

## CONCALL UPDATE

### MID CAP

#### Share Data

Reuters code	SNTX.BO
Bloomberg code	SINT IN
Market cap. (US\$ mn)	790
6M avg. daily turnover (US\$ mn)	4.5
Issued shares (mn)	136
Target price (Rs)	261

#### Performance (%) 1M 3M 12M

Absolute	7	5	72
Relative	3	3	(11)

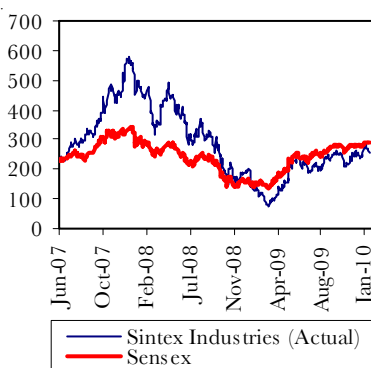
#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	21.4	25.5
+/- (%)	(9.7)	19.2
PER (x)	12.3	10.3
PBV (x)	1.9	1.7
Dividend/Yield (%)	0.6	0.7
EV/Sales (x)	1.4	1.1
EV/EBITDA (x)	9.0	7.0

#### Major shareholders (%)

Promoters	30
FHs	32
MFs	18
Public & Others	20

#### Relative performance



## Sintex Industries

## Maintain Outperformer

Price: Rs 264

BSE Index: 17,641

18 January 2010

### Strong guidance for 4QFY10 and FY11

Sintex Industries foresees a 25-30% growth in sales and profits in FY11 over a ~10% growth in PAT in FY10. The management expects an overall improvement in the business except BT Shelters. The international subsidiaries may post a low growth in sales but margins expansion would drive profitability. Sintex forecasts to meet its earlier guidance of Rs 6.5-7 bn revenue from the monolith construction segment for FY10, implying sales of Rs 3-3.5 bn in 4QFY10 as compared to Rs 3.4 bn in 9MFY10. The management states that work at the sites is proceeding well but due to the 'project completion' method of revenue recognition, the lumpiness is significant.

Sintex, as a co-developer, is looking to execute a ~Rs 1 bn project to develop dwelling units near Kalol. The construction will be based on monolith construction method.

The write-off of US\$ 6-7 mn on account of the bankruptcy filing by Geiger Technologies would be routed via the balance sheet and not P&L.

### Outlook and valuation

The revenue from monolith construction segment and to some extent from prefabs is lumpy creating a mismatch in expectations and actual delivered. In 9MFY10, from the monolith construction segment, Sintex has achieved sales of Rs 3.4 bn and for FY10 it plans to book sales of Rs 6.5-7 bn, implying revenue recognition of Rs 3-3.5 bn in 4QFY10. On a conservative basis, we expect Sintex to book Rs 2.2 bn in revenue.

We expect Sintex to achieve a PAT of Rs 2.92 bn (EPS Rs 21.4) in FY10 as we forecast lower revenue from the monolith construction segment at Rs 5.7 bn. If we assume Sintex would post revenue of Rs 7 bn at 19% operating margins, then our consolidated PAT would increase to Rs 3.26 bn (EPS Rs 23.9).

In FY11, we assume Sintex to book revenue of Rs 7.6 bn from monolith construction business, and upwards of this would provide the biggest upside delta to our earnings estimate of Rs 3.5 bn (EPS Rs 25.5). Monolith construction segment would post operating margins of ~19%.

We currently have a target price of Rs 261 based on SOTP valuing Sintex at 6.9x FY11E consolidated EBITDA. In FY11, if we assume Rs 9 bn of execution in the monolith construction business (against Rs 7.6 bn), 15% growth in prefabs (against 10%) and a 10% growth in textiles (against 5% growth), our PAT estimate for FY11 would rise to Rs 3.8 bn and target price would be Rs 285. (at 6.9x FY11E EBITDA).

## Conference call highlights

### Monolith construction and prefabs segment

The margins in the prefabs segment were down as the product mix changed and in the monolith construction segment as expenses were booked but revenue commensurate to it were not booked which resulted in a fall in margins to ~16% from 20%+ margins in the previous few quarters.

