

Management Meet Update
 Sector: Diversified
 BSE Sensex : 15,868

SINTEX INDUSTRIES

 Maintain BUY
 CMP Rs65
 TP Rs115

09 January 2012

We met the management of Sintex Industries (SINT). Key takeaways from the meeting (1) slowdown in Monolithic construction on account of delay in clearances from the government,(2) Prefab segment is on track but might see some collection slowdown from UP and Punjab due to elections and (3) Domestic and Overseas custom moulding business to see slowdown due to fall in auto sales growth and concerns over the European and US economies. Post discussion with the management we downgrade our revenue and EPS estimate for FY12e and FY13e. We downgrade our revenue/ EPS estimate by 8.5%/26% and 9.5%/25% for FY12e and FY13e respectively. The stock has sharply corrected (44%) over the past 3 months on account of forex losses and the slowdown impact in overseas markets. We revise our TP from Rs240 to Rs115 (7x FY13e EPS) and believe that CMP of Rs65 factors all negative aspects discussed below. At CMP of Rs65, the stock discounts 4.4x and 3.8x FY12e and FY13e EPS of Rs14.7 and Rs17.0 respectively.

Monolithic Construction: As per management there is a slowdown in Monolithic construction especially on account of delay in getting clearances from the government. The company has an order book of Rs29bn of which Slum rehabilitation (Rs7.5bn), Railways (Rs2.5bn) and Defence (Rs2.5bn) cumulatively have ~45% of the order book and where the slowdown/stoppage is being felt. We also noticed stoppage of work in 4-5 sites out of the 18-20 sites in progress. We believe that with the upcoming state elections (Feb'12) in UP (order book of Rs4.5bn) and Uttarakhand the company will face delays in collection.

Prefab Segment: As per the management this particular segment is on track. We believe going ahead this segment may also get some collection issues since the plants in Baddi (HP) and Dadri (UP) supply to UP and Punjab which are going for state elections in Feb'12.

Custom Moulding: As per the management there is likely to be a slowdown in the domestic custom moulding business on account of slack in auto sales. Overseas custom moulding will be hard hit due to European and US economic slowdown. As per the management it is likely to be a flat to 5% negative growth in overseas custom moulding.

VALUATIONS & RECOMMENDATION

We reduce our TP from Rs240 to Rs115 (7x on FY13e EPS) and maintain a 'BUY' rating on the stock. We believe the CMP factors the slump in overseas business, forex loss impact and slowdown in the Indian economy.

KEY FINANCIALS		(Rs mn)			
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	30,639	32,816	44,751	48,793	56,003
YoY Gr (%)	34.7	7.1	36.4	9.0	14.8
Op. Profits	4,500	5,005	8,154	7,655	8,407
OPM (%)	14.7	15.3	18.2	15.7	15.0
Adj. Net Profit	3,273	3,311	4,583	4,000	4,423
YoY Gr (%)	41.0	1.1	38.4	(12.7)	10.6
KEY RATIOS					
EPS (Rs)	12.0	12.1	16.8	14.7	16.2
ROCE (%)	10.7	9.2	11.1	10.4	11.3
RoE (%)	20.5	18.1	21.1	15.3	14.6
PER (x)	5.4	5.4	3.9	4.4	4.0
EV/ Net Sales (x)	1.2	1.1	0.8	0.7	0.6
EV/ EBITDA (x)	7.9	7.1	4.4	4.7	4.2

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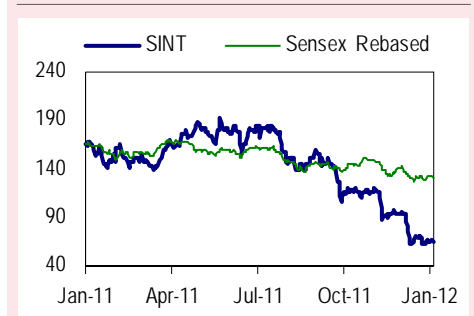
STOCK DATA

