

# Sintex Industries

<b>BSE Sensex</b> 19,664	<b>S&amp;P CNX</b> 5,969
Bloomberg	SINT IN
Equity shares (m)	325.0
M. Cap. (INR b)/(USD b)	22.3/0.4
52-Week Range	105/50
1, 6, 12 Rel. Perf. (%)	3/-8/-22

## Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Operating Inc.	49.9	56.3	63.7
EBITDA	7.9	9.2	10.8
Adj. PAT	3.5	4.4	5.6
Adj EPS (INR)	11.4	13.5	15.8
EPS Gr. (%)	-12.9	18.6	17.1
BV/sh (INR)	102.0	111.1	126.2
RoE (%)	12.2	12.9	13.3
RoCE (%)	10.6	12.0	12.5
Payout (%)	8.6	5.6	4.5
<b>Valuations</b>			
P/E (x)	6.0	5.1	4.4
P/BV (x)	0.7	0.6	0.5
EV/EBITDA (x)	5.1	4.2	3.3
Div. Yield (%)	0.9	0.9	1.0

**CMP: INR69**
**TP: INR94**
**Buy**

- Sintex Industries' 3QFY13 results are above our estimates. Revenue grew 23% YoY to INR14.3b (v/s est INR12b), EBITDA was up 9.6% YoY at INR2.2b (v/s est INR1.9b), and EBITDA margin at 15.4% (v/s 15.3% in 2QFY13).
- Reported PAT disappointed at INR533m (v/s est of INR715m) on higher forex loss (INR450m), tax rates. Adj PAT grew 43% YoY to INR986m (v/s est INR895m).
- 3QFY13 Monolithic revenue grew 40% YoY to INR3.3b (v/s est INR2.3b) given project completion method of revenue booking. Better operating leverage augmented margin to 19% (+3pp both YoY and QoQ).
- Prefab revenue grew 23% YoY to INR2.8b (v/s est INR2.3b), but margin was down at 17% (-3pp QoQ) due to revenue mix and some cost escalations. The segment has shown strong resilience due to Sintex's entry into (a) new market segment (retail), and (b) new geographies (Maharashtra and MP).
- Domestic composites revenue grew 15% YoY to INR2.6b (v/s est INR2.4b) on a low base owing to Maruti strike in 3QFY12. Overseas business, after 3 quarters of de-growth, posted sharp growth of 28% YoY to INR3.7b (v/s est INR2.8b). However, margin deteriorated to ~7% (v/s 9.5% in 2QFY13).
- The management has guided for redemption of old FCCBs by Mar-13. It targets to reduce net debt by ~INR3b in FY13 and augment RoCE by 3pp over next couple of years.
- We have upgraded FY13/14 Adj PAT by 5-6%. The stock trades at 5.1x FY14E and 4.4x FY15E EPS. Maintain **Buy** with a target price of INR94 (7x FY14E EPS).

## Quarterly Performance

Y/E March	(INR Million)								FY12	FY13E
	FY12				FY13					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Operating Income</b>	11,120	11,571	11,608	10,236	10,806	11,985	14,272	13,090	44,535	49,920
YoY Growth (%)	22.1	25.4	-2.1	-30.1	-2.8	3.6	22.9	27.9	-0.7	12.1
<b>EBITDA</b>	1,892	2,044	1,631	1,600	1,776	1,828	2,198	2,073	7,177	7,922
EBITDA Margin (%)	17.0	17.7	14.1	15.6	16.4	15.3	15.4	15.8	16.1	15.9
Depreciation	439	437	467	335	483	505	520	441	1,678	1,948
Interest	350	416	354	238	354	361	312	354	1,358	1,381
Other Income	168	67	154	115	42	64	36	97	505	239
Extraordinary items	-9	-596	135	4	-289	-49	-450	0	-466	-787
<b>Profit before Tax</b>	1,271	662	1,099	1,147	692	978	953	1,375	4,179	4,045
Tax Provisions	338	275	283	263	241	258	420	338	1,160	1,256
Tax / PBT	26	22	29	23	25	25	30	25	25.0	26.0
<b>PAT before MI &amp; Income from Assoc</b>	933	387	816	884	451	721	533	1,038	3,019	2,789
Consolidated PAT	946	389	824	913	468	723	536	1,045	3,068	2,759
Adj. Consolidated PAT	946	985	689	909	757	772	986	1,045	3,535	3,546
YoY Growth (%)	20.0	-61.1	-27.8	-45.3	-20.0	-21.6	43.2	15.0	-22.4	0.3

