

## Sintex Industries Limited

Looking to improve the balance sheet profile, but at a cost of lower growth; cut PT to Rs115

We hosted Mr. Amit Patel, Managing Director of Sintex Industries (SINT), for investor meetings. As the company has previously stated, it is looking to improve its balance sheet profile. We believe SINT will significantly cut capex and slow down execution of its working-capital-intensive monolithic business. We cut our monolithic business growth assumption from 30% to 5%. As a result, we cut FY12E-FY14E EPS by 14%-20% and lower our PT to Rs115.

- **Looking to improve its balance sheet profile as the operating environment becomes more challenging:** We expect SINT to significantly cut its capex over the next two years, while slowing down the execution of its monolithic projects to preserve working capital, as payments from the government have slowed considerably over past 1-2 quarters.
- **Monolithic business likely to slow down sharply:** Execution for the monolithic business is slowing down, as payments from the government are being delayed, and delays in government clearances and site handovers are adding to the slowdown. We reduce our monolithic business growth estimates for FY12/13 from 30% to 5%.
- **Receivables cycle getting stretched, but cash flows to improve:** We believe that while working capital in FY12 is likely to deteriorate at the margin on account of the delay in government payments, free cash generation should improve aided by slower growth of the working-capital-intensive monolithic business and lower capital expenditure.
- **Comfortable on FCCB repayment:** Management is comfortable on the FCCB maturing in Mar 2013. The repayment of US\$278MM will be partly met through US\$170MM of US\$-denominated cash deposits. The remaining US\$110MM will likely be refinanced through a US\$-denominated ECB.
- **We reduce our PT to Rs115:** We cut our FY12-FY14 EPS estimates by 14%-20% to incorporate lower growth for the monolithic business. We also reduce our Sep-12 PT to Rs115 based on 7x FY13E P/E (from Rs208 based on 10x FY13E P/E). We cut our target multiple from 10x to 7x to factor in the lower growth outlook; our target multiple is in line with the domestic peer group average. Key risks include deteriorating working capital, non-related ventures, and a further slowdown in the European business.

## Overweight

SNTX.BO, SINT IN

Price: Rs70.05

▼ **Price Target: Rs115.00**  
Previous: Rs208.00

### India

#### Building Materials

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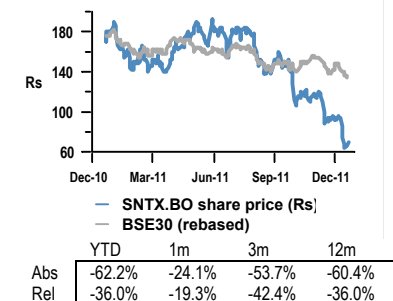
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#### Price Performance



#### Sintex Industries Limited (Reuters: SNTX.BO, Bloomberg: SINT IN)

Rs in mn, year-end Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Adjusted EPS (Rs)	12.14	16.97	16.10	16.72	18.72
EPS growth (%)	1.2%	39.8%	-5.2%	3.9%	12.0%
Adjusted P/E	5.8	4.1	4.4	4.2	3.7
Revenue (Rs mn)	32,816	44,752	47,832	49,126	53,061
Revenue growth (%)	7.1%	36.4%	6.9%	2.7%	8.0%
EBITDA (Rs mn)	5,005	8,069	8,337	8,347	8,861
EBITDA margin	15.3%	18.0%	17.4%	17.0%	16.7%
Net Profit (Rs mn)	3,290.0	4,600.1	4,393.8	4,564.3	5,111.6
DPS (Rs)	0.60	0.65	0.80	0.84	0.94
Dividend Yield	0.9%	0.9%	1.2%	1.2%	1.3%
EV/EBITDA (x)	12.2	7.7	7.4	6.9	6.1
P/BV (x)	1.0	0.8	0.7	0.6	0.5

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	273
Market cap (Rs mn)	19,123
Market cap (\$ mn)	362
Price (Rs)	70.05
Date Of Price	21 Dec 11
Free float (%)	60.2%
3-mth trading value (Rs mn)	340.5
3-mth trading value (\$ mn)	6.4
3-mth trading volume	3,474,458.0
BSE30	15,175
Exchange Rate	52.89
Fiscal Year End	Mar

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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### Company Description

Sintex Industries Ltd is one of the leading manufacturers of plastics and composites, with a strong presence in structured fabrics in India. Incorporated in 1931 as a textiles manufacturer, Sintex ventured into plastics in the mid-'70s, initially manufacturing plastic molded liquid storage tanks, plastic doors and windows. In the late '90s, Sintex ventured into prefabricated structures (for classrooms, telecom shelters, rural health shelters, and warehouses), monolithic mass housing and custom molded composites for various industries (incl. auto/electrical).

