



Sintex Plastics Technology Ltd. Stock Idea

MARKET DATA

NSE TICKER	SPTL
Networth FY17 (Rs in Crs)	3114.2
P/BV Ratio (FY17) (x)	1.4
EPS (FY17) (Rs.)	7.6
Market Price (Rs.)	76
P/E Ratio (FY17) (x)	10.05X
52 Week High (Rs)	136.5
52 Week Low (Rs)	66.6
Market Capitalisation (Rs. Cr)	4487

AVERAGE MONTHLY VOLUME ('000)

BSE	1567.34
NSE	6903.94

SHARE HOLDING PATTERN

Promoter	29.4
FII	24.0
DII	5.4
Public	41.2

RETURN (%)	1M	3M	List*
Sintex Plastics	4.84	-17	-41
Sensex	4.9	8.2	10

*Since listing 8th Aug, 2017

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Sintex Plastics Technology Ltd. (SPTL) is a diversified group in the plastic processing industry which got demerged from Sintex Industries Ltd effective 12th May, 2017. It majorly caters to two business segments viz. Custom moulding & prefabricated structures. The group has 36 manufacturing facilities across Europe, US, Africa & India. It is headquartered at Kalol, Gujarat.

Big Opportunity in Industrial Custom Moulding:

There is a growing importance of composite plastics in the automotive, electrical & consumer durables industry as it has lightweight, high tensile strength, offers higher strength to weight ratio & is resistant to high temperatures. It is 60% lighter than steel but offers similar tensile strength which makes it a disruptive & cost effective substitute.

We expect the custom moulding segment to grow at 11% over the next 5yrs. Historically, the Industrial custom moulding segment has grown at 12% CAGR from 1937cr in FY12 to 3392cr in FY17.

Management focus on generating FCF, debt reduction & minimum Capex:

Despite poor performance in 9MFY18, SPTL was able to repay debt of Rs.289cr. Management aims to improve its working capital going forward & has a consistent debt reduction plan over next 8 quarters. On the capacity utilization front too, SPTL current operates at 60% utilization levels. We do not expect any heavy capex cycle over next 2yrs.

Affordable housing to drive growth of Retail custom moulding business

GOI schemes such as 'Housing for All by 2022' & extension of credit linked subsidy scheme to MIG shows government strong commitment towards affordable housing sector. SPTL has diversified product ranges from tanks, low cost interiors, sandwich panels, etc. which would drive the growth for this segment.

Opportunity to capitalize strong brand, R&D and diversified portfolio

Sintex is an established brand in the plastic industry which revolutionised the water storage solutions through its well-known brand 'Sintex water tank'. The company plans to launch "do it yourself" kits & is focusing on newer launches in cold storage solutions. It targets to become a globally preferred supplier to fortune 500 customers over the coming years

Valuation & View:

SPTL commands a strong brand value in the plastic processing industry. Its brand is currently valued at Rs.1500cr. We like SPTL due to its leadership position in terms of revenue size, Strong R&D capabilities and marquee customer portfolio in the industrial segment.

We are valuing Sintex Plastics Technology on a PE multiple basis. We value the company with a price objective of Rs.97.2 using a PE multiple of 15x based on FY19E EPS of 6.48.



❖ About the Company:

Sintex Plastics Technology Ltd (SPTL) is an established player in the Plastic processing industry. It is organized under two main business segments viz. 1) Custom moulding segment & 2) Prefab & Infra Business. The custom moulding segment caters to the industrial needs of Automotive, Aerospace & electrical sector. It also caters to the retail market by providing water storage solutions, dustbins, low cost interiors for housing, sandwich panels etc. In the Prefab segment, it mainly provides knocked down kits that can be assembled by trained professionals at site. The product range includes Security houses, portable ATM's, portable urinals, defence shelters, etc.