The prefabs revenue was mainly led by orders executed for the utility segment (60% of sales) and the service income. The revenue from the BT Shelters business virtually dried up. In FY09, Sintex recorded revenue of Rs 4 bn from BT Shelters while in 9MFY10 the amount was Rs 0.6 bn.

As the revenue booked for BT Shelters was negligible, so the other operating income from providing installation services and allied activities also declined.

Sintex plans to book revenue of Rs 3.1-3.6 bn in 4QFY10 in the monolith construction segment led by completion of a few projects. Sintex has an order book of Rs 16.7 bn in the monolith construction segment at the end of 3Q.

Sintex will co-develop housing for 290 families near Kalol along with a developer. The project would be of ~Rs 1 bn and will be based on the monolith construction technology.

### B&K's view

On a conservative basis, we have factored in lower execution of Rs 2 bn in 4QFY10 in the monolith construction segment. For FY11 our revenue assumptions are lower than that guided by the Sintex management and the street consensus as the Rs 16.7 bn order book also takes into account the orders for which Sintex has received the LoI in addition to orders for which the 'Work Order' has been received.

We assume Sintex would achieve 19% operating margins in the business.

### Custom mouldings segment

The profitability of the domestic custom mouldings business declined sequentially led by the rise in cost of raw materials (polymers). The management expects the margins to even out in 4QFY10.

In FY10, Sintex along with Bright has added General Motors, TVS Motor and Schneider as its client and Wausauke has added Harley Davidson.

Sintex is looking to improve the operating margins of Nief by reducing the proportion of revenue contributed by automotive from the current ~55% to ~25% in the next few years while increasing the proportion of business from aerospace and defence. Sintex is also looking to reduce the proportion of manufacturing done in France and is looking to increasing the contribution of the Eastern European plants of Nief to its total sales.

For the international subsidiaries, Sintex is focusing on improving the profitability of these companies as an aggressive revenue growth may not come through in a overall slow growth developed markets of North America and Western Europe.

The loss of US\$ 6-7 mn that will be recognised in FY10 led by write-off of investment in Geiger Technologies, will not be passed through the P&L account but will be adjusted directly in the balance sheet.

Sintex is looking to acquire a polymer composite company abroad in the near term but the major acquisition is still some time away.

### B&K's view

We expect only a marginal pressure on the operating margins of the standalone custom mouldings segment at 17% (including tanks) in FY10 and a improvement in FY11. We forecast a 15% growth in FY11E for Bright Auto Plast and expect US\$ 40 mn revenue for Wausaukee with an improvement in margins.

### Textiles

Sintex caters to the demand for high end cotton fabrics demand which is seeing a lag in pick-up but should post strong volumes in FY11. Sintex expects the margins of the textiles business to improve in 4Q led by higher capacity utilisation and should post a further improvement in FY11.

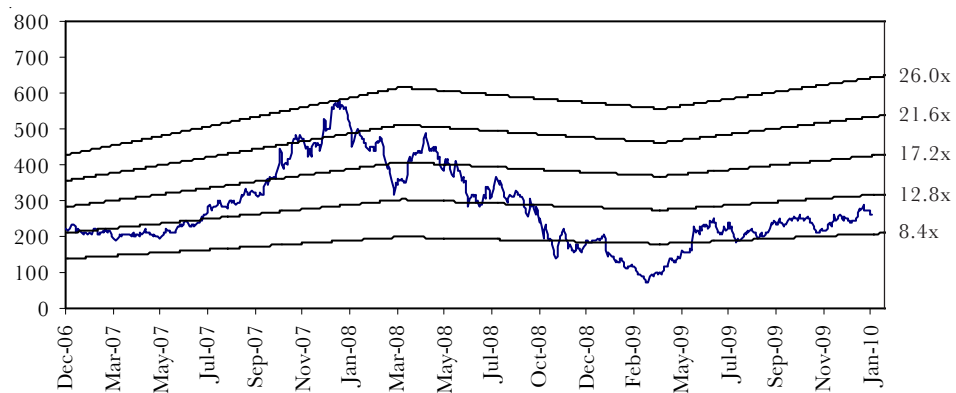
### B&K's view

We have assumed Sintex will post at least a 5% growth in FY11 and better operating margins, as the utilisation improves.