### P&L sensitivity metrics

FY12E	EBITDA impact (%)	EPS impact (%)
Monolithic Construction revenue growth	40%	
Impact of each +10% increase	2%	3%
Prefab Revenue growth	20%	
Impact of each +10% increase	1%	2%
Monolithic Construction EBITDA margin	20%	
Impact of each +5% increase	8%	10%
Prefab EBITDA margin	20%	
Impact of each +5% increase	4%	5%

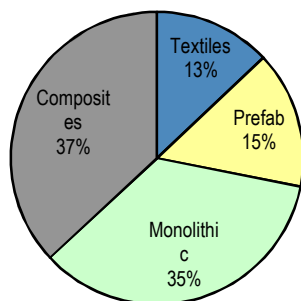
Source: J.P. Morgan estimates.

### PT and valuation analysis

Our Sep-12 price target of Rs115 is based on a P/E of 7x FY13E EPS, in line with its peer group average.

Key risks include dependence on government orders, a slowdown in Europe, higher working capital, and any investments in non-core businesses.

### FY11A EBITDA by segment



Source: Company data.

### EPS: J.P. Morgan vs consensus

Rs	J.P. Morgan	Consensus	vs. Cons
FY12E	16.1	18.4	-12.5%
FY13E	16.7	21.6	-22.7%
FY14E	18.7	24.0	-22.1%

Source: Bloomberg and J.P. Morgan.

## Management meeting: Looking to improve its balance sheet profile; comfortable with the balance sheet and FCCB repayment

**SINT is looking to improve its balance sheet profile, and we believe it will significantly cut its capital expenditure plans over the next two years**

**We reduce our growth assumption for the monolithic business from 30% to 5%, as payments from the government are being delayed and SINT is looking to slow execution to preserve working capital**

**Custom moldings business orders are slowing down, though textiles seem to be robust, aided by a depreciating rupee**

**Management does not see FCCB redemption as an issue, given cash deposits of about US\$170MM and the likelihood of US\$110MM being refinanced through an ECB by Sep 12**

We hosted Mr. Amit Patel, Managing Director of SINT, for a day of investor meetings. As the company has previously stated, the current management focus is on improving its balance sheet profile in an operating environment that is getting tougher by the day. We expect Sintex to significantly cut its capital expenditure plans over the next two years and look to sweat its existing assets more effectively.

In addition, the execution of monolithic projects has been slowed considerably, as payments from the government have been delayed. According to the company, sustaining past growth rates for monolithic projects would entail a significant increase in working capital deployment, and management does not want to block cash where a risk of delayed payments is emerging. Monolithic execution is also being adversely affected by slower technical clearances and in some case delays in the handing over of project sites. As a result, we reduce our growth estimates for the monolithic business from 30% to 5% for FY12-FY13.

Besides the monolithic business, Mr. Patel also cited a slowdown in orders for the custom moldings business, largely from Europe. A slowdown in domestic car volumes is also paring growth but SINT is mitigating this by looking to increase its product offerings and generating a higher revenue share per offering. Textiles business growth is looking up, aided by rupee depreciation, although volumes could slow down in FY13, as most orders are from the European market.

Management sounded comfortable on the FCCB repayment that is maturing in March 2013. SINT has US\$140MM of unutilized FCCB money in overseas deposits, and about US\$35MM in domestic deposits. This cash will be utilized to partly pay the FCCB. About US\$110MM would likely be refinanced through a US\$-denominated ECB. The potential refinancing could be as early as Sep 2012 (six months ahead of the maturity date for the FCCB) which is the earliest window permitted by the Indian central bank for prepayment of outstanding FCCBs.

Our key segmental revenue assumptions for SINT are shown in Table 1.

