

Quarterly Update Q1FY20 Finolex Industries Ltd.

Healthy sales growth, Pipe business outperformed

Finolex Industries Ltd. (FIL) reported healthy revenue growth in Q1FY20, however, margins contraction leads to lower profitability than our expectation. Revenue came in at INR 944cr (up 14% YoY) which is 9.4% above our estimates. The healthy sales growth was attributed to the strong topline increase in PVC Pipes & Fittings segment (up ~17.8% YoY) led by strong volume growth of 18.1% YoY. PVC Resin's revenue grew by 6.1% YoY driven by sales volume (up 14.7% YoY). The external sales volume was down by 11%, indicates that the company has increased its internal uses of PVC resin (85% PVC resin's volume utilized internally). Gross profit came in at INR 277cr (down 14.9% YoY) & margins were at 29.3% vs 39.3% in Q1FY19. This is because of the raw material up 32.7% YoY. EBITDA decreased by 36.3% over Q1FY19 to INR 124cr (coming ~12% below our estimates) with the blended margin coming in at 13.1% vs 23.4% in Q1FY19. Adj. PAT reported was INR 72cr (down 29.8% YoY) with a margin of 7.7% vs. 12.5% in Q1FY19 and came 18.6% below our estimates. Maintain 'BUY'.

Plastic Pipe segment – healthy growth continue

The company has reported healthy volume growth of 17.8% YoY in Pipe & fittings segment in Q1FY20 (fitting volume grew by ~16% y-o-y) and realization flat y-o-y, resulted 17.8% y-o-y growth in pipe & fittings revenue. Pipe & fittings segment reported EBIT of INR 72cr grew by 8.6% YoY and reported healthy EBIT margin of 8.5%. The Pipes & fittings' EBITDA margin reported was ~10% comparing ~11% for Supreme Ind., we believe that healthy EBITDA margin of FIL's pipe segment being in agri business is encouraging. The CPVC and Column pipes has delivered strong growth of 53% & 75% in sales in Q1FY20, which accounts for ~8%/2% of FIL' pipe & fittings business. The company continue with its guidance of 12-15% volume growth in its pipe & fittings segment in FY20.

PVC resin business – Inventory losses impacted margin

PVC resin segment reported sales growth of 6.1% y-o-y – volume up 14.7% y-o-y and realization down 7.5% y-o-y in Q1FY20. The external sales volume of PVC resin decreased by ~11% y-o-y indicates that the company moving to more product business. FIL reported 67.8% YoY fall in its PVC resin segment EBIT to INR 41cr due to narrowing of PVC/EDC spread. PVC resin's EBIT margin contracted to 7.7% (after 14 quarter, company has seen single digit EBIT margin) mainly due to inventory losses with the fluctuation in PVC resin prices. We continue to believe that this segment to be flat in coming years.

Valuation & outlook: Maintain 'BUY' rating

Overall, Finolex industries has reported healthy topline growth, however, margins below expectations. High EDC price and sliding PVC price resulted in lower PVC/EDC delta for the quarter which reduced the margins in the PVC resin segment. However, strong volume growth and price pass on in pipe & fitting business, resulted strong number for segment. We are maintaining our estimates on account of FIL's strong growth guidance and favourable PVC/EDC spread. FIL is currently trading at 16x/14x PER FY20E/FY21E earnings, respectively, considering 14% earning CAGR over FY19-21E. We maintain our 'BUY' rating with target price of INR 740, valuing at 20x FY21E earning.

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CMP: INR 527
Rating: BUY
Target Price: INR 740
Upside: 40%

Bloomberg:	FNXP:IN
52-week range (INR):	645.35 / 437.00
Share in issue (cr):	12.4
M cap (INR cr):	6,627
Avg. Daily Vol.	56
BSE/NSE :('000):	
Promoter Holding (%)	52.47

(INR cr)	Q1FY20	Q1FY19	%change	Q4FY19	%change	FY19	FY20E	FY21E
Net sales	944	828	14.0%	964	-2.1%	2,988	3,357	3,827
% Growth						9.1%	12.3%	14.0%
EBITDA	124	194	-36.3%	146	-15.7%	551	619	706
Adj. PAT	72	103	-29.8%	91	-20.7%	354	399	458
% Growth						16.9%	12.8%	14.6%
Dil. EPS (INR)	5.8	8.3	-29.8%	7.4	-20.7%	28.5	32.2	36.9
Diluted P/E (x)						18	16	14
ROACE (%)						15.5	16.5	17.9

Date: 13th August, 2019

Finolex Industries Ltd.