Market Cap	Rs18bn
Book Value per share	Rs71
Shares O/S (F.V. Rs2)	273mn
Free Float	66%
Avg Trade Value (6 months)	Rs277mn
52 week High/Low	Rs195/55
Bloomberg Code	SINT IN
Reuters Code	SNTX.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(30.2)	(43.8)	(60.9)
Relative	(26.2)	(38.3)	(40.3)

RELATIVE PERFORMANCE



Other Highlights:

Textile Division: As per management this segment is likely to show robust growth with improvement in margin. We have not made any changes in our estimates except for margin improvement in FY12e.

FCCB issue:

The company plans to prepay its FCCB of USD291mn (Principal USD225mn+ Premium USD60mn) in Sept'12, ahead of the repayment date of March'13. The company plans to fund this repayment via overseas bank balance of USD110mn, USD30mn from its overseas subsidiaries , USD30-40mn from the holding company and balance through ECB.

Impact on our estimates:

Post discussion with the management we downgrade our revenue and EPS estimate for FY12e and FY13e

Monolithic: We reduce our FY12e and FY13e revenue target of monolithic by 18% and 19% respectively. Overhead costs will increase on stoppage of site and slowdown in execution and hence will lower the margins. We have lowered our EBIDTA margin by 225bps and 200 bps for FY12e and FY13e respectively.

Prefab: We expect delay in collections in UP and Punjab although prefab orders may not face the same magnitude of slowdown since these orders are of small ticket size and only need collector approval. We have reduced our Prefab segment revenue by 12% and 9% for FY12e and FY13 e respectively. On the margin front we have reduced FY12e and FY13e margins by 50bps and 100 bps respectively.

Custom Moulding: We have not reduced domestic custom moulding revenue but have reduced overseas custom moulding revenue. For Neif Plastic we have taken 0%YoY growth in FY12 as against 15% YoY growth earlier. In FY13, we have assumed no reduction in revenue for Neif plastic. For Wausaukee we have assumed 5%YoY de-growth as against 10% growth in our earlier assumption.

Income Statement	FY09	FY10	FY11	FY12E	FY13E
Revenues	30,639	32,816	44,751	48,793	56,003
<i>Growth (%)</i>	<i>34.7</i>	<i>7.1</i>	<i>36.4</i>	<i>9.0</i>	<i>14.8</i>
EBITDA	4,500	5,005	8,154	7,655	8,407
<i>Growth (%)</i>	<i>17.6</i>	<i>11.2</i>	<i>62.9</i>	<i>(6.1)</i>	<i>9.8</i>
Depreciation & amortisation	1,144	1,445	1,490	1,760	1,840
EBIT	3,356	3,560	6,663	5,895	6,567
Interest	820	731	1,089	1,442	1,385
Other income	1,563	1,254	518	850	1,221
PBT	4,099	4,083	6,092	5,303	6,403
Income taxes	826	772	1,508	1,303	1,274
Extra-ordinary items	-	-	-	(805)	345
Min int / inc from assoc	23	21	22	-	-
Reported net income	3,251	3,290	4,600	3,195	4,768
Adjustments	(23)	(21)	17	(805)	345
Adjusted net income	3,273	3,311	4,583	4,000	4,423
<i>Growth (%)</i>	<i>41.0</i>	<i>1.1</i>	<i>38.4</i>	<i>(12.7)</i>	<i>10.6</i>
Adjusted EPS (Rs)	12.0	12.1	16.8	14.7	16.2
<i>Growth (%)</i>	<i>41.0</i>	<i>1.1</i>	<i>38.4</i>	<i>(12.7)</i>	<i>10.6</i>

