Initiating Coverage | September 08, 2008

MF Global Private Client Group

Sintex Industries

Buy

CMP : Rs.318 | **Target Price: Rs.498**

Sintex Industries (SIL), a dominant player in the plastic industry is migrating from its age old business to new high growth businesses with global footprints. Over the years it has built a strong brand recognition in commodity business like water tanks and textiles and is now leveraging its knowledge of plastics business to venture into composite business, which would be its future growth driver. With its strong domestic manufacturing base and ready global delivery model, we expect sales to grow at a CAGR of 64.5% with profit growth of 55.7% CAGR over FY08-FY10E. We initiate coverage with BUY rating on the company.

Key investment rational

Robust order pipeline – Sintex has quickly delivered affordable housing projects and hence, has secured a strong order book of Rs.14 bn for monolithic construction, executable over next 1-2 years. In the prefab business the company has secured necessary approvals from 16 states, which is biggest entry barrier in this space.

Management focusing on composite to drive company into new league – The company is aiming to become one of the top 10 composite manufacturers in the world . It has already acquired six companies across the value chain and with a war chest of Rs.9 bn is on the look-out for more opportunities. We expect the composite division to grow by more than 50% for next five years.

Acquisition to enable access to technology and new markets – Composites has been replacing metals in numerous forms of uses, to capitalize Sintex has acquired companies in domestic and international markets. The acquisitions have enabled access of technology, new markets and many prominent customers. It would also get labour arbitrage by outsourcing some products from India.

Changing product mix to make business sturdier – The company is shifting its focus from textile to high growth composites business. By FY10E we expect textile division to contribute 7% only down from 15% currently. While around 49.5% and 16.3% revenues would come from composite and monolith segment, respectively. We believe that its diversified income from 4-5 segments will provide a hedge against cyclicality.

Valuations

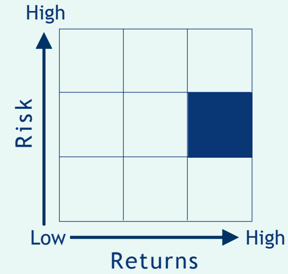
We expect its net sales and net profit to grow at 64.5% and 55.7% CAGR to Rs.61.5 bn and Rs.5.6 bn respectively on consolidated basis over FY08-10E. The stock is trading at 13.3x its FY09E EPS of Rs.24.0 and 8.7x its FY10E EPS of Rs.36.7. It is available at just 5.7x its FY10E EV/EBIDTA. The stock has been trading at one-year forward P/E band of 14-18x and EV/EBIDTA band of 6-8x. On account of the recent acquisitions the consolidation may seem an intermediate dampner, but in view of the managment capability, consistent track record in execution and acquisition synergy, we expect the company to trade at approximatly 15x one year forward earning. Based on 15x average EPS of FY09-10E of Rs.30.3, we have arrived at price target of Rs.455. Accounting for the cash per share of Rs.43 our 18 months price target comes to Rs.498. We initiate coverage on the stock with **BUY** recommendation.

Valuation summary

Y/E, 31st March	FY07	FY08	FY09E	FY10E
Net sales (Rs mn)	11,631	22,742	45,380	61,538
Adj PAT (Rs mn)	1,315	2,303	3,281	5,582
Adj EPS (Rs)	11.8	16.8	24.0	36.7
EPS growth (%)	47.6	42.2	42.5	52.8
P/E (x)	26.9	18.9	13.3	8.7
Dividend yield (%)	0.3	0.3	0.3	0.3
RoCE (%)	13.4	12.7	12.5	16.8
RoNW (%)	20.1	21.0	16.4	17.6
P/BV (x)	5.4	2.8	1.8	1.2
EV/EBIDTA (x)	16.4	12.0	8.9	5.7
EV/Sales (x)	3.1	2.0	1.2	0.9

Source: Company, MF Global PCG Research

Risk Return Matrix



Indices

Sensex	14,484
Nifty	4,352

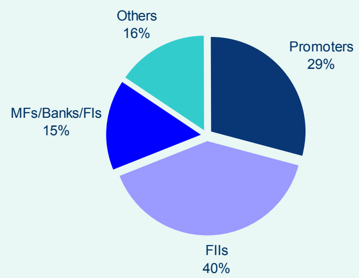
Stock Data

BSE Code	502742
NSE Code	SINTEX
Bloomberg	BVML@IN
Reuters	SNTX.BO
Industry	**Diversified**
Shares Issued (mn)	136.5
Market Cap (Rs mn)	43,455
52 Wk H/L (Rs)	615/271
Face Value (Rs)	2
Avg. daily vol. (12-mths)	234,793

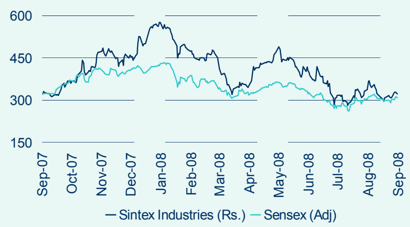
Absolute Returns (%)

	1 m	3 m	12 m
Absolute	(12.0)	(19.4)	0.5
Rel. to Sensex	(11.6)	(13.9)	4.0

Shareholding Pattern



Sintex Industries Vs Sensex (Adj)



