

Sintex Industries

BSE Sensex 25,584
S&P CNX 7,656

CMP: INR101

TP: INR127

Buy



Stock Info

Bloomberg	SINT IN
Equity Shares (m)	313.1
52-Week Range (INR)	107/17
1, 6, 12 Rel. Per (%)	87/197/80
M.Cap. (INR b)	31.5
M.Cap. (USD b)	0.5

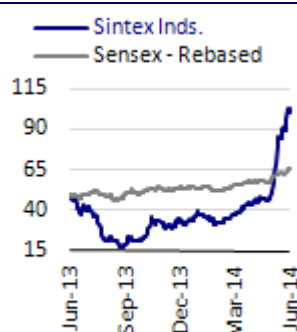
Financial Snapshot (INR Million)

Y/E March	2015E	2016E	2017E
Net Sales	68,387	80,349	93,461
EBITDA	11,281	14,973	18,334
Adj PAT	4,614	5,782	7,773
EPS (INR)	12.8	17.2	21.8
Growth (%)	4.5	34.8	26.3
BV/Share	123.3	140.1	162.8
RoE (%)	11.1	13.1	14.4
RoCE (%)	10.2	11.9	13.0
P/E (x)	7.9	5.8	4.6
P/BV (x)	0.8	0.7	0.6

Shareholding pattern (%)

As on	Mar-14	Dec-13	Mar-13
Promoter	41.0	37.0	36.2
Dom. Inst	7.0	6.9	12.1
Foreign	9.5	11.5	23.9
Others	42.5	44.6	27.9

Stock Performance (1-year)



Raising estimates post management interaction

Expect 27% PAT CAGR over FY14-17; maintain Buy

- Post our interaction with the management of Sintex Industries (SINT), we are raising our FY15/16E EBITDA by 6-9%. Given the high operative leverage, our EPS estimates increase 21% for FY15 and 26% for FY16. Earnings CAGR over FY14-17 would be 27%.
- The earnings revision is driven by expectation of (1) higher growth and margins in domestic custom molding, and (2) higher PBT contribution from new spinning project from FY16.
- We value SINT at INR150/share (EV of 6.5x FY16E EBITDA); adjusting for potential dilution of ~27%, we set our target price at INR127/share – 26% upside.

Prefabs: Growth to sustain on rising social spending, new products

- Rise in social spending, along with immense opportunities in the B2B (CSR, retail orders) and B2G segments (sanitation, education, healthcare, warehousing, cold storage, and defense), offers meaningful growth opportunity.
- Pan India presence, with strategic plant locations, tie-ups with various state governments, and strong distribution networks gives SINT the ability to effectively tap this opportunity. Prevailing growth would also necessitate gradual increase in capacities.
- Innovative offerings in biogas, sewage treatment, etc, should add revenue streams. We expect 20% revenue CAGR to sustain over FY14-17, with 24-25% margins.

Monolithic segment: Expect better visibility in 2HFY15

- Focus remains on managing working capital strength, with selective execution of projects having lower receivables and lesser approval uncertainties.
- Working capital days of 123 (v/s ~200 at peak) are within the comfort zone, and offer revenue visibility of INR7b-7.5b on the back of ~INR10b order book.
- While the management is optimistic on unshackling of the decision making system and gradual unleashing of opportunities in the monolithic vertical, further clarity should emerge over the next few quarters, as the government shares its priorities.
- EPC contracts (INR13b order book from Shirpur Power Plant) would offer an additional revenue stream of INR8b-9b in FY15. However, visibility of additional order book in this segment is limited as on date.

Composites: Expect recovery

- Overseas business delivered stronger growth (16%) along with uptick in profitability during FY14 on the back of gradual ramp-up in operations in recently-acquired plants in Poland and Germany, and overall turnaround in demand in the EU market.
- Weak domestic automobile demand led to sharp de-growth in Bright Autoplast, which should now see a recovery to normalcy (15-20% growth) over FY15-16. Operating leverage is likely to drive up margins.
- While continued shift towards composites the across globe should propel demand, much of SINT's planned synergies between domestic and global operations – segmental diversification, cross-selling, outsourcing of low cost components, etc – should gain momentum, driving up profitability.

