

SINTEX INDUSTRIES

INR 540

Buoyant performance

BUY



Sintex Industries' Q3FY08 consolidated results were better than our expectations. Net revenues, at INR 6.1 bn, grew 115% Y-o-Y (figures are strictly not comparable Y-o-Y as Bright, Wausaukee, and NIEF numbers are consolidated in this quarter). Pre fab was the major growth driver in the quarter, registering growth of 149% Y-o-Y. EBITDA grew 103% Y-o-Y to INR 1,016 mn, whereas EBITDA margin declined 100bps Y-o-Y. Consolidated net profit grew 125% Y-o-Y to INR 587 mn.

We are upgrading our FY08 and FY09 revenue estimates by 31% and 57%, respectively, and FY08 and FY09 PAT estimates by 18% and 26%, respectively, to factor in the recent acquisitions of Bright, NIEF, and Nero Plastics. We are also introducing FY10 estimates, expecting an EPS CAGR of 52.5% over FY08-10E.

Sintex is raising USD 150 mn through a QIP (assumed at INR 550) to fund its pre fab and monolithic growth plans. It is also planning a FCCB issue to raise up to a maximum of USD 300 mn to finance its acquisitions. The company has also issued the promoters warrants for USD 150 mn at INR 454.7. We have not factored in fund raising through FCCB in our estimates.

* **Outlook and valuations: Attractive; maintain 'BUY'**

We expect Sintex to post a revenue and PAT CAGR of 60% and 64%, respectively, over FY08-10E. We also expect return on capital employed to improve from 18.8% in FY08E to 24.1% in FY10E. With consistent growth in pre fabs and electrical accessories, we remain positive on the rapid scale up in the monolithic business on the back of robust order book (INR 17 bn) and the integration of international acquisitions. At INR 540, Sintex is trading at 23.3x FY09E and 13.3x FY10E. We continue to maintain our 'BUY' recommendation.

January 15, 2008

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Reuters : SNTX.BO
Bloomberg : BVML IN

Market Data

52-week range (INR) : 615 / 185
Share in issue (mn) : 120.7
M cap (INR bn/USD mn) : 65.2 / 1,658.9
Avg. Daily Vol. BSE ('000) : 455.6

Share Holding Pattern (%)

Promoters : 30.7
MFs, FIs & Banks : 14.8
FIs : 39.4
Others : 15.1

Financials (consolidated)*

Year to March	Q3FY08	Q3FY07	% change	Q2FY08	% change	FY08E	FY09E
Net Rev. (INR mn)	6,128	2,846	115.3	3,204	91.3	20,807	33,483
EBITDA (INR mn)	1,016	501	102.7	728	39.6	3,757	5,970
Net profit (INR mn)	584	259	125.2	420	39.1	2,112	3,361
EPS (INR) fully diluted	4.9	2.2	125.2	3.5	39.1	17.4	23.1
P/E (x)						31.0	23.3
EV/EBITDA (x)						18.2	14.4
ROE (%)						22.7	19.6

*Figures are strictly not comparable as Wausaukee, bright and Nief figures are consolidated in this quarter

Key highlights

- ♦ **Revenues at INR 6.1 bn grew 115% Y-o-Y:** Pre fabs recorded strong 149% growth Y-o-Y on the back of strong revenues reported by monolithic constructions (INR 1,190 mn in 9mFY08). Excluding this, revenues grew 64% Y-o-Y to INR 1,157 mn.

Growth in industrial custom moulding, excluding international subsidiaries, was subdued at 10% Y-o-Y as the plant was operating at full capacity. The new capacity is expected to come on stream by October-November 2008, post which the growth prospects look encouraging.

Sintex did collection sales of 0.83 mn meters for the quarter (up 18% Y-o-Y), while average realization was up 3% Y-o-Y. It did RMG sales of 4.81 mn meters for the quarter (up 4% Y-o-Y), while average realization was up 2% Y-o-Y.

