



Sintex Plastics Technology Ltd.

Q2 FY19 Quarterly Update

MARKET DATA

| | |
|--------------------------------|-------|
| NSE TICKER | SPTL |
| Networth FY18 (Rs in Crs) | 3837 |
| P/BV Ratio (FY18) (x) | 0.4 |
| EPS (FY18)(Rs.) | 2.9 |
| Market Price (Rs.) | 26.6 |
| P/E Ratio (FY18) (x) | 9.1 |
| 52 Week High (Rs) | 95.4 |
| 52 Week Low (Rs) | 26.15 |
| Market Capitalisation (Rs. Cr) | 1666 |

AVERAGE MONTHLY VOLUME ('000)

| | |
|-----|------|
| BSE | 166 |
| NSE | 1080 |

SHARE HOLDING PATTERN

| | |
|----------|----|
| Promoter | 34 |
| FII | 18 |
| DII | 1 |
| Public | 47 |

| RETURN (%) | 3M | 6M | 12M |
|-----------------|-----|-----|-----|
| Sintex Plastics | -29 | -51 | -71 |
| Sensex | -10 | -6 | -3 |

Mohit Mehra (Research Analyst)

mohit.mehra@dimensional.in

+91-22-66545231

Financial Performance:

Sales declined 18% YoY and decreased by 12.5% QoQ. The decline in sales YoY was largely due to a sharp reduction in the prefab business division (down 49.2% YoY). This decline is due to management strategy of reduced focus on this capital intensive business. The QoQ decline was largely caused by decreasing sales in the custom moulding division; this is in line with management strategy to focus more on the production of profitable products. The EBITDA margin increased by 73 BPs to 14.2% contrasted with 13.5% in Q2FY18. The margin increased primarily due to increase in the gross margin by 173 BPs and reduction in other expenses by 30%. This was partially offset by an increase in employee costs by 8% in a declining sales environment. The employee costs have increased as the company is focusing on improving products, distribution channels, and customer experience across both the retail and the institutional divisions. The 20% increase in interest cost can be largely explained by currency fluctuation (9cr increase). In spite of a lower EBITDA and higher interest expense in Q2FY19 as compared to Q2FY18, PAT and EPS increased YoY due to an exceptional expense of 45cr in Q2FY18. This was because of stamp duty incurred during the demerger of Sintex Plastics and Sintex Industries

Focus on profitability in unfavorable commodity price environment

The rising crude price and depreciating INR with respect to USD has increased the RM costs for the company- RM costs increased by 18-20% in a single fortnight. In this environment, the company has focused on driving sales of products with higher gross margins as well as those products where increased input prices can be passed on to the customers. This explains the 12% drop in custom moulding division QoQ. Other products may be traded or manufacturing can be outsourced as required. Due to these initiatives, gross margin has increased by 173 BPs YoY. However, the impact of higher raw material prices can be seen from the decline of gross margin by 119 BPs QoQ.

Scope of mass transit business

This technology was acquired from the Wausaukee acquisition in the US. Sintex transferred the equipment to its plant in Pune for reducing the employee expenses. Manufacturing is largely carried out for mass transit US clients. The major players are Bombardier, Alstom, Siemens, and Stadler and they are all customers of Sintex. Sintex believes that there is a huge potential for this business to grow in India. These projects have a long term horizon. It takes 2-3 years for a bid project orders to start flowing in and orders last for another 4-5 years. Management expects Indian mass transit revenues to start in FY19-20 and peak by FY22-23

Quarterly Performance:

| Particulars (RS in crs) | Q2 FY19 | Q2 FY18 | YoY (%) | Q1 FY19 | QoQ (%) | FY18 | FY17 | Y-o-Y |
|-------------------------|---------|---------|----------|---------|---------|--------|--------|----------|
| Net Sales | 1172 | 1433 | -18% | 1325 | -12% | 5594 | 5870 | -5% |
| RM Consumed | 650 | 820 | -21% | 720 | -10% | 3177 | 3145 | 1% |
| RM as % Sales | 55.49% | 57.21% | -173 bps | 54.30% | 119 bps | 56.90% | 53.60% | 320 bps |
| Employee Cost | 174 | 161 | 8% | 207 | -16% | 703 | 677 | 4% |
| Other Expenses | 181 | 260 | -30% | 236 | -23% | 929 | 994 | -6% |
| EBITDA | 166 | 193 | -14% | 163 | 2% | 783 | 1053 | -26% |
| EBITDA Margin | 14% | 13% | 73 bps | 12% | 189 bps | 14% | 18% | -394 bps |
| Interest | 89 | 74 | 20% | 77 | 17% | 300 | 261 | 15% |
| PBT | 37 | 21 | 73% | 34 | 8% | 196 | 568 | -66% |
| Tax | 3 | 5 | 31% | 3 | 4% | 15 | 135 | -89% |
| PAT | 40 | 26 | 55% | 38 | 8% | 226 | 433 | -48% |
| EPS | 0.65 | 0.46 | 41% | 0.61 | 7% | 2.9 | 7.6 | -49% |