### Break-up of standalone financials

(Rs mn)	3QFY09	4QFY09	FY09	1QFY10	2QFY10	3QFY10	4QFY10	FY10
<b>Prefab</b>	<b>2,340</b>	<b>2,040</b>	<b>8,280</b>	<b>1,313</b>	<b>1,030</b>	<b>1,410</b>	<b>1,776</b>	<b>5,529</b>
Growth YoY (%)	49.1	(38.2)	—	(33.2)	(46.7)	(39.7)	(12.9)	—
Growth QoQ (%)	21.0	(12.8)	—	(35.6)	(21.6)	36.9	26.0	—
Prop. of Standalone Sales (%)	46.3	38.2	—	36.8	24.7	27.2	26.0	—
<b>Monolith construction</b>	<b>1,100</b>	<b>1,400</b>	<b>4,500</b>	<b>930</b>	<b>1,170</b>	<b>1,290</b>	<b>2,250</b>	<b>5,640</b>
Growth YoY (%)	120.0	180.0	—	(2.1)	11.4	17.3	60.7	—
Growth QoQ (%)	4.8	27.3	—	(33.6)	25.8	10.3	74.4	—
Prop. of Standalone Sales (%)	21.8	26.2	—	26.0	28.1	24.9	33.0	—
<b>Textiles</b>	<b>945</b>	<b>1,049</b>	<b>3,710</b>	<b>759</b>	<b>762</b>	<b>890</b>	<b>1,000</b>	<b>3,411</b>
Growth YoY (%)	1.7	9.0	—	(8.4)	(14.1)	(5.9)	(4.7)	—
Growth QoQ (%)	6.6	11.0	—	(27.6)	0.3	16.8	12.4	—
Prop. of Standalone Sales (%)	18.7	19.7	—	21.3	18.3	17.1	14.7	—
<b>Plastics (including tanks)</b>	<b>669</b>	<b>846</b>	<b>2,386</b>	<b>570</b>	<b>1,200</b>	<b>1,600</b>	<b>1,800</b>	<b>5,170</b>
Growth YoY (%)	—	—	—	56.3	137.2	139.2	112.7	—
Growth QoQ (%)	32.2	26.5	—	(32.7)	110.5	33.3	12.5	—
Prop. of Standalone Sales (%)	13.2	15.9	—	16.0	28.8	30.8	26.4	—
<b>Total Sintex Standalone</b>	<b>5,054</b>	<b>5,336</b>	<b>18,876</b>	<b>3,572</b>	<b>4,162</b>	<b>5,190</b>	<b>6,826</b>	<b>19,750</b>
Growth YoY (%)	—	—	—	(13.1)	(4.9)	2.7	27.9	—
Growth QoQ (%)	15.5	5.6	—	(33.0)	16.5	24.7	31.5	—

## PER Band



Source: B&amp;K Research

## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>22,544</b>	<b>30,622</b>	<b>32,073</b>	<b>36,509</b>
Growth (%)	93.5	35.8	4.7	13.8
Operating expenses	(18,915)	(26,139)	(27,526)	(31,077)
Operating profit	3,629	4,484	4,548	5,432
Other operating income	236	685	375	500
<b>EBITDA</b>	<b>3,865</b>	<b>5,169</b>	<b>4,923</b>	<b>5,932</b>
Growth (%)	73.5	33.7	(4.8)	20.5
Depreciation	(765)	(1,144)	(1,233)	(1,304)
Other income	365	878	835	775
<b>EBIT</b>	<b>3,465</b>	<b>4,903</b>	<b>4,525</b>	<b>5,403</b>
Interest paid	(643)	(820)	(752)	(762)
Pre-tax profit	2,822	4,083	3,773	4,641
(before non-recurring)				
Non-recurring items	0	0	(68)	0
Pre-tax profit	2,822	4,083	3,705	4,641
(after non-recurring)				
Tax (current + deferred)	(698)	(826)	(815)	(1,114)
Net profit (before Minority Interest, Pref. Dividend, etc.)	2,124	3,257	2,890	3,527
Minority interests	(19)	(23)	(37)	(45)
Reported PAT	2,105	3,235	2,853	3,482
<b>Adjusted net profit</b>	<b>2,105</b>	<b>3,235</b>	<b>2,920</b>	<b>3,482</b>
Growth (%)	58.5	53.6	(9.7)	19.2

