

# Sintex Industries

*Stellar quarter; capex intensity goes up*

**OUTPERFORMER**

8 May 2014

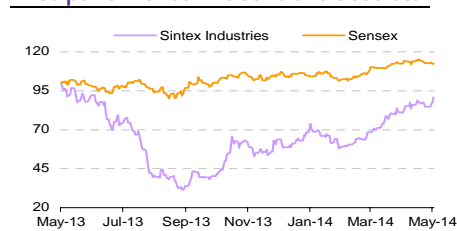
BSE Sensex: 22344

Sector: Others

## Stock data

CMP (Rs)	49
Mkt Cap (Rsbn/USDm)	15.3 / 255.0
<b>Target Price (Rs)</b>	<b>81</b>
Change in TP (%)	+4
<b>Potential from CMP (%)</b>	<b>+65</b>
<b>Earnings change (%)</b>	
FY14E	+5
FY15E	+5
Bloomberg code	SINT IN
1-yr high/low (Rs)	55/17
6-mth avg. daily volumes (m)	5.92
6-mth avg. daily traded value (Rsm/US\$m)	216.3 / 3.61
Shares outstanding (m)	311.2
Free float (%)	59.0
Promoter holding (%)	41.0

## Price performance – relative and absolute



(%)	3-mth	6-mth	1-yr
Sintex Industries	53.2	54.4	(7.2)
BSE Sensex	9.7	8.1	11.8

## Q4FY14 result highlights

- Consol revenues at Rs19.8bn came above, on better than expected revenues across segments. While monolithic and prefab reported a 13%/17% yoy growth at Rs2.7/3.4bn, overall custom molding revenues came at Rs7.9bn (+17% yoy). During the quarter, reported EPC revenues came at Rs3.3bn (FY14 at Rs7bn).
- Consolidated operating margins were up 40bps qoq to 18%, led by domestic custom molding – 26.1% (+826 bps qoq) and textiles – 30.1% (+710 bps qoq). Prefab margins improved 60bps qoq to 27.6%.
- Adj. PAT came above at Rs1.6bn (flat yoy), even as interest costs and depreciation expenses were up 140%/37% qoq.
- Reported net debt was up Rs5bn qoq to Rs37.3bn. Net working capital (NWC-ex cash) reduced by 10 days over Sep-13, to 138 days on lower inventories.
- Total FY14 capex spent came at Rs13.4bn (guidance of Rs11bn). FY15 capex earmarked at Rs12bn, of Rs9bn will be spent on greenfield spinning project.

**Key positives:** Higher revenue growth and margin improvement across business

**Key negatives:** Higher interest and depreciation expenses; upward revision in FY15 capex

**Impact on financials:** We revise our FY15/16 EPS to Rs13.5/16.9 from Rs12.9/16.1, on higher revenue growth.

## Valuations & view

A macroeconomic turnaround, improving trajectory of businesses linked to government spending and easing working capital cycle would drive a 20% earnings CAGR over FY14-16E. With better growth prospects and high visibility on RoE expansion ahead, we expect a re-rating in the stock. Reiterate Outperformer with a revised price target of Rs81.

## Key financials

(In Rs m)	Q4FY13	Q3FY14	Q4FY14	% ch qoq	% ch yoy	% var from est.
<b>Net Sales</b>	<b>14,013</b>	<b>13,884</b>	<b>19,831</b>	<b>42.8</b>	<b>41.5</b>	<b>34.3</b>
<b>EBITDA</b>	<b>1,890</b>	<b>2,447</b>	<b>3,574</b>	<b>46.1</b>	<b>89.1</b>	<b>46.8</b>
OPM (%)	13.5	17.6	18.0	40 bps	450 bps	130 bps
Other income	456	2	95	4,826.4	(79.1)	280.8
Interest	439	441	1,058	139.7	140.9	120.1
Depreciation	546	595	817	37.3	49.5	34.3
PBT	1,360	1,413	1,795	27.1	31.9	30.9
PAT	1,623	847	1,612	90.3	(0.7)	25.4
<b>Reported PAT</b>	<b>1,494</b>	<b>836</b>	<b>1,621</b>	<b>93.8</b>	<b>8.5</b>	<b>24.8</b>
EPS (Rs)	5.99	3.13	5.95	90.3	(0.7)	24.1

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## Quarterly results: Detailed

