IIFL
Premia Research

Sintex Plastics Technology Ltd.

CMP: ₹108; 1 year Target: ₹147

Sector	Plastic Products
Recommendation	Upside
BUY	**36.6%**

Stock Data	
Sensex	31,663
52 Week h/l (₹):	137 / 101
Market cap (₹ Cr) :	5,810
BSE code:	540653
NSE code:	SPTL
FV (Rs):	1
Div yield (%):	--

Shareholding Pattern

	Sep-16	Dec-16	Aug-17
Promoters	--	--	30.6
DII+FII	--	--	26.6
Individuals	--	--	42.8

Source: Source: www.bseindia.com

Share Price Trend

Prices as on 07/09/2017

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September 08, 2017

Reshuffle to result in value unlocking

Sintex Plastic Technology (SPTL) was established by transferring the Plastic (Custom Molding) business and the Prefab & Infra business of Sintex Industries to Sintex BAPL and Sintex Prefab & Infra respectively that are 100% subsidiaries of SPTL (see exhibit 1 for revenues). We believe that this move will unlock value for the Plastics business as it will be re-rated on account of better operational metrics. The Prefab business stands to benefit from increasing corporate and government spends on social initiatives and is ready to capitalize on the opportunity owing to its pan India manufacturing (cost benefits) and distribution presence. Custom Molding business caters to major global OEMs across geographies (in diversified user industries), which will enable it to gain from increasing application of composite plastics.

Composite substitution in Auto/Aerospace/Elec. components to aid revenue growth

87% of STPL's FY17 Custom Molding business revenue comes from industrial verticals, which is purely composites (generally fibers + polymers). SPTL caters to Indian/global auto OEMS that contribute ~33% to Industrial Customs Molding revenue in FY17. Composite plastics are increasingly replacing metal parts in auto components as it helps in vehicle weight reduction and improve fuel efficiency. Going forward, substitution is expected to continue and will benefit SPTL as it has forged long term relations with domestic and foreign OEMs. Even other segments like Aerospace/Mass Transit (Metro) are rapidly replacing metal components like aluminum with composite plastic. This bodes well from demand perspective as it can leverage on its technological capabilities and global manufacturing footprint that most Indian peers lack. Domestic business forming ~40% of Industrial Custom Molding revenues in FY17 is a high growth vertical (15% growth) and has EBITDAM profile of ~20%.

Steady deleveraging to lower interest outgo

SPTL is expected to post strong FCF growth on account of 1) lower focus on w/c intensive monolithic business, 2) asset light route (outsourcing) for retail custom molding business and 3) cost benefits arising out of shifting of production of low value-add work to low cost manufacturing sites. As a result, we expect steady reduction in debt leading to SPTL's interest expense declining from ₹ 263 cr to ₹ 238cr over FY17-19E.

Outlook & Valuation

We believe that increasing substitution of metal with composite plastics will drive overall revenue CAGR of 8.7% over FY17-19E. Movement of lower value-add work to low cost manufacturing sites and better discipline in the prefab business will hold EBITDA margins at current levels. We expect lower interest burden to lead to PAT CAGR of 11.7% over FY17-19E. We are factoring FCCB conversion (in Sintex – entitled shares of SPTL) in FY18 and consequently EPS growth will be lowered to ~7%. We value SPTL at 17.0x FY19 EPS of ₹ 8.7 to arrive at a price target of ₹147.

Financial Summary

Consolidated ₹ cr	FY17	FY18E	FY19E
Revenue	5,995	6,457	7,083
YoY growth	--	7.7	9.7
EBITDA Margin	16.9	16.9	17.1
PAT	420	445	523
YoY Growth	--	6.1	17.6
EPS (₹)	6.9	7.4	8.7
P/E (x)	15.5	14.6	12.4
ROE	13.5	13.4	13.9

Source: Company, IIFL Research

Company Background

Established in 1931, Sintex (SPTL) is a globally respected conglomerate with interests across building materials and custom mouldings.

