

Finolex Industries

BUY

Guidance for double digit volume growth

Summary

Finolex Industries (FIL) Q4FY19 revenue was a beat whereas EBITDA and PAT were below our estimates owing to inventory loss, delay in demand pickup and lower PVC-EDC spread. Revenue was up 19% YoY to Rs9.6bn, whereas EBITDA/PAT declined 22%/24% YoY to Rs1.5bn/Rs914mn. PVC resin volume and PVC pipes and fittings volume witnessed growth of 6%/12.6% YoY to 76,549MT/80,771MT respectively. The company has guided for pipes and fittings volume growth of ~12% in FY20. We introduce FY21E financials and expect its revenue/EBITDA/PAT to grow at a CAGR of 11%/10%/10% during FY19-21E. We roll over to FY21 and upgrade to BUY with new TP of Rs555 (earlier Rs524) based on PER of 15x on FY21E.

Key Highlights and Investment Rationale

- Lower margins owing to inventory loss and lower PVC-EDC delta**
 PVC resin volume grew at 6% YoY to 76,549MT while pipes and fittings volume grew by 12.6% YoY to 80,771MT. However, both PVC resin and Pipes and fittings margins contracted by 999bps/130bps YoY to 14.5%/7.7% respectively owing to inventory losses, delay in demand pickup for pipes and fittings and lower PVC-EDC delta which stood at US\$523/MT vs. US\$785/MT in Q4FY18. The company's CPVC and column pipe witnessed robust revenue growth of 63% and 81% YoY in FY19 but contributes less than 10% of revenue. The company reported other income of Rs122mn vs. Rs24mn in Q4FY18.
- Volume growth guidance maintained; capex of Rs1bn in FY20**
 The company has maintained its double digit volume growth guidance of ~12% and margin guidance of ~8% for its pipes & fitting business for FY20. Further, the company plans to add incremental capacity of ~30KT for next couple of years with a capex of Rs1,000-Rs1,500mn. It ended FY19 with capacity of 370KT, +40KT added in the year.
- Raising TP to Rs555; Upgrade to BUY**
 The company has witnessed improvement in demand from Mar'19 and we expect rural economy to do much better in FY20 (factoring in normal monsoon). We raise our TP to Rs555 and upgrade the stock to BUY.

Q4FY19 Result Review

Key Stock Data

Bloomberg / Reuters	FNXP IN / FINX.BO
Sector	Plastic Building Material
Shares o/s (mn)	124
Market cap. (Rsmn)	56,861
Market cap. (US\$ mn)	812
3-m daily avg Trd value (Rs mn)	21.7
52-week high / low	Rs713 / 440
Sensex / Nifty	39,435 / 11,844

TP	Rs555	
CMP	Rs458	
Potential upside / downside	+21%	
Previous Rating	BUY	
V/s Consensus		
EPS (Rs)	FY20E	FY21E
IDBI Capital	33.1	37.0
Consensus	30.7	33.3
% difference	7.8	11.0

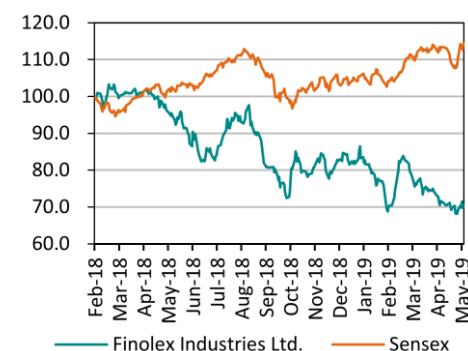
Shareholding Pattern (%)

Promoters	52.5
FII	2.3
DII	10.5
Public	34.7

Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.6)	(0.7)	(26.8)
Rel to Sensex	(2.6)	(10.3)	(39.7)

Relative to Sensex (%)



Financial snapshot

Year	FY2017	FY2018	FY2019	FY2020E	FY2021E
Revenue	29,876	28,314	30,913	34,413	38,001
EBITDA	5,630	4,839	6,043	6,573	7,258
EBITDA (%)	18.8	17.1	19.5	19.1	19.1
Adj. PAT	3,522	2,986	3,811	4,105	4,591
EPS (Rs)	28.4	24.1	30.7	33.1	37.0
EPS Growth (%)	38.4	(15.2)	27.7	7.7	11.8
PE (x)	16.1	19.0	14.9	13.8	12.4
Dividend Yield (%)	2.5	2.1	2.7	2.9	3.2
EV/EBITDA (x)	10.1	11.8	9.1	7.8	6.7
RoE (%)	21.7	11.8	14.4	15.5	15.8
RoCE (%)	27.0	15.0	18.2	19.9	20.6