Analyst : Jignesh Kamani
jignesh.kamani@mfglobal.in
+91 22 6655 1292

Company background

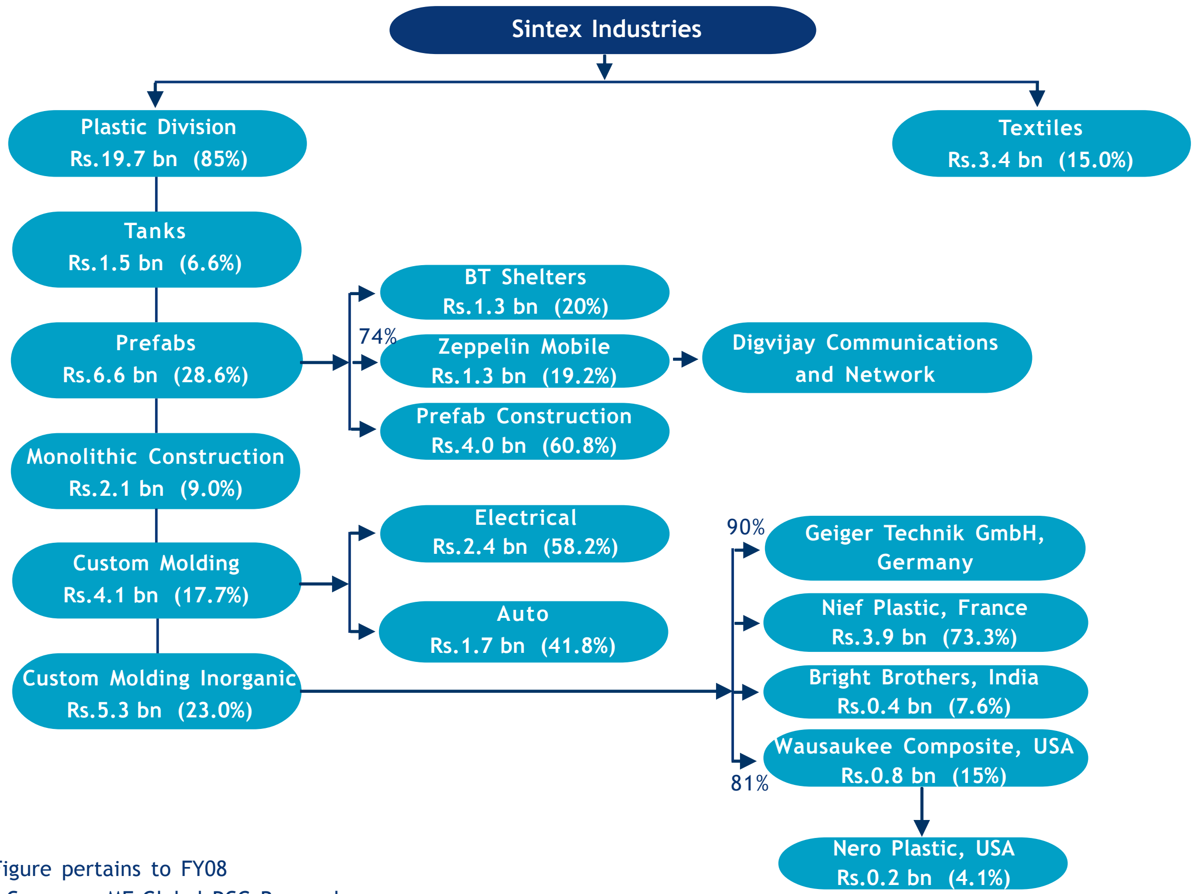
Sintex Industries (SIL) is one of the leading manufacturers of plastic products and structured yarn dyed textiles in India. It manufactures a range of plastics products at its eight manufacturing facilities across India, which includes prefabricated structures, industrial custom moulding products, FRP products and water storage tanks. The plastics division's manufacturing facilities are located at Kalol, Kolkata, Daman, Bangalore, Nagpur, Baddi, Salem and Bhachau, all of which are located in India. At its manufacturing facility in Kalol, Sintex has developed the capability to manufacture plastics using 12 different manufacturing processes which enables Sintex to produce the entire range of its plastic products in one location.

Sintex also has a textile division, which focuses on niche products and specializes in men's structured shirting for the premium fashion industry. The textile division is located primarily in Kalol. It has constantly innovated in the plastic pace and identified new uses of it. Post commoditization of plastic tank, it has found out newer uses of plastic. It extended the use of plastic sheets to venture into monolithic construction for mass housing and has garnered a strong order book of Rs.14 bn. Visualizing the shift from metal to composites globally, it recently also ventured into composites business and in very short span of time has achieved leadership position in India. It is planning to be among top 10 composite manufacture in the world in next five years.

It has already created a footprint in the overseas market in the composites business

In future the company would have revenue streams from five diverse sectors, which would provide hedge against cyclicality in any particular industry segment or geography. This would also result in relatively low volatility in its income, allowing Sintex to more effectively plan and invest in the growing sectors. The following chart sets forth an overview of Sintex's principal business lines.

Business structure



Note: Figure pertains to FY08
Source: Company, MF Global PCG Research

Traction in monolithic business

As a part of its strategy to innovate and extend usage of plastic to new areas, the company ventured into monolithic construction two years back. The main benefit of monolithic construction is faster execution and low cost. It takes only 6 months to commission buildings through monolithic construction as compared to one-two years through conventional brick construction. Within a span of two years the company has got significant success in this business. The company has garnered order book of Rs.14 bn executable over next 1-2 years. Strong order flow would give Sintex steady and strong cash flow from the business over few years.

As its execution capabilities are known we expect monolithic business to grow by leap and bounds. As in its pre-fab business we expect management will be able to expand margins in this business also

Monolithic is a high working capital businesses, with working capital cycle of as high as 6 months. In order to meet working capital requirement the company raised $150 mn (Rs.6 bn) through a QIP to fund the growth in monolithic and other related business.