- Sintex Industries successfully spun off its plastic division earlier this year under the name of Sintex Plastic Technology Limited (SPTL).
- SPTL has a diversified presence across products, end markets and geographies with 36 manufacturing facilities spread across India, Europe, North Africa and USA.
- SPTL has a rich and diversified client base with none of the customers accounting for more than 5% of the total revenue.
- SPTL and its subsidiaries conducts its activities mainly in two segments:
    - Custom Mouldings (Composite Plastics and retail products)
    - Prefabricated units & Infrastructure

Exhibit 1: STPL revenue breaks up FY17

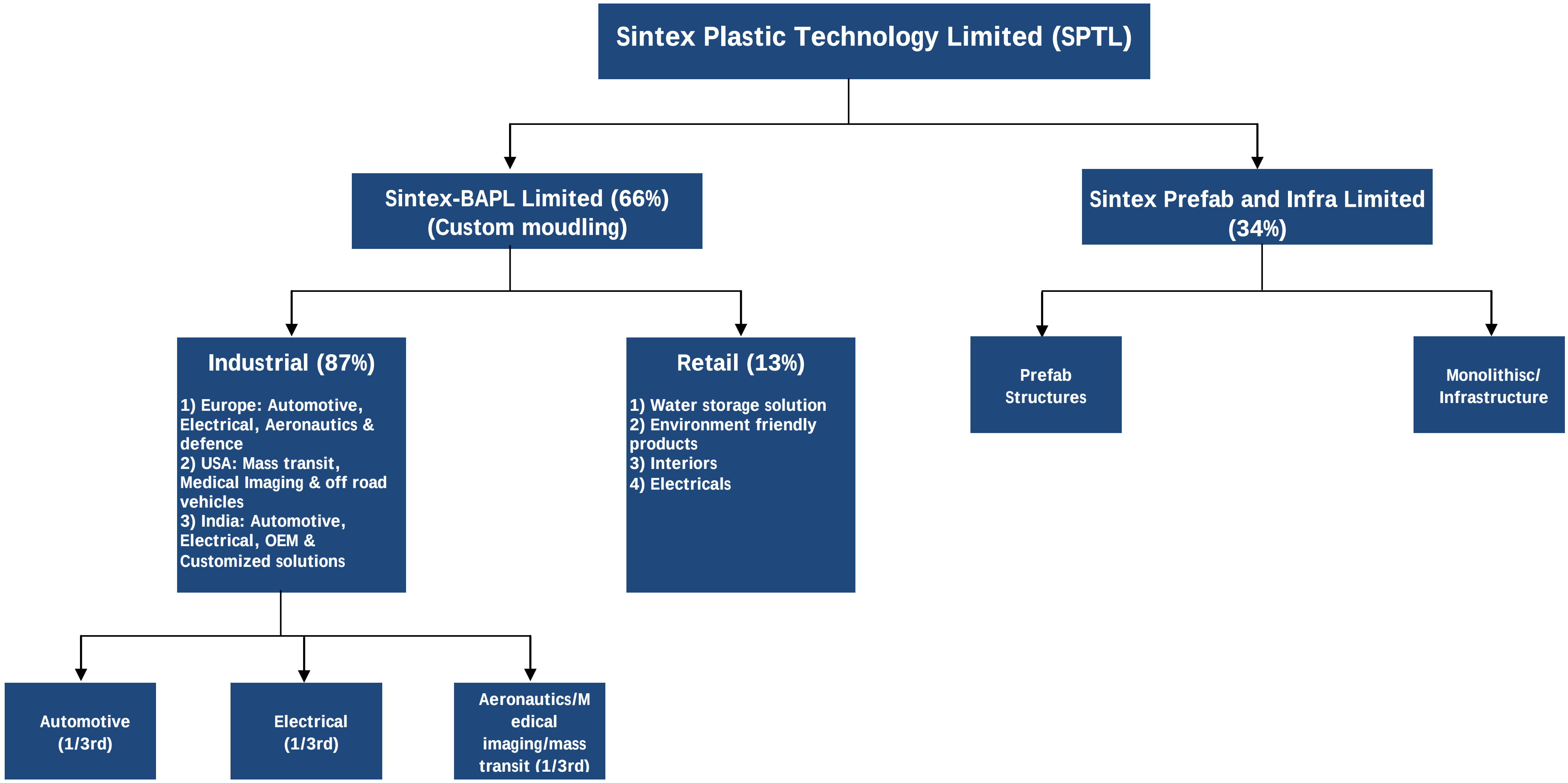

Exhibit 2: Peer Comparison

	MCap (Crs)	Revenue			EBITDA Margin (%)			P/E			ROE		
	FY17	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Sintex Plastics	5,985	5,995	6,457	7,083	16.9	16.9	17.1	15.5	14.6	12.4	13.5	13.4	13.9
Nilkamal *	2,274	1,956	2,228	2,500	11.2	11.8	11.6	19.4	17.5	14.9	18.5	16.7	16.7
Supreme	14,921	4,462	5,079	5,930	16.4	16.2	16.5	35.4	32.8	26.8	25.0	25.2	26.5
Time Technoplast	4,141	2,755	3,185	3,574	14.7	14.6	14.6	26.8	23.5	20.2	11.9	12.5	13.0

*Source: Company, IIFL Research, Bloomberg; note - * Standalone*

Exhibit 3: Traction in end-user segments to drive revenue growth for STPL

Geography	End User	Growth Expectations
Asia Pacific	Automotive	The application of composite in automotive is expected to post CAGR of 9.9% through 2016-21
Europe	Automotive	Automotive composite market is expected to record CAGR of 7.86% through 2016-21
Asia Pacific	Aeronautics	Expect the market to grow to $6.16 billion by 2020 (CAGR of 9.7%)
EMEA#	Aeronautics	Market to grow from $3.5 bn to $4.6 bn over 2015-20 (5.7% CAGR); Europe has 75% of market share
USA	Aeronautics	Market to grow from $3.41 bn to $4.2 bn over 2015-20, at a CAGR of 4.3%
