SSKI

INDIA RESEARCH

30 April 2007

BSE Sensex: 13872

Sintex Industries

Rs205

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs25bn; US$588m

Analyst: Chirag Shah (91-22-6638 3306; chiragshah@sski.co.in)

Result: Q4FY07

Comment: Ready for the next leap

Last report: 10 January 2007 (Price Rs220; Recommendation: Outperformer)

Key valuation metrics

Year end 31 March (Rs m)	Net Revenues	yoy chg (%)	Net Profit	EPS* (Rs.)	yoy chg (%)	PER (x)
FY2006	8,530	29	921	9.3	71	22.0
FY2007	11,653	37	1,329	11.0	18	18.7
FY2008E	15,207	30	1,723	14.2	30	14.4
FY2009E	17,169	13	2,015	16.7	17	12.3

(EPS numbers for FY07, FY08 and FY09 are on a fully diluted basis)

Sintex Industries achieved a strong 45%yoy growth in profitability for FY07, with revenues crossing US$250m mark. The year was marked with a sharp expansion in return ratios led by changing sales mix towards asset light prefabs business. We remain excited on the company's prospects as product segments like prefabs, custom moulding are far being mature, opportunity space is large and ability to scale-up business has been demonstrated amply. Sintex offers strong growth visibility with further expansion in return ratios. We maintain our FY08 and FY09E estimates on the company at Rs14.3/share and Rs16.7/share respectively- inorganic growth, though delayed would add further upside to our growth numbers. Maintain Outperformer.

❑ Quarterly result highlights

Sintex reported a strong 20%yoy growth (35% on a sequential basis) in revenues. More importantly, operating margins registered a strong expansion of 530bps to 20.4% during the quarter, largely led by a sharp expansion in margins for textiles business and changing sales mix in plastics business. Margins (EBIT) in the textiles business expanded from 18.6% in the corresponding quarter last year to 31.3%. This was led by a combination of (a) strong ramp-up in volumes with European joint venture partner (name not disclosed) (b) change in accounting policy with regard to trading volumes-earlier the company used to pass trading volumes both through the revenue and expenditure line, which has now been changed to account only for the value addition in the revenue line. Overall net profit of Rs540m for Q4FY07 was marginally higher than our estimates.

❑ Strong expansion in return ratio's

We continue to believe that unlike Sintex's traditional businesses new businesses, particularly prefabs are asset-light and hence there is likely to be strong expansion in return ratio's. Prefabs is a service orientated business and consumes relatively less capital for growth. Sintex has sales to capital ratio of 1.3x for prefabs compared to 0.9x for water tanks. In line with our view, return ratio's have registered a sharp improvement in FY07-RoCE has expanded from 14% in FY06 to 19.1% in FY07 (inspite of high cash balance on books).

❑ Electrical accessories - Growth on the fast track

Sintex is currently working with several state electricity boards across the country for supplying equipment like SMC enclosures, polymeric enclosures and cross arms for power transmission grids. Sintex has received tremendous breakthrough in this line of business-the recently commissioned Kutch unit is dedicated towards electrical accessories products - the company is planning to quadruple the capacity here from 4,000 tonnes / p.a. to 16,000 tonnes /p.a. to cater to the increasing demand, particularly from private companies operating in the power distribution space. Management continues to maintain its guidance of 70-90% CAGR in this business over the next 2-3 years. Order book position in custom molding business, majority of which is towards electrical accessories stood at Rs3bn as on Mar'07.

❑ Prefabs - Newer growth avenues

Prefabs business continues to offer tremendous growth visibility for Sintex with new product launches, introduction of new technology and increasing product applications. Nationwide launch of prefabs (5 units across India by Oct'07) would drive strong growth momentum. Each prefab unit costs ~Rs550m and is likely to generate Rs2bn of revenues. Sintex has also recently increased the number of product offerings from 11 to 14 in the prefabs segment. The prefabs order book position is around Rs12bn (a significant increase from 7bn in Dec'06). In line with the company's strategy of identifying new application opportunities, Sintex has begun importing Pre-Engineering Building and jacketing of steel, plastic and other materials to manufacture walling and cladding elements used in factory sheds and insulated roofing sheets. Sintex is considering setting up a manufacturing facility for the same. Additionally, Sintex has also obtained exclusive marketing rights for the Indian territory from Polyjohn, US for its prefabricated portable toilets.

❑ Zeppelin-Exciting product launches ahead

Sintex has a 74% controlling stake in Zeppelin Mobile System India (ZMSIL), which is into designing and commissioning of sophisticated polyurethane foam based shelters and structures for the telecom sector. The company intends to launch mobile hospitals, refrigerated bodies and other multi-purpose shelters in a big way for the Indian market. Further, the company is also increasing its shelter manufacturing capacity from 6,000/ p.a. now to 17,000/p.a.

❑ In-organic growth: Delays; but plans firmly in place

Sintex is actively looking at large inorganic growth opportunities to strengthen its presence in niche plastic applications with focus on high-end applications for auto and other industrial plastics. The company believes that plastic-based auto components industry is a huge upcoming opportunity as the share of plastic components in the overall mix is increasing steadily. Very recently, Tata Motors has stated its intention to seek regulatory permission to use plastic components for its new automobiles. This can potentially open up a huge opportunity for companies like Sintex, which are geared towards introducing innovation in plastic technology. Sintex is also aggressively looking at inorganic growth options in the prefabs business. Management informed that it has identified a potential target opportunity in Europe but the same has been delayed on account of certain regulatory permissions, which it expects to receive over the next few months.

❑ Reiterate Out performer

We believe Sintex's ability to identify and explore new scalable business opportunities remains impressive. We remain bullish on the company given its strong growth visibility and expected expansion in return ratios. . We remain bullish on the company given its strong growth visibility and expected further expansion in return ratios. We maintain our FY08 and FY09E estimates on the company at Rs14.3/share and Rs16.7/share respectively- inorganic growth, though has been delayed would add further upside to our growth numbers. Maintain Outperformer.

Quarterly financial summary

Particulars (Rs m)	4QFY06	FY2006	1QFY07	2QFY07	3QFY07	4QFY07	FY2007
Net Sales	**3,180**	**8,530**	**2,317**	**2,667**	**2,846**	**3,823**	**11,653**
Total Expenditure	2,700	7,087	1,913	2,123	2,345	3,045	9,426
Operating Profit	**480**	**1,443**	**404**	**544**	**501**	**778**	**2,227**
Other Income	160	298	67	55	67	80	269
Interest	83	291	80	92	115	129	415
Depreciation	84	307	101	103	105	110	420
Operational PBT	473	1,143	291	403	348	619	1,661
Extra-ordinary items	-	-	-	-			
PBT	473	1,143	291	403	348	619	1,661
Current tax	(15)	223	72	84	25	35	216
Deferred tax	80		2	2	62	45	111
PAT	**409**	**921**	**217**	**318**	**261**	**540**	**1,335**
Less: Minority Interest		3	2	2	(0)	6	
Adjusted PAT	409	921	214	316	259	540	1,329
Growth (%, yoy)							
Net Sales	31.5	29	57.9	49.5	35.4	20.2	36.6
Operating profit	11.1	62	59.9	70.8	27.9	62.1	54.3
PAT	63.2	71	49.6	94.6	28.3	32.1	45.0
Margins							
OPM	15.1	16.9	17.4	20.4	17.6	20.4	19.1
NPM	12.8	13.4	9.4	11.9	9.2	14.1	11.5
Tax rate	13.7	19.5	25.4	21.3	25.0	12.8	19.6

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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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