- ♦ **EBITDA grew 103% Y-o-Y to INR 1,016 mn:** Sintex's EBITDA margin declined 100bps Y-o-Y to 16.6%; the dip can be attributed to higher employee and other expenses relating to acquisitions being booked during the quarter.
- ♦ **Net profit was up by 125% Y-o-Y to INR 587 mn:** There was a 40bps improvement in net margin on account of lower tax provision, which stood at 11.3% against 25% in Q3FY07. This was mainly on account of full utilization of Baddi plant and unit production crossing the threshold for full tax benefits.

* Outlook and valuations: Attractive; maintain 'BUY'

- ♦ Outlook for prefab structures (including BT shelters) as well as custom-molded electrical accessories businesses continues to be robust. Monolithic structures are also expected to ramp up strongly. The ongoing boom in the telecom tower construction sector and capex in power transmission & distribution, and utilities bodes well for the future. Sintex has existing orders of INR 17 bn for pre fab structures (monoliths) as on December 31, 2007.
- ♦ Textile sales are expected to ramp-up in the coming quarters due to anticipated improvement in off take by the UK JV partner. USD-denominated realisations improved due to continued focus on high-end products as well as higher sales to the UK entity (collection sales).
- ♦ We expect Sintex to post a revenue and PAT CAGR of 60% and 64%, respectively, over FY08-10E. We also expect return on capital employed to improve from 18.8% in FY08E to 24.1% in FY10E. With consistent growth in pre fabs and electrical accessories, we remain positive on the rapid scale up in the monolithic business on the back of robust order book (INR 17 bn) and the integration of international acquisitions. At INR 540, Sintex is trading at 23.3x FY09E and 13.3x FY10E. We continue to maintain our 'BUY' recommendation.

* Snapshot of subsidiaries

- ♦ **Zeppelin Mobile Systems:** Zeppelin, for the quarter, registered growth of 70% Y-o-Y to INR 241 mn. Besides BT shelters, it also executed trial orders for FM stations during the quarter.
- ♦ **Wausaukee Composites:** Wausaukee's revenues, for the quarter, stood at INR 284 mn. It acquired its competitor Nero Plastics, a custom molder of low and medium volume structural plastic and composite components. It also bagged an order to supply 600 wind turbine generator nacelles valued at USD 15 mn over a period of three years during the quarter.
- ♦ **Bright Brothers:** Sintex acquired automotive product division of Bright Brothers in a slump sale purchase, for a consideration of INR 1.49 bn through Bright Autoplatic, a downstream subsidiary of the company. With this acquisition, Sintex has access to

manufacturing assets at all key auto hubs across the country and also to an established customer base such as Maruti, Hyundai, Tata Motors, M&M, among others. The revenue for the quarter was INR 80 mn.

Table 1: Acquisition details

Bright brothers	(INR mn)
Equity value	100
Debt	1,300
Enterprise value	1,400
Revenues	1,500
EBITDA	225
EV/EBITDA	6
Pay back period	5-6 years
Date	Dec 2007

Source: Company, Edelweiss research

- NIEF Plastic:** Sintex acquired NIEF Plastic of France, a manufacturer of an array of plastic components aimed mainly at the automotive, electrical, and defense sectors, for Euro 30.7 mn (equity value). NIEF has 11 production facilities, of which seven are in France, two in Eastern Europe, and one each in Tunisia and Morocco. It serves leading international customers such as Peugeot, Renault, Schneider, ABB, Alstom, etc. Revenue contribution from this subsidiary stood at INR 1,645 mn during the quarter.

Table 2: Acquisition details

Nief plastic	(INR mn)
Equity value	1,770
Debt	944
Enterprise value	2,714
Revenues	6,500
EBITDA	604
EV/EBITDA	4
Pay back period	3-4 years
Date	Oct 2007

Source: Company, Edelweiss research

Table 3: Fund raising plan

QIP	(INR)
Shares issued (mn)	11
Issue price	550
Share premium	548
Increase in share capital (INR mn)	22
Warrants to promoters	(INR)
Shares issued (mn)	13
Issue price	455
Share premium	453
Increase in share capital (INR mn)	26

Source: Company, Edelweiss research

(INR mn)