SPTL has a global presence through its subsidiaries Sintex NP SAS (Europe) & Sintex Wausaukee Composites Inc. (the US). The global operations cater to industry specific needs in Custom moulding segment while Indian custom moulding operations are carried out through its 100% subsidiary Sintex-BAPL Ltd. The Indian custom moulding business caters to both the industrial needs & retail market. The Pre-fab & Infra business is carried out through its 100% subsidiary Sintex Prefab and Infra Ltd.

Custom Moulding	Prefab & Infra	Geographical spread
<ul style="list-style-type: none"> - Contribution to sales- 65% - Key domestic Clients: - Tata Motors, Maruti Suzuki, Hyundai, Mahindra, Schneider Electric & Cummins. - Key Clients in Europe:- Audi, Nissan, BMW, GM, Schneider Electric, Cummins, Toshiba, Boeing & Airbus. 	<ul style="list-style-type: none"> - Contribution to Sales- 35% - Key Clients:- Govt of India, Bharti Foundation, NTPC & BHEL. - Product portfolio:- Monolithic construction, Bunk House, security house, portable ATM, defence Shelter, portable urinals etc. 	<u>Contribution to sales</u> <ul style="list-style-type: none"> - India :- 66% - Europe :- 30% - USA :- 3%

Based on FY17 Sales

❖ Investment Rationale:

INDUSTRIAL CUSTOM MOULDING: A Big Opportunity.

Industrial Custom moulding segment contributes 86% to the overall custom moulding business. The company manufactures a large range of custom moulding products for the automotive, defence, aerospace, electrical sectors among others and also offers customised solutions for OEMs, Mass Transit and Off-the-Road Vehicles, Medical imaging products.










There is a growing importance of composite plastics in the automotive, electrical & consumer durables industry as it has lightweight, high tensile strength, offers higher strength to weight ratio & is resistant to high temperatures. It is 60% lighter than steel but offers similar tensile strength which makes it a disruptive & cost effective substitute.

The Indian Automotive segment is expected to grow 3.5x by 2026. The Government of India's ambitious plan of 100% electric vehicles by 2030 provides a big opportunity. With the large part of business contributed by the automotive sector, there is immense growth potential to established and R&D focused players like SPTL. We expect the custom moulding segment to grow at 11% over the next 5yrs. Historically, the Industrial custom moulding segment has grown at 12% CAGR from 1937cr in FY12 to 3392cr in FY17.

SPTL has diversified process and technologies from blow moulding, open moulding, rotational moulding, Light RTM and Vacuum Bag Infusion Molding to ultrasonic welding to meet all types of customer needs and requirements.



Product Portfolio under Industrial Custom moulding segment

Automotive	Electrical	OEM & Customized Solutions
<p>PRODUCTS</p> <ul style="list-style-type: none"> • Instrument panel: air ducts, air vents, center facades, consoles, glove box, speaker grills and others. • Interior & Exterior trims: pillar trim, scuff plate, rear trim pad, bumpers, step on pads, spoilers, and others. • Under the hood: radiator air duct, housing, fans, engine covers, intercooler seal. • Tanks: reservoir tanks, air cleaner parts • Two wheeler: cover handles, engine covers, rear fenders, tail ends and others. 	<p>PRODUCTS</p> <ul style="list-style-type: none"> • Junction boxes, LED bulbs, meter boxes, distribution boxes, aerial fuse boards, water resistant meter boxes, FRP fencing, power receptacles, connection boards, FRP ladders, FRP battery stands, SMC plates, and others. 	<p>PRODUCTS</p> <ul style="list-style-type: none"> • Sintex offers cutting-edge solutions for housing, construction, electrical, energy, interiors, and telecom sectors among others. • Prototype development, one sided finish, large components and others.
  	  	  
