

## Sintex Industries

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## 2QFY14 RESULTS NOTE

<b>Market Cap</b> <b>US\$136.2m</b> Rs8,423m	<b>Avg Daily Turnover</b> <b>US\$2.37m</b> Rs147.1m	<b>Free Float</b> <b>63.8%</b> 311.2 m shares
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Current	<b>Rs26.90</b>
Target	<b>Rs22.00</b>
Prev. Target	<b>Rs40.00</b>
Up/Downside	<b>-18.2%</b>

<b>SHORT TERM (3 MTH)</b>	<b>LONG TERM</b>
TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	<b>UNDERPERFORM</b>

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### Share price info

Share price perf. (%)	1M	3M	12M
Relative	11.1	-33.7	-73.1
Absolute	15.2	-31.1	-63.3

### Major shareholders

	% held
Patel family	36.2
Life Insurance Corporation of India	3.5
Deutsche Securities Mauritius Ltd	2.7

## Capex to remain an overhang

*Sintex's 2Q was better than we expected as pre-fab and foreign subsidiaries improved margins. The company confirmed capex of Rs18bn over the next two years in textiles, which might be EPS accretive, but will raise the risk profile and keep valuation multiple low.*

Sintex's 1H EPS was 52% of our FY14 estimates. Good revenue and margin traction in pre-fab and foreign businesses, aided by the currency tailwind, boosted 2Q. We raise our EPS for FY14 by 8.5% but cut FY15-16 by 3-8%. We lower our price target to Rs22, based on 3.5x FY15 EV/EBITDA at 10% discount to mid-cap peers. Rising debt will be a key derating catalyst. Maintain Underperform.

### Pre-fab, overseas custom moulding key performers

2Q revenue grew 14% yoy to Rs13.6bn due to strong revenue growth in pre-fab (31%), overseas custom moulding (22%) and water tank (21%). Monolithic (8.8%) and domestic custom moulding (-3.6%) remained subdued due to the slowdown in housing and autos. The overall EBITDA margin improved by 28bp yoy to 15.5% due to c.300bp increase in pre-fab margins and 241bp in

textiles margin on better capacity utilisation and rupee depreciation. Net income was almost flat at Rs729m due to higher interest cost (coupon payment on FCCBs).

### Textile capex is just too big

Sintex has decided to go ahead with its ambitious textile yarn manufacturing project of Rs18bn (which can rise to Rs50bn). This includes setting up 1m spindles in three phases over the next five years. While the Indian government's new incentive scheme gives debt virtually at zero cost and is attractive, we are surprised at the scale of the project given Sintex's size and cashflows.

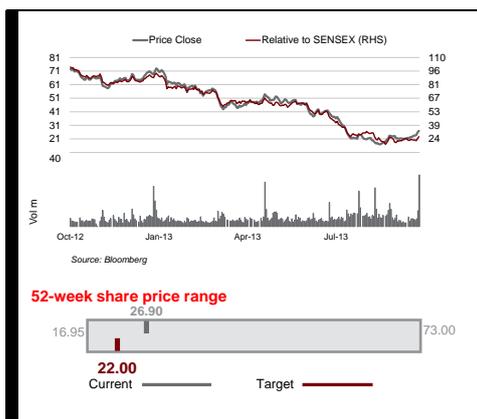
### Multiple will remain low

We believe the huge debt overhang on new capex will keep Sintex's valuation multiple low. Our target price is based on 3.5x FY15 EV/EBITDA at 10% discount to mid-cap peers in auto ancillaries, construction and textiles.

### Results Comparison

(Rs m)	2Q FY14	2Q FY13	yoy %chg	qoq %chg	2QFY14 cum	2QFY13 cum	yoy %chg	Prev. FY14F	Comments
Revenue	13,649	11,985	13.88	20.99	24,930	22,791	9.39	53,934	Pre-fab, overseas custom moulding led the growth
Operating costs	-11,528	-10,157	13.50	19.20	-21,200	-19,187	10.49	-46,414	
EBITDA	2,121	1,828	15.99	31.75	3,730	3,604	3.49	7,519	
EBITDA margin (%)	15.54	15.25	28bps	127bps	14.96	15.81	-85bps	13.94	Textiles and pre-fab margins widen
Depn & amort.	-572	-505	13.40	1.52	-1,136	-988	15.02	-2,379	
EBIT	1,548	1,324	16.97	48.06	2,594	2,617	-0.87	5,140	
Interest expense	-476	-361	32.05	9.69	-911	-715	27.46	-2,692	Coupon payment on latest issue of FCCBs
Interest & invt inc	5	64	-92.05	-94.12	92	106	-13.31	372	
Fx gain (loss)	-84	-49	72.53	126.2	-121	-337	-64.17	0	MTM loss on foreign currency debt
Pretax profit	993	978	1.50	50.22	1,654	1,671	-1.00	2,821	
Tax	-269	-258	4.49	33.83	-470	-499	-5.78	-488	
Tax rate (%)	27.10	26.32	2.95	-10.91	28.43	29.87	-4.83	17.29	
Income from associates	5	3	94.62	-15.63	11	20	-42.02	0	
Net profit	729	724	0.78	56.41	1,195	1,192	0.33	2,333	
Core net profit	813	772	5.29	65.24	1,316	1,529	-13.90	2,333	
EPS	2.34	2.67	-12.21	56.41	3.84	4.40	-12.61	7.32	
Core EPS	2.61	2.85	-8.28	65.24	4.23	5.64	-25.00	7.32	Lower EPS due to equity dilution