Spinning: New growth avenue with favorable dynamics

- SINT's Gujarat spinning project (0.3m spindles) is likely to start operations in phases from 4QFY15, with full commencement in October 2015.
- The management expects annualized revenue of ~INR18b (1x capex) from FY16, with margins of 27-30% and IRR of ~20%.
- ~70% of the production would be export-driven. Situated in India's largest cotton producing state and due to its proximity to Pipavav port, the plant would have the advantage of lower inward/outward lead distances and freight cost.
- Additionally, Gujarat state policy renders benefits of lower interest cost on capex (adjusted for 7% state subsidy, net interest cost reduces to 2-3%), and power subsidy, which make overall profitability healthier.
- We factor in INR12.6b/INR17b revenue (25%/28% margins) in FY16/17 from the spinning project.

Leverage hinges on operational recovery; FCCB dilution a concern

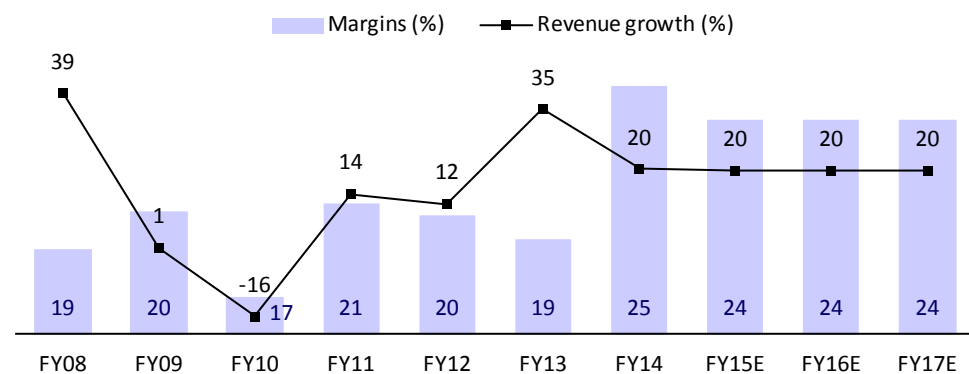
- SINT would be investing a further INR10b in the spinning project in FY15. In addition, it would have annual capex of INR5b-6b in FY16 and FY17 – INR1b-1.5b maintenance capex and balance towards composites/prefab capacity enhancement to support stronger growth expected in these segments.
- We expect debt to peak at INR50b in FY15 (1.25x), the management's guided level of maximum comfortable gearing level.
- USD140m FCCB raised in FY13 has recently seen reset of conversion price of INR65.74/share (v/s raising price of INR75.6/share), aiding high probability of conversion and potential equity dilution of ~27%.

Raising estimates, setting target price at INR127; Buy

- We are raising our FY15/16E EBITDA by 6-9%. Given the high operative leverage, our EPS estimates increase 21% for FY15 and 26% for FY16. Earnings CAGR over FY14-17 would be 27%.
- The earnings revision is driven by expectation of (1) higher growth and margins in domestic custom molding (9% revenue CAGR over FY14-17 v/s 6% earlier), and (2) PBT contribution from new spinning project from FY16.
- The stock trades at 5.9/4.7x FY16/17E EPS, 0.7/0.6x FY16/17E BV, and at an EV of 54x/4.2x FY16/17E EBITDA. We value SINT at INR150/share (EV of 6.5x FY16E EBITDA); adjusting for potential dilution of ~27%, we set our target price at INR127/share (upside of 26%).

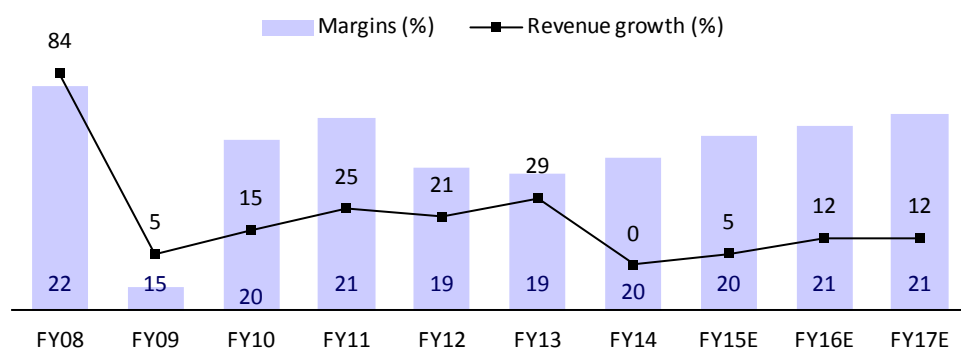
Rise in social spending, along with immense opportunities in B2B and B2G segments offer meaningful growth avenue and further rise in utilization from 75%