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot (Standalone)

(Rs mn)

Year-end: March	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenues	9,642	8,091	19.2	7,566	27.4
Expenditure	8,178	6,212	31.7	6,316	29.5
COGS	6,419	4,772	34.5	4,875	31.7
Employee Cost	382	297	28.7	328	16.6
Other Expenses	1,376	1,143	20.4	1,113	23.6
EBITDA	1,465	1,880	(22.1)	1,250	17.2
Depreciation	177	155	14.0	196	(10.0)
Interest	24	33	(28.6)	17	37.9
Other Income	122	24	NA	173	(29.1)
Exceptional Item	0	0		0	
PBT	1,387	1,716	(19.2)	1,209	14.7
Tax	473	507	(6.7)	422	12.1
<i>Tax Rate (%)</i>	34	30	456bps	35	(79bps)
Reported PAT	914	1,209	(24.4)	787	16.1
Adjusted PAT	914	1,209	(24.4)	787	16.1
Adjusted EPS	7	10	(24.4)	6	16.1
Margins (%)					
<i>EBITDA (%)</i>	15.2	23.2	(804bps)	16.5	(132bps)
<i>Adj. PAT (%)</i>	2.2	2.5	(33bps)	3.1	(95bps)

Source: Company; IDBI Capital Research

Exhibit2: Actual vs. estimates

(Rs mn)

Year to March	Q4FY19	Q4FY19E	Variance (%)
Revenues	9,642	8,738	1
EBITDA	1,465	1,660	(12)
Adj. PAT	914	1,055	(13)
Adj EPS	7.4	8.5	(13)
<i>EBITDA (%)</i>	15.2	19.0	(381)bps

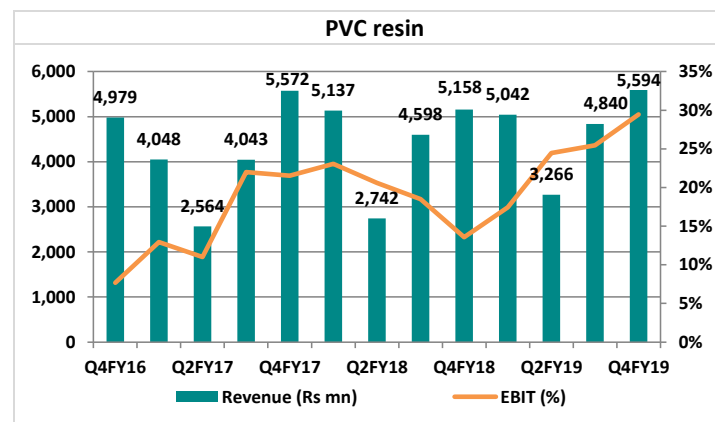
Source: Company; IDBI Capital Research

Exhibit3: Segmental revenue performance (Standalone)

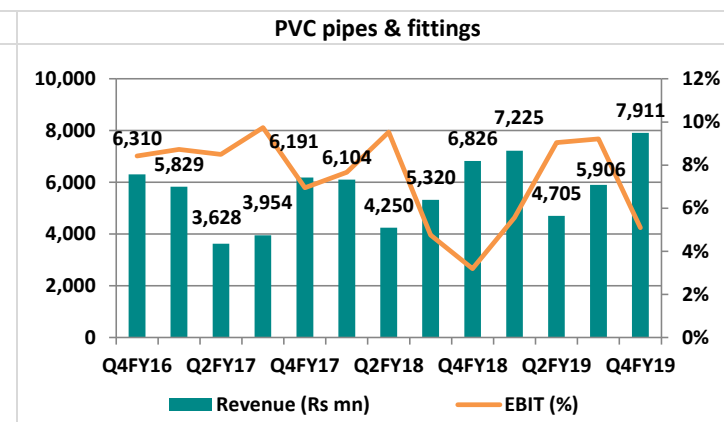
(Rs mn)

Year-end: March	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue mix					
PVC	5,594	5,158	8.4	4,840	15.6
PVC pipes & fittings	7,911	6,826	15.9	5,906	33.9
EBIT					
PVC	810	1,262	(35.8)	786	3.1
PVC pipes & fittings	612	617	(0.8)	467	31.0
EBIT (%)					
PVC	14.5	24.5	(999)bps	16.2	(176)bps
PVC pipes & fittings	7.7	9.0	(130)bps	7.9	(17)bps

