Initiating Coverage

SECTOR: DIVERSIFIED

Sintex Industries

Block by Block

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Contents

Sintex Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,774	BVML IN
	REUTERS CODE
S&P CNX: 3,969	BVML.BO

27 November 2006 **Buy**

Initiating Coverage Rs231

Y/E MARCH	2006	2007E	2008E	2009E
Net Sales (Rs m)	8,534	11,830	15,694	20,655
EBITDA (Rs m)	1,443	2,181	2,939	3,849
Adj. NP (Rs m)	941	1,242	1,785	2,359
EPS (Rs)	9.5	10.3	14.8	19.6
EPS Growth (%)	80.1	8.0	43.7	32.1
BV/Share (Rs)	45.6	73.3	85.6	101.8
P/E (x)	24.2	22.4	15.6	11.8
P/BV (x)	5.1	3.2	2.7	2.3
EV/EBITDA (x)	20.9	12.9	9.9	7.7
RoE (%)	20.7	17.0	17.3	19.4
RoCE (%)	15.4	14.7	16.9	19.1

KEY FINANCIALS	
Shares Outstanding (m)	120.6
Market Cap. (Rs b)	27.9
Market Cap. (US$ b)	0.6
Past 3 yrs Sales Growth (%)	24.6
Past 3 yrs NP Growth (%)	60.2
Dividend Payout (%)	12.6
Dividend Yield (%)	0.5

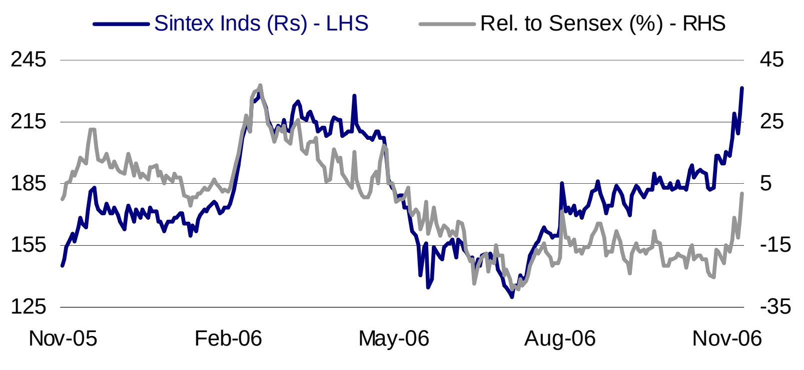
STOCK DATA	
52-Week Range (Rs)	258/125
Major Shareholders (September 2006)	(%)
Promoters	33.3
Domestic Institutions	10.4
FIIs/FDIs	44.6
Others	11.7
Average Daily Turnover	
Volume ('000 shares)	148.0
Value (Rs million)	26.5
1/6/12 Month Rel. Performance (%)	18/-2/2
1/6/12 Month Abs. Performance (%)	26/27/59

Sintex Industries is a play on the high-end textile manufacturing and domestic infrastructure space. With strong positioning in both these segments, Sintex is well placed to capitalize on these growth opportunities. Further, the ongoing capacity expansions and inorganic growth opportunities would result in strong revenue growth and profitability over the next few years.

- Prefabs have emerged as a growth driver for Sintex. With government focus on providing rural housing and education coupled with induction of new capacities, we expect strong growth ahead. Innovation and introduction of newer high-end products will result in increased opportunities for Sintex in the prefabs segment.
- Electrical custom molding has been the fastest growing product for Sintex. With limited competition in the domestic segment, Sintex is likely to maintain strong growth. Auto plastics are likely to emerge as a big segment for Sintex over the next few years.
- Increased sourcing from its tie-up with Canclini and the UK-based manufacturer would result in higher realizations and margins in the textile segment. Incremental growth would be driven by newer segments such as ladies shirting, jacquard-based shirting and home textiles. Garmenting would witness key growth FY09 onward.
- Sintex has Rs4.5b cash on its books. We believe this can be used to fund inorganic growth opportunities for the company.

Sintex trades at valuation of 15.6x FY08E EPS and 11.8x FY09E EPS. We initiate coverage on the stock with a **Buy** rating with a price target of Rs294.

STOCK PERFORMANCE (1 YEAR)



Play on multiproduct themes

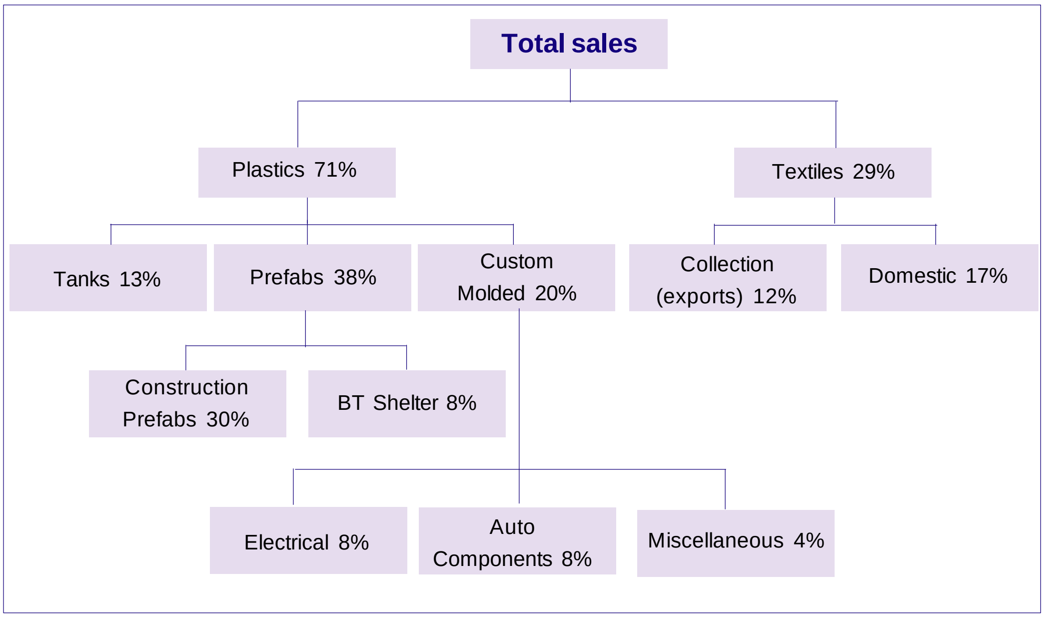
Sintex Industries is a play on two interesting themes - niche offerings in the plastics segment (prefabs and custom molding), and high-end textile outsourcing. We expect strong growth from these segments on the back of favorable industry dynamics and new capacities being set up. We forecast overall sales to grow 34% CAGR and profits to grow 36% CAGR over FY06-FY09.

High-margin overall sales to lead growth

High-margin sales in plastics and textiles will grow ahead of its other business

We believe that high-margin sales (prefabs, custom molding in plastics and collection sales in textiles) will grow much faster versus its other businesses. Consequently, we expect margins to improve over the next few years for Sintex.