Prefab business posted robust growth and margin expansion, momentum should continue



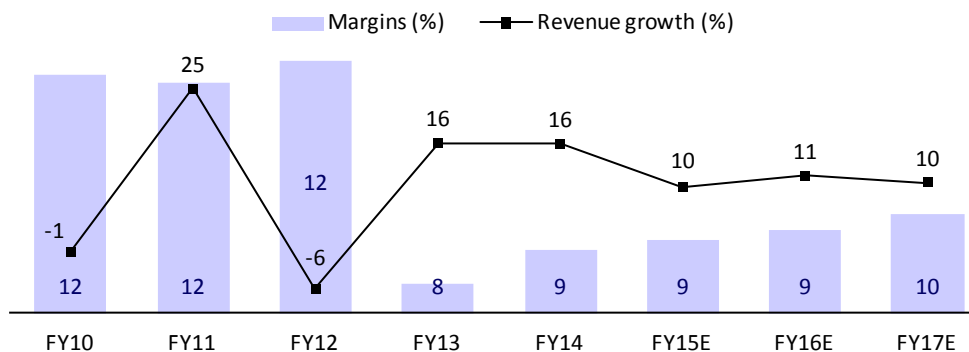
India operations of custom molding to see recovery to normalcy in OEM (Bright business), coupled with steady growth in electrical business

Gradual return of growth in domestic composites



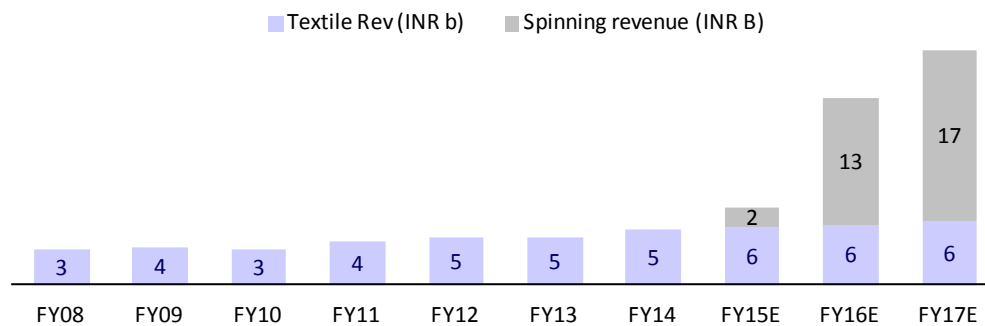
Improving macro in US and EU to drive overseas composites where many of its planned synergies on product and client side should start playing out

Overseas composites to improve on margins led by steady ramp-up and synergy benefits



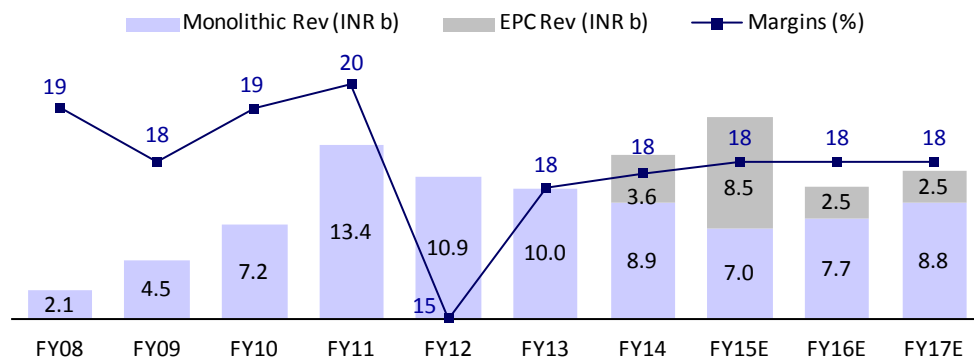
New spinning project to drive additional revenue sources along with strong margins/IRR and low interest cost benefits

New spinning project offers strong source of revenues



Amidst optimism on new government's growth policy, management keeps guidance on monolithic business conservative