**Table 1: SINT: Segmental revenue assumptions**

Rs in millions, % YoY

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Textiles	3,680.0	3,440.0	4,355.0	5,008.3	4,757.8	4,995.7
% YoY	7.0	(6.5)	26.6	15.0	(5.0)	5.0
Plastics						
Prefab	5,580.0	4,300.0	5,294.0	6,352.8	7,242.2	7,966.4
% YoY	4.5	(22.9)	23.1	20.0	14.0	10.0
Monolithic	4,520.0	7,190.0	13,350.0	14,017.5	14,718.4	16,190.2
% YoY	115.0	59.1	85.7	5.0	5.0	10.0
Custom moulds	3,470.0	3,540.0	3,964.8	3,964.8	3,964.8	4,361.3
Water tanks	1,410.0	1,620.0	1,976.7	2,115.1	2,220.8	2,331.9
% YoY	(9.5)	14.9	22.0	7.0	5.0	5.0
Zeppline	1,110.0	1,340.0	1,170.0	1,228.5	1,289.9	1,354.4
% YoY	(12.8)	20.7	(12.7)	5.0	5.0	5.0
Wausaukee	1,999.5	1,426.0	1,768.2	1,856.7	1,671.0	1,754.5
% YoY	96.6	(28.7)	24.0	5.0	(10.0)	5.0
Nief	7,599.4	8,050.4	10,103.3	10,103.3	9,598.1	10,078.0
% YoY	117.8	5.9	25.5	0.0	(5.0)	5.0
Bright Autoplast	1,270.0	1,910.0	2,769.5	3,184.9	3,662.7	4,028.9
% YoY	214.2	50.4	45.0	15.0	15.0	10.0
<b>TOTAL REVENUES (</b>	<b>30,638.9</b>	<b>32,816.4</b>	<b>44,751.5</b>	<b>47,831.8</b>	<b>49,125.7</b>	<b>53,061.4</b>
<b>% YoY</b>	<b>34.7</b>	<b>7.1</b>	<b>36.4</b>	<b>6.9</b>	<b>2.7</b>	<b>8.0</b>

Source: Company data, J.P. Morgan estimates.

## Cutting estimates, price target

We are reducing our EPS estimates for FY12-FY14 by 13.6%-19.7% to factor in lower growth for the monolithic construction business. Our earnings estimate revision summary is shown in Table 2.

**Table 1: SINT: Earnings estimate revision summary**

<i>Rupees in M</i>	FY12E	FY12E	% Change	FY13E	FY13E	% Change	FY14E	FY14E	% Change
<i>except per share</i>	Old	New		Old	New		Old	New	
Net Revenues	54,027	47,832	-11.5	60,156	49,126	-18.3	65,322	53,061	-18.8
EBITDA	9,417	8,337	-11.5	10,221	8,347	-18.3	10,909	8,861	-18.8
EBITDA Margin (%)	17.4	17.4		17.0	17.0		16.7	16.7	
PAT	5,086	4,394	-13.6	5,687	4,564	-19.7	6,260	5,112	-18.3
PAT Margin (%)	9.4	9.2		9.5	9.3		9.6	9.6	
<b>FD EPS</b>	<b>18.6</b>	<b>16.1</b>	<b>-13.6</b>	<b>20.8</b>	<b>16.7</b>	<b>-19.7</b>	<b>22.9</b>	<b>18.7</b>	<b>-18.4</b>

Source: J.P. Morgan estimates.

We cut our Sep-12 price target for SINT to Rs115 based on 7x FY13E P/E. We reduce our target P/E multiple from 10x to 7x to factor in a slower growth profile for the business over the next two years (5% EPS CAGR over FY12E-FY14E). Our target P/E multiple is in line with the average for domestic plastic products manufacturers and construction peers for SINT. The stock is currently trading at 4.2x FY13E P/E, its lowest valuation since the trough valuations witnessed during the 2008-09 global credit crisis period. Maintain Overweight.

