Initiating Coverage
Sector: Diversified
BSE Sensex: 19,420

PINC RESEARCH

SINTEX INDUSTRIES LTD.

BUY
CMP Rs160
TP Rs220

Initiating Coverage

Structurally a strong growth story: We initiate coverage on Sintex with a BUY rating (upside of 38%). We like Sintex primarily for: (1) A diversified business model marked by low volatility in sales, profit and cash flows; (2) Market leadership in the prime Monolithic and Prefab segments which are expected to show CAGR of 25% and 27% during FY11-FY13E respectively; (3) Acquired overseas and domestic subsidiaries likely to show operational improvement with 300bps increase in margin in FY13e vs FY10; (4) Emerging cash flow positive in FY12-FY13e through better management. At CMP of Rs160, the stock looks attractiveand discounts 8.6x & 7.7x FY12e & FY13e EPS of Rs18.5 &Rs20.7 respectively.

Govt thrust on social spending to drive the Prefab and Monolithic business: Government of India's (GoI) increased focus on urban/rural housing, rural education and health care over the past few years has led to increased spending on various schemes. Sintex, with a leading presence in Monolithic and Prefab , is a direct beneficiary.

Prefab and Monolithic – foundation for growth: Strong execution capabilities in Monolithic and Prefab separate Sintex from SME peers. Monolithic and Prefab grew at 56% and 5% CAGR over FY09-FY11e respectively. We expect Prefab and Monolithic to grow at a CAGR of 25% and 27% respectively during FY11e-FY13e.

Overseas subsidiaries start performing: The acquired companies (all 100% subsidiaries now) in Sintex's portfolio have started delivering. We believe that with moderate recovery in the western markets, operational improvement in the acquired companies would come in soon. We expect margin of the subsidiaries to improve from 9.2% in FY10 to 12.2% in FY13e.

Positive operational cash flow in FY12-FY13: We believe Sintex would be operational cashflow +ve in FY12-FY13e on better mgmt of WC days and operational improvement in the subsidiaries. Operational CF in FY12e and FY13e is likely to be Rs5.9bn and Rs6.4bn as against Rs1.5bn and Rs(2.6bn) in FY09 and FY10 respectively.

Valuation attractive: *Sintex has historically traded at 6x–14x multiples. We assign 12x PE multiple to arrive at 12-month TP of Rs220. At CMP, the stock discounts 8.6x & 7.7x FY12 EPS & FY13 EPS of Rs18.5 & Rs20.7 respectively and is available at 6.6x FY13e EV/EBIDTA. Key risks to our assumption are (1) Execution risks in the Monolithic and Prefab segments; (2) Fluctuation in raw material prices denting margin; and (3) Delay in improvement of subsidiaries.*

KEY FINANCIALS

Rs mn

	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	30,639	32,816	42,404	50,130	58,575
YoY Gr. (%)	*34.7*	*7.1*	*29.2*	*18.2*	*16.8*
Op. Profits	4,500	5,005	7,064	8,323	9,126
OPM (%)	*14.7*	*15.3*	*16.7*	*16.6*	*15.6*
Adj. Net Profit	3,273	3,311	4,238	5,049	5,657
YoY Gr. (%)	*41.0*	*1.1*	*28.0*	*19.1*	*12.1*

KEY RATIOS

	FY09	FY10	FY11E	FY12E	FY13E
EPS (Rs)	12.0	12.1	15.5	18.5	20.7
ROCE (%)	10.7	9.2	10.7	11.6	11.5
RoE (%)	20.5	18.1	19.7	19.5	18.2
PER (x)	13.3	13.2	10.3	8.6	7.7
EV/ Net Sales (x)	2.0	1.8	1.4	1.2	1.0
EV/ EBITDA (x)	13.5	12.1	8.6	7.3	6.6

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STOCK DATA

Market Cap	Rs44bn.
Book Value per share	Rs143
Eq Shares O/S (F.V. Rs1)	273mn.
Free Float (%)	56
Avg Traded Value (6 mnths)	Rs324mn
52 week High/Low	Rs237/131
Bloomberg Code	SINT IN
Reuters Code	SNTX.BO

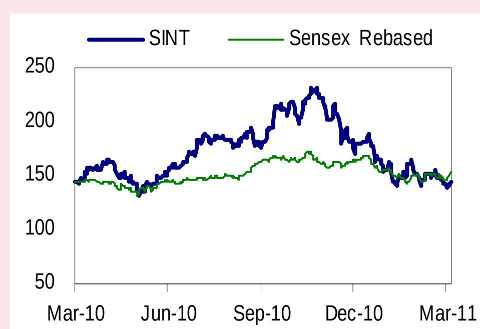
TOP SHAREHOLDERS

Name	% holding
Capital World Invest	4.0
Reliance Capital AMC	3.7
ICICI Prudential Life	3.5
Smallcap World Fund	3.4
Matthews International	3.4

PERFORMANCE (%)

	1M	3M	12M
Absolute	5.4	(12.4)	4.4
Relative	0.4	(7.0)	(3.9)

RELATIVE PERFORMANCE



INVESTMENT RATIONALE

I. Sintex stands to gain from GoI's focus on social spending:

The Indian Government's increased focus on urban/rural housing, rural education and healthcare over the past few years has led to increased spending in these areas under various government schemes. Sintex, with a leading presence in the Monolithic and Prefab construction segments, is a direct beneficiary of this spending.

The monolithic and prefab businesses tend to get majority of orders under the following government schemes:

Monolithic:

Urban Housing: JnNURM, Rajiv Awas Yojana (RAY), Integrated Housing and Slum Development (IHSDP), Sub Mission on Basic Services to Urban Poor (SM-BSUP)

Rural Housing: Indira Awas Yojana (IAY)

Prefab:

Sarva Shiksha Abhiyaan, National Rural Health Mission (NRHM)

The budget allocation for these government schemes has increased significantly YoY and we see this trend continuing, which augurs well for Sintex.

II. Prefab and Monolithic – elixir of growth

The company's strong execution capability in the Monolithic and Prefab segment separates it from SMEs and enables it to be a leader in the segment. The Monolithic and Prefab segments grew at 56% and 5% CAGR over FY09-FY11e respectively. Moreover, the Prefab construction is approved in 17 states and the company is in process of securing approval from other states.

a) Prefab Business expected to grow at 25% CAGR over FY11-FY13e:

Sintex entered the Prefab business in 2000 and emerged one of the leaders in the segment. Prefabricated structures are basically used in housing and have now found use across various industries such as class rooms, agri sheds, cold chains, bunk houses, schools, rural healthcare centers, and toilets. The company's Prefab business has approvals in 17 states with 13-14 states being active. Sintex's Prefab revenue is primarily driven by government orders (central and state) from schemes such as Sarva Siksha Abhiyan and National Rural Health Mission. We expect revenue in Prefab business to grow at 25% CAGR during FY11-FY13e.

Prefab advantages over conventional construction creates a massive opportunity

Prefab has a number of advantages over conventional construction as outlined in the table below:

Prefab advantage over conventional construction- leading to huge opportunity

Particulars	Prefab Construction	Conventional construction
Cost	Low Cost per sq ft	High Cost
Application	Agri Sheds,Bunk Houses,Schools, Warehousing etc	Schools,Residential building, Warehousing etc
Turnaround time	Can be constructed in 3-4 days time	Higher duration then Prefab
Labor Intensive	Not so labour intensive	High degree of labor intensive
Mobility	Moveable and highely beneficial for industrial houses and application like bunkhouses,Toets sheds etc	Non Moveable
Maintenance cost	Very low	High Maintainence cost
Efficiency	Light weight and so higher efficiency	Heavy structure
Life cycle	25-30 Years for classrooms	50 years +

Source: Company, PINC Research

Capex a mantra to extend geographical reach and serve more number of states:

The company has already incurred capital expenditure of approx Rs4-4.5bn for the Prefab segment, including the newly commissioned Korean plant in Kalol. The Kalol plant allows it to manufacture larger structures for the warehousing segment. Sintex has capability to manufacture pre-fab slabs of 40 feet length, which separates it from small SMEs. It takes maximum of six months to commission a plant with the cost of the expansion being Rs500-600mn. Sintex is close to completing its expansion of the Prefab plant in Dadri (serving states like UP) and has chalked out further plant expansion in Assam and Bihar to cater to more states in FY12E and FY13E respectively.

Plants location and serving of states

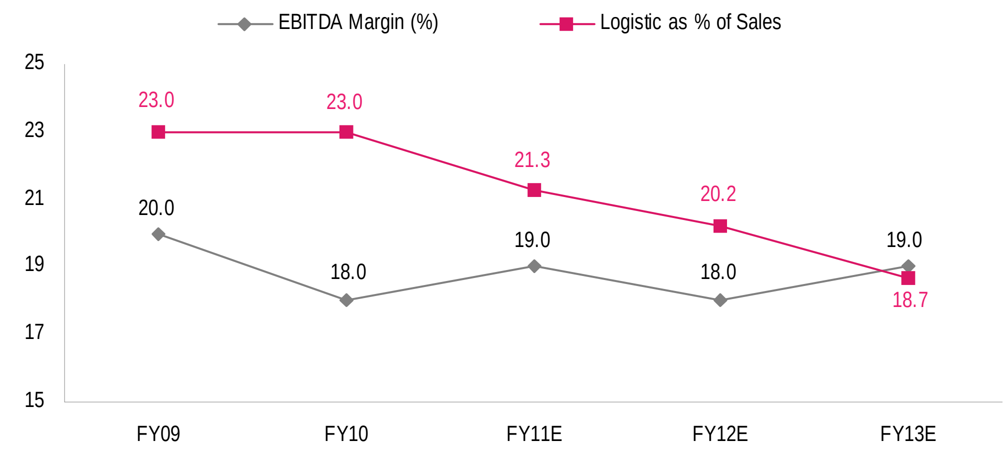
Existing Plant Location	Approved States	Likely Plant
Kalol	Rajasthan	
	Gujarat	
BADDI	Delhi	
	Punjab	
	Haryana	
	Himachal Pradesh	Dadri (Greenfield)
	UP	Expansion (Brownfield)
SALEM	TN	
	Kerala	Expansion (Brownfield)
KOLKATA	West Bengal	
	Assam	Bihar (Greenfield)
	Bihar	Assam (Greenfield)
NAGPUR	Maharashtra	
	MP	
	Chattisgarh	

Source: Company, PINC Research

Logistics cost likely to come down due to expanding geographical reach

The company has five prefab plants under operation which cater to the needs of 17 states. This therefore increases logistical cost. The company has already incurred capex for plants in Dadri, which are likely to commence in Q1FY11 and likely to cater to north Indian locations. Moreover the company is planning to put up plants in Assam and Bihar, which will cater to the needs of east India as the company sees significant new opportunities emerging from such locations. Logistical cost in the past couple of years for the Prefab segment was 21-23%. However, we have considered logistical cost at 20% and 19% for Prefab sales in FY12E and FY13E respectively, which would offset increase in raw material cost or margin erosion owing to competition.

