

Finolex Industries

27 May 2019

RESULT UPDATE

Sector: Plastic Pipes **Rating:** BUY
CMP: Rs 490 **Target Price:** Rs 620

Stock Info

Sensex/Nifty	39,683/11,925
Bloomberg	FNXP IN
Equity shares (mn)	124.1
52-wk High/Low	Rs 713/440
Face value	Rs10
M-Cap	Rs 61bn/US\$ 869mn
3-m Avg volume	0.2

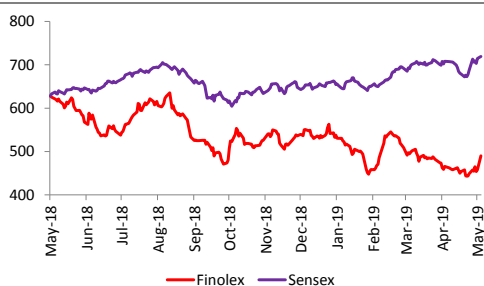
Financial Snapshot (Rs mn)

Y/E Mar	FY19	FY20E	FY21E
Net sales	30,913	34,956	40,000
EBITDA	6,043	5,436	6,387
PAT (adj.)	3,951	3,501	4,191
EPS (adj.) (Rs)	31.8	28.2	33.8
PE (x)	15.4	17.4	14.5
P/B (x)	2.4	2.2	2.0
EV/EBITDA (x)	10.3	11.4	9.6
RoE (%)	14.7	13.1	14.4
RoCE (%)	19.2	17.0	18.7
D/E (x)	0.1	0.1	0.1
OPM (%)	19.5	15.6	16.0

Shareholding Pattern (%)

	Mar-19	Dec-18	Sep-18
Promoter	52.5	52.5	52.5
- Pledged	0.0	0.0	0.0
FII	3.6	4.1	4.6
DII	10.6	10.0	9.5
Others	33.3	33.4	33.4

Stock Performance (1-year)



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Demand outlook promising, maintain BUY

Finolex Industries (FNXP) reported 4QFY19 revenue/EBITDA/APAT at Rs 9.6bn/Rs 1.5bn/Rs 914mn which was +19%/-22%/-24% YoY. Pipe segment revenue at Rs 7.9bn was up 16% YoY/34% QoQ supported by volume growth of 13% YoY/36% QoQ vs market growth of 5-7% YoY. Pipes NSR stood at Rs 97,946/mt. Pipe EBIT margin at 7.7% declined 148bps YoY due to drop in PVC prices in March'19 which led to inventory loss. CPVC division showed continued traction with revenue growth of 56% YoY to Rs 750mn and volume growth of 57% to 2,725mt. Fittings contribution was 7.1% to 4Q pipes and fittings volume. Resin revenue (incl. captive) at Rs 5.6bn was up 8% YoY/16% QoQ supported by volume growth of 6% YoY/15% QoQ. Resin EBIT margin at 14.5% contracted 960bps YoY/222bps QoQ on lower PVC-EDC spread. FNXP incurred capex of Rs 1.4bn during FY19; it added 40,000mt capacity in pipes and fittings, taking the total to 370,000mt. We trim FY20/21E PAT by 12/5% to factor-in lower PVC-EDC spread of US\$ 500. We remain positive about FNXP's growth prospects as it tends to gain most from agri and real-estate demand. We estimate revenue/PAT CAGR of 14%/3% over FY19-21E and value the stock at 20x 1HFY21E earnings with a price target of Rs 620 (earlier Rs 685). Maintain BUY.

Spread contraction overshadows volume growth

FNXP is a backward integrated pipe manufacturer which stands to benefit when the resin (output) and feedstock (input: mainly EDC) price spread widens. However, FY19 saw the spread narrowing to US\$ 523/mt in 4QFY19 from US\$ 690/mt in 1QFY19. This impacted the resins segment operating margins which dropped to 15% in 4QFY19 from 26% in 1QFY19. The spread currently stands at US\$ 500/mt.

Key takeaways from conference call

- Demand outlook:** Demand picked up late in 4QFY19 in the agriculture markets of Maharashtra and Karnataka. FNXP had to resort to discounted product push during the first half. The prices have now returned to normal levels. Demand also appears strong during 1QFY20 and the company is operating at full capacity. Management has guided volume growth of 12-15% during FY20.
- Product mix and margin:** Management is pushing the non-agriculture pipe products but does not expect a dramatic shift in product mix in the near-term. This will keep overall pipe margins at 8-9%. Non-agriculture share stands at 30%.
- Market dynamic:** Market share of organised players is gradually growing and this is expected to pick pace with stricter implementation of e-way bill.
- PVC prices:** Global PVC prices are muted due to a slowdown in the Chinese real-estate market despite supply constraints. The PVC industry in China is facing environmental pressure due to the use of carbide.
- Capex plan:** Total incurred capex of Rs 1.4bn in FY19 was higher than the Rs 1bn guided earlier. Management has maintained its Rs 1bn capex guidance for FY20 which will involve capacity addition of 30,000-40,000mt in pipes and fittings.
- Column pipe performance:** Column pipe revenue/volume stood at Rs 380mn/3,200mt in FY19 vs Rs 210mn/1,850mt in FY18.
- Finolex Plasson performance:** Plasson manufactures micro irrigation products. Revenue/PAT for FY19 grew 17%/15% YoY to Rs 4bn/Rs 198mn respectively.

