

COMPANY UPDATE

Sintex Industries (SNTX.BO)

Buy

Equity Research

Concerns on moderation in growth and foreign debt priced in; Buy**What's changed**

The recent underperformance of Sintex (down 28% vs. Sensex down 7.3% over 1m) can primarily be attributed to: (1) its \$225mn FCCB outstanding in a depreciating rupee environment; (2) exposure to the EU through its foreign custom-moldings subsidiaries (FY12E - 23% revenue and 12% EBITDA) in a slowing European economy, and (3) concerns on the company's foray into the power EPC business with the promoter group to set up a 300MW power plant.

Implications

We maintain our Buy rating as: (1) we expect strong overall growth at 14%/12% in FY12E/13E despite building in a slowdown in the European business where we now expect 2%/5% revenue decline in FY12E/13E; 1HFY12 revenue grew by 23% yoy but we expect moderation in 2HFY12E; (2) We believe concerns relating to its FCCB are overdone as, only US\$110mn has been utilized by the company so far and repayment is due in March 2013. However, we assume the repayment of FCCB at Rs 55/US\$ in our base case and assume MTM losses in FY12 at that same rate; (3) We also lower our margins, building some loss of operating leverage, resulting in a total decline of 120 bps over FY12E. Though, we still expect positive cash flow before investing for FY12E-14E. Thus, as a result, we cut our EPS for FY12E/13E/14E by 32%/19%/15%.

Valuation

Sintex trades at 3.6X 12 m forward P/E and 0.6X 12 m forward P/B vs. 5-year median P/E of 11X and P/B of 2X, attractive valuations in our view given normalized EPS growth in mid-teens over FY13E-FY14E and high ROEs of 17%. We lower our TP to Rs 130 (from Rs 200 earlier) based on 7X FY13E (from 10X earlier) due to moderating growth and flattening returns over FY12.

Key risks

(1) prolonged slowdown in telecom and auto business segments, (2) volatile raw material prices (3) business diversification

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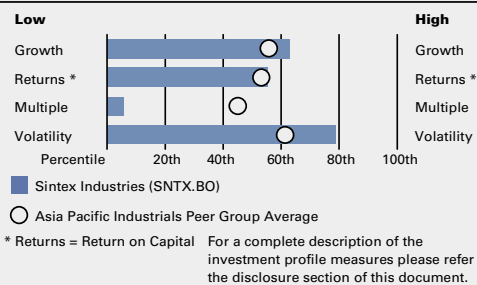
Asia Pacific Buy List

Coverage View: Neutral

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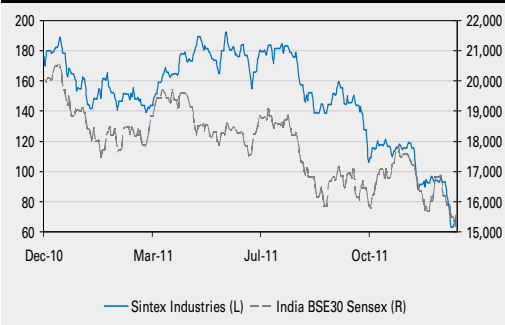
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Investment Profile

Key data	Current
Price (Rs)	70.25
12 month price target (Rs)	130.00
Market cap (Rs mn / US\$ mn)	19,178.3 / 362.7
Foreign ownership (%)	39.7

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	16.85	11.29	18.54	22.95
EPS revision (%)	0.0	(31.8)	(18.5)	(15.2)
EPS growth (%)	38.8	(33.0)	64.2	23.8
EPS (dil) (Rs) New	16.85	11.29	18.54	22.95
P/E (X)	4.2	6.2	3.8	3.1
P/B (X)	0.8	0.7	0.6	0.5
EV/EBITDA (X)	8.0	4.1	3.5	2.8
Dividend yield (%)	1.1	1.2	1.4	1.5
ROE (%)	21.2	12.1	17.1	17.8
CROCI (%)	16.4	17.5	15.0	14.9

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(53.5)	(57.5)	(60.2)
Rel. to India BSE30 Sensex	(49.4)	(52.4)	(49.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/21/2011 close.