CURRENT SALES PROFILE FOR SINTEX



Source: Company/ Motilal Oswal Securities

Robust growth in both segments

Currently plastics contribute 71% to total revenues and textiles contribute another 29%. We anticipate plastics to grow faster (36%) over the next 2-3 fiscal years, whilst textiles will grow at a CAGR of 28% over the FY06-FY09 period. In the event of an acquisition in the plastics space, the current revenue profile can change in favor of plastics.

Plastics: Prefabs and custom moulding are key drivers

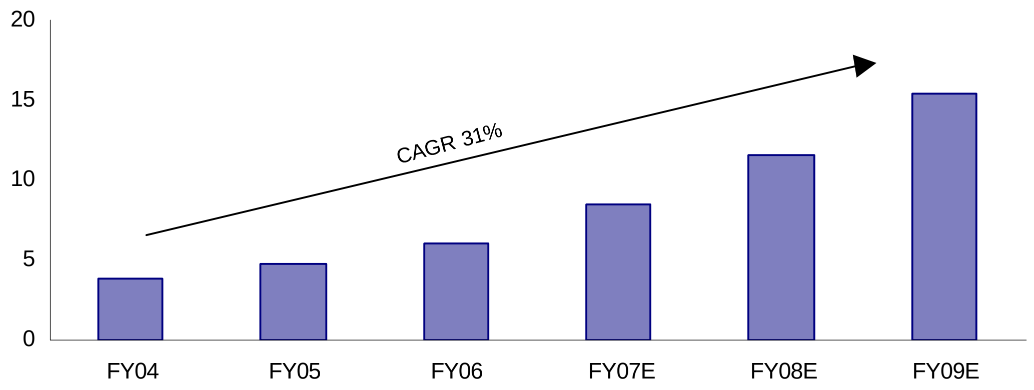
Product profile has shifted in favor of the high-growth specialized applications in infrastructure

Sintex has moved away from the low-value water tank business to specialized applications in the infrastructure space. We believe this to be a high growth segment for Sintex. Using innovative concepts in the prefabs segment, the company offers niche products in areas of rural housing and education. Its prefab products also cater to the telecom sector and are handy for disaster management.

Within custom molding, we believe that FRP-based electric products offer substantial potential. We believe Auto plastics can emerge as a big opportunity for Sintex over the next few years.

We forecast plastic revenues to grow at 36% CAGR over FY06-FY09. We are not factoring any growth from possible acquisitions. Such an event can possibly result in huge growth opportunities in the plastics space.

SALES GROWTH IN THE PLASTICS SEGMENT



Source: Company/Motilal Oswal Securities

Textiles: High margin collection sales to grow strongly

Collection sales to hit 39% in FY09E from 16% in FY05

On back of higher capacities and improving product mix, we expect high margin collection sales to grow strongly. We expect revenue growth of 28% CAGR over FY06-09. Contribution from collection sales is likely to increase to 39% in FY09 from 16% in FY05.

RoCE/RoE to trend upward

RoCE/RoE to record highs in FY09E

With capacity utilization increasing, we expect an improving trend in RoCE and RoE. Further, RoCE is currently depressed on account of huge cash lying in its books. With this cash being utilized for acquisition, we expect an improving trend in RoCE (19% in FY09) and RoE.

Buy with a target price of Rs294

Valuations does not reflect the strong growth potential

We believe that the strong growth potential is not fully reflected in the stock valuations. We have set a target price of Rs294 per share which implies a P/E of 15x FY09E EPS. On EV/EBITDA, the stock, at our target price, would trade at 10x FY09E EV/EBITDA.

Prefabricated sets – the growth story

Sintex (the pioneer of a number of value-added plastic products) was the first to introduce a plastic prefabricated range of products in the country. Sintex prefabs are available in various types and designs and finds diverse uses, ranging from temporary and semi-temporary to permanent structures. They are ideal for quickly building schools, kiosks, huts, tent substitutes, hospitals, police stations, offices, telephone exchanges, post offices and even community halls. Sintex uses honey comb concrete between plastic channels, which makes these structures lighter and easier to transport.

Prefab applications find usage in both temporary and permanent structures

These structures are used globally for a variety of applications including temporary and permanent structures that find usage in both residential and commercial applications. As the name suggests, these structures are pre constructed at the factory and require minimum labor at the actual site.

The main advantages over conventional structures are lower cost (about 25-40% cheaper v/s conventional structure) and time to erection is extremely low (10-15% v/s conventional method). In sum, erecting prefabs thus have two advantages: (a) reduced labor costs; and (b) less time needed for onsite erection.

High-growth opportunity

We believe prefabricated structures being a new concept in India, offers immense growth opportunities. In India, we believe there is substantial demand from the government/privately aided schools, health centers, mass toilets, mass kitchens, which are the basic requirements. Sintex is currently working with only six states in a big way as transporting these products over long distances is not viable. With plants in Baddi and Salem going full steam and the new plants in Nagpur and Kolkata coming up, we expect strong growth opportunities for Sintex in this segment.

Logistics is key

The key to success in prefab business is logistics and quick turnaround

We believe that logistics in the prefabs business is a key issue as prefab structures have to be transported from the factory to the site where the prefab structure is to be installed. Construction of the walls, roofs, windows, doors is done at Sintex's manufacturing facility, which along with the other accessories, are transported to the site. The key therefore lies in efficiently transporting the goods and also in the ability to install the structure quickly at the site. For instance, one single truck load can carry all the material required to erect a standard-sized structure of 600 sq.ft. at the site. It would take six workers working for six days to complete the structure in all respects (wiring, piping, insulation etc.) and deliver it in a ready-to-use condition.

Would require plants at various locations – Sintex is setting up new plants to target newer markets

Given the nature of the business, the need is for regionally located plants that will cater to nearby areas (~1,500 km radius). Over the last 12 months, Sintex has set up plants in Salem in southern India and Baddi in a northern state. While its initial plant at Kalol (supplies to the western region) is running at 100% capacity, the two above-stated plants achieve 50% capacity utilisation. Sintex has already begun to generate orders from the Andhra Pradesh, Karnataka and Delhi state governments.

Set up of new plants in the prefabs segment

Post expansion, prefab division will be able to cater to 24 states in India

The prefabricated structures division of plastics is also being expanded across India. The company is investing Rs1.1b to set up plants in Nagpur (operational from January 2007) and Kolkata (October 2007), at an estimated cost of Rs550m each. Post these expansions, the company will have a presence in five locations enabling it to cater to 24 states, which constitute 70% of India's GDP. Moreover, the multiple plant location will: (a) downsize transportation costs which constitute a significant portion of the total expenditure of the business; and (b) also reduce turnaround time.

Close coordination with government agencies

State governments are big customers for prefab products. The Kalol plant supplies these structures to three states – Gujarat, Madhya Pradesh and Rajasthan.

- Sintex supplies prefab classrooms in sets of 4/6 classrooms to the Gujarat government; it is supplying health centres to the Rajasthan government. In Madhya Pradesh, the state government demand is for installing mass toilets in each village.
- Its newer plants at Salem and Baddi coordinate with the states of Tamil Nadu and Andhra Pradesh in southern India. In the north too, Sintex is liaising with Punjab, Haryana, Rajasthan and Delhi state government

We believe that getting approvals from state governments is a challenging task, as the lead time in getting approvals ranges from 1-2 years and can serve as an entry barrier for any new player that intends to enter this segment.