## Sales Break-up (INR m)

<b>Textiles</b>	1,098	1,140	1,140	1,325	1,097	1,169	1,154	1,517	4,702	4,937
<b>Plastics</b>	10,022	10,392	10,441	8,835	9,669	10,690	13,051	11,573	39,690	44,983
<b>Building Materials</b>	4,752	5,056	5,241	5,271	4,515	5,350	6,711	6,344	20,320	22,920
Prefab	1,300	1,680	2,266	1,974	1,720	2,310	2,776	2,724	7,220	9,530
Monolithic	2,770	2,820	2,375	2,905	2,155	2,420	3,335	2,960	10,870	10,870
Tanks	480	550	600	600	640	620	600	660	2,230	2,520
<b>Composites</b>	5,270	5,336	5,200	3,564	5,154	5,340	6,340	5,229	19,370	22,063
Domestic	1,790	2,240	2,299	1,891	2,234	2,440	2,643	2,516	8,220	9,833
Foreign	3,480	3,100	2,899	1,671	2,920	2,900	3,697	2,713	11,150	12,230
<b>Total</b>	11,120	11,571	11,608	10,236	10,806	11,859	14,205	13,090	44,535	49,920

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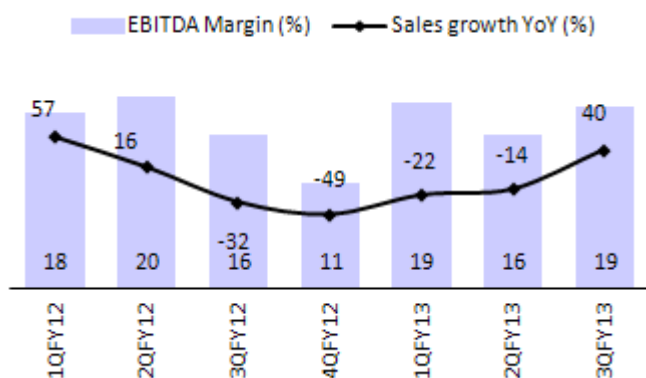
**Monolithic revenue surprised positively; margins up QoQ on operating leverage play**

- 3QFY13 Monolithic revenue grew 40%YoY to INR3.3b (v/s est INR2.3b). High revenue booking is attributable to project completion method of revenue booking which contributed in 3QFY13 due to completion of a numbers of projects including 3 of its 7 slow moving projects.
- EBITDA margin improved to 19% (+3pp both YoY and QoQ), due better operating leverage.
- Current order book stood at INR23b; inflow of big ticket orders has fallen significantly.
- The company managed to cut down the number of slow-moving sites to 4 during 3QFY13 v/s 5 in 2QFY13, and targets to reduce the same further to 3 sites by Mar-13, which would release almost INR1.5b of working capital stuck in this projects.
- On the back of better revenue booking in 3Q (which may not sustain in 4Q), we upgrade FY13/14E Monolithic revenue by 8% to INR10.9b/12.5b (flat YoY growth in FY13) at a margin of 17.5%.

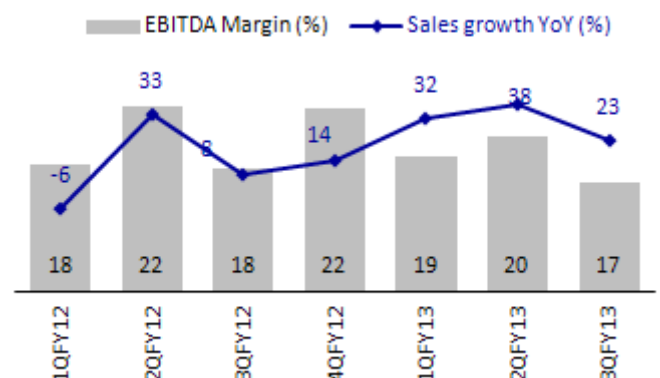
**Prefab segment moving strong and steady with new verticals, new geographies**

- Prefab revenue grew 23% YoY to INR2.8b (v/s est INR2.3b), while margin was down at 17% (-3pp QoQ).
- The segment has shown strong resilience with optimum capacity utilization and lower risk in payment delay.
- Steady growth is attributable to (a) Entry into retail segment in addition to uptick in existing government and private segment, and (b) 2QFY13 entry into Maharashtra and MP - which we believe could be a key medium-term growth driver.
- Margin deterioration is ascribed to change in revenue mix among segments and certain cost escalations.
- We have upgraded revenue from Prefab segment by ~10%, implying 32%/20% YoY growth in FY13/14 with stable margin of 19-20%.

