



## Sintex Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,071	BVML IN
	REUTERS CODE
S&P CNX: 2,745	SNTX.BO

13 January 2009

Buy

Previous Recommendation: Buy

Rs145

Equity shares (m)	135.5
52-Week Range	590/137
1, 6, 12 Rel. Perf. (%)	-18/-19/-18
M. Cap. (Rs b)	19.6
M. Cap. (US\$ b)	0.4

YEAR	OP. INCOME	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	YoY (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	11,699	1,311	11.8				20.3	15.3		
03/08A	22,978	2,170	16.0	35.5	8.5	1.3	21.5	14.7	1.0	5.4
03/09E	32,114	3,196	23.6	47.3	6.1	1.1	19.5	12.1	0.8	4.8
03/10E	38,646	3,903	28.8	22.1	5.0	0.9	19.7	15.6	0.7	3.8

- 3QFY09 – Slowdown and inventory losses hit margins:** Sintex 3QFY09 consolidated sales are up 33% YoY. EBITDA margin is down 140bp YoY at 15.5%. Apart from general global slowdown, margin was also lower due to inventory losses of around Rs300m. Consolidated PAT is up 21% YoY at Rs708m.
- Pre-fabs and monolithic construction to drive medium-term revenue growth:** Prefabs are expected to grow 25-30% in FY09 and FY10. In monolithic construction, Sintex holds an order book of Rs15b, which is expected to keep this division running at full capacity till May 2010. Against revenue of Rs2b in FY08, the target for FY09 is Rs4b and for FY10 Rs8-10b. The company plans to bid for fresh orders beginning August-September 2009, and is quite confident of sustaining 40-45% growth.
- Lowering FY09 and FY10 earnings estimates:** Based on the 9MFY09 performance, we have lowered our FY09 sales estimate from Rs35b to Rs32b. We have cut EBITDA margin from 18% to 16.7%. We have lowered our FY09 PAT estimate from Rs3.9b to Rs3.2b, up 47% YoY. For FY10, we have lowered sales from Rs46.3b to Rs38.6b, up 20% YoY. We have cut EBITDA margin from 19.9% to 17.1%. As a result, our PAT estimate is down from Rs5.9b to Rs3.9b, up 22% YoY.
- Target price of Rs288 implies 99% upside; maintain Buy:** At CMP, the stock trades at a P/E of 6x FY09E and 5x FY10E. We believe this is extremely attractive for a company with FY08-10E EPS CAGR of 34% on a conservative basis, coupled with decent RoE of ~20%. Our target price of Rs288 (10x FY10E) offers 99% upside from current levels. We maintain **Buy**.

QUARTERLY PERFORMANCE										(RS M)
Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Total Operating Income</b>	<b>3,479</b>	<b>3,907</b>	<b>6,153</b>	<b>9,439</b>	<b>7,286</b>	<b>7,340</b>	<b>8,202</b>	<b>9,286</b>	<b>22,978</b>	<b>32,114</b>
YoY Growth (%)	49.3	45.8	116.0	145.8	109.4	87.8	33.3	-1.6	96.4	39.8
<b>EBITDA</b>	<b>625</b>	<b>798</b>	<b>1,041</b>	<b>1,599</b>	<b>923</b>	<b>1,340</b>	<b>1,273</b>	<b>1,827</b>	<b>4,063</b>	<b>5,364</b>
EBITDA Margin (%)	18.0	20.4	16.9	16.9	12.7	18.3	15.5	19.7	17.7	16.7
YoY Growth (%)	49.9	43.4	106.4	101.1	47.7	67.9	22.3	14.3	78.8	32.0
Depreciation	132	132	211	291	304	314	315	364	765	1,298
Interest	125	143	224	152	175	187	255	187	643	804
Other Income	79	69	57	26	242	221	252	147	231	861
Extraordinary items	0	0	0	134	0	0	0	0	134	0
<b>Profit before Tax</b>	<b>448</b>	<b>593</b>	<b>663</b>	<b>1,316</b>	<b>686</b>	<b>1,060</b>	<b>954</b>	<b>1,423</b>	<b>3,019</b>	<b>4,124</b>
Tax Provisions	110	143	75	371	119	222	237	329	698	907
Tax / PBT	24.6	24.1	11.2	28.2	17.4	20.9	24.8	23.1	23.1	22.0
<b>PAT before MI</b>	<b>338</b>	<b>450</b>	<b>589</b>	<b>946</b>	<b>567</b>	<b>838</b>	<b>717</b>	<b>1,094</b>	<b>2,322</b>	<b>3,216</b>
Minority Interest	8	8	3	0	3	1	9	8	19	20
<b>Consolidated PAT</b>	<b>330</b>	<b>443</b>	<b>585</b>	<b>946</b>	<b>565</b>	<b>838</b>	<b>708</b>	<b>1,085</b>	<b>2,303</b>	<b>3,196</b>
<b>Adj. Consolidated PAT</b>	<b>330</b>	<b>443</b>	<b>585</b>	<b>812</b>	<b>565</b>	<b>838</b>	<b>708</b>	<b>1,085</b>	<b>2,170</b>	<b>3,196</b>
YoY Growth (%)	54.3	40.3	125.6	55.3	71.4	89.2	21.1	33.6	65.5	47.3

