

Sintex Industries

CMP: INR49
TP: INR61
Upgrade to Buy

BSE SENSEX	S&P CNX
22,344	6,660
Bloomberg	SINT IN
Equity Shares (m)	313.1
M.Cap. (INR b) / (USD b)	15.3/0.3
52-Week Range (INR)	55/17
1, 6, 12 Rel. Per (%)	12/46/-19

Financials & Valuation (INR Million)

Y/E Mar	2014	2015E	2016E
Net Sales	58,645	69,899	87,398
EBITDA	9,642	10,633	13,688
Adj PAT	3,647	3,538	4,351
EPS (INR)	12.2	10.5	13.3
Gr (%)	-8.1	-14.6	26.9
BV/Sh(INR)	113.9	121.5	134.1
RoE (%)	11.4	9.1	10.4
RoCE (%)	10.9	9.5	10.8
P/E (x)	3.9	4.5	3.6
P/BV (X)	0.4	0.4	0.4

- **4QFY14 recorded strong performances beat:** 4QFY14 revenue grew 42% YoY to INR19.8b (v/s est. of INR14b) led by (a) meaningful contribution from EPC segment (INR3.4b v/s insignificant in the past), (b) steady growth in prefab and (c) strong growth in composites business. EBITDA grew 34% YoY to INR3.6b (v/s est. of INR2.4b), albeit margin was stable QoQ at 18% (+0.4pp). Adjusted PAT stood at INR1.6b (v/s est. of INR938m), flat YoY (+62% QoQ), further boosted by lower tax.
- **EPC business' contribution a key surprise; margin uptick in prefab, textile; strong growth, margins in domestic composites were positive but momentary:** Strong momentum continues in prefab and textile business with better utilizations and margins uptick. Overseas composites recorded meaningful thrust from defense and aerospace. While monolithic remains moderate on growth, major surprise came from strong revenue in EPC business (expected to contribute ~INR7-8b of annualized revenue hereon). Domestic composites business is yet to witness on-ground demand recovery.
- **Spinning business to commence operations in 4QFY15:** Gujarat spinning project phase I (0.3m spindle) is likely to commence operations in 4QFY15, with annualized revenue of INR18-20b (1x capex) on stabilization, with EBITDA margin of 19-20%. Ongoing capex is expected to keep the increase in gearing further in FY15. FY14 net debt was up INR9.7b YoY to INR37.3b (DER 1.02x) and is likely to increase to INR50b in FY15 till the spinning project completes.
- **Raise FY15E/16E EBITDA estimates by 11%/15%; upgrade to Buy:** We raise the EBITDA estimates by 11%/15% in FY15E/16E to factor the (1) contribution from EPC business (INR7b of incremental revenue) and (2) revenue from spinning business from 4QFY15. It translates into ~5% upgrade in EPS (negated by depreciation and interest post commencement of spinning operations) and target price of INR61 (5x FY16E EV/EBITDA), which offers 25% upside. Upgrade to **Buy**.

Quarterly Performance

Y/E March	(INR Million)											
	FY13				FY14				FY13	FY14	FY14	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	Var (%)
Operating Income	10,806	11,985	14,272	14,013	11,281	13,649	13,884	19,831	51,079	58,645	14,103	41
YoY Growth (%)	-2.8	3.6	22.9	36.9	4.4	13.9	-2.7	41.5	14.7	14.8	0.6	6,380.5
EBITDA	1,776	1,828	2,198	1,890	1,609	2,121	2,447	3,574	7,695	9,642	2,431	47
EBITDA Margin (%)	16.4	15.3	15.4	13.5	14.3	15.5	17.6	18.0	15.1	16.4	17.2	4.5
YoY Growth (%)	-3.4	-13.6	9.6	-13.7	-13.2	1.8	14.4	33.6	7.2	25.3	27.9	20.8
Depreciation	483	505	520	546	564	572	595	817	2,054	2,548	720	13
Interest	354	361	312	436	434	476	774	1,058	1,726	2,894	479	121
Other Income	42	64	36	456	87	5	335	95	860	774	26	265
Extraordinary items	-289	-49	-450	-116	-37	-84	-41	1	-903	-161	2	-36
Profit before Tax	692	978	953	1,247	661	993	1,372	1,796	3,871	4,814	1,260	43
Tax Provisions	241	258	420	-250	201	269	535	175	669	1,180	328	-47
Tax / PBT	25	25	30	-18	29	27	39	10	14.0	23.7	26	-63
PAT before MI & Income from	451	721	533	1,497	460	724	836	1,621	3,202	3,634	932	74
Min. Int. and Profit from A	17	3	3	13	6	5	11	-9	0	13	8	-218
Consolidated PAT	468	723	536	1,510	466	729	847	1,612	3,238	3,647	940	72
Adj. Consolidated PAT	757	772	986	1,626	503	813	888	1,611	4,141	3,808	938	72
YoY Growth (%)	-20.0	-21.6	43.2	79.0	-33.5	5.3	-10.0	-0.9	17.2	-8.1	-42.3	-97.8