Strong demand from the private segment as well

Sound demand for prefabs from government agencies and private sector

Prefabricated structures have many other applications. Its products are finding favor with other private players as well. Sintex presently supplies to:

- Mobile operators (base terminal towers)
- Reliance Infocomm (shops)
- Reliance, GAIL, ONGC, BP etc. (piping and cabling)
- Indian Army (bunkers)
- Pumping houses
- Indian Railways (signaling units).

Of these, **base terminal** shelters are witnessing strong growth currently. Base telecom shelters are polyurethane foam structures that provide support at the base level for wireless transmission towers. With strong growth envisaged in the expanding cellular penetration in India, these shelters offer a strong opportunity. Sintex is already supplying this product to leading telecom producers including Bharti, Reliance and Tata Indicom.

This notwithstanding, opportunity beckons in the segment of temporary structures — e.g. fairs, exhibitions etc. (Sintex had responsibility for the entire sanitation aspects at the Ujjain *Kumbh Mela*.)

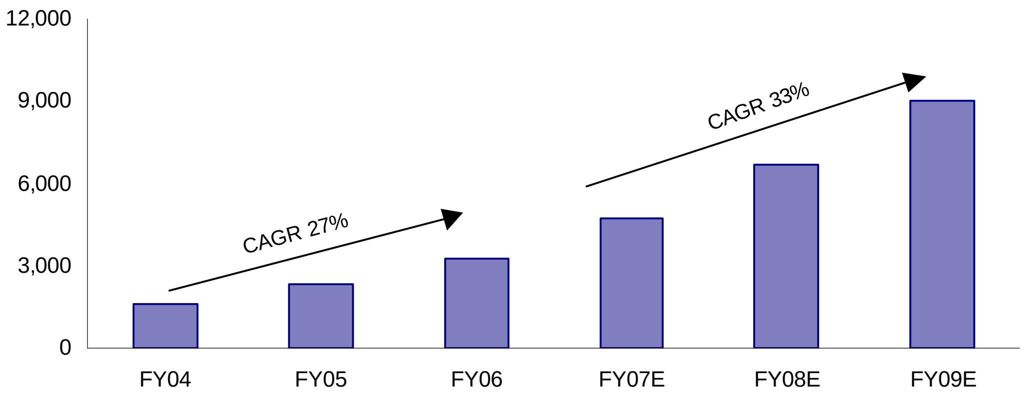
Sintex has introduced potentially high-margin new products in the prefab product line

Introduction of new products: Sintex has consistently been introducing newer products in the prefab sector that are value-added products with potentially higher margins — mobile ambulances, mobile hospitals etc. — which we believe will also drive incremental growth ahead.

Expect strong growth in the segment

We expect prefab sales to increase to Rs6.5b in FY08 from Rs3.2b in FY06. This would be possible as the southern plant at Salem will be contributing at full capacity along with the Baddi plant in the north. The other plants in the central and eastern regions will begin to contribute from FY08.

PRE-FAB REVENUES (RS M)



Source: Company/ Motiall Oswal Securities

Margins at 16%-17%; but long debtor cycles

Prefab margins are at 16%-17%

Margins in the prefab segment are at around 16%-17% at EBITDA level. Product supply prices to the state government are fixed by government agencies and include an escalation clause in case the prices of raw material change. However, working with the government also involve long debtor days (3-4 months), which require substantial working capital.

Zeppelin acquisition gives Sintex a high-end prefab niche presence

Zeppelin Mobile Systems India Ltd. (ZMI), erstwhile subsidiary of Zeppelin Mobile Systeme GmbH, Friedrichshafen, Germany (ZMS), which was acquired by Sintex in FY06, also delivered strong growth. Revenues have incresed by 80% in FY06 to Rs400m. It is one of the top two telecom shelter manufacturing companies in India today with an estimated share of 25%.

Capacity is being expanded at Zeppelin's facility

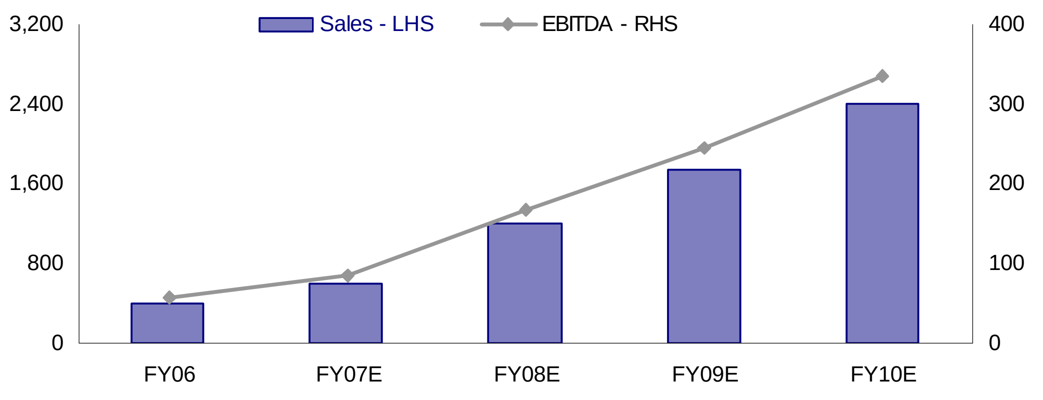
Sintex proposes to expand the capacity at Zeppelin's manufacturing facility and has set aside an outlay of Rs80m. As part of the program, the company will be installing state-of-the-art machinery including Large Automatic Presses. Zeppelin which manufactures value-added and high-end BT shelter products gives Sintex a high-end niche presence. Zeppelin's current range extends to products such as Radar Shelters, Green Shelters, Mobile Maintenance Shelters, Mobile Hospitals and Ambulances as well as Refrigerated Vehicles.

The expansion will enable Sintex to integrate backward and manufacture several non-plastic ancillary products such as locks, hinges etc. resulting in greater operating efficiencies. Additionally, with a larger and wider portfolio of offerings Sintex will be better positioned to optimally leverage its strong presence in the eastern and southern regions.

Sintex expects strong growth in sales for Zeppelin with EBITDA at 13%-15%

Management expects strong sales growth for Zeppelin. In FY07 sales are expected to be Rs600m (up 50%), and should increase to Rs2.4b by FY10. EBITDA margin will likely be in the range of 13%-15% for Zeppelin's products.

ZEPPELIN: SALES GROWTH AND EBITDA (RS M)



Source: Company/Motilal Oswal Securities

Custom molding – along the lines of auto ancillaries

Sintex manufactures fuel tanks, FRP racks, sub racks, transmission cabinets, auxiliary equipment for power transmission as well as electrical accessories and electrical enclosures. Currently Sintex manufactures industrial products specific to the requirements of its 11 major clients in the chemical, pharmaceutical, telecom and power sectors. A few of the big clients are Cummins, GE, Coca Cola and Pepsi. It produces diesel storage tanks for Cummins, which are used in generators; electric motor lifting trays for GE and insulation boxes for Pepsi and Coca Cola.