EBITDA Margin v/s Logistic Cost

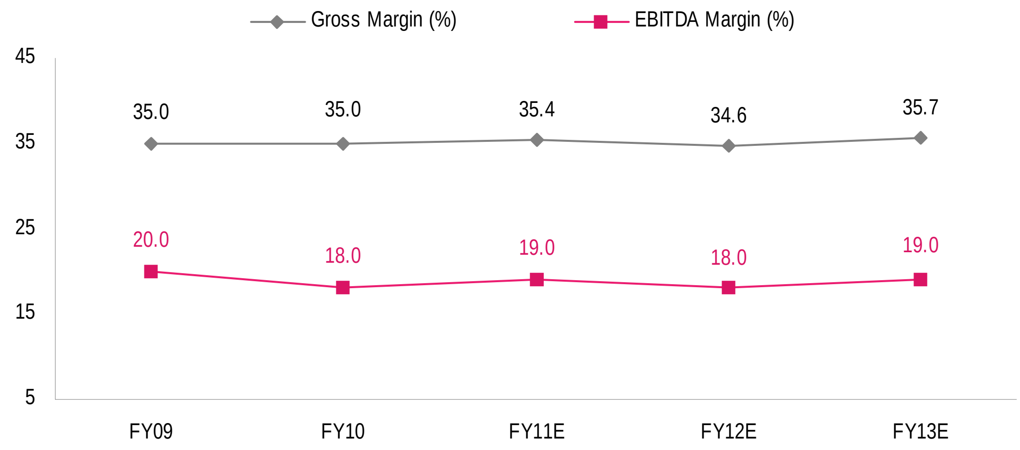


Source: Company, PINC Research

Size, geographical presence and experience will give Sintex an edge over competition:

EBIDTA margin of the Prefab segment has been 18-20% during FY08-10. We expect the margin to remain at 18-19% over FY11-FY13e despite competition from various small scale players. The company's six plants (including Dadri and two plants in east India) will help it reach far-flung corners of the country and give it good geographical reach, which we believe will be tough for any SME or other local players to match. Further, the company is pre-approved with 17 states on all technical parameters, which would be a major entry barrier for local players. Moreover, the company's execution capability (until installation) would be faster compared with local players considering its location advantage, technical capabilities and longstanding experience. Given these advantages, we do not see volumes or margins for Prefab government orders facing any threat. Government orders comprise ~70% of the total Prefab business.

Gross Margin(E) v/s EBITDA Margin - Prefab segment



Source: Company, PINC Research

b) Monolithic construction— the answer to Urban and Semi-Urban Housing

India faces shortage of 26 mn units in the Low Income Group (LIG) and Middle Income Group (MIG) segments where demand outpaces supply. Sintex has designed and introduced an entirely new housing solution to address mass and low-cost needs in India in Jan'08 and has now become a leader in this segment. The company in this segment generally secures orders from various housing boards (Rajasthan, Tamil Nadu, and Gujarat) and government rural schemes (BSUP and IHSDP) under JnNURM.

Monolithic construction expected to grow at 27% CAGR over FY11-FY13e

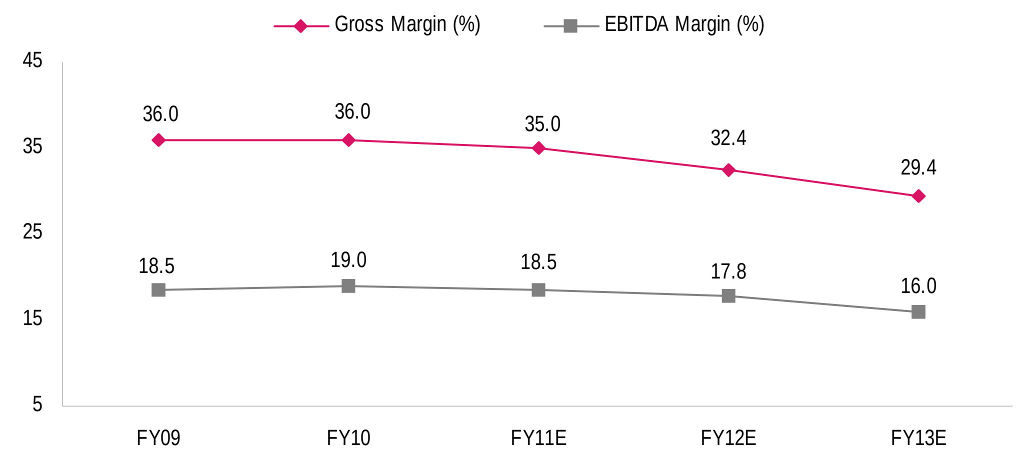
Sintex's current order book is Rs 26 bn. Order book was Rs 5 bn when Sintex started the business in Jan 2008. Of the total order book, 90%+ comprises orders from the government from schemes under JnNURM, ministry of housing and other governing bodies. It has potential to receive orders from state housing boards, Railway housing, Police Housing and gradually nano housing by Tatas and other players.

The company recently signed a MoU with 'Vibrant Gujarat' of ~Rs 25 bn and we see no difficulty in Sintex securing fresh orders. We see good revenue visibility over the next 2-3 years. Moreover, the company is likely to get orders from security forces in Q1-Q2FY12E of Rs 11 bn. We believe that success in this segment relates to execution capability rather than building order book. We expect revenue to grow at 27% CAGR over FY11-FY13e.

Sintex margin in Monolithic segment would remain stable:

Monolithic construction includes both site construction (including roads, sewage, pumping station, compound wall etc) and building construction. In case of building construction, realization is ~Rs 550-580 psf. In case of site construction. Realization is Rs 900-1150 psf. Realization is higher in case of site construction because of size, economics, and material used. Margins vary significantly for small sites and large sites; margins for small sites are at ~12-14% and for large sites are at ~18-25%. Sintex's average ticket size increased 3x from Rs 200mn in FY08 to Rs 600mn in FY11. We expect it to increase further, supported by large size projects such as the site in Pondicherry allotted by the housing board worth ~Rs1400mn)

Gross Margin(E) v/s EBITDA Margin - Monolithic Construction



Source: Company, PINC Research

In a sweet spot for the next 4-5 years:

In case of realizations and margins, the Monolithic business is in a sweet spot and this is likely to continue for next 4-5 years. We believe this is the time needed for mid-size construction players to equip themselves with the needed technology and expertise to challenge Sintex. In case of the Monolithic business, competition from the local contractors is severe especially in site building and small site construction where margins are 12–14%. In this business, although there are no entry barriers, significant other inputs are needed such as strong execution capability and technological prowess for upgrading of large-size projects. Small local contractors find it difficult to nurture these capabilities. Average order book size of Sintex also increased threefold to Rs 600 mn in FY11 from Rs 200 mn in FY08. This signifies that the company is progressing well with regard to large sites. Competition is emerging from organized players such as Embassy, BL Kashyap, and Ahluwalia who are at an initial stage of monolithic construction and are ramping up their business. We believe it would take them at least 3-4 years to achieve critical mass and strong technical capabilities to compete with Sintex. In the current scenario, Sintex faces tough competition only from L&T and we believe EBIDTA margins for the next two years, despite competition, are likely to remain at 16.5–17.8%.

Comparison with other Construction companies

Company name	Revenue (Rs mn)			EBIDTA margins (%)		
	FY11e	FY12e	FY13e	FY11e	FY12e	FY13e
Sintex Industries	42,404	50,130	58,575	16.7	16.6	15.6
CCCL	22,579	26,783	32,170	8.8	9.0	8.8
Ahluwalia	16,899	20,019	23,039	10.1	9.8	10.7

Source: Company, PINC Research

III. Custom Moulding (Domestic)

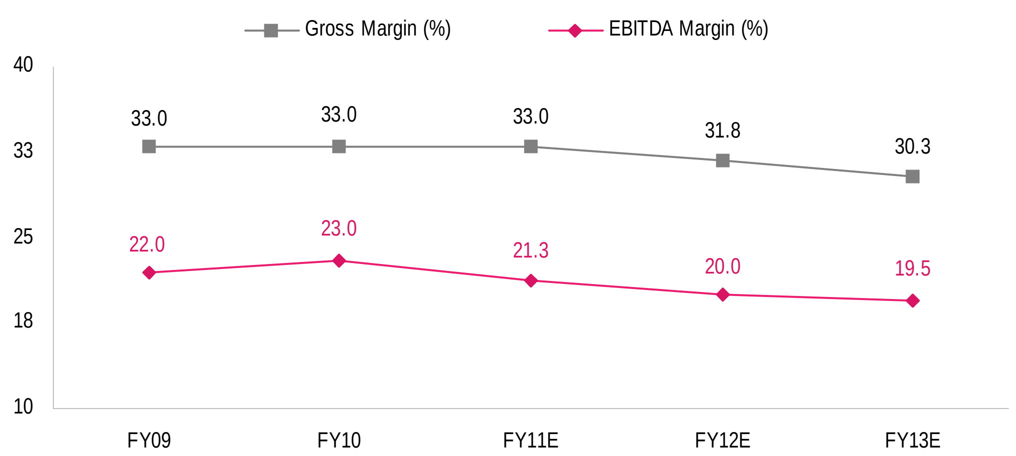
Meter boxes and High Voltage accessories segment contribution to Domestic Custom moulding revenue to stay at ~50%

The company has three plants for custom moulding one each at Kalol, Bhachau and Nalagarh. Based on end use of products, the industrial custom moulding business has two main sub-segments: electrical accessories moulding and auto components moulding. Sintex manufactures items such as meter boxes, high voltage accessories, and dish antenna cable threads. Meter Boxes and high voltage accessories form approx 50% of the revenue of the domestic custom moulding business. We believe this trend is likely to maintain. Further, Sintex expanded reach on a pan-Indian scale and executed contracts for various power sector utilities in Tamil Nadu, Andhra Pradesh, Chhattisgarh, Delhi, Rajasthan and Madhya Pradesh.

