



Sintex Industries Ltd.

Plastic and Textile

Stock Idea

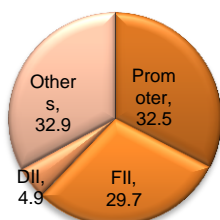
Rating: BUY

Date	February 22, 2017
CMP (Rs.)	93
Target (Rs.)	128
Potential Upside	37%
BSE Sensex	28865
NSE Nifty	8927

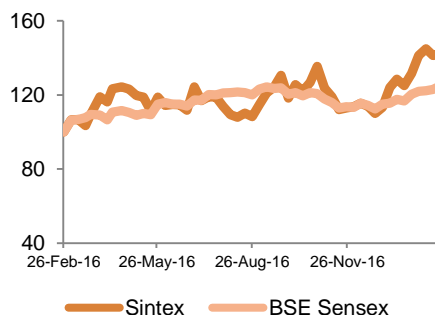
Scrip Code	
Bloomberg	SINT IN
Reuters	SNTXBO
BSE Group	A
BSE Code	502742
NSE Symbol	SINTEX

Market Data	
Market Cap.(Rs. Cr)	4926
Equity Sh. Cap. (Rs Cr)	52.3
52 Wk High/Low	98/63
Avg. Quarterly Volume	4427669
Face Value (Rs.)	1

Shareholding Pattern (Dec-16)



Comparative Price Chart



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Sintex Industries Limited (Sintex) is one of the leading players in plastics and composites manufacturing space in India, with a presence also in high-end textile business. Sintex has 38 manufacturing facilities and a global footprint span across 9 countries and 4 continents. The demerger of the plastics and textiles businesses into two separate entities removes a long overhang of capital allocation worries and will unlock the value of each business division. Sintex has commenced commercial production of its spinning plant (Phase 1) of 3.3 lakhs spindles capacity and also in process of setting up additional capacity (Phase 2) of 3.0 lakhs spindles unit for blended yarn with a capex of Rs. 2100. With this expansion, we expect the textile segment to report a revenue growth of 47%. The plastics division has continued to witness steady growth on back of improved performance of custom moulding and building segment division. Sintex continues to retain its focus on reaping benefits from its prefabricated business, storage tanks and custom moulding business at a CAGR of 16% during the period of FY16-FY19E.

Demerger to unlock value of diversified businesses of the company

Sintex Industries is planning to demerger of business into two separate entities namely, Sintex Industries Ltd (Sintex) and Sintex Plastics Technology Ltd (SPTL). The shareholders of Sintex will be getting one equity share of SPTL to every equity share held in Sintex industries. The proposed demerger of business is before SEBI for its approval and process is expected to be completed by March 2017E. The demerger is expected to unlock shareholder value by separating the various business segments in different entities which is playing at high margin with significant growth rate. Sintex will carry textile & spinning business whereas, SPTL will have custom moulding and building products segments. Both the segments are very different as plastics segment generates ROCE of 15-16% whereas textile segment generates very low ROE and ROCE due to high debt. We expect textile division to post a CAGR of 47% in revenue over the period of FY16-FY19E as the spinning project will be commissioned by period. The plastic segment is expected to grow at a CAGR of 16% in revenue over the period of FY16-FY19E which will be aid mix performance in the segment.

Textile segment on the cusp of a turnaround, to drive growth in future

Sintex's fiber-to-fabric business is the one of the oldest segment which contributes ~12% to the total revenue of the company. This segment is more focused on high end, value driven, and margin accretive products in the niche markets of the textile industry. In Q1FY17, Sintex has commenced commercial production of Phase 1 spinning plant (compact cotton yarn) at Pipavav with a capacity of 3.3 lakhs spindles running at ~80-85% capacity utilization in 9MFY17. The company is also in process of setting up another 3 lakhs spindles unit for blended yarn with a CAPEX of Rs. 2100 crs with an expected IRR of ~16-18%. The textile segment has the advantages of raw material cost, government textile policy, attractive power rates available at plant and many other benefits from the government which may resulting in healthy return ratios.

Plastic segment offers a good mix with high growth and high return

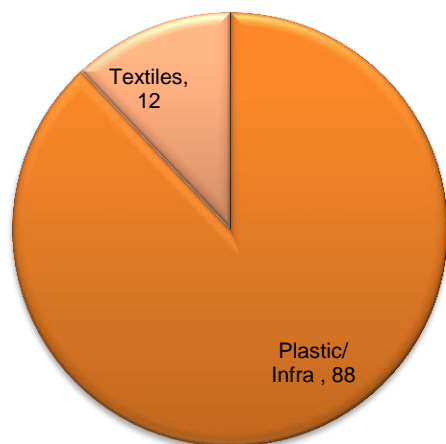
The plastic and infrastructure verticals which together accounts for 88% of the revenues of the company. The segment is divided into two verticals that are custom moulding and building products. Custom moulding business contributes 51% to the total sales of the company of which ~45% is from domestic business whereas 55% if from overseas subsidiaries. We expect custom moulding business to report a CAGR of 16% for FY16-FY19E aid by low capex, high focus on domestic business with high margin and high return ratios kind of business with Fortune 500 customers. The revenue from building products segment contributes 49% to the total sales of the company and consists of three business vertical viz. storage tanks, prefabs and monolithic construction. We expect building product segment to report a CAGR of 14% during FY16-FY19E led by prefabricated and tanks segments steady demand and growth.