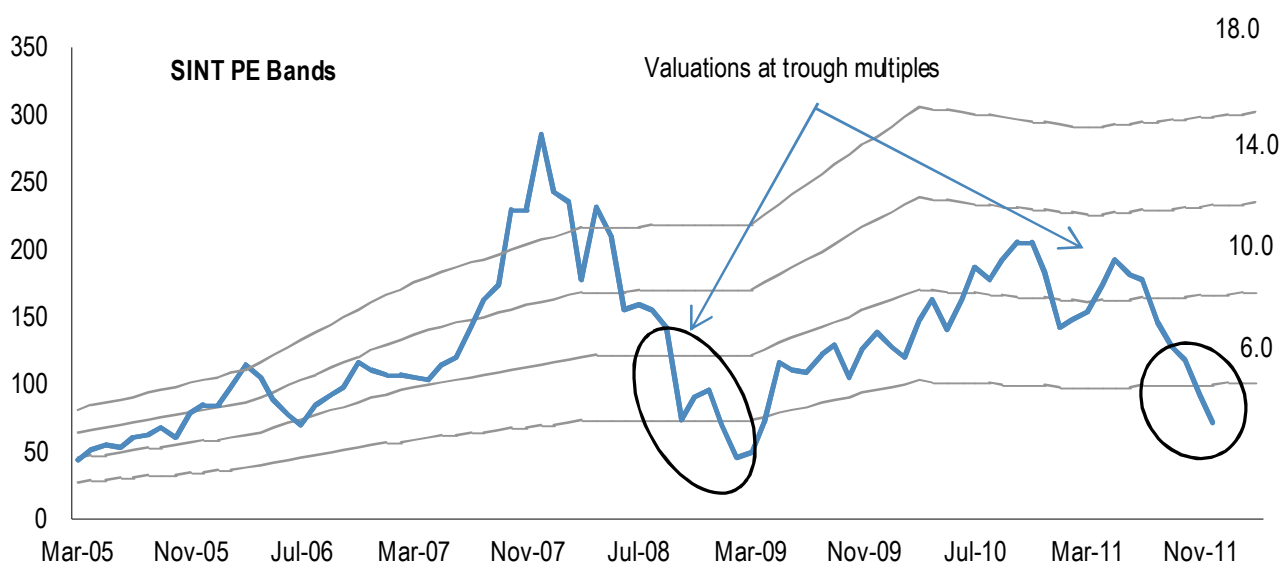
**Table 2: Valuation summary: SINT vs peer group**

	EBITDA Margin			EV/EBITDA (x)			P/E (x)			P/BV (x)			ROE (%)		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
SINTEX (JPM est)	17%	17%	17%	3.3	3.3	3.1	4.4	4.2	3.7	0.7	0.6	0.5	16.8	15.1	14.7

MOTHERSON SUMI	8%	9%	NA	6.5	4.8	NA	14.1	9.9	7.9	3.0	2.5	2.1	20.4	25.7	28.5
BHARAT FORGE LTD	16%	17%	17%	6.9	5.8	5.1	14.3	11.5	9.8	2.5	2.1	1.7	19.2	20.1	19.5
EXIDE INDUSTRIES LTD	16%	19%	19%	8.7	6.5	4.9	14.8	11.4	9.0	3.0	2.5	2.0	21.3	23.2	26.0
CROMPTON GREAVES LTD	8%	8%	8%	6.8	6.1	5.7	12.2	9.3	7.8	1.9	1.6	1.4	16.4	18.5	18.9
GAMMON INDIA LTD	9%	9%	NA	4.3	3.6	NA	3.4	2.9	NA	0.3	0.2	NA	8.8	9.0	NA
NCC LTD	10%	10%	11%	5.1	4.5	NA	6.3	5.2	3.8	0.4	0.3	0.3	5.3	6.4	6.4
IVRCL LTD	11%	12%	11%	4.0	3.4	3.0	10.0	6.5	5.4	0.3	0.3	0.3	1.1	1.4	8.1
ELECON ENGINEERING CO	15%	15%	14%	4.7	4.2	3.5	5.9	5.2	4.4	1.0	0.9	0.7	19.4	18.5	18.5
AHLUWALIA CONTRACTS	8%	9%	NA	3.4	2.5	NA	8.5	5.7	4.8	1.1	0.9	NA	12.6	16.3	21.0
ARSS INFRASTRUCTURE	21%	19%	NA	3.0	2.7	NA	1.5	1.3	NA	0.3	0.2	NA	NA	NA	NA
<b>Average</b>				<b>5.5</b>	<b>4.5</b>	<b>4.6</b>	<b>9.3</b>	<b>7.0</b>	<b>6.6</b>	<b>1.4</b>	<b>1.2</b>	<b>1.2</b>	<b>14.1</b>	<b>15.8</b>	<b>18.6</b>

Source: Bloomberg, J.P. Morgan. J.P. Morgan estimates for SINT, JI, ABB, Siemens, Crompton, consensus estimates for all others. Valuations as on COB 18/11/2011

Figure 1: Sintex: P/E band chart (one-year forward rolling)



