,000 liters
1977	Material Handling Containers for Industries and Institutions
1978	Water Tank
1985	Plastic Sections for Conversion into Partitions, False Ceilings, Wall Panellings, Cabins, Cabinets, Furniture etc.
1988	Plastic Doors, Windows and Frames
1989	Insulated Containers, Sandwich Panels, Agri Containers and Biogas Holders
1990	SMC and SMC Moulded Products, Pultruded Products, Resin Transfer Moulded (RTM) Products, Blow Moulded Products, Injection Moulded Products etc.
1995	Water Filters cum Purifiers
2000	Solar Water Heaters
2001	Prefabs
2002	Turnkey Blow Moulding & Profile Extrusion Plants
2004	FRP Underground Storage Tanks
2005	ISO 9001 CertificationMonolithic Concrete Construction Technology
2006	UL Listed for FRP Underground Petroleum Tanks

Source: Company

Management

Sintex made its modest beginning in 1930s, with a composite textile unit called Bharat Vijay Mills from its existing premises at Kalol. The company was the first in India to introduce polyester, way back in 1948. The late Natwarlal Patel, father of Dinesh Patel, the present chairman, started this textile unit with an initial investment of INR 1.2mn. Dinesh Patel joined its father's business in 1955. However, since 2000, he has been gradually passing on the reins to his son Amit Patel, the current Managing Director. Armed with a Master of Science degree from the US, Amit joined the company in 1987 as executive and became its Managing Director in 2001. Today, he looks after the day-to-day affairs of this diversified company. Plastic division is headed by S B Dangayach (Managing Director), who is a professional.

Warburg Pincus has a 24% equity holding in the company, while the promoters own 33%.

Addendum: Plastics - An excellent economy proxy

India is poised for a change in its material consumption pattern. Plastics are likely to increasingly substitute conventional materials like steel, wood and cement; India's significant per capita under-penetration will correct itself, as soon as structural changes in the country's infrastructure and consumption patterns transpire.

This correction is already visible in the alteration of India's global position in the plastic industry.

- India was the sixteenth largest plastics consumer in the world in 1988; it was the ninth largest in 2000 and is expected to be the third largest by 2010.
- India produces 4 mn tonnes of polymers per year and has emerged as a significant player in Asia. It is set to become the third largest polymer producer in the world by the end of this decade.

Table 3: Domestic per capita consumption of plastics

Year	Kgs
1990-91	1.16
1995-96	2.06
1999-00	3.28
2000-01	3.38
2001-02	3.87
2004-05	4.10

Source: Company

As disposable incomes rise, India's per capita consumption of plastics of only 4.2 kgs (2004-05) is expected to catch up with a corresponding global average of 19.7 kgs. As a result, by the end of the first decade of the new millennium, India's plastics consumption is expected to be among the top three countries.

In this background, it is fair to expect plastics consumption in India to increase at a significant delta to the GDP growth. Thanks to the rapid liberalization between 2000 and 2010, India's projected annual increase in plastic consumption of 14 per cent is expected to be the fastest among the major consuming markets; the nearest growth rate of Taiwan is expected to be nearly 500bps lower. India's vast unorganized sector accounts for more than 90% of the INR 350 bn moulded products industry in India, leaving an attractive growth opportunity for companies like Sintex.

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07U	FY08E	FY09E
Income from operations	6,587	8,534	11,653	15,898	21,386
Direct costs	4,725	6,079	8,124	11,167	15,134
Employee costs	306	374	497	621	745
Other expenses	425	638	805	1,087	1,467
Total operating expenses	5,455	7,091	9,426	12,875	17,347
EBITDA	1,132	1,443	2,227	3,023	4,039
Depreciation and amortisation	283	307	420	702	818
EBIT	849	1,136	1,807	2,321	3,221
Interest expenses	249	291	415	368	205
Other income	105	298	269	349	350
Profit before tax	706	1,143	1,661	2,302	3,366
Provision for tax	167	223	326	483	707
Profit after tax	539	920	1,335	1,819	2,659
Adjusted net profit	539	920	1,335	1,819	2,659
EPS INR)	5.8	9.3	11.9	16.2	23.8
EPS (fully diluted)	4.5	7.7	11.0	15.0	21.9
Shares outstanding (mn)	92.4	98.7	120.3	120.3	120.3
Dividend per share (INR)	0.8	0.9	1.1	1.5	2.2
Dividend payout (%)	13.7	9.6	9.9	9.9	9.9