Instrument Panel & Trims Under the hood Tanks	Junction Box Meter Box Distribution Box	One sided finish Large components Prototype development

Source:- Company, Dimensional Research

MANAGEMENT FOCUS: On generating FCF, debt reduction & minimum Capex

The management aims to generate FCF led profit growth & does not plan any heavy capex cycle for the next 2 yrs. For H1FY18, SPTL generated Cash flow of 217cr v/s a PAT of 95cr. It was able to add 142cr in cash flow due to better working capital management & also repaid Debt to the extent of 200cr, which it aims to continue over the next 2yrs.

We expect a cumulative FCF generation of 932cr over FY18-20 due to lower focus on working capital intensive monolithic business and this would help it to reduce Debt. We expect Debt levels to reduce from 3488cr in FY17 to 2532cr in FY20, and a Debt/Equity ratio to improve from 1.1x in FY17 to 0.59x in FY20.

SPTL currently operates at 60% capacity utilization level which is expected to improve to 90-95% by FY20-21. It does not plan any heavy capex for next 2yrs. It is expected to incur a capex of ~200crs per annum which is roughly ~5% of its current net block (excluding brand value & goodwill)

Affordable housing to drive growth of Retail custom moulding business

The Govt of India’s ambitious “Housing for All by 2022” mission & extension of credit linked subsidy scheme till Mar-19 for home buyers under the MIG shows the intent of the government to promote the affordable housing mission.

SPTL has diversified range of products in the retail custom moulding basket like water storage solutions where is commands more than 60% market share across India. Its prominent brands include Sintex, Reno, Renotuf and Titus. It also caters to low cost interior solutions for housing such as false ceilings, doors, cabinets, sandwich panels etc. It owns popular brands like Indian, Micra and Sierra in this segment.

With affordable housing picking up pace & home sales in key markets including Mumbai, National Capital Region, Bangalore, Pune, Chennai and Hyderabad totaled 64,781 units during Q2FY18, we expect strong traction in FY19-20. We expect higher growth in Tier-2 & Tier-3 cities which are key to affordable housing.

SPTL with its strong R&D and dealership network is well poised to tap this growth opportunity. We expect this segment to grow at 10% for the next 5yrs. historically it has grown at 20% CAGR from 223cr in FY12 to 550cr in FY17, as the base remained low.



Government's strong commitment to Social Welfare Schemes- A big enabler for Prefab Business

The GOI which launched the Swachh Bharat Mission aims to have cleanliness & defecation free villages by 2019. The Union budget 2017-18 allocated a total sum of Rs. 16248cr towards the mission. SPTL received various projects for construction and supply of prefab toilets under the Swachh Bharat Mission.

GOI is committed to education through Sarva Shiksha Abhiyan & its budgetary allocation is Rs. 23500cr for 2017-18. SPTL Prefab segment consists of diversified product portfolios like Anganwadi's, healthcare infrastructure, prefab shelters, portable urinals and these are crucial for growth of social infrastructure in rural areas. This segment is majorly driven by a lot of government enabled social welfare schemes & budgetary allocations drive the growth.

Product Portfolio under the Prefab segment



Source:- Company, Dimensional Research

Strong Brand, R&D capabilities & new Products – Capitalizing opportunity

Sintex is an established brand in the plastic industry which revolutionised the water storage solutions through its well-known brand 'Sintex water tank'. Since then, It has developed a strong product portfolio into the composite plastic space. It has strategically located manufacturing facilities which gives it a competitive edge towards logistics cost & customer service. The company plans to launch "do it yourself" kits & is focusing on newer launches in cold storage solutions. It targets to become a globally preferred supplier to fortune 500 customers over the coming years.

There has been growing importance of composite plastics globally over last few years as it is seen as a disruptive substitute to Steel in different industries like Automobile, Aerospace & the electrical space. The per capita consumption of plastic is the lowest in India at 11kg compared to China – 38kg. The per capita consumption in US & Europe is much higher and is over 100kg. The global market for composites is US\$ 70bn & is expected to grow at 7-8% over the next 5yrs. The Indian Custom moulding industry is expected to grow at 11% CAGR over the next 5yrs. This clearly showcases India's large growth potential in this industry.



