

COMPANY UPDATE

Sintex Industries (SNTX.BO)

Neutral

Recovery in components mkt visible - revert to base case valuation

What's changed

We downgraded Sintex to Neutral 10-months ago, valuing it at a bear case multiple of 1.0X FY09 BVPS – factoring in the impact of a severe slowdown in the auto and electrical components market, especially in Europe, on the company's business. This bear case scenario is no longer applicable in our view as we see signs of a recovery in the domestic components market and stabilization at the company's foreign subsidiaries. Thus, we revert to a base case valuation, but maintain our Neutral rating on the stock.

Implications

We raise our FY11E and FY12E EPS estimates for the company by 10% and 12% respectively, driven by signs of improvement in its monolithic business and a demand revival leading to better prospects for the Custom Molding segment. Also, we introduce our FY13E EPS estimate of Rs 29.98 for the company. We are 6% below Bloomberg consensus on our FY10E estimates, as we expect pressure on pricing and margins to persist over 2HFY10 and show a pick up only in FY11. Our 12-month target price is now Rs 269 (vs Rs109 earlier), based on 1.7X FY11E BVPS, in-line with its median 12-month fwd PB multiple for the last 5 years.

Valuation

The stock currently trades at 9.7X FY11E EPS and 1.6X FY11E BVPS – vs historical (5-yr) median 12-month fwd PE and PB of 11.4X and 1.7X respectively. Current valuations (in-line with historical median PB) adequately price in the prospects of a better operating environment, in our view. The stock trades in-line with its global peers on a 2-yr fwd EV/GCI – CROCI/WACC basis, justifying our Neutral rating.

Key risks

Upside Risks: 1) Increase in realizations, 2) Volatility in Steel and Oil/Polyethylene prices. Downside Risks: 1) Prolonged slowdown in auto and electrical components markets.

INVESTMENT LIST MEMBERSHIP

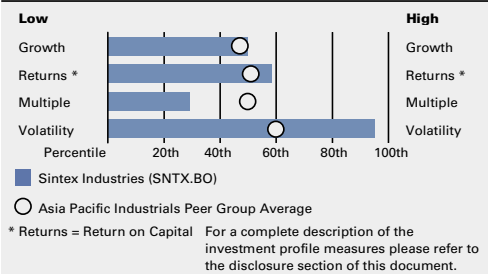
Neutral

Coverage View: Neutral

India:
Packaging

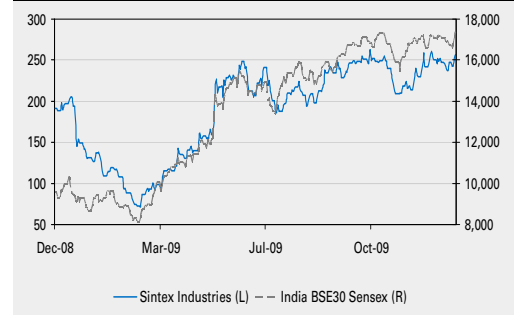
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Investment Profile

Key data	Current
Price (Rs)	256.60
12 month price target (Rs)	269.00
Market cap (Rs mn / US\$ mn)	35,024.6 / 750.7
Foreign ownership (%)	39.7

	3/09	3/10E	3/11E	3/12E
EPS (Rs) New	24.00	20.85	26.42	28.62
EPS revision (%)	21.1	1.6	10.4	12.1
EPS growth (%)	22.8	(13.1)	26.7	8.3
EPS (dil) (Rs) New	24.00	20.85	26.42	28.62
P/E (X)	10.7	12.3	9.7	9.0
P/B (X)	2.5	1.9	1.6	1.4
EV/EBITDA (X)	10.3	8.5	6.8	4.8
Dividend yield (%)	0.5	0.6	0.6	0.7
ROE (%)	20.3	17.0	18.2	16.7

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	4.4	22.3	34.3
Rel. to India BSE30 Sensex	0.4	4.0	(27.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/24/2009 close.

