

SINTEX INDUSTRIES**INR 302****Margins take a beating****BUY**

July 11, 2008

Revenue growth in line with expectations with contribution from monolith segment

Revenues for the quarter grew 108% Y-o-Y, to INR 7.15 bn (not comparable Y-o-Y), on account of revenue booking of INR 1.5 bn in the monolith segment that began operations in Q3FY08. In terms of performance of subsidiaries, Wausaukee's business grew 121% Y-o-Y (to INR 470 mn), whereas that of Zeppelin declined 60% Y-o-Y (to INR 137 mn). Other subsidiaries, namely Bright Brother and Nief, recorded revenues of INR 404 mn and INR 3,492 mn, respectively.

Surge in other expenditure and employee expenses hit EBITDA margins

EBITDA margins for the quarter were down 600bps, Y-o-Y, mainly on account of higher other and employee expenses. Higher other expense was on account of expenditure of INR 150 mn booked in the monolithic segment against which no revenues got invoiced. Sintex Industries (Sintex) had started mobilisation on INR 1.5 bn worth of sites, but invoices of only INR 0.9 bn got billed. Also, employee expenses were higher at 13% of revenues as against 9% in FY08 and 10% in Q4FY08. This is indicative of an inevitable rise in employee costs with increasing contribution from international subsidiaries.

Earnings revised downwards by 11% in FY09E and 12% in FY10E

We are downgrading our earnings estimates by 11% in FY09E and 12% in FY10E on the basis of our increased assumption for the company's employee expenses, with rising contribution from international subsidiaries. We now assume employee expenses of INR 3 bn in FY09E and INR 3.9 bn in FY10E instead of INR 2.5 bn and INR 3 bn earlier.

Outlook and valuations: Acquisitions key to growth; maintain 'BUY'

We expect Sintex to post revenue and PAT CAGR of 51% and 47%, respectively, over FY08-10E. We also expect the company's return on capital employed (ROCE) to improve from 11.3% in FY08 to 19% in FY10E (assuming no acquisition by Sintex over the next two years, which effectively means ~INR 12 bn of cash, thus putting a strain on returns). With consistent growth in prefabs, custom moulding, and timely execution of the monolithic business, we remain positive on the stock. Sintex is trading at 15.5x FY09E and 10x FY10E. We continue to maintain our 'BUY' recommendation on the stock.

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 Bloomberg : BVML IN

Market Data

52-week range (INR) : 615 / 260
 Share in issue (mn) : 136.5
 M cap (INR bn/USD mn) : 41.2 / 958.6
 Avg. Daily Vol. BSE/NSE ('000) : 482.2

Share Holding Pattern (%)

Promoters : 29.1
 MFs, FIs & Banks : 16.3
 FIIs : 41.6
 Others : 13.0

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(8.3)	(20.6)	(12.3)
3 months	(11.9)	(27.4)	(15.5)
12 months	(6.6)	4.5	(11.1)

Financials (consolidated)*

Year to March	Q1FY09	Q1FY08	% change	Q4FY08	% change	FY08	FY09E
Net rev. (INR mn)	7,148	3,438	107.9	9,285	(23.0)	22,745	35,751
EBITDA (INR mn)	785	584	34.4	1,446	(45.7)	3,831	5,626
Net profit (INR mn)	567	332	70.8	946	(40.1)	2,314	3,162
Diluted EPS (INR)	3.5	2.0	70.8	5.8	(40.1)	14.2	19.5
Diluted P/E (x)						21.2	15.5
EV/EBITDA (x)						9.3	7.3
ROAE (%)						17.2	13.0

*Figures are strictly not comparable as Wausaukee, bright and Nief figures are consolidated in this quarter

Key highlights

- **Standalone revenues** for the quarter grew 37% Y-o-Y, to INR 4.1 bn. Y-o-Y growth was mainly on account of revenues of INR 1.5 bn booked in the monolith segment that began operations in Q3FY08. Other segments namely tanks, prefabs, and textiles registered growth of 19%, 17%, and 7.5%, respectively; industrial custom moulding declined 20%.