Healthy Growth of European Industrial Custom moulding business

Sintex Plastic's European Business forms over 30% of its total business. The Sintex NP group operates in France, Germany, Eastern Europe (Poland, Hungary and Slovakia). It caters to Car manufacturing, electrical equipment, aeronautics, household appliances, medical and constructions industry.

The Group's core business involves transforming thermosets by compression and injection, transforming all thermoplastic grades (P/E to PEEK), stamping thermoplastic composite grades commonly used in aeronautics, precision-cutting ferrous and nonferrous metals, forming steel-stainless steel-non-ferrous wires, manufacturing tension-compression torsion springs, electronic circuit boards using SMD or TH technology and wiring harnesses. Its key clients include globally-renowned brands like Faurecia, Schneider, Legrand, ABB, Areva, EADS, Siemens, Snecma, ThyssenKrupp Automotive, Valeo, Visteon, Alstom and General Motors, and among others.

The European business has grown well above 10%. Management expects strong growth in the European business. The business is less exposed to exchange rate risks since most of the revenues generated overseas are not converted into INR. The funds are spent or invested in the same currency. The revenue is translated in INR for consolidation purpose only.

Attractively Valued among peer groups

Among established brands like Nilkamal, Supreme Industries & Time Technoplast, Sintex Plastics is valued much lower than its peers. We believe this multiple would be re-rated in future & currently offers an attractively opportunity to buy the stock. The stock is currently quoting at 10x FY17 EPS against peers which trade well over 25x FY17 EPS as SPTL has a lower ROE and ROCE. We expect ROCE/ROE to improve from 11.9%/13.5% currently to 14.4%/12.8% by FY20.

Peer Comparison				
Description	Sintex Plastics	Nilkamal	Supreme Industries	Time Techno
Latest Price Date	18-Jan-18	17-Jan-18	17-Jan-18	17-Jan-18
Latest Market Cap	4487	2851	17603	4850
Latest Price	76.0	1910.8	1385.8	214.5
PBIDTM (%)	16.8	11.0	15.4	13.6
PATM (%)	7.0	5.5	7.5	5.1
ROE (%)	13.5	17.4	25.0	12.2
ROCE (%)	11.9	24.0	33.3	14.8
Inventory Turnover(x)	6.2	6.8	7.5	5.8
Debtors Turnover(x)	4.8	7.6	19.5	5.6
Fixed Asset Turnover (x)	1.0	6.2	2.3	1.7
Receivable days	75	48	19	65
Inventory Days	59	54	49	63
Payable days	90	23	37	51
Adjusted PE (x)	10.1	25.8	44.2	30.7
Price / Book Value(x)	1.4	3.9	10.6	3.5
EV/EBITDA(x)	7.7	13.4	24.3	12.9
M Cap / Sales	0.7	1.4	3.8	1.0

Source: Dimensional Research

Key Financials: SPTL

Year ended	Sales	EBIDTA	PAT	EPS	ROCE	ROE	P/E	EV/EBIDTA
FY17	6041	1013	421	7.56	11.9%	13.5%	10.05	7.7
FY18E	5929	901	301	5.1	10.4%	9.2%	14.89	8.5
FY19E	6376	1019	387	6.48	12%	10.7%	11.72	7.2
FY20E	7015	1197	519	8.61	14.4%	12.8%	8.83	5.7



Source: Dimensional Research

Key Risks

Risk of equity dilution on conversion of FCCB's

Sintex Group had issued FCCB's to the extent of US\$ 110mn of which US\$ 18.5mn borrowings are still outstanding. The management guided for the conversion in the next 4-5yrs. However, we have factored the entire dilution by FY20. This would result in dilution to the extent of 9% from the Equity capital base of FY17. We expect share capital to rise from 55.5cr (FV=1) to 60.4cr in FY20. However, we believe the dilution is largely factored in the current share price.