Social spending would boost prefabricated business

It takes only six working days to build prefabricated construction. Considering speed of execution, prefab find application in many areas like, army quarters, telecom shelters, construction site offices etc. The company operates in two segments BT shelters and construction. Former accounted for 24.7% and latter accounted for 75.2% in FY08. BT shelter finds application in telecom industries and is growing at CAGR of 70% on the back of telecom boom. However, operating margin in this business is lower at 14-15%. While construction segment is growing at CAGR of 35% with operating margin of 20%. We expect its prefab business to grow at 43.6% CAGR to Rs.11 bn over FY08-10E.

Pan India presence to gives logistical advantage

In pre-fab the biggest entry barrier is pre qualification, any new player planning to enter in this segment has to take approvals from every state, which takes around 1-2 years. Sintex has been pre qualified by 16 states. Another hurdle in the business is the logistic issue. The players need to have multiple locations to serve all regions. Sintex has eight facilities located at Kalol, Bangalore, Baddi, Salem, Kutch, Daman, Kolkata and Nagpur to serve its customers. It is setting up two more facilities, to become pan India player. Diversified manufacturing locations make it easy to have a pan India presence in the pre-fabrication and monolith. In addition, the company has well trained people to execute the project at faster pace. The only risk associated with the business is any delay in handover of site from its clients due to requisite approvals and clearances.

Sintex has pre-qualified approvals in 16 states and 8 facilities across India with operating margins of 19-20% and new capacities coming on stream we expect steady flow of business

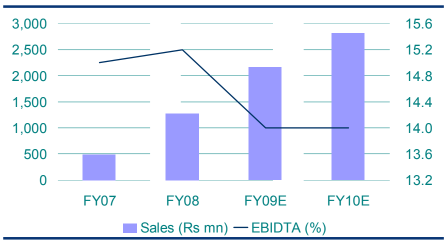
The company is utilizing 80% of its total capacity. We expect utilization may go down to 70% in short term on account of new facilities in pipeline. Since it takes around two years to ramp up its capacity to 85%. We expect its operating margin to improve from 14% in FY08 to 18% in FY10E. We have already seen that the company was able to increase its operating margin in prefabricated business from 14% to 19-20% over last three years. Similarly we expect it would also be able to improve margins in monolith business also.

Zeppelin to leverage its presence in telecom business

On May 4, 2006, Sintex acquired 74% stake in Zeppelin for Rs.180 mn. The company is in the business of supplying BT shelters to major telecom companies. Zeppelin is also involved in producing a large range of high value products such as refrigerated bodies, ambulances and mobile field hospitals. Zeppelin reported growth of 204% in net sales to Rs.1,273 mn in FY08. It reported EBIDTA margins of 15.2% to Rs.193 mn. We expect net sales to grow at 48.7% CAGR to Rs.2,813 mn over FY08-10E. We expect zeppelin to sustain current EBIDTA margin of 15% over same period.

The company was acquired in 2006 for Rs.180 mn is growing at CAGR of 48% and delivered EBIDTA to Rs.193 mn in FY08

Sales and EBITDA margins



Source: Company, MF Global PCG Research

Digvijay Communication leveraging the domestic business

The acquisition will compliment its Zeppelin business in Central India

Sintex recently acquired Digvijay Communications and Networks (DCNPL) through its 74% subsidiary Zeppelin Mobile, through a slump sales transaction worth Rs.540 mn. DCNPL provides end-to-end communication support solutions including services like infrastructure development, installation and commissioning of towers and BT structures and tower manufacturing. DCNPL enjoys a healthy market share in providing complete telecom support solutions to major telecom companies in the states of Madhya Pradesh and Chattisgarh. The company has a promising set of product /service offerings and it provides its range of solutions to leading Indian OEMs and telecom companies. The acquisition will play an important role in enabling Zeppelin to further penetrate into the central region in India and should enable Sintex to gain access to a host of creditable clientele, complementing its current product portfolio.

DCNPL has performed well on both financial and operational levels over the last few years. We expect net sales of Digvijay to grow at 69.7% CAGR to Rs.1,152 mn over FY08-10E with an EBIDTA margin of 15%.

Composites emerging business – future growth driver

Composite is new growth driver for Sintex. Worldwide composites are used mainly in automotive, electrical, aerospace and wind turbine. At present, Sintex is catering to electrical and auto segment through its custom molding business. Around 72% of custom molding revenue is from electrical custom molding where it is focused on electrical meters box, enclosure and other ancillaries. Balance is through auto segment where it is catering to the requirements of the four-wheeler segment. We expect the electrical composite business to grow at much faster rate of 70%, while auto segment to grow at 35%. We expect Sintex's standalone composite division to grow by 49.7% to Rs.9.2 bn over FY08-10E.

Due to consolidation the margins may be subdued in FY09, which would get evened out by FY10 once the impact of integration will be visible

The company is leader in composite in India and is planning to be among top 10 composite manufacture in the world over next five year. In order to achieve that vision, Sintex has already acquired five companies in composite space. These acquisitions will allow the company to enter into segments like aerospace, wind turbine and high end auto composite and enrich its customer base. The company will have front office through Nero, Geiger and Wausaukee to service high-end auto composite users like Mercedes, Land Rovers, BMW, Volkswagen, Daimler, Audi, Opel, Porsche etc. The company is planning to serve oversees market in immediate term and than focus on India few years down the line. The company is planning to achieve sales of $1.5 bn over next five years from $230 mn in FY08. Further it has raised Rs.9,000 mn via FCCB to fund future acquisition. We expect the consolidated composite revenue to grow at a CAGR of 50% plus in next five year, supported by organic and inorganic growth. Since the company is migrating from low value composite to high end composite, growth in EBIDTA would be much larger than that in net sales. But due to consolidation the margins may be subdued for FY09. The company has already been able to expand margins in Wausaukee and Nero by 100-150 bps. Thus by FY10 the entire impact would be evened out.

