August 3, 2009
Volume 1, Issue 11

Informed Investor

A retail investor's take on the Indian stock markets

Warranting Tighter Norms

Last week, the Securities Exchange Board of India indicated that it would be reviewing norms governing preferential allotment of warrants to promoters. More specifically, the market regulator is mulling a ban on promoters who defaulted on their commitment to convert their warrants from issuing similar instruments to themselves within a timeframe.

At the height of the last bull-run promoters merrily issued preferential warrants to themselves in the hope of hiking up their share holding at a fraction of the market price.

And when the subsequent meltdown hammered down their stock prices significantly below the conversion price, most promoters backed off. Some of them even chose to pick up stock from the market instead under the creeping acquisition route.

No one was above the game and those who let their options on the warrants lapse include promoters of the bluest of the blue-chip companies in the country.

Hopefully, SEBI's proposed measures would be a little more than a rap on their knuckles.

While every attempt by the watchdog to rein in preferential treatment to a class of investors should be universally welcomed, SEBI remains reluctant to go all the way. Despite its stated intention of democratizing the investing community, the general impression persists that the regulator is cautious in favour the promoters.

Disposing off a petition by a group of retail investors last week, the regulator rejected the plea that Sebi amend guidelines governing preferential issues of shares and other convertible instruments to ensure that promoters make full payment towards the issue.

"Such a step would disable a product which is accepted universally as a fund-raising tool and restrictions on issuance of warrants may also deprive the operational and capital structuring flexibility for Indian companies," SEBI is reported to have stated in its order.

Unfortunately, the past conduct of many promoters does not justify the pious sounding approach of SEBI towards them. In many cases, promoters were known to use the preferential allotment route to jack up their stake in their companies.

Shares thus acquired were also pledged to raise funds at least some of which have found their way to the stock markets by way of speculative activities. In the past even norms governing compulsory lock-in period for shares acquired via the preferential allotment route didn't deter promoters from pledging them to raise funds.

Even the new norms which compel promoters to pay 25 per cent of the warrants' value upfront are not safe from market manipulation. As the markets turn bullish, more promoters may issue warrants to themselves. SEBI will have to ensure that the additional stocks thus created do not end up with operators who jack up the price thus allowing the promoters to raise additional funds from banks.

Past experience has shown that the shares inflated in value by operators in connivance with promoters find their way to mutual funds where retail investors are literally left holding the baby.■

Instead of Orange Juice, I would offer you free shave for calling off the strike...

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Sharing your knowledge, it is said, multiplies its benefits for the entire community.

Since May this year, the Informed Investor newsletter has been freely sharing information of interest to the investors.

In order to further enhance participation from the investing community we are inviting investors, researchers, analysts, etc. to contribute stock ideas and articles on a pro bono basis.

Original contributions - not lifted from brokerage reports/published sources– must be 600-650 words long.

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For more info write to: ***informed.investor.newsletter@gmail.com*** **with CONTRIBUTION on the subject line.**

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Back Page

Investment Idea

Sintex Industries

Sintex

BSE: 502742
NSE: SINTEX
CMP (BSE): Rs 217.55

P/E (TTM): 9
ROCE: 15
ROE: 21
Dividend Yield (%): 0.5
52Wk H/L(Rs) 386/70.30
Debt/Equity: 0.2
3 Yr CAGR Sales (%): 36
3 Yr CAGR Profit (%): 56

Registered Office:
Sintex Industries Ltd
Kalol,
Gujarat 382 721,
India.
Phone: 2764-253000
Fax: 2764-253100

E-mail: info@sintex.co.in

Website
http://www.sintex-india.com

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A Pause before Soaring High?

Bogged down by a spell of bad luck, Sintex Industries has been battered heavily by investors.

Struggling acquisitions, an investment write-off and poor quarterly performance have roiled this scrip which shone through in the last bull-run.

The biggest hit the company has had to take is the Euro 7 mn. Write-off in connection with the acquisition of Geiger, Germany, which has now gone into liquidation. Adding to the troubles is the poor performance of its international subsidiaries.

The company's US subsidiary, Wausaukee Composites, which manufactures plastic composite components for windmills, industrial trucks and tractors have been hit by the downturn in the US auto sector. Sintex's venture in Europe, Nief, which supplies to various sectors like aerospace, defense and the medical sector too is showing signs of slowing down.

The management has indicated that Wausaukee's revenues could fall by as much as 20 per cent while the performance of the European subsidiary could remain flat.

Both ventures are expected to remain affected for the next several quarters till the larger economy shows signs of improvement.

Adding to its troubles, the first quarter of the current financial year also saw the domestic economy slow down as the country switched to election mode. Government contracts for the company's pre-fabricated structures which accounts for a large chunk of its business were held up dragging down Sintex's performance. Sales during Q1FY10 fell 9 per cent YoY at Rs 660 cr. Excluding a forex gain of Rs 20 cr., the company's profit after tax is down a whopping 28 per cent at Rs 40.60 cr.

According to management things are looking better for the company in the

Investor-Analysis

forthcoming quarters as liquidity eases and government spending in infrastructure gives a boost to its domestic business.

Investment Rationale

Sintex Industries Limited is a major player in the plastic and textile segments. It manufactures a wide range of plastic products at eight plants in India.

Apart from water storage tanks, Sintex manufactures pre-fabricated structures and industrial custom molding which together account for more than 80 per cent of revenues of the plastics segment.

The company's textiles division operates in niche areas like high-end men's shirting material and corduroy fabrics. Buyers include Lacoste, GAP, Marks & Spencer, etc.

But the biggest gains for Sintex would come from its diversification into the housing and infrastructure sector. Apart from the water tank business Sintex is into the infrastructure sector via its pre-fabrication business. This segment is likely to see exponential growth as the government concentrates on affordable housing. The company has also indicated that its order book in monolithic construction as it is called stands at Rs 1800 cr. Such structures are used in low-cost mass housing, schools under the Sarva Shiksha Abhiyan and as makeshift hospitals under the National Rural Health Mission.

Major buyers include the states of Delhi, Tamil Nadu, Maharashtra and Gujarat .

Sintex has also indicated that it would go ahead with its capital expansion plans costing Rs 200 cr. The company's debt levels are near zero with nearly Rs1,500 cr. in cash and debt of Rs 1,650 cr.

Risks and Concerns

Continued global slowdown could hurt the company's international subsidiaries. Bright Autoplast, the company's subsidiary is vulnerable if the domestic auto sector turns sluggish.

Sintex Industries' revenues may be impacted by rising cost of raw materials despite the company concentrating on high margin products. Raw materials account for more than 75 per cent of the company's costs.

Volatility in the prices of plastics and polymers would be a cause for concern.

The write-off of Euros 7 mn in the Geiger investment is proving to be a major drag on the company's share price. Its valuations remain cheap as investors turn cautious on the scrip.