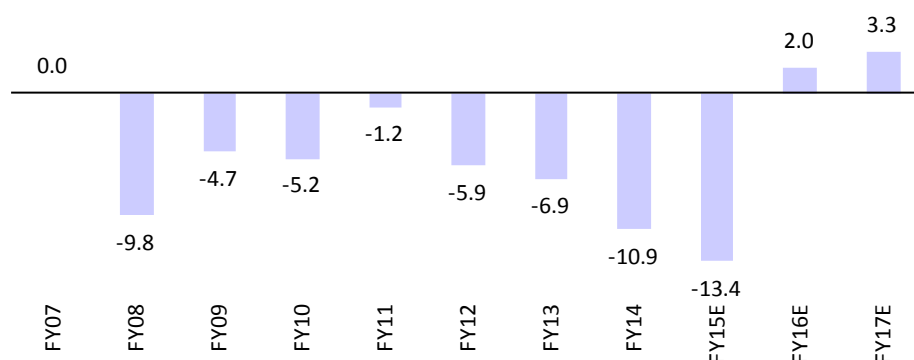
Monolithic revenue to remain subdued, EPC revenue to offset in FY15



Source: Company, MOSL

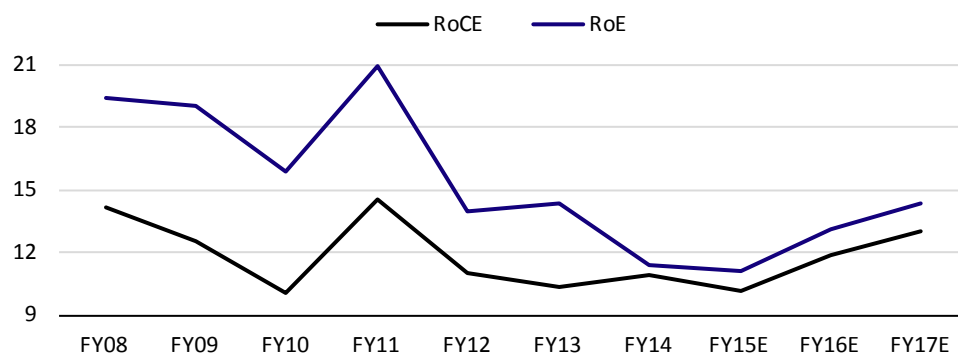
Capex on spinning project to keep leverage high and FCFE negative till FY15, post with capex to moderate with only incremental annual spending of INR5-6b towards Prefab, and Composites

Positive FCFE FY16 onwards with moderation of capex and capacity consolidation (INR b)



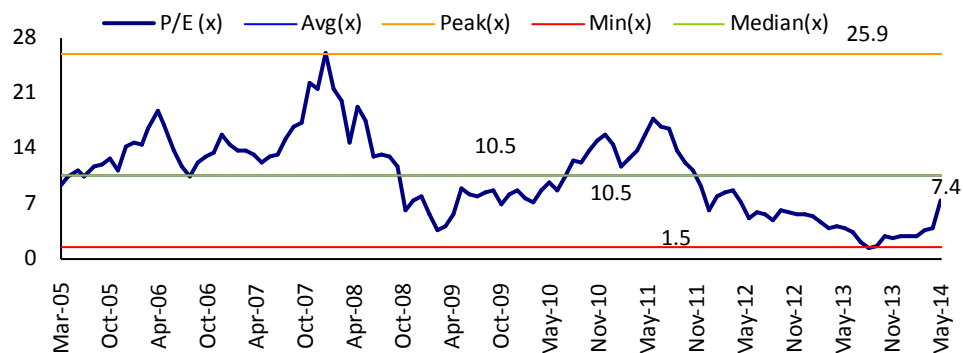
Stronger revenue growth, margin expansion and better working capital movement to improve operating leverage and return ratios

27% earnings CAGR to drive capital efficiencies (%)



