

SINTEX INDUSTRIES

MAINTAIN BUY
CMP Rs106
TP Rs240

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Sintex Industries' (SINT) stock has corrected by 25% over the past one week owing to concerns pertaining to (i) FCCB exposure of SINT to the tune of USD225mn (USD115mn utilized) and depreciation of Rupee v/s USD by 10% (See chart on next pg) and (ii) Slowdown in the US and European markets may lead to reduced demand for the overseas subsidiaries like Nief and Wausaukee. We met the management of SINT to understand these concerns. Post our meeting we believe that the stock correction is overdone and continue to remain positive on the stock taking into account: (a) we expect MTM loss of ~Rs450-500mn to hit the bottom-line in the Q2FY12 due to the USD115mn FCCB loan (utilized); (b) Strong growth in monolithic segment with continuing orders from housing board, railways and defence; (c) Government allowing prefab in tribal areas; an opportunity of Rs30bn. Besides, new plant in Dadri saving cost and bringing in incremental revenues from UP (d) Bright Autoplast may improve turnover margins further through synergies. The stock is attractively poised at current levels and we reiterate our 'BUY' recommendation on the stock with a target price of Rs240.

FCCB exposure of USD225mn

SINT has a FCCB loan of USD225mn of which USD115mn has been utilised and the balance is lying in overseas escrow account in foreign currency and hence not exposed to currency fluctuation. With the rupee depreciating by 10% in the previous quarter we expect the company to post mark-to-market losses to the tune of ~Rs450-500mn for Q2FY12. SINT has cash and liquid investment of Rs13bn as on Mar'11 and is likely to generate FCF of Rs1.5bn and Rs5.5bn in FY12 and FY13 respectively, which we believe will suffice incase FCCBs come for redemption in Mar'13. Also, any appreciation in the rupee (v/s USD) will help in writing back the losses.

Monolithic - standing strong: The company's order book in monolithic segment is ~Rs30bn with strong order flows from the Housing board, Railways and Defence. We expect margins to be maintained due to improvement in average order ticket size from Rs200mn to Rs600-700mn over the last two years. We expect this division to show CAGR of 25% over FY11-FY13.

Tribal areas an additional opportunity in prefab: Prefab business is likely to clock a CAGR of 27% over FY11-FY13. Government has permitted prefab in tribal areas from Q2FY12 which opens an opportunity of Rs30bn for companies like SINT and L&T. Moreover, SINT now has 6 prefab plants (after commissioning of Dadri plant in UP) which is likely to help improve its revenue pie from UP and Bihar markets and save on freight cost.

Valuations & Recommendation: At CMP, the stock discounts the FY12e and FY13e EPS of Rs19.9 and Rs22.8 by 5.3x and 4.7x respectively. We have a 'BUY' recommendation on the stock with a target price of Rs240.

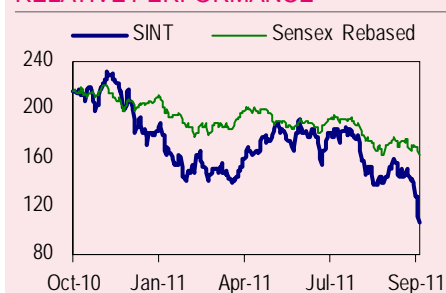
KEY FINANCIALS (CONSOLIDATED)

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	30,639	32,816	44,751	53,371	61,880
YoY Gr (%)	34.7	7.1	36.4	19.3	15.9
Op. Profits	4,500	5,005	8,154	9,161	10,426
OPM (%)	14.7	15.3	18.2	17.2	16.8
Adj. Net Profit	3,273	3,311	4,554	5,438	6,220
YoY Gr (%)	41.0	1.1	37.5	19.4	14.4

KEY RATIOS

Dil.EPS (Rs)	12.0	12.1	16.7	19.9	22.8
ROCE (%)	10.7	9.2	11.1	11.8	12.1
RoE (%)	20.5	18.1	20.9	20.2	19.0
PER (x)	8.8	8.7	6.4	5.3	4.7
EV/ Net Sales (x)	1.5	1.4	1.0	0.9	0.7
EV/ EBITDA (x)	10.2	9.2	5.6	5.0	4.4

