

July 12, 2010

HOLD

Price Rs 325	Target Price Rs 325
Sensex	17,937

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	3	20	61
Rel. to Sensex	8	3	17	21

Source: Bloomberg

Stock Details

Sector	Diversified
Reuters	SNTX.BO
Bloomberg	SINT@IN
Equity Capital (Rs mn)	273
Face Value(Rs)	2
No of shares o/s (mn)	136
52 Week H/L	337/183
Market Cap (Rs bn/USD mn)	44/941
Daily Avg Volume (No of sh)	505935
Daily Avg Turnover (US\$m)	3.3

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	30.2	30.2	30.2
FII/NRI	26.1	28.0	32.8
Institutions	20.9	22.4	18.5
Private Corp	15.3	11.9	10.7
Public	7.4	7.6	7.8

Source: Capitaline

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- **In line at EBITDA level - revenue growth (37%) above expectations but EBITDA margins under pressure at 15.1%**
- **Monolithic construction (Rs1.8bn, up 89% yoy) and Standalone prefabs (Rs1.4bn, up 57% yoy) performed well**
- **Key things to watch in the concall – working capital numbers, ~Rs400mn difference in sum of each subs. (Rs3.5bn) & conso minus standalone revenues (Rs3.9bn) & margin pressure**
- **Maintain earnings of Rs28.6/36.0 for FY11E/12E (review post call tomorrow), trading at 11.4x FY11E earnings, maintain 'Hold' with Price target of Rs325/Share.**

Revenues outperform, Margins underperform

Sintex reported consolidated PAT of Rs788mn (up 30% yoy), ahead of expectations (Rs727mn) mainly because of higher other income (Rs202mn vs our expectations of Rs145mn). The revenues (up 30% yoy) were above expectations mainly due to monolithic construction and standalone prefabs doing very well. However, EBITDA margins at 15.1% slightly disappointed (our estimate – 17.1%). The standalone and subsidiaries EBITDA margins stood at 17.5% and 11.9% respectively. As per our estimate there is likely to be Rs110mn of notional forex loss in the interest expense relating to FCCB amount repatriated (USD 65mn) to India.

Key things to watch in the concall – working capital numbers

As we stated in our previous update that though after Q4FY10 results, we had greater confidence on business momentum but were a bit concerned on the balance sheet front. We continue to believe that most of the businesses are doing fine but the key concern is increase in working capital cycle. With increasing working capital cycle (123 days from 83 days) and higher net debt (Rs14.3bn versus Rs12.2bn), we see deterioration. We believe with monolithic construction contributing higher, working capital cycle is likely to increase further. Therefore the key number to look for in tomorrow's concall would be working capital situation. Secondly, there is a difference of Rs400mn in (1) sum of the break up of subsidiaries (Rs3.5bn) revenues reported separately and (2) consolidated revenues (Rs9.1bn) minus standalone revenues (Rs5.2bn) - Rs3.9bn. Also key thing to look for would be that inspite of higher contribution from monolithic and standalone prefabs (both higher margin businesses), the margins are under pressure.

Maintain earnings and Hold Rating

We maintain earnings of Rs28.6/36.0 for FY11E/12E. The stock is trading at 11.4x FY11E earnings and 1.9x FY11E book value (ROE of 18%). We maintain 'Hold' rating with price target of Rs325/Share.

Financial Snapshot

YE-Mar	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	RoE (%)	P/E	EV/ EBITDA	P/BV	Div Yld (%)
FY09	31,324	5,186	16.6	3,253	24.0	11.7	2.6	0.4	20.1	13.5
FY10P	33,191	5,379	16.2	3,103	22.9	11.3	2.3	0.3	17.0	14.2
FY11E	40,829	7,045	17.3	3,862	28.5	8.6	1.9	0.4	18.1	11.4
FY12E	48,030	8,631	18.0	4,883	36.0	7.0	1.6	0.5	19.2	9.0