Consolidated revenues for the quarter grew 108% Y-o-Y, to INR 7.15 bn. The same is not comparable Y-o-Y, as Wausaukee, Bright Brother, and Nief were not consolidated in Q1FY08. In terms of performance of subsidiaries, Wausaukee's business grew 121% Y-o-Y (to INR 470 mn), whereas that of Zeppelin declined 60% Y-o-Y (to INR 137 mn). Other subsidiaries, namely, Bright Brother and Nief recorded revenues of INR 404 mn and INR 3,492 mn, respectively.

- **Standalone EBITDA** for the quarter was flat at INR 531 mn, despite 40% growth in revenues. This was mainly on account of 470bps fall, Y-o-Y, in margins on account of higher other expenses. Other expenses stood at 23% of revenues as against 11% in Q1FY08 on account of INR 150 mn of expenses being booked on monolithic structures, against which, neither any corresponding revenues nor inventory work in progress got booked. We expect this to be a one-off event, as the margins will fall in place once the site gets constructed and corresponding revenues starts getting invoiced.

Consolidated EBITDA for the quarter grew 34%, to INR 785 mn, with margins dropping 600bps (11%); fall in margins was mainly on account of decline in the standalone EBITDA margins and higher employee expenses booked by Wausaukee. The subsidiary hired ~200 employees for its wind turbine business in the last two months against which it has not begun to mobilise revenues. Further, with rising contribution from international subsidiaries, we expect Sintex's employee expenses to increase (as a percentage of sales), since the company has been unable to keep the same under control, straining its profitability. Based on all these factors, we have revised our employee expenses assumption for FY09E and FY10E to INR 3 bn and INR 3.9 bn from INR 2.5 bn and INR 3 bn, respectively.

- **Consolidated PAT** for the quarter grew 71%, to INR 567 mn, mainly on account of higher other income that increased 208% Y-o-Y.

Outlook and valuations: Acquisitions key to growth; maintain 'BUY'

We expect Sintex to post revenue and PAT CAGR of 51% and 47%, respectively, over FY08-10E. We also expect the company's return on capital employed (ROCE) to improve from 11.3% in FY08 to 19% in FY10E (assuming no acquisition by Sintex over the next two years, which effectively means ~INR 8 bn of cash, thus putting a strain on returns). With consistent growth in prefabs, custom moulding, and timely execution of the monolithic business, we remain positive on the stock. Sintex is trading at 15.5x FY09E and 10x FY10E. We continue to maintain our 'BUY' recommendation on the stock.

Financial snapshot (Consolidated)**(INR mn)**

Year to March	Q1FY09	Q1FY08	Change %	Q4FY08	Change %	FY08	FY09E	FY10E
Gross Sales								
Net sales	7,148	3,438	107.9	9,285	(23.0)	22,745	35,751	51,550
(Inc)/ Dec in stock	(231)	(171)		(1)				
Raw materials	4,014	2,465	64.9	5,270	(28.2)	13,148	22,886	33,082
Stores & spares	0	0		160		0	2,503	3,609
Employee expenses	953	183	420.8	924	3.1	2,092	3,033	3,943
Other expenditure*	1,627	377	331.6	1,486	9.5	3,611	1,703	2,639
Total expenditure	6,363	2,854	123.0	7,839	(18.8)	18,914	30,124	43,274
EBITDA	785	584	34.4	1,446	(45.7)	3,831	5,626	8,277
Other income	380	123	208.9	83	357.8	600	1,409	1,603
Depreciation	304	132	130.3	132	130.3	765	1,337	1,858
EBIT	861	575	49.7	736	17.0	3,666	5,699	8,021
Interest	175	125	40.0	143	22.4	644	1,642	1,633
PBT	686	450	52.4	593	15.7	3,022	4,057	6,388
Provision for taxation	119	110	8.2	371	(67.9)	707	852	1,405
Tax-current + FBT	119	110	8.2	371	(67.9)	707	852	1,405
PAT	567	332	70.8	946	(40.1)	2,315	3,205	4,983
Extra-ordinary Items						1	2	3
Adjusted PAT	567	332	70.8	946	(40.1)	2,314	3,203	4,980
Minority interest	0	0		0			41	54
PAT (after minority int.)	567	332	70.8	946	(40.1)	2,314	3,162	4,926
Tax rate (%)	17.3	24.4		62.6		23.4	21.0	22.0
Reported EPS	4.2	3.0		8.5		17.3	21.5	33.4
Equity capital	267.5	221.9		221.9		267.5	293.9	294.9
P/E (x)						17.5	14.0	9.0
% of sales								
Raw materials	52.9	66.7		56.7		57.8	64.0	64.2
Stores & spares	0.0	0.0		1.7		0.0	7.0	7.0
Employee expenses	13.3	5.3		10.0		9.2	8.5	7.6
Other expenditure	22.8	11.0		16.0		15.9	4.8	5.1
EBITDA	11.0	17.0	(6.0)	15.6	(4.6)	16.8	15.7	16.1
EBIT	12.0	16.7		7.9		16.1	15.9	15.6
PAT	7.9	9.7	(1.7)	10.2	(2.3)	10.2	8.8	9.6

