

# Sintex Industries (SINT IN)

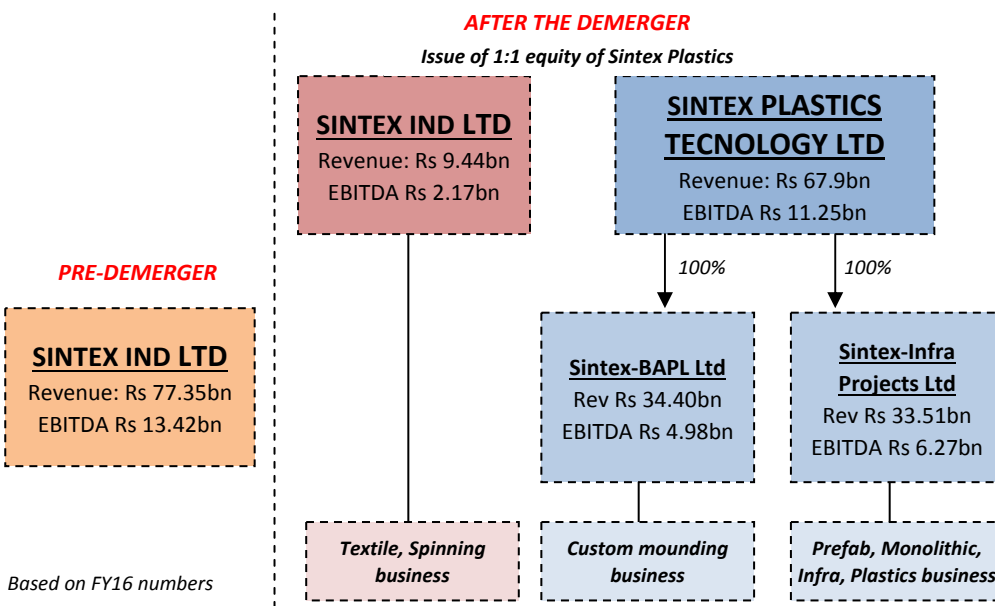
The demerger will unlock value

INDIA | MIDCAP | Company Update

29 September 2016

## Demerger to unlock value for shareholders

Sintex announced the demerger of its “custom moulding business” and the “prefab business” from Sintex Industries to Sintex-BAPL Ltd and Sintex Infra Projects Ltd respectively under Sintex Plastics Technology Ltd as a wholly-owned subsidiary. Shareholders of Sintex Industries will get one equity share of Sintex Plastics Technology against one equity share held in Sintex Industries; and these will be listed on the BSE and the NSE.



Sintex Industries is expanding its textile capacity in cotton yarn spinning (Phase-2) and we see it generating a revenue of Rs 40bn and EBITDA of ~Rs 6bn after expansion. The textile business has the advantages of: (1) raw material availability, (2) low cost of funding with government textile policy, and (3) attractive power costs resulting in healthy return on equity (13-16%). The non-textile businesses (mainly plastic products) have created leadership positions in their markets and have seen 15-20% CAGR. Custom moulding has reported revenue CAGR of 15% over FY10-16, while prefab saw 22%.

The mirror shareholding pattern in textile and non-textile business is positive for shareholders and the transaction is likely to create value for them by separating the businesses into different entities – which would help managing and operating them more efficiently to execute growth plans, along with better capital allocation.

**Outlook and valuation:** At CMP, Sintex Industries is trading at 5x our FY18 earnings and 5.6x EV/EBITDA. We expect rerating in valuation considering leadership in plastics and custom-moulding businesses with a sharper focus after the demerger. We have increased our target valuation to 7x our FY18 EPS (vs. 6x earlier) to arrive at a price target of Rs 120 (Rs 105 earlier). Retain Buy.

## BUY (Maintain)

CMPRs 73  
TARGET RS 120 (+64%)

### COMPANY DATA

O/S SHARES (MN) :	447
MARKET CAP (RSBN) :	38
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	107 / 62
LIQUIDITY 3M (USDMN) :	6.6
PAR VALUE (RS) :	10

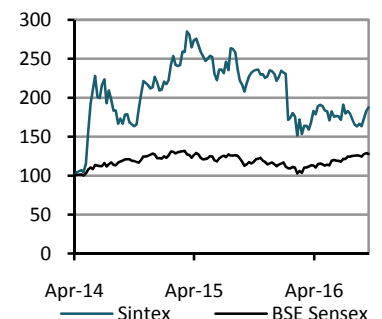
### SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	32.5	32.5	32.5
FII / NRI :	29.3	35.0	38.5
FI / MF :	2.0	2.2	2.3
NON PRO :	8.5	4.1	2.8
PUBLIC & OTHERS :	27.8	26.3	23.9

### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	18.7	14.9	-14.9
REL TO BSE	16.8	7.7	-24.3

### PRICE VS. SENSEX



Source: Phillip Capital India Research

### KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	77,335	95,628	1,12,638
EBIDTA	12,973	16,749	20,197
Net Profit	6,341	7,205	8,968
EPS, Rs	14.2	13.8	17.1
PER, x	5.1	5.3	4.3
EV/EBIDTA, x	6.9	6.5	5.6
P/BV, x	0.6	0.6	0.5
ROE, %	11.5	10.8	12.0
Debt/Equity (%)	117	114	105

Source: PhillipCapital India Research Est.

**Vikram Suryavanshi**

vsuryavanshi@phillipcapital.in (022 6667 9951)

## Financials

### Income Statement

Y/E Mar, Rsmn	FY15	FY16	FY17E	FY18E
<b>Net sales</b>	<b>70,066</b>	<b>77,335</b>	<b>95,628</b>	<b>112,638</b>
Growth, %	20	10	24	18
Total income	70,066	77,335	95,628	112,638
Raw material expenses	-43,038	-47,597	-58,590	-69,001
Employee expenses	-7,202	-7,475	-9,302	-10,385
Other Operating expenses	-8,003	-9,290	-10,987	-13,055
<b>EBITDA (Core)</b>	<b>11,824</b>	<b>12,973</b>	<b>16,749</b>	<b>20,197</b>
Growth, %	25.5	9.7	29.1	20.6
Margin, %	16.9	16.8	17.5	17.9
Depreciation	-2,605	-3,048	-3,838	-4,566
<b>EBIT</b>	<b>9,219</b>	<b>9,925</b>	<b>12,911</b>	<b>15,631</b>
Growth, %	34.1	7.7	30.1	21.1
Margin, %	13.2	12.8	13.5	13.9
Interest paid	-2,835	-2,817	-3,794	-3,938
Other Non-Operating Income	964	1,332	1,154	1,095
<b>Pre-tax profit</b>	<b>7,348</b>	<b>8,440</b>	<b>10,270</b>	<b>12,789</b>
Tax provided	-1,863	-2,113	-3,081	-3,837
<b>Profit after tax</b>	<b>5,485</b>	<b>6,326</b>	<b>7,189</b>	<b>8,952</b>
Others (Minorities, Associates)	21	15	16	16
<b>Net Profit</b>	<b>5,506</b>	<b>6,341</b>	<b>7,205</b>	<b>8,968</b>
Growth, %	44.6	15.2	13.6	24.5
<b>Net Profit (adjusted)</b>	<b>5,506</b>	<b>6,341</b>	<b>7,205</b>	<b>8,968</b>
Unadj. shares (m)	424	446	523	523
Wtdavg shares (m)	446	446	523	523

### Balance Sheet

Y/E Mar, Rsmn	FY15	FY16	FY17E	FY18E
Cash & bank	4,250	7,409	5,845	4,745
Debtors	23,054	22,418	31,439	40,118
Inventory	5,170	6,064	13,100	15,430
Loans & advances	19,507	20,195	22,215	19,993
Other current assets	1,554	1,805	2,076	2,387
Total current assets	53,535	57,891	74,674	82,674
Investments	5,281	2,647	2,758	3,183
Gross fixed assets	72,804	99,876	112,397	122,918
Less: Depreciation	-19,717	-22,766	-26,604	-31,170
Add: Capital WIP	2,310	1,920	1,200	1,200
Net fixed assets	55,397	79,031	86,993	92,949
<b>Total assets</b>	<b>114,212</b>	<b>139,568</b>	<b>164,426</b>	<b>178,805</b>
Current liabilities	12,259	12,259	13,362	15,738
Provisions	1,462	1,655	1,821	2,003
Total current liabilities	13,721	13,914	15,183	17,741
Non-current liabilities	52,353	70,528	82,564	86,067
Total liabilities	66,074	84,443	97,747	103,808
Paid-up capital	424	446	523	523
Reserves & surplus	46,553	54,659	66,135	74,453
Shareholders' equity	46,978	55,125	66,680	74,997
<b>Total equity &amp; liabilities</b>	<b>113,052</b>	<b>139,568</b>	<b>164,426</b>	<b>178,805</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rsmn	FY15	FY16	FY17E	FY18E
Pre-tax profit	7,348	8,440	10,270	12,789
Depreciation	2,605	3,048	3,838	4,566
Chg in working capital	-1,194	-1,004	-17,079	-6,540
Total tax paid	-458	-646	-2,568	-3,197
<b>Cash flow from operating activities</b>	<b>8,300</b>	<b>9,837</b>	<b>-5,539</b>	<b>7,618</b>
Capital expenditure	-18,734	-26,682	-11,801	-10,521
Chg in investments	-2,223	2,634	-112	-425
<b>Cash flow from investing activities</b>	<b>-20,957</b>	<b>-24,048</b>	<b>-11,912</b>	<b>-10,946</b>
Free cash flow	-12,656	-14,211	-17,451	-3,328
Equity raised/(repaid)	7,372	3,046	5,683	683
Debt raised/(repaid)	6,972	16,708	11,522	2,864
Dividend (incl. tax)	-373	-521	-651	-651
<b>Cash flow from financing activities</b>	<b>13,992</b>	<b>19,269</b>	<b>16,570</b>	<b>2,912</b>
Net chg in cash	1,336	5,058	-881	-416