Textile – sustaining cash flows

The company is present into high value and niche cotton fabric segment. As a result the company enjoyed very high margin of 22.3% in FY08. We expect the company to sustain margins at these levels. The company is planning to spend Rs.1,500 mn to increase capacity of its textile division from 15 mn meters to 22 mn meters and enhancing garment capacity from 2.76 mn units to 4 mn units. The division though would become miniscule in terms of contribution in near future but with depreciated plant, it would keep the cash registers rolling. We expect textile division to report volume driven growth of 11.9% to Rs.4.4 bn in FY10E. However, we expect textile contribution to drop to 7.1% in FY10E from 27.5% in FY07.

Inorganic growth a key strategic focus

Sintex and its subsidiaries have acquired seven companies in last two years. In May'06, Sintex acquired 74% of the equity shares of Zeppelin Mobile Systems India (ZMSIL). Then in June'07, it acquired 81% of the equity shares of Wausaukee Composites Inc. (WCI). In Dec'07, Bright Auto Plast Private Ltd., a subsidiary of Sintex, acquired five manufacturing plants of the automotive plastics business division located at various sites in India at Pune, Sona, Chennai, Pithampur and Nasik from Bright Brothers. In Oct'07, Sintex acquired 100% of the equity shares of Nief Plastic S.A. and then in Dec'07, Wausaukee acquired 100% of the equity shares of Nero Plastics Inc. In June'08, Sintex Industries through Zeppelin Mobile acquired Digvijay Communications and Networks Private Limited (DCNPL) and in July'08 Sintex Industries acquired 90% stake in Geiger Technik GmbH Germany, through its wholly owned subsidiary Sintex Holdings B.V., Netherlands.

Sintex has stepped up its delivery model with global footprints through acquisitions

Acquisitions enable access to technology and new markets

These acquisitions have enabled Sintex to access a number of new technological processes. The manufacturing facilities acquired by Bright Auto Plast specialize in the manufacture of injection molded plastic components for the automotive industry such as exterior systems, interior systems and under the hood systems. Similarly, Nief Plastic has access to technology for high quality insertion moulding. The acquisitions also provide Sintex with access to new markets including the US and the European composites market and high end customers such as Phillips Medical Systems, Siemens Medical Solutions, Alstom Transportation, G.E. Medical Systems, Idea Mobile, Reliance Telecom, Hutchison, Quipo Telecom and Bharti Airtel, BMW, VW, Daimler, Audi, Opel, Porsche. Sintex would be able to do labor arbitrage by outsourcing orders to Indian operation. In addition, because of small size these companies were also paying high interest rate, Sintex would use its strong balance sheet to reduce debt cost of these companies. On account of low margins acquisitions and its integration with parents happening over time, we expect consolidated EBIDTA margin to drop from 19.1% in FY07 to 15.1% in FY10E. Thus the focus now would be on integration and sprucing the operating margins closer to the parent's range of 17-18% over next couple of years.

On account of labour arbitrage and manufacturing outsourcing we expect the company would gradually shore up the overall margins back to 17-18% in long run

History of acquisition – following the inorganic route

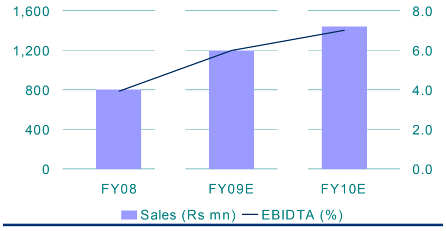
Company	Acquisition Date	Product Profile	Acquisition Value (Rs mn)	P/S (x)	EV/ EBIDTA (x)
Zeppelin, India	May-06	BT Shelters, Mobile Hospitals, Refrigerated vans	180	0.14	0.9
Wausaukee Composites,US	Jun-07	Medical Imaging, Wind Energy, Off road vehicles	1,490	1.02	26.0
Nief Plastics, France	Oct-07	Automotive Electrical Accessories, Aerospace, Defense and Mass Transit systems	2,851	0.28	4.3
Nero Plastics, US	Dec-07	Heavy equipment mining, heavy truck, medical, mass transit etc	203	0.23	3.3
Bright Brothers, India	Dec-07	Automotive Electrical Accessories	1,490	1.23	6.2
Digvijay Communications	Jun-08	Infrastructure development, installation and commissioning of towers and BT structures and tower manufacturing	540	1.35	4.9
Geiger Technik GmbH, Germany	Jul-08	Coolant and brake fluid reservoir, injection molding with multilayer extrusion blow molding process and latest joining and welding, assembly	2,360	0.33	4.4

Note: Figures of sales and EBIDTA are for FY08 annualised, except Digvijay and Geiger are for FY09.
Source: Company, MF Global PCG Research

Wausaukee the feather in the cap

Sintex acquired 81% of Wausaukee in June'07 at cost of $20.5 mn at expensive valuation of 26.0x EV/EBIDTA and 1.02x sales. Wausaukee is a US based company operating out of Wisconsin state and they have two manufacturing locations in the US. They make composite materials and use fiberglass as well as carbon fibers to produce different kind of electrical and automotive equipments. They have excellent customer base most of them are Fortune 500 U.S. companies. Wausaukee reported net sales of Rs.800 mn for nine months, resulting in annualized sales of Rs.1,067 mn, and EBIDTA margin of 4%. Wausaukee historically has been growing at about 15% and Sintex would start integrating Wausaukee into Sintex business model over the next 18 months. Integration would improve the margins as it plans to supply semi-finished resins and other products from its facility in Kalol to Wausaukee. Labor cost is as high as 32% of sales for Wausaukee as compared to 12% in Indian operations. We expect this would result in expansion of EBIDTA margins to 7% in FY10E from 4% in FY08.