Valuation

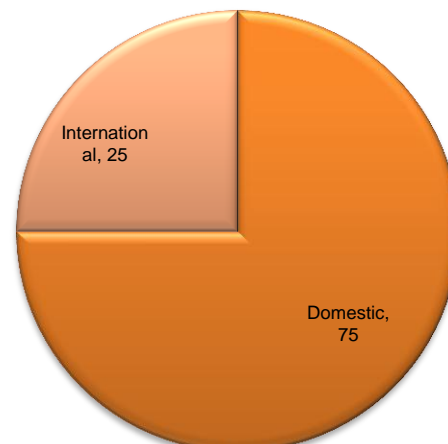
With higher growth expectation from Custom Moulding, Prefabs and Textile segment, we expect revenue to grow a CAGR of 19% over the period of FY16-FY19E. The EBITDA margin is expected to improve by 98bps to reach 17.8% by FY19E. At the current price the stock is trading at a P/E of 8x and 5.7x and an EV/EBITDA of 7.1x and 5.9x for FY17E and FY18E respectively. We value Sintex at a P/E of 6x for FY19E recommend a BUY with a target price of Rs. 128, with an upside of 37% in a year.

Year	Sales (Rs.cr)	Growth (%)	EBITDA (Rs.cr)	Margin (%)	PAT (Rs.cr)	Margin (%)	Adj EPS (Rs)	P/E (x)	EV/EBITDA	ROE
FY16	7733.5	10.4%	1,297.3	16.8%	632.6	8.2%	14.2	6.6	7.4	11.4
FY17E	9015.6	16.6%	1,509.4	16.7%	612.1	6.8%	11.7	8.0	7.1	9.4
FY18E	10703.3	18.7%	1,829.3	17.1%	856.2	8.0%	16.4	5.7	5.9	11.7
FY19E	12902.0	20.5%	2,292.3	17.8%	1,221.8	9.5%	23.3	4.0	4.5	14.3

Business Mix



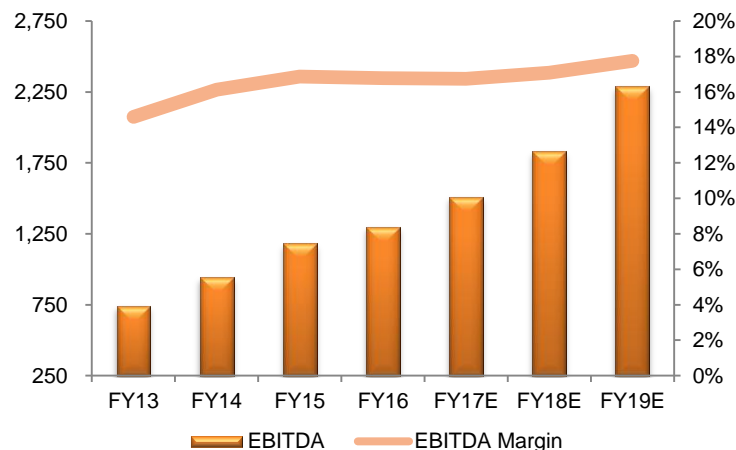
Geographical Presence



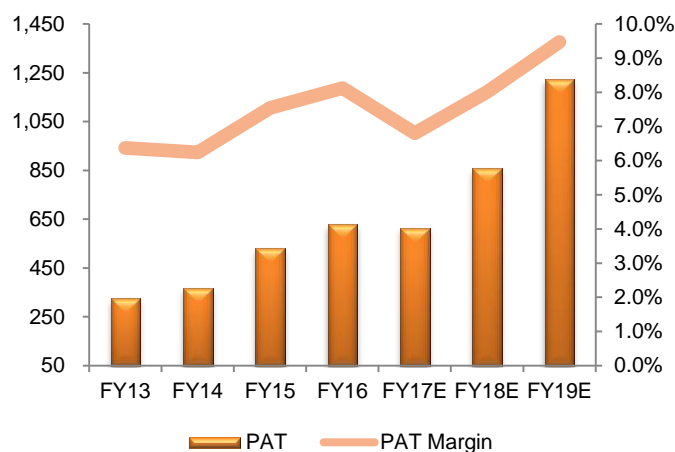
Revenue (Rs. Cr) and Revenue Growth (%)