GLOBAL	Electrical	Global tooling composites market in electrical and electronics segment to post CAGR of 8.2% over 2015-20.
GLOBAL	Defense	The application of composite in defense is expected to grow at a CAGR of 5-6%through 2016-2021.

Source: Technavio Industry Research; Note - # Europe, Middle East and Africa

Disclaimer

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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RESEARCH REPORT

22nd Aug 2017

SINTEX PLASTICS TECHNOLOGY LIMITED

NSE : SPTL **Sector: PLASTIC PRODUCTS** **BSE: 540653**

View - BUY

CMP : Rs. 111

Target Price: Rs 150 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Sintex Plastics Technology Ltd is headquartered in Kalol, Gujarat. SPTL enjoys a global presence through its subsidiaries - Sintex NP SAS (Europe) and Sintex Wausaukee Composites Inc. (US). Its Indian subsidiaries include Sintex BAPL for its custom moulding business and Sintex Prefab and Infra Ltd, which undertakes EPC contracts for infrastructure projects across the nation. SPTL entered the storage tanks manufacturing space in the 1970s and later diversified into the custom moulded electricals space through the production of SMC products. also leveraged its plastics expertise to enter the building construction space through prefabricated structures as well as full-fledged monolithic buildings.

INVESTMENT HIGHLIGHTS

Strong Financials for SPTL as on FY17 –

During FY17, SPTL posted a net profit of Rs.419.6 crore on sales of Rs.5846 crs recording an EPS of Rs.7.6. With an equity capital of Rs.55.5 crore and reserves of Rs.3059 crs SPTL's share book value works out to Rs.56 as on FY17.

The value of its consolidated gross block is Rs.6125 crs (net block is Rs.5913 crore). Its debt and current liabilities stand at Rs.4005 crs. Cash and investments, current assets, long-term/short-term loans and advances given of Rs.775 crs give it a net DER of around 1:1 where as RONW was 13.5%.