Source: Bloomberg; J.P. Morgan estimates

## Sintex Industries Limited: Summary of Financials

Income Statement						Cash flow statement					
Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E	Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E
Revenues	32,816	44,752	47,832	49,126	53,061	PBT	4,083	6,092	5,661	5,959	6,680
% change Y/Y	7.1%	36.4%	6.9%	2.7%	8.0%	Depr. & amortization	1,445	1,491	1,669	1,738	1,807
Gross Profit	11,454	14,999	15,973	16,453	17,882	Change in working capital	-7,361	870	-3,490	-541	-1,647
% change Y/Y	1.2%	30.9%	6.5%	3.0%	8.7%	Other	-60	2,211	2,335	1,534	1,274
EBITDA	5,005	8,069	8,337	8,347	8,861	Cash flow from operations	-2,604	9,579	4,872	7,259	6,510
% change Y/Y	11.2%	61.2%	3.3%	0.1%	6.2%	Capex	-1,268	-6,864	-3,136	-1,650	-1,665
EBIT	3,560	6,578	6,669	6,609	7,055	Net Interest	-731	-1,089	-1,500	-1,100	-800
% change Y/Y	6.1%	84.8%	1.4%	NM	6.7%	Other	-452	109	0	0	0
EBIT Margin	10.9%	14.7%	13.9%	13.5%	13.3%	Free cash flow	-3,871	2,716	1,736	5,609	4,845
Net Interest	-731	-1,089	-1,500	-1,100	-800	Equity raised/(repaid)	0	4	0	0	0
Earnings before tax	4,083	6,092	5,661	5,959	6,680	Debt raised/(repaid)	4,650	1,435	-4,000	-8,738	-4,000
% change Y/Y	-0.4%	49.2%	-7.1%	5.3%	12.1%	Other	-1,204	-1,681	-1,500	-1,100	-800
Tax	772	1,508	1,302	1,430	1,603	Dividends paid	-176	-190	-255	-265	-296
as % of EBT	18.9%	24.8%	23.0%	24.0%	24.0%	Beginning cash	11,440	10,733	9,861	5,842	1,349
Net income	3,290.0	4,600.1	4,393.8	4,564.3	5,111.6	Ending cash	9,295	9,861	5,842	1,349	1,098
% change Y/Y	1.2%	39.8%	-4.5%	3.9%	12.0%	DPS	0.60	0.65	0.80	0.84	0.94
Shares outstanding	271	271	273	273	273						
EPS (reported)	12.14	16.97	16.10	16.72	18.72						
% change Y/Y	1.2%	39.8%	(5.2%)	3.9%	12.0%						
Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E	Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E
Cash and cash equivalents	9,295	9,861	5,842	1,349	1,098	Gross margin	34.9%	33.5%	33.4%	33.5%	33.7%
Accounts receivable	10,121	14,229	16,381	16,824	18,172	EBITDA margin	15.3%	18.0%	17.4%	17.0%	16.7%
Inventories	3,411	3,770	4,029	4,138	4,470	Operating margin	10.9%	14.7%	13.9%	13.5%	13.3%
Others	8,157	5,147	6,290	6,460	6,978	Net margin	10.0%	10.3%	9.2%	9.3%	9.6%
Current assets	30,983	33,007	32,543	28,772	30,717	Sales per share growth	7.1%	36.4%	6.1%	2.7%	8.0%
LT investments	2,470	3,775	3,775	3,775	3,775	Sales growth	7.1%	36.4%	6.9%	2.7%	8.0%
Net fixed assets	19,551	25,483	26,950	26,863	26,721	Net profit growth	1.2%	39.8%	-4.5%	3.9%	12.0%
Total Assets	56,026	64,893	65,459	61,600	63,404	EPS growth	1.2%	39.8%	(5.2%)	3.9%	12.0%
Liabilities						Interest coverage (x)	6.85	7.41	5.56	7.59	11.08
Payables	3,947	6,417	6,028	6,191	6,687	Net debt to equity	87.4%	74.4%	63.6%	42.1%	26.6%
Others	4,067	4,227	5,043	5,460	5,952	Working Capital to Sales	29.2%	25.9%	30.1%	30.1%	30.1%
Total current liabilities	8,015	10,644	11,071	11,651	12,639	Sales/assets	0.61	0.74	0.73	0.77	0.85
Long-term debt	26,303	27,738	23,738	15,000	11,000	Assets/equity	2.88	2.70	2.33	1.90	1.70
Other liabilities	2,050	2,495	2,495	2,495	2,495	ROAE	18.0%	21.2%	16.8%	15.1%	14.7%
Total Liabilities	36,368	40,877	37,304	29,146	26,134	ROACE	8.3%	13.5%	12.9%	13.3%	14.7%
Shareholders' equity	19,469	24,016	28,155	32,454	37,269						
BVPS	71.84	88.62	103.13	118.88	136.52						

Source: Company reports and J.P. Morgan estimates.

