

October 12, 2010

HOLD

Price Rs 423	Target Price Rs 430
Sensex	20,340

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	34	38	72
Rel. to Sensex	5	17	21	41

Source: Bloomberg

Stock Details

Sector	Diversified
Reuters	SNTX.BO
Bloomberg	SINT@IN
Equity Capital (Rs mn)	273
Face Value(Rs)	2
No of shares o/s (mn)	136
52 Week H/L	458/204
Market Cap (Rs bn/USD mn)	59/1,329
Daily Avg Volume (No of sh)	911979
Daily Avg Turnover (US\$m)	7.7

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	33.8	30.2	30.2
FII/NRI	33.6	28.9	26.1
Institutions	13.7	18.1	20.9
Private Corp	10.9	15.6	15.3
Public	8.0	7.2	7.4

Source: Capitaline

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- **Better margins (monolithic – 23%, custom moldings – 27% and prefabs - 25%) across standalone businesses in Q2FY11 – part of it unsustainable, to normalize in full year numbers**
- **Increasing working capital (~ 135days, assuming Rs4bn of loans & adv. as cash, otherwise 170 days) is a function of monolithic mix increasing, its likely to be a permanent trend**
- **Upgrade EPS by 12-14% in FY11E/12E. Negative FCF in core business; yet plans to invest in oil & gas & power, also looking at acquisition. Cash flows to remain under pressure**
- **Trading at 10.5x FY12E earnings (Rs40.2/Share), the earnings growth in FY10-FY12E – 29% is lower than past 7 year's growth at 33%, however valuations similar, maintain hold**

Exceptional margins in standalone businesses & forex gain of Rs160mn

Sintex's Q2FY11 numbers were above our estimates. This was mainly because of (1) higher EBITDA margins in standalone business (23.3% versus estimate of 20.4%), (2) higher monolithic revenues Rs2.4bn versus expectations of Rs1.8bn, (3) higher revenues in Nief Rs2.3bn versus expectation of Rs1.9bn and (4) forex gain of Rs160mn (pertaining to FCCBs). In the standalone businesses EBITDA margins of monolithic - 23.5%, custom moldings - 26.5% and prefabs – 25.5% were significantly above our estimates. However, a part of the higher margins should even out during next two quarters. Further, there was a forex gain of Rs160mn related to FCCBs brought in India. Accounting for higher revenues and better margins, we are increasing our earnings estimates by 12-14% in FY11E/12E to Rs31.8/share and Rs40.2/share respectively.

Working capital to remain higher

Management in the concall attributed the increased working capital cycle to monolithic construction. With the contribution increasing going forward, working capital cycle in further likely to increase. This has been our key concern. Assuming Rs4bn of loans and advances as cash, the working capital cycle stands at 133days currently, otherwise 170 days. We have considered a working capital cycle of 133 days in our numbers.

Negative FCF is a cause of concern

Assuming organic capex of Rs6.3bn during next two years, we highlight that FCF is negative to the tune of Rs2.0bn. Historically also, Sintex has never generated positive free cash flows. Further Sintex's management has shown an intent to (1) take a stake in 1000MW power plant put up by promoters, (2) invest in oil and gas exploration, (3) acquire a company in construction domestically (Rs2-3bn) and (4) acquire custom molding companies overseas. This is likely to further squeeze the cash flows.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE		EV/	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA P/BV
FY09	31,324	5,186	16.6	3,253	24.0	(33.7)	20.1	17.6	14.3 3.4
FY10	33,191	5,379	16.2	3,289	24.3	115.7	18.0	17.4	13.8 2.9
FY11E	43,047	7,433	17.3	4,309	31.8	12.8	20.0	13.3	10.0 2.4
FY12E	52,021	9,336	17.9	5,453	40.2	9.5	20.9	10.5	7.9 2.0