Sales and EBITDA margins



Source: Company, MF Global PCG Research

Bright Auto Plast to service the automobile Industry

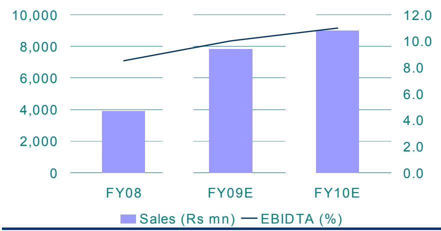
Bright Auto Plast, as subsidiary of Sintex, acquired five manufacturing plants located at Pune, Sohna, Chennai, Pithampur and Nasik from Bright Brothers for Rs.1,489 mn in Dec'07. Sintex acquired the company at 1.23x sales and 6.2x EV/EBIDTA. These manufacturing facilities specialize in the manufacture of injection moulded plastic components for the automotive industry. The product portfolio includes exterior systems (such as front and rear bumpers systems, green house systems and body side systems), interior systems (such as cock pit systems, over head systems, side wall systems, acoustic management and seating systems) and under the hood systems (such as air dams, nozzle defrosters and radiator fan blades). Bright Brothers enjoys relationships with leading automotive companies including Maruti Suzuki, Tata Motors, Honda, Mahindra and Mahindra and Hyundai. The company delivered net sales of Rs.404 mn for four months resulting in annualized sales of Rs.1,212 mn and EBDITA margin of 19.8% in FY08. We expect net income of bright auto plast to grow at 2 year CAGR of 112.1% to Rs.1,818 mn in FY10E from Rs.404 mn in FY08. We expect it to operate at EBIDTA margin of 13.1% in FY09E and of 14.3% in FY10E.

Bright Brothers enjoys relationships with leading automotive companies including Maruti Suzuki, Tata Motors, Honda, Mahindra and Mahindra and Hyundai

Nief Plastic gives presence in European markets

Sintex acquired 100% of the equity shares of Nief Plastic on Oct'07 at cost of Euro 43. Sintex acquired the company at 0.28x sales and 4.3x EV/EBIDTA. Nief Plastic is a French plastic components maker, with 11 manufacturing facilities, including seven in France and one each in Hungary, Slovakia, Tunisia and Morocco. The Nief Plastic manufactures a wide variety of plastic products for use in the automotive, electrical and electronics, aeronautics and defense, household appliances and building industries. The company delivered net sales of Rs.3,907 mn for six months resulting into annualized sales of Rs.7,814 mn and EBDITA margin of 8.5%, respectively in FY08. We expect the company's net sales to grow by 51.7% CAGR to Rs.8,987 mn over FY08-10E. We expect the company's EBIDTA margin to improve by 250bps to 11% over same duration.

Sales and EBITDA margins



Source: Company, MF Global PCG Research

Nero a niche player

The company used the Wausaukee platform to acquire 100% equity shares of Nero Plastics for $4.7 mn on Dec'07. Wausaukee acquired the company at 0.23x sales and 3.3x EV/EBIDTA. Nero was competitor with Wausaukee in US market. In order to gain market share, Sintex acquired Nero via Wausaukee. The company reported net sales of Rs.219 mn for three months, resulting in annualized sales of Rs.876 mn and EBIDTA margin of 7% in FY08. We expect net sales to grow by 69.9% to Rs.632 mn in FY10E. We expect the company's EBIDTA margin to improve by 200bps to 9% over same duration.

Geiger Technik to tap the European market

Sintex acquired 90% stake in Geiger Technik Gmbh Germany, through its wholly owned subsidiary Sintex Holdings B.V., Netherlands for Enterprise Value of Euro 35.6 mn valued at 4.4x EV/EBIDTA and 0.33x Price to sales Established in 1960 Geiger is a family owned SME and over the past four decades, created technological capabilities and cultivated a base of customer in the automotive industry. Geiger is European market leader in coolant and brake fluid reservoir. The company is an expert in injection molding using gas and water Injection with layer/multilayer extrusion blow molding process and latest joining and welding, assembly, clean room production and material technologies.

In each of the acquisition a proper strategy has been followed to gain access of new technologies, new market and niche-segments

This acquisition offers Sintex a strategic market entrance in Germany, which is the capital of the European automotive market. Geiger's products are well positioned in the market. Now, Sintex will have presence in both France (through Nief) and Germany (through Geiger), which are very crucial OEM bases.

Key benefit from the transaction

- The company has presence in Germany, the key automotive market with most major European OEMs present.
- Elite customer base like BMW, VW, Daimler, Audi, Opel, Porsche and major Tier 1 suppliers.
- LCC advantages of Poland as well as Tambach manufacturing bases.
- Product introduction in India through Bright AutoPlast, off shoring and cross selling of products.
- Leverage relationship of customers, suppliers across subsidiaries, particularly to Bright AutoPlast, India and Nief, France.

