INDIA RESEARCH

# Sintex Industries

Rs157
**OUTPERFORMER**

RESULT NOTE

**Mkt Cap: Rs21.2bn; US$425m**

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**Result:** Q4FY09
**Comment:** Numbers beat estimates; Upgrading FY10 numbers by 12%

**Key valuation metrics**

| Year end 31 March (Rs m) | Net Revenues | % chg yoy | Net Profit | EPS* (Rs) | % chg yoy | PER (x) |
|---|---|---|---|---|---|---|
| FY2007 | 11,178 | 31.0 | 1,307 | 10.8 | 16.1 | 14.5 |
| FY2008 | 22,978 | 103.5 | 2,303 | 15.2 | 39.9 | 10.3 |
| FY2009P | 31,355 | 37.9 | 3,251 | 23.9 | 57.5 | 6.6 |
| FY2010E | 34,600 | 10.3 | 3,764 | 27.7 | 15.8 | 5.7 |
| FY2011E | 37,561 | 8.6 | 4,181 | 30.7 | 11.1 | 5.1 |

*Source: IDFC-SSKI Research, **--Our numbers do not include FCCB conversion*

## HIGHLIGHTS OF Q4FY09 RESULTS

- Sintex consolidated net profits for Q4FY09 grew by 21%yoy to Rs1.1bn, was ahead of our estimates at Rs1.08bn. This was primarily on back of higher than expected margin expansion during the quarter (at 19.7%) and lower tax rates (at 17.7%), as sales revenues (at Rs8.5bn) tracked our estimates.
- Sintex's operating profits for the quarter stood at Rs1.7bn (6% ahead of our estimates), with margins expanding by 279bps yoy to 19.7% (we saw at 19%). Management indicated focus on high margin segments coupled with benefits of sourcing from low cost operations, and gradual shift in business mix - from product to service offerings led to margin expansion during the quarter. Other expenses (as % of sales) for Q4FY09 dropped by 647bps sequentially (by 339bps yoy) to 12% primarily on back higher provisioning in previous quarters and focus on cost management.
- Plastics business contributed 83% at consolidated EBIT level for Q4FY09, with EBIT margins witnessing a 712bps sequential (up 385bps yoy) jump to 17.8%. Sharp sequential expansion in margins for plastic business, is partly on account of base effect, as Q3FY09 saw inventory write-downs. Textile business contributed 13% at EBIT level, with EBIT margins witnessing a 130bps sequential drop to 19.4% for the quarter.
- Consolidated sales revenues for the quarter stood at Rs8.5bn (down10%yoy), in line with our estimates. Building materials and custom molding business (including overseas subsidiaries) contributed 41% and 46% respectively to consolidated revenues. Textile business contributed 13% to consolidated revenues at Rs1bn in Q4FY09.
- Higher utilization of internal funds towards working capital financing resulted to sharp sequential decline in interest costs (down 20%qoq) and other income (down 48%qoq) for the quarter. Change in depreciation treatment from WDV to SLM for overseas subsidiaries translated to lower depreciation costs (down 33%qoq).
- Order book: Sintex management indicated it has diversified its offering on building material solutions, with monolithic construction now also catering to mass housing projects (staff quarters, colonies, etc.) apart from slum rehabilitation projects. Sintex during the quarter secured two orders totaling Rs2bn from Maharashtra and Tamil Nadu state governments for monolithic construction, scheduled to be executed in FY10.

### ❑ Visibility on telecom shelter business continues to be low…

There seems to be little improvement in the telecom shelter business for Sintex. As highlighted earlier, the visibility on telecom BT shelter business continues to be low. This is on account of a confluence of variables including regulatory issues, economic viability and focus on cash conservation that is impacting tower rollout plans of Indian telecom companies. The management had earlier stated that most telecom companies now provide little visibility on tower rollout (a couple of months against longer-term plans shared earlier) and that most telcos may curtail/ defer tower expansion plans in the interim. In the electrical accessories business too, a slowdown in industrial capital expenditure has hurt the company. Management highlighted that though there is some improvement in demand from private sector companies - overall visibility remains lower.

### ❑ ...but government business remains strong

Sintex has high exposure to government business in monolithic and prefabs segment with multiple product offerings in low-cost housing, classroom & healthcare structures, sanitation centers, etc. Acknowledging slowdown in private sector spending, Sintex management had earlier laid increased focus on its diversification strategy, with its customized products (in prefabs/monolithic construction) now also providing solutions to defense sector and catering to mass housing projects. Management believes slowdown in private sector spend would be partly compensated by its diversification strategy and high government spending towards creation of rural infrastructure. With election manifestos of key national parties stressing increased need on healthcare and education, we see little risk on Sintex's government business.