**Monolithic: Revenue surprised positively**



**Prefab: Robust growth continues led by entry into new segment and regions**



Source: Company, MOSL

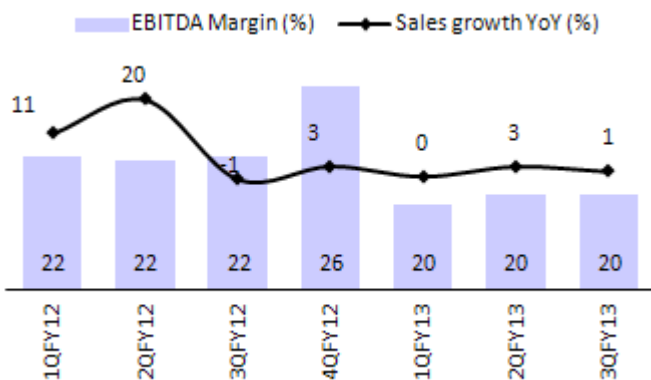
**Domestic composites revenue in line with estimates; profitability improves**

- Domestic composites revenue grew 15% YoY to INR2.6b (v/s est of INR2.4b), given low base owing to Maruti strike in 3QFY12
- Margin improved sequentially to 15% (v/s 9% in 2QFY13) due to better capacity utilization.
- Capacity utilization at Schneider plant is recovering. New capex for other potential synergistic clients may be deferred due to delay in expansion plans. While growth expectations in domestic composites is largely volume driven, export revenue driven by outsourcing of parts may steer margin recovery.

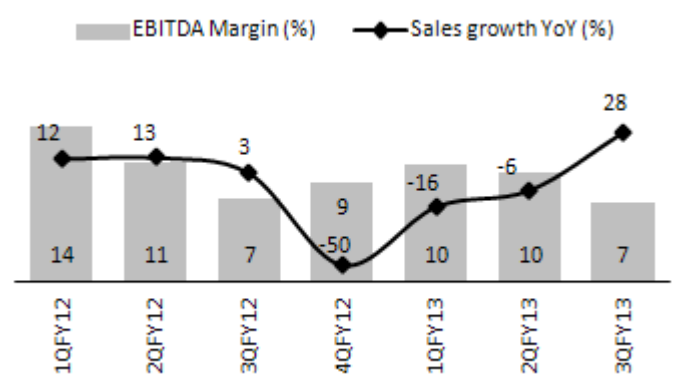
**Overseas business sees sharp growth after 3 quarters of de-growth, but margin dents**

- Following 3 quarters of de-growth, Overseas composites revenue grew 28% YoY to INR3.7b (v/s est INR2.8b), led by improvement in Electrical segment.
- However margin deteriorated to ~7% (v/s 9.5% in 2QFY13) due to demand-mix being skewed towards lower end products.
- Management expects better outlook for its European subsidiary hereon, along with margin expansion led by benefits of synergy.

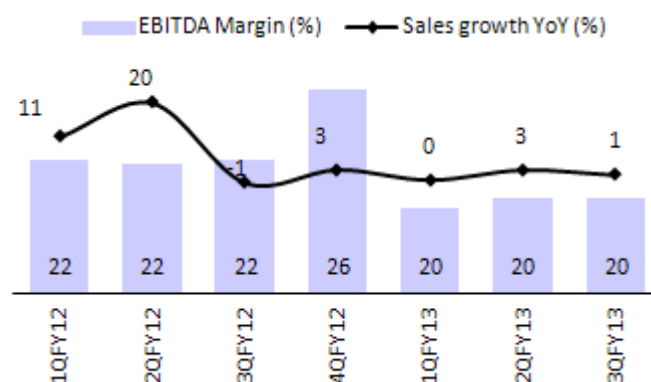
**Domestic composites: In line revenue growth**