E: MOSL Estimates

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### **3QFY09 – Slowdown and inventory losses hit margins**

Sintex 3QFY09 consolidated sales are up 33% YoY. Building materials (mainly pre-fabricated structures and monolithic construction) revenue is up 66% YoY. However, growth is slower in Custom molding at 16% YoY (including auto moldings, electrical moldings and subsidiaries). Textile sales are flat YoY.

EBITDA margin is down 140bp YoY at 15.5%. Apart from general global slowdown, margin was also lower due to inventory losses of around Rs300m. Consolidated PAT is up 21% YoY at Rs708m.

### **Keytakeaways from management interaction**

**4QFY09 margins:** Sintex expects 4QFY09 margins to be significantly better as the high-cost inventory is almost exhausted.

**Domestic market:** The growth drivers are pre-fabricated structures and monolithic construction. Prefabs are expected to grow 25-30% in FY09 and FY10.

In monolithic construction, Sintex holds an order book of Rs15b, which is expected to keep this division running at full capacity till May 2010. Against revenue of Rs2b in FY08, the target for FY09 is Rs4b and for FY10 Rs8-10b. The company plans to bid for fresh orders beginning August-September 2009, and is quite confident of sustaining 40-45% growth.

**Overseas subsidiaries:** All Sintex subsidiaries are profitable (3QFY09 combined PAT is Rs70m). However, going forward, the global slowdown is likely to keep revenues flat at best.

The focus now is on improving margins by outsourcing to and exploiting synergies with Indian operations. Progress has been made on outsourcing functions such as designing and finance, and centralizing purchases. The next level is customer synergies. For instance, Nief is helping Bright put up an electrical components for Schneider, Germany. The Rs600m unit is expected to be commissioned by December 2009. Likewise, Wausaukee and Bright will put up a unit to supply composite components to ABB for coaches and subway systems. The Rs300m unit is expected to be commissioned by July-August 2010.

**Geiger acquisition status:** One of the units of Geiger, Germany (Sintex's acquisition in July 2008) has filed for bankruptcy. The liquidator's decision is expected around September 2009. In the best case, the liquidator will value Geiger at lower than Sintex's original bid of €35m, and offer it back to Sintex. It will then complete the acquisition and adjust the US\$10m (€7m) deposited and currently lying in an escrow account. In the worst case, Geiger may be fully liquidated and Sintex may lose its entire US\$10m. (We have not factored in Geiger in our estimates.)

### Revised revenue and EBITDA assumptions

Based on 9MFY09 performance and our management interaction, we have revised our FY09 and FY10 estimates for Sintex. Our major assumptions are on revenue and margins as tabled below.