Financial snapshot								
Year to March	Q3FY08	Q3FY07	Change %	Q2FY08	Change %	FY07	FY08E	FY09E
Net sales	6,128	2,846	115.3	3,204	91.3	11,653	20,807	33,483
(Inc)/ Dec in stock	28	(34)		(31)				
Raw materials	3,282	1,783	89.2	1,765	90.9	7,062	12,826	21,083
Stores & spares	0	189	(100.0)			725	1,769	2,930
Employee expenses	743	102	628.7	133	458.0	497	621	745
Other expenditure*	1,059	304	247.9	609	74.0	1,304	1,834	2,755
Total expenditure	5,112	2,345	118.0	2,476	106.4	9,587	17,049	27,513
EBITDA	1,016	501	102.7	728	39.6	2,066	3,757	5,970
Other income	81	67	20.7	82	(1.3)	269	427	565
Depreciation	211	105	100.4	127	65.9	420	817	1,337
EBIT	886	463	91.4	683	29.8	1,915	3,368	5,198
Interest	224	115	95.1	136	64.7	415	654	879
PBT	662	348	90.1	547	21.1	1,500	2,713	4,319
Provision for taxation	75	87	(14.0)	127	(40.9)	327	570	907
Tax-current + FBT	75	87	(14.0)	127	(40.9)			
PAT	587	261	124.9	420	39.9	1,173	2,143	3,412
Adjusted PAT	587	261	124.9	420	39.9	1,173	2,143	3,411
Minority interest	3	2		0		7	31	49
PAT (after minority interest)	584	259	125.2	420	39.1	1,167	2,112	3,361
Tax rate (%)	11.3	25.0		23.2		21.8	21.0	21.0
Reported EPS	4.8	2.3		3.8		10.4	15.0	21.9
Diluted EPS	4.9	2.2		3.5		9.7	17.4	23.1
Equity capital	242.5	221.9		221.9		221.9	242.5	242.5
P/E (x)						55.7	31.0	23.3
EV/EBITDA (x)						32.0	18.2	14.4
Mcap/ Sales						5.6	3.1	1.9
% of sales								
Raw materials	54.0	61.5		54.1		60.6	61.6	63.0
Stores & spares	0.0	6.6		0.0		6.2	8.5	8.8
Employee expenses	12.1	3.6		4.2		4.3	3.0	2.2
Other expenditure	17.3	10.7		19.0		11.2	8.8	8.2
EBITDA	16.6	17.6	(1.0)	22.7	(6.1)	17.7	18.1	17.8
EBIT	14.5	16.3		21.3		16.4	16.2	15.5
PAT	9.5	9.1	0.4	13.1	(3.6)	10.0	10.1	10.0

*Figures are strictly not comparable as Wausaukee, bright and Nief figures are consolidated in this quarter

Table 4: Segmental details

Year to March	Q3FY08	Q3FY07	Change %
Plastic (INR mn)	5,179	2,005	158.3
Tanks	312	300	4.0
Prefab structures*	1,757	705	149.2
Industrial custom molding**	3,110	1,000	211.0
Textiles - collections			
Sales (mn mtrs)	0.8	0.7	18.1
Rate per mtr	297	288	3.1
Textiles - RMG			
Sales (mn mtrs)	4.81	4.62	4.1
Rate per mtr	119	117	1.7

Source: Company, Edelweiss research

Company Description

Ever since the commoditization of its original water tank business, Sintex has moved on to providing technology intensive products and complete business solutions based on plastics. The company has a leadership position in pre-fabricated structures, custom molding, and other businesses with high entry barriers, which are driven by technology, execution capabilities, and client relationships. Continuing the momentum, we expect Sintex to focus more on composite material-based offerings and services in the next phase. In textiles (25% of total revenue), Sintex's products are skewed towards the high-end and design-intensive segment of the market, which give it high operating margin. This division is a steady source of cash for the overall business, although its share in total revenues is decreasing.

Investment Theme

We like Sintex for its track record of innovations in plastic, creating new markets in the process, and generating return-accretive growth. The company's plastics business growth is driven by some of the most vibrant parts of the infrastructure-build up and corporate/government capex happening in India. This includes capex on power T&D/utilities (through electrical accessories), telecommunication infrastructure (BT shelters), auto components, and spend on education / healthcare / housing / roads. Sintex will continue to derive growth from increasing plastics penetration in India (one-fourth of world average now) and by innovating new offerings based on plastics.