Q1FY20 Result Highlights

Particulars (INR Crs)	Q1FY20	Q1FY19	% change	Q4FY19	% change
Income from operations	944	828	14.0%	964	-2.1%
Direct costs	667	502	32.7%	642	3.9%
Employee expenses	34	32	8.8%	37	-7.8%
Other expenses	119	100	19.1%	138	-14.1%
Total operating expenses	820	634	29.4%	818	0.3%
EBITDA	124	194	-36.3%	146	-15.7%
Depreciation and amortisation	17	16	3.6%	18	-5.1%
EBIT	107	178	-39.9%	129	-17.1%
Interest expenses	1	5	-83.4%	2	-63.1%
Other income	6	14	-58.5%	12	-53.5%
Profit before tax	112	186	-40.1%	139	-19.5%
Provision for tax	39	55	-28.8%	47	-17.3%
Core profit	72	131	-44.7%	91	-20.7%
Extraordinary items	-	28		-	
Adjusted net profit	72	103	-29.8%	91	-20.7%
Equity capital (FV INR 10)	124	124		124	
No. of shares (Cr)	12	12		12	
Diluted EPS (INR)	5.8	8.3	-29.8%	7.4	-20.7%

Segment details

Revenue	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
PVC Resin	535	504	6.1%	559	-4.4%
Pipes & Fittings	851	723	17.8%	791	7.6%
EBIT					
PVC Resin	41	128	-67.8%	81	-49.0%
Pipes & Fittings	72	67	8.6%	61	18.3%
Margin					
PVC Resin	7.7%	25.5%		14%	
Pipes & Fittings	8.5%	9.2%		8%	

Previous Result/Reports Outlook

QARP Report (28th Feb 2019)

We had initiated coverage on this stock in the QARP report as a value buy. The following was our investment hypothesis at the time of release. FIL stock price has corrected significantly (~36%) from its pick in Oct-2017 on concerns related to correction in PVC/EDC spread and correction in its realisation of Pipe & fittings. However, FIL has delivered continuous improvement in its Pipe & fittings realisation in last three quarters, resulted improvement in its consolidated operating margins.

The stock is available at 4-5 years low valuations of 13x 1-yr forward PE despite expansion in its returns profile with the expansion in its profitability margins. We are expecting improvement its RoCE (excluding cash & investment) by ~650bps to 38% over FY18-20E. FIL is currently trading at 17x/15x/13x PER FY19E/FY20E/FY21E earnings, respectively, considering 15% earnings CAGR over FY18-21E. We believe company is trading at attractive valuation along with strong fundamental. We assigned 'BUY' rating with target price of INR 740, valuing at 20x FY21E earnings, implying an upside of 56%.

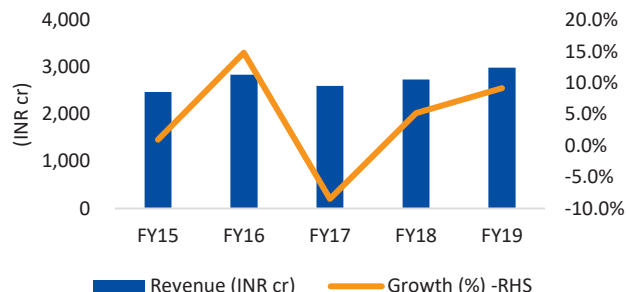
In Q4FY19 - Overall, Finolex industries have reported strong a topline growth and margins above our expectations. High EDC prices and sliding a PVC price resulted in lower PVC/EDC delta for the quarter which impacted the margins in the PVC resin segment. The PVC price volatility and delayed demand pick up also affected the Pipes and Fittings margins. However, strong volume growth and a price pass on mechanism in the pipe & fitting business for the coming quarters is expected to bring in strong performance from the company. We have tweaked our earnings upward by 2% each for FY20E/FY21E on account of volume improvement in the pipe & fittings segment. The company is trading at P/E of 15x/13x on FY20E/FY21E earnings. We maintain our 'BUY' rating with target price of INR 740, valuing at 20x FY21E earning.

Finolex Industries Ltd.