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Sintex Industries: Summary Financials

Profit model (Rs mn)					Balance sheet (Rs mn)				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Total revenue	44,837.1	51,233.7	57,366.1	65,916.6	Cash & equivalents	9,861.1	11,590.0	1,673.1	3,524.8
Cost of goods sold	(27,796.9)	(32,619.4)	(36,437.7)	(41,671.1)	Accounts receivable	14,228.9	16,703.6	18,702.9	21,490.6
SG&A	(10,376.6)	(11,775.2)	(13,184.6)	(15,149.8)	Inventory	3,769.9	4,659.9	5,205.4	5,953.0
R&D	--	--	--	--	Other current assets	5,146.6	5,146.6	5,146.6	5,146.6
Other operating profit/(expense)	13.9	0.0	0.0	0.0	Total current assets	33,006.4	38,100.1	30,728.1	36,115.1
EBITDA	8,154.6	8,625.0	9,743.5	11,261.7	Net PP&E	24,038.0	27,256.8	29,068.4	30,909.2
Depreciation & amortization	(1,491.0)	(1,785.9)	(1,999.7)	(2,165.9)	Net intangibles	3,634.7	3,634.7	3,634.7	3,634.7
EBIT	6,663.6	6,839.1	7,743.8	9,095.8	Total investments	3,775.2	3,775.2	3,775.2	3,775.2
Interest income	--	591.7	695.4	100.4	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(1,089.2)	(1,644.0)	(1,510.9)	(592.4)	Total assets	64,454.3	72,766.8	67,206.4	74,434.2
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	3,947.3	4,491.7	5,186.5	5,959.6
Others	517.7	8.3	4.6	99.6	Short-term debt	4,428.5	2,247.9	5,247.9	5,247.9
Pretax profits	6,092.2	5,795.2	6,932.9	8,703.3	Other current liabilities	6,571.2	11,234.5	11,398.5	11,586.9
Income tax	(1,508.3)	(1,506.7)	(1,871.9)	(2,436.9)	Total current liabilities	14,974.0	17,974.1	21,832.9	22,794.3
Minorities	16.3	0.0	0.0	0.0	Long-term debt	23,309.3	25,489.9	11,009.6	11,009.6
Net income pre-preferred dividends	4,600.1	4,288.4	5,061.0	6,266.4	Other long-term liabilities	2,182.8	2,205.3	2,205.3	2,205.3
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	25,492.1	27,695.2	13,214.9	13,214.9
Net income (pre-exceptionals)	4,600.1	4,288.4	5,061.0	6,266.4	Total liabilities	40,439.1	45,669.3	35,047.8	36,009.3
Post-tax exceptionals	0.0	(1,206.0)	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	4,600.1	3,082.4	5,061.0	6,266.4	Total common equity	24,015.2	27,097.5	32,158.5	38,424.9
EPS (basic, pre-exception) (Rs)	16.85	15.71	18.54	22.95	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	16.85	11.29	18.54	22.95	Total liabilities & equity	64,454.3	72,766.8	67,206.4	74,434.2
EPS (diluted, post-exception) (Rs)	16.85	11.29	18.54	22.95	BVPS (Rs)	87.97	99.26	117.80	140.75
DPS (Rs)	0.79	0.87	0.95	1.05					
Dividend payout ratio (%)	4.7	7.7	5.1	4.6					
Free cash flow yield (%)	(10.6)	(2.5)	12.4	12.2					
Growth & margins (%)					Ratios				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Sales growth	36.6	14.3	12.0	14.9	CROCI (%)	16.4	17.5	15.0	14.9
EBITDA growth	62.9	5.8	13.0	15.6	ROE (%)	21.2	12.1	17.1	17.8
EBIT growth	87.2	2.6	13.2	17.5	ROA (%)	7.6	4.5	7.2	8.8
Net income growth	39.8	(33.0)	64.2	23.8	ROACE (%)	13.8	11.9	12.6	13.5
EPS growth	38.8	(33.0)	64.2	23.8	Inventory days	47.1	47.2	49.4	48.9
Gross margin	38.0	36.3	36.5	36.8	Receivables days	99.1	110.2	112.6	111.3
EBITDA margin	18.2	16.8	17.0	17.1	Payable days	51.8	47.2	48.5	48.8
EBIT margin	14.9	13.3	13.5	13.8	Net debt/equity (%)	74.4	59.6	45.4	33.1
					Interest cover - EBIT (X)	6.1	6.5	9.5	18.5
Cash flow statement (Rs mn)					Valuation				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	4,600.1	4,288.4	5,061.0	6,266.4	P/E (analyst) (X)	4.2	6.2	3.8	3.1
D&A add-back	1,491.0	1,785.9	1,999.7	2,165.9	P/B (X)	0.8	0.7	0.6	0.5
Minorities interests add-back	(6.7)	(6.7)	(6.7)	(6.7)	EV/EBITDA (X)	8.0	4.1	3.5	2.8
Net (inc)/dec working capital	(4,467.4)	(5,290.4)	(1,850.0)	(2,762.3)	EV/GCI (X)	1.3	0.7	0.6	0.5
Other operating cash flow	1,079.6	2,265.0	822.1	498.7	Dividend yield (%)	1.1	1.2	1.4	1.5
Cash flow from operations	2,696.6	3,042.3	6,026.2	6,162.1					
Capital expenditures	(7,690.0)	(3,524.7)	(3,647.3)	(3,818.3)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	5,408.0	591.7	695.4	100.4					
Cash flow from investments	(2,282.0)	(2,933.0)	(2,951.9)	(3,717.9)					
Dividends paid (common & pref)	(194.2)	0.0	0.0	0.0					
Inc/(dec) in debt	1,434.4	0.0	(11,480.3)	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	(1,089.1)	1,619.7	(1,510.9)	(592.4)					
Cash flow from financing	151.1	1,619.7	(12,991.1)	(592.4)					
Total cash flow	565.7	1,728.9	(9,916.9)	1,851.7					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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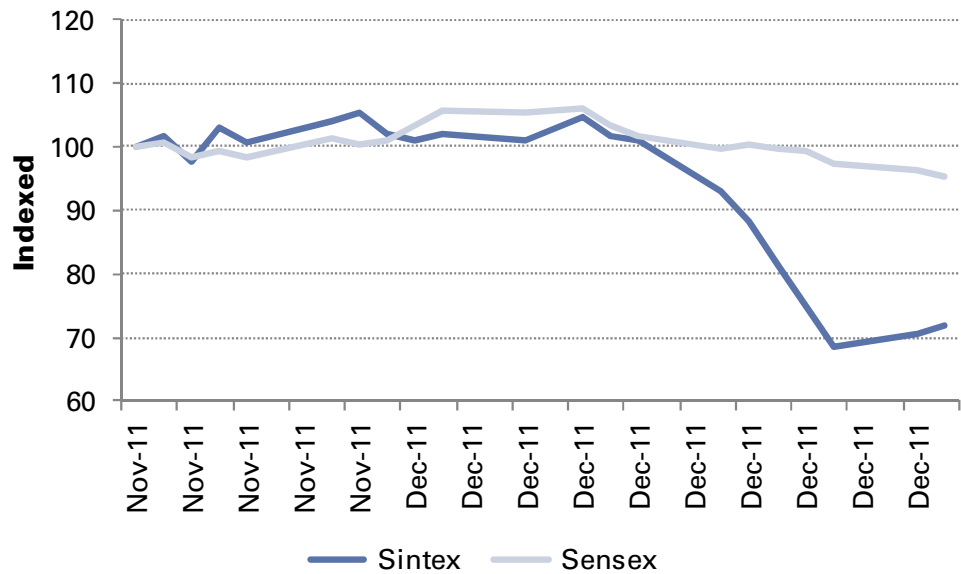
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Overview

