

Sintex Industries

BSE SENSEX	S&P CNX
20,498	6,074
Bloomberg	SINT IN
Equity Shares (m)	313.1
M.Cap. (INR b) / (USD b)	10.5/0.2
52-Week Range (INR)	64/17
1, 6, 12 Rel. Per (%)	1/40/-48

Financials & Valuation (INR Million)

Y/E MAR	2014E	2015E	2016E
Net Sales	52,917	57,226	65,035
EBITDA	8,608	9,582	11,456
Adj PAT	3,082	3,279	4,115
AdjEPS(INR)	9.5	10.1	12.7
Gr (%)	-28.5	6.4	25.5
BV/Share	106.7	116.4	128.5
RoE (%)	9.4	9.1	10.4
RoCE (%)	9.4	9.2	9.9
P/E (x)	3.5	3.3	2.6
P/BV (X)	0.3	0.3	0.3

CMP: INR33
TP: INR35
Neutral

■ Sintex Industries (SINT) posted 3QFY14 EBITDA (+17.6% YoY) marginally above estimates, driven by 2pp QoQ uptick in margins. Revenue was down 2.7% YoY to INR13.9b (v/s est. of INR14.8b), while EBITDA grew 17.6% YoY to INR2.4b (v/s est. of INR2.3b). Adjusted PAT stood at INR888m (v/s est. of INR991m), down 10% YoY due to higher tax outgo.

Prefab, Textile and Overseas business steady; domestic segments weaker

■ Prefab business' (23% sales mix) strong momentum continued, with sequential margin expansion of 3.7pp. Overseas composites (27% sales mix) have been posting a steady improvement, with better capacity utilization and higher contribution from value-added products. Textile business (11% sales mix) was positively impacted by better utilization and favorable currency movement.

■ Nonetheless, Monolithic vertical (14% sales mix) continues to post deterioration, with -42% YoY revenue de-growth. Domestic composites (20% sales mix) have been witnessing a drag from weaker momentum in automobiles.

Mobile shelter business divestment in offing; high capex remains a pressure point

■ SINT is planning to divest its telecom infrastructure subsidiary (Zep Infratech) by March 2014. It invested INR1.8b (investments and advances) in this subsidiary.

■ Capex on Gujarat textile plant is progressing on track. It has already acquired land for ~INR2.2b and plans to invest ~INR8-10b each in FY14/15.

■ Net debt was up INR4.5b QoQ (DER 1:1) and can increase further to 1.3x. Management is open to warrants or rights issue if funding requirement stretches the leverage further.

Revise rating to Neutral on valuation; improvement in political-economic scenario - key re-rating trigger: We value SINT at INR35/share (4.5x FY16E EV/EBITDA), which offers 6% upside. We revise the rating to Neutral based on at par valuation and possible weakening of balance sheet. Improvement in the overall political-economic scenario would be the key driver for resurrection in business and trigger for near term re-rating.

Quarterly Performance

Y/E March	(INR Million)											
	FY13				FY14				FY13	FY14E	FY14	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var (%)
Operating Income	10,806	11,985	14,272	14,013	11,281	13,649	13,884	14,103	51,079	52,917	14,795	-6
YoY Growth (%)	-2.8	3.6	22.9	36.9	4.4	13.9	-2.7	0.6	14.7	3.6	3.7	-174.2
EBITDA	1,776	1,828	2,198	1,890	1,609	2,121	2,447	2,431	7,695	8,608	2,309	6
EBITDA Margin (%)	16.4	15.3	15.4	13.5	14.3	15.5	17.6	17.2	15.1	16.3	15.7	12.2
YoY Growth (%)	-3.4	-13.6	9.6	-13.7	-13.2	1.8	14.4	27.9	7.2	11.9	1.9	645.4
Depreciation	483	505	520	546	564	572	595	720	2,054	2,451	556	7
Interest	354	361	312	436	434	476	441	479	1,462	1,831	467	-6
Other Income	42	64	36	456	87	5	2	26	596	120	71	-97
Extraordinary items	-289	-49	-450	-116	-37	-84	-41	2	-903	-160	-15	172
Profit before Tax	692	978	953	1,247	661	993	1,372	1,260	3,871	4,286	1,342	2
Tax Provisions	241	258	420	-250	201	269	535	328	669	1,334	376	42
Tax / PBT	25	25	30	-18	29	27	39	26	14.0	30.0	28	39
PAT before MI & Income from	451	721	533	1,497	460	724	836	932	3,202	2,952	967	-13
Min. Int. and Profit from A	17	3	3	13	6	5	11	8	0	30	9	19
Consolidated PAT	468	723	536	1,510	466	729	847	940	3,238	2,922	976	-13
Adj. Consolidated PAT	757	772	986	1,626	503	813	888	938	4,141	3,082	991	-10
YoY Growth (%)	-20.0	-21.6	43.2	79.0	-33.5	5.3	-10.0	-42.3	17.2	-25.6	0.4	-2,485.9

Sandipan Pal (Sandipan.Pal@MotilalOswal.com); +91 22 3982 5436

Investors are advised to refer through disclosures made at the end of the Research Report.