Segmental built up

YE-Mar	Revenues				EBITDA %				EBITDA				PAT			
	FY09	FY10	FY11E	FY12E	FY09	FY10	FY11E	FY12E	FY09	FY10	FY11E	FY12E	FY09	FY10	FY11E	FY12E
Textiles	3710	3462	3739	4038	27.9%	20.2%	23.5%	25.0%	1035	699	877	1011	435	132	210	314
Monolithic	4520	7200	10800	14580	19.0%	19.4%	19.4%	19.4%	859	1396	2095	2828	539	928	1338	1837
Standalone Prefabs	5730	4309	5707	6634	18.1%	18.3%	19.0%	20.0%	1039	789	1084	1327	767	554	774	975
St. Custom Mold.	3440	3540	4362	5075	22.0%	22.7%	22.9%	23.0%	755	805	998	1166	310	441	310	408
Water Tanks	1430	1600	1680	1730	7.4%	9.9%	9.9%	9.9%	105	158	166	171	31	70	69	75
Bright Brothers	1270	1911	2484	3230	16.1%	13.7%	15.0%	16.0%	205	262	373	517	87	94	153	228
Zeppelin	1108	1338	1445	1532	16.0%	12.3%	14.0%	15.0%	177	165	202	230	75	59	83	101
Nief	7503	7891	8680	9201	12.0%	12.1%	12.6%	13.1%	900	954	1093	1204	382	343	448	531
WCI	1914	1557	1557	1635	6.0%	10.2%	10.2%	11.2%	115	159	159	184	49	57	65	81
Other Oper. Income	685	375	375	375												
Other Income													577	609	413	333
Total	31309	33184	40829	48030	16.6%	16.2%	17.3%	18.0%	5189	5388	7047	8636	3253	3289	3862	4883

Note: other operational income is not included in the businesswise revenues above but it's included in the business margins. The PAT number is a derived number based on businesswise depreciation, interest and tax rate assumptions.

Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	6,624	7,154	8,478	10,936	9,106	37.5	-16.7
Expenditure	-5,751	-5,849	-7,209	-9,003	-7,733	34.5	-14.1
as % of sales	-86.8%	-81.8%	-85.0%	-82.3%	-84.9%		
Consumption of RM	-3,173	-3,502	-4,828	-6,483	-5,018	58.2	-22.6
as % of sales	-47.9%	-49.0%	-56.9%	-59.3%	-55.1%		
Power and Fuel	0	0	0	0	0		
as % of sales	0	0	0	0	0		
Other Mfg Expenses	0	0	0	0	0		
as % of sales	0	0	0	0	0		
Employee Cost	-1067	-947	-1107	-1268	-1175	10.0	-7.4
as % of sales	-16.1%	-13.2%	-13.1%	-11.6%	-12.9%		
Other expenditure	-1511	-1399	-1275	-1252	-1540	1.9	23.0
as % of sales	-22.8%	-19.6%	-15.0%	-11.5%	-16.9%		
EBITDA	873	1,305	1,269	1,932	1,374	57.4	-28.9
Depreciation	-366	-372	-355	-351	-363	-0.8	3.5
EBIT	507	933	913	1,581	1,011	99.5	-36.1
Other Income	359	48	249	222	202	-43.7	-9.0
Interest	-142	-157	-175	-257	-249	75.5	-3.4
PBT	724	825	988	1,546	964	33.2	-37.6
Total Tax	-114	-174	-260	-156	-174	52.4	11.3
Adjusted PAT	610	651	728	1390	790	29.6	-43.1
Extra ordinary items	0	-68	0	0	0		
Reported PAT	610	583	728	1390	790	29.6	-43.1
(Profit)/loss from JV's/Ass/MI	-5	-10	-3	-2	-2	-58.9	-12.1
PAT after MI	605	572	724	1387	788	30.4	-43.2
Reported EPS	4.5	4.3	5.4	10.3	5.8	29.6	-43.1

Margins (%)						(bps)	(bps)
EBIDTA	13.2	18.2	15.0	17.7	15.1	191	-258
EBIT	7.6	13.0	10.8	14.5	11.1	345	-336
EBT	10.9	10.6	11.7	14.1	10.6	-34	-355
PAT	9.1	8.7	8.5	12.7	8.7	-47	-403
Effective Tax rate	15.7	23.0	26.3	10.1	18.0	227	791