Stable growth with higher margins

The domestic custom moulding division has grown at 2% CAGR over FY09-FY11e. We expect revenue CAGR of 2% in FY11-FY13e. The company has maintained stable margins in this division: it registered operating margin of 21-23%. We believe it is likely to deliver margins of 19-20% as most of its raw materials (55-60% of cost) are crude related (resin and fibre glass)

Gross Margin(E) v/s EBITDA Margin - Domestic Custom Moulding



Source: Company, PINC Research

Pursuing growth through four acquisitions in the composite space:

Sintex made four acquisitions in India and overseas in the past three years to enhance its presence in the growing composites segment. Globally, this industry is significantly large with Germany, US, Europe and Japan as the biggest users. According to the company's estimates, the Indian market is estimated to be USD 1Bn and is expected to grow 25% on the back of growth in transportation, infrastructure, wind energy and oil and gas sectors. All these acquisitions have been EPS accretive (except Geiger Technik) and are likely to add further to the top line and bottom line with improvement noticed in western market.

Acquisition History

Sintex's acquisitions in the composites segment include Wausaukee Components and Nero Plastics in the US, Bright Autoplast in India and Nief Plastics in France. All these acquisitions have further strengthened Sintex's position in developing customer relationships and enhancing technological prowess.

Acquisition History

Target Company	Country	Date of acquisition	Business	Acquisition Price	Revenue (Fy10)
Zeppelin Mobile Systems	India	4-May-06	Telecom Infrastructure	Rs180 mn	Rs 1468 mn
Wausaukee Composites	USA	31-May-07	Custom Moulding for mass transit, medical imaging, commercial furnishings, etc.	$20.5 mn	Rs 1359 mn
Bright Brothers - Auto business	India	6-Sep-07	Custom Moulding for automotive sector	Rs 1489.0 mn	Rs 2231 mn
Nief Plastics S.A.	France	28-Sep-07	Custom moulding for automotive, electrical & electronics, aeronautics and defence, etc	Euro 34.77 mn	Rs 8102 mn
Nero Plastic	USA	3-Dec-07	Custom moulding of low and medium volume structural plastic and composite components	$4.7mn	Consolidated with Wausaukee
Digvijay Group	India	16-Jun-08	Telecom support solutions	Rs 645.2mn	Consolidated with Zeppelin
Geiger technik	Germany	31-Jul-08	Plastic products and solutions for the automotive industry	USD 10mn	Written off
Durha Constructions Pvt Ltd	India	13-Dec-10	Construction Industry	Rs 420 mn	

Source: Company, PINC Research

(A) Neif Plastics

Neif — well balanced acquisition with best technology, clientele and geographical reach:

Sintex acquired 100% stake in Nief Plastic (Nief) in Sept'07 for Euro 34.77 mn. Nief has 12 manufacturing facilities, eight in France and one each in Hungary, Slovakia, Tunisia and Morocco. Nief manufactures plastic products for use in the automotive, electrical and electronics, aeronautics and defence, household appliances and building industries. In particular, Nief has a strong presence in Europe, especially in high quality insertion moulding technology.

Sintex to benefit from Neif's strong clientele:

Nief has relationships with European and international companies such as Faurecia, Schneider (these two clients combined provide revenue of Euro 40mn), Legrand, ABB, Areva, EADS, Siemens, Snecma, ThyssenKrupp Automotive, Valeo, and Visteon. Acquisition of Neif is likely to benefit Sintex through: (a) Access to Neif's manufacturing technology (b) Transfer of Nief's technology to India. (c) Access to Nief's existing customers and using these relationships to service the same clients in India.

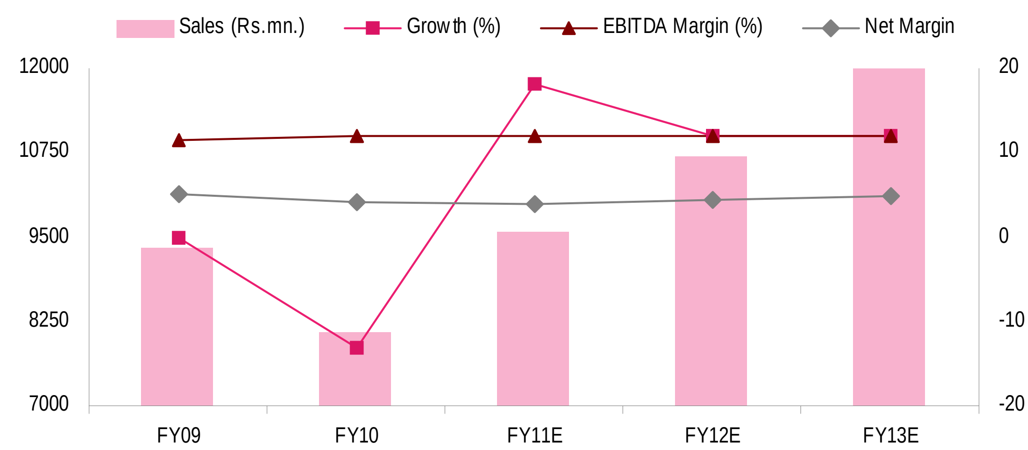
Potential synergies between Nief and Bright:

Sintex sees potential synergies in the businesses of Nief Plastic and Bright AutoPlast. Both companies have a strong presence in the automotive sector. Bright AutoPlast has shown significant growth in business due to synergies with Nief and we see the relationship strengthening further.

Nief the best acquisition in financial terms:

Nief has grown at a CAGR of 1.2% during FY09-FY11e and we expect this to improve at a CAGR of 12% going forward in FY11-FY13e on the back of economic recovery in western countries. Nief has recorded net margin of 4-5.5%, which we believe is likely to improve with recovery in the economy and a growing revenue pie in the aero space segment.

Nief Margins



Source: Company, PINC Research

(B) Bright AutoPlast

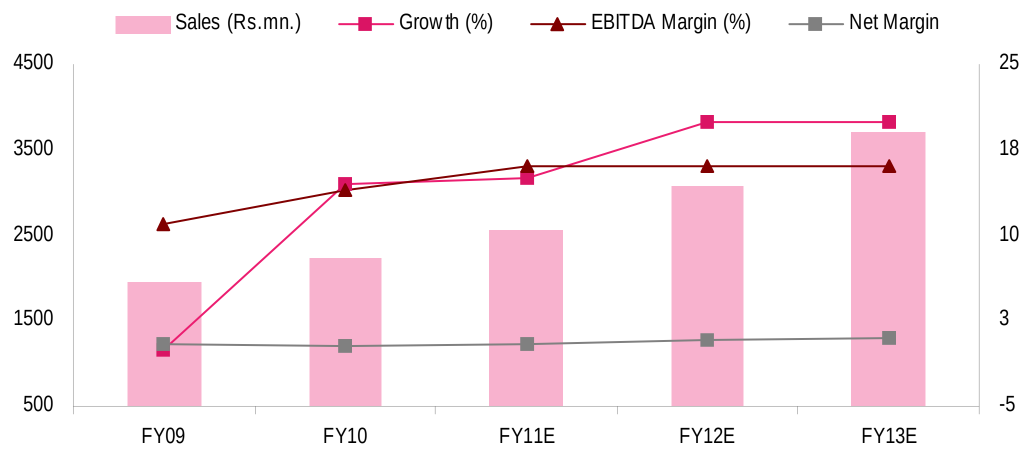
Sintex acquired Bright AutoPlast to enter the automotive segment and leverage Neif's technology and clients in India:

In Dec 2007, Sintex acquired Bright AutoPlast (Bright) for Rs 1,489.mn as a 100% subsidiary of Sintex. Bright has five manufacturing plants in India located at Pune, Sohna (Gurgaon), Chennai, Pithampur and Nashik. Sintex acquired this company to enter the domestic automotive segment. Bright manufactures injection moulded plastic components for the automotive industry such as exterior systems, interior systems (cock pit, over head, side wall, acoustic management, and seating systems) and under hood systems (air dams, nozzle defrosters and radiator fan blades). In addition to injection moulding, Bright has the capability to undertake vaccum foaming, Polyurethane foaming, ultra-sonic and hot plate welding, spray painting, decorative painting and assembly operations. Furthermore, following the acquisition of Nief, Sintex believed that it would benefit from synergies between Neif and Bright and service clients such as Maruti, Hyundai, M&M, Tata Motors, General Motors, Nissan, Ashok Leyland, Force Motors, TVS, Honda, Hanil, Mobis, and Visteon.

Bright's EBIDTA strong but debt a concern:

Bright's EBIDTA is ~12-16%. However, the company has high D/E ratio of 1.8x as of FY10 (consolidated D/E-1.1) which brings down its net margin to below 1%. We believe if Sintex is able to lower Bright's D/E level, it will improve Bright's bottom line significantly.

Bright Margins



Source: Company, PINC Research

(C) Wausaukee Composites (WCI)

Acquired Wausaukee for leveraging US clientele and technology:

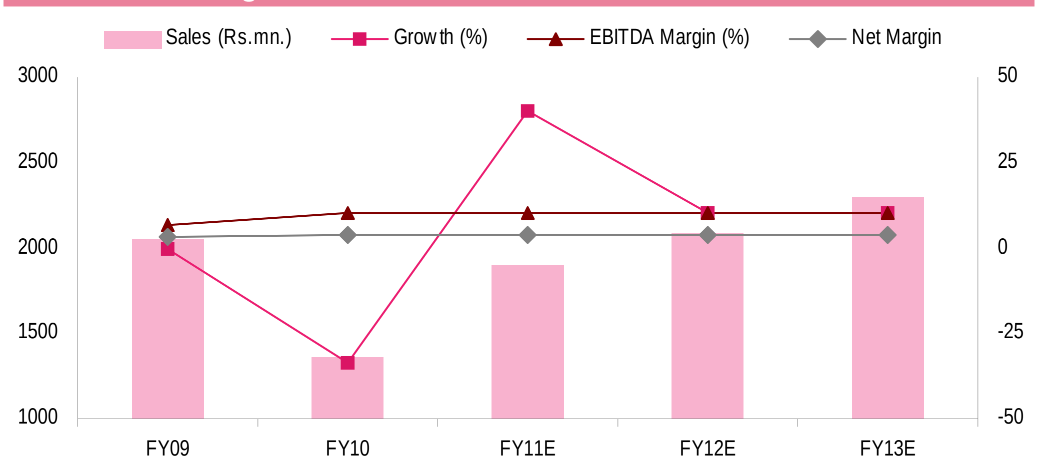
Sintex presently holds 100% stake in WCI. WCI has three manufacturing facilities in the US where it manufacturers engineered composite plastic and fibre glass components for various markets including industrial trucks and tractors, wind energy and corrosion-resistant materials handling products. WCI's revenue comes mainly from construction equipment (25%), agriculture (15%), medical injecting (15%), and mass transit (10-12%).