SINTEX: ORIGINAL &amp; REVISED REVENUE ESTIMATES (RS M)

Y/E MARCH	2008	2009RE	2010RE	2011RE	2009 OE	2010 OE
<b>Total Operating Income</b>	<b>22,978</b>	<b>32,114</b>	<b>38,646</b>	<b>44,871</b>	<b>35,355</b>	<b>46,351</b>
Textiles	3,440	3,784	4,162	4,579	4,487	4,879
Plastics	19,538	28,330	34,484	40,293	30,868	41,473
Pre-fab Structures	5,340	6,408	7,690	9,228	8,840	10,688
Monolithic Construction	2,100	3,990	7,980	11,172	4,500	8,000
Custom Molding	4,120	4,718	5,464	6,398	3,800	5,000
Tanks	1,560	1,685	1,820	1,965	1,428	1,485
Zeppelin	1,270	1,000	1,000	1,000	2,000	3,000
Wausaukee	1,020	2,070	2,070	2,070	1,800	2,300
Nief	3,488	7,260	7,260	7,260	7,000	8,000
Bright	404	1,200	1,200	1,200	1,500	3,000
Others	236	0	0	0	0	0

RE – Revised Estimates; OE – Original Estimates

Source: Company / MOSL

SINTEX: ORIGINAL &amp; REVISED MARGIN ESTIMATES (%)

Y/E MARCH	2008	2009RE	2010RE	2011RE	2009 OE	2010 OE
<b>Total EBITDA Margin</b>	<b>17.7</b>	<b>16.7</b>	<b>17.1</b>	<b>17.5</b>	<b>18.0</b>	<b>19.9</b>
Textiles EBITDA Margin	27.9	27.0	27.0	27.0	27.4	27.2
Plastics EBITDA Margin	15.9	15.3	15.9	16.4	16.6	19.0
Pre-fab Structures	20.2	20.0	20.0	20.0	18.3	18.3
Monolithic Construction	19.0	18.0	18.0	18.0	17.0	18.0
Custom Molding	22.4	21.6	21.7	21.8	16.6	16.6
Tanks	9.0	8.5	8.5	8.5	6.0	6.0
Zeppelin	11.8	10.0	10.0	10.0	13.3	14.0
Wausaukee	2.9	7.0	7.0	7.0	15.0	17.1
Nief	8.6	10.0	10.0	10.0	10.0	10.0
Bright	19.8	17.5	17.5	17.5	14.0	15.0

RE – Revised Estimates; OE – Original Estimates

Source: Company / MOSL

### Capex of US\$182m over 3 years

We have factored in capex of US\$182m over 3 years to FY11 in Sintex's various businesses as tabled below.

SINTEX: 3-YEAR CAPEX PLAN (US\$ M)

	TOTAL	FY09E	FY10E	FY11E
Acquisition of Digvijay	12	12	0	0
Textiles	25	5	10	10
Monolithic	60	20	20	20
Prefabs	45	15	15	15
Composites	40	20	20	0
<b>Total</b>	<b>182</b>	<b>72</b>	<b>65</b>	<b>45</b>

E – Estimates

Source: Company / MOSL

Sintex is fully funded for its projects by virtue of its significant fund raising in FY08 including: (1) placement of equity shares (2) FCCBs and (3) Conversion of warrants by promoters.

**FUNDS RAISED IN FY08 (RS M)**

Placement of shares (12.54m shares @ Rs470 per share)	5,895
FCCB issue (US\$225m @ current exchange rate of Rs49.5)	11,138
Conversion of promoter warrants (2.68m shares @ Rs455)	1,219
<b>Total</b>	<b>18,251</b>
<b>Total (Approx. US\$ m)</b>	<b>369</b>

*Source: Company / MOSL*

Much of the FCCB proceeds were earmarked for overseas acquisitions. However, in light of the change in the business environment, Sintex is unlikely to go in for any major acquisitions in the near term. As a result, the company is currently enjoying a cash pile of about Rs16b.

### Lowering FY09 and FY10 earnings estimates

Based on the 9MFY09 performance, we have lowered our FY09 sales estimate from Rs35b to Rs32b. We have cut EBITDA margin from 18% to 16.7%. We have lowered our FY09 PAT estimate from Rs3.9b to Rs3.2b, up 47% YoY.