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	4,100	4,083	6,092	5,303	5,697
Depreciation & Amortisation	1,144	1,445	1,475	1,509	2,030
Total Tax Paid	(684)	(711)	(1,144)	(126)	(1,183)
Chg in working capital	(3,514)	(7,361)	1,493	(4,554)	(3,642)
Other operating activities	430	(60)	(614)	992	1,316
Cash flow from oper (a)	1,476	(2,604)	7,301	3,125	4,218
Capital Expenditure	(6,540)	(1,391)	(6,731)	(2,637)	(1,350)
Chg in investments	-	-	(311)	-	-
Other investing activities	(694)	(329)	571	260	69
Cash flow from inv.(b)	(7,234)	(1,720)	(6,470)	(2,377)	(1,281)
Free cash flow (a+b)	(5,758)	(4,324)	831	748	2,937
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	1,110	3,650	1,435	(9,629)	358
Change in MI	-	-	-	-	-
Dividend (incl. Tax)	(160)	(176)	(225)	(236)	(241)
Other financing activities	(896)	(204)	(1,578)	(201)	(1,385)
Cash flow from fin (c)	54	3,270	(369)	(10,066)	(1,268)
Net chg in cash (a+b+c)	(5,704)	(1,054)	462	(9,318)	1,669

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
<i>Equity Share Capital</i>	273	273	273	273	273
<i>Reserves & surplus</i>	16,776	19,196	23,743	28,025	32,128
Shareholders' funds	17,049	19,469	24,016	28,298	32,401
Min. Interest & Other	263	190	-	190	190
Total Debt	22,964	26,303	27,738	18,109	18,468
Capital Employed	40,277	45,962	51,754	46,598	51,059
Net fixed assets	18,653	18,581	24,023	24,900	24,410
Cash & Cash Eq.	11,685	9,295	9,861	543	2,212
Net Other current assets	15,541	21,688	23,146	26,483	30,754
Investments	1,819	2,470	3,775	3,775	3,775
Other Assets	(6,002)	(4,380)	(6,993)	(7,171)	(8,041)
Net Deferred tax Assets	(1,420)	(1,693)	(2,057)	(1,932)	(2,052)
Total Assets	40,277	45,962	51,754	46,598	51,059

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	14.7	15.3	18.2	15.7	15.0
Net Margin (%)	10.7	10.1	10.2	8.2	7.9
Dividend Yield (%)	1.7	1.8	1.2	1.2	1.5
Gross asset turnover (x)	1.6	1.4	1.6	1.5	1.6
Total asset turnover (x)	0.6	0.6	0.8	0.8	0.9
Adjusted debt/equity (x)	1.0	1.1	0.7	0.5	0.5
Interest coverage ratio (x)	4.1	4.9	6.1	4.1	4.7
RoCE (%)	10.7	9.2	11.1	10.4	11.3
RoE (%)	20.5	18.1	21.1	15.3	14.6
EV/Net Sales (x)	1.2	1.1	0.8	0.7	0.6
EV/EBITDA (x)	7.9	7.1	4.4	4.7	4.2
P/E (x)	5.4	5.4	3.9	4.4	4.0
P/BV (x)	1.0	0.9	0.7	0.6	0.5

Economic Value Added (EVA) Analysis					
	FY09	FY10	FY11	FY12E	FY13E
WACC (%)	12	12	12	12	12
ROIC (%)	9	8	12	10	10
Invested capital (Rs mn)	32,274	37,951	42,302	47,144	49,986
EVA (Rs mn)	(768)	(1,328)	327	(838)	(610)
EVA spread (%)	(2)	(3)	1	(2)	(1)

Du Pont Analysis					
(%)	FY09	FY10	FY11	FY12E	FY13E
Tax burden (Net inc./PBT)	79.8	81.1	75.2	75.4	77.6
Interest burden (PBT/EBIT)	122.2	114.7	91.4	90.0	86.7
EBIT margin (EBIT/Rev.)	11.0	10.8	14.9	12.1	11.7
Asset Turnover (Rev./Avg TA)	64.8	63.4	76.9	81.3	92.9
Leverage (Avg TA/Avg equity)	291.4	283.7	267.6	229.6	198.6
Return on equity	20.2	18.1	21.1	15.3	14.6

T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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