Sintex would benefit from WCI's strong clientele:

WCI's major clients include Caterpillar, Siemens, Alstom, Phillips Medical Systems, G.E. Medical Systems, Rail Plan International. In wind energy its main client includes Acciona. The acquisition of WCI has helped Sintex enter the US market and secure access to a number of Fortune 500 companies. Sintex can also use its low cost base Indian manufacturing facility to serve the US clients.

WCI's revenue showed -ve 3.7% CAGR over FY09-FY11e and is expected to grow at 10% CAGR over FY11-FY13e. It margin is in the range of 7-10%. We expect marginal uptrend in the margin.

Wausaukee Margins



Source: Company, PINC Research

IV. TEXTILE

Sintex manufactures the following kind of fabrics at its Kalol facility:

- High end men's structured shirting fabrics (~96% of textile revenue): This is a 450-480 mn meter market globally.
- Yarn-dyed corduroy and ultima cotton, yarn-based corduroy (~4% of textile revenue).
- Technical textiles – No significant revenue expected from this segment until FY13.

The textile division focuses on high-end structured dyed yarn fabrics and provides fibre to the fabric facilities. It has also diversified into sophisticated home furnishing and technical textiles, making it a provider of total fabric solutions.

Sintex faces competition from players like Arvind Mills, and Raymond in the structured shirting fabric and corduroy segment. Sintex provides fabrics to reputed brands like Arrow and Van Heusen. Internationally, it indirectly sells fabric to global retail majors like Armani, Hugo Boss, Diesel, Burberry, DKNY, S.Oliver, Zara, Mexx, Meggimo Dotti, and Banana Republic.

Contribution of Collection segment to improve slightly:

The textile portfolio caters to the following two types of businesses:

Revenue breakup

Ready Made Garments (RMG)	~70% of Sales	Avg Realization – Rs120-180/mtr
Collection Segment	~30% of Sales	Avg Realization – Rs280-370/mtr

Source: Company, PINC Research

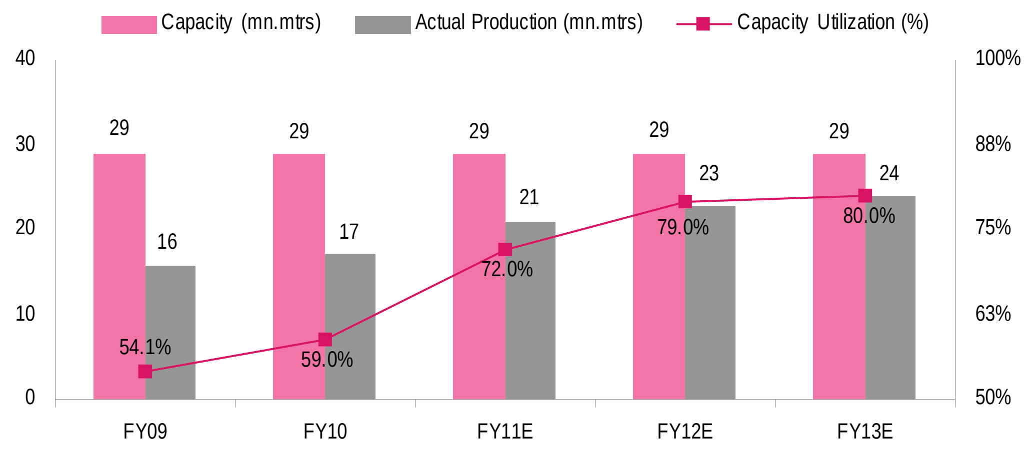
Sintex has two design houses in UK & Italy from where the designs for the Collection Segment are made. They make around 9000-12000 designs per quarter. The hit rate for these designs, which has gone down to ~6% in FY10, is now at ~8-9% and shows an improvement in demand for garments in these segments.

Competition for this segment is majorly from countries such as Turkey and Portugal. However, Sintex is able to provide the designs and fabric at lower costs than competition, which gives it a natural competitive advantage. We expect revenue contribution from the Collection segment, which has higher realization than the RMG segment; to increase to about ~35% by FY13e (from current ~30%) led by uptick in the European market. This would help improve margins.

Capacity utilization levels set to increase.

Sintex increased capacity at its Kalol plant from 22 mn mtrs to 29 mn mtrs in FY09 by investing in capex of Rs ~1900 mn. It now has ~450-500 looms. This increase in capacity had led to a dip in the capacity utilization levels in FY09 (~54%). With growing demand for textile products and no further capex estimated, we expect capacity utilization to touch levels of ~80% by FY12-FY13e.

Capacity Utilization Levels



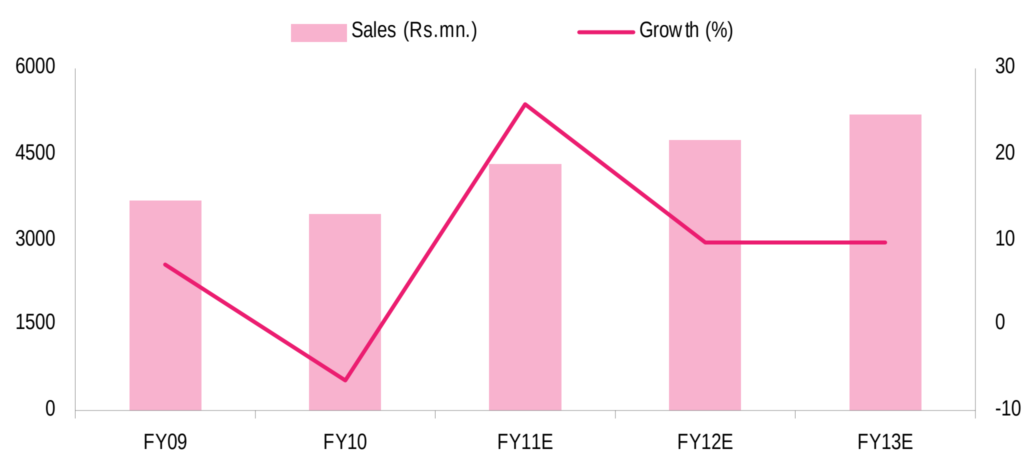
Source: Company, PINC Research

Conservative growth in revenue and marginal improvement in EBITDA:

Revenue

The Textile business' FY10 sales fell ~7% as meters sold in developed world, western Europe and North America dropped substantially. However, this trend is reversing in FY11 as seen in 9MFY11 numbers (~28% growth YoY) for the textile segment. We see the textile business growing at ~28% in FY11e due to the low base effect of FY10. However, the high growth seen in FY11 may be unsustainable. We conservatively expect the textile business to grow ~9% in FY12e and FY13e. Hence, contribution of the textile business to overall top line is seen to fall from the current ~17% (FY10) to ~13% by FY13e.

Sales



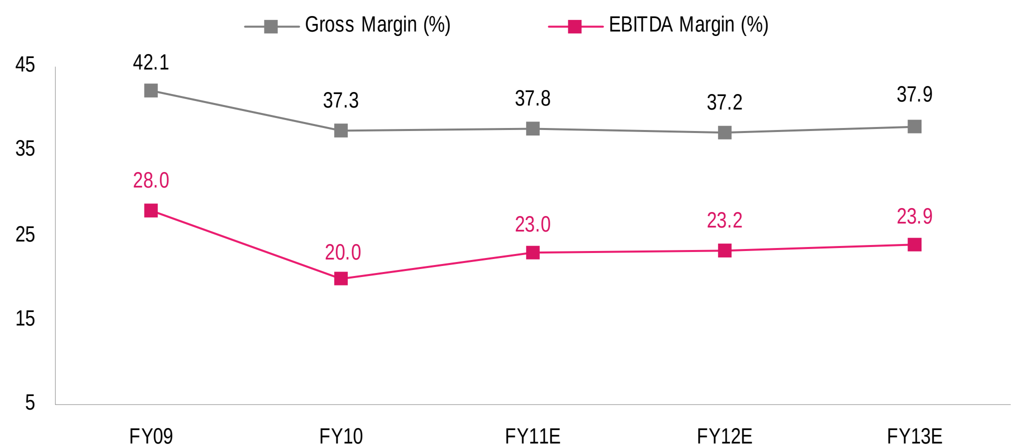
Source: Company, PINC Research

Margins

Textiles is a high-margin business for Sintex. Average margins are ~23.5% (9M FY11). In FY10 however, margins were lower due to: 1) lower capacity utilization; 2) dip in meters sold in developed world, Western Europe and North America; and 3) Drop in design approval rate to 4.8% from 9.6%.

Also, cotton prices have shown a significant jump over the past year and are at an all-time high right now. Reduction in cotton prices will help improve EBTIDA margin. The company also invested in new technologies in FY10, which we expect will help improve efficiency and reduce power consumption. Given these factors, we see Sintex's EBITDA margins improving for the textile business slightly from the current ~23% to ~24% over FY12e-FY13e.

Gross Margin(E) v/s EBITDA Margin - Textile



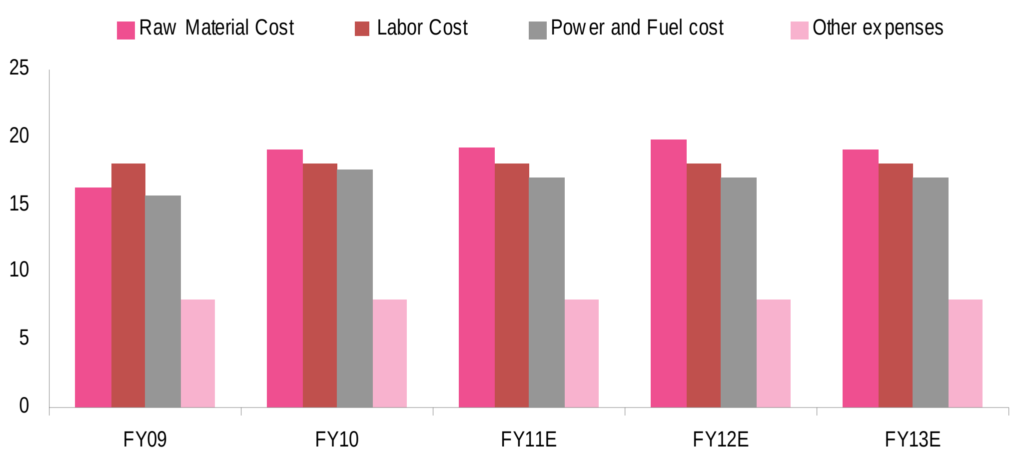
Source: Company, PINC Research

High Cotton prices cause for concern

Cost Structure

Raw Material (17-20%), Labour (~18%) and Power and Fuel (~19%) form a significant part of the expenses for the Textile business.