Source: Company; IDBI Capital Research

Exhibit 4: Quarterly Revenue & EBIT Performance


Source: Company; IDBI Capital Research



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	28,314	30,913	34,413	38,001
<i>Growth (%)</i>	<i>(5.2)</i>	<i>9.2</i>	<i>11.3</i>	<i>10.4</i>
Operating expenses	(23,475)	(24,870)	(27,840)	(30,743)
EBITDA	4,839	6,043	6,573	7,258
<i>Growth (%)</i>	<i>(14.0)</i>	<i>24.9</i>	<i>8.8</i>	<i>10.4</i>
Depreciation	(606)	(701)	(760)	(790)
EBIT	4,233	5,342	5,813	6,468
Interest paid	(98)	(123)	(137)	(151)
Other income	253	404	450	535
Pre-tax profit	4,389	5,624	6,126	6,852
Tax	(1,403)	(1,812)	(2,022)	(2,261)
<i>Effective tax rate (%)</i>	<i>32.0</i>	<i>32.2</i>	<i>33.0</i>	<i>33.0</i>
Net profit	2,986	3,811	4,105	4,591
Adjusted net profit	2,986	3,811	4,105	4,591
<i>Growth (%)</i>	<i>(15.2)</i>	<i>27.7</i>	<i>7.7</i>	<i>11.8</i>
<i>Shares o/s (mn nos)</i>	<i>124</i>	<i>124</i>	<i>124</i>	<i>124</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	4,389	5,624	6,126	6,852
Depreciation	606	701	760	790
Tax paid	(1,403)	(1,812)	(2,022)	(2,261)
Chg in working capital	(328)	412	2,050	(241)
Other operating activities	2,467	(4,564)	(127)	181
Cash flow from operations (a)	5,731	361	6,787	5,322
Capital expenditure	(1,200)	(1,200)	(1,200)	(1,200)
Chg in investments	(3,331)	2,522	127	(222)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(4,531)	1,322	(1,073)	(1,422)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	65	(101)	(789)	-
Dividend (incl. tax)	(1,194)	(1,525)	(1,642)	(1,836)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(1,129)	(1,626)	(2,430)	(1,836)
Net chg in cash (a+b+c)	71	57	3,284	2,063

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	9,758	10,411	11,015	11,424
Investments	14,895	10,769	10,769	10,769
Other non-curr assets	-	-	-	-
Current assets	9,891	11,557	15,104	18,369
Inventories	6,116	6,205	6,102	6,738
Sundry Debtors	431	743	471	521
Cash and Bank	234	291	3,575	5,638
Marketable Securities	656	2,261	2,134	2,356
Loans and advances	2,454	2,058	2,822	3,116
Total assets	34,545	32,738	36,888	40,563
Shareholders' funds	27,646	25,284	27,747	30,501
Share capital	1,241	1,241	1,241	1,241
Reserves & surplus	26,405	24,043	26,506	29,260
Total Debt	1,007	906	117	117
Secured loans	-	-	-	-
Unsecured loans	1,007	906	117	117
Other liabilities	1,854	2,093	2,130	2,311
Curr Liab & prov	4,038	4,455	6,895	7,633
Current liabilities	3,604	4,163	5,479	6,051
Provisions	433	292	1,415	1,583
Total liabilities	6,899	7,454	9,141	10,062
Total equity & liabilities	34,545	32,738	36,888	40,563
Book Value (Rs)	223	204	224	246

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	24.1	30.7	33.1	37.0
Adj. EPS growth (%)	(15.2)	27.7	7.7	11.8
EBITDA margin (%)	17.1	19.5	19.1	19.1
Pre-tax margin (%)	15.5	18.2	17.8	18.0
ROE (%)	11.8	14.4	15.5	15.8
ROCE (%)	15.0	18.2	19.9	20.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.9	0.9	1.0	1.0
Leverage factor (x)	1.3	1.3	1.3	1.3
Net margin (%)	10.5	12.3	11.9	12.1
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Working Capital & Liquidity ratio				
Inventory days	79	73	65	65
Receivable days	6	9	5	5
Payable days	39	42	38	38

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
PER (x)	19.0	14.9	13.8	12.4
Price / Book value (x)	2.1	2.2	2.0	1.9
PCE (x)	15.8	12.6	11.7	10.6
EV / Net sales (x)	2.0	1.8	1.5	1.3
EV / EBITDA (x)	11.8	9.1	7.8	6.7
Dividend Yield (%)	2.1	2.7	2.9	3.2



Notes

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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.

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