RELATIVE PERFORMANCE



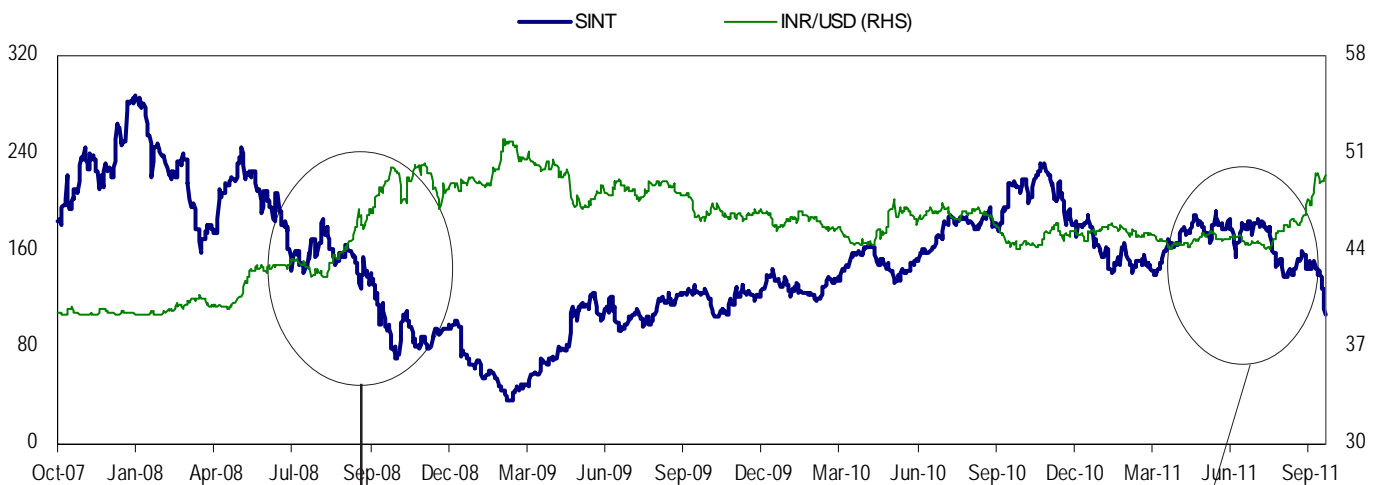
PERFORMANCE (%)

	1M	3M	12M
Absolute	(30.2)	(41.2)	(50.8)
Relative	(24.6)	(25.4)	(26.4)

Bright in full fledge – synergies bringing flavour: In FY11, Bright Autoplast (100% subsidiary) set up a dedicated plant in Chennai with capex of Rs320mn for Schneider. Its turnover in FY11 was approx Rs300mn and is likely to grow exponentially to Rs1.5bn over the next 3 years. The company is also adding one more plant in Chennai in FY12 for Areva which will help generate revenues similar to Schneider. This segment has EBIDTA margins of ~15-17% and will play a catalyst in case margins fall in other overseas subsidiaries due to slowdown in Europe and US market.

Europe concerns still persist: We believe SINT may face some slowdown with respect to its subsidiaries in Europe which may be reflected in the financials in FY13. However, these concerns do not warrant such a severe fall in the stock price which we believe is overdone. Nief and Wausaukee formed 20% and 4% respectively of overall revenues in FY11. We believe any slowdown may lead to revision of guidance from 25-30% growth to 15-20% by the management. But we believe that the slowdown effect will be partially compensated by a strong performance from Bright Autoplast.

Stock Price (Rs) V/S USD/INR Exchange Rate



Source: Company, PINC Research

Stock PRICE v/s USD/INR showing a STRONG correlation of -ve 0.9

Rupee depreciation and global meltdown causing a fall in stock price. FCCB exposure of USD225mn

Strong Rupee Depreciation FCCB exposure of USD225mn

Income Statement	FY09	FY10	FY11	FY12E	FY13E
Revenues	30,639	32,816	44,751	53,371	61,880
<i>Growth (%)</i>	<i>34.7</i>	<i>7.1</i>	<i>36.4</i>	<i>19.3</i>	<i>15.9</i>
EBITDA	4,500	5,005	8,154	9,161	10,426
<i>Growth (%)</i>	<i>17.6</i>	<i>11.2</i>	<i>62.9</i>	<i>12.3</i>	<i>13.8</i>
Depreciation & amortisation	1,144	1,445	1,490	1,760	1,825
EBIT	3,356	3,560	6,663	7,400	8,601
Interest	820	731	1,128	1,295	1,497
Other income	1,563	1,254	518	1,089	1,120
PBT	4,099	4,083	6,053	7,195	8,224
Income taxes	826	772	1,500	1,757	2,004
Extra-ordinary items	-	-	-	-	-
Min int / inc from assoc	23	21	22	-	-
Reported net income	3,251	3,290	4,571	5,438	6,220
Adjustments	(23)	(21)	17	-	-
Adjusted net income	3,273	3,311	4,554	5,438	6,220
<i>Growth (%)</i>	<i>41.0</i>	<i>1.1</i>	<i>37.5</i>	<i>19.4</i>	<i>14.4</i>
EPS (Rs)	12.0	12.1	16.7	19.9	22.8
<i>Growth (%)</i>	<i>41.0</i>	<i>1.1</i>	<i>37.5</i>	<i>19.4</i>	<i>14.4</i>

