

Investor's Delight: Sintex Industries Ltd. (SIL) – "BUY"

"Attractive valuations; prefab and custom moulding business to drive growth"

Investment Summary

Sintex is engaged in manufacturing of textiles and plastic products. It also provides building solutions, auto components, civil construction (monolithic concrete construction) and EPC. SIL is looking forward to a growth of more than 30 percent in pre-fabricated business, while it expects the custom moulding business to grow due to improvement in the PMI index in US and Europe. In January-March quarter, Sintex had announced the acquisition of two bankrupt assets that are engaged in custom moulding in Germany and Poland at a consideration of Rs 170 crore. Performance of domestic custom moulding business (which is 20 percent of total revenue) would continue to show improvement on the back of orders from non-automotive sector.

Management continues to maintain guidance of 10-15 percent growth on an annual basis despite its Q1 numbers falling below street expectations. According to the management, going by track record, Q1 and Q2 are always weaker than Q3 and Q4. In FY13, the company had covered up a lot in Q4. Sintex is also actively studying to implement a spinning project with three lakh spindles in Gujarat under the New Textile Policy 2012 of the State Government. It is likely to be ramped up to 10 lakh spindles in the next five years. Management is confident of making a strong comeback in ensuing quarters with higher contribution from the value added product portfolio and due to overall improvement in capacity utilization. In addition, SIL will concentrate on its mass-housing product – Sintex Monolithic Concrete Construction. SIL would target contracts in the mass-housing segment – low-income groups and economically weaker sections – in the current year. This area of operations will pick up pace as the company had not focused much on it last year. Monolithic concrete construction is a technique in which moulds or formwork of building sections are made and concrete is poured, literally making a cast of the house. This is a time- and labour-saving technique compared to brick-and-mortar construction and ideal for low-cost housing. Mass housing solutions offers an ideal opportunity provided the State governments speed up clearances and make available the required land. With degrowth expected in monolithic business, the company hopes to grow through its pre-fabricated and custom moulding businesses. Sintex had announced it was in a consolidation mode in its monolithic construction business, with the top-line dropping nearly eight per cent last year to Rs 1,002 crore, as compared with the previous year (Rs 1,086 crore).

Date	September 23, 2013
Industry	Construction/Infrastructure
CMP	Rs. 21.25
Target Price	Rs. 30
Upside	40%
BSE/NSE Code	502742/SINTEX
Bloomberg Code	SINT:IN
Reuters Code	SNTX.BO
52 Week High	Rs. 75.6 (12 th Oct, 2012)
52 Week Low	Rs. 16.90 (04 Sep, 2013)
Face Value	Re. 1
Market Capitalization	Rs. 6,628mn / (US\$107 mn)
Book Value	Rs. 100
Price/Book Value (x)	0.22
Shareholding Pattern (%)	As on June 2013
Promoters	36.16 %
FIs	24.76 %
DIs	8.29 %
Public and Others	30.79 %

SIL Q1FY14 revenues registered yoy growth of 4.4 percent to Rs. 1,123.9 crore mainly led by growth from prefab and overseas custom moulding business, which reported revenue growth of ~19.1 percent and ~22.8 percent YoY, respectively. Rupee depreciation also added to the topline growth as 20 percent of revenues is accounted by exports. On the margins front, prefab segment reported healthy margins of over ~23 percent while margins in custom moulding (overseas) remained subdued at 8.1 percent. Margins in monolithic segment improved QoQ due to closing down of slow moving sites and low

base effect. As a result, total operating margin remained marginally higher at 14.3 percent (vs. street estimate: 13.8 percent). However, net profit remained below street estimates led by subdued topline and forex loss of Rs 3.7 crore for the quarter on FCCB for this quarter.

At CMP of Rs. 21.25, the stock is currently trading at 3x its FY2014E Earnings and at 0.22x its FY2013 Book Value which makes it attractively priced at mouth watering valuations. We recommend a "BUY" with a target price of Rs. 30 (5x FY14E EPS) for investors with a horizon 6-9 months.

Concerns

The Company's monolithic segment has been under pressure. In Q1FY14, the segment witnessed a revenue decline of 13.1 percent owing to reduction in business by SIL owing to its low margin and working capital nature of business. The domestic moulding textile business also remained sluggish with mere 1.1 percent YoY growth in revenues due to poor demand from Europe. Monolithic business is a six year old business and it had been growing about 35-40 percent in previous years and by the time the business reached the fourth-fifth year, SIL realized that debtors were mounting. Some cases, even the customers had not paid for last one year. Operations in some of the sites were getting sticky. As a result, though topline was going up; the interest cost because of extended working capital cycle especially on the debtors stock, was not making much sense and unless it collected the payment within 120-130 days, the business acted as a dragger to the Company.

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