Sales Break-up (INR m)

Verticals	1QFY13	2QFY13	3QFY13	4QFY13	1QFY13	2QFY13	3QFY13	4QFY13E	FY13	FY14E
Textiles	1,096	1,169	1,154	1,300	1,108	1,306	1,516	1,356	4,720	5,286
Plastics	9,669	10,690	13,051	12,930	10,131	12,324	12,234	12,941	46,074	47,630
Building Materials	4,515	5,350	6,711	6,170	4,672	6,444	5,815	6,035	22,484	22,966
Prefab	1,724	2,310	2,776	2,940	2,048	3,031	3,215	3,406	9,750	11,700
Monolithic	2,151	2,420	3,335	2,380	1,869	2,663	1,950	1,938	10,024	8,420
Tanks	640	620	600	850	755	750	650	691	2,710	2,846
Composites	5,154	5,340	6,340	6,760	5,459	5,880	6,419	6,907	23,590	24,665
Domestic	2,239	2,440	2,643	3,300	1,872	2,351	2,690	3,029	10,622	9,942
Foreign	2,915	2,900	3,697	3,460	3,587	3,529	3,729	3,877	12,972	14,722
Total	10,806	11,859	14,205	14,230	11,281	13,649	13,750	14,298	51,079	52,917

Source: Company, MOSL

EBITDA marginally above est

- 3QFY14 revenue was down 2.7% YoY to INR13.9b (v/s est of INR14.8b), led by weaker than expected performances in monolithic and foreign composites.
- EBITDA grew 17.6% YoY to INR2.4b (v/s est of INR2.3b), with margin uptick of 2pp QoQ to 17.6% (v/s est of 15.7%). Sequential improvement in margin was driven by prefab and domestic composites.
- Adjusted PAT stood at INR888m (v/s est of INR991m), down 10% YoY due to higher tax outgo.

Momentum steady in Prefab, Textile and Overseas composites; Subdued trend in Monolithic continues

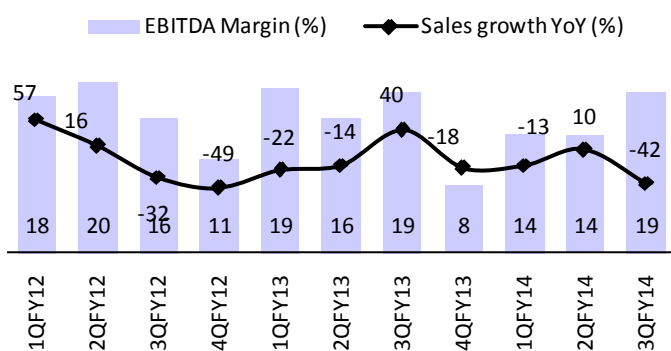
- **Prefab business (23% sales mix)** continues strong momentum with 16% YoY revenue growth with fresh order bagged from Rajasthan, Gujarat and Maharashtra. Margin improves 3.7pp QoQ to 26.7%. Declining in contribution from telecom shelter segment (lower margin business) has been a key to margin improvement, which is expected to aid margin stability at 23-34% for prefab business.
- **Monolithic business (14% sales mix)** continues to post deterioration (-42% YoY revenue de-growth with 19% margin) with management putting lesser focus to improve working capital. It has highlighted that outlook is likely to remain weak over near-term due to uncertain politico-economical environment and apathy among various state governments towards housing projects.
- **Overseas composites (27% sales mix)** has been posting a steady improvement with better capacity utilization and higher contribution from value added products. Recent acquisitions in Poschmann (Germany and Poland), have been witnessing steady stabilization. While the management earlier guided for Euro 20m/Euro 40m revenue in 2HFY14/15 from these assets, over 9MFY14, the plants are operating partially with Euro8-10m contribution (4% margin). It expects overseas margin to improve on the back of stabilization of these new acquisitions along with constant restructuring effort to improve utilizations and roll out value added products.
- **Domestic composites business (20% sales mix)** has been witnessing drag from weaker momentum in automobile. Therefore, efforts are being made towards diversifying from automotive to electrical and off the road vehicle segment.