Consolidated Balance Sheet (Rsmn)	FY08	FY09	FY10	H1FY11
Equity Capital	271	271	271	271
Share Premium	8851	6735	6735	6735
Other Reserves	6270	10043	12463	14810
Net Worth	15392	17049	19469	21816
FCCBS	8989	11464	10106	10106
Prov. for premium on FCCB	2631	2631	2631	2631
Other Debt	10273	11499	16197	16645
Total Debt	21893	25594	28934	29382
Deferred Tax Liabilities	1069	1419	1693	1727
Minority Interest	203	263	189	143
Total Liabilities	38557	44325	50285	53068
Net Block	12027	17422	18289	21844
Capital WIP	2550	2377	1262	0
Goodwill	1855	2199	2665	2602
Inventories	3022	3771	3411	3994
Debtors	7938	8094	10121	12269
Advances	1615	3675	5156	8198
Total Current Assets	12575	15540	18688	24461
Less Current Liabilities	6086	5665	4507	6352
Provisions	1329	1052	876	712
Net Current Assets	5160	8823	13305	17397
Cash & Bank	16965	13504	14765	11225
Total Assets	38557	44325	50286	53068
Net Debt	4928	12090	14169	18157
Average Working Capital Days	55	83	123	172

Consolidated Cash Flow (Rsmn)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Adjusted PAT	186	237	321	507	919	1332	2319	3275	3310	4337	5488
Add: Depreciation	227	221	226	283	311	420	765	1144	1445	1514	1682
Def. Tax	8	27	100	129	49	111	256	79	0	0	0
Cash Profit	421	485	647	919	1279	1863	3340	4498	4754	5852	7169
Less: non Operational income	19	25	74	33	102	206	0	0	0	0	0
Change In WC	-134	158	91	260	-473	164	3499	3663	4482	4396	4292
OCF	537	302	481	625	1650	1493	-159	835	272	1455	2877
Capex	167	725	342	512	1600	2436	12231	6756	1664	2914	3360
Investment in Subsidiaries	0	0	112	0	-82	0	0				
Other Investing activities	19	19	13	0	0	0	0				
FCF To Eq. (Excl. Debt)	351	-441	14	113	132	-943	-12390	-5921	-1391	-1458	-483

Trading at average historical valuations despite lower growth, Maintain Hold

At CMP of Rs423, stock is trading at 10.5x FY12E earnings (Rs40.2/Share). The earnings growth in FY10-FY12E at 29% is lower than past 7 year's growth at 33%. However valuations are similar. During past 7 years, Sintex has traded at an average of 10.7x 1-yr fwd earnings. Considering (1) relatively lower earnings growth even after upgrade but similar valuations, (2) negative cash flows, (3) increasing working capital cycle, we do not see significant upside from current levels. We maintain 'Hold ratings with a price target of Rs430/share (earlier Rs325/Share), valuing the stock at 7-yr average PER of 10.7x.

Segmental built up - Yearly

YE-Mar	Revenues				EBITDA %				EBITDA				PAT			
	FY09	FY10	FY11E	FY12E	FY09	FY10	FY11E	FY12E	FY09	FY10	FY11E	FY12E	FY09	FY10	FY11E	FY12E
Textiles	3710	3462	4154	4778	27.9%	20.2%	24.5%	25.0%	1035	699	1016	1195	435	132	319	458
Monolithic	4520	7200	10440	14094	19.0%	19.4%	19.4%	20.0%	859	1396	2025	2819	539	928	1292	1840
Standalone Prefabs	5730	4309	5185	6242	18.1%	18.3%	20.0%	20.0%	1039	789	1037	1248	767	554	741	916
St. Custom Mold.	3440	3540	4362	5075	22.0%	22.7%	22.9%	23.0%	755	805	998	1166	310	441	343	429
Water Tanks	1430	1600	1664	1731	7.4%	9.9%	8.0%	8.0%	105	158	133	138	31	70	49	55
Bright Brothers	1270	1911	2867	4013	16.1%	13.7%	15.5%	16.0%	205	262	444	642	87	94	209	329
Zeppelin	1108	1338	1204	1325	16.0%	12.3%	9.0%	10.0%	177	165	108	132	75	59	51	68
Nief	7503	7891	9075	9801	12.0%	12.1%	13.0%	13.5%	900	954	1180	1323	382	343	555	679
WCI	1914	1557	1822	1968	6.0%	10.2%	8.0%	10.0%	115	159	146	197	49	57	69	101
Sintex Infra			1800	2520			19.0%	19.0%			342	479			190	280
Other Oper. Income	685	375	475	475												
Other Income													577	609	482	297
Total	31309	33184	43047	52021	16.6%	16.2%	17.3%	17.9%	5189	5388	7429	9339	3253	3289	4300	5452