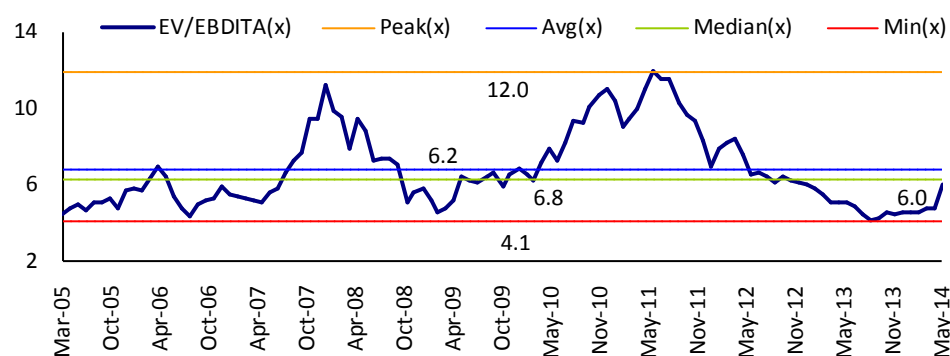
Despite recent run-up in stock price, we see the stock trading at 5.9/4.7x FY16/17E EPS, 0.7/0.6x FY16/17E BV and 5.4x/4.2x FY16/17 EV/EBITDA, which are below historical average valuation

Trading at sub-median P/E (x)...

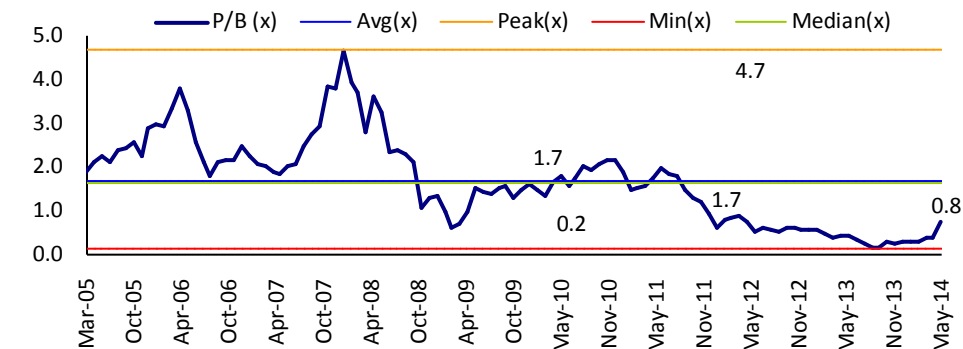


We value SINT at 6.5x (LT-average) FY16E EV/EBITDA at INR150/share, while adjusting for potential dilution of ~27%, we set target price at INR127/share (upside of 24%)

...EV/EBITDA, and...



...much lower valuation on P/B



Financials and valuation

Income statement (INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
Net Sales	44,535	51,079	58,645	68,387	80,349	93,461
Change (%)	-0.7	14.7	14.8	16.6	17.5	16.3
EBITDA	7,177	7,695	9,642	11,281	14,973	18,334
EBITDA Margin (%)	16.1	15.1	16.4	16.5	18.6	19.6
Depreciation	1,678	2,054	2,548	3,088	3,937	4,415
EBIT	5,499	5,641	7,094	8,193	11,037	13,919
Interest	1,358	1,726	2,894	2,995	3,299	3,400
Other Income	505	860	774	400	350	550
Extraordinary items	-466	-903	-161	400	100	0
PBT	4,179	3,871	4,814	5,998	8,188	11,068
Tax	1,160	669	1,180	1,400	2,426	3,321
Tax Rate (%)	27.7	17.3	24.5	23.3	29.6	30.0
Reported PAT	3,019	3,202	3,634	4,599	5,762	7,748
Adjusted PAT	3,535	4,141	3,808	4,214	5,682	7,773
Change (%)	-22.4	17.2	-8.1	10.7	34.8	36.8
Min. Int. & Assoc. Share	-49	-36	13	15	20	25
Adj Cons PAT	2,921	3,130	3,660	4,629	5,802	7,798

