

Aug 31, 2021

BUY

| | |
|--------------|--------|
| Price | 168 |
| Target Price | 212 |
| BSE Sensex | 57,280 |
| NSE Nifty | 17,025 |

Key Data

| | |
|----------------------------|------------------|
| Industry | Plastic Products |
| Reuters Code | FINX.BO |
| Bloomberg Code | FNXP IN |
| Market Cap. (Rs bn/USD bn) | 104.2/1.4 |
| No of Shares o/s (mn) | 620.5 |
| Face Value (Rs) | 2 |
| BSE/NSE Code | 500940/FINPIPE |
| 52 Week H/L (Rs) | 199/98 |
| Avg. Daily Traded Volume | 9,38,800 |
| Dividend per share (FY21) | 4 |

Shareholding Pattern (%)

| | Dec -20 | Mar -21 | Jun -21 |
|-----------------|---------|---------|---------|
| Promoters | 52.5 | 52.5 | 52.5 |
| Pledged shares | 0.0 | 0.0 | 0.0 |
| FII | 3.4 | 3.8 | 3.8 |
| DII | 12.9 | 11.9 | 11.6 |
| Public & Others | 31.2 | 31.8 | 32.1 |

Stock Performance (%)

| | 1M | 3M | 12M |
|-------------------|-------|-------|------|
| Absolute | -4.4 | -1.5 | 63.2 |
| Relative to Nifty | -11.8 | -11.2 | 17.9 |

Price Chart



Kaushal A Shah

+91 22 61717-551

kaushal.shah@dhankisecurities.com

Mehernosh K Panthaki

+91 22 61717-554

mehernosh.panthaki@dhankisecurities.com

We recently hosted Mr. Anil Whabi (CFO) of Finolex Industries Ltd (FNXP) to gain insight on company's business and industry outlook.

Key highlights of the call

- The business operations have normalized during Q2FY22 after a muted Q1FY22, which got impacted by second wave of Covid-19 led regional lockdowns. While the demand situation has improved, Agri pipe supplies remain impacted by higher PVC Resin prices and monsoon. However, non-agri pipes segment continues to do well.
- After correcting from peak levels of USD 1,650-1,670/MT in April-21, the PVC resin prices have resumed their uptrend, led by supply disruptions due to container shortages. During mid-Aug, PVC resin prices stood at USD 1,530/MT, EDC USD 700/MT, Ethylene USD 965/MT, VCM USD 1,100/MT. PVC-EDC spreads stood at USD 830/MT (improved from USD 670/MT in the last one month). The spot prices of PVC Resin have already surpassed the peak levels of April-21.
- Besides ongoing logistical issues, rapidly intensifying Hurricane Ida over US Gulf Coast region (recently hit Louisiana coast), which manufactures nearly 20% of global Ethylene and includes many downstream producers, could further tighten the supply situation. Hence the management feels that PVC Resin prices could remain high in near term and could take time to normalize.
- Looking at current demand situation FNXP expects improved performance in the coming quarters. It is confident of surpassing pipes & fittings sales volumes of FY21. However, achieving volumes of FY20 (which was normal year for the company) looks challenging, given periodical disruptions caused by Covid lockdowns and postponement of demand in Agri pipes segment, which is expected to pick up post monsoon.
- With continued efforts towards product portfolio enhancement and improving distribution reach (increasing focus on establishing presence in metros and under projects business), FNXP expects non-agri pipes mix to improve going forward. Overall Pipes & Fittings EBIT margins are likely to remain in the range of Rs 9-10/kg over medium term.
- While the non-agri pipes segment could witness increased competition going forward due to entry of new organized players, the management does not see any unhealthy undercutting of pricing or margin pressures, as it expects demand for plumbing and sanitation pipes to rise substantially in coming years.
- There have been no major additions to the existing 21,000 retail touch points during the quarter. However, it is expected to scale up in the coming months.
- As of now, FNXP has no plans to enter into new product segments like plastic water storage tanks. It would take a call on the same at later stage.

Valuation and Recommendation

- We remain positive on FNXP's medium to long term growth prospects, given its dominant presence in agri pipes and fittings, strong brand recall and expanding distribution reach. With faster ramp up in non-agri pipes and robust industry outlook, FNXP's overall growth trajectory should remain healthy. We maintain BUY rating on the stock with target price of Rs 212.