**JPM Q-Profile**

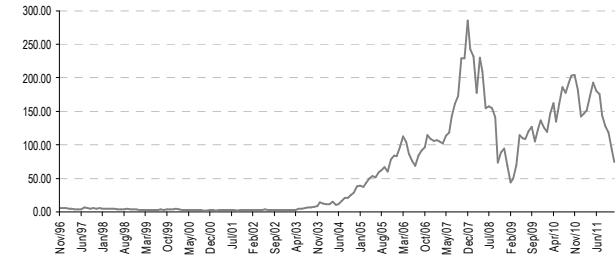
Sintex Industries Ltd. (INDIA / Industrials)

As Of: 15-Dec-2011

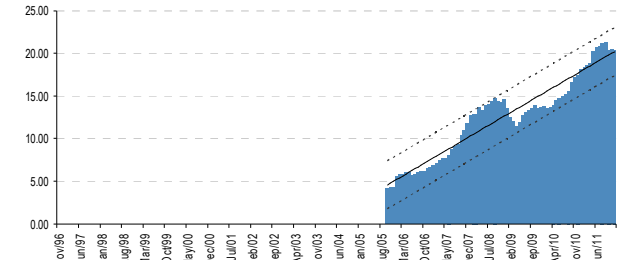
**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

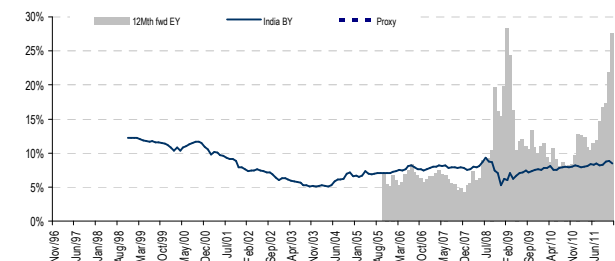
**Local Share Price** Current: **74.70**



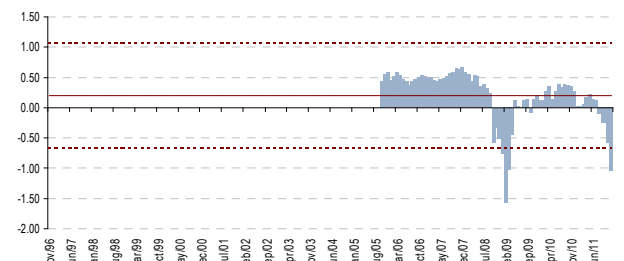
**12 Mth Forward EPS** Current: **20.41**



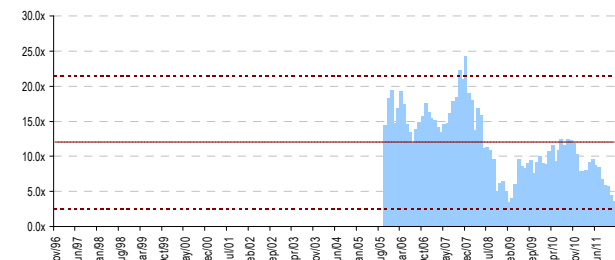
**Earnings Yield (& local bond Yield)** Current: **28%**



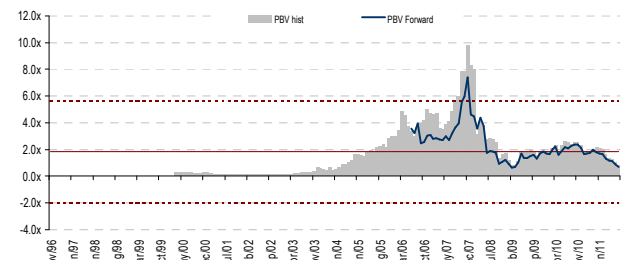
**Implied Value Of Growth\*** Current: **-104.49%**