- **Textile business (11% sales mix)** was positively impacted by better utilization overseas and favourable currency movement, leading to 31% YoY growth in revenue and strong margin of 23%.

Divesting mobile shelter business; High capex a pressure point

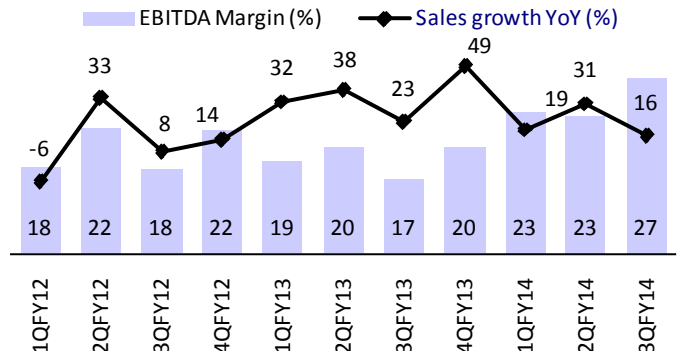
- SINT is planning to divest Zep Infratech, a subsidiary of the company, focusing on telecom shelter business, which has been contributing insignificantly recently. Management expects the divestment to conclude by March-2014. The company had invested INR1.8b (Investment and advances) in this subsidiary.
- Capex on Gujarat textile plant (1m spindles in 3 phases viz. 0.3m, 0.3m and 0.4m) is progressing on track. It has already acquired land with ~INR2.2b, and plans to invest ~INR8-10b each in FY14/15.
- The plan of textile capex is likely on the back of favourable state government policy and tax exemption. The capex would be largely debt funded (75%). It expects 19-20% RoIC, along with 28-29% EBITDA margin post stabilization. However, given the benefits to percolate in FY16, Balance sheet to get stretched meaningfully over next 12-18months.
- Net debt was up INR4.5b QoQ (DER 1:1), and can increase further to 1.3x. Management is open for warrant or rights issue if funding requirement stretches leverage further.

Monolithic: Strong de-growth



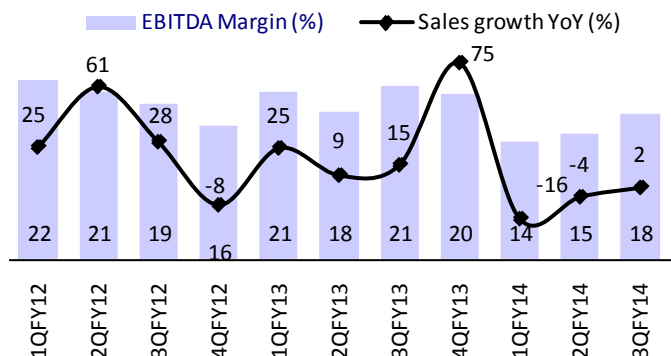
Source :Company, MOSL

Prefab: Robust growth continues



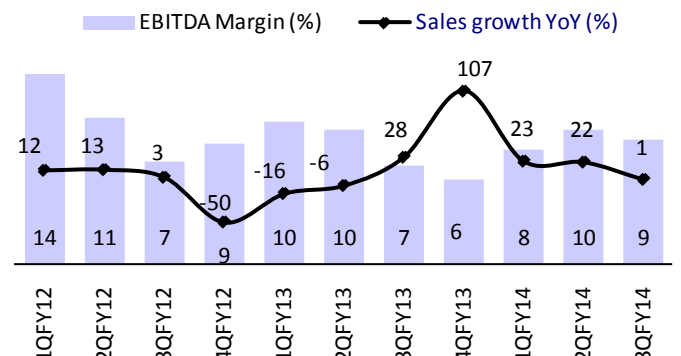
Source :Company, MOSL

Domestic composites: Auto led subdued de-growth

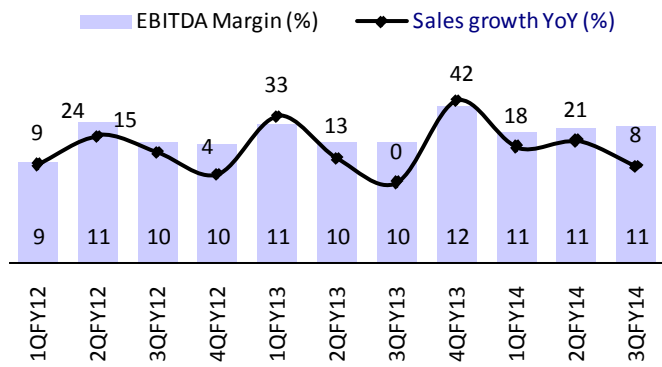


Source :Company, MOSL:

