

March 2, 2009

BUY

Price	Target Price
Rs88	Rs112

Sensex	8,607
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(30)	(46)	(71)	(81)
Rel. to Sensex	(27)	(45)	(53)	(63)

Source: Capitaline

Stock Details

Sector	Diversified
Reuters	SNTX.BO
Bloomberg	BVML@IN
Equity Capital (Rs mn)	273
Face Value(Rs)	2
No of shares o/s (mn)	136
52 Week H/L	519/83
Market Cap (Rs bn/USD mn)	12/236
Daily Avg Volume (No of sh)	783742
Daily Avg Turnover (US\$m)	2.1

Shareholding Pattern (%)

	D'08	S'08	J'08
Promoters	29.2	29.2	29.2
FII/NRI	41.4	40.0	43.7
Institutions	17.2	18.5	16.3
Private Corp	6.0	5.3	4.4
Public	6.1	7.0	6.4

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Attractive Valuations

The current economic situation has prompted us to re-visit our earnings estimates for Sintex. We expect stumbling blocks in key business interests including monolithic construction, important growth driver for Sintex. Consequently, we have revised our assumptions for FY08-FY11E and factored- 1) lower revenue CAGR of 68% in the monolithic construction vertical versus earlier CAGR of 93%, 2) 8% revenue CAGR in standalone custom molding vertical versus 30% CAGR earlier, 3) 25% revenue CAGR in standalone prefabs vertical versus 36% CAGR earlier and 4) 29% decline in net profit of subsidiaries versus 64% CAGR earlier. The overall impact on consolidated earnings is 13% (Rs23.7), -19% (Rs24.8) and -26% (Rs29.6) for FY09E, FY10E and FY11E respectively. We expect revised earnings CAGR of 23% during FY08-FY11E. At CMP of Rs88, the stock is trading at a valuation of 3.5x FY10E earnings and 0.5x FY10E book value - attractive valuations for growth business. Thus in light of strong growth prospects, healthy balance sheet, excellent track record and ROIC of 13%, we maintain 'BUY' with a revised target price of Rs112.

Downward revision in earnings by 19% and 26% in FY10E and FY11E

We expect the current economic situation to create stumbling blocks in key business verticals of Sintex, leading to downward revision in revenues, EBITDA margins and earnings estimates for FY08-FY11E. We expect the (1) standalone custom moldings vertical to be impacted by slowdown in the auto sector, commodity price deflation and moderation of growth in electricals, (2) prefabs vertical to be impacted by lower tower capex rollout by telecom operators, (3) monolithic construction vertical to be impacted by delay in new order booking and commodity price deflation and (4) subsidiaries to be impacted by global slowdown. Consequently, we have revised our revenue estimates by -4%, -22% & -29%, EBITDA margins estimates by -38bps, -150bps and -143bps and earnings estimates by 13%, -19% and -26% for FY09E, FY10E and FY11E respectively. The earnings upgrade in FY09E is due to inclusion of FCCB in debt instead of equity earlier. We expect revised earnings CAGR of 23% during FY08-FY11E with earnings of Rs23.7, 24.8, 29.6 in FY09E, FY10E and FY11E respectively.

Standalone custom moldings to be the worst affected segment

We expect the standalone auto custom moldings business of Sintex to be hit by the (1) slowdown in the domestic auto sector and (2) commodity price deflation, leading to drop in realizations. Consequently, we have factored no growth in standalone auto custom moldings during FY08-FY11E versus CAGR of 12% earlier. Further, the expected moderation in growth in the domestic T&D sector and slump in Industrial capex is expected to impact the high growth standalone electrical custom moldings. Consequently we have factored in revised revenue CAGR at 14% in standalone electrical custom moldings versus earlier CAGR of 40%. Thus, we expect 8% revenue CAGR in standalone custom molding vertical during FY08-FY11E versus 30% CAGR earlier. The above vertical is lead contributor to earnings revision impacting FY10E and FY11E earnings by -6% and -8% respectively.