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

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4QFY14 recorded strong performances beat

- 4QFY14 revenue grew 42%YoY to INR19.8b (v/s est of INR14b), led by (a) meaningful contribution from EPC segment (INR3.4b v/s not significant in previous quarters), (b) steady growth in prefab and (c) strong growth in composites business.
- EBITDA grew 34% YoY to INR3.6b (v/s est of INR2.4b), albeit margin was largely stable QoQ at 18% (+0.4pp).
- Adjusted PAT stood at INR1.6b (v/s est of INR938m), flat YoY (+62% QoQ) further boosted by lower tax.

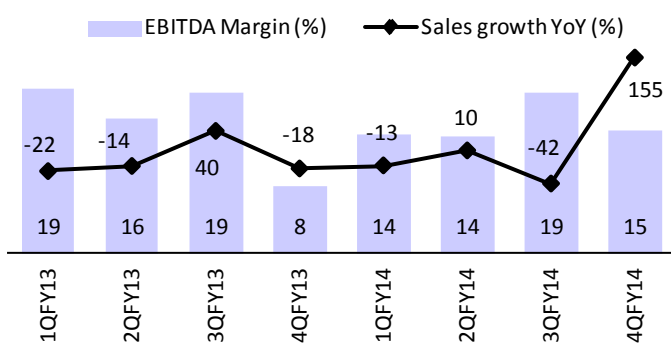
EPC business contribution key surprise; margin uptick in prefab, textile; strong growth, margins in domestic composites were positive, but momentary

- **Prefab business (20% sales mix)** continues strong momentum with 17% YoY revenue growth, while margin expanded to 27.6% (+1pp QoQ, +7.6pp YoY). Barring benefit of operating leverage due to higher utilization, margins were also improved due to lower contribution from telecom shelter segment. Contribution from new retail segment, sanitation drive and various innovative product launches led to consistent growth in this division. Management guided for 20-25% growth CAGR over FY15-16.
- **Monolithic business, along with EPC (21% sales mix)** posted strong surprise. While monolithic remains moderate (~12% YoY) on growth on the back of its conservative strategy, margin improves YoY/QoQ to 22.8%. Major surprise came from strong revenue from EPC business (part of Sintex Infra execution Shirpur Power project) accounting for INR3.4b revenue (margin at 8%). The segment is going to be a key hereon with INR1.5-2b of quarterly revenue from INR17b of order book. Stable politico-economical environment would be key to improvement in monolithic segment going forward. However conservative growth strategy has improved working capital cycle.
- **Overseas composites (26% sales mix)** posted 22% YoY growth along with 40bp QoQ margin expansion to 9.3%, on the back of healthy ramp up of aerospace and defense and electrical business. Strategy remains to keep moving up the value chain and build a healthy customer profile backend for Indian operations to leverage synergies. Recent acquisitions in Poschmann (Germany and Poland), have been witnessing steady stabilization.
- **Domestic composites business (18% sales mix)** has posted 12% YoY growth in revenue with strong uptick in margin to 26.1% (+8.3pp QoQ), largely benefitting from operating leverage. However domestic automobile demand is yet to recover meaningfully on ground, and therefore, current growth was driven by stockpiling, and may see moderation in subsequent quarters. Efforts are being made towards diversifying from automotive to electrical and off the road vehicle segment. Management is guiding for positive growth in FY15.
- **Textile business (9% sales mix)** was positively impacted by better utilization overseas, better customer mix, and favorable currency movement, leading to 18% YoY growth in revenue and strong margin uptick to 30.1% (v/s 23% in 3Q)