(in Rs m)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
<b>Total Net Sales</b>	<b>11,985</b>	<b>14,272</b>	<b>14,013</b>	<b>11,281</b>	<b>13,649</b>	<b>13,884</b>	<b>19,831</b>
% yoy growth	3.6	22.9	36.9	4.4	13.9	(2.7)	41.5
Total Expenditure	10,157	12,074	12,123	9,672	11,528	11,437	16,257
<b>Operating Profit</b>	<b>1,828</b>	<b>2,198</b>	<b>1,890</b>	<b>1,609</b>	<b>2,120</b>	<b>2,447</b>	<b>3,574</b>
% margin	15.3	15.4	13.5	14.3	15.5	17.6	18.0
Other Income	64	36	456	87	5	2	95
Interest	361	312	439	434	476	441	1,058
Depreciation	505	520	546	564	572	595	817
Operational PBT	1,027	1,403	1,360	698	1,077	1,413	1,795
Extra-ordinary items	(49)	(450)	(116)	(37)	(84)	(41)	1
<b>PBT</b>	<b>978</b>	<b>953</b>	<b>1,244</b>	<b>661</b>	<b>993</b>	<b>1,372</b>	<b>1,796</b>
Current tax	258	420	(250)	201	269	535	175
Deferred tax	-	-	-	-	-	-	-
<b>PAT</b>	<b>721</b>	<b>533</b>	<b>1,494</b>	<b>460</b>	<b>724</b>	<b>836</b>	<b>1,621</b>
Add: Minority Interest & share of profit from associates	3	3	13	6	5	11	(9)
Less: Extra-ordinary items	49	450	116	37	-	-	-
<b>Adjusted PAT</b>	<b>772</b>	<b>986</b>	<b>1,623</b>	<b>503</b>	<b>729</b>	<b>847</b>	<b>1,612</b>
% yoy growth	(21.6)	43.7	79.6	(33.5)	(5.5)	(14.1)	(0.7)

## Other highlights

- ♦ **Revenue growth:** Sintex expects an overall consolidated revenue growth of ~12-15% in FY15, against our estimates of 9%. We believe, a strong growth in pre-fab and overseas custom molding (led by recent acquisition) will more than offset near-term pressure at monolithic segment (led by continuing macro headwinds).
- ♦ Overall, We expect 11% revenue CAGR for Sintex over FY14-16E, led by increasing government focus on social spending, driving growth in prefab segment. In custom molding, a larger 'acquired' footprint in overseas markets and newer product offerings in India would be key growth drivers. Also, monolithic business should stabilise as Sintex looks to correct working capital cycle through a calibrated pace of execution
- ♦ Sintex expects its recent acquisition of Poschmann to turn around over the next 2-3 quarters. Increasing utilization at its facilities in Germany will result in revenues of ~EUR40m (from recent revenues of ~EUR15m), with operating margins of 8-9%. Our estimates do not factor any revenue from the same in FY15.
- ♦ **Capex:** Total FY14 capex spent came at Rs13.4bn (earlier guidance of Rs11bn), of which Rs8bn was spent on upcoming spinning project in Gujarat. The company has also earmarked a total capex of Rs12bn for FY15, of which maintenance capex would be ~Rs1bn. The balance capex of Rs11bn will be spent on spinning project (Rs9bn), prefab (Rs1.3bn) and overseas subsidiaries.
- ♦ **Balance sheet:** Total net debt as on Mar-14 stand at Rs37.3bn (up Rs5bn qoq). The sequential rise in debt is attributable to higher capex intensity. We believe total net debt would inch further to Rs40bn by Mar-15, before balance sheet deleveraging stats from FY16.

## Greenfield spinning project – next leg of growth

Sintex is aggressively pursuing the first phase of its 1m spindle project in Gujarat and expects to commence commercial production by H1FY16. Total capex for phase 1 stands at Rs18bn (300,000 spindles) and the project is likely to get commissioned in Oct-15. The company expects IRR of ~18% in the business, which is significantly higher than that of listed peers in the space. Sintex's optimism on the project stems from (a) substantial economies of scale, given its spindle size of 3,00,000 against an average size of 40,000 for the larger players (b) proximity to raw material sourcing, and (c) proximity from port (60km from Pipapav, Gujarat).