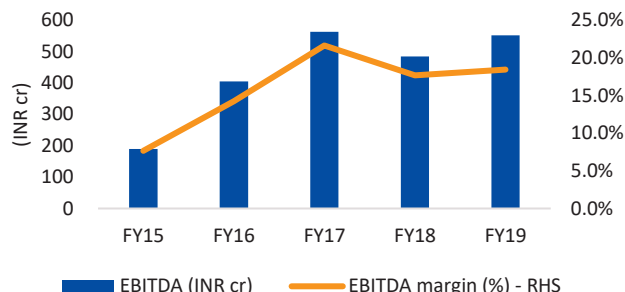
Q1FY20 Result Highlights

Financials in Charts

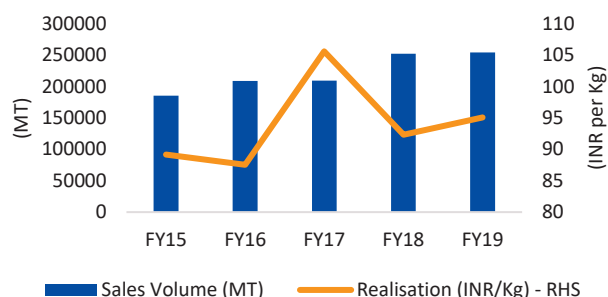
Consolidated Revenue Profile



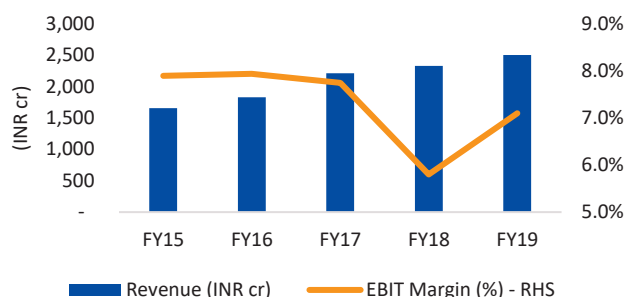
EBITDA Profile



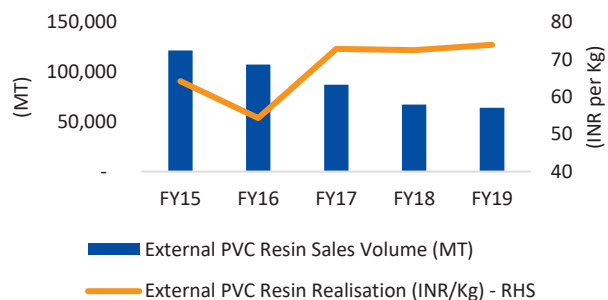
Pipes & Fitting Volume & Realisation



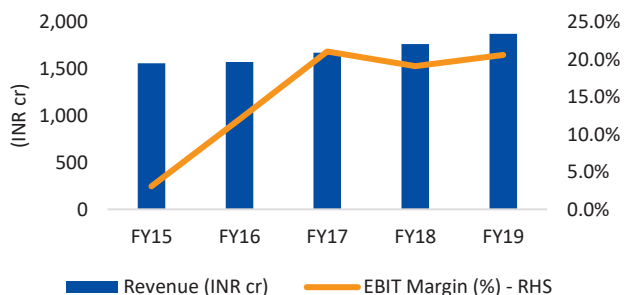
Pipes & Fitting Revenue & EBIT



PVC Resin (external) Volume & Realisation



PVC Resin (external+internal) Revenue & EBIT



Source: Edelweiss Professional Investor Research

Finolex Industries Ltd.

Financials

Income statement

(INR Cr)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Income from operations	2,602	2,738	2,988	3,357	3,827
Direct costs	1,656	1,825	1,978	2,222	2,533
Employee costs	105	116	130	146	166
Other expenses	383	429	459	515	587
Total operating expenses	2,039	2,254	2,437	2,738	3,121
EBITDA	563	484	551	619	706
Depreciation and amortisation	55	61	69	73	75
EBIT	508	423	483	547	631
Interest expenses	15	10	8	8	8
Other income	32	41	46	49	50
Profit before tax	525	454	521	588	674
Provision for tax	170	148	167	188	216
Core profit	355	306	354	399	458
Extraordinary items	(6)	(4)	0	0	0
Profit after tax	349	303	354	399	458
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	349	303	354	399	458
Equity shares outstanding (Cr)	12.4	12.4	12.4	12.4	12.4
EPS (INR) basic	28.6	24.4	28.5	32.2	36.9
Diluted shares (Cr)	12.4	12.4	12.4	12.4	12.4
EPS (INR) fully diluted	28.6	24.4	28.5	32.2	36.9
Dividend per share	11.5	10.0	11.7	13.2	15.1
Dividend payout (%)	40.2	40.5	40.9	40.9	40.9

Common size metrics- as % of net revenues

Year to March	FY17	FY18	FY19	FY20E	FY21E
Operating expenses	78.4	82.3	81.6	81.6	81.6
Depreciation	2.1	2.2	2.3	2.2	2.0
Interest expenditure	0.6	0.4	0.3	0.2	0.2
EBITDA margins	21.6	17.7	18.5	18.5	18.5
Net profit margins	13.4	11.1	11.8	11.9	12.0

Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Revenues	(8.5)	5.2	9.1	12.3	14.0
EBITDA	39.2	(14.1)	13.9	12.3	14.0
PBT	37.2	(13.5)	14.6	12.8	14.6
Net profit	37.7	(13.7)	15.6	12.8	14.6
EPS	37.7	(14.7)	16.9	12.8	14.6

Finolex Industries Ltd.