### Valuation Ratios

	FY15	FY16	FY17E	FY18E
<b>Per Share data</b>				
EPS (INR)	12.3	14.2	13.8	17.1
Growth, %	44.6	15.2	(3.2)	24.5
Book NAV/share (INR)	105.4	123.6	127.3	143.2
FDEPS (INR)	12.3	14.2	13.8	17.1
CEPS (INR)	18.2	21.1	21.1	25.9
CFPS (INR)	16.5	19.1	(12.8)	12.5
DPS (INR)	0.7	1.0	1.1	1.1
<b>Return ratios</b>				
Return on assets (%)	7.1	6.4	6.3	6.6
Return on equity (%)	11.7	11.5	10.8	12.0
Return on capital employed (%)	10.3	9.0	9.4	10.4
<b>Turnover ratios</b>				
Asset turnover (x)	0.8	0.7	0.7	0.8
Sales/Total assets (x)	0.7	0.6	0.6	0.7
Sales/Net FA (x)	1.5	1.2	1.2	1.3
Working capital/Sales (x)	0.5	0.5	0.6	0.6
Fixed capital/Sales (x)	0.0	0.0	0.0	0.0
<b>Liquidity ratios</b>				
Current ratio (x)	4.4	4.7	5.6	5.3
Quick ratio (x)	3.9	4.2	4.6	4.3
Interest cover (x)	3.3	3.5	3.4	4.0
Dividend cover (x)	17.7	14.2	13.0	16.1
Total debt/Equity (%)	101.5	116.8	113.8	105.0
Net debt/Equity (%)	92.4	103.4	105.1	98.7
<b>Valuation</b>				
PER (x)	5.9	5.1	5.3	4.3
PEG (x) - y-o-y growth	0.1	0.3	(1.6)	0.2
Price/Book (x)	0.7	0.6	0.6	0.5
Yield (%)	1.0	1.4	1.5	1.5
EV/Net sales (x)	1.1	1.2	1.1	1.0
EV/EBITDA (x)	6.3	6.9	6.5	5.6
EV/EBIT (x)	8.1	9.0	8.4	7.2

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

**Management**

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

**Research**

Automobiles	IT Services	Pharma & Speciality Chem
Dhawal Doshi (9122) 6667 9769	Vibhor Singhal (9122) 6667 9949	Surya Patra (9122) 6667 9768
Nitesh Sharma, CFA (9122) 6667 9965	Shyamal Dhruve (9122) 6667 9992	Mehul Sheth (9122) 6667 9996
Banking, NBFCs	Infrastructure	Strategy
Manish Agarwalla (9122) 6667 9962	Vibhor Singhal (9122) 6667 9949	Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Pradeep Agrawal (9122) 6667 9953	Deepak Agarwal (9122) 6667 9944	Telecom
Pareesh Jain (9122) 6667 9948	Logistics, Transportation & Midcap	Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Consumer & Retail	Vikram Suryavanshi (9122) 6667 9951	Manoj Behera (9122) 6667 9973
Naveen Kulkarni, CFA, FRM (9122) 6667 9947	Media	Technicals
Jubil Jain (9122) 6667 9766	Manoj Behera (9122) 6667 9973	Subodh Gupta, CMT (9122) 6667 9762
Preeyam Tolia (9122) 6667 9950	Metals	Production Manager
Cement	Dhawal Doshi (9122) 6667 9769	Ganesh Deorukhkar (9122) 6667 9966
Vaibhav Agarwal (9122) 6667 9967	Yash Doshi (9122) 6667 9987	Editor
Economics	Mid-Caps & Database Manager	Roshan Sony 98199 72726
Anjali Verma (9122) 6667 9969	Deepak Agarwal (9122) 6667 9944	Sr. Manager – Equities Support
Engineering, Capital Goods	Oil & Gas	Rosie Ferns (9122) 6667 9971
Jonas Bhutta (9122) 6667 9759	Sabri Hazarika (9122) 6667 9756	
Vikram Rawat (9122) 6667 9986		