### ❑ Synergies from overseas acquisitions to accrue, though with a lag

Slowing global demand in end-user industries (automobiles/electrical accessories) has resulted in Sintex not realizing full benefits of its targeted off-shoring activities from its overseas subsidiaries. Even as medium term visibility over revenue streams from overseas subsidiaries remain uncertain - we like management's focus on cost efficiencies and higher operating margins (via manufacturing from low cost destinations). Sintex's operating margins for overseas subsidiaries (derived) have improved by 132bps yoy to 11.2%.

### ❑ Geiger acquisition – Status quo, outcome likely soon

To put things into backdrop, Geiger Technik, a German company which Sintex had proposed to acquire filed for bankruptcy in Nov'08. As part of deal negotiation and restructuring plan proposed earlier, Sintex had insisted for hiving off certain redundant labour and manufacturing plant before the deal goes through. Given that the proposal did not find much support from labour unions, the deal has remained inconclusive. In the meantime, given the cash crunch, Geiger had filed for bankruptcy. Sintex has so far committed US$10m for the acquisition of which US$6m is paid and the balance is outstanding. The operations of Geiger are currently run by a court approved administrator, with latter also scouting for new equity investments in the company. Management indicated more clarity over Geiger investment is likely to emerge anytime soon. In our view, under the worst case scenario Sintex would stand to lose US$10m lying in its escrow account, where the court decides that there is no value left for equity shareholders and Sintex decides not to go ahead with the deal. However, on the positive side, if no competitive bid emerges for Geiger operations, Sintex could end up acquiring Geiger at far lower valuations.

### ❑ Upgrade FY10 earning estimates by 12%, Maintain Outperformer

We upgrade Sintex's FY10 earning estimates by 12%; as we now expect higher revenue contribution from building material division with partial execution of new orders in the monolithic segment. We introduce FY11 EPS at Rs31/share; an 11% growth over FY10 estimates. A revival in telecom capex in India would be a key trigger for the stock. Given an extremely strong balance sheet, presence in emerging opportunities and diversified growth drivers we continue to believe that Sintex is far better placed in the current environment. Maintain Outperformer.

## Financials

| (in Rs m) | 4QFY08 | FY08 | Q1FY09 | Q2FY09 | Q3FY09 | Q4FY09 | FY09 |
|---|---|---|---|---|---|---|---|
| Product sales | 9,285 | 22,742 | 7,148 | 7,198 | 7,986 | 8,306 | 30,638 |
| Services Income | 154 | 236 | 260 | 142 | 216 | 224 | 717 |
| **Total Net Sales** | **9,439** | **22,978** | **7,408** | **7,340** | **8,202** | **8,530** | **31,355** |
| *% growth* | *147* | *97* | *116* | *88* | *34* | *(10)* | *36* |
| Total Expenditure | 7,840 | 18,915 | 6,363 | 6,000 | 6,929 | 6,847 | 26,138 |
| **Operating Profit** | **1,599** | **4,063** | **1,045** | **1,340** | **1,273** | **1,683** | **5,217** |
| *% growth* | *105* | *82* | *80* | *71* | *25* | *5* | *28* |
| Other Income | 159 | 365 | 120 | 221 | 252 | 131 | 846 |
| Interest | 152 | 643 | 175 | 187 | 255 | 205 | 820 |
| Depreciation | 291 | 765 | 304 | 314 | 315 | 211 | 1,144 |
| Operational PBT | 1,316 | 3,019 | 686 | 1,059 | 954 | 1,399 | 4,099 |
| PBT | 1,316 | 3,019 | 686 | 1,059 | 954 | 1,399 | 4,099 |
| Current tax | 370 | 698 | 119 | 222 | 237 | 248 | 826 |
| **PAT** | **946** | **2,322** | **567** | **838** | **717** | **1,151** | **3,274** |
| Less: Minority Interest | (1) | (19) | (3) | 1 | (9) | 11 | (23) |
| Adjusted PAT | 946 | 2,303 | 564 | 838 | 708 | 1,140 | 3,251 |

*Source: IDFC-SSKI Research*

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**Explanation of Ratings:**

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

**Disclosure of interest:**

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