

APAT miss due to monolithic and lower other income

October 21, 2011

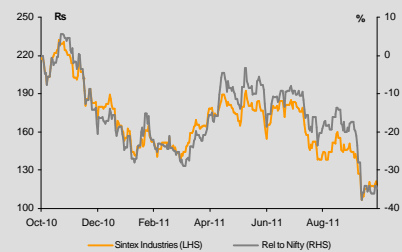
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 118	Rs 150
EPS change FY11E/12E (%)	-10.3/-10.4
Target Price change (%)	-30.2
Nifty	5,092
Sensex	16,936

Price Performance

(%)	1M	3M	6M	12M
Absolute	(19)	(34)	(33)	(45)
Rel. to Nifty	(19)	(28)	(23)	(36)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Diversified
Bloomberg	SINT@IN
Equity Capital (Rs mn)	273
Face Value(Rs)	1
No of shares o/s (mn)	273
52 Week H/L	237/103
Market Cap (Rs bn/USD mn)	32/651
Daily Avg Volume (No of sh)	1624918
Daily Avg Turnover (US\$m)	4.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	35.0	35.0	35.0
FII/NRI	38.6	38.2	33.7
Institutions	8.2	5.8	8.8
Private Corp	9.8	10.3	11.4
Public	8.5	10.8	11.2

Source: Capitaline

Amit Golchha

amit.golchha@emkayglobal.com

+91 22 6624 2408

- **Sintex's 2Q12 APAT was lower than est. due to lower monolithic execution (16% growth) and lower other income (by about Rs80mn); also the forex loss was higher at Rs596mn vs. est. of Rs450mn**
- **Mgmt in the concall sort of maintained its FY12E guidance of 20-25% revenue growth, EBITDA margins at FY11 level and APAT growth of 25-30%**
- **Working capital cycle has increased; Capex figure as per balance sheet is about Rs3.1bn for 1H vs. our assumption of Rs3.2bn for full yr. We increase our FY12 capex to Rs5bn – leading to negative free cash flows in FY12**
- **Estimates cut by 10% for FY12/13E mainly driven by lower monolithic, higher capex. Current valuations pricing in negative free cash. Maintain buy with revised TP of Rs150/Share**

Lower than estimates on account of lower monolithic and other income

Sintex's Q2FY12 numbers were impacted by lower monolithic execution (growth of 16% yoy vs. 35% estimated) and other income (lower by about Rs80mn). Also we had estimated forex loss of Rs450mn vs which company has reported Rs596mn. Consolidated revenues up 25% yoy, EBITDA margins stood at 17.7% (down 90bps yoy) and APAT declined by 2% yoy to Rs984mn vs our estimate of Rs1084mn. PAT decline was driven by higher interest (full qtr interest provisioning of capitalized assets) and lower other income.

Working capital cycle has increased, 1H capex significantly higher

Working Capital cycle on annualized qtrly numbers has increased significantly to 135days from 4Q11 number of 95days. Also, capex for 1H12 is about Rs3.1bn, significantly higher than our assumptions. We increase our full year capex assumption from Rs3.2bn to Rs5.0bn leading to negative free cash flow (Rs725mn) in FY12E.

Mgmt maintained its revenue/PAT guidance

Mgmt in the concall maintained its FY12E guidance of 20-25% revenue growth, EBITDA margins at FY11 level with slight improvement and PAT growth of 25-30%. Though the first half was a bit slow, management expects significant pick up in Q3/Q4FY12.

We cut estimates mainly driven by lower monolithic and higher capex impact

We cut our FY12/13 earnings by 10% due to lower monolithic (growth cut to 21% from 35%) and higher capex.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY10	33,191	5,379	16.2	3,289	12.1	1.1	18.0	9.7	9.3	1.6
FY11	44,837	8,155	18.2	4,600	17.0	39.8	21.2	7.0	6.2	1.3
FY12E	53,127	9,165	17.3	4,822	17.8	4.8	18.3	6.6	5.5	1.1
FY13E	61,342	10,629	17.3	5,753	21.2	19.3	18.3	5.6	4.7	0.9

Though increase in working capital and capex are both negative but stock prices in this; Maintain Buy

At CMP of Rs118/share the stock is trading at 5.6x FY13E earnings and 0.9x FY13E Book. Stock is currently trading at huge discount (50%) to its average five year PE multiple of 11x. Though some discount is justified due to higher working capital cycle (130 days vs 60 days) and very high capex and resulting negative free cash flows. We value Sintex at 35% discount to its long term average. Maintain buy with revised target price of Rs150/Share.