Spinning business to commence revenue in 4QFY15

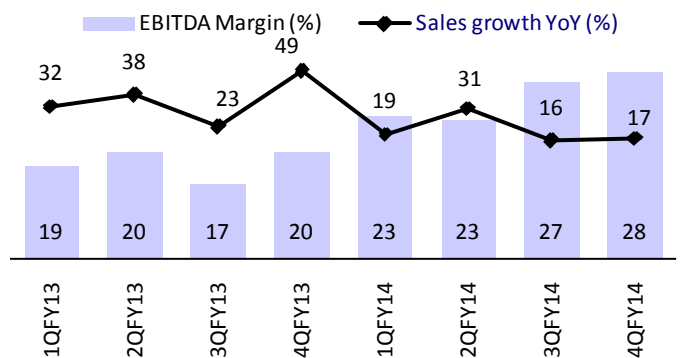
- Gujarat spinning project phase I (0.3m spindle) is likely to commence operations in 4QFY15 with annualized revenue of INR18-20b (1x capex) on stabilization, with EBITDA margin of 19-20%.
- This would aid strong growth in revenue FY16 onwards. We factored in for revenue 22% CAGR in FY14-16 on back of 3-4x growth in textile business revenue.
- Ongoing capex is expected to keep gearing increasing further in FY15. FY14 net debt was up INR9.7b YoY to INR37.3b (DER 1.02x), and likely to increase to INR50b in FY15 till the spinning project completes.

Monolithic: Strong growth is led by EPC stream of revenue



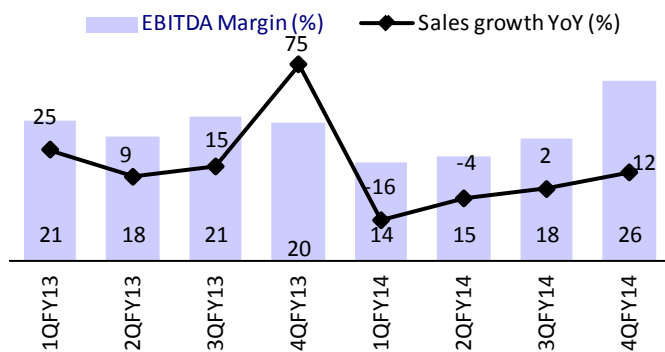
Source :Company, MOSL

Prefab: Robust growth continues



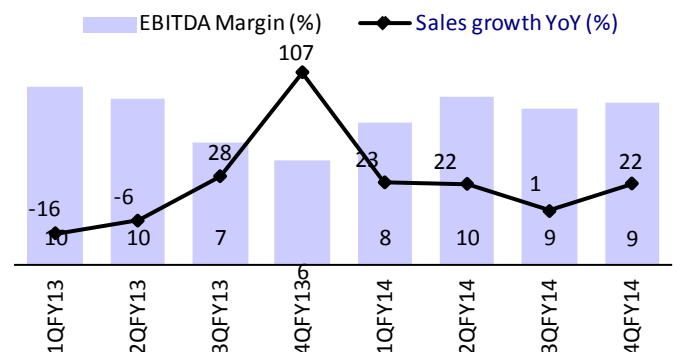
Source :Company, MOSL

Domestic composites: strong growth, good margin may be momentary as on ground recovery is yet not visible

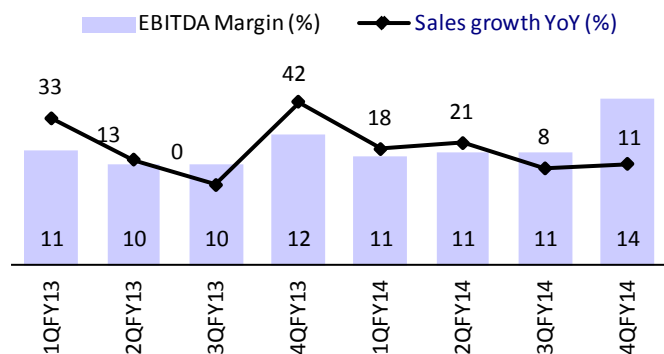


Source :Company, MOSL:

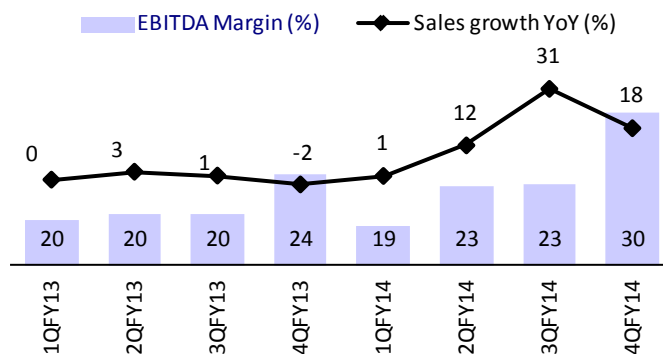
Foreign composites: Growth led by Defense and aerospace



Source :Company, MOSL

Trend in Tank business

Source :Company, MOSL

Textile: Currency benefits, higher utilization benefits

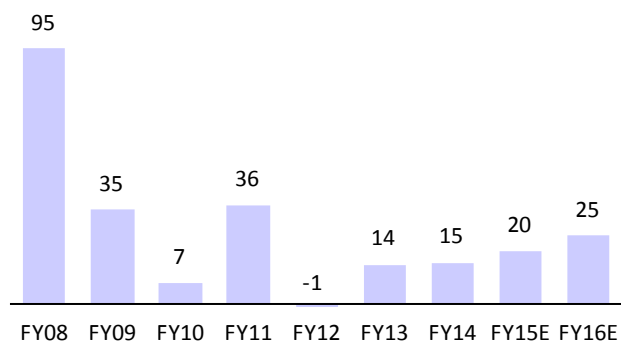
Source :Company, MOSL

Raising FY15/16 EBITDA estimates 11-15%; Upgrade to Buy

- Business outlook for monolithic and domestic automobile remains weak and elusive. However a steady growth in prefab and textile and recovery in overseas composites offers meaningful resilience and ~15% EBITDA CAGR.
- Balance sheet is expected to get worsen over FY15, before improving FY16 as management is guiding for significant moderation in capex in FY16 (~INR3b).
- We are upgrading our EBITDA estimates by 11%/15% in FY15/16 to factor in for
 - Contribution from EPC business (INR7b of incremental revenue)
 - Revenue from spinning business from 4QFY15
- It translates into ~5% upgrade in EPS (negated by depreciation and interest post commencement of spinning operations), and target price of INR61 (5x FY16E EV/EBITDA), which offers 25% upside. We upgrade it to **Buy**.