Exhibit 1: Sintex has significantly underperformed the benchmark over the past 1 m
Indexed performance of Sintex and BSE Sensex



Source: Company data, DataStream.

Exhibit 2: We expect moderate growth over the next 2 years: returns of 16% and EPS growth of 11% - justifies a multiple of 7X

Various operating matrices for Sintex

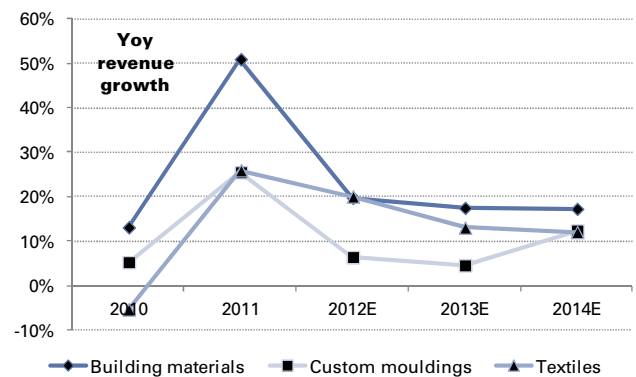
	FY08-11	FY12-14E
Sales Growth CAGR	25%	14%
Net Profit Growth	26%	11%
ROE	20%	16%
Avg. P/E	11	7*

* multiple implied by our TP

Source: Company data, Goldman Sachs Research estimates.