Risk of change in government policies impacts prefab business

SPTL's prefab business is largely dependent on GOI's social welfare schemes & budgetary allocations. The Prefab business constitutes 35% of total revenues of the company. However, we believe that the current government's strong commitment to welfare schemes to continue unless change in power takes place in FY19 central elections, which can impact social sector spends.

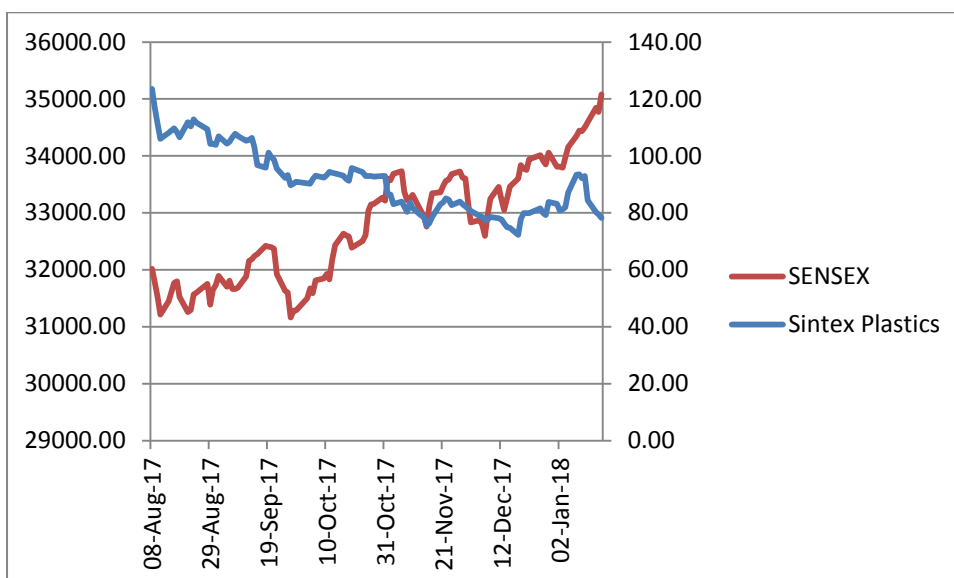
Foreign currency risk

SPTL has 33% of its operations global in nature, primarily in Europe & USA. Any adverse change in exchange rate can impact the margins of the consolidated entity. However, since the company does not repatriate currency from global to INR, and reinvests the same in the foreign country for growth, the risks are limited.

Valuation & View:

We are valuing Sintex Plastics Technology on a PE multiple basis. We value the company with a price objective of Rs. 97.2 based on a PE multiple of 15x and FY19E EPS of 6.48.

We like SPTL due to its leadership position in terms of revenue size, strong R&D capabilities & global presence which will help it to leverage opportunities primarily in USA, Europe & India. We believe margins & return ratios have bottomed out & expect the cycle to pick up from FY19 onwards. We have valued the stock at a 40% discount relative to its peers as it currently does not enjoy similar return profile of its peers.





❖ Financials:

Sintex Plastics Technology. Ltd.- Statement of Profit & Loss				
DESCRIPTION	FY17	FY18E	FY19E	FY20E
Net Sales	6041.0	5929.0	6376.6	7015.7
EXPENDITURE :				
Raw Material Consumed	3408.4	3323.2	3557.0	3893.3
Power & Fuel Cost	106.4	127.4	138.8	154.8
Employee Cost	740.6	792.5	839.6	889.6
Other Operating Expenses	772.5	784.8	822.6	881.0
EBITDA(Excl OI)	1013.2	901.1	1018.6	1197.0
EBITDA Margin	16.8%	15.2%	16.0%	17.1%
Depreciation	230.0	208.4	211.2	214.1
EBIT	783.1	692.7	807.4	982.9
Other Income	35.0	65.1	64.4	65.5
Interest	263.3	298.1	280.8	254.4
PBT before exceptional item	554.9	459.7	591.0	794.0
Exceptionaonal Item	0.0	0.0	0.0	0.0
PBT	554.9	459.7	591.0	794.0
Provision for Tax	135.0	159.1	204.5	274.8
Minority Interest	0.7	0.7	0.7	0.7
Profit After Tax	420.6	301.3	387.2	519.9
Earnings Per Share	7.6	5.1	6.5	8.6