SOURCE: CIMB, COMPANY REPORTS

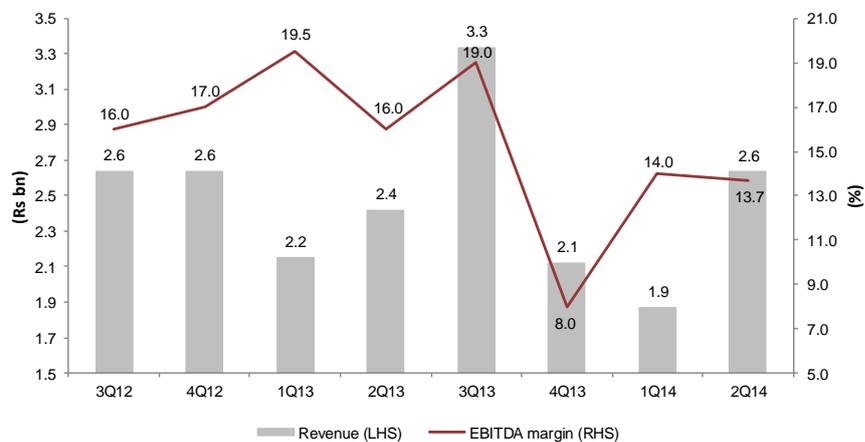


### Financial Summary

	Mar-12A	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Revenue (Rsm)	44,368	50,794	53,639	58,293	63,707
Operating EBITDA (Rsm)	7,009	7,410	7,439	7,963	8,853
Net Profit (Rsm)	3,068	3,238	2,532	2,637	3,455
Core EPS (Rs)	11.32	11.12	7.94	8.08	9.16
Core EPS Growth	(33.3%)	(1.8%)	(28.6%)	1.8%	13.4%
FD Core P/E (x)	2.38	2.90	4.55	4.37	3.33
DPS (Rs)	0.65	0.70	0.65	0.65	0.65
Dividend Yield	2.42%	2.62%	2.42%	2.42%	2.42%
EV/EBITDA (x)	4.42	4.79	4.96	4.52	3.22
P/FCFE (x)	NA	NA	NA	8.33	7.37
Net Gearing	89.5%	88.4%	82.3%	73.9%	38.5%
P/BV (x)	0.28	0.27	0.25	0.24	0.24
ROE	12.2%	11.2%	7.7%	7.4%	8.2%
% Change In Core EPS Estimates			8.49%	(2.76%)	(7.80%)
CIMB/consensus EPS (x)			0.75	0.65	0.92