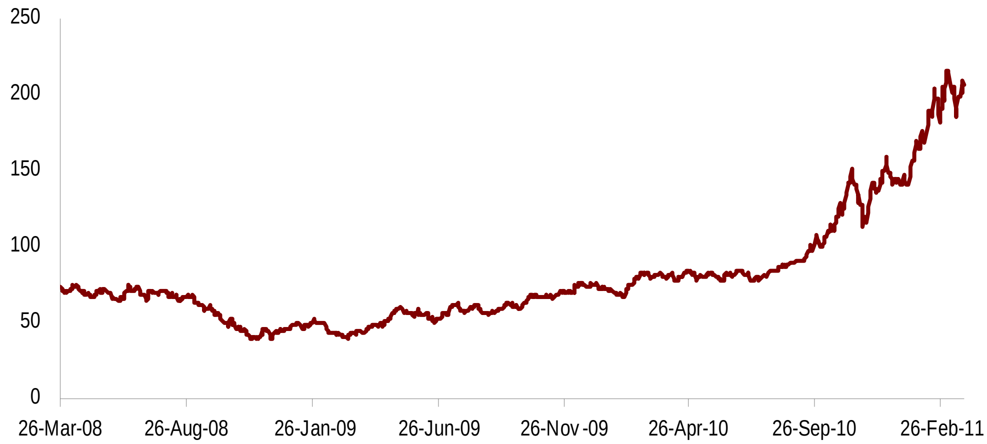
Cost Breakup (as % of sales)



Source: Company, PINC Research

Cotton forms a significant part of total raw material costs (~75%). High prices of cotton over the past year caused raw material cost to increase in FY10. We expect a cool off in cotton prices to help improve margins over FY12e.

California Cotton Futures - CT1 (USD/lb)



Source: Bloomberg

V. Overseas subsidiaries have started playing well:

The acquired companies (all 100% presently) in Sintex portfolio started delivering well and we believe that with moderate recovery in the western market we may see further operational improvement in the acquired company. Moreover, Sintex is also extracting synergies between Neif and Bright and using its low-cost Indian base to export goods to the US and other countries. Zeppelin and Digvijay; these acquisitions have been made to secure an entry into telecom shelter and are in the process of restructuring. Sintex has started restructuring the business by focusing on reducing employee cost at Zeppelin and Digvijay (a subsidiary of Zeppelin Infrastructure support service) and focusing strategy towards securing EPC contracts and government business. We expect moderation in Zeppelin revenue and expect marginal improvement in net margin.

Moreover, we do not see a high degree of capital investment in the overseas subsidiary for next 2-3 years and with improvement in operation, we believe RoCE and RoE to improve marginally.

Standalone & Consolidated - RoCE & RoE

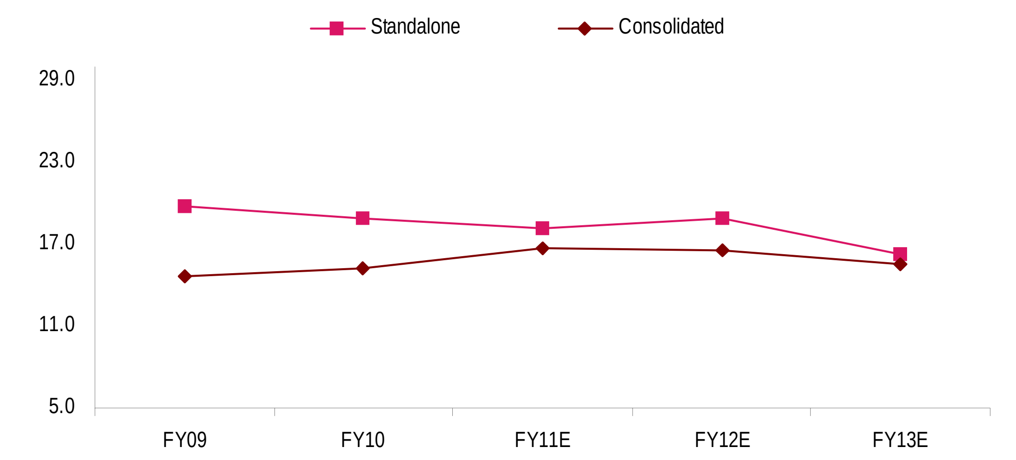
RoE (%)	FY09	FY10	FY11e	FY12e	FY13e
Standalone	17.3	15.6	16.1	16.7	15.0
Consolidated	20.5	18.1	19.7	19.5	18.2
RoCE (%)	**FY09**	**FY10**	**FY11e**	**FY12e**	**FY13e**
Standalone	14.0	9.5	10.0	12.0	12.4
Consolidated	10.7	9.2	10.7	11.6	11.5

Source: Company, PINC Research

VI. Standalone margin largely to be compensated by improvement in consolidated margin:

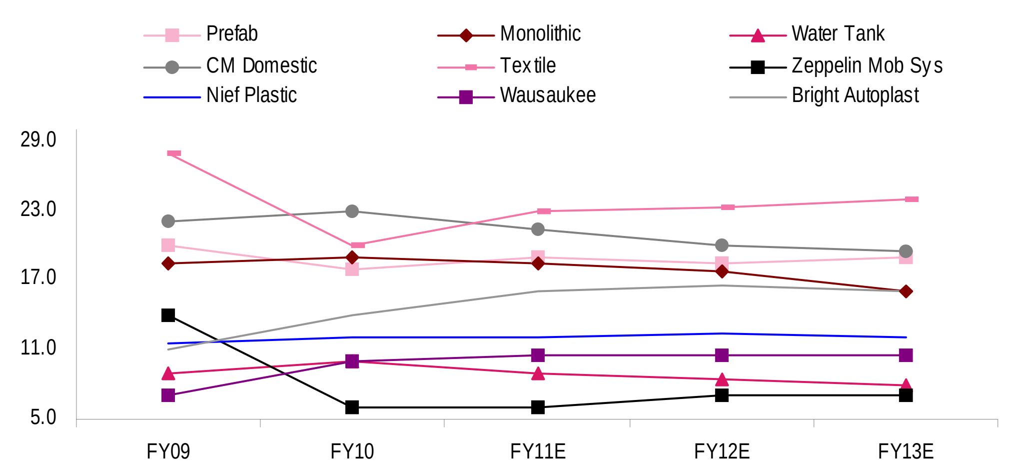
We may see some fall in standalone margin with volatility in raw material cost and 250 bps (FY13 vs FY10) fall in the Monolithic business due to incremental competition in small site and building construction. We expect standalone margin to be 16–18% for FY11–FY13e respectively from 18-20% in FY08-FY10 respectively. We see an improvement in margin in the business of the subsidiaries and expect this to compensate for loss in standalone margin to a great extent. Consolidated margin is expected at 15-16.7% in FY11-FY13e from 14-15.3% in FY08-FY10.

Standalone and consolidated margin chart



Source: Company, PINC Research

Margins of all subsidiaries / segments



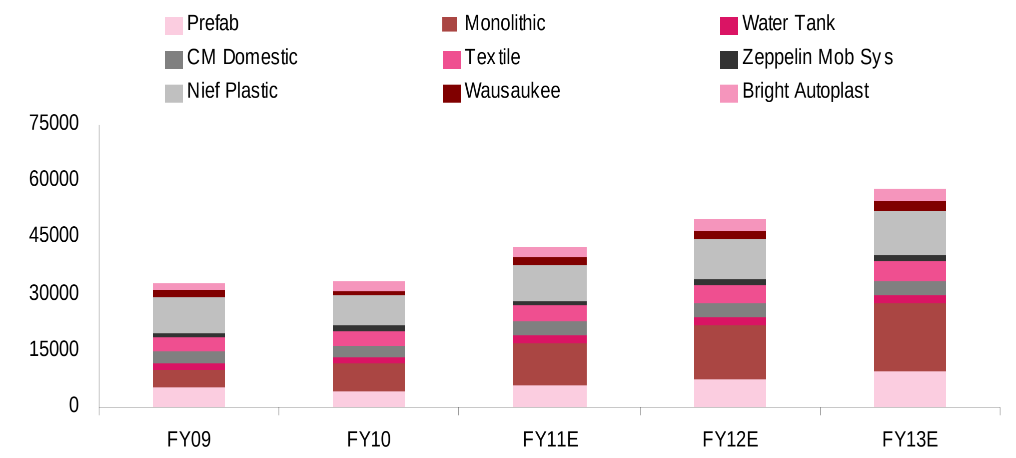
Source: Company, PINC Research

FINANCIAL OVERVIEW

Standalone revenue to grow at 20% CAGR FY11-FY13e

Sintex has seen robust standalone revenue CAGR of 20% during FY08–FY10, primarily due to 5% growth in the Prefab business and 56% growth in the Monolithic business. We expect consolidated revenue to grow at 18% CAGR over FY11-FY13e as Neif, WCI and Bright look for robust growth during this phase.

Segmental Revenue breakup (Rs mn)