For FY10, we have made our estimates conservative to factor in global slowdown in autos and general industry. We have lowered sales from Rs46.3b to Rs38.6b, up 20% YoY. We have cut EBITDA margin from 19.9% to 17.1%. As a result, our PAT estimate is down from Rs5.9b to Rs3.9b, up 22% YoY.

We have not factored in any equity dilution due to conversion of FCCBs (conversion price of Rs580 per share) or exercise of warrants by promoters (exercise price of Rs455). Considering this, FY08-10 PAT and EPS CAGR works out to 34%.

### Valuation and recommendation

Sintex offers a unique play on: (1) new construction technologies (pre-fabs and monolithic) and (2) increasing replacement of metal by plastic composites in several areas such as autos, electricals, electronics, medical equipment, aerospace, defence, etc.

At CMP, the stock trades at a P/E of 6x FY09E and 5x FY10E. We believe this is extremely attractive for a company with FY08-10E EPS CAGR of 34% on a conservative basis, coupled with decent RoE of ~20%.

Our target price of Rs288 (10x FY10E) offers 99% upside from current levels. We recommend **Buy**.

## Sintex Industries: an investment profile

### Company description

Sintex along with its subsidiaries has a diversified business presence in (1) Textiles, (2) Building materials such as pre-fabricated structures, monolithic construction and water tanks, and (3) Plastic and composite parts for industries such as autos, electricals, aerospace, defence, etc.

### Key investment arguments

- ✍ Healthy growth in pre-fabricated structures due to rising allocation to government programs such as Sarva Shiksha Abhiyan (for classrooms) and National Rural Health Mission (for pre-fab toilets, clinics).
- ✍ Significant Rs15b order book in monolithic construction; high growth prospects due to need for low cost mass housing, including slum rehabilitation.
- ✍ Investment into composite manufacturing overseas subsidiaries will pay-off over the medium term by way of outsourcing, and access to global customers.

### Key investment risks

- ✍ Persistent global slowdown may hurt revenue and profits of overseas subsidiaries.
- ✍ Slowdown in domestic auto sector may hurt revenue and profit of subsidiary, Bright Autoplast.

### Recent developments

- ✍ Acquisition of Geiger, Germany has run into rough weather with one of its divisions filing for bankruptcy. The fate of Sintex's initial payment of US\$10m depends on the liquidator's ruling.
- ✍ Bright and Nief are jointly setting up a Rs600m composites unit for electrical components to Scheider of Germany (commissioning by December 2009).
- ✍ Bright and Wausaukee plan to set up a Rs300m composites unit for ABB's coaches and subway systems (planned commissioning by July-August 2010).

### Valuation and view

- ✍ The stock is trading at a P/E of 6x FY09E and 5x FY10E. Target P/E of 10x justified given 34% EPS CAGR and 20% RoE.
- ✍ We maintain **Buy** with a price target of Rs288 (10x FY10E EPS), 99% upside.

### Sector view

- ✍ **Textiles:** Sintex is into niche structured fabrics, and insulated from the vagaries of the textiles sector.
- ✍ **Building materials:** Sustained demand growth likely in India for pre-fab and monolithic structures.
- ✍ **Plastic composites:** Ample scope for substitution of metal in various sectors.

EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	23.6	23.3	1.4
FY10	28.8	33.1	-13.0

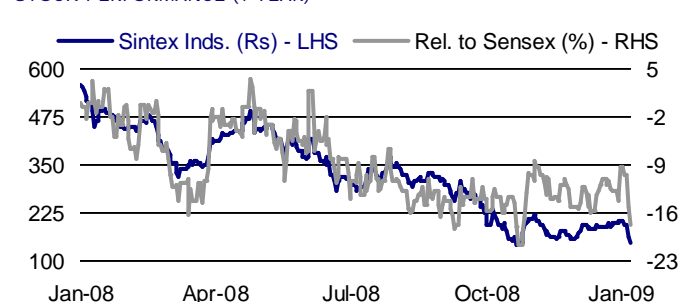
SHAREHOLDING PATTERN (%)