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	4,100	4,083	6,053	7,195	8,224
Depreciation & Amortisation	1,144	1,445	1,475	1,509	2,015
Total Tax Paid	(684)	(711)	(1,135)	(126)	(1,637)
Chg in working capital	(3,514)	(7,361)	1,493	(5,817)	(1,956)
Other operating activities	430	(60)	(575)	591	823
Cash flow from oper (a)	1,476	(2,604)	7,310	3,352	7,469
Capital Expenditure	(6,540)	(1,391)	(6,731)	(2,437)	(2,700)
Chg in investments	-	-	(311)	-	-
Other investing activities	(694)	(329)	571	513	674
Cash flow from inv.(b)	(7,234)	(1,720)	(6,470)	(1,924)	(2,026)
Free cash flow (a+b)	(5,758)	(4,324)	840	1,429	5,442
Equity raised/(repaid)	-	-	-	-	37
Debt raised/(repaid)	1,110	3,650	1,435	(334)	1,868
Change in MI	-	-	-	-	-
Dividend (incl. Tax)	(160)	(176)	(225)	(236)	(241)
Other financing activities	(896)	(204)	(1,587)	(54)	(1,497)
Cash flow from fin (c)	54	3,270	(378)	(624)	167
Net chg in cash (a+b+c)	(5,704)	(1,054)	462	805	5,610

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
<i>Equity Share Capital</i>	273	273	273	273	310
<i>Reserves & surplus</i>	16,776	19,196	23,743	29,434	35,289
Shareholders' funds	17,049	19,469	24,016	29,707	35,599
Min. Interest & Other	263	190	-	190	190
Total Debt	22,964	26,303	27,738	27,404	29,272
Capital Employed	40,277	45,962	51,754	57,301	65,061
Net fixed assets	18,653	18,581	24,023	24,700	25,575
Cash & Cash Eq.	11,685	9,295	9,861	10,666	16,276
Net Other current assets	15,541	21,688	23,146	28,201	30,861
Investments	1,819	2,470	3,775	3,775	3,775
Other Assets	(6,002)	(4,380)	(6,993)	(8,110)	(9,375)
Net Deferred tax Assets	(1,420)	(1,693)	(2,057)	(1,932)	(2,052)
Total Assets	40,277	45,962	51,754	57,301	65,061

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	14.7	15.3	18.2	17.2	16.8
Net Margin (%)	10.7	10.1	10.2	10.2	10.1
Dividend Yield (%)	1.0	1.1	0.7	0.7	0.9
Gross asset turnover (x)	1.6	1.4	1.6	1.6	1.8
Total asset turnover (x)	0.6	0.6	0.8	0.8	0.8
Adjusted debt/equity (x)	1.0	1.1	0.7	0.8	0.7
Interest coverage ratio (x)	4.1	4.9	5.9	5.7	5.7
RoCE (%)	10.7	9.2	11.1	11.8	12.1
RoE (%)	20.5	18.1	20.9	20.2	19.0
EV/Net Sales (x)	1.5	1.4	1.0	0.9	0.7
EV/EBITDA (x)	10.2	9.2	5.6	5.0	4.4
P/E (x)	8.8	8.7	6.4	5.3	4.7
P/BV (x)	1.7	1.5	1.2	1.0	0.8

Economic Value Added (EVA) Analysis					
	FY09	FY10	FY11	FY12E	FY13E
WACC (%)	12	12	12	12	12
ROIC (%)	9	8	12	12	13
Invested capital (Rs mn)	32,274	37,951	42,302	48,177	50,699
EVA (Rs mn)	(768)	(1,328)	327	310	729
EVA spread (%)	(2)	(3)	1	1	1

Du Pont Analysis					
(%)	FY09	FY10	FY11	FY12E	FY13E
Tax burden (Net inc./PBT)	79.8	81.1	75.2	75.6	75.6
Interest burden (PBT/EBIT)	122.2	114.7	90.8	97.2	95.6
EBIT margin (EBIT/Rev.)	11.0	10.8	14.9	13.9	13.9
Asset Turnover (Rev./Avg TA)	64.8	63.4	76.9	81.0	83.9
Leverage (Avg TA/Avg equity)	291.4	283.7	267.6	245.2	225.8
Return on equity	20.5	18.1	20.9	20.2	19.0

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