Common size metrics as a % of net revenues

Year to March	FY05	FY06	FY07U	FY08E	FY09E
Operating expenses	82.8	83.1	80.9	81.0	81.1
Depreciation	4.3	3.6	3.6	4.4	3.8
Interest expenditure	3.8	3.4	3.6	2.3	1.0
EBITDA margins	17.2	16.9	19.1	19.0	18.9
Net profit margins	8.2	10.8	11.5	11.4	12.4

Growth metrics (%)

Year to March	FY05	FY06	FY07U	FY08E	FY09E
Revenues	24.4	29.6	36.5	36.4	34.5
EBITDA	26.7	27.5	54.3	35.8	33.6
PBT	43.5	61.9	45.4	38.6	46.2
Net profit	60.1	70.7	45.1	36.2	46.2
EPS	60.1	70.7	44.3	35.7	46.0

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net profit	539	920	1,328	1,802	2,630
Add: Depreciation	283	307	420	702	818
Add: Misc expenses written off	(29)	16	45	0	0
Add: Deferred tax	129	49	111	0	0
Gross cash flow	922	1,292	1,904	2,504	3,448
Less: Dividends	74	89	133	180	263
Less: Changes in W. C.	248	(474)	256	311	935
Operating cash flow	600	1,677	1,515	2,013	2,250
Less: Change in investments	0	(82)	0	0	0
Less: Capex	512	1,599	2,068	1,450	1,715
Free cash flow	**88**	**160**	**(554)**	**563**	**535**

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	185	197	222	243	243
Reserves & surplus	4,887	4,297	6,280	9,896	12,263
Share warrants - fully comvertible	139	54	0	0	0
Shareholders funds	5,211	4,549	6,502	10,139	12,506
Secured loans	3,382	3,595	2,679	2,329	1,979
Unsecured loans	2	2,231	2,748	0	0
Borrowings	3,384	5,827	5,427	2,329	1,979
Other long term liabilities/ MI	0	0	65	100	150
Sources of funds	**8,595**	**10,375**	**11,994**	**12,567**	**14,634**
Intangibles - brand value	1,650	0	0	0	0
Gross block	5,044	6,750	8,818	10,268	11,983
Depreciation	1,760	2,054	2,474	3,176	3,995
Net block	3,284	4,695	6,344	7,092	7,988
Capital work in progress	296	190	190	190	190
Total fixed assets	3,581	4,885	6,534	7,282	8,178
Investments	113	31	31	31	31
Inventories	1,068	863	1,178	1,607	2,344
Sundry debtors	1,481	1,507	2,057	2,807	3,808
Cash and equivalents	2,345	5,091	4,850	4,365	4,600
Loans and advances	445	370	370	370	370
Total current assets	5,339	7,830	8,456	9,149	11,122
Sundry creditors and others	1,472	1,640	2,191	3,012	3,732
Provisions	106	157	215	263	346
Total CL & provisions	1,578	1,797	2,407	3,275	4,077
Net current assets	3,761	6,033	6,049	5,874	7,044
Net deferred tax	(570)	(619)	(619)	(619)	(619)
Others	61	45	0	0	0
Uses of funds	**8,595**	**10,375**	**11,994**	**12,567**	**14,634**
Book value per share (BV) (INR)	56.4	46.1	54.1	84.3	104.0

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	12.3	18.9	24.0	21.7	23.2
ROCE (%)	12.6	15.1	18.6	21.7	26.3
Current ratio (x)	3.4	4.4	3.5	2.8	2.7
Debtors (days)	82	64	64	64	65
Fixed assets t/o (x)	1.9	2.0	2.0	2.3	2.8
Debt/Equity	0.6	1.3	0.8	0.2	0.2

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	4.5	7.7	11.0	15.0	21.9
Y-o-Y growth (%)	*6,014.5*	*7,069.6*	*44.3*	*35.7*	*46.0*
CEPS (INR)	44.5	62.2	79.1	103.9	143.4
P/E (x)	51.6	30.2	20.9	15.4	10.6
Price/BV(x)	4.1	5.0	4.3	2.7	2.2
EV/Sales (x)	3.4	2.8	2.4	1.6	1.2
EV/EBITDA (x)	19.8	16.3	12.7	8.5	6.2

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Niraj Mansingka	-	2286 4304	Oil & Gas, Petrochemicals
Manika Premsingh	-	4019 4847	Economist
Sunil Jain	-	2286 4308	Alternative & Quantitative
Yogesh Radke	-	2286 4328	Alternative & Quantitative

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Neha Shahra	-	2286 4276
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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	**Reduce**	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	**Sell**	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	**Trading Sell**	Expected to depreciate more than 10% over a 45-day period