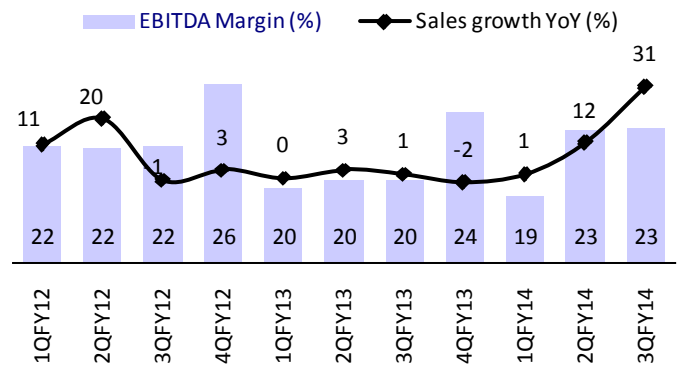
Foreign composites: Growth led by currency, better demand



Source :Company, MOSL

Trend in Tank business

Source :Company, MOSL

Textile: Currency benefits along with high overseas volume

Source :Company, MOSL

Revising reco to Neutral on valuation; improvement in politico-economical scenario remains key re-rating trigger

- Business outlook on two key segments viz. monolithic and domestic automobile (accounting 35% of sales) remains weak, albeit Prefab, Textile business, along with overseas composites have significantly offset for the same. We expect easing off uncertainty in case of a favorable election outcome could be a major trigger for the stock in terms improvement in outlook in these verticals.
- Balance sheet is expected to get worsen in immediate horizon with high capex, whose benefit would be visible only in FY16. Overhang on balance sheet may restrict immediate re-rating.
- We have downgraded our FY14-16E EPS by 6-8% to factor in for lower growth in monolithic, and higher interest cost and depreciation.
- We value SINT at INR35/share (4.5x FY16E EV/EBITDA), which offers 6% upside. We revise our rating to Neutral based valuation and possible weakening of balance sheet. Improvement in overall political-economic scenario would be the key driver for resurrection in business and trigger for near-term re-rating.

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

- SINT is planning to divest its telecom infrastructure subsidiary (Zep Infratech) by March-2014. It invested INR1.8b (Investments and advances) in this subsidiary.

Valuation and view

- We have downgraded our FY14-16E EPS by 6-8% to factor in for lower growth in monolithic, and higher interest cost and depreciation.
- We value SINT at INR35/share (4.5x FY16E EV/EBITDA), which offers 7% upside. We revise our rating to **Neutral** based valuation and possible weakening of balance sheet. Improvement in overall political-economic scenario would be the key driver for resurrection in business and trigger for near-term re-rating.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
33	35	6.1	Neutral

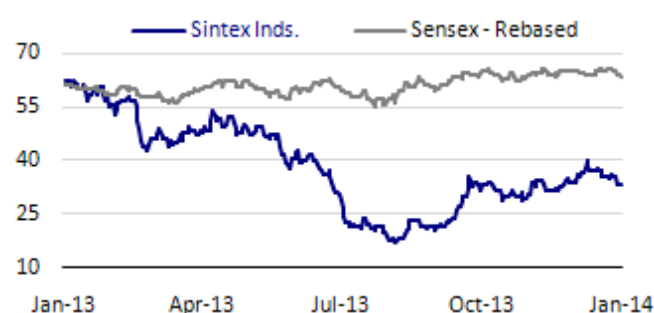
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY14	9.5	10.1	-5.6
FY15	10.1	11.4	-11.7

Shareholding pattern (%)

	Dec-13	Sep-13	Dec-12
Promoter	37.0	36.2	36.2
Domestic Inst	6.9	8.3	11.2
Foreign	11.5	13.5	23.5
Others	44.6	42.1	29.2

Stock performance (1-year)



Financials and valuation

Income statement		(INR Million)			
Y/E March	2013	2014E	2015E	2016E	
Net Sales	51,079	52,917	57,226	65,035	
Change (%)	14.7	3.6	8.1	13.6	
EBITDA	7,695	8,608	9,582	11,456	
EBITDA Margin (%)	15.1	16.3	16.7	17.6	
Depreciation	2,054	2,451	2,824	3,274	
EBIT	5,641	6,157	6,758	8,181	
Interest	1,462	1,831	2,181	2,575	
Other Income	596	120	150	150	
Extraordinary items	-903	-160	150	50	
PBT	3,871	4,286	4,877	5,807	
Tax	669	1,334	1,418	1,612	
Tax Rate (%)	17.3	31.1	29.1	27.8	
Reported PAT	3,202	2,952	3,459	4,195	
Adjusted PAT	4,141	3,082	3,279	4,115	