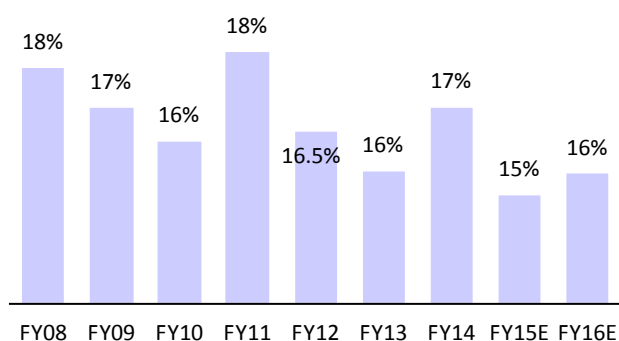
Story in charts

Revenue growth to resume with EPC, textile, and Prefab



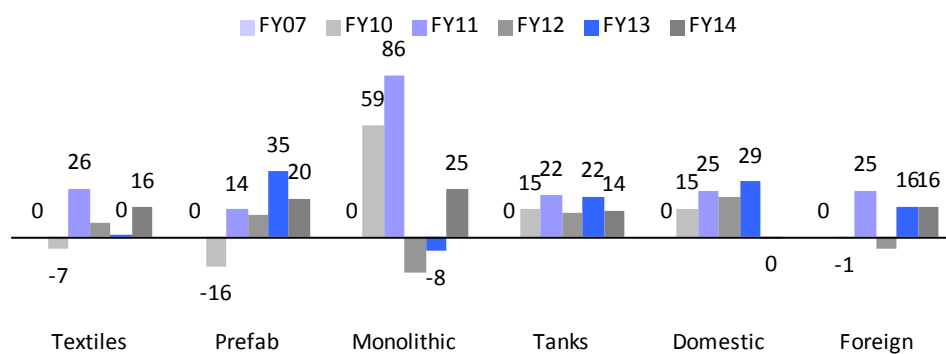
Source :Company, MOSL

Trend in EBITDA margin



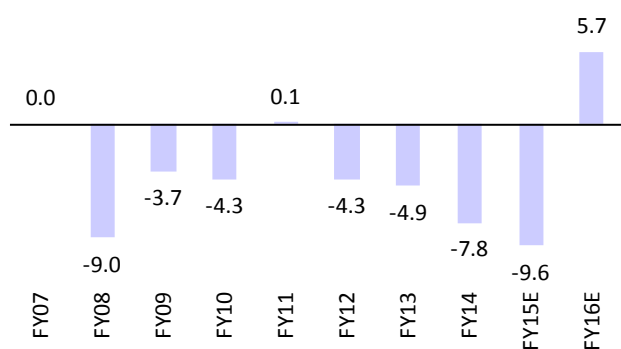
Source :Company, MOSL

Revenue growth (segment wise)



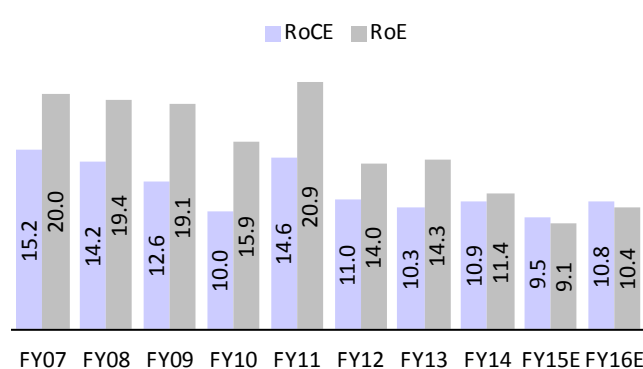
Source :Company, MOSL

Capex to keep FCFE negative in FY15



Source :Company, MOSL

Return ratios to improve in FY16



Source :Company, MOSL

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.
- Composites would enjoy synergies with overseas subsidiaries and continuous innovations to drive next phase of profitable growth.

Recent developments

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

Valuation and view

- We have downgraded our FY14-16E EPS by 6-8% We are upgrading our EBITDA estimates by 11%/15% in FY15/16 to factor in for
 - Contribution from EPC business (INR7b of incremental revenue)
 - Revenue from spinning business from 4QFY15
- It translates into 5% upgrade in EPS (negated by depreciation and interest post commencement of spinning operations), and target price of INR61 (5x FY16E EV/EBITDA), which offers 25% upside. We upgrade it to **Buy**.

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY15	10.5	11.3	-6.7
FY16	13.3	14.0	-5.2

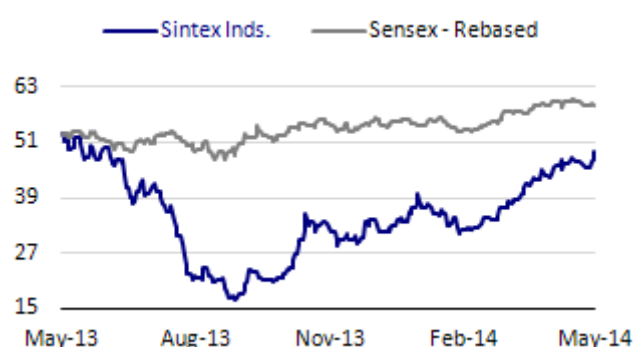
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco
49	61	24.5	Buy

Shareholding pattern (%)

	Mar-14	Dec-13	Mar-13
Promoter	41.0	37.0	36.2
Domestic 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)



Financials and valuation

Income statement		(INR Million)		
Y/E March	2013	2014	2015E	2016E
Net Sales	51,079	58,645	69,899	87,398
Change (%)	14.7	14.8	19.2	25.0
EBITDA	7,695	9,642	10,633	13,688
EBITDA Margin (%)	15.1	16.4	15.2	15.7
Depreciation	2,054	2,548	3,121	4,291
EBIT	5,641	7,094	7,512	9,397
Interest	1,726	2,894	3,029	3,434
Other Income	860	774	400	500
Extraordinary items	-903	-161	150	50
PBT	3,871	4,814	5,033	6,513
Tax	669	1,180	1,465	2,133
Tax Rate (%)	17.3	24.5	29.1	32.7
Reported PAT	3,202	3,634	3,568	4,381
Adjusted PAT	4,141	3,808	3,388	4,301