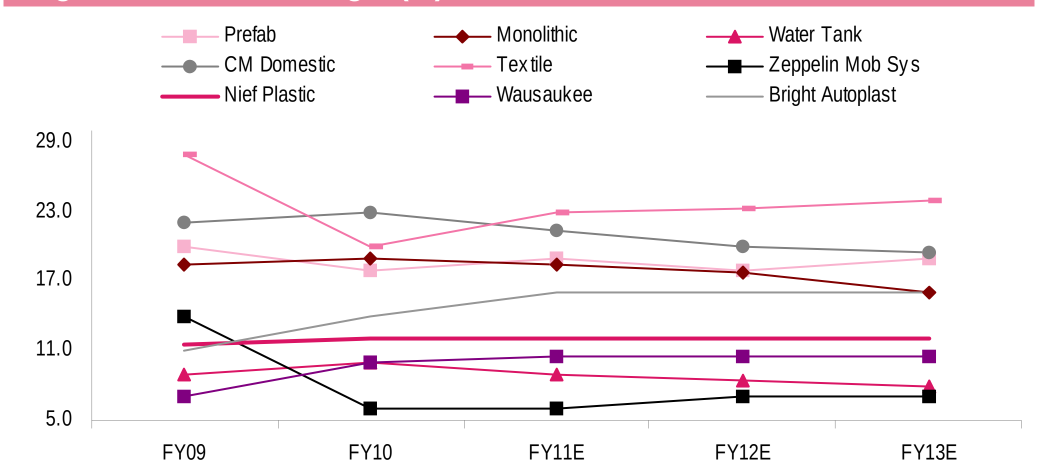


Source: Company, PINC Research

EBITDA margin set to expand

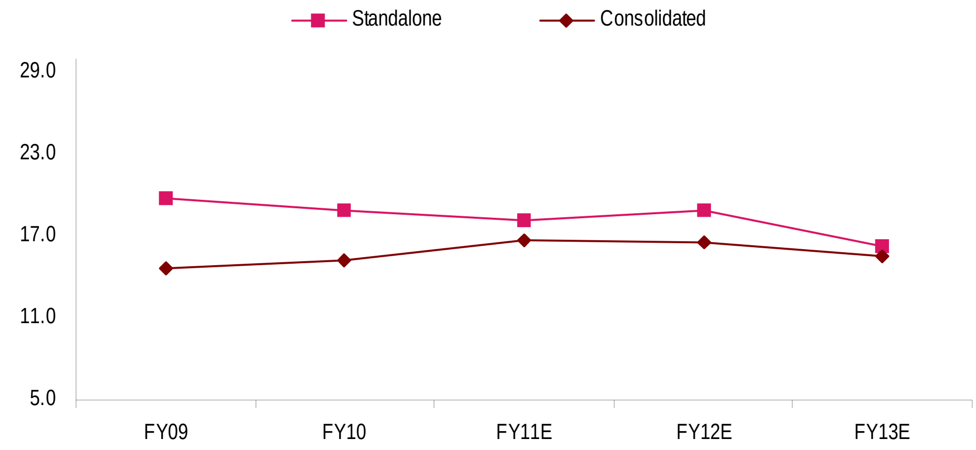
The company's consolidated EBITDA margin was 16.8% for 9MFY11 as against 14.7% and 15.3% for FY09 and FY10 respectively. We expect margin of the subsidiaries to improve 310bps for FY12-13e but consolidated margin to remain flat at 16% for FY12-13e owing to a marginal dip in standalone margin in the Monolithic business. Expansion in margin of subsidiaries in FY12-FY13e is expected to come from: (a) operational improvement in Neif, and WCI on moderate growth in demand in western countries; (b) restructuring and streamlining employee costs at Zeppelin and Digvijay; (c) better synergies between Bright, Nief and WCI.

Segmental EBITDA Margin (%)



Source: Company, PINC Research

Standalone and consolidated margin chart (%)



Source: Company, PINC Research

ROCE has growth potential

We expect ROCE to improve from 9.2% in FY10 to 10.7% in FY11e respectively led by improvement in business of the subsidiaries. We believe that RoCE of Prefab and Monolithic business is likely to improve on optimum utilisation of capital investment.

Positive operational cash flow

The company's operational cash flow was negative in FY09 and FY10. However, we expect positive operational cash flow in FY11e, FY12e and FY13e respectively. We believe though the Monolithic business is highly capital intensive, requirement of capital would be only incremental; hence working capital cycle is likely to come down, making operational cash flows positive.

Operational Cash Flow

(Rs mn)	FY09	FY10	FY11	FY12	FY13
Standalone	2,203	(2,809)	4,860	4,282	4,286
Consolidated	1,476	(2,604)	3,664	5,906	6,437

Source: Company, PINC Research

Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	9MFY11	9MFY10	% Chg QoQ
Net revenues	11,860	8,355	42	30,197	22,256	36
Expenditure	9,893	7,086	40	25,140	18,808	34
Operating Profit	1,967	1,269	55	5,057	3,448	47
Other Income	137	249	(45)	611	656	(7)
Interest	279	175	60	794	473	68
Depreciation	374	355	5	1,095	1,093	0
PBT	1,450	988	47	3,779	2,538	49
Tax	322	260	24	859	616	39
PAT	1,128	728	55	2,921	1,922	52
Minority Interest	-	3	(100)	3	19	(86)
PAT (Post Minority)	1,128	724	56	2,918	1,903	53
EBIDTA Margin (%)	16.6	15.2	139.9 bps	16.7	15.5	125.4 bps
EPS(Rs)*	4.1	2.7	55.7	10.7	7.0	53.4

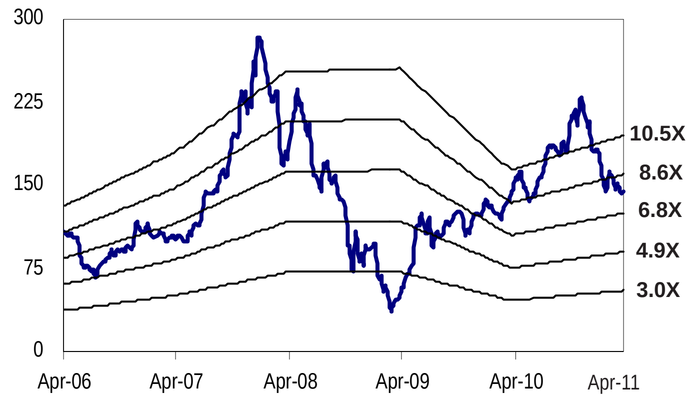
Source: Company, PINC Research * *adjusted for FV Rs1*

VALUATION

Sintex has historically traded in a band of 6x-14x 1 year forward P/E (chart below). We assign a 1-year forward P/E of 12x FY12 for our target valuation. At 12x 1-year forward Target Price for Sintex is Rs220/share. We believe that Sintex has the potential to trade at a higher multiple than 12x, considering the turnaround of its overseas subsidiaries.

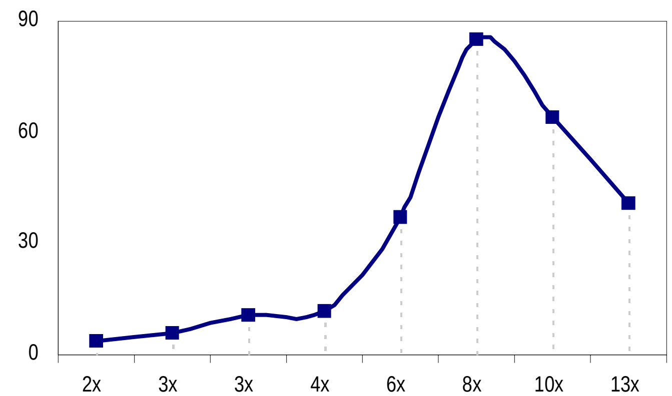
VALUATION BAND ANALYSIS

1yr fwd P/E Band



Source: Company, PINC Research

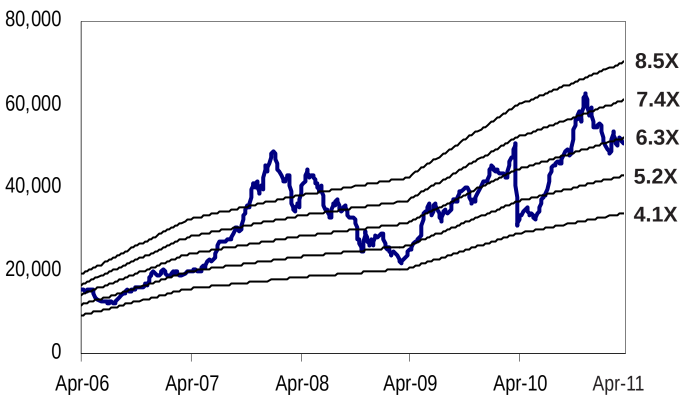
1yr fwd P/E Histogram



Source: Company, PINC Research

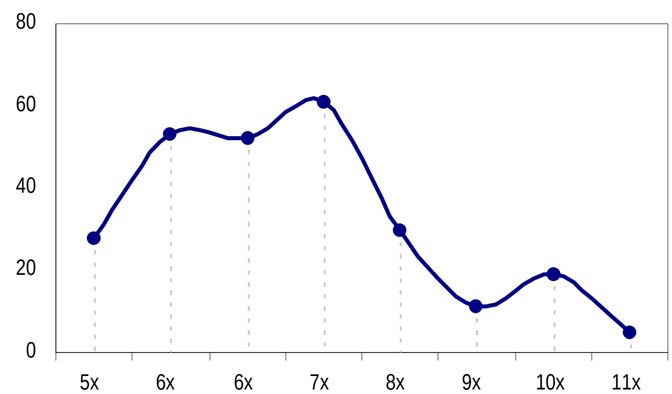
- Sintex is currently trading at P/E of 8.6x FY12 EPS of Rs 18.5.
- Historically the stock has traded at 7–13x 1-year forward P/E.

1yr fwd EV/EBITDA Band



Source: Company, PINC Research

1yr fwd EV/EBITDA Histogram



Source: Company, PINC Research

- Sintex is currently trading at EV/EBITDA of 7.3x FY12 EBITDA.
- Historically the stock has traded at 5.5–8.5x 1-year forward EV/EBITDA.

Sintex Comparison with Peers:

Company	Market Cap (Rs.mn.)	CMP (Rs.)	Revenue (Rs mn)			EBITDA (%)			P/E		
			FY11e	FY12e	FY13E	FY11e	FY12e	FY13e	FY11e	FY12e	FY13e
Sintex	43,583	160	42,404	50,130	58,575	16.7	16.6	15.6	10.3	8.6	7.7
Civil Construction Company											
CCCL	9,405	51	22,579	26,783	32,170	8.8	9.0	8.8	10.9	8.8	7.1
Ahluwalia Contracts Ltd.	6,967	111	16,899	20,019	23,039	10.1	9.8	10.7	7.9	6.9	5.2
Textile Companies											
ARVIND LTD	17,732	70	36,138	41,334	46,392	12.5	15.1	16.1	16.0	12.0	9.8
Raymond Ltd	19,458	317	29,789	33,704	36,381	12.2	13.1	14.4	15.0	12.9	10.5
S Kumars Nationwide	14,547	55	53,253	63,470	-	18.2	18.7	-	5.6	4.3	-
Auto Ancilliaries											
Motherson Sumi	82,919	214	81,891	97,820	120,746	10.1	11.0	11.7	24.1	17.4	13.7
Sona Koyo Steering	3,238	16	9,411	10,601	-	9.6	9.5	-	10.9	9.6	-
Composites											
Kemrock Industries & Export	8,913	532	9,277	11,757	14,005	25.7	26.3	26.4	15.6	13.8	9.5

Source: Company, PINC Research, Bloomberg

KEY CONCERNS

Slowdown in execution in monolithic would hamper earnings

The company recognizes revenue from the Monolithic business on project completion basis and any delay in execution may hamper revenue and earnings.