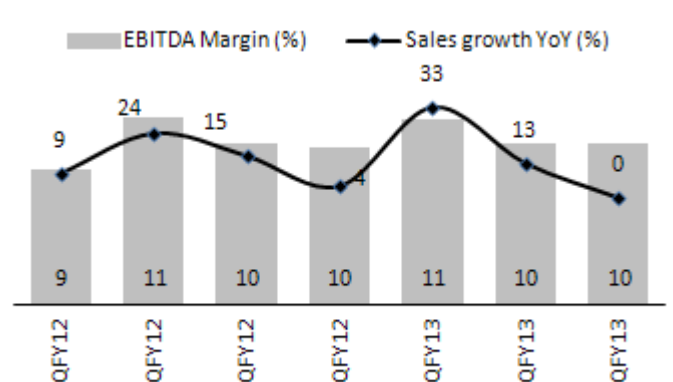
**Foreign composites: Strong growth led by improving outlook**



**Textile: Sequentially stable quarter**



**Tank: Flattish quarter**



Source: Company, MOSL

**Valuation and view: 5-6% PAT upgrade; Buy with target price of INR94**

- Challenging macro and government inaction, so far, have been the key headwinds for overseas composite and monolithic business - where the company is witnessing traction. Healthy revenue growth in both the segments in 3QFY13 has been encouraging.
- Successful QIP/ FCCB raising, limited capex and improving business outlook should improve the balance sheet strength going forward.
- We have upgraded FY13/14E revenue by 7% and adjusted PAT by 5-6% to factor in higher revenue from monolithic, prefab and overseas composites.
- The stock trades at 5.1x FY14E and 4.4x FY15E EPS. We value Sintex at INR94 per share based on 7x FY14E EPS. Maintain **Buy**.

## Sintex Industries: an investment profile

### Company description

Sintex Industries (SINT) is one of the most integrated plastics processors in India. The key areas of operation are Building materials (Prefab and monolithic construction), custom moldings, storage products and textiles. Building Materials business caters to two kinds of low-cost construction opportunities - (1) Housing, via monolithic construction, and (2) Non-housing, via prefab structures (rural classrooms and healthcare clinics, sanitation, army barracks, worker shelters, etc). The company will continue to benefit from the rising trend of "plasticization", i.e. substitution of metals by plastic composites across industries, mainly autos, electrical, aerospace, and healthcare, defense, etc.

### Key investment arguments

- We believe Sintex's long-term growth story is broadly intact.
- Building materials offers secular play on government's spending on low cost housing and social infrastructure e.g. slum rehabilitation is an INR4.5t opportunity.
- Composites would enjoy synergies with overseas subsidiaries and continuous innovations to drive next phase of profitable growth.

### Recent developments

- The company managed to cut down the number of slow moving sites to 4 during 3QFY13 v/s 5 in 2QFY13, and targets to reduce it to 3 sites by 4QFY13.
- The management has guided for redemption of old FCCBs by Mar-13. It targets to reduce net debt by ~INR3b in FY13 and augment RoCE by 3pp over next couple of years.

### Valuation and view

- Challenging macro and government inaction, so far, have been the key headwinds for overseas composite and monolithic business - where the company is witnessing traction. Healthy revenue growth in both the segments in 3QFY13 has been encouraging.
- Successful QIP/ FCCB raising, limited capex and improving business outlook should improve the balance sheet strength going forward.
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### EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	11.4	11.7	-2.4
FY14	13.5	13.9	-3.0

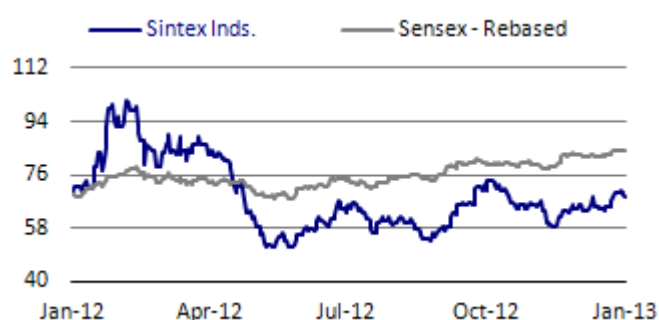
### Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
69	94	37	Buy

### Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	36.5	36.5	35.0
Domestic Inst	10.7	11.2	8.2
Foreign	22.9	21.9	38.6
Others	29.9	30.5	18.3