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Sintex Industries: Summary financials

Profit model (Rs mn)	3/09	3/10E	3/11E	3/12E	Balance sheet (Rs mn)	3/09	3/10E	3/11E	3/12E
Total revenue	30,638.8	31,789.3	36,837.6	42,622.3	Cash & equivalents	11,685.0	7,145.2	7,569.1	14,923.8
Cost of goods sold	(17,295.4)	(17,738.4)	(20,371.2)	(23,570.1)	Accounts receivable	8,093.9	8,397.8	11,101.8	12,845.1
SG&A	(9,987.1)	(10,196.9)	(11,632.0)	(13,288.1)	Inventory	3,771.0	3,867.6	4,441.6	5,139.1
R&D	--	--	--	--	Other current assets	3,675.9	3,675.9	3,675.9	3,675.9
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	27,225.8	23,086.6	26,788.4	36,583.9
EBITDA	4,500.2	5,379.9	6,602.6	7,809.9	Net PP&E	18,653.0	21,017.2	22,280.5	22,928.0
Depreciation & amortization	(1,143.9)	(1,525.9)	(1,768.2)	(2,045.9)	Net intangibles	3,343.9	3,089.6	2,794.9	(2,546.1)
EBIT	3,356.3	3,854.0	4,834.4	5,764.0	Total investments	2,132.7	2,132.7	2,132.7	2,132.7
Interest income	645.1	934.8	571.6	605.5	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(819.5)	(1,270.1)	(820.1)	(820.1)	Total assets	51,355.4	49,326.1	53,996.4	59,098.5
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	4,947.8	5,133.6	5,948.8	6,883.0
Others	917.9	500.0	500.0	100.0	Short-term debt	3,036.8	3,036.8	3,036.8	3,036.8
Pretax profits	4,099.8	4,018.7	5,085.9	5,649.5	Other current liabilities	4,287.5	4,042.7	4,042.7	4,042.7
Income tax	(802.2)	(843.9)	(1,068.0)	(1,299.4)	Total current liabilities	12,272.1	12,213.1	13,028.3	13,962.5
Minorities	(22.5)	(22.5)	(22.5)	(22.5)	Long-term debt	19,927.4	14,927.4	14,927.4	14,927.4
Net income pre-preferred dividends	3,275.1	3,152.3	3,995.4	4,327.6	Other long-term liabilities	1,843.6	1,843.6	1,843.6	1,843.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	21,771.0	16,771.0	16,771.0	16,771.0
Net income (pre-exceptionals)	3,275.1	3,152.3	3,995.4	4,327.6	Total liabilities	34,043.1	28,984.1	29,799.3	30,733.5
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	3,251.2	3,152.3	3,995.4	4,327.6	Total common equity	17,049.1	20,056.3	23,888.9	28,034.3
EPS (basic, pre-except) (Rs)	23.82	23.26	29.49	31.94	Minority interest	263.2	285.7	308.2	330.7
EPS (basic, post-except) (Rs)	24.00	23.26	29.49	31.94	Total liabilities & equity	51,355.4	49,326.1	53,996.4	59,098.5
EPS (diluted, post-except) (Rs)	24.00	20.85	26.42	28.62	BVPS (Rs)	103.33	132.63	157.97	185.39