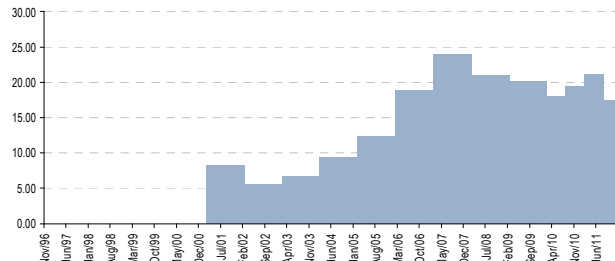
**PE (1Yr Forward)** Current: **3.6x**



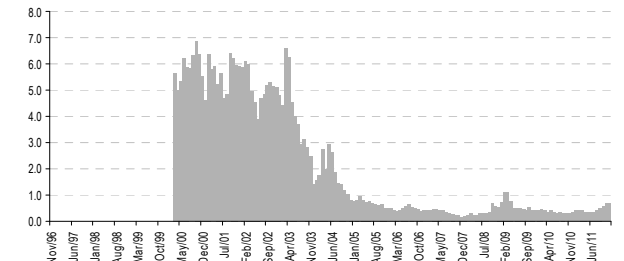
**Price/Book Value** Current: **0.8x**



**ROE (Trailing)** Current: **17.46**



**Dividend Yield (Trailing)** Current: **0.69**



**Summary**

Sintex Industries Ltd.		SEDOL		BOLMHN6		As Of:		15-Dec-11			
INDIA						Local Price:		74.70			
Industrials						EPS:		20.41			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	3.63x	3.53	24.21	11.60	12.00	21.47	2.53	-3%	568%	220%	231%
P/BV (Trailing)	0.79x	0.10	9.78	1.60	1.86	5.66	-1.94	-87%	1130%	101%	134%
Dividend Yield (Trailing)	0.69	0.17	6.90	0.68	2.09	6.59	-2.41	-76%	898%	-2%	202%
ROE (Trailing)	17.46	5.63	23.98	18.02	14.89	27.59	2.19	-68%	37%	3%	-15%
Implied Value of Growth	-104.5%	-1.57	0.68	0.34	0.20	1.07	-0.67	-50%	165%	133%	119%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

\* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

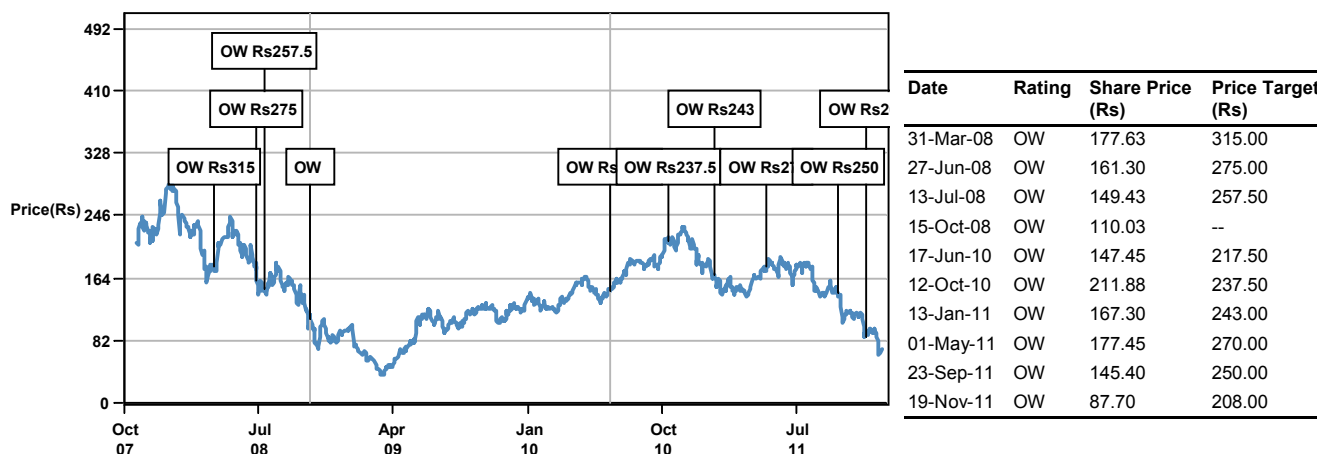
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Sintex Industries Limited (SNTX.BO) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Break in coverage Oct 15, 2008 - Jun 17, 2010.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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