Fluctuation in raw material cost may dent margin

Raw material in Prefab and custom moulding are cement, steel, PVC, resins, and fibre glass. We believe raw materials like cement and steel can be passed on in case of small site projects where delivery time is 4-5 months. RM cost in case of custom moulding however, co-relates with crude prices and any fluctuation in crude is likely to lead fluctuation in raw material cost and impact margin. Moreover the company has to bear the risk of cost where delivery time is less than four months, especially in Prefab business and small site building in the Monolithic business.

Working capital intensive

The Monolithic business is working capital intensive and it forms ~25% of revenue. We expect the Monolithic business to continue forming a larger share of the revenue pie of Sintex and may require incremental capital for its growth and expansion. Any delay in such arrangements would hamper our earnings estimates.

Acquired companies taking more time than expected in operational improvement

Sintex made six acquisitions in the past three years, burning its fingers in case of the Geiger Technik acquisition. Further, all the acquired companies face difficulties such as economic slowdown in Europe and the US. This may take more than required time for showing operational improvement. Any further delay or slowdown in the business of subsidiaries may hamper our earnings estimates. We believe Sintex is no longer looking at major inorganic growth and may look at niche small acquisitions.

OTHER HIGHLIGHTS

Forex risk: a grey area

Sintex’s natural forex hedge is very low. Total outstanding exposure to foreign risk is Rs10bn. The company has taken FCCB of USD225 mn(loan) from the overseas market, largely repayable after five years, which is vulnerable to forex fluctuations with respect to both principal and interest payments. The company took this FCCB at an exchange rate of 40.53 Rs/USD and now rupee stands close to Rs 45 and the company has already accounted for the same. Moreover there is restatement of subsidiaries which results in gain/loss through foreighn exchange fluctuation reserve.

FCCB Issue likely to dilute13.5% in FY13: The company has taken FCCB loan at a premium of 29.28% convertible at the end of five years at Rs 246 per share, which will dilute equity by 13.5%. The stock price has to be above Rs 354 per share for conversion of this FCCB issue and will look for impact cost of 5-10% on conversion over and above price.

FCCB details

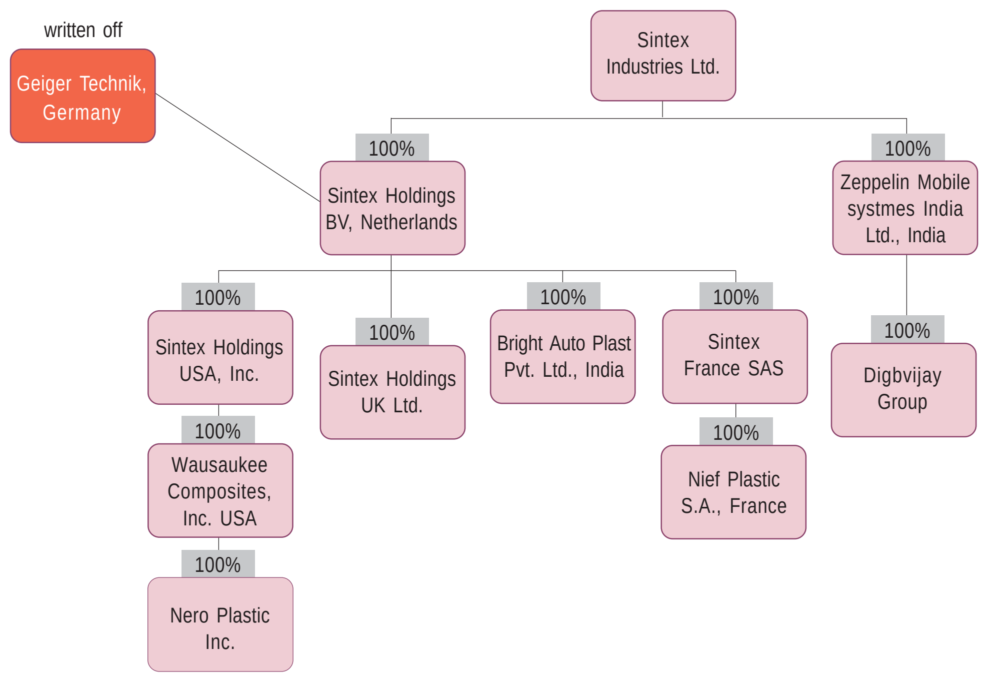
	Amount (USD mn)	Exchange rate	Amount in INR mn	Conversion Price (Rs)
FCCB Issued	225	40.53	9119	
Premium Price	66		2670	319
Foreign Exchange Liability		1300		
Total	**291**	**45**	**13089.6**	**354**

Source: Company, PINC Research

COMPANY OVERVIEW

Sintex is one of the leading providers of plastic products and niche structured yarn dyed textiles and related products in India. Sintex manufactures a range of plastic products at its eight manufacturing facilities across India, which includes prefabricated structures, industrial custom moulding products, monolithic construction, FRP products and water storage tanks (Plastics division). In addition, Sintex's subsidiaries have 22 manufacturing locations. The Plastics division's manufacturing facilities are located in India 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 (Textiles division). The Textiles division is located in Kalol.

Holding Structure

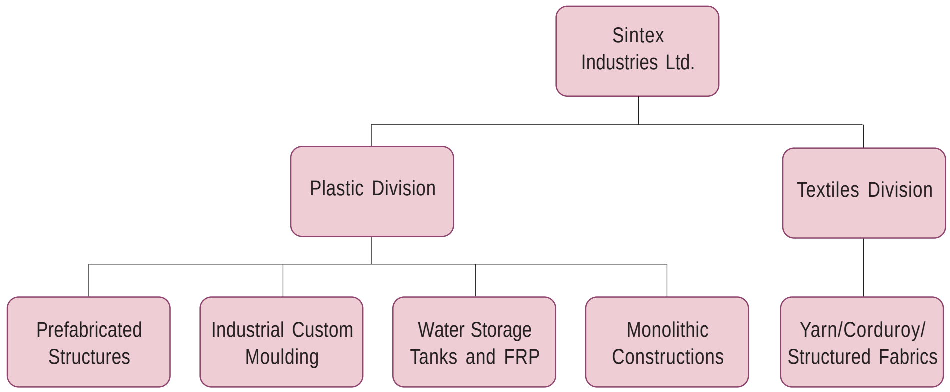


Source: Company, PINC Research

Business Segments:

Sintex has a diversified business model with presence in businesses like monolithic construction, prefab, custom moulding, water tank, textiles, etc. It has categorized its business segment in three broad categories: building material, custom moulding and textiles.

Business Divisions



Source: Company

1. Building Materials:

This segment consists of:

a) Prefabricated Structures,

b) Water Storage tanks and FRP

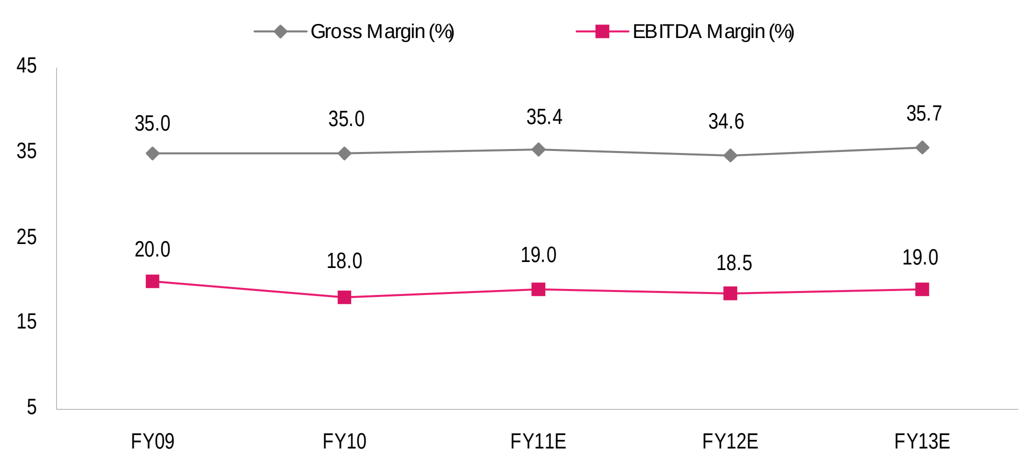
c) Monolithic constructions.

a) Prefabricated Structures:

Prefabricated Structures can be used for building temporary as well as permanent residences, setting up of schools, dispensaries, orphanages, police stations, defense shelters and telecom BT shelters. This division contributes 14% of the total revenue of Sintex and has grown at a CAGR of 5% during FY09-FY11E.

Sintex entered the telecom shelter space through the acquisition of Digvijay and Zeppelin. Zeppelin is a 100% subsidiary of Sintex after payment of approx Rs1110 mn. During FY07-FY09, Zeppelin's net margin was 5-6%, which fell to 2.3% in FY10 owing to the slowdown in the telecom space and higher manpower costs.

Gross margin(E) and EBITDA margin - Prefab



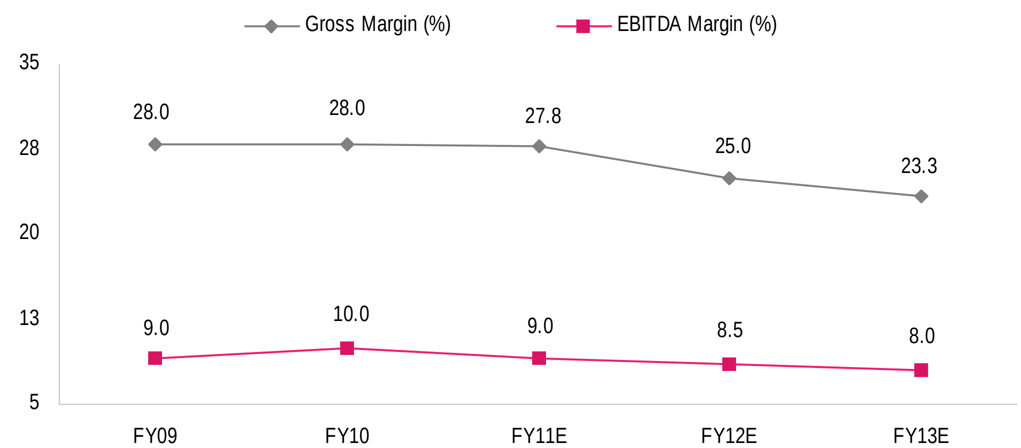
Source: Company, PINC Research

b) Water Storage Tanks and FRP:

Sintex manufactures both overhead and underground water storage tanks. Sintex has been in this business for decades and is well known and a market leader in the segment.

This division contributes 5% of the total revenue and has grown at 17% CAGR over FY09-FY11e. The company has established technology for this segment and in particular is a stabilized business. It has generated EBIDTA margin of 9-10% for FY09-FY11e and we expect this level to be maintained in FY12-13e .