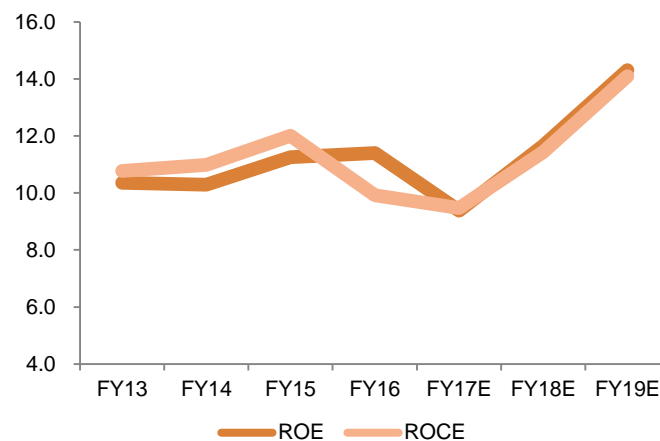
EBITDA (Rs. Cr) and EBITDA Margin (%)



PAT (Rs. Cr) and PAT Margin (%)



ROE and ROCE

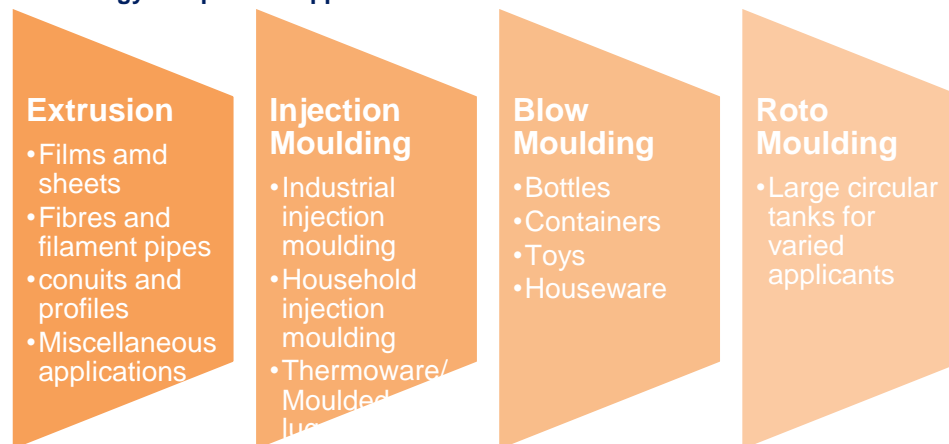


INDUSTRY OVERVIEW

The plastic processing industry

The Indian plastic processing sector comprises over 30,000 units engaged in producing a variety of products using multiple polymer variants (polystyrene, LDPE, PVC, HDPE and polypropylene, among others) and diverse technologies (injection moulding, blow moulding, roto moulding, extrusion and calendaring, among others).

Technology and product applications



Plastic products are positioned as a cost-effective substitute to traditional metallic and wooden variants. The plastics industry has made a significant contribution to the economic development and growth of various key sectors in the country such as automotive, construction, electronics, healthcare, textiles and FMCG, among others. For example, the usage of engineering plastics in four-wheelers has more than doubled over the last decade (yet remains significantly lower than the per capita consumption in developed nations) – this trend holds true for a number of other plastic product applications. Nevertheless, the per capita consumption of plastics in India (~9 kilos) is much lower than that of China (45 kilos).

The way forward

Burgeoning disposable incomes, accelerating urbanization and increasing substitution of plastic products in favour of traditional variants are some of the key factors driving the growth of the plastic processing sector in India.

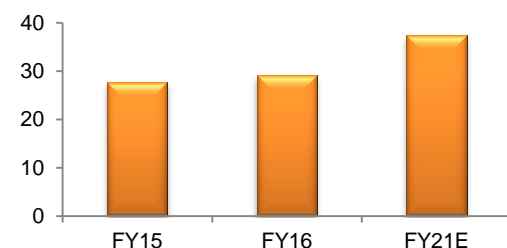
According to a paper released by the Minister of State for Chemicals and Fertilizers, the Indian plastics processing industry is expected to grow by more than 50% to reach Rs. 1.37 lakh crs by FY2017-18 (from about Rs.0.90 lakh crs at the end of FY2013-14). This growth will be propelled by an increased growth accelerating among end-user industries, greater penetration of plastics via various existing and an ever-growing range of new applications.

The Indian plastic industry has set a '20-20-20' vision. According to this, it is expected that the plastic processing in India could reach the 20 MT mark by 2020 from the current 8.5 MT. And, with plastic products becoming increasingly ubiquitous across household and industrial applications, the per capita consumption of plastic in India is expected to touch 20 kilos by 2020 from about 9 kilos currently.