Sintex Plastics Technology. Ltd.- Balance Sheet				
DESCRIPTION	FY17	FY18E	FY19E	FY20E
Equity Share Capital	55.5	59.0	59.7	60.4
Total Reserves	3058.7	3359.3	3745.8	4265.0
Shareholder's Funds	3114.2	3418.3	3805.5	4325.4
Minority Interest	1.6	2.3	3.0	3.7
Total Borrowings	3488.1	3284.9	2976.7	2531.5
Other Long Term Liabilities	426.3	422.1	438.8	462.6
Total Non-Current Liabilities	3914.4	3707.0	3415.5	2994.0
Trade Payables	841.1	828.5	886.8	970.7
Other Current Liabilities	1067.7	1016.4	1093.1	1202.7
Total Current Liabilities	1908.8	1844.9	1979.9	2173.3
Total Liabilities	8938.9	8972.5	9203.9	9496.4
Fixed Assets	5885.2	5963.6	6045.3	6130.2
Other Non Current Assets	543.1	521.6	533.1	546.0
Total Non-Current Assets	6428.3	6485.2	6578.3	6676.2
Inventories	547.3	537.2	575.0	629.3
Sundry Debtors	1245.9	1218.3	1310.3	1441.6
Cash and Bank	174.4	150.0	150.0	150.0
Other Current Assets	543.0	581.8	590.3	599.3
Total Current Assets	2511	2487	2626	2820
Total Assets	8938.9	8972.5	9203.9	9496.4



Sintex Plastics Technology. Ltd.- Key Ratios				
DESCRIPTION	FY17	FY18E	FY19E	FY20E
EBITDAM (%)	16.8	15.2	16.0	17.1
ROE (%)	13.5	9.2	10.7	12.8
ROCE (%)	11.9	10.4	12.0	14.4
Inventory Turnover(x)	11.0	10.9	11.5	11.7
Debtors Turnover(x)	4.8	4.8	5.0	5.1
Fixed Asset Turnover (x)	1.0	1.0	1.1	1.1
Receivable days	75	75	75	75
Inventory Days	59	59	59	59
Payable days	90	91	91	91
Total Debt/Equity(x)	1.1	1.0	0.8	0.6
Current Ratio(x)	1.2	1.3	1.3	1.2
Adjusted P/E Ratio	10.1	14.9	11.7	8.8
Price/ Book value	1.4	1.3	1.2	1.1

Sintex Plastics Technology. Ltd- Cash Flow				
DESCRIPTION	FY17	FY18E	FY19E	FY20E
PBT (ex OI)+ Depreciation	750.6	603.7	738.5	943.3
Tax Paid	-135.0	-159.1	-204.5	-274.8
Changes in Working Capital	71.2	-44.1	2.7	10.2
Cash Flow from Operations	686.8	400.5	536.7	678.7
Cash Flow from Investing	-660.8	-286.8	-292.9	-299.0
Dividend Paid (Eq + Pref)	0.0	0.0	0.0	0.0
Other Income	35.0	65.1	64.4	65.5
Free Cash Flow	61.1	178.8	308.2	445.3
Cash Flow from Financing	-368.4	-203.2	-308.2	-445.3
Opening Cash	NA	174.4	150.0	150.0
Closing Cash	174.4	150.0	150.0	150.0



ANALYST CERTIFICATION

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