Sintex Industries

Rs284
OUTPERFORMER

Others

A comeback

Mkt Cap: Rs38.8bn; US$826m

Sintex Industries (Sintex) is making a strong comeback. The year FY10 proved to be tough due to the sharp decline in telecom capex (thereby Sintex's prefabs business) and margin pressure in the textiles business. Recovery in telecom segment is still not in sight even as 3G spending could be a short-term positive. We expect the pressure on telecom business to be countered by (i) a proactive shift in business mix towards rural infrastructure products which would benefit from continued government spending on social schemes; (ii) strong growth witnessed in monolithic segment with order book position of ~Rs21bn (0.64x FY10E sales); and (iii) Sintex's renewed focus on unlocking value in overseas subsidiaries through technology adoption to launch products in the domestic market and supplying intermediate products from Indian operations. This provides high visibility on revenue growth and margin expansion beyond FY11. We conclude that Sintex has emerged stronger from the downturn and a sound management track record in driving both organic growth and delivering value through acquisitions inspires confidence in future growth. We upgrade our FY11 earnings estimate by 1% and introduce our FY12 EPS at Rs38. At 10x and 8.2x FY11E and FY12E earnings respectively, the stock trades at a considerable discount to historical valuations. With Sintex returning to the growth trajectory and expected expansion in RoE; we believe earnings multiple should rebound. Maintain Outperformer with a revised price target of Rs456 per share.

❑ FY10 – a challenging year

A rapid drop in prefabs business from telecom clients, slowdown in industrial capex and sharply lower margins in the textiles business were the key pain points for Sintex in FY10. Commendably, Sinrex still managed to maintain profits on yoy basis for FY10 as the other business segments, particularly government-related prefabs and monolithic segment, clocked in high growth rates. Contrary to market concerns, performance of overseas subsidiaries even in the downturn was not so bad. A confluence of variables including regulatory issues, economic viability and focus on cash conservation impacted tower rollout plans of Indian telecom companies. Business is yet to revive in this segment. Profitability n the textiles business was impacted in FY10 due to lower capacity utilization and negative operating leverage (as the business has high fixed costs). Similarly, electrical accessories business (part of custom moulding segment) also suffered due to slowdown in industrial capex during the year. However, both the textiles business and electrical accessories business have already started showing signs of revival towards the end of FY10.

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Exhibit 1: Sintex – revenue break-up

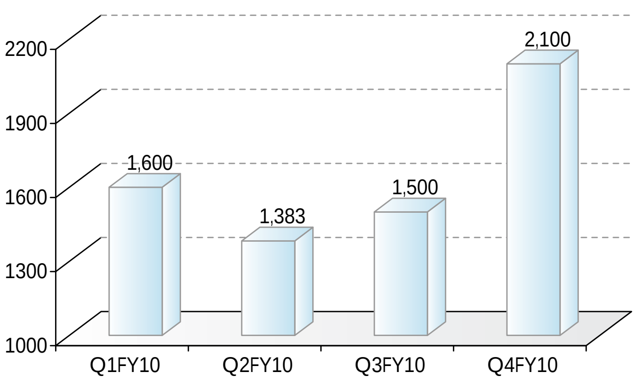
Particulars (Rs m)	FY09	Q3FY10	Q4FY10	FY10	Q-o-Q % growth	Y-o-Y % growth
Textiles business	**3,661**	**890**	**1,052**	**3,463**	**18**	**(5)**
Building materials	**12,780**	**3,460**	**5,460**	**14,464**	**58**	**13**
Monolithic	4,420	1,290	3,810	7,200	195	63
Prefabs	5,695	1,409	990	4,309	(30)	(24)
Zeppelin	1,108	311	360	1,338	16	21
Water tanks	1,557	450	300	1,617	(33)	4
Custom moulding business	**14,174**	**4,007**	**4,310**	**14,901**	**8**	**5**
Custom moulding (S/A)	3,440	1,150	1,090	3,489	(5)	1
WCI	2,036	400	390	1,547	(3)	(24)
Bright	1,266	482	610	1,908	27	51
Nief	7,432	1,975	2,220	7,957	12	7
Total Revenues	**30,615**	**8,357**	**10,822**	**32,828**	**30**	**7**