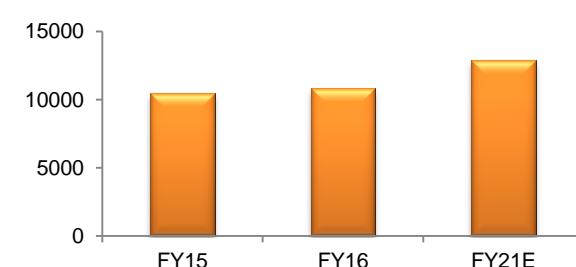
Custom Moulding Industry Overview- Globally

In FY15, the total worldwide composite materials shipment reached 10,448.5 Kilotonnes (kt) with a value of USD 27.7bn and is expected to grow to USD 37.4bn with an average CAGR of 5.1% until FY21. The major drivers of growth till date has been due to sectors like wind energy, aerospace, transportation, marine and construction markets with Asia being the top continent in terms of total consumption in 2015. Stricter government regulations on fuel efficiency and carbon emissions in the automotive sector, higher composite adoption in aerospace are just some of the other driving factors in the industry. The industry is also seeing a shift towards automation in composite processes to minimize labour costs and increase efficiency and quality.

Global Mkt size of Composites by value (USD Bn)



Global Mkt size of Composites by Shipment Volume (kt)



Custom Moulding Industry Overview- India

The future of the Indian composites market looks attractive with opportunities in the electrical and electronic, wind energy, pipe and tank, transportation, and construction industries. The major driver for market growth is the rise in demand for electrical and electronic, wind energy, and pipe and tank applications due to increase in the number of government projects like smart cities development, eco-friendly energy generation, fresh water transportation, sewage treatment system, rehabilitation of water and sewage pipe lines.

Indian plastics industry is set to buck the global trend of sluggish growth by emerging as one of the fastest growing markets with 12 percent growth rate this year. By 2020, plastics consumption of the country is expected to increase from the current 12 MMTPA to 20 MMTPA. India will deploy 180,000 machines by 2020 as compared to the current 113,000, according to Plastindia Foundation. The domestic industry is undergoing a major transition with various new technologies being adopted. Going forward new applications are being developed to replace wood and metals with composites and plastics. Industries like Aerospace and defense are a potentially large opportunity as indigenization gains momentum. The make-in-India initiatives will go a long way in expanding the plastics and composites custom moulding Industry potential.

Second largest textile manufacturing

India is the second largest producer of textiles and garments in the world and one of the mainstays of the national economy. Abundant availability of raw materials such as cotton, wool, Sintex and jute as well as a skilled workforce has allowed the country to emerge as a global sourcing hub. It's also a major contributor to the national economy in terms of direct and indirect employment generation and net foreign exchange earnings accounting for about 11% of India's total exports. The textiles sector (including dyed and printed) has witnessed a spurt in investment during the last five years. Case in point: the industry attracted FDI worth US\$ 1.77 billion between April 2000 and September 2015.

The Indian textiles industry, currently estimated at around US\$ 108 bn, is expected to reach US\$ 223 bn by 2021. The industry is the second largest employer after agriculture, providing employment to over 45 mn people directly and 60 mn people indirectly. The Indian Textile Industry contributes approximately 5% to India's GDP, and 14% to overall IIP. The Indian textile industry has the potential to reach US\$ 500 bn in size according to a study. The growth implies domestic sales to rise to US\$ 315 bn from currently US\$ 68 bn. At the same time, exports are implied to increase to US\$ 185 bn from approximately US\$ 41 bn currently. The textiles sector has witnessed a spurt in investment during the last five years. The industry (including dyed and printed) attracted Foreign Direct Investment (FDI) worth US\$ 1.85 billion during April 2000 to March 2016.

Government Incentives

The Indian Government has come up with a number of policies to promote exports in the textiles sector. It has allowed 100% FDI in the Indian textiles sector under the automatic route. Some important initiatives taken by the Central Government to promote the industry are i) Started promoting of its 'India Handloom' initiative on social media. ii) The new policy aims at creating 35 mn vacancies leveraging the investments made by foreign companies.

Announced subsidies on the purchase of machinery and infrastructure:

- The RR-TUFS covers manufacturing of major machinery or technical textiles for 5% interest reimbursement and 10% capital subsidy in addition to 5% interest reimbursement also provided to the specified technical textile machinery under RRTUFS.
- Under the SITP, the Government of India provides assistance for infrastructure creation to the extent of 40% (up to Rs. 40 crore).
- Major machineries for production of technical textiles receive customs duty concession of 5% and many more.