Note: other operational income is not included in the businesswise revenues above but it's included in the business margins. The PAT number is a derived number based on businesswise depreciation, interest and tax rate assumptions.

Segmental built up - YTD

YE-Mar	FY11E										FY10					
	Revenues		Revenues Growth		EBITDA		EBITDA %		EBITDA Growth		Revenues		EBITDA		EBITDA %	
	H1 11	H2 11E	H1 11	H2 11E	H1 11	H2 11E	H1 11	H2 11E	H1 11	H2 11E	H1 10	H2 10	H1 10	H2 10	H1 10	H2 10
Textiles	1935	2220	27%	14%	458	558	23.7%	25.1%	44%	55%	1521	1942	319	359	21.0%	18.5%
Monolithic	3590	6850	71%	34%	756	1269	21.0%	18.5%	74%	32%	2100	5100	434	962	20.7%	18.9%
Standalone Prefabs	2150	3035	13%	27%	435	602	20.2%	19.8%	23%	38%	1910	2399	353	436	18.5%	18.2%
St. Custom Mold.	1601	2761	23%	23%	343	655	21.4%	23.7%	25%	23%	1300	2240	275	530	21.1%	23.7%
Water Tanks	880	784	4%	5%	62	72	7.0%	9.1%	-25%	-7%	850	750	82	77	9.6%	10.2%
Bright Brothers	1214	1653	49%	51%	178	267	14.6%	16.1%	41%	96%	816	1095	126	136	15.5%	12.4%
Zeppelin	494	710	-	6%	42	67	8.4%	9.4%	-60%	9%	667	671	104	61	15.6%	9.1%
Nief	4527	4547	22%	9%	596	584	13.2%	12.8%	53%	3%	3715	4177	389	565	10.5%	13.5%
WCI	919	903	23%	12%	71	75	7.7%	8.3%	-17%	2%	749	809	86	73	11.5%	9.1%
Sintex Infra	600	1200			143	199	23.9%	16.6%								
Other Oper. Income Reported	51	46									149	227				
Other Income	378															
Total	18337	24708	33%	27%	3084	4345	16.8%	17.6%	42%	36%	13776	19409	2167	3200	15.7%	16.5%

Segmental built up - Quarterly

YE-Mar	Revenues			EBITDA Margins		
	Q2FY10	Q1FY11	Q2FY11	Q2FY10	Q1FY11	Q2FY11
Textiles	762	987	948	18.0%	23.0%	24.4%
Monolithic	1170	1760	1830	26.0%	18.5%	23.5%
Standalone Prefabs	1030	1140	1010	24.0%	15.5%	25.5%
St. Custom Mold.	740	871	730	28.0%	17.2%	26.5%
Water Tanks	438	440	440	13.0%	7.0%	7.0%
Bright Brothers	439	554	660	15.0%	16.0%	13.5%
Zeppelin	380	243	251	16.8%	12.0%	5.0%
Nief	1794	2287	2240	9.2%	13.5%	12.8%
WCI	367	419	500	12.0%	11.0%	5.0%
Other Oper. Income Reported	42	27	24			
Sintex Infra			600			23.9%
Additional Subsidiary Reven		378				
Total	7162	9106	9233			