Source: Company, IDFC Securities Research

❑ Monolithic and government-related prefabs – strong growth prospects

A pick-up in economic activity, particularly capital spending, is translating into better utilization across businesses but for BT Shelters. Sintex continues to have high exposure to government business in the social prefabs business with multiple product offerings in low-cost housing, classroom & healthcare structures and sanitation centres – spending for which is on an upswing. Some new products like bunk houses and agri-sheds are witnessing strong pick-up. In the BT shelters business, telecom companies have considerably curtailed their roll-out plans we do not expect BT the business to rebound in a hurry though 3G rollout could be a short-term positive. Monolithic business has witnessed considerable traction with large orders from new states like Uttar Pradesh and Pondicherry. The total order book position in the monolithic business now stands at ~Rs21bn (2.9x FY10 revenues), providing high visibility beyond FY11. Bright Brothers and domestic custom moulding business too are likely to witness strong growth driven by automobile demand and power sector capital spending respectively. Overall, we expect a 45%yoy increase in building product division revenues for FY11, largely led by government business in prefabs and ramp-up in monolithic

Exhibit 2: Monolithic business – order book growth



Source: Company, IDFC Securities Research

Strong revenue growth ahead

Revenue growth (Rs m)	FY10	FY12E	CAGR FY09-12E (%)
Monolithic construction	7,200	12,600	32
Nief	7,957	8,773	5
Pre-fab *	4,309	5,610	14
Bright	1,908	4,500	54
Textiles	3,463	4,224	10
Custom molding S/A	3,489	5,111	21
Total revenues	**32,828**	**46,169**	**19**

**includes Zeppelin revenues, **includes Nero, Bright Bros, NIEF*

❑ Overseas subsidiaries—renewed focus to unlock value

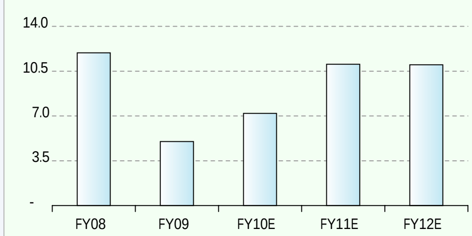
Sintex executed four large acquisitions (NIEF, Nero, Wausaukee and Bright Brothers) in FY08 in the composites space with a three-pronged objective: (a) introduce value-added products in the Indian market; (b) supply intermediate products to the overseas subsidiaries; and (c) cross-sell between subsidiaries as they are in different product segments and different geographies. The acquisitions were designed to not only reduce lead time in getting access to key customers but also to get an instant leg-up on access to technology in the fast growing composites business.

Exhibit 3: Composites business – the building blocks

Company acquired	Product profile & key clients	Acquisition rationale
Wausukee Composites (WCI), U.S - *1 June 2007* • Acquistion price: Rs820m • Acquistion details:5x EV/EBITDA • Cumulative EBITDA FY08-10: Rs317m • Payback period : 3 to 4 years	• Product profile: Medical imaging, mass transit, industrial/ agricultural equipment, wind energy, commercial furnishings, recreation and corrosion-resistant material handling sectors • Key clients: Phillips, Siemens, Hitachi, Toshiba, GE, Caterpillar, New Holland Tractors, Agco, Bobcat, Alstom, Amtrac etc	• Acquisition to help Sintex introduce composites in India with access to superior technology; also enable it to cross-sell its own products
NERO Plastics, U.S. - *3 December 2007* • Acquired by WCI: Rs238m • Acquistion details:5x EV/EBITDA	• Product profile: Heavy equipment, mining, heavy truck, mass transit, medical and sporting good industries • Key clients: Caterpilalr, Motor Coach Industries, and Kenworth Truck.	• Acquisition to bolster WCI's positioning as manufacturer of engineered structural plastic products with increased molding capacity and a diversified product mix