SPTL was created after the demerger of Textile & Plastic Business of SIL –

SPTL was formed consequent to the demerger of the businesses of the 2 companies- Sintex Plastics Technology Ltd and Sintex Industries Ltd which were earlier part of Sintex Industries Ltd. The shareholders of Sintex Industries have received 1 share of Sintex Plastics Technology Ltd for every 1 share held in Sintex Industries Ltd. As per the scheme of demerger, the company has transferred its industrial custom moulding and retail custom moulding to Sintex BAPL while its prefab,monolithic and infrastructure businesses have been transferred to Sintex Prefab and Infra Ltd. Both Sintex BAPL and Sintex Prefab and Infra Ltd are housed under Sintex Plastics Technology while Sintex Industries will only comprise the textile business of the company.

KEY DATA

FACE VALUE Rs	1.00
DIVD YIELD %	NA
52 WK HI/LOW	136/100
NSE CODE	SINTEXPLAST
BSE CODE	SINTEXPLAST
MARKET CAP	RS 6204 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	31%
BANKS, MFs & DIIs	-	16%
FIIs	-	10%
PUBLIC	-	33%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	10	10	11
EBIDTA Gr%	11	12	12
PAT Gr%	14	23	24
EPS Gr%	5	23	24
EPS (Rs)	8	10	12
ROE %	14	15	16
ROCE %	9	10	11
P/E(x)	14	11	9

SPTL has key products which include the –

Industrial Custom Moulding Business –

SPTL has diverse capabilities of customized moulding, which find application in varioud industries such as Automotives, Aerospace & Defence, Electrical, Mass-Transit and Off-the-Road (OTR) Vehicles, Medical imaging products, etc. It is present across a diversified range of technologies, geographies and sectors.

No single customer contributes more than 5% to its total sales in this segment. The company uses 30+ different custom moulding processes and technologies varying from blow moulding, open moulding, rotational moulding, light RTM and vacuum bag infusion molding to ultrasonic welding. It has strategically located plants across the world to optimize logistic costs and ensure customer satisfaction. Historically, this segment's overseas business constitutes 55% of the total revenues while the rest is domestic.

Retail Custom Moulding Business –

In this segment, SPTL manufactures water storage solutions, sub-ground structures, environment-friendly products like its `Euroline' dustbins and containers, false ceilings, doors and cabinets aimed at low cost and mass housing solutions such as slum rehabilitation shelters and Janta housing.

Prefabricated Structures Business –

Prefabricated structures are completely knocked down kits that can be assembled at the clients site thereby minimizing wastage and improving cost effectiveness. These structures have various benefits, which position them as the preferred solution towards strengthening social infrastructure comprising toilet blocks, mid-day meal kitchens, health-care centres, classrooms and hostels, police stations, labour camps and army shelters, etc. SPTL's products cover 80% of the country's geography for execution with different materials for climatic conditions, utility structures, sanitation programs and various other requirements.

SPTL enjoys strong competitive advantages, which position it as one of the preferred partners for prefabricated solutions. Its five plant manufacturing presence allows faster execution and optimises logistic costs. Its product mix comprising medium and small structures enables it to cater to diverse demands. In-house availability of majority of the inputs such as sandwich panels, doors and windows improve the speed from order acceptance to final delivery.

SPTL provides both large scale as well as household level solutions and has approvals to work in 80% of India. Its five plants/depots are strategically located, which can cater to the entire country with distances not exceeding 1,000-1,200km.

The market for such products remains immense, especially from the government side as social spending budgets have either grown or remained steady at high levels (Right to Education FY18E budget – Rs235bn, Clean India Mission FY18E budget – Rs100bn, National Health Mission FY18E budget – Rs267bn, etc), part of these budgets could be used for prefabricated structures. In addition, mandatory corporate social responsibility spending (as per the new Companies Act) is also expected to lead to increased demand for prefabricated structures from the private sector

Monolithic constructions & Infra Business –

Sintex commenced monolithic construction projects in 2005, and has evolved into one of the leading companies for monolithic construction for low cost housing. Monolithic construction involves fabrication and casting of four walls and slabs together by pouring fluid cement concrete into a mould, while using a nominal quantity of metallic reinforcement bars, to form a single or multistoried building.