Quarterly Results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	9,231	11,860	14,554	11,120	11,570	25.3	4.0	33,192	44,751	34.8
Expenditure	-7,515	-9,893	-11,456	-9,228	-9,527	26.8	3.2	-27,881	-36,596	31.3
as % of sales	-81.4%	-83.4%	-78.7%	-83.0%	-82.3%			-84.0%	-81.8%	
Consumption of RM	-4,943	-7,439	-8,819	-6,401	-6,526	32.0	2.0	-17,986	-26,219	45.8
as % of sales	-53.5%	-62.7%	-60.6%	-57.6%	-56.4%			-54.2%	-58.6%	
Power and Fuel	0	0	0	0	0			0	0	
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Other Mfg Expenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-1078	-1172	-1189	-1287	-1170	8.6	-9.1	-4,389	-4,613	5.1
as % of sales	-11.7%	-9.9%	-8.2%	-11.6%	-10.1%			-13.2%	-10.3%	
Other expenditure	-1494	-1282	-1448	-1540	-1831	22.6	18.9	-5,506	-5,763	4.7
as % of sales	-16.2%	-10.8%	-9.9%	-13.8%	-15.8%			-16.6%	-12.9%	
EBITDA	1,716	1,967	3,098	1,892	2,043	19.0	8.0	5,311	8,155	53.6
Depreciation	-357	-374	-397	-439	-437	22.4	-0.5	-1,445	-1,491	3.2
EBIT	1,359	1,593	2,702	1,453	1,606	18.2	10.5	3,866	6,664	72.4
Other Income	272	137	-56	168	67	-16.8	-400.0	878	555	-36.8
Interest	-266	-280	-295	-350	-416	56.5	18.9	-731	-1,089	49.1
PBT	1,365	1,451	2,350	1,271	1,257	-7.9	-1.1	4,014	6,130	52.7
Total Tax	-363	-322	-650	-338	-275	-24.2	-18.6	-704	-1,508	114.2
Adjusted PAT	1002	1129	1700	933	982	-2.0	5.3	3310	4622	39.6
Extra ordinary items	0	0	0	0	-596			0	0	
Reported PAT	1002	1129	1700	933	386	-61.5	-58.6	3310	4622	39.6
(Profit)/loss from JV's/Ass/MI	-1	-3	-15	13	2	-716.1	-184.3	-21	-22	
PAT after MI	1001	1126	1685	946	388	-61.3	-59.0	3289	4600	39.9
Reported EPS	3.7	4.2	6.2	3.5	3.6	-1.7	4.0	12.1	17.0	39.9

Margins (%)					(bps)	(bps)					(bps)
EBIDTA	18.6	16.6	21.3	17.0	17.7	-94	64	16.0	18.2	222	
EBIT	14.7	13.4	18.6	13.1	13.9	-84	81	11.6	14.9	324	
EBT	14.8	12.2	16.1	11.4	5.7	-908	-572	12.1	13.7	160	
PAT	10.8	9.5	11.6	8.5	8.5	-234	0	9.9	10.3	37	
Effective Tax rate	26.6	22.2	27.6	26.6	41.6	1502	1501	17.5	24.6	706	

Segmental built up

YE-Mar	Revenues				EBITDA %				EBITDA			
	FY10	FY11	FY12E	FY13E	FY10	FY11	FY12E	FY13E	FY10	FY11	FY12E	FY13E
Textiles	3462	4375	4813	5198	19.9%	26.0%	23.1%	23.6%	688	1137	1110	1229
Monolithic	7200	10530	11583	13320	18.9%	22.5%	20.0%	19.0%	1416	2363	2349	2557
Standalone Prefabs	4309	5286	6861	8537	18.4%	22.6%	23.0%	23.0%	794	1194	1578	1964
St. Custom Mold.	3540	3977	4772	5488	22.1%	26.1%	26.1%	25.4%	782	1038	1245	1394
Water Tanks	1600	1980	2138	2309	9.2%	9.3%	8.0%	7.0%	148	184	171	162
Bright Brothers	1911	2784	3898	4872	13.7%	15.6%	15.0%	15.0%	262	435	585	731
Zeppelin	1338	1170	1112	1200	12.3%	9.4%	8.0%	9.0%	165	110	89	108
Nief	7891	9534	11060	12166	12.1%	11.5%	11.0%	11.0%	954	1093	1217	1338
WCI	1557	1822	2004	2165	10.2%	6.9%	7.0%	7.5%	159	125	140	162
Sintex Infra		3000	4800	6000		15.9%	15.9%	15.9%	476	762	952	
Other Oper. Income	382	379	86	86								
Total	33191	44837	53127	61342	16.2%	18.2%	17.3%	17.3%	5369	8155	9245	10597