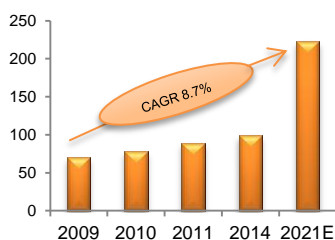
Yarn Industry:

- India has approximately 24% of the world's spindle capacity.
- Indian yarn production grew to 4,136 million kg FY16 from 3,549 million kg in FY13, growing at a CAGR of 5.23%.
- Growing global yarn demand coupled with increasing competitiveness of Indian manufacturers globally to drive growth in the segment.

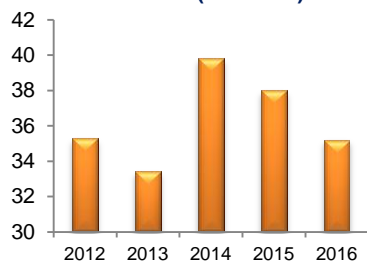
Fabric Industry:

- The total fabric production in India is expected to grow to 69 bn sq.mts by 2017- 18 from 66 bn sq.mts in 2015-16.
- Cotton is a major product of the Indian textile industry and over 65% of total mill fibre consumption in country is Cotton. Among all the fabrics and yarns produced, cotton is the main fabric. Its share in the spun yarn segment stayed at 73% in FY15.

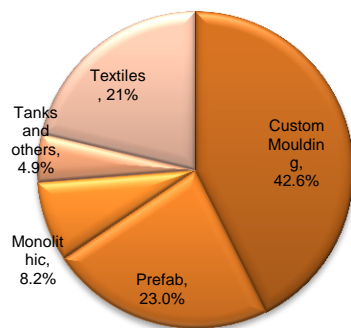
India's Textile market Size (USD Bn)



Cotton Production (Mn Bales)



Q9FY17 Business Mix

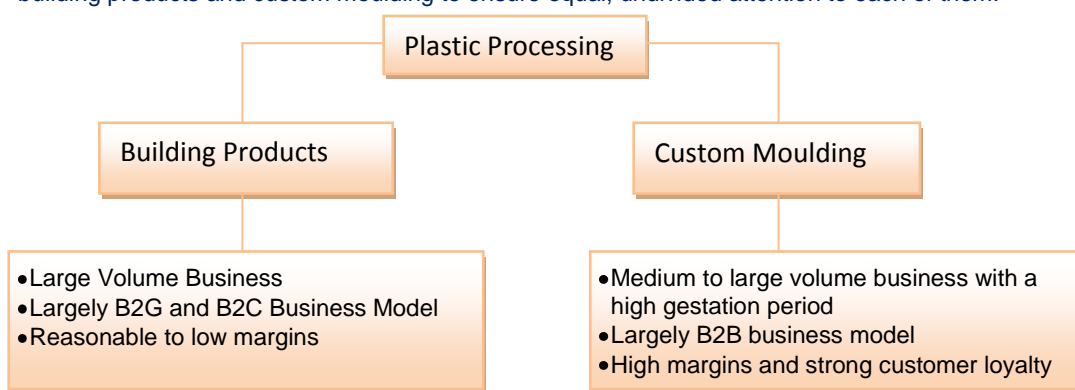


Company Background

Founded in 1931, Sintex Industries Limited ("Sintex") enjoys a strong presence across diverse sectors and has made a name for it by foreseeing trends and accordingly evolving and developing suitable products. Its plastic-based products have gained currency across fast-growing segments while the textile business has propelled itself by focusing on manufacturing premium structured fabrics. Consequently, Sintex has been able to ink mutually beneficial agreements with leading global fashion brands. Besides structured fabrics, Sintex is also a leading domestic manufacturer of corduroy fabrics.

Plastic processing

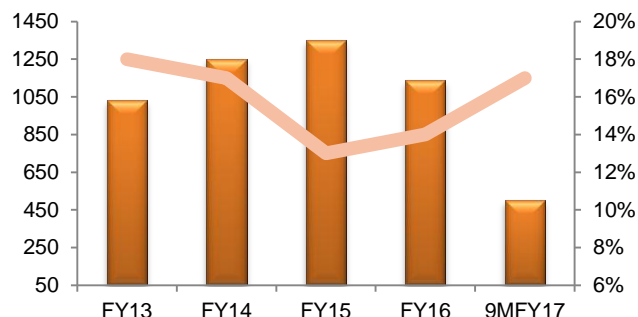
Since the launch of the water tanks that revolutionized water storage in India three decades ago, Sintex has traversed a long and winding road. Today it's a 'Superbrand', making its presence felt in hitherto uncharted territories – steadily replacing conventional metallic variants with cost effective, plastic-based solutions. It's on the back of this qualitative excellence, that Sintex has been able to extend its presence from water storage to power distribution, automobiles, electrical products, sanitation, building interiors and warehousing segments, and a host of other verticals. The Company enjoys a pan-India presence with 38 cutting-edge plastic processing facilities and a global footprint spanning 9 countries with a strong presence in the European, American, African, and Asian markets including countries like France, Germany and the USA. The Company has divided its plastic business into two major verticals namely building products and custom moulding to ensure equal, undivided attention to each of them.