Key Financials - Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Revenue	7,154	8,478	10,936	9,106	9,231	29.0	1.4
Expenditure	-5,917	-7,209	-9,003	-7,733	-7,515	27.0	-2.8
as % of sales	-82.7%	-85.0%	-82.3%	-84.9%	-81.4%		
Consumption of RM	-3,502	-4,828	-6,483	-5,018	-4,943	41.1	-1.5
as % of sales	-49.0%	-56.9%	-59.3%	-55.1%	-53.5%		
Power and Fuel	0	0	0	0	0		
as % of sales	0	0	0	0	0		
Other Mfg Expenses	0	0	0	0	0		
as % of sales	0	0	0	0	0		
Employee Cost	-947	-1107	-1268	-1175	-1078	13.8	-8.3
as % of sales	-13.2%	-13.1%	-11.6%	-12.9%	-11.7%		
Other expenditure	-1467	-1275	-1252	-1540	-1494	1.8	-3.0
as % of sales	-20.5%	-15.0%	-11.5%	-16.9%	-16.2%		
EBITDA	1,237	1,269	1,932	1,374	1,716	38.7	24.9
Depreciation	-372	-355	-351	-363	-357	-4.0	-1.7
EBIT	865	913	1,581	1,011	1,359	57.1	34.5
Other Income	48	249	222	202	272	462.1	34.6
Interest	-157	-175	-257	-249	-266	69.3	6.9
PBT	757	988	1,546	964	1,365	80.4	41.6
Total Tax	-174	-260	-156	-174	-363	108.6	109.1
Adjusted PAT	583	728	1390	790	1002	72.0	26.8
Extra ordinary items	0	0	0	0	0		
Reported PAT	583	728	1390	790	1002	72.0	26.8
(Profit)/loss from JV's/Ass/MI	-10	-3	-2	-2	-1	-90.3	-52.6
PAT after MI	572	724	1387	788	1001	74.9	27.0
Reported EPS	4.2	5.3	10.2	5.8	7.4	74.9	27.0

Margins (%)						(bps)	(bps)
EBIDTA	17.3	15.0	17.7	15.1	18.6	130	351
EBIT	12.1	10.8	14.5	11.1	14.7	263	363
EBT	10.6	11.7	14.1	10.6	14.8	421	420
PAT	8.0	8.5	12.7	8.7	10.8	285	219
Effective Tax rate	23.0	26.3	10.1	18.0	26.6	360	858

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	31,324	33,191	43,047	52,021
Growth (%)	37.0	6.0	29.7	20.8
Expenditure	26,138	27,812	35,615	42,685
Raw Materials	16,151	17,985	22,830	27,676
Construction Exp	5,025	5,168	6,680	7,998
Employee Cost	4,142	4,389	5,757	6,590
Other Exp	820	270	348	421
EBITDA	5,186	5,379	7,433	9,336
Growth (%)	31.1	3.7	38.2	25.6
EBITDA margin (%)	16.6	16.2	17.3	17.9
Depreciation	1,144	1,445	1,514	1,682
EBIT	4,042	3,935	5,918	7,655
EBIT margin (%)	12.9	11.9	13.7	14.7
Other Income	878	878	740	460
Interest expenses	820	731	1,159	1,159
PBT	4,100	4,082	5,500	6,956
Tax	825	772	1,162	1,468
Effective tax rate (%)	20.1	18.9	21.1	21.1
Adjusted PAT	3,275	3,310	4,337	5,488
(Profit)/loss from JV's/Ass/MI	-22	-21	-28	-35
Adjusted PAT after MI	3,253	3,289	4,309	5,453
Growth (%)	50.8	1.1	31.0	26.5
Net Margin (%)	10.4	9.9	10.0	10.5
E/O items	0	0	0	0
Reported PAT	3,253	3,289	4,309	5,453
Growth (%)	41.4	1.1	31.0	26.5