Balance sheet		(INR Million)			
Y/E March	2013	2014E	2015E	2016E	
Share Capital	311	324	324	324	
Reserves	30,939	34,246	37,410	41,310	
Net Worth	31,250	34,570	37,734	41,634	
Debt	32,278	35,224	42,224	47,224	
Deferred Tax	2,878	2,041	2,041	2,041	
Total Capital Employed	66,406	71,865	82,059	90,989	
Gross Fixed Assets	42,326	53,246	61,746	72,746	
Less: Acc Depreciation	13,332	15,782	18,607	21,881	
Net Fixed Assets	28,995	37,464	43,139	50,865	
Capital WIP	4,420	4,500	8,000	3,000	
Investments	1,303	1,303	1,303	1,303	
Current Assets	39,918	39,631	41,138	47,910	
Inventory	4,531	6,510	6,326	5,742	
Debtors	18,558	19,137	20,382	23,341	
Cash & Bank	4,641	937	633	3,325	
Loans & Adv, Others	12,188	13,048	13,797	15,501	
Curr Liabs & Provns	10,387	13,191	13,679	14,246	
Curr. Liabilities	9,103	9,954	10,443	11,009	
Provisions	1,284	3,236	3,236	3,236	
Net Current Assets	29,531	26,441	27,459	33,664	
Total Assets	66,406	71,865	82,059	90,989	

E: MOSL Estimates

Ratios					
Y/E March	2013	2014E	2015E	2016E	
Basic (INR)					
EPS	13.3	9.5	10.1	12.7	
Cash EPS	17.0	16.5	19.2	22.9	
Book Value	100.4	106.7	116.4	128.5	
DPS	0.7	0.7	0.7	0.7	
Payout (incl. Div. Tax.)	7.8	9.1	7.7	7.0	
Valuation(x)					
P/E	2.5	3.5	3.3	2.6	
Cash P/E	2.0	2.0	1.7	1.5	
Price / Book Value	0.3	0.3	0.3	0.3	
EV/Sales	0.7	0.8	0.9	0.8	
EV/EBITDA	4.8	5.1	5.3	4.7	
Dividend Yield (%)	2.1	2.1	2.1	2.1	
Profitability Ratios (%)					
RoE	14.3	9.4	9.1	10.4	
RoCE	10.3	9.4	9.2	9.9	
Turnover Ratios (%)					
Asset Turnover (x)	0.8	0.8	0.7	0.8	
Debtors (No. of Days)	132.6	132.0	130.0	131.0	
Inventory (No. of Days)	32.4	44.9	40.3	32.2	
Creditors (No. of Days)	76.6	82.0	80.0	75.0	
Leverage Ratios (%)					
Net Debt/Equity (x)	0.8	1.0	1.1	1.0	

Cash flow statement		(INR Million)			
Y/E March	2013	2014E	2015E	2016E	
OP/(Loss) before Tax	4,738	4,416	4,697	5,727	
Depreciation	2,054	2,451	2,824	3,274	
Others	0	0	0	0	
Interest	1,462	1,831	2,181	2,575	
Direct Taxes Paid	-669	-1,334	-1,418	-1,612	
(Inc)/Dec in Wkg Cap	-4,855	-613	-1,322	-3,513	
CF from Op. Activity	1,827	6,591	7,112	6,501	
(Inc)/Dec in FA & CWIP	-6,513	-11,000	-12,000	-6,000	
(Pur)/Sale of Invnt	120	0	0	0	
Others	0	0	0	0	
CF from Inv. Activity	-6,393	-11,000	-12,000	-6,000	
Inc/(Dec) in Net Worth	1,855	662	0	0	
Inc / (Dec) in Debt	1,365	2,946	7,000	5,000	
Interest Paid	-1,462	-1,831	-2,181	-2,575	
Divd Paid (incl Tax)	-254	-265	-265	-265	
CF from Fin. Activity	2,000	705	4,584	2,191	
Inc/(Dec) in Cash	-2,565	-3,704	-304	2,692	
Add: Opening Balance	7,206	4,641	937	633	
Closing Balance	4,641	937	633	3,325	

NOTES

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	SINTEX INDUSTRIES LTD
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Anosh Koppikar

Email: anosh.koppikar@motilaloswal.com

Contact: (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran

Email : kadambari.balachandran@motilaloswal.com

Contact: (+65) 68189233 / 65249115



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com