Key Financials

Profit & Loss Account	FY09	FY10	FY11E	FY12E
Consolidated Revenues	31324	33191	40829	48030
Growth	37%	6%	23%	18%
Expenses	26138	27812	33784	39399
Raw materials	16151	17985	22215	26291
Employee Cost	4142	4389	5066	5565
Other Expenses	5845	5438	6503	7543
EBITDA	5186	5379	7045	8631
Growth	31.1%	3.7%	31.0%	22.5%
EBITDA %	16.6%	16.2%	17.3%	18.0%
Depreciation	1144	1445	1596	1775
EBIT	4042	3935	5449	6856
EBIT margin %	12.9	11.9	13.3	14.3
Other Income	878	878	580	460
Interest	820	731	1159	1159
PBT	4100	4082	4870	6157
Tax	825	772	980	1240
Effective tax rate (%)	20.1	18.9	20.1	20.1
Adjusted PAT	3275	3124	3890	4918
Growth (%)	49.8	-4.6	24.4	26.4
Net Margin (%)	10.4	9.3	9.5	10.2
(Profit)/loss from JVs/Ass/MI	22	21	28	35
Adjusted PAT After MI	3253	3103	3862	4883
E/O items	0	185	0	0
Reported PAT	3253	3289	3862	4883
Growth (%)	41.4	1.1	17.4	26.4

Balance Sheet	FY09	FY10	FY11E	FY12E
Equity Share Capital	271	271	271	271
Reserves	19409	21829	25504	30150
Net worth	19943	22289	25992	30673
Minority Interest	263	189	217	252
Secured Loans	11499	16197	16197	16197
FCCBs	11464	10106	10106	10106
Loan Funds	22963	26303	26303	26303
Net deferred tax liability	-1419	-1693	-1693	-1693
Total Liabilities	44325	50286	53957	58598
Gross Block	23788	26100	29589	32671
Less: Depreciation	6366	7811	9406	11181
Net Block	17422	18289	20182	21489
Capital Work in Progress	2377	1262	702	949
Goodwill	2198	2665	2665	2665
Investments	1819	5470	5470	5470
Current Assets	15540	18688	23883	28676
Inventories	3771	3411	4235	4899
Debtors	8094	10121	12932	15673
Cash & Bank	11685	9295	7529	6863
Loans & advances	3675	5156	6717	8104
Current Liabilities & Provisions	6717	5383	6442	7441
Net Current Assets	8823	13305	17441	21234
Miscellaneous Expenditure	1	0	0	0
Total Assets	44325	50286	53957	58598

Key Ratios	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	16.6%	16.2%	17.3%	18.0%
Adj. PAT Margin	10.4%	9.3%	9.5%	10.2%
ROCE	9.8%	8.1%	9.6%	10.7%
ROE	20.1%	17.0%	18.1%	19.2%
ROIC	13.5	10.4	12.2	13.3
Per Share Data (Rs)				
Adj. EPS	24.0	22.9	28.5	36.0
Adj. CEPS	33.2	33.7	40.5	49.4
BVPS	125.8	143.7	170.8	205.1
DVPS	1.3	1.1	1.4	1.7
Valuations (X)				
PER	12.7	13.3	10.7	8.5
CPER	9.2	9.0	7.5	6.2
P/BV	2.4	2.1	1.8	1.5
EV / Sales	1.9	1.8	1.4	1.2
EV / EBITDA	11.2	10.8	8.2	6.7
Dividend Yield (%)	0.4%	0.4%	0.5%	0.6%
Gearing Ratios				
Net Debt / Equity	0.7	0.7	0.7	0.6
Net Debt/EBITDA	2.4	2.7	2.3	1.9
Working Capital Cycle	83	123	139	148

Cash Flow	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	3,222	3,485	4,290	5,697
Depreciation	1,144	1,445	1,596	1,775
Interest Provided	820	731	1,159	1,159
Other Non-Cash items	-	-	-	-
Chg in working cap	(3,663)	(4,482)	(4,136)	(3,794)
Tax paid	-746	-772	-980	-1,240
Operating Cash flow	777	406	1,929	3,598
Capital expenditure	(6,756)	(1,664)	(2,929)	(3,328)
Free Cash Flow	-5,979	-1,257	-1,001	270
Other income	878	597	580	460
Investments	-	-	-	-
Investing Cashflow	-5,101	-660	-420	729
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	3,702	3,340	-	-
Interest Paid	(820)	(731)	(1,159)	(1,159)
Dividend paid (incl tax)	(173)	(153)	(219)	(277)
Income from investments	-	-	-	-
Others	-1932	-941	-1929	-3598
Financing Cashflow	776	1,515	-3,307	-5,034
Net chg in cash	-3,548	1,261	-1,798	-706
Opening cash position	16,935	13,387	14,648	12,850
Closing cash position	13,387	14,648	12,850	12,144

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