Financials (Consolidated)
Income statement

| YE | March (Rs mn) | FY20 | FY21 | FY22E | FY23E |
|---------------------|---------------|----------------|----------------|----------------|----------------|
| Net Revenue | | 29,845 | 34,628 | 40,456 | 44,606 |
| Growth | | -3.7% | 16.0% | 16.9% | 10.3% |
| Operating Exp | | 25,371 | 24,735 | 32,149 | 35,577 |
| EBITDA | | 4,474.4 | 9,893.1 | 8,307.7 | 9,028.2 |
| Growth | | -26.0% | 121.1% | -16.0% | 8.7% |
| EBITDA Margin | | 15.0% | 28.6% | 20.5% | 20.2% |
| Depreciation | | 738 | 777 | 829 | 924 |
| EBIT | | 3,736 | 9,116 | 7,479 | 8,104 |
| Other Income | | 299 | 716 | 496 | 558 |
| Interest | | 113 | 73 | 94 | 85 |
| PBT | | 3,923 | 9,759 | 7,881 | 8,577 |
| Tax | | 852 | 2,543 | 2,028 | 2,207 |
| PAT | | 3,071 | 7,216 | 5,853 | 6,370 |
| P/L from Assc. | | 256 | 162 | 165 | 182 |
| Reported PAT | | 3,327 | 7,378 | 6,018 | 6,551 |
| Growth | | -13.8% | 121.8% | -18.4% | 8.9% |
| EPS | | 5.4 | 11.9 | 9.7 | 10.6 |

Key Ratios

| YE | March | FY20 | FY21 | FY22E | FY23E |
|-------------------|-------|------|------|-------|-------|
| EPS (Rs.) | | 5.4 | 11.9 | 9.7 | 10.6 |
| CEPS (Rs.) | | 6.6 | 13.1 | 11.0 | 12.0 |
| BV (Rs.) | | 32.0 | 50.6 | 56.8 | 62.8 |
| P/E (x) | | 31.3 | 14.1 | 17.3 | 15.9 |
| P/CE (x) | | 25.6 | 12.8 | 15.2 | 13.9 |
| P/BV (x) | | 5.2 | 3.3 | 3.0 | 2.7 |
| D/E (x) | | 0.1 | 0.1 | 0.1 | 0.0 |
| EBITDA Margin (%) | | 15.0 | 28.6 | 20.5 | 20.2 |
| PAT Margin (%) | | 11.1 | 21.3 | 14.5 | 14.3 |
| RoCE (%) | | 15.1 | 32.5 | 21.2 | 20.9 |
| RoIC (%) | | 16.7 | 40.1 | 29.7 | 31.2 |
| RoE (%) | | 14.6 | 28.8 | 18.1 | 17.7 |
| Wcap Cycle (days) | | 86.0 | 70.9 | 62.5 | 62.5 |
| EV/Ebitda (x) | | 23.4 | 9.9 | 11.4 | 10.2 |
| EV/Sales (x) | | 3.5 | 2.8 | 2.3 | 2.1 |

Balance Sheet

| YE | March (Rs mn) | FY20 | FY21 | FY22E | FY23E |
|------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | | 1,241 | 1,241 | 1,241 | 1,241 |
| Reserves | | 18,619 | 30,149 | 33,995 | 37,754 |
| Shareholders' Funds | | 19,860 | 31,390 | 35,236 | 38,995 |
| Debt | | 2,827 | 2,039 | 1,789 | 1,539 |
| Net Deferred Taxes | | 1,357 | 1,395 | 1,395 | 1,395 |
| LT Prov & Others | | 783 | 793 | 816 | 832 |
| Source of Funds | | 24,826 | 35,616 | 39,235 | 42,760 |
| Net Block | | 10,169 | 10,024 | 10,194 | 10,770 |
| CWIP | | 73 | 82 | 200 | 200 |
| Investment | | 6,561 | 16,792 | 17,930 | 19,282 |
| LT Loans & Adv | | 1,113 | 1,233 | 1,442 | 1,586 |
| Total NC Assets | | 17,916 | 28,130 | 29,766 | 31,839 |
| Inventories | | 8,578 | 9,188 | 9,754 | 10,632 |
| Trade Receivables | | 732 | 1,480 | 1,813 | 2,120 |
| Cash & Equivalent | | 932 | 3,363 | 5,591 | 6,639 |
| Other Curr Assets | | 756 | 779 | 911 | 1,002 |
| Total Curr Assets | | 10,998 | 14,809 | 18,069 | 20,393 |
| Trade Payables | | 2,282 | 3,952 | 4,655 | 5,133 |
| Other Curr Liabilities | | 1,805 | 3,371 | 3,944 | 4,338 |
| Total Curr Liabilities | | 4,087 | 7,323 | 8,599 | 9,471 |
| Net Curr Assets | | 6,911 | 7,486 | 9,469 | 10,922 |
| Appl of Funds | | 24,826 | 35,616 | 39,235 | 42,760 |

