

Sintex Industries Ltd

Industry	CMP	Recommendation	Add on dips to	Target	Time Horizon
Textiles	Rs. 25.70	Hold and add on declines	Rs. 20-21.50	Rs. 29.50	1-2 quarters

HDFC Scrip Code	SININDEQNR
BSE Code	502742
NSE Code	SINTEX
Bloomberg	SINT IN
CMP June 09, 2017	Rs. 25.7
Equity Capital (Rs cr)	52.4
Face Value (Rs)	1.0
Equity Share O/S (crs)	52.4
Market Cap (Rs crs)	1426.0
Book Value (Rs)	64.6
Avg. 52 Wk Volumes	31977992
52 Week High	37.9
52 Week Low	17.7

Shareholding Pattern %(Mar 31, 2017)	
Promoters	31.2
Institutions	36.2
Non Institutions	32.6
Total	100.0

Fundamental Research Analyst

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We had issued a Stock Note on March 27, 2017 (when its CMP was Rs.99.85) with a recommendation to buy the stock at the CMP and add on declines to price band of Rs. 86-90 for sequential targets of Rs.131 and Rs.149 over the next 1-2 quarters. Refer: http://old.hdfcsec.com/Research/ResearchDetails.aspx?report_id=3021870. We now issue a stock update incorporating recent corporate action (Demerger) and results review.

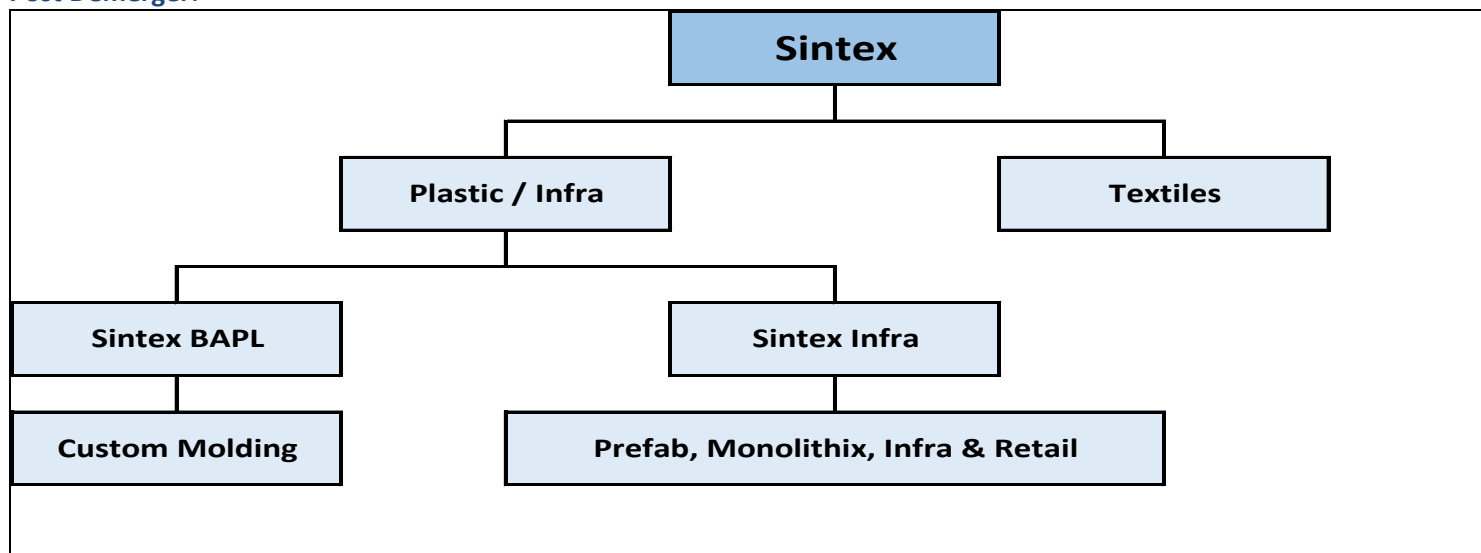
Corporate Action

The stock of Sintex Industries Ltd (SIL) turned ex on 25th May 2017 for demerger of the custom moulding business and prefab business to Sintex-BAPL and Sintex Infra Projects, wholly owned subsidiaries of Sintex Plastics Technology (SPTL). The scheme involved issuance of equity shares of SPTL to the shareholders of SIL so that the share holder will get one share of SPTL upon demerger for each share held. The shares of SPTL will get listed on the BSE and the NSE shortly.