In addition, several tax sops and interest rebates which the project expects to receive from the state government should aid margin expansion. The said benefits include: (a) interest subsidy of 5% without a ceiling for the period of five years on new plant and machinery for ginning and processing, (b) interest subsidy of 7% on new plant and machinery for cotton and spinning, and (c) power tariff concession on new investment for cotton spinning at the rate of Re1 per unit for five years.

#### Segmental revenue break-up

Particulars (Rs m)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q-o-Q % grth	Y-o-Y % grth
<b>Textiles business</b>	<b>1,154</b>	<b>1,420</b>	<b>1,108</b>	<b>1,306</b>	<b>1,516</b>	<b>1,530</b>	<b>0.9</b>	<b>7.7</b>
<b>Building materials</b>	<b>6,731</b>	<b>6,154</b>	<b>4,677</b>	<b>6,414</b>	<b>5,815</b>	<b>10,440</b>	<b>79.5</b>	<b>69.6</b>
Monolithic	3,335	2,380	1,869	2,633	1,950	2,680	37.4	12.6
EPC						3,380	n.a	n.a
Prefabs	2,776	2,944	2,048	3,031	3,215	3,440	7.0	16.8
Water tanks	620	830	760	750	650	940	44.6	13.3
<b>Custom moulding business -Total</b>	<b>6,340</b>	<b>6,760</b>	<b>5,746</b>	<b>5,880</b>	<b>6,419</b>	<b>7,900</b>	<b>23.1</b>	<b>16.9</b>
Custom moulding - India	2,643	3,300	1,872	2,351	2,690	3,680	36.8	11.5
Custom moulding - Overseas	3,697	3,460	3,587	3,529	3,729	4,220	13.2	22.0
<b>Total Revenues</b>	<b>14,225</b>	<b>14,334</b>	<b>11,531</b>	<b>13,600</b>	<b>13,750</b>	<b>19,870</b>	<b>44.5</b>	<b>38.6</b>

Source: Company

### Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>45,717</b>	<b>51,076</b>	<b>58,645</b>	<b>64,035</b>	<b>67,539</b>
% growth	2.0	11.7	14.8	9.2	5.5
Operating expenses	38,550	43,384	49,003	52,878	54,942
<b>EBITDA</b>	<b>7,167</b>	<b>7,692</b>	<b>9,642</b>	<b>11,157</b>	<b>12,597</b>
% change	(12.1)	7.3	25.4	15.7	12.9
Other income	(91)	599	774	500	500
Net interest	(1,358)	(1,465)	(2,894)	(3,006)	(2,742)
Depreciation	1,678	2,054	2,548	2,805	3,016
Pre-tax profit	4,039	4,771	4,814	5,846	7,339
Current tax	1,160	669	1,180	1,462	1,835
<b>Profit after tax</b>	<b>2,879</b>	<b>4,102</b>	<b>3,634</b>	<b>4,385</b>	<b>5,504</b>
Minorities	49	36	36	36	36
Net profit after non-recurring items	2,928	4,138	3,670	4,421	5,540
% change	(36.3)	41.3	(11.3)	20.5	25.3

### Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14	FY15E	FY16E
Paid-up capital	271	311	311	328	328
Reserves & surplus	26,212	30,939	35,127	40,136	45,414
Total shareholders' equity	26,483	31,250	35,445	40,463	45,742
Total current liabilities	11,159	10,440	13,108	14,036	13,537
Total debt	29,547	30,541	38,193	47,693	43,693
Deferred tax liabilities	2,792	3,338	4,058	4,558	5,058
Other non-current liabilities	316	1,684	854	854	854
Total liabilities	43,813	46,003	56,213	67,142	63,143
<b>Total equity &amp; liabilities</b>	<b>70,296</b>	<b>77,253</b>	<b>91,659</b>	<b>107,605</b>	<b>108,884</b>
Net fixed assets	28,934	33,415	37,407	47,602	46,586
Investments	669	705	2,487	2,487	2,487
Total current assets	36,208	36,535	31,860	37,611	39,907
Deferred tax assets	410	459	769	769	769
Other non-current assets	4,075	6,139	19,136	19,136	19,136
Working capital	25,049	26,094	18,752	23,575	26,370
<b>Total assets</b>	<b>70,296</b>	<b>77,253</b>	<b>91,658</b>	<b>107,605</b>	<b>108,884</b>

### Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14	FY15E	FY16E
Pre-tax profit	4,039	4,771	4,814	5,846	7,339
Depreciation	1,678	2,054	2,548	2,805	3,016
Chg in Working capital	(5,335)	(5,852)	(7,895)	(638)	(1,343)
Total tax paid	(1,160)	(669)	(1,180)	(1,462)	(1,835)
Ext ord. Items & others	(1,497)	1,368	(829)	-	-
Operating cash Inflow	(2,274)	1,672	(2,543)	6,551	7,178
Capital expenditure	(5,768)	(6,514)	(6,247)	(13,000)	(2,000)
Free cash flow (a+b)	(8,042)	(4,842)	(8,790)	(6,449)	5,178
Chg in investments	(110)	(36)	(1,782)	-	-
Debt raised/(repaid)	3,122	994	7,653	9,500	(4,000)
Capital raised/(repaid)	-	40	-	16	0
Dividend (incl. tax)	(142)	(248)	(248)	(261)	(261)
Misc	54	1,371	1,219	1,379	536
<b>Net chg in cash</b>	<b>(5,117)</b>	<b>(2,720)</b>	<b>(1,948)</b>	<b>4,185</b>	<b>1,452</b>

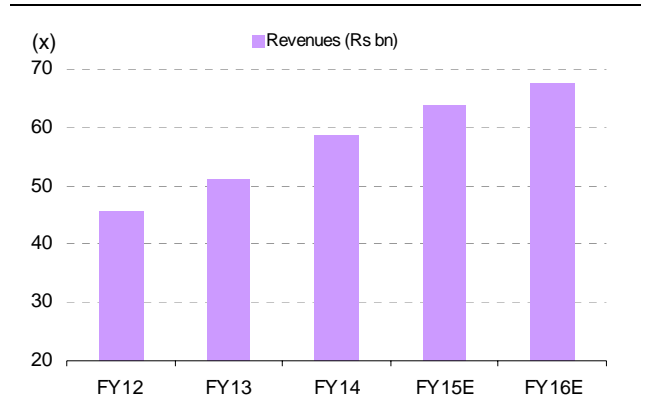
### Key valuation metrics

Year to 31 Mar	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	15.7	15.1	16.4	17.4	18.7
EBIT margin (%)	12.0	11.0	12.1	13.0	14.2
PAT margin (%)	6.4	8.1	6.3	6.9	8.2
RoE (%)	11.2	14.3	11.0	11.6	12.9
RoCE (%)	9.6	9.0	9.8	9.7	10.1
Gearing (x)	0.8	0.8	1.0	1.0	0.8

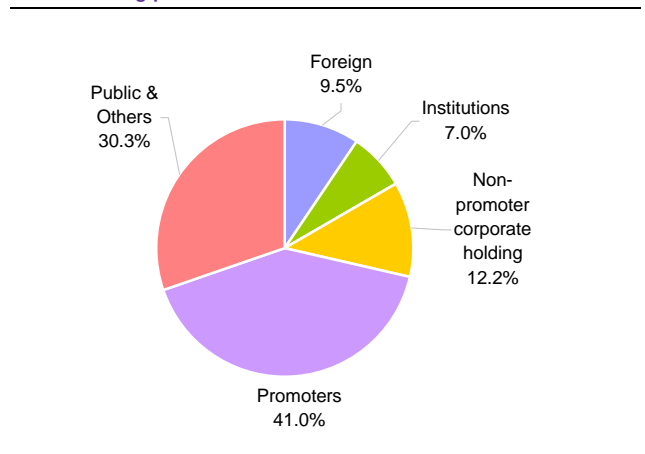
### Key valuation metrics

Year to 31 Mar	FY12	FY13	FY14	FY15E	FY16E
Reported EPS (Rs)	10.8	13.3	11.8	13.5	16.9
Adj. EPS (Rs)	10.8	13.3	11.8	13.5	16.9
PE (x)	4.5	3.7	4.2	3.6	2.9
Price/ Book (x)	0.5	0.5	0.4	0.4	0.4
EV/ Net sales (x)	0.8	0.8	0.9	0.9	0.8
EV/ EBITDA (x)	4.9	5.3	5.2	5.0	4.0
EV/ CE (x)	0.6	0.6	0.6	0.6	0.5

### We expect 8% revenue CAGR over FY14-16E



### Shareholding pattern



As of March 2014

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- Neutral : Within 0-5% (upside or downside) to Index
- Underperformer : Less than 5% to Index

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