Balance sheet (INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
Share Capital	271	311	311	329	329	329
Reserves	26,212	30,939	35,127	40,304	45,817	53,321
Net Worth	26,483	31,250	35,438	40,634	46,146	53,650
Debt	30,913	37,139	40,630	52,576	52,576	52,576
Deferred Tax	2,381	2,878	3,289	3,289	3,289	3,289
Total Capital Employed	59,778	71,267	79,358	96,499	102,011	109,515
Gross Fixed Assets	37,266	42,326	50,323	68,323	73,823	80,323
Less: Acc Depreciation	10,863	13,332	15,879	18,967	22,903	27,318
Net Fixed Assets	26,403	28,995	34,444	49,356	50,920	53,005
Capital WIP	2,531	3,597	9,000	3,000	3,000	3,000
Investments	1,423	1,303	3,058	1,058	1,058	1,058
Current Assets	37,350	45,003	48,559	55,487	62,407	71,428
Inventory	3,955	4,531	4,511	5,213	5,428	5,563
Debtors	16,983	18,596	22,230	24,732	27,517	31,495
Cash & Bank	7,206	8,902	2,720	2,122	4,146	7,484
Loans & Adv, Others	9,206	12,974	19,099	23,420	25,316	26,886
Curr Liabs & Provns	10,108	9,787	11,528	14,268	17,238	20,840
Curr. Liabilities	6,514	8,504	10,005	12,516	15,224	18,525
Provisions	3,594	1,284	1,523	1,751	2,014	2,316
Net Current Assets	27,242	35,216	37,031	41,219	45,169	50,588
Total Assets	59,778	71,268	85,398	96,499	102,011	109,515

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
EPS	13.0	13.3	12.2	12.8	17.2	21.8
Cash EPS	17.5	17.0	19.9	23.4	29.5	34.1
Book Value	97.7	100.4	113.9	123.3	140.1	162.8
DPS	0.7	0.7	0.7	0.7	0.7	0.7
Payout (incl. Div. Tax.)	6.7	7.8	7.0	5.8	7.0	7.0
Valuation(x)						
P/E	7.7	7.6	8.2	7.9	5.8	4.6
Cash P/E	5.7	5.9	5.1	4.3	3.4	2.9
Price / Book Value	1.0	1.0	0.9	0.8	0.7	0.6
EV/Sales	1.1	1.1	1.1	1.2	1.0	0.8
EV/EBITDA	6.9	7.6	6.9	7.3	5.4	4.2
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7	0.7
Profitability Ratios (%)						
RoE	14.0	14.3	11.4	11.1	13.1	14.4
RoCE	11.0	10.3	10.9	10.2	11.9	13.0
Turnover Ratios (%)						
Asset Turnover (x)	0.8	0.8	0.7	0.8	0.8	0.9
Debtors (No. of Days)	139.2	132.9	138.4	132.0	125.0	123.0
Inventory (No. of Days)	32.4	32.4	28.1	27.8	24.7	21.7
Creditors (No. of Days)	63.6	71.5	74.5	80.0	85.0	90.0
Leverage Ratios (%)						
Net Debt/Equity (x)	0.8	0.9	1.0	1.2	1.0	0.8

Cash flow statement

(INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
OP/(Loss) before Tax	4,596	4,738	4,962	5,583	8,068	11,043
Depreciation	1,678	2,054	2,548	3,088	3,937	4,415
Others	0	0	0	0	0	0
Interest	1,358	1,726	2,894	2,995	3,299	3,400
Direct Taxes Paid	-1,160	-669	-1,180	-1,400	-2,426	-3,321
(Inc)/Dec in Wkg Cap	-6,888	-6,278	-7,997	-4,786	-1,925	-2,081
CF from Op. Activity	-882	668	1,065	5,880	11,052	13,457
(Inc)/Dec in FA & CWIP	-5,766	-5,690	-7,067	-18,041	-5,500	-6,500
(Pur)/Sale of Invt	2,352	120	-1,755	2,000	0	0
Others	0	0	0	0	0	0
CF from Inv. Activity	-3,414	-5,570	-8,822	-16,041	-5,500	-6,500
Inc/(Dec) in Net Worth	-297	1,855	821	881	40	50
Inc / (Dec) in Debt	3,178	6,226	3,492	11,946	0	0
Interest Paid	-1,358	-1,726	-2,894	-2,995	-3,299	-3,400
Divd Paid (incl Tax)	-205	-254	-254	-269	-269	-269
CF from Fin. Activity	1,641	6,597	1,576	9,562	-3,528	-3,619
Inc/(Dec) in Cash	-2,655	1,695	-6,181	-598	2,025	3,338
Add: Opening Balance	9,861	7,206	8,902	2,720	2,122	4,146
Closing Balance	7,206	8,901	2,721	2,122	4,146	7,484

E: MOSL Estimates

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