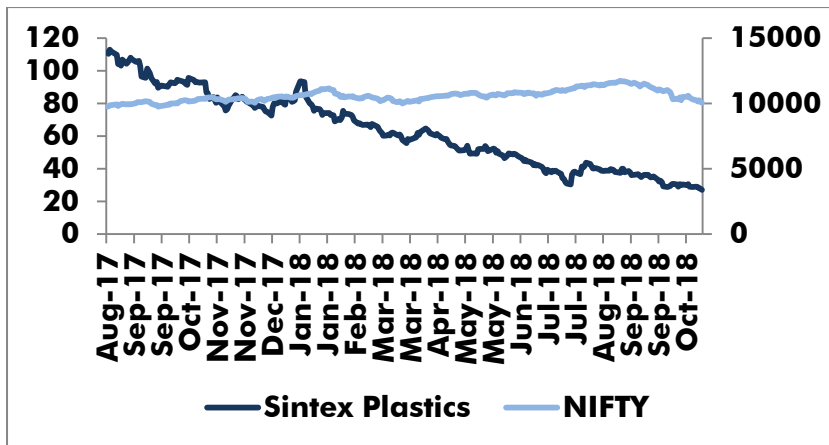
Changes in Model:

- The PE multiple (based on FY20 earnings) has been reduced from 14 to 12 to account for the poor market sentiment for small and mid-cap stocks
- Prefab decline has been increased in FY20 in line with management guidance
- The forecasted gross margin has been left unchanged from Q1 due to management focus on pushing higher margin products. The selling and distribution costs and the power and fuel expenses were increased in Q1 due to higher crude prices
- The rate of increase of employee expenses have been reduced in line with the results
- The interest costs have been increased in line with current results

Valuation & View:

We are valuing Sintex Plastics Technology on a PE multiple basis. We value the company with a price objective of Rs.44 using a PE multiple of 12x based on FY20E EPS of 3.7. The valuation implies an upside of 66%

Share Price:



Conference Call Highlights:

- The company's focus with respect to balance sheet is decreasing capex, be cash positive, reduce leverage, and target net debt/EBITDA < 2 in 3 years
- Order book for custom moulding (eg air vent) depends more on sales of customers rather than a predetermined order book. 80% of sales for this division have already been booked
- PPI order book has doubled from 2 months of production to 3.5-4 months of production
- For the EU business (Simonin), the EBITDA margin has increased from 9.5% at acquisition to 12% currently. This division has been operating at full capacity. Company has used the technology from acquisition to provide solutions to customers that are a blend of metal and plastic- as a result, the firm has moved up the value chain
- H2 guidance is better (historically 40-60% split of sales for H1 and H2). Company expects crude oil and rupee to stabilize. Guidance is 0.5% higher EBITDA margin in H2 compared to H1 on account of higher volumes and stable RM costs and due to price increase of certain products
- Vision is to triple revenues in 6 years. The foundations for growth have been laid- company has invested significantly in people, products, quality assurance, SOPs, SAP, distribution, service, and maintenance. Water tanks division is expected to be the biggest contributor in retail in next 2 years. Company also expects significant growth in the doors division in the next 3-5 years. Other major products are urea tanks (depends on launch of BS VI norms- new rule from 1st April 2020- and sales expected from Sep 2019)
- Management still aims to convert the warrants at a high price even though it can get shares from the market at a much lower price
- Net debt has gone up because of currency fluctuation- 1400cr debt in foreign currency and that value increased. Actual debt reduction in H1 would be 228cr that has been paid off
- Around 200cr of receivables is overdue
- Pledged shares are to NBFC- share price has declined from 128 to 28. However, there has been no margin call so far- promoters have been reducing the debt and repay before a margin call is possible



| Sintex Plastics Technology, Ltd.- Statement of Profit & Loss | | | | |
|--|---------------|--------------|--------------|--------------|
| DESCRIPTION | FY17 | FY18 | FY19E | FY20E |
| Net Sales | 6041.0 | 5701.0 | 5156.8 | 5506.6 |
| EXPENDITURE : | | | | |
| Raw Material Consumed | 3408.4 | 3229.6 | 2745.3 | 2871.8 |
| Power & Fuel Cost | 106.4 | 120.5 | 132.8 | 150.8 |
| Employee Cost | 740.6 | 792.5 | 821.7 | 852.0 |
| Other Operating Expenses | 772.5 | 785.8 | 811.1 | 868.6 |
| EBITDA(Excl OI) | 1013.2 | 772.6 | 645.9 | 763.5 |
| EBITDA Margin | 16.8% | 13.6% | 12.5% | 13.9% |
| Depreciation | 230.0 | 208.4 | 206.3 | 204.5 |
| EBIT | 783.1 | 564.2 | 439.7 | 559.0 |
| Other Income | 35.0 | 65.1 | 64.4 | 65.3 |
| Interest | 263.3 | 298.1 | 263.1 | 251.8 |
| PBT before exceptional item | 554.9 | 331.1 | 240.9 | 372.5 |
| Exceptionaonal Item | 0.0 | -137.0 | 0.0 | 0.0 |
| PBT | 554.9 | 194.1 | 240.9 | 372.5 |
| Provision for Tax | 135.0 | 15.4 | 83.4 | 128.9 |
| Minority Interest | 0.7 | 0.7 | 0.7 | 0.7 |
| Profit After Tax | 420.6 | 179.4 | 158.2 | 244.3 |
| Earnings Per Share | 7.6 | 2.9 | 2.6 | 3.7 |