Financials (Rs m)

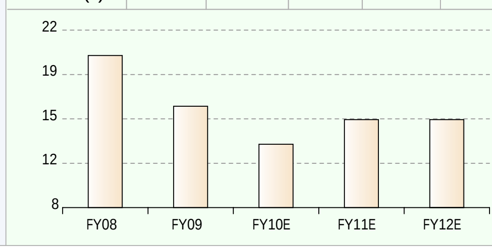
	FY08	FY09	FY10E	FY11E	FY12E
Sales	930	2,036	1,547	1,856	2,042
EBITDA	111	102	111	204	225
OPM (%)	12	5	7	11	11
Total Revenue (%)	500	7	5	5	4



Company acquired	Product profile & key clients	Key rationale
Bright Brothers, India *6 December 2007* • Acquistion price: Rs1.49bn • Acquistion details: 6x EV/EBITDA • Cumulative EBITDA FY08-10: Rs542m • Payback period: 3 to 4 years	• Product profile: Automotive product accessories • Key clients: Maruti, M&M, Hyundai and Tata Motors	• Being Tier I supplier provides: Acquisition direct access to major car manufacturers • We expect Indian facilities to act as 'offshore manufacturing facilities' for global operations with successful transfer of technological know how (from its European and US acquisitions); leading to significant cost savings with increased revenues on account of bundling and cross selling of products

Financials (Rs m)

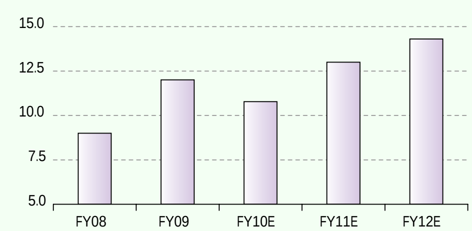
	FY08	FY09	FY10E	FY11E	FY12E
Sales	404	1,266	1,908	3,000	4,500
EBITDA	81	203	248	450	675
OPM (%)	20	16	13	15	15
Total Revenue (%)	2	4	6	8	10



Company acquired	Product profile & key clients	Key rationale
NIEF Plastics, France *1 October 2007* • Acquistion price: Rs1.72bn • Acquistion details: 4x EV/EBITDA • Cumulative EBITDA FY08-10: Rs2.0bn • Payback period: 3 to 4 years	• Product profile: Automotive, electrical accessories, aerospace, defense and mass transit systems • Key clients: Peugeot, Renault, Faurecia, General Motors, Visteon, Schneider, Sagem, Siemens, Legrand, ThyssenKrupp, Areva and Alstom, Snecma, Dassault Aviation, etc.	• Provides immediate opportunity to scale up composite business; enabling entry into high value add products with direct access to European customer base

Financials (Rs m)

	FY08	FY09	FY10E	FY11E	FY12E
Sales	3,489	7,432	7,957	7,945	8,342
EBITDA	314	892	858	1,086	1,254
OPM (%)	9	12	11	13	14
Total Revenue (%)	15	24	24	21	19



Source: Company, IDFC Securities Research

Sintex executed these acquisitions at extremely attractive valuations (5-6x EV/ EBITDA) as they were in niche spaces and largely servicing a single geography. The eventual objective was to integrate all of them into a large scalable business across geographies and product segments. Contrary to market concerns, we believe these acquisitions have done well for the company considering the global downturn though the execution of business plan has not been as smooth as originally envisaged. NIEF, the largest of all acquisitions, has expanded its operating margins from 9% in FY08 to 12% in FY10 on the back of several initiatives undertaken by Sintex – particularly the shift in manufacturing locations and product mix concentration away from automobiles. The original plan though was designed to take the margins up to 16%. We believe that: (a) the shift of supplying intermediate products from India to overseas subsidiaries is likely to accelerate going forward; (b) the company would also benefit from new product launches in India; and (c) commissioning of client-specific dedicated facilities in India. The new Chennai facility in Bright Bros has commenced trial production of electrical accessories and auto components, and is expected to service existing clients including Schneider, Hyundai, Nissan, Ford, TVS as also key tier I suppliers (HANIL, Visteon, Mobis, etc). Sintex is in talks with other global OEMs for long-term outsourcing contracts.