Key Financials: (Rs.mn)

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E
FY2008	22871	3955	17.3	2172	16.0	3.8	0.8	1.3	19.6	5.5
FY2009E	33720	5395	16.0	3209	23.7	2.8	0.6	1.8	18.7	3.7
FY2010E	37527	5926	15.8	3362	24.8	2.6	0.5	2.1	16.6	3.5
FY2011E	43284	6833	15.8	4017	29.6	2.2	0.5	2.6	17.0	3.0

Prefabs vertical to be adversely impacted by slower rollout of telecom towers

Sintex's BT shelters business has been impacted by slowdown in rollout of telecom towers by telecom operators in the past two-three quarters. Further, we expect the trend to continue with no revival in near future. Consequently, we have factored 7% revenue CAGR in standalone BT shelters business during FY08-FY11E versus earlier CAGR of 22%. We have also lowered our growth expectation in prefabs Ex-BT shelters business at 29% revenue CAGR during FY08-FY11E versus 40% CAGR earlier. The revised growth estimates is still on higher side, since prefabs business is linked with government spending. We expect 25% revenue CAGR in standalone prefabs vertical during FY08-FY11E versus earlier CAGR of 36%. The vertical is the second highest contributor to earnings revision at -4% and -6% to FY10E and FY11E earnings respectively.

Growth estimates for monolithic construction vertical revised downwards

Monolithic construction vertical, the key growth driver for Sintex is also likely to see slower than expected growth owing to (1) approximately 6-month delay in new order booking from March 09 to September 09 and (2) commodity price deflation has impacted the value of orders (current order book is Rs12bn without considering the impact of fall in realization). Consequently, the revised revenue CAGR stands at 68% in FY08-FY11E versus earlier CAGR of 93%. The vertical has contributed -3% and -6% to the earnings revision in FY10E and FY11E respectively.

Subsidiaries feel the impact of global slowdown

The subsidiaries performance is likely to be impacted by global slowdown in general and auto sector in particular. Subsidiaries performance during Q3FY09 was under pressure and the situation is likely to worsen further. Consequently, we have factored negligible contribution to net profit from subsidiaries operations during FY08-FY11E. At the subsidiary level (1) Nief and Bright's is likely to get impacted by high exposure to auto segment, (2) slowdown in tower rollout will impact Zeppelins performance and (3) WCI is expected to get impacted by lower off take of key customers owing to funding issues. We expect 29% decline in net profit of subsidiaries versus earlier expectation of 64% CAGR in net profit during FY08-FY11E. The subsidiaries have contributed -3% and -4% to the earnings revision in FY10E and FY11E respectively.

Growth story remains intact

Despite the downward revision in earnings and sharp drop in valuations, we categorize Sintex as a growth pick now available at extremely cheap valuations (but, low dividend yield). We expect 23% earnings CAGR during FY08-11E, which is higher than the long term earnings CAGR of 14% during FY93-08. There is moderation in growth momentum at 23% CAGR in FY08-11E period versus 38% CAGR clocked in FY03-08 period, yet the growth has enough mass and steam.

Strong balance sheet with cash in hand of about Rs16bn

Sintex has strong balance sheet with cash in hand of about Rs16bn and net debt to equity of 0.2X. Sintex is expected to generate free cash of Rs1.4bn in FY10E. With strong cashflow and surplus cash in balance sheet, Sintex is in comfortable position with no dependence on external funding. Further, the ongoing expansion and operations will be funded at ease through internal accruals and cash in balance sheet.

Attractive valuations, recommend 'BUY' with revised price target of Rs112

At CMP of Rs88, the stock is trading at an attractive valuation of 3.5x FY10E earnings and 0.5x FY10E book value. **Given its strong growth prospects, healthy balance sheet, excellent track record and ROIC of 13%, we recommend 'BUY' with a revised target price of Rs112 versus our earlier target price of Rs268.** We have changed our valuation methodology to 0.7x 1 yr fwd book value versus the weighted average of DCF, SOTP and PER earlier.