SPTL uses its in-house manufactured plastic formwork to set up entire buildings, which are usually used for low-cost, large-scale housing projects. Such projects are usually demanded by government entities and the military, but can also be extended to private construction

In the infrastructure business, the company undertakes contracts as a pure EPC player. However, the company does not expect any major orders for its EPC business in the coming years.

What are the Key Earnings Drivers for SPTL ?

Monolithic construction business could turn out a potential dark horse over the medium term –

Earlier in the last 5 years the entire monolithic business segment was largely driven by government orders including from housing boards, slum rehabilitation, railways and government quarters amongst others. Typical order sizes here ranged between Rs 15 crs to Rs 75 crs. However given the large size of such orders and long delays in the payment cycle by the various government departments, led to receivable days increasing to 270 days from 100-120 days on an average earlier. This made Sintex scale back its monolithic construction business considerably earlier.

While SPTL has adopted a prudent strategy of focusing on profitable growth and remains selective in this space, we believe that this business segment can grow strongly ahead in the next 2-3 years as the impetus on low-cost/affordable housing is getting more prominence.

Another segment which SPTL is likely to look at is large real estate developers once RERA compliance improves and real-estate developers start focussing on affordable housing.

Lower capital allocation worries, deleveraging balance sheet to drive earnings growth ahead –

Before the proposed demerger of the Plastics and Textile business the combined entity namely Sintex Industries was faced with inefficient capital allocation with large capex being routed to the heavy/low return textile business.

The textile business was already pulling consolidated return ratios lower where RoCE business of 3-5% was being generated and this coupled with the Rs41bn capex investment in the 600000 cotton yarn spindles project would have dragged return ratios further.

On the other hand SPTL which is the non-textile business offered healthy overall return ratios with a ROCE and ROE of roughly 14 to 15% and post this demerger, we expect the cash-generating, high return ratio business of SPTL to get its due from the markets as capital allocation worries recede.

Going ahead SPTL is not expected to incur high capex over the next 2 years as average capacity utilisation stands at around 60% across product segments and capex would be required once this improves to 80-90% (mostly in FY20E).

We hence expect SPTL to lower net-debt by around Rs 6.5 bn to Rs7bn over the next two years largely driven by FCF generation on improving financials and lower capex for the next couple of years.

While revenue growth is expected to be stable at 11% CAGR during the FY17-19E period, earnings growth would be higher at 14.4% as the capex cycle is behind and repayment of debt would drive down interest payments for the company.

Steady financial performance - topline growth and margin expansion –

We estimate SPTL's earnings to witness a CAGR of 16-17% over FY17-20E. This will be driven by strong revenue growth (10-11% CAGR over FY17-20E) and a steady EBITDA margin expansion over the same period.

During FY17, the company posted a net profit of Rs.419.6 crore on sales of Rs.5846 crs recording an EPS of Rs.7.6. With an equity capital of Rs.55.5 crore and reserves of Rs.3059 crore, SPTL's share book value works out to Rs.56 as at FY17. The value of its consolidated gross block is Rs.6125 crs (net block is Rs.5913 crore). Its debt and current liabilities stand at Rs.4005 crs. Cash and investments, current assets, long-term/short-term loans and advances given of Rs.775 crs give it a net DER of around 1:1 where as RONW was 13.5%.

Going ahead over FY18 and FY19, the company management expects its capex cycle to be funded by internal accruals largely and overall capex is likely to be low as the company has adequate capacity till FY20. We hence believe that this will boost the ROCE and ROE returns ratios further since incremental topline would be growing at a faster rate with ROCE and ROE expected to average around 10% and 16% respectively by FY20 from a ROCE of 8.7% and a ROE of 14% in FY17.