Balance sheet		(INR Million)		
Y/E March	2013	2014	2015E	2016E
Share Capital	311	311	324	324
Reserves	30,939	35,127	39,050	43,136
Net Worth	31,250	35,438	39,374	43,460
Debt	37,139	40,630	50,576	50,576
Deferred Tax	2,878	3,289	3,289	3,289
Total Capital Employed	71,267	79,358	93,269	97,385
Gross Fixed Assets	42,326	50,323	67,323	71,323
Less: Acc Depreciation	13,332	15,879	19,000	23,290
Net Fixed Assets	28,995	34,444	48,323	48,033
Capital WIP	3,597	9,000	4,000	3,000
Investments	1,303	3,058	3,058	3,058
Current Assets	45,003	48,559	50,764	59,310
Inventory	4,531	4,511	4,721	5,297
Debtors	18,596	22,230	24,512	27,536
Cash & Bank	8,902	2,720	465	2,531
Loans & Adv, Others	12,974	19,099	21,065	23,945
Curr Liabs & Provns	9,787	11,528	14,741	17,880
Curr. Liabilities	8,504	10,005	12,990	15,954
Provisions	1,284	1,523	1,751	1,926
Net Current Assets	35,216	37,031	36,023	41,430
Total Assets	71,268	85,398	93,269	97,385

E: MOSL Estimates

Ratios				
Y/E March	2013	2014	2015E	2016E
Basic (INR)				
EPS	13.3	12.2	10.5	13.3
Cash EPS	17.0	19.9	20.5	26.6
Book Value	100.4	113.9	121.5	134.1
DPS	0.7	0.7	0.7	0.7
Payout (incl. Div. Tax.)	7.8	7.0	7.5	7.0
Valuation(x)				
P/E	3.5	3.9	4.5	3.6
Cash P/E	2.8	2.4	2.3	1.8
Price / Book Value	0.5	0.4	0.4	0.4
EV/Sales	0.8	0.8	0.9	0.7
EV/EBITDA	5.4	5.1	5.9	4.4
Dividend Yield (%)	1.5	1.5	1.5	1.5
Profitability Ratios (%)				
RoE	14.3	11.4	9.1	10.4
RoCE	10.3	10.9	9.5	10.8
Turnover Ratios (%)				
Asset Turnover (x)	0.8	0.7	0.8	0.9
Debtors (No. of Days)	132.9	138.4	128.0	115.0
Inventory (No. of Days)	32.4	28.1	24.7	22.1
Creditors (No. of Days)	71.5	74.5	80.0	79.0
Leverage Ratios (%)				
Net Debt/Equity (x)	0.9	1.0	1.2	1.0

Cash flow statement		(INR Million)		
Y/E March	2013	2014	2015E	2016E
OP/(Loss) before Tax	4,738	4,962	4,853	6,433
Depreciation	2,054	2,548	3,121	4,291
Others	0	0	0	0
Interest	1,726	2,894	3,029	3,434
Direct Taxes Paid	-669	-1,180	-1,465	-2,133
(Inc)/Dec in Wkg Cap	-6,278	-7,997	-1,247	-3,340
CF from Op. Activity	668	1,065	8,441	8,735
(Inc)/Dec in FA & CWIP	-5,690	-7,067	-18,041	-3,000
(Pur)/Sale of Invt	120	-1,755	0	0
Others	0	0	0	0
CF from Inv. Activity	-5,570	-8,822	-18,041	-3,000
Inc/(Dec) in Net Worth	1,855	821	662	0
Inc / (Dec) in Debt	6,226	3,492	9,946	0
Interest Paid	-1,726	-2,894	-3,029	-3,434
Divd Paid (incl Tax)	-254	-254	-265	-265
CF from Fin. Activity	6,597	1,576	7,345	-3,668
Inc/(Dec) in Cash	1,695	-6,181	-2,255	2,067
Add: Opening Balance	7,206	8,902	2,720	465
Closing Balance	8,901	2,721	465	2,531

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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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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