Key Risks

Sintex's business segments serve diverse end-user categories and the risks are different for each segment. However, for the business as a whole, following are the over-arching risks:

Execution risk: Sintex's growth businesses of prefab structures and BT shelters have a high service and labour component. Hence, the company's ability to execute end-to-end projects is critical. Inability to execute timely on a regular basis will be a risk to topline growth.

Raw material costs: Sintex's plastic business uses crude derivatives as raw material; hence, sharp rise in crude prices could cause raw material costs to rise significantly. However, this risk is mitigated to an extent, as these products are downstream derivatives of crude and petro-chemical supply-demand balance plays a crucial role in price determination. A lot of such supply is expected to come up as capacities go on-stream, especially in the Middle-East. An appreciating INR environment is also favourable for Sintex, as it will lead to reduction in prices of crude and its derivatives. Also, since Sintex's offerings are substantially cheaper than substitute products, it has significant pricing advantages.

Macro-economic slowdown: Growth in Sintex's businesses is dependent on India's robust economic growth and the resultant infrastructure and social and corporate spends. Any strong and sustained slowdown in the economy could dampen growth drivers.

Financial Statements

Income statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Income from operations	8,534	11,653	20,807	33,483	53,550
Direct costs	6,470	8,254	15,341	25,300	41,026
Employee costs	374	497	621	745	894
Other expenses	638	836	1,087	1,467	1,981
Total operating expenses	7,482	9,587	17,049	27,513	43,901
EBITDA	1,052	2,066	3,757	5,970	9,648
Depreciation and amortisation	307	420	817	1,337	1,779
EBIT	745	1,646	2,940	4,633	7,870
Interest expenses	291	415	654	879	870
Other income	298	269	427	565	644
Profit before tax	752	1,500	2,713	4,319	7,644
Provision for tax	223	326	570	907	1,682
Profit after tax	529	1,173	2,143	3,412	5,963
Minority interest & prior period	0	6	31	49	77
Adjusted net profit (after MI)	529	1,167	2,112	3,363	5,886
EPS	5.4	10.5	17.4	23.1	40.5
Shares outstanding	98.7	120.3	121.3	145.4	145.4
Dividend per share	0.5	1.0	1.7	2.3	4.5
Dividend payout (%)	9.6	9.9	9.9	9.9	10.9

Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Operating expenses	87.7	82.3	81.9	82.2	82.0
Depreciation	3.6	3.6	3.9	4.0	3.3
Interest expenditure	3.4	3.6	3.1	2.6	1.6
EBITDA margins	12.3	17.7	18.1	17.8	18.0
Net profit margins	6.2	10.0	10.2	10.0	11.0

Growth metrics (%)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Revenues	29.6	36.5	78.6	60.9	59.9
EBITDA	(48.6)	96.4	81.9	58.9	61.6
PBT	(53.6)	99.4	80.9	59.2	77.0
Net profit	(63.6)	121.7	82.7	59.2	74.7
EPS	(63.6)	120.4	79.6	32.8	75.0

Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net profit	529	1,166	2,112	3,363	5,886
Add: Depreciation	307	420	817	1,337	1,779
Add: Misc expenses written off	16	24	21	0	0
Add: Deferred tax	49	111	0	0	0
Gross cash flow	901	1,721	2,951	4,700	7,664
Less: Dividends	51	117	211	336	647
Less: Changes in W. C.	(474)	538	810	2,445	2,312
Operating cash flow	1,324	1,067	1,929	1,918	4,705
Less: Change in investments	(82)	0	0	5,000	2,500
Less: Capex	1,599	2,350	7,364	8,629	4,964
Free cash flow	(194)	(1,283)	(5,435)	(11,711)	(2,759)