We expect the company to report net sales of Euro 118.7 mn and EBIDTA of Euro 8.9 mn (7.5% EBIDTA margin) in FY09. We expect the company to grow by 6% and improve EBIDTA margin by 50bps to 8% in FY10E.

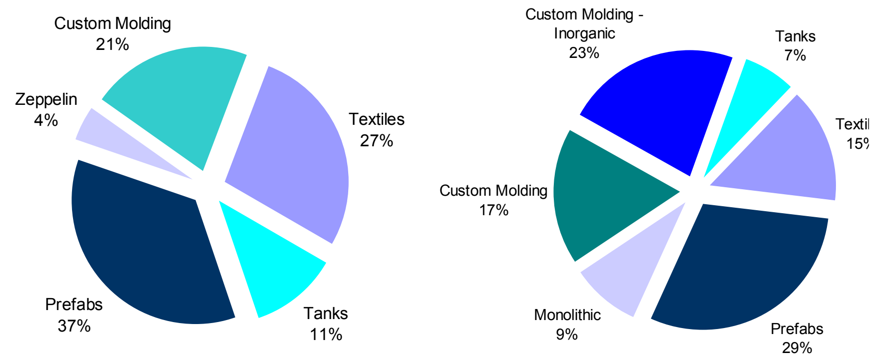
Diversified business model – provides sturdiness

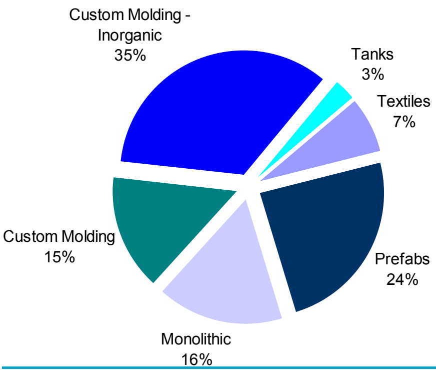
Sintex has a significantly diversified products portfolio in Plastics and Textiles Division. Sintex's income is diversified across a range of geographies and industries within India and overseas not reliant on a small number of customers. Sintex's top five customers in the plastics division and the textiles division accounted for 12.5% and 2.1% of the total income in FY08. Sintex has recently been focusing on increasing its footprint in the domestic market also. We believe that its diversified income is a competitive strength, as it provides a hedge against cyclicality or other adverse developments within any particular industry sector or geography. Its diversified business model would result in relatively low volatility in its income, profits and cash flows, which will allow the company to more effectively plan and invest in the growth of its business. Contribution from textile should go down to 8.4% in FY10 from 27.5% in FY07. At the same time overall contribution from composites would increase in near future.

On account of diversified business model, Sintex's top five customers in the plastics division and the textiles division accounted for only 12.5% and 2.1% of the total income in FY08

Most of Sintex's plants are located in tax free zones in Kalol, Baddi, Bachau, and Daman. Thus, the effective tax rate is around 20%, which we expect to remain in the 20-22% range over the next three years.

Change in revenue segment – positive





Source: Company, MF Global PCG Research

Ongoing capex program to add further impetus to growth

The company is very aggressively expanding its capacity organically also in all domains i.e. textile, prefab, monolithic, custom molding. At the same time inorganic growth would continue to remain key growth strategy. The company is planning to spend Rs.1,000 mn to increase capacity of its textile division from 15 mn meters to 22 mn meters and enhancing garment capacity from 2.76 mn units to 4 mn units. The company is spending another Rs.1,600 mn to expand its custom molding business including its electrical facilities. It is expanding its prefab facility by investing Rs.1,800 mn. The company is expanding its monolithic business in big way by investing another Rs.7,200 mn, majority of it would go to fund its working capital requirements. The company is planning to invest Rs.4,250 mn in the companies it acquired in last two years. The money will be utilized to trim debt and enhance business operations. The company is also looking for inorganic growth and set budget of Rs.5-7 bn for that purpose. However we have not factored that into our forecast. Any revenue and profit addition from such decision will add to our guidance.

Capex Schedule

(Rs mn)	Amount	Purpose
Prefab	1,800	Commissioning plants at two new location, doubling capacity in Kalol and debottle necking of Nagpur plant.
Textile	1,000	Expansion of capacity from 21 mn mtr to 29 mn mtr.
Monolithic	7,200	Rs.6.4 bn for working capital, rest for purchased of equipments.
Composite	1,600	Organic expansion of Sintex facilities, and investment in subsidiaries.
Total Capex	11,600	
Composite	5,000-7,000	Inorganic expansion, yet to be done

Source: Company

Funding in place to support growth

One of best thing about growth strategy is that company has already tied up its funding requirement, which would have been the biggest challenge in current environment. The company issued 13.2 warrant to promoters at Rs.455. It raised Rs.5,895 mn via QIP issue. It also raised Rs.9,000 mn via FCCB at Rs.580 per share. We expect full conversion of warrant and QIP in FY09 and FCCB in FY10 would lead to 37.2% dilution in equity. However, we have factored fully diluted equity of Rs.304 mn.