❑ Expect growth to rebound going forward

While profit growth was impacted in FY10, we expect growth to rebound sharply to 27% CAGR over FY10-12E with rapid scale-up in social spending related prefabs business, monolithic and bright brothers. Growth in these businesses, we believe should compensate for a continued slowdown in BT shelters. Our numbers are not building in a further margin expansion in NIEF and other cross-selling initiatives that the company is taking to further unlock value from overseas subsidiaries. This however, provides a growth visibility beyond FY11.

Exhibit 4: Consolidated financials

	FY08	FY09	FY10	FY11E	FY12E
Consolidated revenue break-up (Rs m)					
Sintex S/A -- Textiles	**3,483**	**3,661**	**3,463**	**3,724**	**4,224**
Building materials	**10,486**	**12,780**	**14,464**	**18,747**	**21,520**
Monolithic	2,102	4,420	7,200	10,500	12,600
Prefabs	6,612	5,695	4,309	5,100	5,610
Zeppelin	1,272	1,108	1,338	1,625	1,788
Water tanks	1,558	1,557	1,617	1,522	1,522
Custom moulding business	**7,172**	**14,174**	**14,901**	**17,470**	**20,425**
Custom moulding (S/A)	2,261	3,440	3,489	4,259	5,111
WCI	1,018	2,036	1,547	1,856	2,042
Bright	404	1,266	1,908	3,000	4,500
Nief	3,489	7,432	7,957	8,355	8,773
Total Revenues	**21,141**	**30,615**	**32,828**	**39,941**	**46,169**
EBITDA break-up (Rs m)					
Sintex Plastic business	2,632	2,569	3,415	4,276	4,969
Sintex Textiles business	1,010	1,025	866	722	845
Zeppelien	-	199	114	179	197
NIEF	314	892	858	1,086	1,254
Bright Bros	81	203	248	450	675
WCI	-	102	111	204	225
Total EBITDA	**4,037**	**4,990**	**5,612**	**6,918**	**8,164**

Source: Company, IDFC Securities Research

❑ Reiterate Outperformer with a price target of Rs456 per share

We conclude that Sintex has emerged stronger from the downturn and a sound management track record in driving both organic growth and delivering value through acquisitions inspires confidence in the future performance. We upgrade our FY11 earnings estimate by 1% and introduce our FY12 EPS at Rs38.0. At 10.0x and 8.2x FY11E and FY12E earnings respectively, the stock trades at a considerable discount to historical multiples. With Sintex returning to the growth trajectory and visibility on RoE expansion going forward, we believe earnings multiple should rebound. Maintain Outperformer with a revised price target of Rs456 per share.

Income statement (standalone)

Year to 31 March (Rs m)	FY08	FY09	FY10	FY11E	FY12E
Net sales	**22,742**	**31,355**	**33,192**	**39,941**	**46,169**
% growth	*103.5*	*37.9*	*5.9*	*20.3*	*15.6*
Operating expenses	18,915	26,138	27,811	33,023	38,005
EBITDA	**3,827**	**5,217**	**5,381**	**6,918**	**8,164**
% change	*76.0*	*36.3*	*3.1*	*28.6*	*18.0*
Other income	601	846	878	665	750
Net interest	(643)	(820)	(731)	(700)	(725)
Depreciation	765	1,144	1,444	1,555	1,647
Pre-tax profit	3,019	4,099	4,084	5,328	6,542
Deferred tax	255	350	-	-	-
Current tax	442	476	704	1,119	1,374
Profit after tax	2,322	3,273	3,380	4,209	5,168
Non-recurring items	(19)	(23)	-	-	-
Net profit after non-recurring items	2,303	3,250	3,380	4,209	5,168
% change	*77.8*	*41.1*	*4.0*	*24.5*	*22.8*