Sintex Industries had fixed May 26, 2017 as the record date for the purpose of determination of entitlement for allotment equity shares as per the composite scheme of arrangement. The Textiles business of Sintex continued in Sintex Industries Ltd. The company has fully integrated business to cater to the segment and engage in premium niche segment in structured dyed yarn shirting and corduroy fabrics. Company started manufacturing of cotton yarn by setting up a ~300,000 spindles plant, in FY17. On 25th May 2017 (Ex date), Sintex (now consisting of Textiles business) stock opened at Rs 18.65, and in initial trading hours it touched a low of Rs17.75. It later went on to make a high of Rs.34.50 during the day and closed at Rs 25.80 with huge intraday volume. Later after trading in the Rs. 25.30 to Rs. 26.15 band, it has closed at Rs.25.70 on June 09, 2017.

Structural changes in the company:

SIL transferred its custom moulding business and prefab business to Sintex-BAPL and Sintex Infra Projects, respectively. Post-demerger, there are two companies Sintex Industries (having predominantly textile and spinning businesses) and Sintex Plastics Technology Ltd, which is also have two subsidiaries - Sintex-BAPL and Sintex Infra Projects. While Sintex Industries is already listed, Sintex Plastics Technology will also be listed later, which is subject to legal procedure. As on 31st March 2016, textiles accounts for about 11 percent of Sintex's revenue, with 77 percent coming from plastics and the balance from Infrastructure. The group expects the demerger to assist it in managing businesses and operations for the two companies more efficiently and also helps to develop & execute growth plans and strategies effectively.

Post Demerger:


(Source: Company, HDFC sec)

Company Snapshot:

Sintex Textile division was established in 1931 and company has its manufacturing facilities of composite textile mill at Kalol, Gujarat. Over the last two decades, company has been reputed name as a premium niche player in structures dyed yarn shirting and corduroy fabrics domestically as well as globally. Sintex has focussed on high end and high margin products.

Company has seen consistent ramp up in its capacity at Pipavav Yarn Project. Overall, growth and margins were as per the expectations and company clocked over 85% utilisation in FY17. Company is strategically positioned in Gujarat to become a leading player with a global scale of 100% compact cotton spinning capacity at a single location. Client’s traction was encouraging in FY17.

Key Focus Area

Domestic and Global Sales	Export to more 20+ countries globally at 65% of sales.
	Exploring new market of high growth and stable large customers.
Working Capital	Lower Inventory at 90 days resulting lower Working capital.
	Strategically balancing between domestic and international sourcing.
Overheads	Pipavav Port resulting lower logistic cost and time.
	Strategically positioned in Pipavav and Gujarat is emerging as textile hub.
Economies of Scale	Post phase II commissioning, scale will offer further economies of scale.
	Large customer interaction with loner term contracts.

(Source: Company, HDFC sec)

Q4FY17 Results review

The board of Sintex Industries approved the Q4FY17 result of Textile segment on 19th May 2017. For Sintex Industries, Consolidated revenue grew sharply because of expansions (Phase I of 3.21 lakh spindles went on stream in Q4FY17, Phase II of 3.0 lakh spindles to go on stream in Q2FY18), which is going on stream. Revenue grew by 132.7% (YoY) to Rs 661.34 cr in Q4FY17. EBITDA for the quarter was down by 6.8% (yoy) to Rs. 77.8 crore with a margin contraction of 250 bps. EBITDA margin for the quarter stood at 11.8% and margin contraction was due to higher cotton prices and adverse movements in inventories. The PAT for the quarter was up by 16% at Rs. 49.5 crore, while sequentially, it was down by 19% because of higher interest cost. PAT margin inched up by 30bps (YoY) to 7.5% in Q4FY17.

Looking at the full year numbers, company reported revenue growth by 104% to reach Rs.1921.3 crore while EBITDA rose by 30.5% to 270 crore. Company reported net profit of Rs.134.3 crore, up 21% yoy.

EPS stood for Q4FY17 at Rs 0.91 and for FY 17 at Rs 2.47 per share. As on 31st March 2017, Company has total Borrowing of Rs 4025.7cr (Net Borrowings of Rs 3311 cr) and CWIP of Rs 2493 cr due to on-going expansion of Phase II, which is to be commissioned in H1FY18E.

View and Valuation:

We expect to see continued growth in revenues in SIL over the next two- three years led by expansion programs. However margins could be subdued due to capacities going on stream across the industry. High interest and depreciation costs due to expansions getting commissioned will result in a subdued growth in bottomline despite aggressive growth in topline. Debt will continue to be high though some amount of debt repayment could happen over the next few years. We have revised our estimates for FY19 lower mainly due to low margins in Q4FY17. At the CMP of Rs.25.70 it quotes at 7.4 xFY19E EPS of Rs.3.5. We think investors who have bought the stock before the demerger on the basis of our recommendation can hold and add on dips to Rs.20 to Rs. 21.50 Band (~6.0x FY19E EPS) for a target of Rs.29.50 (8.5x FY19E EPS) over 1-2 quarters.