Power segment – offers big opportunities

Leading player in electrical accessories and enclosures

Sintex is also a major player in electrical enclosures and accessories catering to most players in electricity distribution by supplying FRP meter boxes. It is one of the largest manufacturers of tamper-proof meter boxes in India, supplying to the various state power utilities of Tamil Nadu, Andhra Pradesh and Chattisgarh, among others.

In electricals, Sintex is in the mid- and high-voltage segment: it makes enclosures, loop-in/loop-out boxes, polymeric insulators, insulator boxes, cross-arms and other accessories i.e. 440 volts to 1,200 volts for the mid-end whilst it goes up to 11 KVA for the high-end. These products are made from pultrution and fiberglass. These are enclosures meant for cabinets, large outdoor transformers, outdoor electrical enclosures and small enclosures, meter boxes, loop-in/loop-out boxes, switch boxes, pole boxes.

These accessories find applications in high and medium voltage transmission lines set up both by SEBs and private power manufacturers. Sintex has a capacity up to 4,000 tonne of enclosures and expanding to 16,000 tonne. We believe such quadrupling of capacity in this segment will enable it to optimally cater to the strong growth envisaged. The strong growth would potentially accrue as a result of large investments in the power sector. In electric custom molding, we expect sales of Rs3b by FY09, up from Rs700m in FY06.

Auto plastics – upcoming segment with huge potential

Auto component plastic products have huge potential for growth

In the auto plastics segment, Sintex is primarily an auto-components manufacturer that supplies fuel tanks, cable trays etc. Here, it caters to corporates such as Cummins and GE and tractor manufacturers such as M&M and New Holland Tractors.

According to a study by A.T. Kearney, cars use 14% (by weight) of plastics currently, which is likely to increase to 22% by 2010. However in India, usage of plastics in cars is only ~7%, which shall also increase to 20-22% by 2012. With India emerging as a global car hub, we believe auto plastics is likely a big opportunity for players such as Sintex.

While Sintex does not have any past track record of an auto ancillary, it is the leading plastic products manufacturer in India. We understand that Sintex is in discussions with Tata Motors, Maruti and M&M for supply of plastics-based products in their vehicles. We believe an acquisition in this space can give Sintex access to improved technology for such products.

A likely acquisition in prefabs space will benefit Sintex on two counts (1) Technlogy and (2) Customers

Inorganic growth opportunities: Recent reports have indicated that management is close to acquiring a company manufacturing prefabs and plastic auto components. The key positive, in such a case, would be technology and customers. Sintex can transfer manufacturing from the target country to India, saving on costs. Sintex already has Rs4.5b on its books (funds raised from FCCBs and internal accruals) which it proposes to use for acquisition. While, at this stage we are not assuming any revenues from such an acquisition, such event can positively impact sales profile in the medium term and earnings profile over the longer term.

Waste management solutions

Sintex has entered into an agency and distribution agreement with Blue Steam Trading, UAE the sole authorized agent and representative of SULO Umwelttechnik GMBH & Co., one of the largest waste management solution companies in the world. Sintex would use its distribution and marketing expertise in India and through its nationwide presence would try to distribute the products throughout India under the brand, Sulo.

We believe this is yet another bold initiative taken by management to diversify its product segment and de-risk its business model. According to our estimates, industrial third party waste management, by itself, is a big segment, which is expected to reach a Rs1b+ business segment in the next three years. Management is confident of its ability to identify target segments and penetrate the markets.

Black colored overhead tanks – synonymous with the brand

Sintex is the leader in plastic overhead tanks, a concept it has pioneered. Manufacture of plastic overhead tanks began in 1975; today the company has 1,200 agents, 650 dealers, 18 offices, 22 depots and close to 10,000 retailers. This wide distribution network, we believe is Sintex's greatest strength as this serves as a deterrent to competitors (particularly in a not-so-capital-intensive business).

Sintex has 55% share of the organized overhead plastic tanks market, whilst close competitors (Patton and National) have below 10% market share each. This business having now matured, the growth rates for Sintex are low. Margins in this business are also low owing to competition from several unorganized players. But the positive aspect is: this business allows Sintex to retain its distribution strengths and brand value, which it can utilize to market several of its other plastic related products.

Overhead tanks is today a mature market

We believe the overhead water tank is a fairly penetrated and mature market in the urban and semi urban areas. Hence we believe incremental growth is likely to arise from new constructions in both the rural and semi-rural areas. Also, growth rates in this mature market segment are likely to be subdued at 6%-7% over next 2-3 years. We believe operating margins would be in the range of 6%-7% and margins at the net level would appear minuscule.

Competitors at bay: Distribution network is the key to this segment and as margins are also quite low, we believe this twofold deterrent is likely to keep competitors, who would otherwise find it tough to match Sintex's cost of production and distribution, at bay.

Sintex has a monopoly in overhead tanks owing to stiff entry barriers

One more aspect of this business is logistics. Since water tanks are capacious products, they do not lend themselves to easy transport. Hence it is essential for a player desiring a nationwide presence to have a locational spread. Sintex has eight manufacturing facilities and plans to commence operations at two more locations soon.

Key concerns

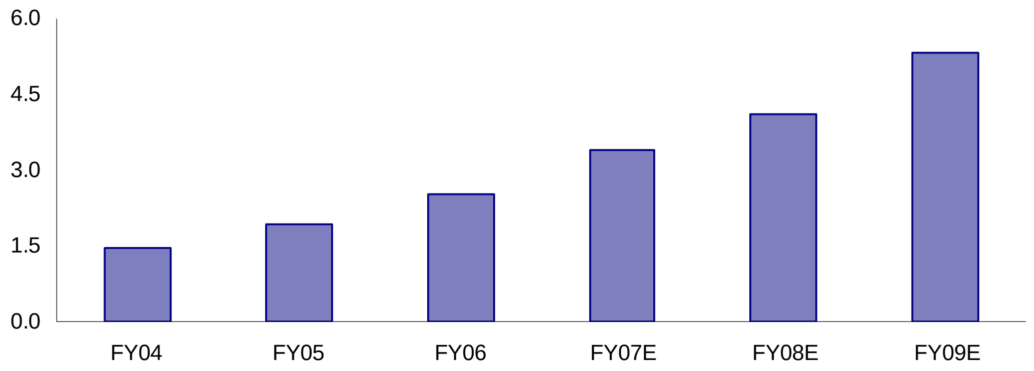
Execution risks: Prefab structures being a service intensive business would face execution risks. Also, relationships with state governments are crucial, as these products are usually sold to state governments. While we understand Sintex has cordial relations with the state governments with whom it is currently working, liaising with newer state governments as it expands its business will not be without its challenges.

New government legislations: Any government regulation curtailing the use of plastics could be detrimental for Sintex. Further any measure to curtail the use of prefabs for the sake of generating employment for local carpenters, plumbers etc. could also prove to be detrimental.