	DEC-08	SEP-08	DEC-07
Promoters	29.2	29.2	30.7
Domestic Inst	17.2	18.5	14.8
Foreign	41.4	40.0	42.2
Others	12.2	12.3	12.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
145	288	98.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						RATIOS					
(RS M)											
Y/E MARCH	2007	2008	2009E	2010E	2011E	Y/E MARCH	2007	2008	2009E	2010E	2011E
<b>Operating income</b>	<b>11,699</b>	<b>22,978</b>	<b>32,114</b>	<b>38,646</b>	<b>44,871</b>	<b>Basic (Rs)</b>					
Change (%)		96.4	39.8	20.3	16.1	<b>EPS</b>	<b>11.8</b>	<b>16.0</b>	<b>23.6</b>	<b>28.8</b>	<b>35.4</b>
<b>EBITDA</b>	<b>2,273</b>	<b>4,063</b>	<b>5,364</b>	<b>6,620</b>	<b>7,837</b>	Growth (%)		35.5	47.3	22.1	22.8
EBITDA Margin (%)	19.4	17.7	16.7	17.1	17.5	Cash EPS	15.7	22.6	33.1	39.9	47.6
Change (%)		78.8	32.0	23.4	18.4	Book value	58.9	110.1	132.4	159.7	193.4
Depreciation	420	765	1,298	1,509	1,665	Divd. Per Share	1.0	1.0	1.1	1.2	1.5
<b>EBIT</b>	<b>1,853</b>	<b>3,298</b>	<b>4,066</b>	<b>5,111</b>	<b>6,172</b>	Payout (incl.Div.Tax-%)	9.6	7.0	5.5	4.9	5.0
Interest	415	643	804	643	571	<b>Valuation (x)</b>					
Other income	207	231	861	568	582	P/E		8.5	6.1	5.0	4.1
Extraordinary items	17	134	0	0	0	Cash P/E		6.4	4.4	3.6	3.0
<b>PBT</b>	<b>1,661</b>	<b>3,019</b>	<b>4,124</b>	<b>5,037</b>	<b>6,183</b>	Price/Book value		1.3	1.1	0.9	0.7
Tax	327	698	907	1,108	1,360	EV/Sales		1.0	0.8	0.7	0.5
Tax / PBT (%)	19.7	23.1	22.0	22.0	22.0	EV/EBITDA		5.4	4.8	3.8	2.9
<b>PAT before MI</b>	<b>1,335</b>	<b>2,322</b>	<b>3,216</b>	<b>3,928</b>	<b>4,823</b>	Dividend yield (%)		0.7	0.8	0.8	1.0
PAT margin (%)	11.4	10.1	10.0	10.2	10.7	<b>Profitability ratios (%)</b>					
Change (%)		74.0	38.5	22.1	22.8	Average RoE	20.3	21.5	19.5	19.7	20.0
Less: Minority Interest	7	19	20	25	30	Average RoCE	15.3	14.7	12.1	15.6	16.3
<b>Consolidated PAT</b>	<b>1,328</b>	<b>2,303</b>	<b>3,196</b>	<b>3,903</b>	<b>4,793</b>	<b>Turnover ratios</b>					
Adj. Con. PAT	1,311	2,170	3,196	3,903	4,793	Debtors (days sales)	73	126	120	120	120
Change (%)		65.4	47.3	22.1	22.8	Asset turnover (x)	0.9	0.7	0.9	1.0	1.0
<b>BALANCE SHEET</b>						<b>Leverage ratio</b>					
(RS M)						Debt/Equity (x)					
Y/E MARCH	2007	2008	2009E	2010E	2011E	1.1	1.3	1.0	0.8	0.6	
Equity share capital	222	271	271	271	271	<b>CASH FLOW STATEMENT</b>					
Reserves	6,308	14,643	17,663	21,375	25,928	(RS M)					
<b>Networth</b>	<b>6,530</b>	<b>14,914</b>	<b>17,934</b>	<b>21,646</b>	<b>26,199</b>	Y/E MARCH	2008	2009E	2010E	2011E	