Building Products Segment – The Company offers prefabricated structures, storage and water tanks, sub-ground structures, containers, doors, windows, and plastic sections, as well as packaged waste water treatment solution and environmental products. Revenues from the building products segment contribute ~49% (as per 9MFY17) to the total sales of the company and consist of three businesses, viz. monolithic construction, prefabs and storage tanks.

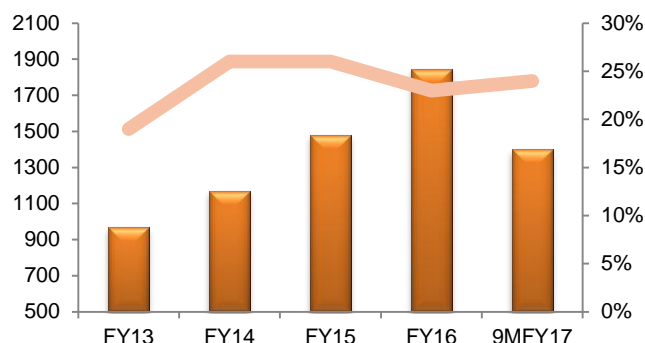
The Monolithic Construction: The monolithic construction business caters to low cost mass housing solutions like slum rehabs, Janta housing and LIG (low income group) houses which are affordable, quick to construct, low maintenance. Sintex is leading player in monolithic construction in India. Under this segment, the company offers holistic solutions comprising of engineering, designing, drawing and manufacturing. The segment contributes ~34% to the building products segment sales with EBITDA margin of 14% in FY16. This segment saw an impressive growth in the past, however since FY11 monolithic construction has seen a slowdown with revenues fallen at a CAGR of 4% from FY11 to FY16. This is on account of conscious effort to focus on receivables management. The company is planning on reducing the contribution of the monolithic in the overall revenue pie, which will dropped from 34% in FY16 to 16% in FY19E.

Monolithic Revenue (Rs. Crs) and EBITDA Margin



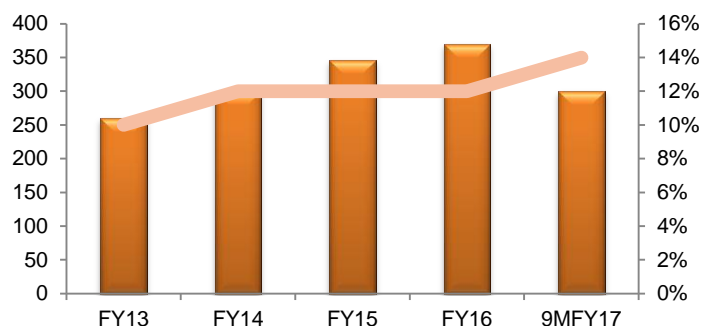
The Prefabs Business: Sintex has pioneered itself into Prefab segment in India with 25% growth in revenue and EBITDA margin at 23%. It comprises 24% of total consolidated revenues, as on FY16. The multifarious benefits of prefabricated structures position them as the preferred solution in India's efforts towards strengthening social infrastructure comprising of toilet blocks, Mid-day meal kitchens, health care centers, classrooms and hostels, police chowkis, Labour camps, Army shelters among others. The company's products cover 80% of India's geography for execution with different materials for climatic conditions, utility structures, sanitation programs and various other requirements. The company has pan India network along with dedicated installation team that provides readymade solutions for speedy implementation.

Prefabs Revenue (Rs. Crs) and EBITDA Margin



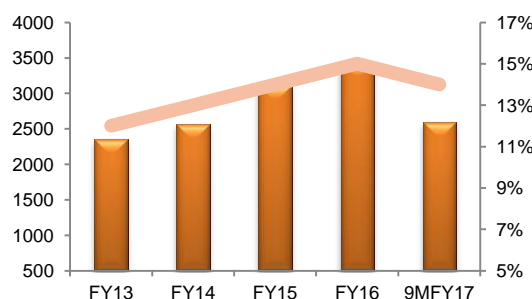
The Storage Tanks and Other retail Business: Storage tanks and other retail segment contributes remaining ~11% to the total building products segment sales and ~5% to total sales of the company, involves manufacturing of water storage tanks, pallets, doors.