**Sales & Distribution**

Ashvin Patil (9122) 6667 9991	<b>Sales Trader</b>
Shubhangi Agrawal (9122) 6667 9964	Dilesh Doshi (9122) 6667 9747
Kishor Binwal (9122) 6667 9989	Suniil Pandit (9122) 6667 9745
Bhavin Shah (9122) 6667 9974	
Ashka Mehta Gulati (9122) 6667 9934	<b>Execution</b>
Archan Vyas (9122) 6667 9785	Mayur Shah (9122) 6667 9945

**Corporate Communications**

Zarine Damania (9122) 6667 9976
Bharati Ponda (9122) 6667 9943

**Contact Information (Regional Member Companies)**

<b>SINGAPORE: Phillip Securities Pte Ltd</b> 250 North Bridge Road, #06-00 RafflesCityTower, Singapore 179101 Tel : (65) 6533 6001 Fax: (65) 6535 3834 <a href="http://www.phillip.com.sg">www.phillip.com.sg</a>	<b>MALAYSIA: Phillip Capital Management Sdn Bhd</b> B-3-6 Block B Level 3, Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel (60) 3 2162 8841 Fax (60) 3 2166 5099 <a href="http://www.poems.com.my">www.poems.com.my</a>	<b>HONG KONG: Phillip Securities (HK) Ltd</b> 11/F United Centre 95 Queensway Hong Kong Tel (852) 2277 6600 Fax: (852) 2868 5307 <a href="http://www.phillip.com.hk">www.phillip.com.hk</a>
<b>JAPAN: Phillip Securities Japan, Ltd</b> 4-2 Nihonbashi Kabutocho, Chuo-ku Tokyo 103-0026 Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141 <a href="http://www.phillip.co.jp">www.phillip.co.jp</a>	<b>INDONESIA: PT Phillip Securities Indonesia</b> ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A, Jakarta 10220, Indonesia Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809 <a href="http://www.phillip.co.id">www.phillip.co.id</a>	<b>CHINA: Phillip Financial Advisory (Shanghai) Co. Ltd.</b> No 550 Yan An East Road, OceanTower Unit 2318 Shanghai 200 001 Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940 <a href="http://www.phillip.com.cn">www.phillip.com.cn</a>
<b>THAILAND: Phillip Securities (Thailand) Public Co. Ltd.</b> 15th Floor, VorawatBuilding, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921 <a href="http://www.phillip.co.th">www.phillip.co.th</a>	<b>FRANCE: King &amp; Shaxson Capital Ltd.</b> 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017 <a href="http://www.kingandshaxson.com">www.kingandshaxson.com</a>	<b>UNITED KINGDOM: King &amp; Shaxson Ltd.</b> 6th Floor, Candlewick House, 120 Cannon Street London, EC4N 6AS Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835 <a href="http://www.kingandshaxson.com">www.kingandshaxson.com</a>
<b>UNITED STATES: Phillip Futures Inc.</b> 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel (1) 312 356 9000 Fax: (1) 312 356 9005	<b>AUSTRALIA: PhillipCapital Australia</b> Level 10, 330 Collins Street Melbourne, VIC 3000, Australia Tel: (61) 3 8633 9800 Fax: (61) 3 8633 9899 <a href="http://www.phillipcapital.com.au">www.phillipcapital.com.au</a>	<b>SRI LANKA: Asha Phillip Securities Limited</b> Level 4, Millennium House, 46/58 Navam Mawatha, Colombo 2, Sri Lanka Tel: (94) 11 2429 100 Fax: (94) 11 2429 199 <a href="http://www.ashaphillip.net/home.htm">www.ashaphillip.net/home.htm</a>

**INDIA**

**PhillipCapital (India) Private Limited**  
 No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013  
 Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 [www.phillipcapital.in](http://www.phillipcapital.in)

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**Registered office:** No. 1, 18th Floor, Urmi Estate, 95 GanpatraoKadamMarg, Lower Parel West, Mumbai 400013