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	3,222	3,204	4,760	6,496
Depreciation	1,144	1,445	1,514	1,682
Interest Provided	820	731	1,159	1,159
Other Non-Cash items	0	0	0	0
Chg in working cap	-3,386	-4,306	-4,665	-4,513
Tax paid	-1,094	-947	-894	-1,247
Operating Cashflow	707	126	1,874	3,576
Capital expenditure	-6,719	-1,664	-2,914	-3,360
Free Cash Flow	-6,013	-1,537	-1,040	216
Other income	878	878	740	460
Investments	-87	0	0	0
Investing Cashflow	-5,928	-786	-2,173	-2,900
Equity Capital Raised	-2,556	-95	0	0
Loans Taken / (Repaid)	3,702	3,340	0	0
Interest Paid	-820	-731	-1,159	-1,159
Dividend paid (incl tax)	-207	-205	-196	-242
Income from investments	1,555	-389	-33	-41
Others	0	2	0	0
Financing Cashflow	1,674	1,922	-1,388	-1,442
Net chg in cash	-3,548	1,263	-1,687	-766
Opening cash position	16,935	13,387	14,648	12,960
Closing cash position	13,387	14,650	12,961	12,195

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	271	271	271	271
Reserves & surplus	16,778	19,198	23,278	28,448
Net worth	17,049	19,469	23,549	28,719
Minority Interest	263	189	217	252
Secured Loans	25,594	28,934	28,934	28,934
Unsecured Loans	0	0	0	0
Loan Funds	25,594	28,934	28,934	28,934
Net deferred tax liability	1,419	1,693	1,693	1,693
Total Liabilities	44,325	50,285	54,394	59,599
Gross Block	25,986	28,765	32,241	35,349
Less: Depreciation	6,366	7,811	9,325	11,006
Net block	19,620	20,954	22,916	24,342
Capital work in progress	2,377	1,262	699	952
Investment	117	117	117	117
Current Assets	28,927	33,336	37,591	42,451
Inventories	3,771	3,411	4,562	5,445
Sundry debtors	8,094	10,121	13,455	16,694
Cash & bank balance	13,387	14,648	12,960	12,195
Loans & advances	3,675	5,156	6,613	8,118
Other current assets	0	0	0	0
Current lia & Prov	6,717	5,383	6,929	8,263
Current liabilities	5,665	4,507	5,784	6,897
Provisions	1,052	876	1,145	1,366
Net current assets	22,210	27,953	30,662	34,188
Misc. exp & Def. Assets				
Total Assets	44,324	50,286	54,394	59,599

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	16.6	16.2	17.3	17.9
Net Margin	10.4	9.9	10.0	10.5
ROCE	9.8	8.3	11.3	13.4
ROE	20.2	18.1	20.2	21.0
RoIC	17.0	12.6	15.8	17.6
Per Share Data (Rs)				
EPS	24.0	24.3	31.8	40.2
CEPS	32.5	34.9	43.0	52.7
BVPS	125.8	143.7	173.8	211.9
DPS	1.3	1.2	1.4	1.8
Valuations (x)				
PER	12.0	11.9	9.1	7.2
P/CEPS	8.9	8.3	6.7	5.5
P/BV	2.3	2.0	1.7	1.4
EV / Sales	1.6	1.6	1.3	1.1
EV / EBITDA	9.9	9.9	7.4	6.0
Dividend Yield (%)	0.4	0.4	0.5	0.6
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.7	0.7	0.6
Net Debt/EBIDTA	2.4	2.7	2.1	1.8
Working Cap Cycle (days)	103	146	150	154

Recommendation History: Sintex Industries Ltd – SINT IN

Date	Reports	Reco	CMP	Target
12/10/2010	Sintex Q2FY11 Result Update	Hold	430	325
14/07/2010	Sintex Q1FY11 Concall Update	Hold	330	325
13/07/2010	Sintex Q1FY11 Result Update	Hold	325	325
06/05/2010	Sintex Q4FY10 Result Update	Hold	305	325

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/08/2010	Voltam Transformers Q1FY11 Result Update	Hold	933	955
05/08/2010	GIPCL Q1FY11 Result Update	Buy	113	135
05/08/2010	Indotech Transformers Q1FY11 Result Update	Hold	255	245
10/08/2010	HBL Power Systesm Q1FY11 Result Update	Buy	31	43

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