### Stock performance (1 year)



## Financials and Valuations

Income Statement		(INR Million)				
Y/E March	2011	2012	2013E	2014E	2015E	
<b>Operating income</b>	<b>44,837</b>	<b>44,535</b>	<b>49,920</b>	<b>56,288</b>	<b>63,725</b>	
Change (%)	35.1	-0.7	12.1	12.8	4.5	
<b>EBITDA</b>	<b>8,155</b>	<b>7,177</b>	<b>7,922</b>	<b>9,163</b>	<b>10,816</b>	
EBITDA Margin (%)	18.2	16.1	15.9	16.3	17.0	
Change (%)	51.6	-12.0	10.4	15.7	9.0	
Depreciation	1,491	1,678	1,948	2,063	2,215	
<b>EBIT</b>	<b>6,664</b>	<b>5,499</b>	<b>5,974</b>	<b>7,100</b>	<b>8,600</b>	
Interest	1,089	1,358	1,381	1,423	1,423	
Other income	455	505	239	280	366	
Extraordinary items	62	-466	-787	28	28	
<b>PBT</b>	<b>6,092</b>	<b>4,179</b>	<b>4,045</b>	<b>5,984</b>	<b>7,572</b>	
Tax	1,508	1,160	1,256	1,549	1,961	
Tax / PBT (%)	24.8	25.0	26.0	26.0	26.0	
<b>PAT before MI</b>	<b>4,584</b>	<b>3,019</b>	<b>2,789</b>	<b>4,436</b>	<b>5,610</b>	
PAT margin (%)	10.2	6.8	5.6	7.9	8.8	
Change (%)	38.4	-34.1	-7.6	59.0	16.8	
MI + Share of profit/loss	-16	49	30	30	30	
<b>Consolidated PAT</b>	<b>4,600</b>	<b>2,970</b>	<b>2,759</b>	<b>4,406</b>	<b>5,580</b>	
<b>Adj. Con. PAT</b>	<b>4,553</b>	<b>3,535</b>	<b>3,546</b>	<b>4,378</b>	<b>5,552</b>	
Change (%)	57.2	-22.4	0.3	23.5	17.1	

Balance Sheet		(INR Million) Million				
Y/E March	2011	2012	2013E	2014E	2015E	
Equity share capital	271	271	312	325	325	
Reserves	23,745	26,212	31,266	35,736	40,641	
<b>Networth</b>	<b>24,016</b>	<b>26,483</b>	<b>31,845</b>	<b>36,106</b>	<b>41,011</b>	
Minority Interest	0	0	30	60	90	
Total Debt	27,736	30,913	27,600	27,600	27,600	
Net deferred tax	2,057	2,381	2,090	2,090	2,091	
<b>Capital employed</b>	<b>53,808</b>	<b>59,778</b>	<b>61,565</b>	<b>65,855</b>	<b>70,791</b>	
<b>Gross fixed assets</b>	<b>33,276</b>	<b>37,266</b>	<b>41,022</b>	<b>42,675</b>	<b>45,078</b>	
Less: Acc. Deprn.	9,156	10,863	12,811	14,874	17,090	
Net fixed assets	24,120	26,403	28,211	27,800	27,988	
Goodwill	2,190	2,179	2,179	2,179	2,179	
Capital WIP	714	2,531	0	0	0	
Investments	3,775	1,423	1,423	1,423	1,423	
<b>Curr. assets</b>	<b>33,655</b>	<b>37,350</b>	<b>39,635</b>	<b>45,417</b>	<b>51,990</b>	
Inventory	3,770	3,955	4,393	4,955	5,319	
Debtors	14,278	16,983	18,190	19,739	22,173	
Cash & Bank	9,861	7,206	7,204	9,928	12,976	
Loans, Adv. & Others	5,746	9,206	9,847	10,795	11,523	
<b>Current liab. &amp; prov.</b>	<b>10,647</b>	<b>10,108</b>	<b>9,882</b>	<b>10,965</b>	<b>12,789</b>	
Creditors	6,522	6,514	6,674	7,747	9,567	
Other Liabilities	499	0	0	0	0	
Provisions	3,626	3,594	3,208	3,218	3,222	
<b>Net current assets</b>	<b>23,009</b>	<b>27,242</b>	<b>29,752</b>	<b>34,453</b>	<b>39,201</b>	
<b>Total Assets</b>	<b>53,809</b>	<b>59,778</b>	<b>61,565</b>	<b>65,855</b>	<b>70,791</b>	