	(Rs mn)	Conversion Price
Warrant to promoters	6,002	455
QIP	5,895	470
FCCB	9,000	580
Total	**20,897**	

Source: Company

Sensitivity Analysis

Sintex is expanding aggressively on composite site. It has acquired five companies i.e. Wausaukee, Nero, Bright Brothers, Nief and Geiger to meet its vision of being among top 10 composite manufacturers in the world. Revenue from these inorganic acquisition contributed 22.6% to the top line in FY08. On account of full years of operation from Wausaukee, Nero, Bright Brothers and Nief and contribution from Geiger piping into we expect the its exposure on composite to increase from 22.6% in FY08 to 41.2% in FY09E. It would be larger in FY10E if the company is able to acquire another company in this space. All these company put together operates at blended EBIDTA margin of 8-9%, as against to 20.8% for Sintex Standalone. Sintex has acquired these companies with motive of increasing its margins over period of time by labor arbitrage, technology sharing, and outsourcing. We expect these companies to report blended EBIDTA margin of 8.8% in FY09E and 9.8% in FY10E. If the company is able to increase margins of these company by 50bps than it would increase our EPS guidelines by 2.9% in FY09E and by 1.9% in FY10E.

Exposure on composite to increase from 22.6% in FY08 to 41.2% in FY09E, as a result integration will be key driver to our EPS guidance

EBIDTA (%)	EPS (Rs)		Change (%)	
	FY09E	FY10E	FY09E	FY10E
8.05	22.6	33.9	(5.7)	(7.6)
8.30	23.3	34.6	(2.9)	(5.7)
8.80	**23.9**	35.3	–	(3.8)
9.30	24.6	36.0	2.9	(1.9)
9.80	25.3	**36.7**	5.7	–
10.30	26.0	37.4	8.6	1.9
10.80	26.7	38.1	11.4	3.8

50bps change in EBIDTA margin would increase our EPS guidelines by 2.9% in FY09E and by 1.9% in FY10E

Concerns

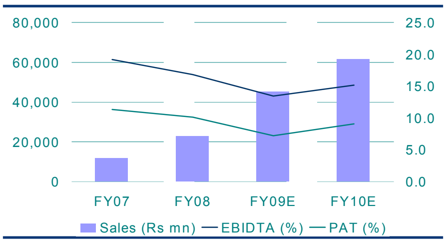
- Successful integration with the overseas business and its ability to improve operational efficiency to increase margins would be a key challenge.
- Sintex has a war chest of Rs.7,000 mn, it is scouting for acquisition targets, any delay in finding the target and in consolidation of business can severely affect the company's sales and operating margins and lower the RoE untl funds are deployed.
- At present the Sintex is the only player in monolithic construction, however we expect competition to emerge going forward leading to low order book, few years down the line.

Financials

Sintex acquired four companies during FY08, hence comparison is not possible on yoy basis. Net sales increased by 108.1% on consolidated basis to Rs,7,148 mn in Q1FY09. On standalone basis, net sales increased by 36.9% to Rs.4,108 mn in Q1FY09. EBIDTA grew by 35.1% to Rs.785 mn on consolidated basis. However, EBIDTA grew by mere 5.9% to Rs.559 mn on standalone basis. EBIDTA margin declined by 594 bps to 11% on consolidated basis and by 398bps to 13.6% on standalone basis, because of rising raw material prices driven by spiraling crude prices. Net profit grew by 71.3% to Rs.565 mn on consolidated basis and by 51.9% on standalone basis to Rs.464 mn in Q1FY09. The company reported EPS of Rs.6.9 in Q1FY09.

On account of inorganic growth and strong order book, we expect net sales to grow by 64.5% CAGR over FY08-10E, on consolidated basis. Even the debt equity ration is very comfortable at less than 0.5 in FY10E. These would help the company to expand inorganically. Since the company is targeting only companies which are profit making on EBIDTA level but suffering from high leverage. We expect the acquisitions to be EPS accretive from day one for the company.

Sales and margins



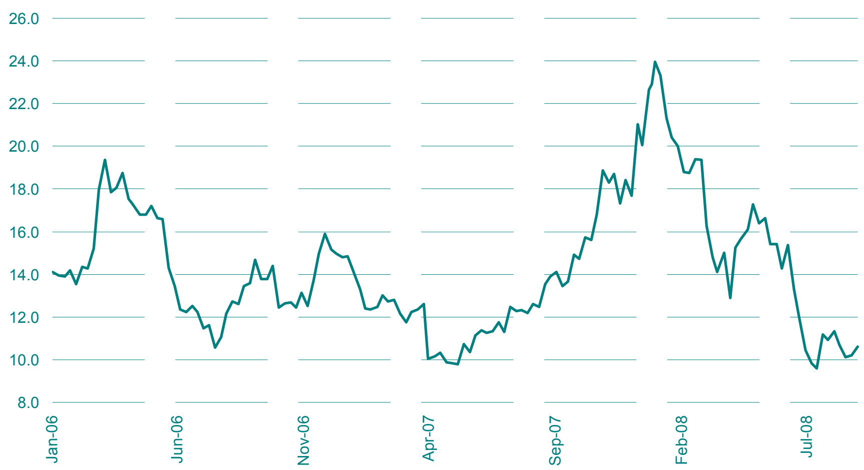
Source: Company, MF Global PCG Research

Valuations

On account strong order book and consolidation of its recent acquisition we expect its net sales and net profit to grow at 64.5% and 55.7% CAGR to Rs.61.5 bn and Rs.5.6 bn respectively on consolidated basis over FY08-10E. Sintex has raised Rs.9,000 mn via FCCB for future actuations. We haven't factored any growth in sales on account of these acquisitions. On account FCCB the company is flooded with cash to be deployed, value of it comes Rs.43 per share. Excluding the cash value, the stock is trading cheap at 11.5x its FY09E EPS of Rs.24.0 and 7.5x its FY10E EPS of Rs.36.7. It is available at just 5.7x its FY10E EV/EBIDTA. The stock has been trading at one year forward P/E band of 14-18x and EV/EBIDTA band of 6-8x. Because of strong order book, consistent track record and execution capabilities of management, and acquisition synergy, we expect the company to trade at 15x one year forward earning. Based on 7.8x EV/EBIDTA FY10E and 15x average EPS of FY09-10 of Rs.30.3, we arrived at core business value of Rs.455. Considering cash per share of Rs.43 we have arrived at 18 months price target of Rs.498. We initiate coverage with **BUY** recommendation.