DPS (Rs)	1.30	1.43	1.58	1.73					
Dividend payout ratio (%)	5.4	6.2	5.3	5.4					
Free cash flow yield (%)	(14.9)	4.1	1.8	7.4					
Growth & margins (%)	3/09	3/10E	3/11E	3/12E	Ratios	3/09	3/10E	3/11E	3/12E
Sales growth	34.7	3.8	15.9	15.7	ROE (%)	20.3	17.0	18.2	16.7
EBITDA growth	17.6	19.5	22.7	18.3	ROA (%)	6.7	6.3	7.7	7.7
EBIT growth	9.6	14.8	25.4	19.2	ROACE (%)	14.0	11.5	12.8	13.7
Net income growth	41.2	(3.0)	26.7	8.3	Inventory days	71.7	78.6	74.4	74.2
EPS growth	22.8	(3.1)	26.7	8.3	Receivables days	95.5	94.7	96.6	102.5
Gross margin	43.6	44.2	44.7	44.7	Payable days	91.1	103.7	99.3	99.4
EBITDA margin	14.7	16.9	17.9	18.3	Net debt/equity (%)	65.2	53.2	43.0	10.7
EBIT margin	11.0	12.1	13.1	13.5	Interest cover - EBIT (X)	19.2	11.5	19.5	26.9
Cash flow statement (Rs mn)	3/09	3/10E	3/11E	3/12E	Valuation	3/09	3/10E	3/11E	3/12E
Net income pre-preferred dividends	3,275.1	3,152.3	3,995.4	4,327.6	P/E (analyst) (X)	10.7	12.3	9.7	9.0
D&A add-back	1,143.9	1,525.9	1,768.2	2,045.9	P/B (X)	2.5	1.9	1.6	1.4
Minorities interests add-back	(6.7)	(6.7)	(6.7)	(6.7)	EV/EBITDA (X)	10.3	8.5	6.8	4.8
Net (inc)/dec working capital	(3,514.3)	(214.7)	(2,462.7)	(1,506.6)	Dividend yield (%)	0.5	0.6	0.6	0.7
Other operating cash flow	578.3	364.5	277.6	243.7					
Cash flow from operations	1,476.3	4,821.2	3,571.8	5,103.9					
Capital expenditures	(6,540.2)	(3,135.8)	(2,736.8)	(2,352.4)					
Acquisitions	(1,394.2)	(500.0)	0.0	0.0					
Divestitures	37.0	0.0	0.0	5,000.0					
Others	645.1	934.8	571.6	605.5					
Cash flow from investments	(7,252.3)	(2,701.0)	(2,165.1)	3,253.1					
Dividends paid (common & pref)	(142.2)	(176.5)	(194.2)	(213.6)					
Inc/(dec) in debt	1,207.2	(5,000.0)	0.0	0.0					
Common stock issuance (repurchase)	0.0	31.4	31.4	31.4					
Other financing cash flows	2,683.5	(1,514.9)	(820.1)	(820.1)					
Cash flow from financing	3,748.5	(6,660.0)	(982.8)	(1,002.3)					
Total cash flow	(2,027.6)	(4,539.8)	423.9	7,354.7					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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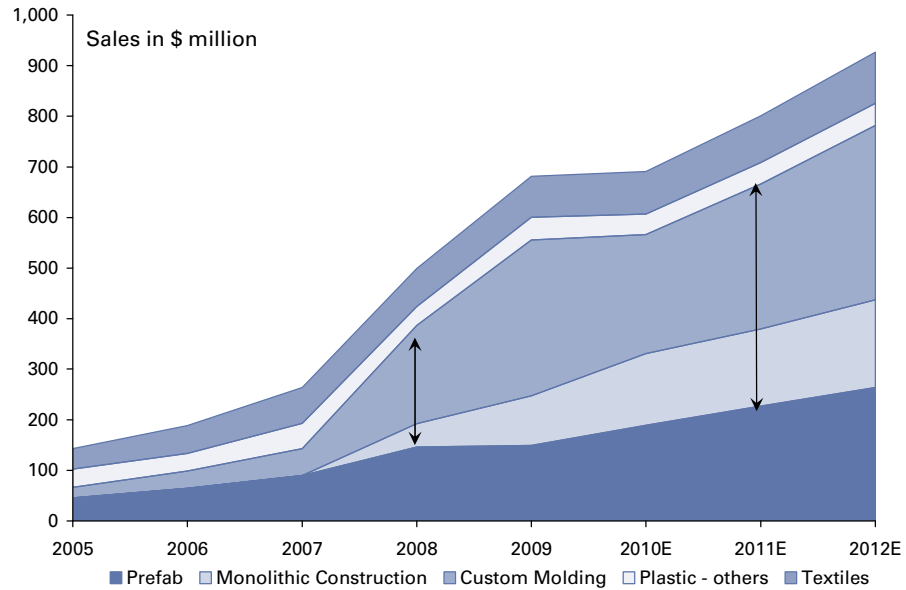
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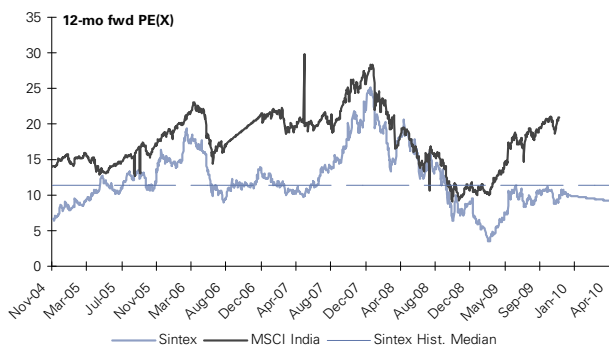
Exhibit 1: We expect Monolithic and Custom Molding segments to drive a sales CAGR of 16% for Sintex over FY10E-12E