Exhibit 1: Quarterly financial statement

Particulars (Rs. mn)	4QFY19	4QFY18	YoY	3QFY19	QoQ
Net Sales	9,642	8,091	19%	7,566	27%
Other Income (OI)	122	28	338%	173	-29%
Total Income	9,765	8,119	20%	7,739	26%
Expenditure:					
Cost of material	6,419	4,797	34%	4,875	32%
Staff Cost	382	298	28%	328	17%
Other expenses	1,376	1,118	23%	1,113	24%
Total Expenditure	8,178	6,213	32%	6,316	29%
EBIDTA	1,587	1,907	-17%	1,422	12%
EBITDA (Excl. OI)	1,465	1,879	-22%	1,250	17%
Depreciation	177	156	13%	196	-10%
EBIT	1,411	1,751	-19%	1,226	15%
Interest	24	34	-30%	17	38%
Exceptional items	-	-		-	
PBT	1,387	1,717	-19%	1,209	15%
Tax	473	508	-7%	422	12%
<i>Tax Rate %</i>	<i>34%</i>	<i>30%</i>	<i>15%</i>	<i>35%</i>	<i>-2%</i>
Reported PAT	914	1,209	-24%	787	16%
Less: Extra ordinary items	-	-		-	
Adjusted PAT	914	1,209	-24%	787	16%
EPS (Rs.)	7.4	9.8	-25%	6.3	16%
EBITDA Margin (%)	15.2%	23.2%	(803)	16.5%	(132)
PAT Margin (%)	9.5%	14.9%	(547)	10.4%	(92)

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net revenues	26,024	27,378	30,913	34,956	40,000
Revenue growth (%)	4.9	5.2	12.9	13.1	14.4
- Op. expenses	20,393	22,539	24,870	29,519	33,613
EBITDA (Excl. OI)	5,630	4,839	6,043	5,436	6,387
EBITDA margins (%)	21.6	17.7	19.5	15.6	16.0
- Interest expenses	153	98	123	134	102
- Depreciation	550	606	701	704	740
+ Other income	232	244	404	392	448
+Share of JV	93	163	140	157	176
+ Exceptional	-	-	-279	-	-
- Tax	1,703	1,479	1,812	1,647	1,977
Effective tax rate (%)	33	34	32	33	33
Reported PAT	3,548	3,063	3,672	3,501	4,191
+/- Extraordinary items	-	-	-279	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	3,548	3,063	3,951	3,501	4,191
EPS (Rs/share)	29	25	32	28	34

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	3,548	3,063	3,951	3,501	4,191
+ Non cash items	611	526	909	704	740
Cash profit	4,159	3,589	4,860	4,204	4,931
- Incr/(Decr) in WC	1,852	340	-424	1,960	1,268
Operating cash flow	2,307	3,249	5,284	2,244	3,663
- Capex	748	1,500	1,366	1,000	1,000
Free cash flow	1,559	1,750	3,918	1,244	2,663
- Dividend	1,427	1,241	1,241	1,400	1,676
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,088	96	-169	402	-128
- Investments	4,097	3,431	-2,448	0	-
- Misc. items	-5,113	-2,898	4,900	-	-
Net cash flow	60	72	56	245	859
+ Opening cash	104	164	235	291	536
Closing cash	164	235	291	536	1,395

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,241	1,241	1,241	1,241	1,241
Reserves & Surplus	21,907	26,711	24,521	26,621	29,136
Networth	23,148	27,952	25,762	27,862	30,377
Minority interest	-	-	-	-	-
Total Debt	1,559	1,655	1,486	1,888	1,760
Def. tax liab. (net)	1,496	1,416	1,625	1,625	1,625
Capital employed	26,203	31,023	28,872	31,375	33,761
Net Fixed assets	8,769	9,746	10,411	10,708	10,967
Investments	12,636	16,067	13,619	13,620	13,620
Net Working capital	4,635	4,975	4,551	6,511	7,779
Cash and bank balance	164	235	291	536	1,395
Capital deployed	26,203	31,023	28,872	31,375	33,761
Net debt	1,395	1,420	1,195	1,351	365
WC (days)	54	54	49	64	67
DE(x)	0.1	0.1	0.1	0.1	0.1

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
P/E (x)	17.1	19.9	15.4	17.4	14.5
P/BV (x)	2.6	2.2	2.4	2.2	2.0
EV/EBITDA (x)	11.0	12.9	10.3	11.4	9.6
RoE (%)	18.2	12.0	14.7	13.1	14.4
RoCE (%)	23.0	15.6	19.2	17.0	18.7
Fixed Asset turnover (x)	1.3	1.4	1.4	1.5	1.7
Dividend (%)	115	100	100	113	135
Dividend yield (%)	2.3	2.0	2.0	2.3	2.8
Dividend payout (%)	40	41	34	40	40
Debtors days	7	6	9	12	14
Creditor days	32	33	34	33	33
Inventory days	78	82	73	85	86
Revenue growth (%)	5	5	13	13	14
EBITDA growth (%)	39	-14	25	-10	17
PAT growth (%)	40	-16	22	-5	20

Source: Company, Systematix Institutional Research

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