Summary of revised estimates

	Revised Estimates			Old Estimates			% Change		
	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E
Revenues									
Textiles	3677	3677	3861	3828	4403	5063	-4%	-16%	-24%
Monolithic Construction	4300	8000	10000	4000	10000	15000	8%	-20%	-33%
Standalone Prefabs - ex BT Shelters	5713	7290	8835	5753	8594	11157	-1%	-15%	-21%
Standalone BT Shelters	1364	1364	1500	1550	1860	2232	-12%	-27%	-33%
Standalone Auto Custom Moldings	1555	1555	1711	1987	2186	2405	-22%	-29%	-29%
Standalone Electrical Custom Moldings	2726	2944	3533	3347	4686	6561	-19%	-37%	-46%
Water Tanks	1730	1817	1908	1685	1820	1929	3%	0%	-1%
Zeppelin Including Dig Vijay	888	444	488	1655	2151	2797	-46%	-79%	-83%
Bright Brothers	1240	1240	1364	1288	1417	1558	-4%	-12%	-12%
WCI	2189	1410	1551	1845	2122	2334	19%	-34%	-34%
Nief Plastics	7799	7475	8223	7678	8446	9290	2%	-11%	-11%
Other Operational Income	538	311	311	646	646	646	-17%	-52%	-52%
Consolidated Revenues	33720	37527	43284	35263	48331	60972	-4%	-22%	-29%
EBITDA Margins (%)									
Textiles	26.8%	26.5%	25.9%	27.4%	27.0%	25.8%	-53	-50	17
Monolithic Construction	17.0%	17.0%	17.0%	16.7%	17.2%	16.7%	30	-20	30
Standalone Prefabs - ex BT Shelters	18.0%	18.0%	18.0%	17.6%	18.6%	18.4%	40	-60	-40
Standalone BT Shelters	10.0%	9.0%	9.0%	12.6%	10.8%	10.6%	-258	-178	-158
Standalone Auto Custom Moldings	21.0%	19.0%	19.0%	20.0%	21.5%	21.0%	100	-250	-200
Standalone Electrical Custom Moldings	23.6%	23.6%	23.6%	20.1%	23.1%	22.6%	350	50	100
Water Tanks	7.1%	7.1%	7.1%	7.6%	7.4%	7.2%	-50	-30	-10
Zeppelin Including Dig Vijay	7.0%	5.0%	5.0%	8.2%	8.2%	8.2%	-116	-316	-316
Bright Brothers	12.0%	10.0%	10.0%	14.0%	14.0%	14.0%	-200	-400	-400
WCI	2.0%	-1.0%	-1.0%	4.0%	6.0%	8.0%	-200	-700	-900
Nief Plastics	8.0%	8.0%	8.0%	9.0%	9.3%	9.6%	-100	-130	-160
Consolidated EBITDA Margins	16.0%	15.8%	15.8%	16.4%	17.3%	17.2%	-38	-150	-143
Profit After Tax									
Textiles	224	216	234	276	367	437	-19%	-41%	-46%
Monolithic Construction	403	789	986	364	1019	1493	11%	-23%	-34%
Standalone Prefabs - ex BT Shelters	718	965	1222	677	1191	1570	6%	-19%	-22%
Standalone BT Shelters	95	90	104	115	146	211	-17%	-38%	-51%
Standalone Auto Custom Moldings	233	213	230	293	349	379	-21%	-39%	-39%
Standalone Electrical Custom Moldings	458	499	588	495	802	1109	-7%	-38%	-47%
Water Tanks	45	51	56	48	56	59	-7%	-8%	-5%
Standalone Operational Other Income	92	74	74	164	164	164	-44%	-55%	-55%
Subsidiaries	381	19	32	226	242	393	69%	-92%	-92%
Investment Income	578	466	518	564	341	334	2%	37%	55%
Consolidated Profit After Tax	3209	3362	4017	3201	4658	6130	0%	-28%	-34%
Consolidated Earnings	23.7	24.8	29.6	20.9	30.5	40.1	13%	-19%	-26%

Source: Emkay Research, Note: we have included FCCBs in debt instead of equity earlier