*Figures are strictly not comparable as Wausaukee, bright and Nief figures are consolidated in this quarter

Segmental analysis

Year to March	Q1FY09	Q1FY08	Change %	Q4FY08	Change %	FY07	FY08
Plastic (INR mn)							
Tanks	400	336	19.0	442	(9.5)	1,192	1,403
Prefab structures*	1,610	1,371	17.4	2,159	(25.4)	3,656	6,494
Industrial custom molding**	370	460	(19.6)	1,484	(75.1)	2,461	3,102
Monolith	900	-		1,510		-	2,100
Textiles (INR mn)	820	763	7.5	1,005	(18.4)	2,730	3,243

Subsidiaries

Zepellin	137	241	(43.2)	241	(43.2)	469	1,273
Wausaukee	470	213	120.7	278	69.1	-	1,016
Bright	391	-		324	20.7	-	404
Nief	2,055	-		1,903	8.0	-	3,492

Source: Company

Company Description

Ever since the commoditisation of its original water tank business, Sintex has moved on to providing technology-intensive products and complete business solutions based on plastics. The company has a leadership position in pre-fabricated structures, custom molding, 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 material-based offerings and services in the next phase. In textiles (25% of total revenue), Sintex's products are skewed towards the high-end and design-intensive segment of the market, which give it high operating margins. This division is a steady source of cash for the overall business, although its share in total revenues is decreasing.

Investment Theme

We like Sintex for its track record of innovations in plastic, creating new markets in the process, and generating return-accretive growth. The company'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, and 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.

Key Risks

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 prefab structures and BT shelters have a high service and labour component. Hence, the company's ability to execute end-to-end projects is critical. Inability to execute timely on a regular basis will be a risk to topline growth.

Raw material costs: Sintex's plastic business uses crude derivatives as raw material, hence, sharp rise 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-chemicals; hence 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 favourable for Sintex, as it will lead to reduction in prices of crude and its derivatives. Also, since Sintex's offerings are substantially cheaper than substitute products, it has significant pricing advantages.

Macro-economic slowdown: Growth in Sintex's businesses is dependent on India's robust economic growth and the resultant infrastructure, and social and corporate spends. Any strong and sustained slowdown in the economy could dampen growth drivers.

Financial Statements (Consolidated)

Income statement		(INR mn)				
Year to March	FY06	FY07	FY08	FY09E	FY10E	
Income from operations	8,534	11,653	22,745	35,751	51,550	
Direct costs	5,742	8,254	13,211	25,962	37,807	
Employee costs	374	497	2,092	3,033	3,943	
Other expenses	973	836	3,611	1,129	1,524	
Total operating expenses	7,089	9,587	18,914	30,124	43,274	
EBITDA	1,445	2,066	3,831	5,626	8,277	
Depreciation and amortisation	307	420	765	1,337	1,858	
EBIT	1,138	1,646	3,066	4,290	6,418	
Interest expense	291	415	644	1,642	1,633	
Other income	298	269	600	1,409	1,603	
Profit before tax	1,145	1,500	3,022	4,057	6,388	
Provision for tax	223	326	707	852	1,405	
Core profit	922	1,174	2,315	3,205	4,983	
Profit after tax	922	1,174	2,315	3,205	4,983	
Minority interest	0	7	42	41	54	
Profit after minority interest	922	1,167	2,273	3,164	4,929	
Basic shares outstanding (mn)	99	112	134	147	147	
EPS (INR) Basic	9.3	10.4	17.0	21.5	33.5	
Diluted shares (mn)	99	120	162	162	162	
EPS (INR) fully diluted	9.3	9.7	14.0	19.5	30.3	
CEPS (INR)	13.0	14.1	18.7	27.7	41.8	
Face value	2.0	2.0	2.0	2.0	2.0	
Dividend per share (INR)	2.0	2.6	3.2	2.2	3.7	
Dividend payout (%)	9.6	24.9	18.7	9.9	10.9	

Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08	FY09E	FY10E
Operating expenses	83.1	82.3	83.2	84.3	83.9
Depreciation	3.6	3.6	3.4	3.7	3.6
Interest expenditure	3.4	3.6	2.8	4.6	3.2
EBITDA margins	16.9	17.7	16.8	15.7	16.1
Net profit margins	10.8	10.1	10.2	9.0	9.7

Growth metrics (%)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenues	29.6	36.5	95.2	57.2	44.2
EBITDA	27.7	43.0	85.4	46.9	47.1
Net profit	71.1	27.3	97.2	38.4	55.5
EPS	60.3	3.8	44.1	39.2	55.8

Balance sheet		(INR mn)				
As on 31st March	FY06	FY07	FY08E	FY09E	FY10E	
Equity capital	197	222	268	294	294	
Reserves & surplus	4,351	6,308	19,653	28,477	32,863	
Shareholders funds	4,549	6,530	19,921	28,771	33,157	
Minority interest	0	41	183	190	212	
Secured loans	3,595	5,168	10,185	10,452	9,969	
Unsecured loans	2,231	1,723	9,000	9,000	9,000	
Borrowings	5,827	6,891	19,185	19,452	18,969	
Net deferred tax	619	724	724	724	724	
Sources of funds	10,995	14,185	40,013	49,136	53,063	
Gross block	6,750	8,887	16,251	24,880	32,294	
Less: Depreciation	2,054	2,478	3,243	4,580	6,438	
Net block	4,695	6,409	13,008	20,300	25,856	
Capital work-in-progress	190	403	403	403	403	
Total fixed assets	4,885	6,812	13,411	20,703	26,259	
Intangibles	0	86	86	86	86	
Investments	31	31	31	16,031	18,531	
Inventories	863	1,506	3,115	5,387	7,768	
Sundry debtors	1,507	2,334	4,555	7,346	10,593	
Cash and equivalents	5,091	5,755	24,114	6,944	820	
Loans and advances	370	671	671	671	671	
Total current assets	7,830	10,266	32,455	20,348	19,851	
Sundry creditors and others	1,640	2,658	5,290	7,469	10,876	
Provisions	157	373	680	563	789	
Total CL & provisions	1,797	3,031	5,970	8,031	11,664	
Net current assets	6,033	7,235	26,485	12,317	8,187	
Others	45	21	0	0	0	
Uses of funds	10,995	14,185	40,013	49,137	53,063	
Book Value per share (BV) (INR)	2,274	54	123	177	204	

Cash flow statement		(INR mn)				
Year to March	FY06	FY07	FY08E	FY09E	FY10E	
Net profit	922	1,167	2,273	3,164	4,929	
Add: Depreciation	307	420	765	1,337	1,858	
Add: Deferred tax	49	111	0	0	0	
Add: Others	16	24	2,083	0	(0)	
Gross cash flow	2,438	1,722	5,122	4,500	6,787	
Less: Changes in W. C.	(474)	538	891	3,002	1,994	
Operating cash flow	2,912	1,184	4,231	1,498	4,793	
Less: Capex	1,599	2,350	7,364	8,629	7,414	
Free cash flow	1,312	(1,165)	(3,133)	(7,131)	(2,621)	