Minority Interest	41	203	250	275	303	<b>PBT before EO items</b>	<b>2,886</b>	<b>4,124</b>	<b>5,037</b>	<b>6,183</b>	
Total Debt	6,891	19,263	18,742	17,707	16,807	Add : Depreciation & Amort.	775	1,303	1,515	1,665	
Net deferred tax	724	1,069	1,269	1,469	1,669	Interest	643	804	643	571	
<b>Capital employed</b>	<b>14,185</b>	<b>35,449</b>	<b>38,195</b>	<b>41,097</b>	<b>44,977</b>	Less : Direct taxes	698	907	1,108	1,360	
<b>Gross fixed assets</b>	<b>8,973</b>	<b>19,057</b>	<b>24,882</b>	<b>27,807</b>	<b>30,082</b>	(Inc)/Dec in WC	-571	-4,470	-2,142	-1,570	
Less: Acc. Deprn.	2,478	5,185	6,483	7,991	9,656	<b>CF from operations</b>	<b>3,035</b>	<b>853</b>	<b>3,944</b>	<b>5,488</b>	
Net fixed assets	6,495	13,872	18,400	19,816	20,426	Extraordinary items	134	0	0	0	
Capital WIP	403	2,550	0	0	0	<b>CF from opn. incl. EO items</b>	<b>3,169</b>	<b>853</b>	<b>3,944</b>	<b>5,488</b>	
Investments	1,886	3,252	12,268	11,418	12,818	(Inc)/Dec in FA	-10,290	-3,276	-2,925	-2,275	
<b>Curr. assets</b>	<b>8,411</b>	<b>26,287</b>	<b>17,403</b>	<b>20,583</b>	<b>23,736</b>	(Pur)/Sale of investments	-1,367	-9,016	850	-1,400	
Inventory	1,506	3,022	4,230	5,063	5,869	<b>CF from investments</b>	<b>-11,656</b>	<b>-12,292</b>	<b>-2,075</b>	<b>-3,675</b>	
Debtors	2,334	7,938	10,558	12,706	14,752	Inc/(Dec) in Net Worth	6,223	-20	-25	-30	
Cash & Bank	3,901	13,713	1,000	1,200	1,500	Inc/(Dec) in Debt	12,372	-521	-1,035	-900	
Loans, Adv. & Others	671	1,615	1,615	1,615	1,615	Inc/(Dec) in Minority Interest	163	47	25	28	
<b>Current liab. &amp; prov.</b>	<b>3,031</b>	<b>10,524</b>	<b>9,882</b>	<b>10,720</b>	<b>12,003</b>	Inc/(Dec) in deferred tax liab.	346	200	200	200	
Creditors	2,642	5,825	6,596	7,897	9,132	Less : Interest paid	643	804	643	571	
Other Liabilities	17	738	478	0	0	Dividend & Dividend Tax	161	176	192	240	
Provisions	373	3,961	2,808	2,824	2,872	<b>CF from fin. activity</b>	<b>18,299</b>	<b>-1,274</b>	<b>-1,669</b>	<b>-1,513</b>	
<b>Net current assets</b>	<b>5,381</b>	<b>15,763</b>	<b>7,521</b>	<b>9,863</b>	<b>11,733</b>	<b>Inc/Dec in cash</b>	<b>9,812</b>	<b>-12,713</b>	<b>200</b>	<b>300</b>	
Misc. exp.	21	12	6	0	0	Add: Beginning balance	3,901	13,713	1,000	1,200	
<b>Total Assets</b>	<b>14,185</b>	<b>35,449</b>	<b>38,195</b>	<b>41,097</b>	<b>44,977</b>	<b>Closing balance</b>	<b>13,713</b>	<b>1,000</b>	<b>1,200</b>	<b>1,500</b>	

E: MOSL Estimates

**N O T E S**



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