	Valuation at current price			Implied valuation at target price		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E
P/E (x)	18.9	13.3	8.7	29.6	20.7	13.6
P/CEPS (x)	14.2	9.7	6.9	22.2	15.2	10.8
EV/EBIDTA (x)	12.0	8.9	5.7	18.4	12.9	8.7
P/BV (x)	2.8	1.8	1.2	4.4	2.8	1.9
EV/Sales (x)	2.0	1.2	0.9	3.1	1.7	1.3

1-year forward P/E multiple



Financials (Consolidated)

Income statement (Rs mn)	FY07	FY08	FY09E	FY10E
Net sales	11,631	22,742	45,380	61,538
Raw materials	6,900	13,000	29,246	38,740
Employee expenses	446	2,091	1,724	2,338
Other exp	2,057	3,824	8,305	11,138
Op profit	2,227	3,827	6,105	9,321
OPM (%)	*19.1*	*16.8*	*13.5*	*15.1*
Other income	269	601	908	615
Depreciation	420	765	1,198	1,423
Interest	415	643	1,511	1,191
PBT	1,661	3,019	4,304	7,323
Tax	327	698	990	1,684
PAT	1,335	2,322	3,314	5,639
Extraordinary item	13	–	–	–
Adj PAT	1,315	2,303	3,281	5,582
NPM (%)	*11.3*	*10.1*	*7.2*	*9.1*

Balance sheet (Rs mn)	FY07	FY08	FY09E	FY10E
Equity capital	222	273	273	304
Reserves	6,308	15,118	24,252	38,685
Networth	6,530	15,392	24,525	38,989
Total debt	6,891	19,263	18,882	10,882
Deferred tax	724	1,069	1,414	1,999
Total liabilities	14,185	35,927	45,057	52,163
Gross fixed assets	8,887	17,212	23,962	28,462
Less: Cum depreciation	2,478	5,185	6,383	7,806
Net fixed assets	6,409	12,027	17,579	20,656
Capital WIP	403	2,550	3,000	4,000
Investments	1,886	3,252	1,500	1,500
Net current assets	5,381	16,241	21,074	24,083
Total assets	14,185	35,927	45,057	52,163

Cash flow (Rs mn)	FY07	FY08	FY09E	FY10E
PBT & extraord. items	1,661	3,019	4,304	7,323
Add: Int, depn. & oth. exp.	672	1,368	2,709	2,614
Cash flow from op.	2,333	4,387	7,013	9,936
Net chg in w/c, tax, int.	(2,816)	(5,346)	(12,689)	(6,217)
Net cash flow frm op.	(482)	(959)	(5,676)	3,720
Capital expenditure	(2,229)	(9,390)	(7,200)	(5,500)
Sale/ purchase of inv	(67)	(322)	1,752	–
Net cash from inv.	(2,297)	(9,711)	(5,448)	(5,500)
Issue of eq/pref sh/warr.	1,643	20,608	4,084	(191)
Dividend paid	(104)	(126)	(157)	(174)
Net cash from financing	1,539	20,482	3,928	(365)
Net chg in cash	(1,240)	9,812	(7,197)	(2,145)
Op. cash bal	5,141	3,901	13,713	6,516
Cl. cash bal	3,901	13,713	6,516	4,371

Ratios	FY07	FY08	FY09E	FY10E
Growth (%)				
Net sales	36.0	95.5	99.5	35.6
Adj PAT	66.0	75.2	42.5	70.1
Adj EPS	47.6	42.2	42.5	52.8
Per Share Data (Rs)				
Adj EPS	11.8	16.8	24.0	36.7
Book value	58.9	112.6	179.4	256.2
DPS	1.0	1.0	1.0	1.0
Valuation (x)				
P/E	26.9	18.9	13.3	8.7
P/BV	5.4	2.8	1.8	1.2
EV/EBIDTA	16.4	12.0	8.9	5.7
Performance (%)				
RoCE	13.4	12.7	12.5	16.8
RoNW	20.1	21.0	16.4	17.6

BUY : > 20%	HOLD : > 5-20%	SELL : < 5%

Note: Ratings based on expected returns from current market price (on absolute basis).

Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.

This report is issued by MF Global Sify Securities India Pvt. Limited regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or "Firm" in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. The report was prepared and distributed by MFGSSIPL for information purposes only. The report should not be construed as solicitation nor as offering advice for the purposes of the purchase or sale of any security, investment or derivative. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report may contain information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance.

This Document is for private circulation and for information purposes only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report.

Independence: MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice.

Furthermore, the Firm is under no obligation to update or keep the information current.

Caution: Risk of loss in trading can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Ltd.,
2nd floor, 'C' Block, Modern Centre, Mahalaxmi, Mumbai-400 011, India.
For more copies and other information contact - Vikram Rawat (+91 22 6655 1294) vikram.rawat@mfglobal.in