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	33,191	44,837	53,127	61,342
Growth (%)	6.0	35.1	18.5	15.5
Expenditure	27,812	36,682	43,962	50,713
Raw Materials	17,985	26,306	31,789	36,776
Construction Exp	5,168	5,855	6,970	8,047
Employee Cost	4,389	4,613	5,595	6,346
Other Exp	270	-92	-392	-456
EBITDA	5,379	8,155	9,165	10,629
Growth (%)	3.7	51.6	12.4	16.0
EBITDA margin (%)	16.2	18.2	17.3	17.3
Depreciation	1,445	1,491	1,909	2,155
EBIT	3,935	6,664	7,256	8,474
EBIT margin (%)	11.9	14.9	13.7	13.8
Other Income	878	518	560	569
Interest expenses	731	1,089	1,422	1,422
PBT	4,082	6,092	6,394	7,621
Tax	772	1,508	1,571	1,868
Effective tax rate (%)	18.9	24.8	24.6	24.5
Adjusted PAT	3,310	4,584	4,822	5,753
(Profit)/loss from JV's/Ass/MI	-21	16	0	0
Adjusted PAT after MI	3,289	4,600	4,822	5,753
Growth (%)	1.1	39.9	4.8	19.3
Net Margin (%)	9.9	10.3	9.1	9.4
E/O items	0	0	0	0
Reported PAT	3,289	4,600	4,822	5,753
Growth (%)	1.1	39.9	4.8	19.3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	3,204	5,574	5,834	7,052
Depreciation	1,445	1,491	1,909	2,155
Interest Provided	731	1,089	1,422	1,422
Other Non-Cash items	0	0	0	0
Chg in working cap	-7,306	1,054	-2,639	-2,934
Tax paid	-947	-1,410	-1,373	-1,687
Operating Cashflow	-2,874	7,799	5,153	6,008
Capital expenditure	-1,664	-6,948	-5,016	-3,949
Free Cash Flow	-4,537	851	138	2,059
Other income	878	518	560	569
Investments	0	-420	0	0
Investing Cashflow	-786	-6,850	-4,456	-3,380
Equity Capital Raised	-95	-173	0	0
Loans Taken / (Repaid)	3,340	1,434	0	0
Interest Paid	-731	-1,089	-1,422	-1,422
Dividend paid (incl tax)	-193	-176	-169	-194
Income from investments	-389	-33	-41	-47
Others	-13	520	12	14
Financing Cashflow	1,920	482	-1,619	-1,649
Net chg in cash	-1,739	1,431	-922	979
Opening cash position	13,387	11,648	13,079	12,157
Closing cash position	11,648	13,079	12,157	13,136

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	271	271	271	271
Reserves & surplus	19,198	23,745	28,370	33,895
Net worth	19,469	24,016	28,641	34,166
Minority Interest	189	0	0	0
Secured Loans	28,934	30,368	30,368	30,368
Unsecured Loans	0	0	0	0
Loan Funds	28,934	30,368	30,368	30,368
Net deferred tax liability	1,693	2,057	2,057	2,057
Total Liabilities	50,286	56,441	61,066	66,592
Gross Block	28,765	35,466	39,547	44,136
Less: Depreciation	7,811	9,156	11,065	13,220
Net block	20,954	26,310	28,482	30,915
Capital work in progress	1,262	1,363	2,298	1,658
Investment	117	537	537	537
Current Assets	33,336	36,225	39,371	44,567
Inventories	3,411	3,770	4,311	4,956
Sundry debtors	10,121	14,229	16,860	19,471
Cash & bank balance	11,648	13,079	12,157	13,136
Loans & advances	8,156	5,147	6,043	7,004
Other current assets	0	0	0	0
Current lia & Prov	5,383	7,993	9,621	11,085
Current liabilities	4,507	7,019	8,449	9,731
Provisions	876	974	1,172	1,354
Net current assets	27,953	28,231	29,750	33,482
Total Assets	50,286	56,441	61,067	66,592

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	16.2	18.2	17.3	17.3
Net Margin	9.9	10.3	9.1	9.4
ROCE	8.3	12.5	12.3	13.3
ROE	18.1	21.1	18.3	18.3
RoIC	11.3	16.4	15.9	17.0
Per Share Data (Rs)				
EPS	12.1	17.0	17.8	21.2
CEPS	17.5	22.5	24.8	29.2
BVPS	71.8	88.6	105.7	126.0
DPS	0.6	0.6	0.6	0.7
Valuations (x)				
PER	9.7	7.0	6.6	5.6
P/CEPS	6.8	5.3	4.8	4.0
P/BV	1.6	1.3	1.1	0.9
EV / Sales	1.5	1.1	0.9	0.1
EV / EBITDA	9.2	6.0	5.5	0.4
Dividend Yield (%)	0.5	0.6	0.5	0.6
Gearing Ratio (x)				
Net Debt/ Equity	0.9	0.7	0.6	0.5
Net Debt/EBITDA	3.2	2.1	2.0	1.6
Working Cap Cycle (days)	140	128	113	113

Recommendation History: Sintex Industries Ltd – SINT IN

Date	Reports	Reco	CMP	Target
20/07/2011	Sintex Industries Q1FY12 Result Update	Buy	185	225
02/05/2011	Sintex Industries Q4FY11 Result Update	Accumulate	175	215
13/01/2011	Sintex Industries Q3FY11 Result Update	Accumulate	169	215
12/10/2010	Sintex Q2FY11 Concall Update	Hold	423	430

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2011	Bharat Bijlee Q2FY12 Result Update	Accumulate	736	836
23/08/2011	Voltamp Transformers Q1FY12 Result Update	Hold	495	491
17/08/2011	Lanco Infratech Q1FY12 Result Update	Hold	17	23
17/08/2011	JPVL Q1FY12 Result Update	Hold	38	42

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.