Storage Tanks and Other retail Business Revenue (Rs. Crs) and EBITDA Margin

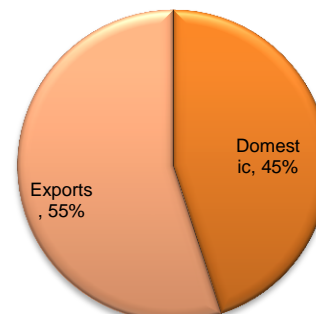


Custom molding segment – In custom moulding business, Sintex operates in India through its domestic business and in the US and Europe through its subsidiaries. This segment contributes ~51% to the total sales of the company of which ~45% is from the domestic business and ~55% from overseas subsidiaries. The segment is most diversified division of Sintex geographically. The company is equipped with diverse capabilities of customized moulding which find applications in many industries such as Automotives, Aerospace & Defence, Electrical, Mass Transit and Off-the-Road Vehicles, Medical imaging products etc. Sintex caters to diverse sectors with majority of its business obtained from Automotive, Electrical, Mass rapid transportation, Aerospace and Medical Imaging. Sintex, custom moulding division has grown inorganically through the following acquisitions. The overall contribution of domestic business has increased at a CAGR of 18% from FY11-FY16. Management will continue to focus on the domestic side of custom moulding business mainly due to higher growth and margins.

Custom molding (Rs. Crs) and EBITDA Margin



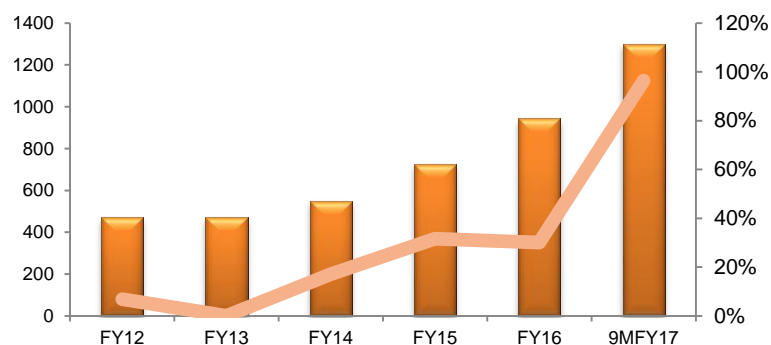
FY16 Geographical Revenue Breakup



Textile Business – The textile division of Sintex is one of the oldest business segment which was incorporated as a BVM at Kalol (Gujarat). Segment contributes ~12% to the total revenue of the company. Sintex has focused on niche market, high end, extensively creative, low volume and high margin products, in a segment of the textiles industry which has low competition. Sintex textile division can be categorized into Fabric division and yarn division.

Sintex has recently commercialized an ultra modern, highly automated, world class compact cotton yarn spinning plant at Pipavav, Gujarat with an capacity of 3.3 lakh spindles of compact cotton yarn and is in the process of setting up another spindle unit for blended yarn as well with a capacity of 3 lakh spindles with an CAPEX of 2100 crs. The project is economically incentivized from the state government. The company will enjoy a 7% interest subsidy over and above 4% TUFS from the central government. Gujarat state has surplus power which will be available for spinning units at a subsidized rate (Rs 1/unit less than standard rates), Duty exemption @ 15% on power tariff is also possible and VAT refund till cost of project is recovered. The spinning facility will also be benefited from proximity to Pipavav port leading to lower logistics cost (Exports will account for 50% – 60% of its volumes).

Textiles Revenue (Rs. Crs) and EBITDA Margin



FINANCIAL PERFORMANCE

(Rs. In Crs)