Cash flow metrics		(INR mn)				
Year to March	FY06	FY07	FY08E	FY09E	FY10E	
Operating cash flow	2,912	1,184	4,231	1,498	4,793	
Financing cash flow	2,412	1,563	19,718	5,953	(1,024)	
Investing cash flow	(1,517)	(2,350)	(7,364)	(24,629)	(9,914)	
Net cash flow	3,806	397	16,585	(17,177)	(6,145)	
Capex	1,599	2,350	7,364	8,629	7,414	
Dividend paid	(199)	(292)	(434)	(316)	(542)	
Share issuance/(Buyback)	168	791	7,858	6,003	1	

Profitability & liquidity ratios

Year to March	FY06	FY07	FY08	FY09E	FY10E
ROAE (%)	19.1	21.2	17.2	13.0	15.9
ROACE (%)	11.4	13.1	11.3	11.7	19.0
Current ratio	4.4	3.4	5.4	2.5	1.7
Inventory (days)	114	89	134	177	243
Debtors (days)	64	60	55	61	64
Payable (days)	99	95	110	90	89
cash conversion cycle (days)	79	54	80	148	218
Fixed assets t/o (x)	2.1	2.1	2.3	2.1	2.2
Average working cap turnover(x)	5.2	6.0	7.3	5.5	5.1
Average capital employed t/o	0.8	0.9	0.8	0.8	1.0
Net debt/Equity	0.2	0.2	(0.2)	(0.1)	(0.0)
Debt/Equity	1.3	1.1	1.0	0.7	0.6
Debt/EBITDA	4.0	3.3	5.0	3.5	2.3
Adjusted debt/equity	1.3	1.1	1.0	0.7	0.6

Operating ratios (x)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Total asset turnover	0.8	0.9	0.8	0.8	1.0
Fixed asset turnover	2.1	2.1	2.3	2.1	2.2
Equity turnover	1.7	2.1	1.7	1.5	1.7

Du pont analysis

Year to March	FY06	FY07	FY08E	FY09E	FY10E
NP margin %	10.8	10.0	10.0	8.8	9.6
Total assets turnover	0.8	0.9	0.8	0.8	1.0
Leverage multiplier	2.1	2.3	2.1	1.8	1.7
ROAE %	19.1	21.2	17.2	13.0	15.9

Valuations parameters

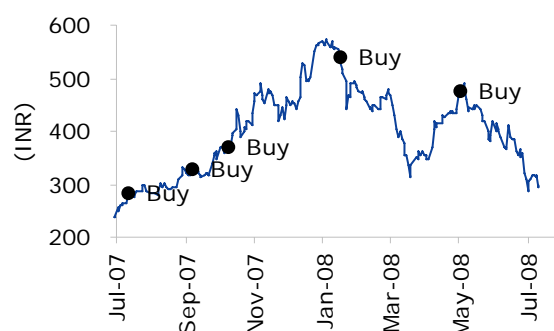
Year to March	FY06	FY07	FY08	FY09E	FY10E
Dilued EPS (INR)	9.3	9.7	14.0	19.5	30.3
Y-o-Y growth (%)	60.3	3.8	44.1	39.2	55.8
CEPS (INR)	13.0	14.1	18.7	27.7	41.8
Diluted P/E (x)	32.3	31.1	21.6	15.5	10.0
Price/BV(x)	0.1	5.6	2.5	1.7	1.5
EV/Sales (x)	3.6	3.0	1.6	1.1	0.9
EV/EBITDA (x)	21.1	16.9	9.3	7.3	5.3
Dividend yield (%)	0.4	0.9	1.1	0.7	1.3

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Coverage group(s) of stocks by primary analyst(s): *Miscellaneous*

Deepak Fertilizer, Essel Propack, Moser Baer, Opto Circuits India and Sintex Industries

Sintex Industries



Recent Research

Date	Company	Title	Price (INR)	Recos
10-Jun-08	Deepak Fert. & Prteochem	Project delay continues; Result Update	100	Buy
16-May-08	Adani Enterprises	ABC on Adani power; Company Update	859	Buy
22-May-08	Havell's India	Slyvania disappoints; Result Update	478	Buy
12-May-08	TIL	Margins continue to Impress; Result Update	420	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	101	62	14	2	188

* 8 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	77	70	41

Rating Interpretation

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

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