Textile business offers high-end value

Sintex's textile division, Bharat Vijay Mills (BVM) is present in high-end fabrics. Positioned at the high end, the textiles division has justified this status by steadily and consistently recording high margins — EBITDA margins have always been above 22% for the textile business overall; currently EBITDA margins arising from textiles are about 26%-28%. BVM's products are more value-driven rather than volume-driven and thereby hold relevance for sales via boutiques versus sales through mass market stores. Consequently, the division focuses on superior value orientation and caters to the European rather than the American market, which is volume driven.

TEXTILE SALES (RS B)



Source: Company/Motilal Oswal Securities

Superior positioning

Sintex has carved a niche in high-end textile business wherein margins are supreme

Sintex has created for itself a niche positioning in high-end structured shirtings. It has an integrated plant with current capacity of 21m meters (mtrs). This plant can manufacture high-end niche fabrics which are utilized by leading fashion brands. As Sintex is more focused towards the high-end fabrics, it stresses greatly on designing even though volumes per design are lower. We also believe this high-end business is highly relationship focused and is thus protected by high entry barriers. This segment also has very attractive margins.

Facilities geared to its chosen specialty business

Sintex has created and set up facilities so as to cater to a high-value driven market. All the units are well integrated, starting from the spinning to the fabric manufacturing stage, and are equipped to address customer orders from as small a quantity as 600 mtrs to 1,800 mtrs per design. The looms at its facilities are mainly jacquard and rapier, which are equipped for structured fabrics. The structured fabrics are manufactured in a variety of weaves comprising dobby, jacquard, double beam etc.

Of the total sales, about 80% (revenue-wise) is sourced from structured fabrics. The remaining 20% of the turnover arises from corduroy sales, where Sintex is the largest player in India and the third largest in Asia. Exports constitute a substantial portion of total corduroy sales. Here again, Sintex focuses on the higher-end yarn-dyed corduroy segment. Of the total corduroy sales, 92% are used in garmenting and the remainder in accessories such as caps, footwear and bags.

Catering to small customers is its strength

Customized solutions: Sintex is attractively placed to target its fashion oriented customers, who require volumes across diverse products (weaves, color and finish). Sintex is equipped to address customer orders from as small as 600 mtrs to 1,800 mtrs per design. In fact in FY06, a significant portion of the company's order sizes were below 1,000 mtrs.

Focus on product development: Sintex is probably the only Indian textile company which relies heavily on product development. Apart from the designs it gets from its international customers (company can use them after the patent expires) Sintex annually adds about 36,000 designs to its fabric collection. This enables it to offer its clients a wider choice and enjoys higher realisations.

Relationships in place

Canclini tie up moving on well

Company has tie-ups with Canclini and a UK player for textile designs and its supply of finished products

Canclini is one of the leading design and fashion players in Italy. The firm supplies designs and materials to fashion labels such as Armani, Versace etc. Post approval, these designs are likely to be manufactured two years later. According to the general practice, these designs are patented for that particular year. Usually, Canclini will work on designs that will create a new fashion trend; Since the cycle from designing to actual availability takes about two years, orders for the 2008 seasons are now being sampled currently. Post sampling, it would be marketed by Canclini in the European market and orders would be placed with Sintex. These are very exclusive fabrics and size per design is very small.Thus, it involves a lot of labor and logistics related work, but offer significantly higher margins (33%-35% v/s 22%-25%).

Sintex would be free to use the designs for other purposes in the following years post expiry of the patent. The thumb rule followed is that the fashion/trend prevailing in Europe would arrive in Indian markets two years later. This would enable Sintex to have access to several designs and fashion trends and it can then offer a grand design score card in the Indian markets as well. Such a business model would incorporate a great deal of sampling work in the specialty product creation segment (wherein volumes would be lower, but we believe margins would be higher).

Sintex has been teaming up with Canclini since 2001 and the designs, which were approved in 2004, are now being shipped to Sintex. Sintex is likely to ship 25% of its production to Canclini in FY06; we forecast this to likely increase (inclusive of UK based manufacturer) to 35% in FY07 and to 40% in FY08. Subsequently, we believe Sintex has plans to bring Canclini's manufacturing unit to India. Sintex will likely eventually take over the manufacturing aspect leaving Canclini with the design function. Collection sales (sales to Canclini, UK based manufacturer, etc) have grown by 180% in FY06 to Rs880m and we expect 34% CAGR over the FY06-09 period.

Tie up with a UK player

Sintex Industries has also entered into an agreement with a reputed UK-based company for its textile division along the lines of the Canclini tie-up. The memorandum of understanding (MoU) entails assistance in designing, which includes colors, structures and finishes as well as packaging of the products and niche client identification. The UK-based entity will also train Sintex's employees: (a) to handle these specialty fabrics; and (b) work with its own marketing staff to market these products to several leading brands.

This UK-based company will give Sintex 3,000 designs per quarter. Through this agreement, management expects to sell about 1m meters of fabric in the first year and expects this volume to increase to 4m meters of fabric in the next three years. The contract entails product designing and product sales for a three-year period after which the contract is renewable for a further five years.

Sintex will pay a fixed royalty for the designs used and a variable sales commission for the services rendered. We believe that over time, as sourcing increases, it would result in higher realizations and higher margins for Sintex.

Capacity expansions enable entry into newer segments

Capacity expansions in textile to enable entry into newer textile segments

Sintex has already begun the process of expanding capacity from 21m mtrs to 24m mtrs with an investment of Rs700m. By FY08, it plans further capacity expansion to 29m mtrs with investment of an additional Rs800m. Through these capacity expansions, Sintex aims to enter newer segments such as ladies shirting (an under-serviced sector) and jacquard-based home textiles (mainly upholstery).

Garmenting – growth driver post FY08

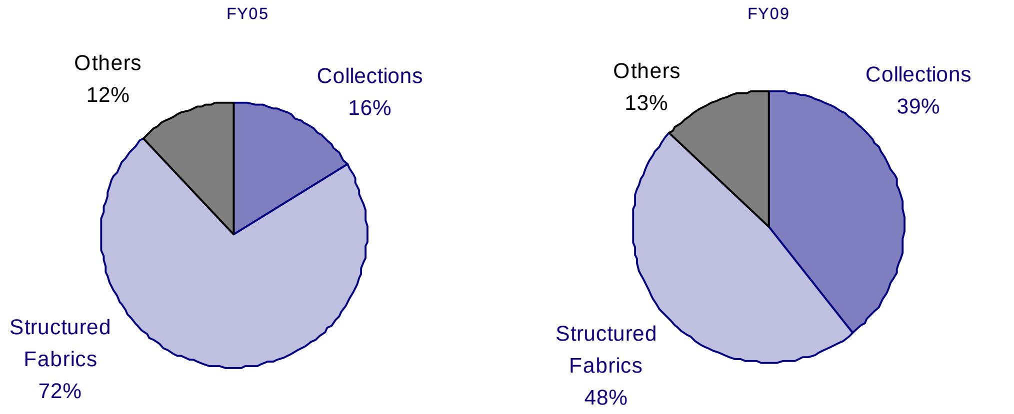
Sintex intends to set up a garmenting unit which it has scheduled will start functioning from December 2007, and which would start contributing from FY09. Sintex intends to set up a Rs200m garment production line near Kalol with manufacturing capacity of 7,000 units per day, scalable to 15,000 units per day. With this forward integration, it would become a one-stop shop for the final buyer who now gets the garmenting done at some other unit. Further, as Sintex will also carry out garmenting for Canclini and its UK-based venture, again margins that Sintex will derive are likely to be higher compared with industry margins.