Profit and Loss (Rs. Cr)	FY16	FY17E	FY18E	FY19E
Net sales	7733.5	9015.6	10703.3	12902.0
% Growth	10.4%	16.6%	18.7%	20.5%
Operating Expenses	6,436.2	7,506.2	8,874.0	10,610.7
EBITDA	1297.3	1509.4	1829.3	2292.3
EBITDA Margin	16.8%	16.7%	17.1%	17.8%
Depn & Amort	304.8	422.3	464.3	489.3
Other Income	133.2	146.5	161.1	177.2
Interest	281.7	417.5	384.5	351.5
Loss on FC	0.00	0.00	0.00	0.00
PBT	843.9	816.1	1,141.6	1,628.7
Tax	211.3	204.0	285.4	406.9
Adj PAT	632.6	612.1	856.2	1,221.8
PAT Margin	8.2%	6.8%	8.0%	9.5%
Shares o/s (No.in Cr.)	44.7	52.3	52.3	52.3
Adj EPS	14.2	11.7	16.4	23.3
Cash EPS	21.0	19.8	25.2	32.7
Qterly (Rs. Cr)	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Revenue	2323.8	1695.3	2261.8	2075.0
EBITDA	453.8	290.0	412.9	347.8
Depn & Amort	81.4	96.0	95.8	96.2
Other Income	33.7	6.1	17.4	6.1
Loss on FC	0.0	0.0	0.0	0.0
EBIT	406.1	200.1	334.5	257.7
Interest	91.6	84.0	87.4	82.0
PBT	314.5	116.1	247.1	175.7
Tax	81.5	40.3	82.4	65.1
PAT	233.0	75.8	164.7	110.6
EPS	4.5	1.4	3.1	2.1
Performance Ratio	FY16	FY17E	FY18E	FY19E
EBITDA Margin (%)	16.8%	16.7%	17.1%	17.8%
PAT Margin (%)	8.1%	6.8%	8.0%	9.5%
ROE (%)	11.4	9.4	11.7	14.3
ROCE (%)	9.9	9.5	11.4	14.1
Sales Growth (%)	10.4%	16.6%	18.7%	20.5%
PAT Growth (%)	19.0%	-2.4%	39.9%	42.6%
Per Share Data	FY16	FY17E	FY18E	FY19E
BV Per Share	123.4	125.0	140.6	163.2
Cash Per Share	14.8	18.7	6.8	4.5
Dividend Per Share	0.7	0.6	0.6	0.6
Valuation Ratio	FY16	FY17E	FY18E	FY19E
Price Earnings (x)	6.6	8.0	5.7	4.0
EV/EBITDA (x)	7.4	7.1	5.9	4.5
Price/BV (x)	0.8	0.7	0.7	0.6
Mkt cap/Sales (x)	0.5	0.5	0.5	0.4
EV/Sales (x)	1.2	1.2	1.0	0.8
Valuation Ratio	FY16	FY17E	FY18E	FY19E
D/E (x)	1.0	0.9	0.8	0.6
Interest Coverage (X)	4.0	3.0	4.0	5.6

Balance Sheet (Rs. Cr)	FY16	FY17E	FY18E	FY19E
Share Capital	44.7	52.3	52.3	52.3
Reserve & Surplus	5467.9	6489.7	7307.7	8489.4
Networth	5512.5	6542.0	7360.1	8541.8
Net deferred tax Liab	619.0	619.0	619.0	619.0
Long term Borrowings	5150.8	5800.8	5300.8	4800.8
Long term Provision	61.8	66.8	72.3	78.3
Total Loans	5212.6	5867.6	5373.1	4879.1
Trade payable	960.6	1137.3	1345.5	1615.6
Provisions	143.1	180.3	214.1	258.0
Current Liab	823.0	853.4	886.8	923.6
Short term Borr	688.9	638.9	588.9	539.9
Capital Deployed	13959.7	15838.6	16387.5	17377.1
Net Fixed Assets	7542.6	8470.3	8756.1	8766.8
Capital Work In progress	192.9	150.0	150.0	150.0
Investments and Goodwi	236.8	236.8	236.8	236.8
LT Loans & Adv	1426.7	1569.0	1725.5	1897.6
Other Non Curr assets	49.59	54.55	60.00	66.00
Cash & Bank	936.3	1,173.3	551.8	428.6
Inventories	606.4	719.3	850.4	1,016.9
Debtors	2,241.8	2,629.5	3,121.8	3,763.1
Loans & Advances	596.8	656.5	722.1	794.4
Other Current assets	130.9	180.3	214.1	258.0
Capital Employed	13,959.7	15,838.6	16,387.5	17,377.1
Cash Flow	FY16	FY17E	FY18E	FY19E
PBT	838.3	816.1	1,141.6	1,627.7
Add:Depreciation	304.8	422.3	464.3	489.3
Add:Interest	281.7	417.5	384.5	351.5
Less: Other Income	(133.2)	(146.5)	(161.1)	(177.2)
Change in WC	(56.5)	(506.6)	(602.6)	(744.0)
Tax	(211.3)	(204.0)	(285.4)	(406.9)
CF from Operations	1,023.8	798.7	941.2	1,140.4
CAPEX	(2,699.2)	(1,350.0)	(750.0)	(500.0)
WIP	219.7	42.9	-	-
Others Income	133.2	146.5	161.1	177.2
CF from Investing	(2,346.3)	(1,160.6)	(588.9)	(322.8)
Change in equity capital	167.2	455.7	-	-
Change in borrowings	1,706.3	600.0	(550.0)	(550.0)
Dividend paid	(39.32)	(39.32)	(39.32)	(39.32)
Interest paid	(281.7)	(417.5)	(384.5)	(351.5)
Others	4.2	-	-	-
CF from Financing	1,556.6	598.8	(973.9)	(940.9)
Net Chg in cash	234.1	237.0	(621.5)	(123.2)
Cash at beginning	425.0	740.9	977.8	356.3
Cash at end	659.1	977.8	356.3	233.1
Turnover Ratio (x)	FY16	FY17E	FY18E	FY19E
Debtors Days	3.5	3.5	3.5	3.5
Creditors Days	2.4	2.5	2.5	2.5
Inventory Days	1.1	1.2	1.2	1.2

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