Cashflow

| YE | March (Rs mn) | FY20 | FY21 | FY22E | FY23E |
|--------------------------|---------------|--------------|----------------|----------------|----------------|
| Net profit | | 3,327 | 7,378 | 6,018 | 6,551 |
| Add: Depreciation | | 738 | 777 | 829 | 924 |
| Add: Non-Opt Item | | (367) | (764) | (526) | (609) |
| (Inc)/Dec in Invst | | (2,373) | (610) | (566) | (878) |
| (Inc)/Dec in Debtors | | 11 | (748) | (333) | (307) |
| (Inc)/Dec in Oth Assets | | 269 | (23) | (132) | (91) |
| Inc/(Dec) in Curr Liab | | (556) | 1,670 | 703 | 477 |
| Inc/(Dec) in Oth Liab | | 394 | 1,566 | 573 | 394 |
| Changes in Wcap | | (2,255) | 1,855 | 245 | (404) |
| CF from Opt (A) | | 1,443 | 9,246 | 6,567 | 6,462 |
| (Inc)/Dec in FA | | (568) | (641) | (1,119) | (1,500) |
| Free CF | | 874 | 8,606 | 5,449 | 4,962 |
| (Pur)/Sale of Invst | | 1,016 | (3,824) | (1,014) | (1,217) |
| Int recd from Invst | | 299 | 716 | 496 | 558 |
| (Inc)/Dec in Oth NCA | | (80) | (119) | (210) | (144) |
| CF from Invst (B) | | 666 | (3,869) | (1,846) | (2,303) |
| Inc/(Dec) in LT Debt | | 0 | 0 | 0 | 0 |
| Inc/(Dec) in ST Debt | | 1,932 | (788) | (250) | (250) |
| Interest Paid | | (113) | (73) | (94) | (85) |
| Dividend Paid | | (1,489) | (2,482) | (2,172) | (2,792) |
| Inc/(Dec) in oth NCL | | (1,786) | 396 | 23 | 16 |
| CF from Fin (C) | | (1,457) | (2,947) | (2,493) | (3,111) |
| Net CF (A+B+C) | | 652 | 2,430 | 2,229 | 1,048 |

Disclosures/Disclaimers**Key to Ratings Stocks:**

BUY: Absolute return of 15% and above; ACCUMULATE: 5% to 15%; HOLD: Upto $\pm 5\%$; REDUCE: -5% to -15%; SELL: -15% and below.

- We/I, Kaushal Shah(MFM), VP Equity Research and Mehernosh Panthaki (CA) , Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this research report
- Dhanki Securities Private Limited (DSPL) is a SEBI Registered Stock Broker and a member of BSE Ltd, NSE Ltd and MCX-SX Ltd. DSPL is also registered with AMFI and distributes financial products. DSPL is registered as Research Analyst with SEBI bearing registration Number INH000001550 under SEBI (Research Analysts) Regulations, 2014.
- DSPL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.
- Further Research Analyst or his relatives or DSPL or its associates do not have any material conflict of interest at the time of publication of the Research Report. Research Analyst or his/her relative or DSPL or its associates does not have any financial interest in the subject company.
- It is confirmed that Kaushal Shah(MFM), VP Equity Research and Mehernosh Panthaki (CA) , Research Analyst of this report has not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions. DSPL or its research analysts or his relatives or its associates do not have actual/beneficial ownership of one percent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report. DSPL or its research analysts have not been engaged in market making activity for the subject company.
- DSPL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments. DSPL and, their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation discussed herein to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.
- DSPL might have been mandated by the subject company for any other assignment in the past twelve months. DSPL might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction in the normal course of business. DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Research analyst or entity or its associates have not received any compensation or other benefits
- The research analyst/s for this report has not served as an officer, director or employee of the subject company or third party in connection with the Research Report. The research analyst/s or entity or its associates have not received any compensation or other benefits from subject company or 3rd party in connection with the Research Report. This report has been prepared by research division of DSPL and is meant for sole use by the recipient only as information and is not for circulation. The information contained in this report has been obtained from sources believed to be reliable. Neither DSPL nor any of its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. While we would endeavor to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. All such information and opinions are subject to change without notice.
- The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors or any other reason. Past performance is not necessarily indicative of future performance or results forward looking statements are not predictions and may be subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer document or solicitation of an offer, to buy or sell or subscribe for any securities or other financial instruments. We disseminate this Research Report simultaneously to recipients, though all may not receive it concurrently.
- Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of investment in the securities of the companies referred to in this document (including the merits and risks involved). DSPL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.
- Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.
- This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject DSPL to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender.
- Contents which are exclusively for Non-Broking Products/Services e.g. Research reports, Mutual Fund where the Member is just a distributor. This should contain specific disclosure that these are not Exchange traded product and the Member is just acting as distributor. It should also state that all disputes with respect to the distribution activity, would not have access to Exchange investor redressal forum or Arbitration mechanism.