Revenue Growth profile – Sintex Industries



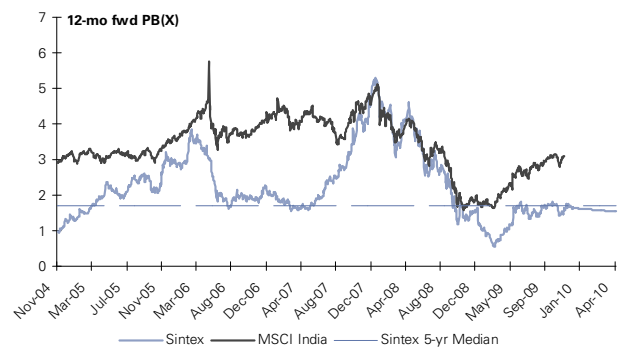
Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: Sintex currently trades at a 12-m fwd PE of 10.0X, 12% discount to its historical median 12-m fwd PE
12-month fwd PE trend – Sintex Industries



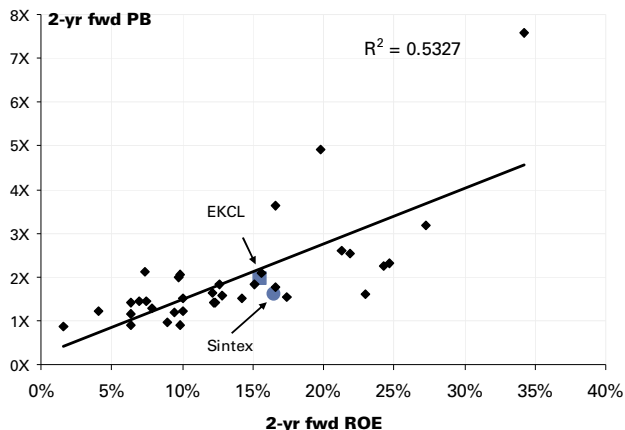
Source: Bloomberg, Goldman Sachs Research estimates.

Exhibit 3: Sintex currently trades at a 12-m fwd PB of 1.6X, inline with its historical median 12-m fwd PB
12-month fwd PB trend – Sintex Industries



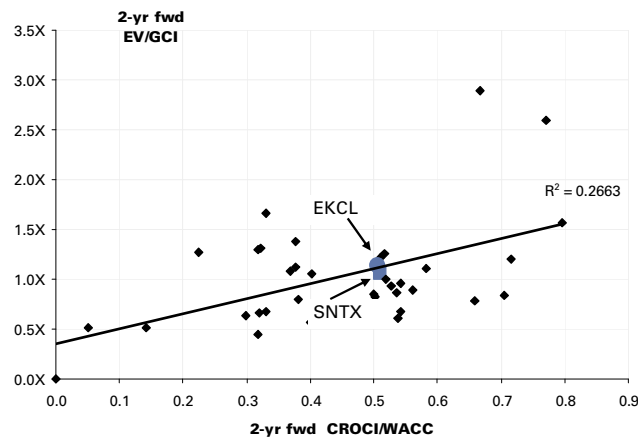
Source: Bloomberg, Goldman Sachs Research estimates.

Exhibit 4: Sintex trades at a slight discount to global peers on a 2-yr fwd PB vs ROE basis and...



Source: Bloomberg, Goldman Sachs Research estimates

Exhibit 5: In-line with global peers on a 2-yr fwd EV/GCI vs CROCI/WACC basis



Source: Bloomberg, Goldman Sachs Research estimates.

Exhibit 6: Sintex trades in-line with global peers on a PB basis and offers returns that are slightly above the median returns for global peers