Higher structured fabric sales to improve realizations, margins

Structured fabric sales brings in higher realizations

The realizations which Sintex earns in structured fabric sales to Canclini/UK manufacturer are higher than the normal realizations which it earns from sales to other garment manufacturers. In FY06, realizations from Canclini were 3x average realizations. Margins in this segment are also higher versus the usual margins. On an EBITDA level, we believe that the margins arising from sales to Canclini are 33%-35%, whilst margins from normal sales are 22%-24%.

BREAKUP OF TEXTILES BUSINESS



Source: Company/Motilal Oswal Securities

Key concerns

Relationship driven business: Being a high-value business, the focus is greater on relationships with vendors who require customized solutions. Thus, sustaining current relationships and nurturing new relationships would be critical.

Limited market size: Since textiles are a high-end value-driven business, the potential to grow volumes would be limited. The challenge would be to differentiate via making offers of newer and diverse sets of products to customers to maintain its hold on the niche it has created for itself, and simultaneously generate higher realizations.

Financials

Capacity expansions ongoing – continued sales growth

Sintex has decided to spend Rs4b to expand its textiles and plastics capacity. Additionally, an investment of Rs2b will expand capacity for plastic prefabricated structures and electrical accessory making units. As part of this expansion, the electrical accessory manufacturing units' capacity will quadruple to 16,000 MT p.a. by December 2007 at a cost of Rs700m. The Nagpur and Kolkata units are also being expanded at a total cost of Rs1b each for prefab structures.

CAPACITY EXPANSIONS OVER FY06-09

	PREFABS		BT SHELTERS		AUTO COMPONENTS		ELECTRICAL		TEXTILES	
	PLANT	CAPEX	PLANT	CAPEX	PLANT	CAPEX	PLANT	CAPEX	PLANT	CAPEX
Exisiting Capacity										
FY06	Kalol, Baddi, Salem	n.a.	Noida (Zeppelin), Kalol (Sintex)	n.a.			Kutch + Kalol	n.a.	Kalol	n.a.
Capacity expansions to be completed by										
FY07E	Nagpur	Rs555m (internal accrual)	Noida (Zeppelin)	n.a.	USA/ Europe	Rs4.5b (cash on books)			Kalol	Rs1,000m (TUFs)
FY08E	Kolkata	Rs555m (internal accrual)	Noida (Zeppelin)	Rs80m total (internal accrual)			Kutch	Rs700m (internal accrual)	Near Kalol	Rs800m (TUFs)
FY09E									Kalol	Rs800m (TUFs)

Source: Company

The textile division which currently has an annual capacity of 21m meters is to be increased to 24m meters by FY08 at a cost of Rs700m in phase I. In phase II this capacity will be enhanced by an additional 5m meters to 29m meters by 2008-2009. The second phase will be completed at a cost of Rs800m. The company also plans a global foray into high-end women's shirting. Further, a new garmenting facility is to be commissioned by December 2007 at a cost of Rs350m.

The funding for expansion in the plastics segment will be through internal accruals while the textile division's expansion is to be funded via borrowings and the textile upgradation fund (TUF).

Margins largely fixed, changing profile should result in better margins

As Sintex has been moving towards service and relationship-driven businesses (collection sales in textiles, pre-fabs and custom moulding in plastics), these businesses are less sensitive to raw material prices. While we expect almost flat operating margins across product segments, higher incremental sales of high-margin products should result in improving margin trend over the next few years.

FCCB issue in FY06; assumed conversion in FY07

During FY06, Sintex raised US$50m through FCCBs, which are convertible at Rs184 per share. We believe the FCCBs are likely to convert into equity and hence in our estimates, we have factored in the conversion from FY07 itself. Sintex currently has cash on its books in excess of Rs4.5b, which it is likely to use for acquisitions.

Acquisition could change the growth profile – funds already raised

Sintex is actively looking at acquiring companies mainly in the US/Europe to strengthen its presence in prefabs and/or plastic accessories. In the prefab segment, Sintex has already acquired Zeppelin and has big plans to grow this business. Sintex intends to acquire companies to boost its own technology and client needs. Further the company plans to shift the basic manufacturing unit to India to save on labor costs. An acquisition in the plastics space can add significantly to its growth, and over time, to its profitability. Sintex has already raised funds through FCCBs, which it can use for the current acquisition. We do not anticipate any further equity dilution.

We expect CAGR of 34% in sales and 36% in earnings over FY06-FY09

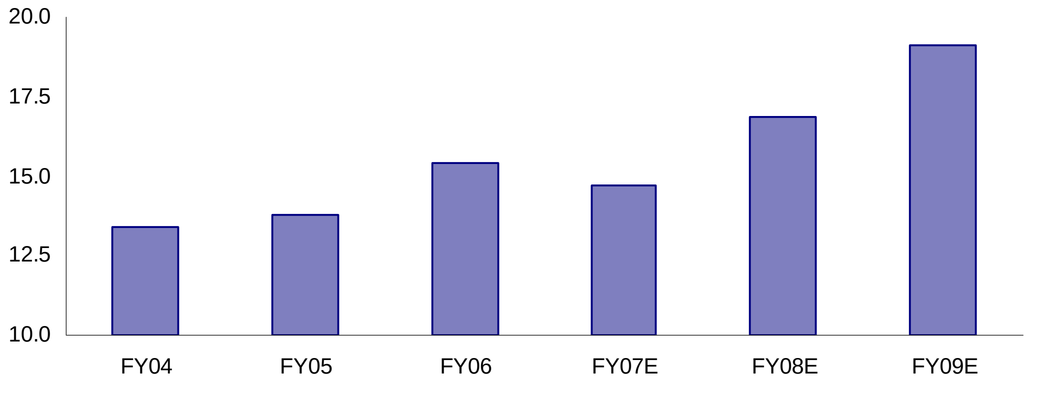
Not factoring in any acquisitions, we expect sales growth of 34% to be driven by both textiles (28% CAGR growth) and plastics (36% CAGR growth). With margins expected to improve (plastics margins to improve, textile margins to remain steady), we expect earnings to grow at a CAGR of 36% for Sintex over FY06-FY09.