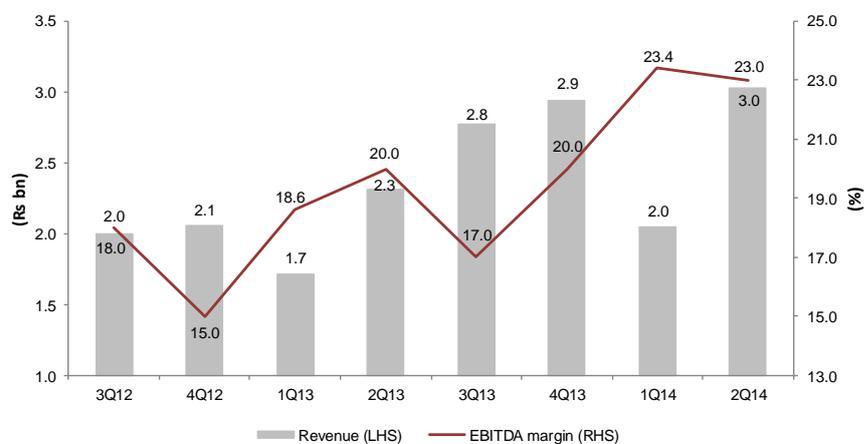
SOURCE: CIMB, COMPANY REPORTS

Figure 1: Monolithic business remains challenging



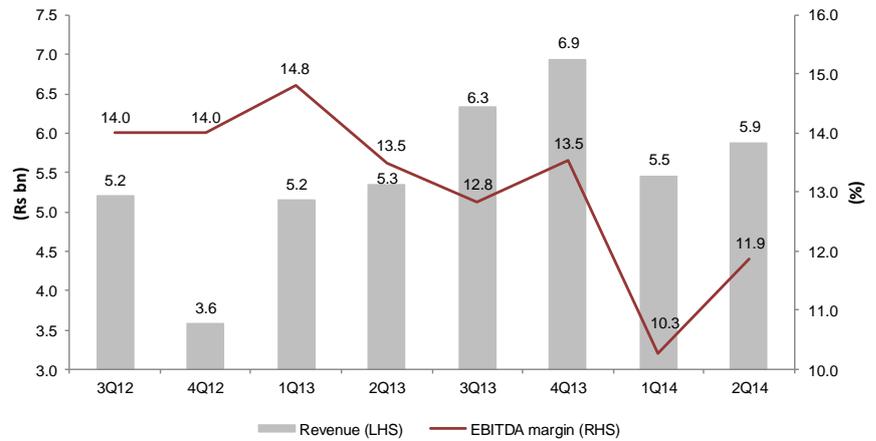
SOURCES: COMPANY REPORTS

Figure 2: Pre-fab continues strong growth momentum



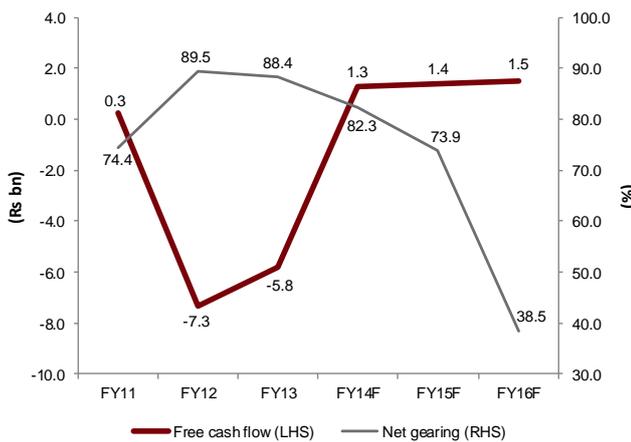
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**Figure 3: Overseas subsidiaries made up for weak domestic custom moulding**