Valuation Comparison – Sintex Industries vs global peers

Companies	Ticker	Currency Symbol	Price 12/23/2009	GS Rating	Market Cap US\$mm	P/E (X)		EV/EBITDA (X)		P/B (X)		ROE (%)		EPS CAGR (%)		EBITDA margin (%)	
						1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd
India - Industrials																	
Everest Kanto Cylinder	EKCL.BO	Rs	143.25	Neutral	310	39.9	12.5	15.0	7.3	2.3	1.9	6%	16%	-74%	-8%	19%	24%
Sintex Industries	SNTX.BO	Rs	252.45	Neutral	736	12.1	9.6	8.4	6.8	1.9	1.6	15%	17%	-13%	5%	17%	18%
Larsen & Toubro	LART.BO	Rs	1671.85	Neutral	20,907	29.5	23.4	17.3	14.2	6.0	4.9	19%	20%	12%	19%	12%	12%
Punj Lloyd	PUJL.BO	Rs	202.2	Neutral	1,433	16.1	12.2	8.5	7.6	1.8	1.6	11%	13%	NM	NM	8%	8%
Mcap - weighted Average (Mean)						22.2	22.1	16.4	13.5	5.5	4.6	18%	19%	9%	17%	12%	12%
Median						22.8	12.4	11.8	7.4	2.1	1.8	13%	16%	-13%	5%	14%	15%
Asia Pacific Industrials																	
Chiyoda	6366.T	¥	716	Sell	2,023	87.2	29.9	-6.3	-2.8	1.3	1.2	1%	4%	-68%	-3%	2%	5%
Doosan Heavy Industries & Construction	034020.KS	₩	70300	Neutral	6,252	28.5	18.6	13.4	2.2	2.1	-12%	7%	NM	NM	8%	10%	
Hitachi Construction Machinery	6305.T	¥	2345	Buy	5,270	80.6	18.0	11.1	6.9	1.6	1.4	2%	7%	-66%	23%	10%	13%
JGC	1963.T	¥	1709	Buy	4,707	16.1	10.7	2.7	1.6	1.7	1.5	11%	14%	-15%	13%	11%	11%
Komatsu	6301.T	¥	1864	Buy*	19,655	47.1	19.2	13.8	9.1	2.2	2.0	4%	10%	-51%	10%	11%	13%
Mitsubishi Heavy Industries	7011.T	¥	321	Sell	11,738	55.7	9.8	8.7	0.9	0.9	0%	2%	-82%	-11%	7%	9%	
Sumitomo Heavy Industries	6302.T	¥	467	Buy*	3,070	40.1	18.1	7.2	5.9	1.2	1.2	3%	6%	-49%	7%	8%	9%
China Railway Construction (H)	1186.HK	HKS	9.86	Neutral	15,686	16.2	12.0	6.3	5.7	2.1	1.8	13%	15%	67%	50%	4%	4%
China Railway Group (H)	0390.HK	HKS	5.89	Buy	16,177	16.9	12.4	7.4	6.5	1.8	1.6	10%	12%	NM	NM	4%	5%
Mcap - weighted Average (Mean)						26.7	22.0	9.5	7.3	1.8	1.6	5%	10%	-19%	13%	7%	9%
Median						40.1	18.1	7.4	6.5	1.7	1.5	3%	7%	-51%	10%	8%	9%
Europe Industrials																	
D S Smith	SMDS.L	£	125	Neutral	779	14.2	10.7	5.0	4.5	1.0	1.0	7%	9%	-30%	-4%	8%	8%
Huhtamaki	HUHV.HE	€	9.47	Sell	1,354	11.2	12.3	6.1	6.7	1.3	1.2	12%	10%	NM	46%	11%	10%
Metso OYJ	ME01V.HE	€	23.92	Sell	4,812	15.1	20.6	7.8	9.1	2.2	2.1	15%	10%	-44%	-36%	11%	9%
Rexam	REX.L	£	284.2	Buy	3,266	11.2	9.0	6.7	6.2	0.8	0.9	8%	10%	-19%	0%	14%	16%
Bucher Industries	BUCN.S	SFr	109	Neutral	1,098	14.8	14.4	7.5	6.3	1.3	1.3	8%	8%	-61%	-36%	8%	9%
Georg Fischer	FIN.S	SFr	260.75	Neutral	1,019	15.0	13.2	8.5	0.9	1.0	-16%	8%	NM	NM	3%	6%	
Hexagon AB	HEXAB.ST	Skr	101.5	Neutral	3,504	17.1	12.2	14.2	10.7	2.1	1.8	8%	13%	-29%	0%	20%	24%