Gross margin(E) and EBITDA margin - Tanks and FRP



Source: Company, PINC Research

c) Monolithic Construction

These type of constructions are used in low-cost mass housing solutions like slum rehabs, Junta housing and LIG (low income group) houses. Affordability, quick construction, and low maintenance are some of the advantages of Monolithic construction. This division contributes 25% of total revenue and has grown at 56% CAGR over FY09-FY11e.

2. Custom Moulding

This particular division is broadly classified in two broad categories: Custom moulding — Domestic and Custom moulding — Overseas (acquired companies like Neif, WCI and Bright). The group is equipped with diverse capabilities of moulding and post moulding operations in fabrication techniques, assembly lines, paint lines and prototyping, R&D and tool Design. Moulding products find applications in industries like electrical and power including wind turbine, automotives, aerospace and defense,.

Custom Moulding Domestic:

This division contributes 8% of total revenue and has grown at 2% CAGR over FY09-FY11e. We expect it to grow at 2% during FY11-FY13e.

Custom Moulding Overseas:

Sintex acquired the following companies to gain a stronghold in the Custom moulding business

Overseas: Nief, Nero Plastic, WCI

Domestic: Bright

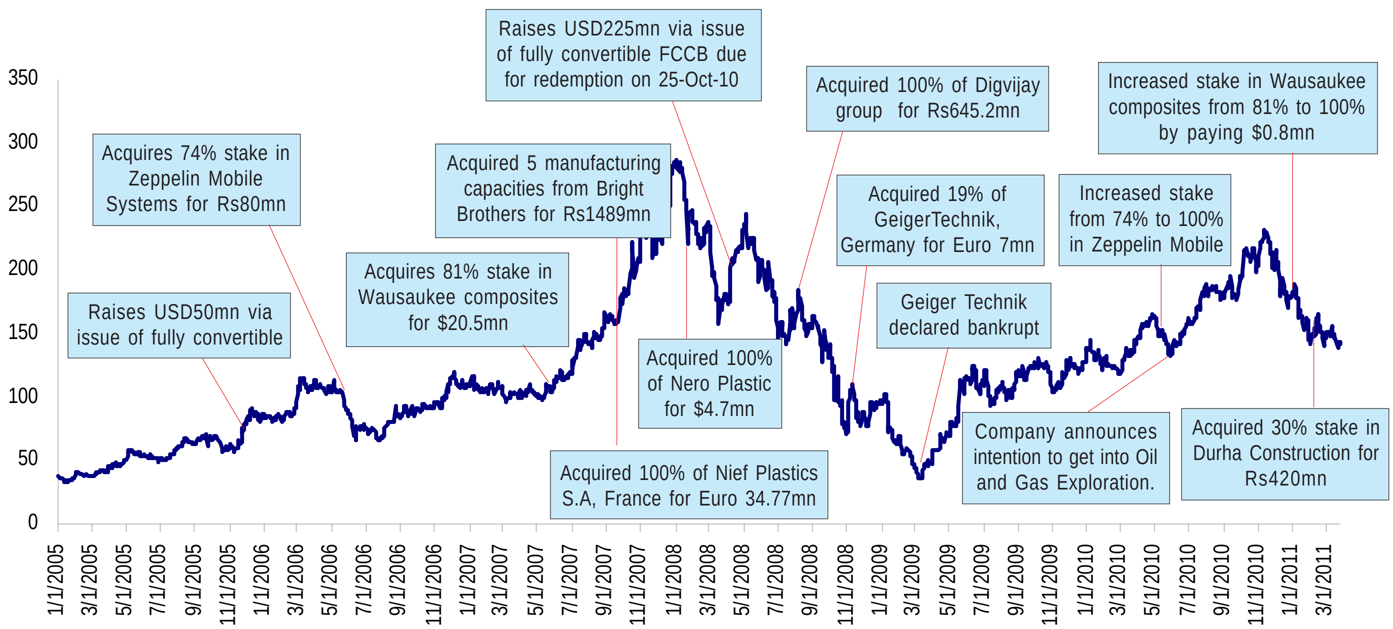
3. Textile

Established in India in 1931, the group's textile business operates under the brand 'Bharat Vijay Mills' (BVM). It is one of the largest producers of corduroy and structured fabric in India. The textile plant is located in Kalol, Gujarat. This composite mill, with a capacity of 29 mn mtrs (capacity increased by 7 mn mtrs in FY10), is the only organized corduroy mill in India that is into continuous fabric processing.

Textile Industry:

The USD52 bn Indian textile industry affects 80 million lives (directly employs 35 mn, indirectly 45 mn), contributes 14% to industrial production, 4% to GDP and 16.63% to export earnings. Around 40% of textiles produced in the country are exported. India's textile industry targets annual growth of 15% for the domestic industry and 20% for the exports markets to USD106 bn and USD 66 bn by 2015 respectively (Source: FICCI).

Historical Events v/s Stock Price



Source: Company, PINC Research

Year Ended March (Figures in Rs mn)

Income Statement	FY09	FY10	FY11E	FY12E	FY13E
Revenues	30,639	32,816	42,404	50,130	58,575
Growth (%)	*34.7*	*7.1*	*29.2*	*18.2*	*16.8*
EBITDA	4,500	5,005	7,064	8,323	9,126
Growth (%)	*17.6*	*11.2*	*41.2*	*17.8*	*9.7*
Depreciation & amortisation	1,144	1,445	1,469	1,523	1,635
EBIT	3,356	3,560	5,595	6,800	7,492
Interest	820	731	1,058	1,319	1,512
Other income	1,563	1,254	941	986	1,220
EBT	4,099	4,083	5,478	6,467	7,199
Income taxes	826	772	1,240	1,418	1,542
Extra-ordinary items	-	-	-	-	-
Min int / inc from assoc	23	21	-	-	-
Reported net income	3,251	3,290	4,238	5,049	5,657
Adjustments	(23)	(21)	-	-	-
Adjusted net income	3,273	3,311	4,238	5,049	5,657
Growth (%)	*41.0*	*1.1*	*28.0*	*19.1*	*12.1*
EPS (Rs)	12.0	12.1	15.5	18.5	20.7
Growth (%)	*41.0*	*1.1*	*(36.0)*	*19.1*	*12.0*

Cash Flow Statement	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	4,100	4,083	5,478	6,467	7,199
Depreciation & Amortisation	1,144	1,445	1,659	1,713	1,825
Total Tax Paid	(684)	(711)	218	(1,120)	(1,298)
Chg in working capital	(3,514)	(7,361)	(3,148)	(1,784)	(1,879)
Other operating activities	430	(60)	(544)	630	589
Cash flow from oper (a)	1,476	(2,604)	3,664	5,906	6,437
Capital Expenditure	(6,540)	(1,391)	(2,100)	(1,700)	(1,700)
Chg in investments	-	-	-	-	-
Other investing activities	(694)	(329)	471	689	923
Cash flow from inv.(b)	(7,234)	(1,720)	(1,629)	(1,011)	(777)
Free cash flow (a+b)	(5,758)	(4,324)	2,035	4,895	5,659
Equity raised/(repaid)	-	-	-	-	37
Debt raised/(repaid)	1,110	3,650	(552)	1,653	1,868
Change in MI	-	-	-	-	-
Dividend (incl. Tax)	(160)	(176)	(191)	(241)	(241)
Other financing activities	(896)	(204)	(954)	(1,319)	(1,512)
Cash flow from fin (c)	54	3,270	(1,696)	93	152
Net chg in cash (a+b+c)	(5,704)	(1,054)	338	4,988	5,811

Balance Sheet	FY09	FY10	FY11E	FY12E	FY13E
Equity Share Capital	273	273	273	273	310
Reserves & surplus	16,776	19,196	23,256	28,065	33,358
Shareholders' funds	17,049	19,469	23,529	28,338	33,668
Min. Interest & Other	263	190	190	190	190
Total Debt	22,964	26,303	25,751	27,404	29,272
Capital Employed	40,277	45,962	49,470	55,932	63,130
Net fixed assets	18,653	18,581	19,211	19,388	19,454
Cash & Cash Eq.	11,685	9,295	10,724	15,712	21,524
Net Other current assets	15,541	21,688	25,874	28,434	31,129
Investments	1,819	2,470	2,470	2,470	2,470
Other Assets	(6,002)	(4,380)	(6,898)	(8,042)	(9,296)
Net Deferred tax Assets	(1,420)	(1,693)	(1,912)	(2,032)	(2,152)
Total Assets	40,277	45,962	49,470	55,932	63,130

Key Ratios	FY09	FY10	FY11E	FY12E	FY13E
OPM (%)	14.7	15.3	16.7	16.6	15.6
Net Margin (%)	10.7	10.1	10.0	10.1	9.7
Dividend Yield (%)	0.7	0.8	0.5	0.5	0.6
Gross asset turnover (x)	1.6	1.4	1.7	1.8	2.0
Total asset turnover (x)	0.6	0.6	0.7	0.8	0.8
Adjusted debt/equity (x)	1.0	1.1	0.9	0.8	0.7
Interest coverage ratio (x)	4.1	4.9	5.3	5.2	5.0
RoCE (%)	10.7	9.2	10.7	11.6	11.5
RoE (%)	20.5	18.1	19.7	19.5	18.2
EV/Net Sales (x)	2.0	1.8	1.4	1.2	1.0
EV/EBITDA (x)	13.5	12.1	8.6	7.3	6.6
P/E (x)	13.3	13.2	10.3	8.6	7.7
P/BV (x)	1.3	1.1	1.9	1.5	1.3

Economic Value Added (EVA) Analysis

	FY09	FY10	FY11E	FY12E	FY13E
WACC (%)	8.2	8.2	8.2	8.2	8.2
ROIC (%)	9.3	8.2	11.0	12.9	13.6
Invested capital (Rs mn)	32,274	37,951	40,766	42,492	44,051
EVA (Rs mn)	373	14	1,147	2,001	2,388
EVA spread (%)	1.2	0.0	2.8	4.7	5.4

Du Pont Analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net inc./PBT)	79.8	81.1	77.4	78.1	78.6
Interest burden (PBT/EBIT)	122.2	114.7	97.9	95.1	96.1
EBIT margin (EBIT/Rev.)	11.0	10.8	13.2	13.6	12.8
Asset Turnover (Rev./Avg TA)	64.8	63.4	74.5	78.9	82.1
Leverage (Avg TA/Avg equtiy)	291.4	283.7	264.6	244.9	230.2
Return on equity	20.2	18.1	19.7	19.5	18.2

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