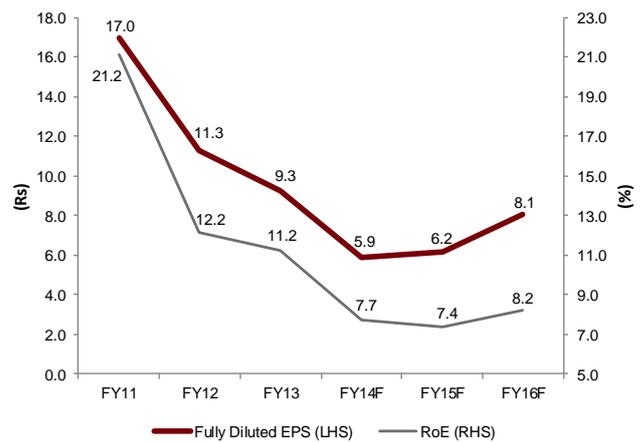
SOURCES: COMPANY REPORTS

**Figure 4: Large capex to restrict free cashflow, equity dilution to improve net gearing**



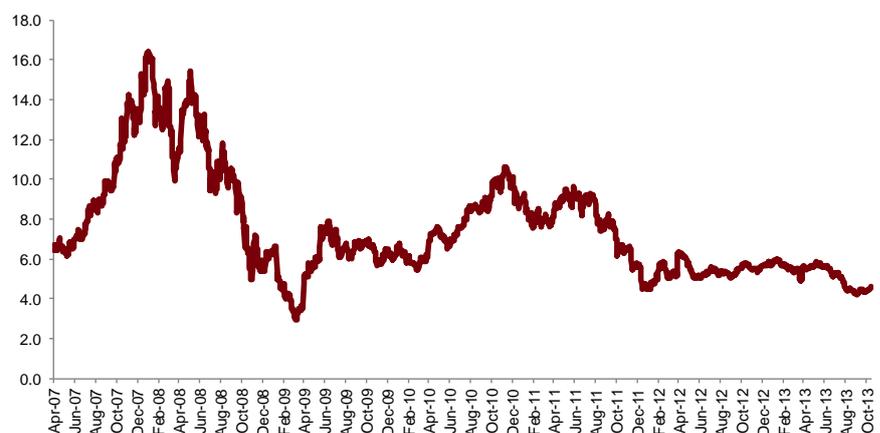
SOURCES: CIMB, COMPANY REPORTS

**Figure 5: Slow growth and equity dilution to drive down the EPS and RoE**



SOURCES: CIMB, COMPANY REPORTS

**Figure 6: EV/EBITDA near 6-year low**



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

**Figure 7: Sector comparisons – auto ancillaries, construction and textiles**

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$m)	Core P/E (x)		2-year EPS	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		FY14	FY15	CAGR (%)	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
Sintex Industries	SINT IN	UNDERPERFORM	26.90	22.00	136.7	4.48	4.24	-17.2%	0.33	0.31	7.8%	7.6%	4.77	4.45	2.4%	2.4%
Subros	SUBR IN		23.15		22.54	7.02	4.58	21.3%	0.46	0.43	6.7%	9.6%	3.18	2.86	4.8%	5.6%
Munjal Showa	MJS IN		63.85		41.44	3.57	3.33	12.4%	0.71	0.61	21.0%	18.8%	2.05	1.79	4.7%	NA
B L Kashyap	KASH IN		6.00		20.00	6.67	2.86	126.3%	0.21	0.20	3.3%	7.0%	4.25	3.44	1.7%	1.7%
Ahluwalia Contracts	AHLU IN		24.65		25.10	17.61	5.48	NA	0.73	0.65	5.0%	12.5%	4.74	3.03	NA	NA
Simplex Infra	SINF IN		50.75		40.74	5.44	4.13	6.9%	0.19	0.18	3.4%	3.9%	5.15	4.81	2.1%	2.4%
Alok Industries	ALOK IN		8.15		182.1	1.02	0.70	10.2%	0.18	0.14	18.1%	19.4%	3.95	3.37	0.5%	2.1%
Vardhman Textiles	VTEX IN		349.7		361.0	4.63	4.65	15.8%	0.72	0.63	16.9%	14.6%	4.31	4.17	2.1%	2.8%
<b>India comparable peers average</b>						<b>6.56</b>	<b>3.68</b>	<b>32.2%</b>	<b>0.46</b>	<b>0.41</b>	<b>10.6%</b>	<b>12.3%</b>	<b>3.95</b>	<b>3.35</b>	<b>2.6%</b>	<b>2.9%</b>

SOURCES: CIMB, BLOOMBERG

**Figure 8: Change in key forecasts**

	FY14F			FY15F			FY16F		
	Revised	Previous	% chg	Revised	Previous	% chg	Revised	Previous	% chg
Revenue (Rsm)	53,639	53,934	-0.5%	58,293	58,121	0.3%	63,707	63,875	-0.3%
EBITDA (Rsm)	7,439	7,519	-1.1%	7,963	8,012	-0.6%	8,853	8,990	-1.5%
Core EPS (Rs)	7.94	7.32	8.5%	8.08	8.31	-2.8%	9.16	9.94	-7.8%
Fully Diluted EPS (Rs)	5.92	5.45	8.5%	6.16	6.34	-2.8%	8.07	8.76	-7.8%

SOURCES: CIMB

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<b>Score Range:</b>	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good		N/A

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**Spitzer Chart for stock being researched ( 2 year data )**



Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2013		
1234 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	49.8%	7.2%
Neutral	34.2%	5.1%
Underperform/Sell/Trading Sell	16.0%	4.8%

**Recommendation Framework #1 \***

**Stock**

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

**Sector**

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

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**Recommendation Framework #2 \*\***

Stock	Sector
<b>OUTPERFORM:</b> Expected positive total returns of 10% or more over the next 12 months.	<b>OVERWEIGHT:</b> The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
<b>NEUTRAL:</b> Expected total returns of between -10% and +10% over the next 12 months.	<b>NEUTRAL:</b> The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
<b>UNDERPERFORM:</b> Expected negative total returns of 10% or more over the next 12 months.	<b>UNDERWEIGHT:</b> The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
<b>TRADING BUY:</b> Expected positive total returns of 10% or more over the next 3 months.	<b>TRADING BUY:</b> The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
<b>TRADING SELL:</b> Expected negative total returns of 10% or more over the next 3 months.	<b>TRADING SELL:</b> The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

**\*\* This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.**

**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.**

**AAV** – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.