Maire Tecnimont	MTCM.MI	€	2.425	Neutral	1,113	6.5	6.3	4.7	4.1	1.9	1.6	27%	23%	-3%	0%	7%	7%
Outotec	OTEIV.HE	€	23.64	Neutral	1,413	23.4	20.8	11.9	10.5	4.0	3.6	18%	17%	-62%	-35%	8%	9%
Mcap - weighted Average (Mean)						13.4	13.0	8.7	7.5	2.1	1.9	14%	13%	-20%	-6%	12%	13%
Median						13.4	12.2	7.5	6.7	1.9	1.6	12%	10%	-29%	-2%	8%	9%
US Industrials																	
Ball Corp.	BLL	\$	51.79	Neutral	4,854	13.1	11.8	7.8	6.7	3.2	2.5	24%	22%	10%	11%	13%	13%
Chicago Bridge & Iron	CBI	\$	19.81	Buy*	1,896	11.1	10.4	4.6	3.8	2.3	1.8	20%	17%	NM	NM	8%	9%
BWAY Holding Co.	BWY	\$	19.86	Neutral	473	11.7	9.7	4.7	4.0	1.9	1.5	17%	22%	22%	22%	14%	15%
Crown Holdings, Inc.	CCK	\$	25.5	Neutral	4,136	12.7	11.3	6.5	5.9	23.4	7.6	55%	34%	17%	15%	13%	12%
Owens-Illinois, Inc.	OI	\$	33.11	Buy	5,572	11.2	8.6	6.1	4.9	3.1	2.3	24%	24%	-22%	1%	19%	21%
Pactiv Corporation	PTV	\$	23.76	Buy	3,148	9.6	9.3	5.3	4.8	3.1	2.3	32%	25%	41%	21%	24%	23%
Sealed Air Corporation	SEE	\$	21.69	Sell	4,076	15.0	13.2	6.5	5.8	1.6	1.4	12%	12%	3%	8%	16%	16%
Silgan Holdings Inc.	SILGN	\$	54.45	Neutral	2,071	13.4	12.4	6.0	5.4	3.2	2.6	24%	21%	10%	9%	14%	14%
Fluor Corp.	FLR	\$	43.84	Neutral	7,841	11.4	13.1	4.4	4.2	2.4	2.1	21%	16%	5%	-4%	6%	6%
Foster Wheeler Ltd.	FWLT	\$	28.84	Buy	3,647	9.9	11.3	5.4	5.1	4.4	3.2	43%	27%	-22%	-17%	11%	10%
Granite Construction Inc.	GVA	\$	33.46	Neutral	1,258	18.3	17.6	6.0	4.8	1.5	1.5	8%	7%	-43%	-23%	9%	9%
Jacobs Engineering Group Inc.	JEC	\$	38.14	Neutral	4,703	16.6	14.8	6.8	5.7	1.6	1.5	10%	10%	-28%	-10%	5%	5%
Quanta Services, Inc.	PWR	\$	21.89	Buy	4,348	33.6	21.9	12.6	8.8	1.5	1.4	5%	6%	-26%	7%	10%	13%
The Shaw Group Inc.	SHAW	\$	29.52	Neutral	2,460	14.0	11.4	6.2	4.8	1.6	1.4	11%	12%	4%	13%	5%	5%
URS Corp.	URS	\$	45.43	Neutral	3,699	14.7	13.8	7.2	6.2	0.9	0.9	6%	6%	16%	11%	6%	6%
KBR, Inc.	KBR	\$	18.74	Neutral	2,998	10.8	12.1	3.0	2.7	1.3	1.2	12%	9%	-12%	-11%	5%	5%
Mcap - weighted Average (Mean)						14.3	12.8	6.4	5.4	3.9	2.3	21%	17%	-2%	2%	11%	11%
Median						12.9	11.9	6.1	5.0	2.1	1.7	19%	16%	4%	8%	10%	11%
Global Average																	
Mcap - weighted Average (Mean)						21.7	18.3	9.4	7.6	2.9	2.2	12%	13%	-11%	8%	9%	10%
Median						14.8	12.4	6.7	6.1	1.8	1.6	11%	12%	-21%	5%	9%	10%

* - indicates stock is on regional conviction list

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Source: Bloomberg, Goldman Sachs Research estimates.

Reg AC

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

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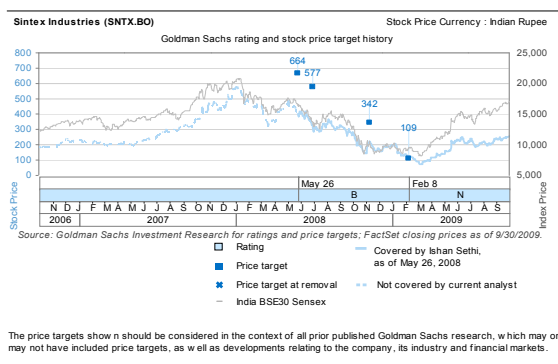
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