Valuation

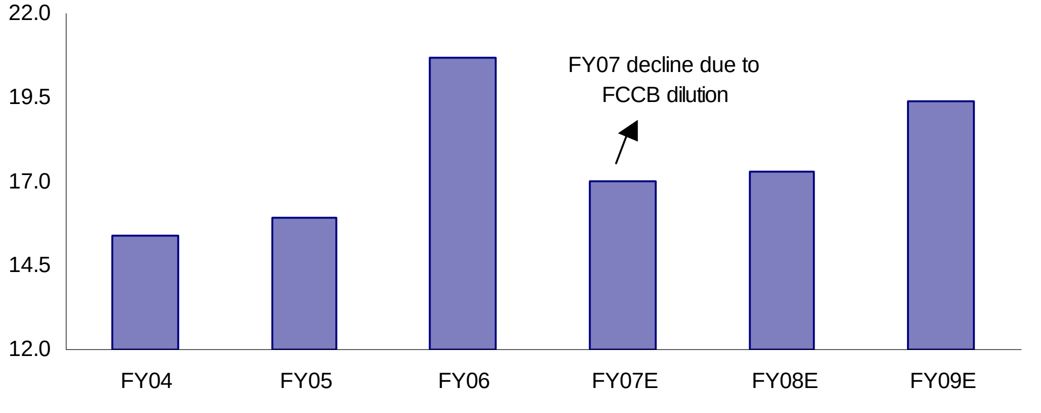
RoCE/RoE to trend upward

With capacity utilization increasing, we expect an improving trend in RoCE and RoE. Further, RoCE is currently depressed on account of huge cash lying in its books. With this cash being utilized for acquisition, we expect an improving trend in RoCE and RoE.

ROCE: ON A RISE



ROE: IMPROVING TRENDS



Source: Company/ Motilal Oswal Securities

Buy with a price target of Rs294

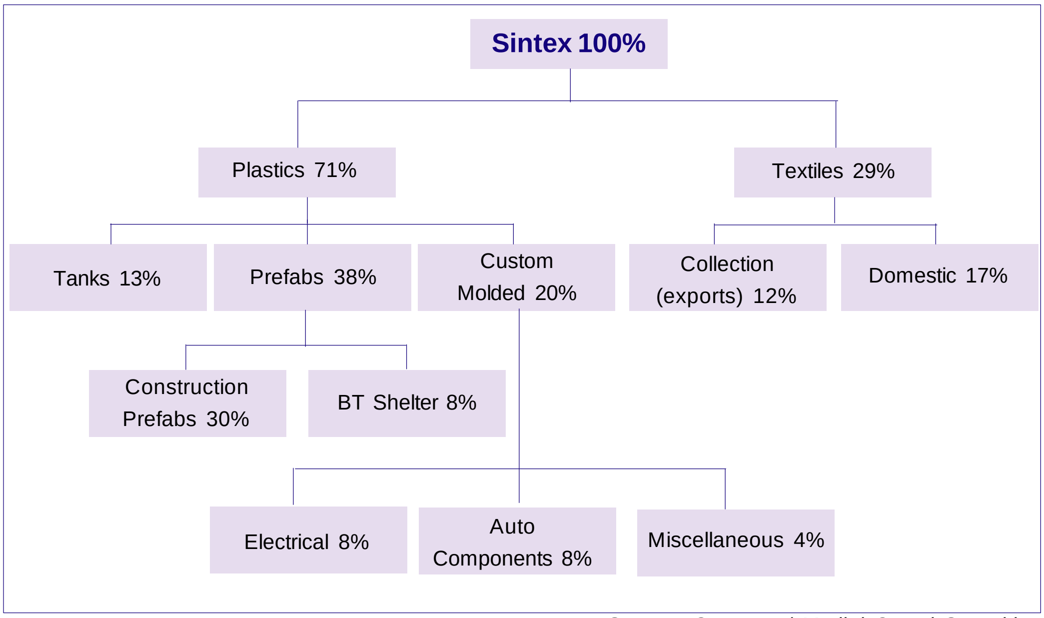
We believe that the strong growth potential is not fully reflected in the stock valuations. We have set a target price of Rs294 per share which implies a P/E of 15x FY09E EPS. On EV/EBITDA, the stock, at our target price, would trade at 10x FY09E EV/EBITDA. Sintex also has about Rs38 per share of cash on books which it shall use for inorganic growth opportunities.

Background

Sintex Industries is a dominant player in the plastic and textile business segments. Sintex started its textile business in 1955 with a composite textile mill in Kalol, Gujarat. Currently the textile division is focused on niche offerings, in men's structured shirting in the premium fashion category. It has relationships with Canclini and a UK-based manufacturer, which outsource high-end shirting from Sintex. Within texiltes, Sintex is also a leader in the corduroy (20% of textile revenues currently) segment and is the largest player in Asia. Overall, the textile revenues contribute 30% to Sintex's revenues.

The plastics division, which currently contributes 70% to revenues was set up in 1975 for the manufacture of moulded polyethelene industrial water tanks. The product offerings expanded in 1980s to include plastic extruded sections, plastics doors and injection molding products. Over the last few years, Sintex has revamped its product profile in both business from a commodity player to niche segment, which offers immense potential. In this process, the company has expanded its margins and profitability profile.

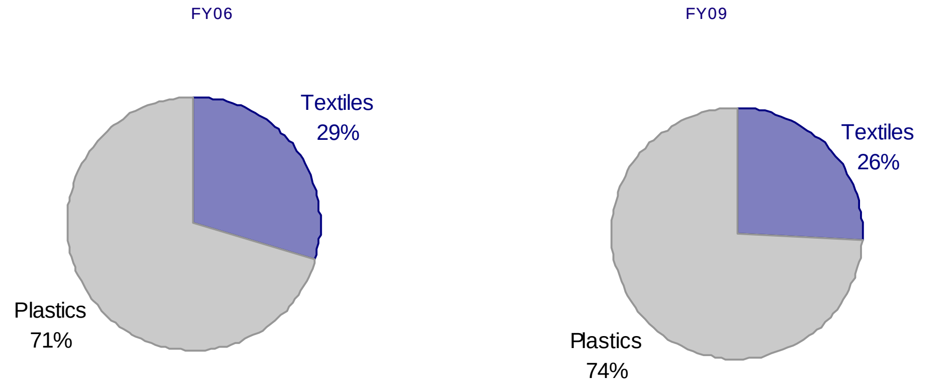
CURRENT SALES PROFILE FOR SINTEX



Source: Company/ Motilal Oswal Securities

Plastics contribute 71% to revenues while textiles contribute the remaining 29%. While plastics is an innovation-led and volume-driven business, textiles has been a niche and high-value enhancing business for Sintex.