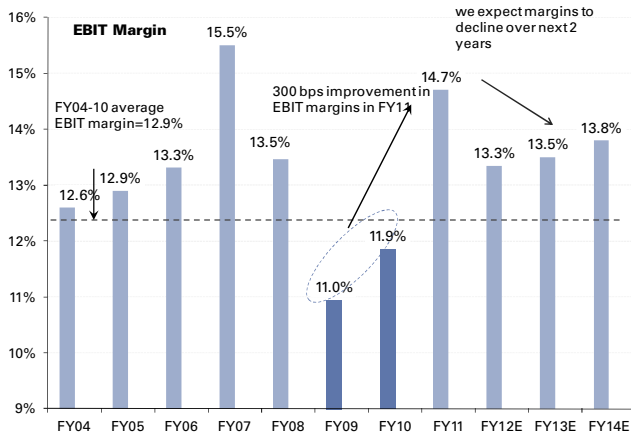
Exhibit 3: The decline is primarily driven by our 2%/5% drop yoy in the European business and moderation in its Monolithic segment growth

Segment revenue growth - yoy



Source: Company data, Goldman Sachs Research estimates.

Exhibit 4: Despite margin decline expectations over the next 2 years on high RM prices and operating leverage – we expect a healthy margin of +13% EBIT margin profile



Source: Company data, Goldman Sachs Research estimates.

Exhibit 5: We now build in an FCCB repayment at the rate of Rs 55: no cash impact expected in FY12E as repayment is due in March 2013

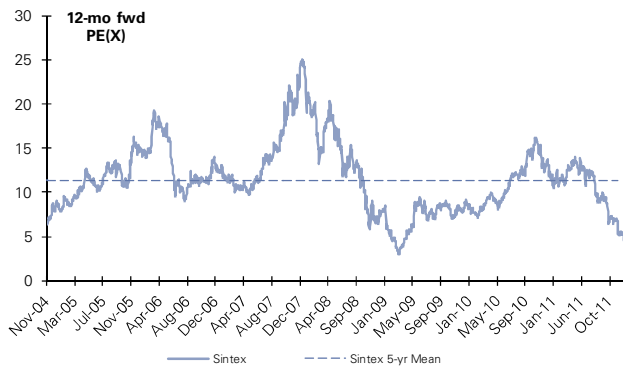
Details on FCCB outstanding for Sintex

Particulars	Amount
Total FCCB outstanding (US\$ mn)	225
Total FCCB outstanding including premium (Rs mn) @ 55 X110	6,050
Total FCCB outstanding still in escrow (Rs mn) @ 45 X115	5,175
Premium on redemption	3,255
Total cash outflow	14,480
Mark to Market for FY12E	(1,206)

Source: Company data, Goldman Sachs Research estimates.

Exhibit 6: Sintex currently trades at a 12m forward P/E of 3.6X – vs its 5-yr median 12m forward P/E of 11X – our TP at 7X is due to slowing growth and moderating returns

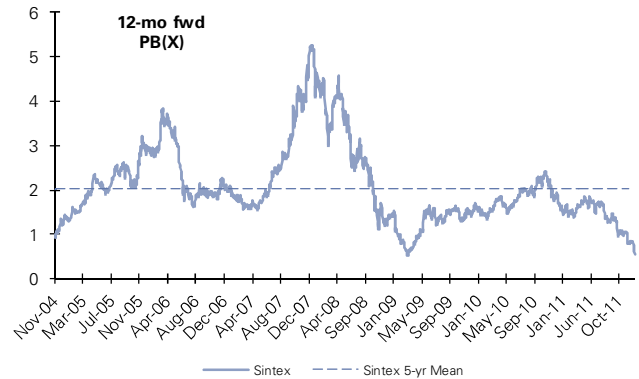
12-m fwd P/E - Sintex



Source: Company data, Datastream, Goldman Sachs Research estimates.

Exhibit 7: Sintex currently trades at a 12m forward P/B of 0.6X – 70% below its 5-yr median 12m forward P/B of 2X

12-m fwd P/B - Sintex



Source: Company data, Datastream, Goldman Sachs Research estimates.

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Reg AC

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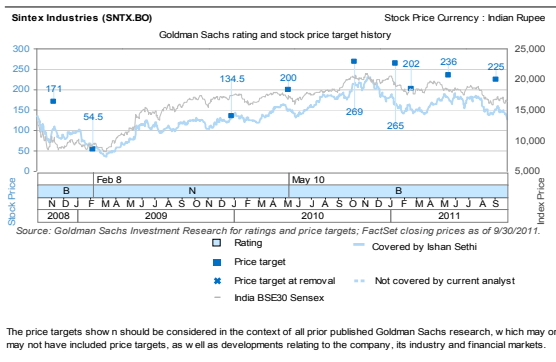
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Price target and rating history chart(s)



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