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	16,934	13,386	10,759	13,205
Other current assets	12,575	15,541	16,300	18,196
Investments	31	118	118	118
Net fixed assets	16,422	21,997	20,837	20,556
Other non-current assets	0	312	0	0
<b>Total assets</b>	<b>45,961</b>	<b>51,353</b>	<b>48,014</b>	<b>52,074</b>
Current liabilities	10,046	9,348	9,369	10,723
Total debt	19,263	22,964	19,015	18,515
Other non-current liabilities	1,069	1,731	1,069	1,069
<b>Total liabilities</b>	<b>30,378</b>	<b>34,043</b>	<b>29,453</b>	<b>30,307</b>
Share capital	271	271	271	271
Reserves & surplus	15,121	16,778	18,001	21,208
Less: Misc. expenditure	(12)	(2)	(12)	(12)
<b>Shareholders' funds</b>	<b>15,380</b>	<b>17,047</b>	<b>18,261</b>	<b>21,467</b>
Minorities interests	203	263	300	300
<b>Total equity &amp; liabilities</b>	<b>45,961</b>	<b>51,353</b>	<b>48,014</b>	<b>52,074</b>
<b>Capital employed</b>	<b>35,915</b>	<b>42,006</b>	<b>38,645</b>	<b>41,351</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	2,822	4,083	3,705	4,641
Depreciation	765	1,144	1,233	1,304
Change in working capital	(1,048)	(3,662)	(738)	(542)
Total tax paid	(352)	(476)	(1,166)	(1,114)
<b>Cash flow from oper. (a)</b>	<b>2,187</b>	<b>1,089</b>	<b>3,034</b>	<b>4,289</b>
Capital expenditure	(12,231)	(6,757)	(73)	(1,022)
Change in investments	(1,367)	1,433	0	0
Others	1,951	47	(9)	0
<b>Cash flow from inv. (b)</b>	<b>(11,646)</b>	<b>(5,277)</b>	<b>(82)</b>	<b>(1,022)</b>
<b>Free cash flow (a+b)</b>	<b>(9,459)</b>	<b>(4,187)</b>	<b>2,952</b>	<b>3,266</b>
Equity raised/(repaid)	6,099	(2,116)	0	0
Debt raised/(repaid)	12,372	3,702	(3,949)	(500)
Dividend (incl. tax)	(162)	(178)	(246)	(276)
Others	765	736	(1,170)	(45)
<b>Cash flow from fin. (c)</b>	<b>19,073</b>	<b>2,143</b>	<b>(5,366)</b>	<b>(820)</b>
<b>Net change in cash (a+b+c)</b>	<b>9,614</b>	<b>(2,044)</b>	<b>(2,413)</b>	<b>2,446</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	17.9	23.7	21.4	25.5
Growth	46.6	32.7	(9.7)	19.2
Book NAV/share (Rs)	132.2	126.8	136.0	159.5
Dividend/share (Rs)	1.2	1.1	1.5	1.7
Dividend payout ratio	7.6	5.5	8.4	7.9
Tax	24.7	20.2	22.0	24.0
EBITDA margin	17.0	16.5	15.2	16.0
EBIT margin	15.2	15.7	13.9	14.6
RoCE	13.8	12.6	11.2	13.5
Net debt/Equity	14.9	55.3	44.5	24.4

## Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	14.8	11.1	12.3	10.3
PCE	10.8	8.2	8.7	7.5
Price/Book	2.0	2.1	1.9	1.7
Yield (%)	0.4	0.4	0.6	0.7
EV/Net sales	1.7	1.5	1.4	1.1
EV/EBITDA	9.9	8.8	9.0	7.0

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	9.3	10.6	9.1	9.5
Asset turnover	0.7	0.6	0.6	0.7
Leverage factor	2.9	3.0	2.8	2.5
Return on equity (%)	19.0	19.7	16.3	17.3

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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