PLASTICS AND TEXTILES SALES BREAKUP (FY06-09)



Source: Company/ Motilal Oswal Securities

Management structure

Sintex is an enterprise owned by the Patel family. However, Sintex is run as a professionally-driven business — Warburg Pincus is a majority shareholder (~25%) whilst promoters own ~33%

KEY MANAGEMENT PERSONNEL

Dinesh Patel	Chairman
Arun Patel	Vice Chairman
Amit Patel	Managing Director
S B Dangayach	Managing Director - Plastics
Rahul Patel	Managing Director - Textiles
LM Rathod	CFO

Source: Company/Motilal Oswal Securities

EQUITY HISTORY

	NO OF SHARES (M)	ALLOTMENT PRICE (RS)	FUND RAISED (RS M)	CONVERSION
FY05				
Preferrential Allotment to Warburg Pincus	15.0	56	840	FY05
Warrants to Warburg Pincus	15.0	56	840	FY06-07
Warrants to Promoters	5.5	56	308	FY06-07
Total	**35.5**			
FY06				
FCCBs	12.0	184	2,208	Within 5 years, upto 2010, assumed conversion in FY07
Fully Diluted No. of Shares (m)	120.6			

Source: Company/Motilal Oswal Securities

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2004	2005	2006	2007E	2008E	2009E
Net Income	**5,297**	**6,587**	**8,534**	**11,830**	**15,694**	**20,655**
Change (%)	*20.1*	*24.4*	*29.6*	*38.6*	*32.7*	*31.6*
Total Expenditure	4,404	5,455	7,091	9,649	12,755	16,806
EBITDA	**893**	**1,132**	**1,443**	**2,181**	**2,939**	**3,849**
Margin (%)	*16.9*	*17.2*	*16.9*	*18.4*	*18.7*	*18.6*
Depreciation	226	283	307	459	490	540
Int. and Finance Charges	262	249	291	320	335	395
Other Income - Rec.	88	105	298	170	175	190
PBT before EO Items	**492**	**706**	**1,143**	**1,573**	**2,289**	**3,104**
Extra Ordinary Expense	0	38	0	0	0	0
PBT but after EO Exp.	**492**	**668**	**1,143**	**1,573**	**2,289**	**3,104**
Tax	154	205	202	330	504	745
Tax Rate (%)	*31.3*	*30.7*	*17.6*	*21.0*	*22.0*	*24.0*
Reported PAT	**338**	**463**	**942**	**1,242**	**1,785**	**2,359**
Adj PAT	**338**	**490**	**941**	**1,242**	**1,785**	**2,359**
Change (%)	*47.5*	*44.8*	*92.3*	*32.0*	*43.7*	*32.1*
Margin (%)	*6.4*	*7.4*	*11.0*	*10.5*	*11.4*	*11.4*

E: MOSt Estimates

BALANCE SHEET (RS MILLION)

Y/E MARCH	2004	2005	2006	2007E	2008E	2009E
Equity Share Capital	146	185	197	241	241	241
Reserves	1,724	3,237	4,297	8,591	10,078	12,030
Net Worth	**1,870**	**3,422**	**4,495**	**8,832**	**10,319**	**12,271**
Loans	2,986	3,523	5,881	4,389	5,264	6,044
Deferred Liabilities	441	570	619	682	797	983
Capital Employed	**5,297**	**7,516**	**10,995**	**13,903**	**16,379**	**19,298**
Gross Block	4,645	5,044	6,750	8,295	10,155	11,720
Less: Accum. Deprn.	1,493	1,760	2,054	2,513	3,003	3,543
Net Fixed Assets	**3,153**	**3,284**	**4,695**	**5,782**	**7,152**	**8,177**
Capital WIP	183	296	190	300	350	300
Investments	569	1,675	1,568	1,240	1,540	1,840
Curr. Assets	**2,465**	**3,777**	**6,293**	**8,298**	**9,312**	**11,234**
Inventory	755	1,068	863	1,359	1,814	2,384
Account Receivables	1,158	1,481	1,507	2,334	3,096	4,074
Cash and Bank Balance	192	783	3,553	4,105	3,903	4,275
Others	360	445	370	500	500	500
Curr. Liability & Prov.	**1,105**	**1,578**	**1,797**	**1,716**	**1,976**	**2,254**
Account Payables	1,105	1,578	1,797	1,716	1,976	2,254
Other Liabilities	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Net Current Assets	**1,360**	**2,199**	**4,496**	**6,581**	**7,337**	**8,980**
Misc Expenditure	32	61	45	0	1	1
Appl. of Funds	**5,297**	**7,516**	**10,995**	**13,903**	**16,379**	**19,298**

E: MOSt Estimates

RATIOS

Y/E MARCH	2004	2005	2006	2007E	2008E	2009E
Basic (Rs)						
EPS	**4.6**	**5.3**	**9.5**	**10.3**	**14.8**	**19.6**
Cash EPS	3.1	3.3	5.1	14.1	18.9	24.0
BV/Share	25.7	37.0	45.6	73.3	85.6	101.8
DPS	0.6	0.8	1.2	1.6	2.2	3.0
Payout (%)	12.9	14.7	12.6	15.5	14.9	15.3
Valuation (x)						
P/E			24.2	22.4	15.6	11.8
Cash P/E			45.7	16.4	12.3	9.6
P/BV			5.1	3.2	2.7	2.3
EV/EBITDA			20.9	12.9	9.9	7.7
Dividend Yield (%)			0.5	0.7	1.0	1.3
Return Ratios (%)						
RoE	15.4	15.9	20.7	17.0	17.3	19.4
RoCE	13.4	13.8	15.4	14.7	16.9	19.1
Working Capital Ratios						
Asset Turnover (x)	1.0	0.9	0.8	0.9	1.0	1.1
Debtor (Days)	80	82	64	72	72	72
Inventory (Days)	52	59	37	42	42	42
Working Capital (Days)	94	122	192	203	171	159
Leverage Ratio (x)						
Current Ratio	2.2	2.4	3.5	4.8	4.7	5.0
Debt/Equity	1.6	1.0	1.3	0.5	0.5	0.5

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CASH FLOW STATEMENT						(RS MILLION)
Y/E MARCH	2004	2005	2006	2007E	2008E	2009E
Operating C.Flow bef. W.Cap Changes	926	1,161	1,588	2,084	2,725	3,480
(Inc)/Dec in Working Capital	-90	-282	456	-1,650	-1,039	-1,380
Cash flow from Operations bef. EO	836	879	2,045	434	1,686	2,101
Ex. Ordinary (Exps)/Income	0	0	0	0	0	0
Cash Flow from Operations after EO	**836**	**879**	**2,045**	**434**	**1,686**	**2,101**
(Inc)/Dec in FA	-342	-527	-1,612	-1,655	-1,910	-1,515
(Inc)/Dec in Invst.	-453	-1,106	106	328	-300	-300
Cash Flow from Investing	**-796**	**-1,633**	**-1,505**	**-1,327**	**-2,210**	**-1,815**
Inc./(Dec) in Debt	482	398	2,442	-1,438	875	780
Inc./(Dec) in Equity	-150	39	13	44	0	0
Inc./(Dec) in Share premium	0	1,197	156	3,214	0	0
Interest Paid	-262	-249	-291	-320	-335	-395
Dividend Paid (Including Dividend Tax)	-54	-49	-84	-101	-217	-298
Cash Flow from Financing	**17**	**1,336**	**2,236**	**1,399**	**323**	**87**
Opening Balance	**150**	**192**	**783**	**3,553**	**4,105**	**3,903**
Net +/(-) in Cash & Cash Equivalent	42	591	2,770	552	-202	372
Closing Balance	**192**	**783**	**3,553**	**4,105**	**3,903**	**4,275**

E: MOSt Estimates

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Disclosure of Interest Statement	Sintex Industries
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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