

# Sintex Industries

19 November 2012

Reuters: SNTX.BO; Bloomberg: SINT IN

## FCCB Repayment Leads To Equity Dilution

In order to repay US\$291mn of foreign currency convertible bonds or FCCBs (including the premium), Sintex Industries (SIL) raised Rs2,031mn by issue of warrants to promoters (30mn shares, 11.1% equity dilution) and Rs1,748mn through QIP (qualified institutional placement) (26.5mn shares, 9.8% equity dilution) and US\$140mn through fresh FCCBs (101.8mn shares, 37.5% equity dilution). The company, which was able to raise US\$140mn through new FCCBs at a mere 15% premium to reference market price (Rs65.74), has to provide high YTM (yield to maturity) of 5.37% and coupon rate of 7.5% for the first two years. Equity dilution to the tune of 58.4% (considering conversion of new FCCBs) is likely to exert further pressure on the already low RoE, thereby capping stock valuation. We have retained our Sell rating on SIL with a revised target price of Rs63 (from Rs68 earlier) valuing the stock at 5x FY14E EV/EBITDA.

**Equity base rises by 58.4%:** In order to repay FCCBs, SIL issued 30mn warrants to promoters and also raised Rs1,748mn via the QIP route by issuing 26.5mn shares at Rs65.9. As per today's press release, SIL also raised US\$140mn through new FCCBs at Rs75.6/share. Fund infusion by way of warrants/QIP/FCCBs totaling Rs11,473mn (~US\$209mn) results in equity dilution (see Exhibit 2) of 58.4% (11.1%/9.8%/37.5%, respectively, on an equity base of Rs271.1mn).

**Change in our estimates:** We have already factored in the impact of 30mn warrant issue in our 2QFY13 result update and we have now modified our estimates to factor in QIP and FCCBs. We have retained our revenue/EBITDA estimates for FY13E/FY14E, respectively. Following infusion of Rs1,748mn/Rs7,694mn via QIP/FCCB routes, respectively, we have cut our interest cost estimates by 16.9% for FY14E, thereby increasing adjusted PAT estimates by 5.0% to Rs4,107mn. However, with 42.6% equity dilution (after factoring in warrant issue) on account of QIP/FCCBs, we have cut our EPS estimates by 30.6%/26.4% to Rs8.6/Rs9.6 for FY13E/FY14E, respectively.

**Elevated working capital requirement leaves no room for a re-rating:** SIL was planning to repay its FCCBs by conserving cash through reducing capex, controlling working capital requirement and taking additional debt through ECB or other means. However, SIL was not able to conserve cash through any of these measures, forcing it to raise money via equity dilution. SIL has already incurred capex of Rs1bn in 1HFY13. It witnessed a rise in working capital requirement, as a percentage of sales, at 45.2%/49.6% in FY12/1HFY13, respectively, from 29.4% in FY11. SIL witnessed deterioration in its working capital position in 1HFY13 even after an 18.7% decline in sales at its working capital-intensive monolithic division. Though SIL trades at the bottom end of its valuation parameters, at 6.7x/5.1x FY14E PE and EV/EBITDA, we don't expect its re-rating following elevated working capital requirement, poor free cash flow and low return ratios.

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	32,816	44,752	44,368	47,264	52,067
YoY (%)	7.1	36.4	(0.9)	6.5	10.2
EBITDA	5,005	8,069	7,009	7,564	8,491
EBITDA (%)	15.3	18.0	15.8	16.0	16.3
Reported PAT	3,290	4,600	3,068	3,445	4,107
Adj. PAT	3,215	4,489	3,403	3,696	4,107
FDEPS (Rs)	11.9	16.6	12.6	8.6	9.6
YoY (%)	3.9	39.6	(24.2)	(31.4)	11.1
RoE (%)	17.6	20.6	13.5	11.8	10.6
RoCE (%)	8.3	13.5	9.8	10.3	11.5
P/E (x)	5.4	3.9	5.1	7.5	6.7
EV/EBITDA (x)	6.4	4.0	5.8	5.9	5.1

Source: Company, Nirmal Bang Institutional Equities Research

## SELL

Sector: Diversified

CMP: Rs64

Target Price: Rs63

Downside: 2%

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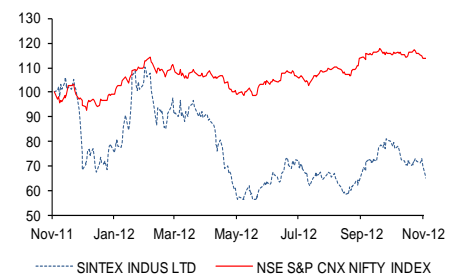
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### Key Data

Current Shares O/S (mn)	273.0
Mkt Cap (Rsbn/US\$m)	17.5/317.7
52 Wk H / L (Rs)	115/50
Daily Vol. (3M NSE Avg.)	3,784,944

### One Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
Sintex	(9.3)	21.2	(30.2)
Nifty Index	(1.9)	13.9	13.6

Source: Bloomberg

## Exhibit 1: Change in our earnings estimates

Description (Rsmn)	Earlier assumptions		Revised assumptions		Change (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Net sales	47,264	52,067	47,264	52,067	-	-
EBITDA	7,564	8,491	7,564	8,491	-	-
EBITDA (%)	16.0	16.3	16.0	16.3	-	-
Interest costs	1,424	1,802	1,441	1,497	1.2	(16.9)
Reported PAT	3,484	3,912	3,445	4,107	(1.1)	5.0
Adjusted PAT	3,736	3,912	3,696	4,107	(1.0)	5.0
EPS	12.4	13.0	8.6	9.6	(30.6)	(26.4)
Equity	301.1	301.1	429.4	429.4	42.6	42.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Details about funds raised

Description	Amount		No of shares (mn)	Issued price (Rs/share)	Equity dilution (%)
	(Rsmn)	(US\$mn)			
Warrants to promoter	2,031	37.0	30.0	67.7	11.1
QIP	1,748	31.8	26.5	65.9	9.8
FCCBs	7,694	140.0	101.8	75.6	37.5
<b>Total</b>	<b>11,473</b>	<b>208.8</b>	<b>158.3</b>	<b>72.5</b>	<b>58.4</b>

Note: We have assumed conversion of new FCCBs in our estimates at Re/US\$ rate of Rs54.959/\$

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
15 July 2011	Buy	181	224
4 October 2011	Buy	112	179
11 October 2011	Buy	116	167
18 November 2011	Hold	88	96
15 December 2011	Sell	75	54
16 January 2012	Sell	72	54
11 May 2012	Sell	61	52
16 July 2012	Hold	67	71
4 October 2012	Hold	71	71
12 October 2012	Sell	74	68
19 November 2012	Sell	64	63

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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