Key ratios (standalone)

Year to 31 March (%)	FY08	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	16.8	16.6	16.2	17.3	17.7
EBIT margin (%)	13.5	13.0	11.9	13.4	14.1
PAT margin (%)	10.2	10.4	10.2	10.5	11.2
RoE (%)	21.0	19.9	18.3	19.4	19.7
RoCE (%)	12.2	10.5	8.5	10.1	11.5
Gearing (x)	1.2	1.3	1.3	1.1	0.8

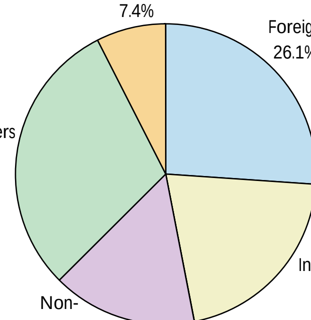
Valuations

Year to 31 March	FY08	FY09	FY10	FY11E	FY12E
Reported EPS (Rs)	15.1	24.0	24.9	31.1	38.1
Adj. EPS (Rs)	15.2	24.2	24.9	31.1	38.1
PE (x)	20.6	12.9	12.5	10.1	8.2
Price/ Book (x)	3.1	2.4	2.2	1.8	1.5
EV/ Net sales (x)	2.4	1.7	1.8	1.2	1.0
EV/ EBITDA (x)	14.0	10.3	11.1	7.2	5.6
EV/ CE (x)	1.5	1.3	1.2	0.9	0.8

Balance sheet (standalone)

Year to 31 March (Rs m)	FY08	FY09	FY10	FY11E	FY12E
Paid-up capital	271	271	271	271	271
Reserves & surplus	15,121	16,778	19,198	23,266	28,293
Total shareholders' equity	15,584	17,310	19,658	23,727	28,753
Total current liabilities	10,046	9,348	4,507	17,172	19,762
Total debt	19,263	22,964	26,304	24,917	23,669
Deferred tax liabilities	1,069	1,420	1,693	1,693	1,693
Other non-current liabilities	-	-	3,507	4,293	4,941
Total liabilities	30,378	33,731	36,011	48,075	50,065
Total equity & liabilities	**45,961**	**51,041**	**55,670**	**71,802**	**78,819**
Net fixed assets	14,577	19,799	19,583	21,028	22,381
Investments	3,252	1,819	2,470	2,470	2,470
Total current assets	26,287	27,226	30,952	45,639	51,303
Other non-current assets	1,845	2,198	2,665	2,665	2,665
Working capital	16,241	17,878	26,445	28,467	31,541
Total assets	**45,961**	**51,042**	**55,670**	**71,802**	**78,819**

Shareholding pattern



As of March 2010

Balance sheet (standalone)

Year to 31 March (Rs m)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	3,019	4,099	4,084	5,328	6,542
Depreciation	765	1,144	1,444	1,555	1,647
Chg in Working capital	(823)	(3,664)	(10,987)	6,273	(486)
Total tax paid	(442)	(476)	(704)	(1,119)	(1,374)
Ext ord. Items & others	(373)	-	3,507	786	648
Operating cash inflow	2,146	1,103	(2,656)	12,822	6,977
Capital expenditure	(10,445)	(6,719)	(1,695)	(3,000)	(3,000)
Free cash flow (a+b)	(8,298)	(5,617)	(4,351)	9,822	3,977
Chg in investments	(1,187)	1,433	(651)	-	-
Debt raised/ (repaid)	12,480	3,702	3,340	(1,387)	(1,248)
Capital raised/ (repaid)	6,099	1	1	1	-
Dividend (incl. tax)	(137)	(141)	(141)	(142)	(142)
Misc 903	(1,406)	(109)	-	-	
Net chg in cash	9,859	(2,028)	(1,911)	8,295	2,587

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1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

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