Aggressive debt repayments, better product mix containing higher proportion of high value products, tie up with large marquee clients and consistency in growth in capacity utilization and better realization could result in re-rating of the stock beyond our targets.

Quarterly Financials (Consolidated):

Particulars, Rs in Cr	Q4FY17	Q4FY16	(YoY)-%	Q3FY17	(QoQ)-%	FY17	FY16	(YoY)-%
Net Sales	661.4	585.0	13.1%	284.3	132.7%	1921.3	940.9	104.2%
EBITDA	77.8	83.5	-6.8%	68.5	13.5%	269.9	206.8	30.5%
Depreciation	33.4	33.2	0.7%	18.8	77.6%	132.2	73.1	80.9%
EBIT	44.4	50.3	-11.8%	49.7	-10.7%	137.7	133.7	3.0%
Other Income	35.6	16.8	111.6%	33.1	7.4%	97.2	76.4	27.2%
Interest	26.7	22.8	16.8%	17.8	50.2%	93.3	67.9	37.5%
Earning before Tax	53.3	44.3	20.3%	65.0	-18.1%	141.6	142.2	-0.5%
Tax Paid	3.7	1.9	97.3%	13.3	-72.0%	7.3	31.4	-76.8%
Reported Profit After Tax	49.5	42.4	16.9%	51.8	-4.3%	134.3	110.8	21.2%

EPS	0.9	0.8	16.0%	1.2	-19.0%	2.8	2.5	10.0%
EBITDA Margin	11.8%	14.3%	(250bps)	24.1%	(1230bps)	14.0%	22.0%	(800bps)
PAT Margin-%	7.5%	7.2%	30bps	18.2%	(1070 bps)	7.0%	11.8%	(480bps)

(Source: Company, HDFC sec)

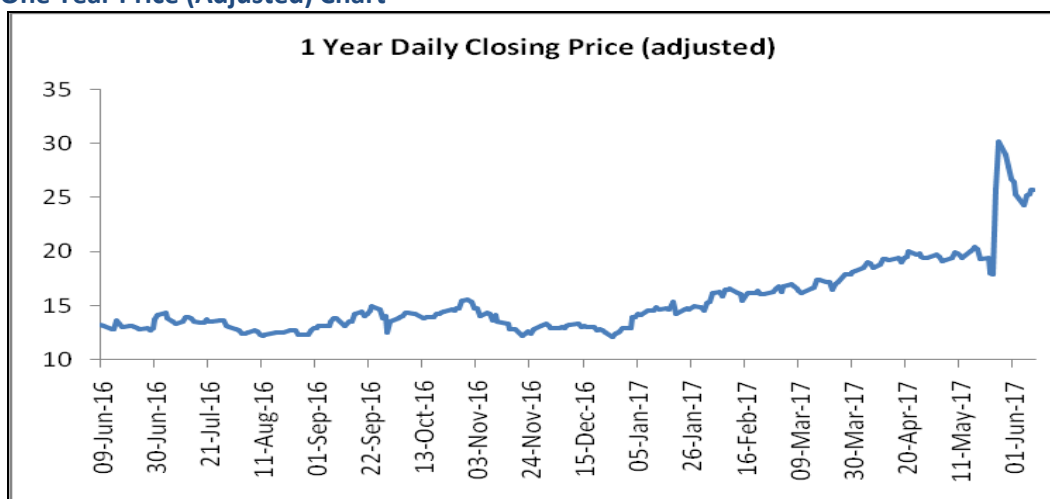
Balance Sheet (Consolidated):

Particulars, Rs in Cr	FY17	FY16
Share Capital	54.5	44.7
Reserve and Surplus	3,858.4	5,510.4
Total Equity	3,912.9	5,555.0
Total Borrowings	4,025.7	5,830.2
Non Current Liabilities	98.7	287.3
Current Liabilities	581.7	1,889.1
Total Equity and Liabilities	8,619.0	13,561.7
Fixed Assets	3,761.8	7,711.7
CWIP	2,493.2	184.0
Non Current Assets	245.3	1,153.3
Inventory	206.7	606.4
Trade Receivables	627.0	2,236.3
Cash/ Cash Equivalents	714.9	740.9
Other current Assets	570.0	929.0
Total assets	8,619.0	13,561.7

Revised Estimates (consolidated):

Particulars, Rs in Cr	FY19E
Net Sales	3500
EBITDA	525.3
EBTDAM-%	15.0%
Depreciation	224.8
EBIT	300.5
Other Income	80.2
Interest	148.5
EBT	232.2
Tax Paid	23.2
PAT	209.0
EPS	3.5

(Source: Company, HDFC sec)

One Year Price (Adjusted) Chart


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