Financials

Profit & Loss Account

	Rs Mn			
	FY08	FY09E	FY10E	FY11E
Net Sales	22871	33720	37527	43284
Growth	96%	47%	11%	15%
Expenses	18916	28324	31601	36451
% of Sales	101%	50%	12%	15%
Raw materials	13001	18065	20728	24460
% of Sales	56.8%	53.6%	55.2%	56.5%
Employee Cost	2091	3929	4097	4272
% of Sales	9.1%	11.7%	10.9%	9.9%
Other Expenses	3824	6330	6776	7720
% of Sales	16.7%	18.8%	18.1%	17.8%
EBITDA	3955	5395	5926	6833
Growth	75.7%	36.4%	9.8%	15.3%
EBITDA %	17.3%	16.0%	15.8%	15.8%
Other Income	470	901	711	789
Interest	643	866	808	808
Depreciation	765	1234	1422	1540
Goodwill amortization	0	0	0	0
PBT	3017	4197	4408	5274
Tax	698	933	1044	1245
Minority Interest	19	32	2	12
Reported PAT	2300	3232	3362	4017
EO Items	129	23	0	0
Adjusted PAT	2172	3209	3362	4017

Source: Company, Emkay research

Cash Flow Statement

	Rs Mn			
	FY08	FY09E	FY10E	FY11E
PAT	2172	3209	3362	4017
Depreciation & amortization	765	1234	1422	1540
Deferred tax	256	86	99	118
Change in Working Cap	3499	2259	2104	1924
Operating Cash Flow	-306	2270	2779	3751
Capex	9712	3077	1100	1750
Free Cash Flow	-10018	-807	1679	2001
Equity Capital	7595	0	0	0
Loans	13935	0	0	0
Dividend	159	216	255	304
Others	178	-28	-48	-68
Net Change in Cash	11175	-995	1472	1764
Opening cash & cash equivalent	5760	16935	15967	17393
Closing cash & cash equivalent	16935	15940	17439	19157

Source: Company, Emkay research

Balance Sheet

	Rs Mn			
	FY08	FY09E	FY10E	FY11E
Equity Share Capital	273	273	273	273
Reserves	17752	20768	23875	27588
Net worth	203	235	237	249
Long term Loans	18228	21276	24385	28110
Short Term Loans	8430	8430	8430	8430
FCCBs	1843	1843	1843	1843
Loan Funds	8989	8989	8989	8989
Minority Interest	19262	19262	19262	19262
Total Liabilities	37490	40538	43647	47371
Gross Block	17212	21235	23643	25425
Less: Depreciation	5185	6419	7841	9381
Net Block	12027	14816	15802	16044
Capital Work in Progress	2550	1604	297	264
Goodwill	1845	1845	1845	1845
Investments	3252	3252	3252	3252
Current Assets	12575	19650	21978	25582
Inventories	3022	4776	4990	5688
Debtors	7938	12706	14390	16860
Cash & Bank	1615	2168	2597	3034
Loans & advances	7415	12231	12455	14134
Current Liabilities & Provisions	5160	7419	9523	11447
Net Current Assets	13713	12745	14171	15879
Miscellaneous Expenditure	11	11	11	11
Deferred Tax	-1069	-1155	-1254	-1372
Total Assets	37490	40538	43647	47371

Source: Company, Emkay research

Key Ratios

	FY08	FY09E	FY10E	FY11E
Profitability (%)				
EBITDA Margin	17.3%	16.0%	15.8%	15.8%
Adj. PAT Margin	9.5%	9.5%	9.0%	9.3%
ROCE	10.1%	9.8%	9.2%	9.9%
ROIC	16.5%	14.1%	13.2%	14.5%
ROE	19.6%	18.7%	16.6%	17.0%
Per Share Data (Rs)				
Adj. EPS	16.0	23.7	24.8	29.6
Adj. CEPS	23.7	33.7	36.1	42.0
BVPS	115.1	137.6	160.6	188.0
DVPS	1.2	1.6	1.9	2.2
Valuations (X)				
PER	5.5	3.7	3.5	3.0
CPER	3.7	2.6	2.4	2.1
P/BV	0.8	0.6	0.5	0.5
EV / Sales	0.7	0.5	0.4	0.4
EV / EBITDA	3.8	2.8	2.6	2.2
Dividend Yield (%)	1.3%	1.8%	2.1%	2.6%
Turnover Days (x)				
Working Capital Cycle	83	82	93	97
Debtors Cycle	127	140	141	143
Inventory Cycle	59	62	58	58
Gearing Ratios				
Net Debt / Equity	0.1	0.2	0.1	0.0
Total Debt to Equity	1.2	1.0	0.9	0.8

Source: Company, Emkay research

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