Financials

Balance sheet

(INR Cr)

As on 31st March	FY17	FY18	FY19	FY20E	FY21E
Equity share capital	124	124	124	124	124
Preference Share Capital	0	0	0	0	0
Reserves & surplus	2,191	2,671	2,851	3,055	3,288
Shareholders funds	2,315	2,795	2,975	3,179	3,412
Secured loans	94	52	52	52	52
Unsecured loans	0	49	20	20	20
Borrowings	94	101	72	72	72
Minority interest	0	0	0	0	0
Sources of funds	2,409	2,896	3,047	3,251	3,484
Gross block	1,982	2,064	2,254	2,429	2,494
Depreciation	1,127	1,179	1,248	1,321	1,396
Net block	855	884	1,006	1,108	1,098
Capital work in progress	22	90	50	25	25
Total fixed assets	877	975	1,056	1,133	1,123
Unrealised profit	0	0	0	0	0
Investments	1,264	1,607	1,707	1,757	1,877
Inventories	557	612	589	662	755
Sundry debtors	52	43	46	51	58
Cash and equivalents	16	23	27	25	48
Loans and advances	46	64	64	64	64
Other current assets	0	0	0	0	0
Total current assets	673	743	727	803	926
Sundry creditors and others	361	367	367	367	367
Provisions	4	24	24	24	24
Total CL & provisions	365	390	390	390	390
Net current assets	307	352	336	412	535
Net Deferred tax	(150)	(142)	(155)	(155)	(155)
Misc expenditure	111	104	104	104	104
Uses of funds	2,409	2,896	3,047	3,251	3,484

Cash flow statement

(INR crs)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Net profit	361	310	354	399	458
Add: Depreciation	55	61	69	73	75
Add: Misc expenses written off	(98)	7	0	0	0
Add: Deferred tax	6	(8)	14	0	0
Add: Others	0	0	0	0	0
Gross cash flow	324	369	436	472	533
Less: Changes in W. C.	78	38	(20)	78	100
Operating cash flow	245	332	456	394	433
Less: Capex	76	158	150	150	65
Free cash flow	170	173	306	244	368

Finolex Industries Ltd.

Financials

Ratios

Year to March	FY17	FY18	FY19	FY20E	FY21E
ROAE (%)	18.2	12.0	12.3	13.0	13.9
ROACE (%)	22.6	15.1	15.5	16.5	17.9
Debtors (days)	7	6	6	6	6
Current ratio	1.8	1.9	1.9	2.1	2.4
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	78	82	72	72	72
Payable (days)	51	49	45	40	35
Cash conversion cycle (days)	35	38	33	38	43
Debt/EBITDA	0.2	0.2	0.1	0.12	0.10
Adjusted debt/Equity	0.0	0.0	0.0	0.0	0.0

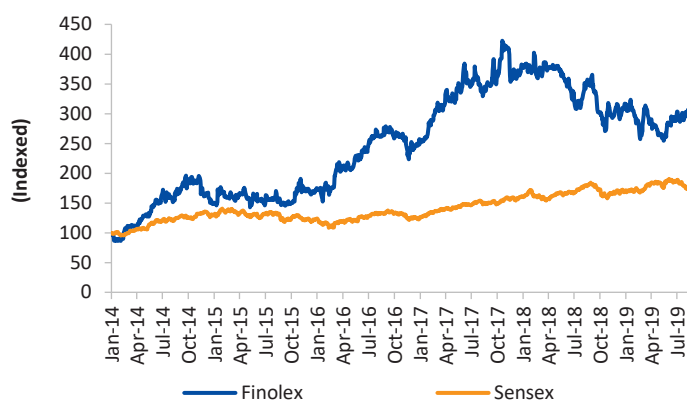
Valuation parameters

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	28.6	24.4	28.5	32.2	36.9
Y-o-Y growth (%)	37.7	(14.7)	16.9	12.8	14.6
CEPS (INR)	33.0	29.6	34.1	38.1	42.9
Diluted P/E (x)	18.4	22	18	16	14
Price/BV(x)	2.8	2.3	2.2	2.1	1.9
EV/Sales (x)	2.5	2.4	2.2	2.0	1.7
EV/EBITDA (x)	11.8	13.7	11.9	10.6	9.3
Diluted shares O/S	12.4	12.4	12.4	12.4	12.4
Basic EPS	28.6	24.4	28.5	32.2	36.9
Basic PE (x)	18.4	21.6	18.5	16.4	14.3
Dividend yield (%)	2.2	1.9	2.2	2.5	2.9

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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