E: MOSL Estimates

Ratios						
Y/E March	2011	2012	2013E	2014E	2015E	
<b>Basic (INR)</b>						
<b>EPS</b>	<b>16.8</b>	<b>13.0</b>	<b>11.4</b>	<b>13.5</b>	<b>15.8</b>	
Growth (%)	57.2	-22.4	-12.9	18.6	17.1	
Cash EPS	22.5	17.5	15.0	19.9	22.1	
Book value	88.6	97.7	102.0	111.1	126.2	
Divd. Per Share	0.7	0.7	0.7	0.7	0.7	
Payout incl. Div. Tax (%)	4.5	6.7	8.6	5.6	4.5	
<b>Valuation (x)</b>						
<b>P/E</b>		<b>5.3</b>	<b>6.0</b>	<b>5.1</b>	<b>4.4</b>	
Cash P/E		3.9	4.6	3.5	3.1	
Price/Book value		0.7	0.7	0.6	0.5	
EV/Sales		0.9	0.8	0.7	0.6	
EV/EBITDA		5.7	5.1	4.2	3.3	
Dividend yield (%)		0.9	0.9	0.9	1.0	
<b>Profitability ratios (%)</b>						
Average RoE	20.9	14.0	12.2	12.9	13.3	
Average RoCE	14.6	11.0	10.6	12.0	12.5	
<b>Turnover ratios</b>						
Debtors (days sales)	116	139	133	128	127	
Creditor (days total exp)	70	64	58	60	66	
<b>Leverage ratio</b>						
Debt/Equity (x)	0.6	0.8	0.6	0.5	0.3	

Cash Flow Statement		(INR Million)				
Y/E March	2011	2012	2013E	2014E	2015E	
<b>PBT before EO items</b>	<b>6,046</b>	<b>4,596</b>	<b>4,802</b>	<b>5,926</b>	<b>7,514</b>	
Add : Depn. & Amort.	1,491	1,678	1,948	2,063	2,215	
Interest	1,089	1,358	1,381	1,423	1,423	
Less : Direct taxes	1,508	1,160	1,256	1,549	1,961	
(Inc)/Dec in WC	526	-6,888	-2,512	-1,977	-1,701	
<b>CF from operations</b>	<b>7,644</b>	<b>-415</b>	<b>4,362</b>	<b>5,887</b>	<b>7,490</b>	
Extraordinary items	62	-466	-787	28	28	
<b>CF from opn. incl. EO</b>	<b>7,706</b>	<b>-882</b>	<b>3,575</b>	<b>5,915</b>	<b>7,519</b>	
(Inc)/Dec in FA	-6,300	-5,766	-1,225	-1,653	-2,403	
(Pur)/Sale of invts.	-1,305	2,352	0	0	0	
<b>CF from invt. activity</b>	<b>-7,605</b>	<b>-3,414</b>	<b>-1,225</b>	<b>-1,653</b>	<b>-2,403</b>	
<b>FCF</b>	<b>101</b>	<b>-4,296</b>	<b>2,350</b>	<b>4,262</b>	<b>5,116</b>	
Inc/(Dec) in Net Worth	153	-297	2,840	101	-425	
Inc/(Dec) in Debt	1,432	3,178	-3,314	0	0	
Inc/(Dec) in Minority In	-190	0	30	30	30	
Inc/(Dec) in deferred ta	364	324	-292	0	1	
Less : Interest paid	1,089	1,358	1,381	1,423	1,423	
Divd & Divd Tax	206	205	237	246	250	
<b>CF from fin. activity</b>	<b>464</b>	<b>1,641</b>	<b>-2,352</b>	<b>-1,538</b>	<b>-2,066</b>	
<b>Inc/Dec in cash</b>	<b>566</b>	<b>-2,655</b>	<b>-2</b>	<b>2,724</b>	<b>3,050</b>	
Add: Beginning balance	9,295	9,861	7,206	7,204	9,928	
<b>Closing balance</b>	<b>9,861</b>	<b>7,206</b>	<b>7,204</b>	<b>9,928</b>	<b>12,978</b>	

E: MOSL Estimates

**N O T E S**

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