| Sintex Plastics Technology, Ltd.- Balance Sheet | | | | |
|---|---------------|---------------|---------------|---------------|
| DESCRIPTION | FY17 | FY18 | FY19E | FY20E |
| Equity Share Capital | 55.5 | 61.5 | 61.5 | 66.1 |
| Total Reserves | 3058.7 | 3776.5 | 3934.0 | 4589.4 |
| Shareholder's Funds | 3114.2 | 3837.9 | 3995.5 | 4655.5 |
| | | | | |
| Minority Interest | 1.6 | 2.3 | 3.0 | 3.7 |
| | | | | |
| Total Borrowings | 3488.1 | 2769.8 | 2650.3 | 1987.3 |
| Other Long Term Liabilities | 426.3 | 413.6 | 393.3 | 406.3 |
| Total Non-Current Liabilities | 3914.4 | 3183.4 | 3043.6 | 2393.6 |
| | | | | |
| Trade Payables | 841.1 | 805.2 | 684.4 | 716.0 |
| Other Current Liabilities | 1067.7 | 976.1 | 882.9 | 942.8 |
| Total Current Liabilities | 1908.8 | 1781.3 | 1567.4 | 1658.8 |
| Total Liabilities | 8938.9 | 8804.9 | 8609.4 | 8711.5 |
| | | | | |
| Fixed Assets | 5885.2 | 5863.6 | 5848.2 | 5838.7 |
| Other Non Current Assets | 543.1 | 520.0 | 524.9 | 535.9 |
| Total Non-Current Assets | 6428.3 | 6383.7 | 6373.1 | 6374.5 |
| | | | | |
| Inventories | 547.3 | 522.0 | 443.8 | 464.2 |
| Sundry Debtors | 1245.9 | 1171.4 | 1059.6 | 1131.5 |
| Cash and Bank | 174.4 | 150.0 | 150.0 | 150.0 |
| Other Current Assets | 543.0 | 577.7 | 583.0 | 590.6 |
| Total Current Assets | 2511 | 2421 | 2236 | 2336 |
| Total Assets | 8938.9 | 8804.9 | 8609.4 | 8710.9 |



| Sintex Plastics Technology. Ltd.- Cash Flow | | | | |
|---|---------------|---------------|---------------|---------------|
| DESCRIPTION | FY17 | FY18 | FY19E | FY20E |
| PBT (ex OI)+ Depreciation | 750.6 | 338.1 | 383.5 | 512.4 |
| Tax Paid | -135.0 | -15.4 | -83.4 | -128.9 |
| Changes in Working Capital | 71.2 | -52.1 | -54.2 | -6.5 |
| Cash Flow from Operations | 686.8 | 270.6 | 246.0 | 376.9 |
| Cash Flow from Investing | -660.8 | -186.8 | -190.9 | -195.0 |
| Dividend Paid (Eq + Pref) | 0.0 | 0.0 | 0.0 | -0.7 |
| Other Income | 35.0 | 65.1 | 64.4 | 65.3 |
| Free Cash Flow | 61.1 | 148.9 | 119.5 | 246.6 |
| Cash Flow from Financing | -368.4 | -718.3 | -119.5 | -663.0 |
| Opening Cash | NA | 174.4 | 150.0 | 150.0 |
| Closing Cash | 174.4 | 150.0 | 150.0 | 150.0 |

| Sintex Plastics Technology. Ltd.- Key Ratios | | | | |
|--|------|------|-------|-------|
| DESCRIPTION | FY17 | FY18 | FY19E | FY20E |
| EBITDAM (%) | 16.8 | 13.6 | 12.5 | 13.9 |
| ROE (%) | 13.5 | 5.2 | 4.0 | 5.6 |
| ROCE (%) | 11.9 | 8.5 | 6.6 | 8.4 |
| Inventory Turnover(x) | 11.0 | 10.7 | 10.7 | 12.1 |
| Debtors Turnover(x) | 4.8 | 4.7 | 4.6 | 5.0 |
| Fixed Asset Turnover (x) | 1.0 | 1.0 | 0.9 | 0.9 |
| Receivable days | 75 | 75 | 75 | 75 |
| Inventory Days | 59 | 59 | 59 | 59 |
| Payable days | 90 | 91 | 91 | 91 |
| Total Debt/Equity(x) | 1.12 | 0.72 | 0.66 | 0.43 |
| Current Ratio(x) | 1.22 | 1.28 | 1.33 | 1.32 |
| Adjusted P/E Ratio | 3.53 | 9.13 | 10.35 | 7.21 |
| Price/ Book value | 0.47 | 0.43 | 0.41 | 0.38 |



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