Overall Demand for SPTL's product mix over the long term looks strong –

According to census 2011, India's urban population has grown 31.8% in 2011 over 2001. This compares with 17.6% growth in overall population. The urban population constitutes 31.2% of the total population in 2011 against 27.8% in 2001. Demand for low-cost housing remains high. While the latest estimates investment for low-cost housing stood at US$32 billion (Rs.2032 bn) the prospects for SPTL's main business look strong.

The spending on social infrastructure remains buoyant as it is primarily funded directly by central and state governments. Given the government's focus on the social sector in India, the spending on social infra is likely to remain insulated from the vagaries of the economy. This augurs well for SPTL's monolithic segment.

SPTL enjoys an early-mover advantage in businesses that are levered to the social sector spending in India (schools/ low-cost housing/ healthcare centres), funded almost entirely by government. A macroeconomic turnaround, improving trajectory of businesses linked to government spending, improving financial performance and further easing of working capital will drive the expected improvement going ahead for SPTL.

Overall with social spending remaining robust, and increasing infrastructure spending, higher CSR expenditure, and potential private sector capex in the years ahead, SPTL's prefab business is expected to deliver healthy growth. The CM business is also expected to deliver good growth in India (as target industries recover from the De monitization and GST impact while the outlook remains stable in the company's European and American businesses.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 6595 crs.

On the bottomline level we expect the company to record a PAT of Rs 480 crs in FY18E. Thus on a conservative basis, SPTL should record a EPS of Rs 8 for FY18E. For FY19E and FY20E our expectation is that earnings traction for SPTL will continue to remain attractive wherein we expect a EPS of Rs 9.77 & Rs 12 respectively.

SPTL offers one of the widest plastic-based solutions in the global plastic processing space – from creating housing units to small components that find application in the medical equipment and electrical businesses. SPTL is the only Indian plastic processing company with pan India presence and enjoys an early-mover advantage in businesses that are levered to the social sector spending in India (schools/ low-cost housing/ healthcare centres), funded almost entirely by government.

A macroeconomic turnaround, improving trajectory of businesses linked to government spending, improving financial performance and further easing of working capital will drive the expected improvement in the company's operating metrics. Going ahead SPTL is not expected to incur high capex over the next 2 years as average capacity utilisation stands at around 60% across product segments and capex would be required once this improves to 80-90% (mostly in FY20E).

Valuation wise looking at the small earnings and revenue base of SPTL, we believe the markets would be looking at SPTL as a RE RATING story with overall debt reduction likely to boost earnings at the net level going ahead over the next 2 years.

Hence we believe that the SPTL stock should be purchased at the current price for a price target of around Rs 150 over the next 12 to 18 months.

FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18E	FY19E	FY20E
Net Sales	5994.7	6594.17	7253.58	8051.48
EBIDTA	1013.2	1127.60	1262.12	1409.00
EBIDTA %	16.90	17.10	17.40	17.50
Interest	263.3	246.5	235.1	210.1
Depreciation	230.3	280.1	325.1	350
Non Operational Other Income	35.00	35.00	40.00	40.00
Profit Before Tax	554.6	636.00	741.92	888.91
Profit After Tax	419.5	480.3	590.1	730
Diluted EPS (Rs)	7.56	7.95	9.77	12.09
Equity Capital	55.5	60.4	60.4	60.4
Reserves	3058.7	3539	4129.1	4859.1
Borrowings	4005.7	3700.1	3300.1	2850.1
GrossBlock	5686.1	5735.1	5770.1	5840.1
Investments	58.1	58.1	58.1	58.1

Source Company our Estimates

KEY CONCERNS

Adverse impact of foreign currency The company is subjected to risks arising from fluctuations in the exchange rate. For FY17, 34.1% of the Sintex Plastic's revenues and 35.6% of the expenses were earned and expended in foreign currencies. Any adverse movement in these currencies can affect the gross and operating margins of both the companies

Revenues from the Prefab business and Monolithic construction business represent 34.2% of consolidated revenues in FY17. Further, the businesses are highly capital intensive and any change in existing government policies can affect the business adversely.

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