Balance sheet					(INR mn)
As on 31st March	FY06	FY07	FY08E	FY09E	FY10E
Equity capital	197	222	243	291	291
Reserves & surplus	4,297	6,308	11,803	22,015	27,254
Share warrants - fully convertible	54	0	0	0	1
Shareholders funds	4,549	6,530	12,045	22,306	27,546
Secured loans	3,595	5,168	10,185	10,452	9,969
Unsecured loans	2,231	1,723	20	20	20
Borrowings	5,827	6,891	10,205	10,472	9,989
Other long term liabilities/ MI	0	41	172	149	177
Sources of funds	10,375	13,461	22,423	32,928	37,712
Intangibles -brand value	0	86	86	86	86
Gross block	6,750	8,887	16,251	24,880	29,844
Depreciation	2,054	2,478	3,295	4,632	6,410
Net block	4,695	6,409	12,956	20,248	23,434
Capital work in progress	190	403	403	403	403
Total fixed assets	4,885	6,812	13,359	20,651	23,836
Investments	31	31	31	5,031	7,531
Inventories	863	1,506	2,850	5,045	8,069
Sundry debtors	1,507	2,334	4,167	6,880	11,003
Cash and equivalents	5,091	5,755	7,380	3,148	(67)
Loans and advances	370	671	671	671	671
Total current assets	7,830	10,266	15,069	15,745	19,677
Sundry creditors and others	1,640	2,658	4,940	7,278	11,802
Provisions	157	373	458	583	894
Total CL & provisions	1,797	3,031	5,398	7,861	12,696
Net current assets	6,033	7,235	9,671	7,884	6,981
Net deferred tax	(619)	(724)	(724)	(724)	(724)
Others	45	21	0	0	0
Uses of funds	10,375	13,461	22,423	32,928	37,711
Book value per share (BV) (INR)	46.1	54.3	99.3	153.4	189.5

Ratios

Year to March	FY06	FY07	FY08E	FY09E	FY10E
ROE (%)	10.8	21.1	22.7	19.6	23.6
ROCE (%)	11.0	16.1	18.8	18.8	24.1
Current ratio	4.4	3.4	2.8	2.0	1.5
Debtors (days)	64	73	73	75	75
Fixed assets t/o (x)	2.0	2.0	2.1	2.0	2.4
Debt/Equity	1.3	1.1	0.8	0.5	0.4

Valuations parameters

Year to March	FY06	FY07	FY08E	FY09E	FY10E
EPS (INR)	4.4	9.7	17.4	23.1	40.5
Y-o-Y growth (%)	(63.6)	120.4	79.6	32.8	75.0
CEPS (INR)	8.5	13.2	24.2	32.3	52.7
P/E (x)	122.7	55.7	31.0	23.3	13.3
Price/BV(x)	11.7	9.9	5.4	3.5	2.8
EV/Sales (x)	6.3	5.7	3.3	2.6	1.7
EV/EBITDA (x)	51.3	32.0	18.2	14.4	9.2

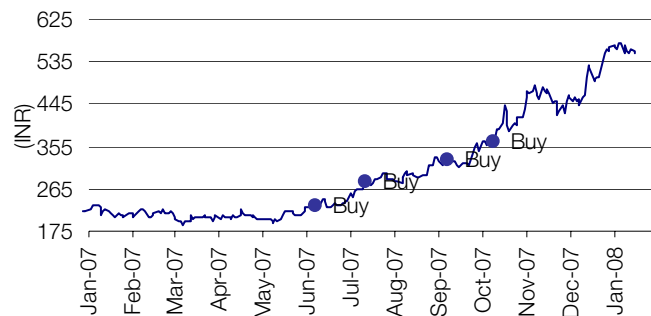
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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

Deepak Fertilizer, Essel Propack, Moser Baer, Opto Circuits India and Sintex Industries

Sintex Industries



Recent Research

Date	Company	Title	Price (INR)	Recos
10-Dec-07	Adani Enterprises	Powering ahead; <i>Initiating Coverage</i>	794	Buy
29-Nov-07	Moser Baer	PV is the long term bet; <i>Visit Note</i>	252	Buy
02-Nov-07	Opto Circuits	<i>Result Update</i>	430	Buy
29-Oct-07	Moser Baer	<i>Result Update</i>	287	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	107	45	18	3	193

* 13 stocks under review / 7 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	104	69	20

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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