

CMP	503	Rating	ACCUMULATE
Target	578 (12m)	Upside	15%

Higher volumes drive topline growth: Finolex Industries Ltd reported a revenue growth of 14.0% YoY to Rs 9.4bn. The PVC Pipes & Fittings segment revenue grew by 17.8% to Rs. 8.5bn, while the PVC Resins segment reported a growth of 6.1% YoY to Rs. 5.3bn (including inter segment).

Spike in Rmat impedes OPM - EBITDA for the qtr. declined by 36.3% YoY to Rs. 1.2bn with OPM contracting by 1,033bps YoY to 13.1%, which was mainly attributable to a 997bps YoY spike in Rmat cost. Other Expenses also increased by 53bps YoY.

Pipes & Fittings EBIT margins expanded by ~25bps YoY to 8.5% while the PVC Resin EBIT margins were at 7.7%, as compared to 24.5% in Q1FY20.

Poor operating show dents PAT- PAT for the qtr declined by 35.3% YoY to Rs. 713.2mn due to a poor operating performance coupled with a higher Effective Tax Rate (+579bps YoY to 36.1%). NPM contracted by 581bps YoY to 7.8%.

STOCK DETAILS	
Bloomberg Code	FNXP:IN
Market Cap (Rs.bn)	62.1
Market Cap (USD bn)	0.9
Sector/Index	Plastic Products
52w High/Low	643/440
Avg Monthly Turnover (Rs. mn)	29.3
Shares in Issue (mn)	124.1
BSE Sensex	37,328
NSE Nifty	11,017

About the company: Incorporated in 1981, Finolex Industries Limited is engaged in the business of manufacturing PVC pipes and fittings. It is the only PVC Pipe manufacturing company in India which enjoys backward integration with its own PVC resins manufacturing unit. FIL is the leading and most trusted brand, commanding more than 20% market share in the organized segment.

CONSOLIDATED FINANCIALS				
Rs in bn	FY18	FY19	FY20E	FY21E
Revenue	27.4	30.9	33.0	35.1
EBIDTA	4.8	6.0	5.6	6.0
EBIDTA(%)	17.7%	19.6	17.0%	17.2%
PAT	3.1	3.7	3.7	4.0
EPS (Rs.)	24.69	29.59	30.10	32.42
P/E (x)	20.4	17.0	16.7	15.5

Source: Company, Indsec Research

Result (Rs.bn)	Q1FY20	Q1FY19	Q4FY19	Y/Y(%)	Q/Q(%)
Revenue	9.4	8.3	9.6	+14.0%	-2.1%
EBITDA	1.2	1.9	1.5	-36.3%	-15.7%
EBITDA(%)	13.1%	23.4%	15.2%	-1,033bps	-210bps
PAT	0.7	1.1	1.0	-34.8%	-23.3%
PAT(%)	7.8%	13.6%	9.9%	-581bps	-214bps
EPS	5.90	9.05	7.69	-34.8%	-23.3%

Key Takeaways:

Business Segment Performance: The topline for the company reported a robust growth on back of higher volumes across segments:

- **Pipes & Fittings:** This segment reported a 18.1% YoY growth in volumes to 91,655 MT, while realizations declined by 0.2% YoY to Rs. 92.87/kg.

- **PVC Resin:** This segment reported a 14.7% YoY growth in volumes to 78,512 MT in Q1FY20, leading to a segmental revenue growth of 6.1% YoY to Rs. 5.3bn. The PVC/EDC spread has declined due to the softening and hardening of the PVC and EDC prices, respectively. The avg spread for the qtr stood at \$490/MT with the PVC prices standing at \$883/MT.

CPVC Business Update: The CPVC segment continues to be a civil share of the topline, but the company continues to witness momentum in their volumes. CPVC volumes grew by 36.2% YoY to 2,321 MT in Q1FY20, with total revenue from this segment growing by 30.2% YoY to Rs. 560mn on back of stronger volumes. Realizations for the segment however declined by 4.4% YoY. The company will continue to build on their existing capabilities in this segment and capture the faster growing Non-Agri segment.

PVC Price movement: PVC price corrected drastically from Feb to April and EDC prices kept hardening at the same time. Thus the PVC/EDC delta took a hit. This drop in PVC price and rise in EDC also led to a slight inventory loss during the qtr. However, EBIT margins for the qtr. eroded mainly on account of the lower PVC/EDC spread. EBIT (Rs./kg) for the PVC pipes & fittings stood at Rs. 7.89 (+2.9% YoY) and for PVC resin stood at Rs. 5.26 (-70.9% YoY). Since July, PVC prices have been trending upwards while EDC prices have been softening. The average PVC/EDC delta for July has improved and stood at ~\$550/MT.

Outlook: The company expects the capex (including maintenance capex) to be in the area of ~Rs. 1-1.5bn FY20 primarily in lieu of capacity expansion (target of an addition of 30000-4000 MT by the end of FY20E). PVC Pipes & Fittings volumes are expected to continue the momentum gathered with an expected volume growth of 12-15%. Although the PVC/EDC delta has been improving since July, margins do remain an area of concern.

Valuation and View: Finolex reported strong revenue growth on back of higher volumes across segments. However, the movement in PVC and EDC prices caused a steep decline in margins. Going ahead Management expects the volume momentum to sustain.

In terms of business segments, the PVC pipes & Fittings segment is expected to post volume growth in the range of 12-15%, going ahead, with CPVC sub-segment expected to step up their share of the pie. PVC resins segment is moving towards complete captive consumption. The company is expected to incur capex to the tune of ~Rs. 1.5bn in FY20.

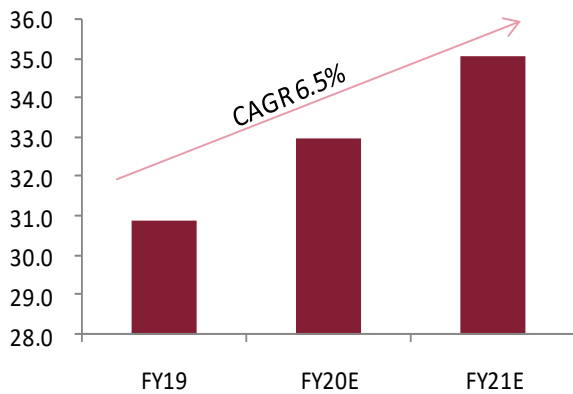
We maintain our estimates and expect the Topline/EBITDA/PAT to grow at CAGR of 6.5%/flat/4.7% over FY19-FY21E to Rs. 35.1bn/6.0bn/4.0bn, with OPM settling within the range of 17.2% at the end of FY21E.

At CMP of Rs. 503 the stock is trading at 16.7x/15.5x FY20E/21E on expected earnings of Rs. 30.10/Rs. 32.42 for FY20E/21E, respectively. Fi-

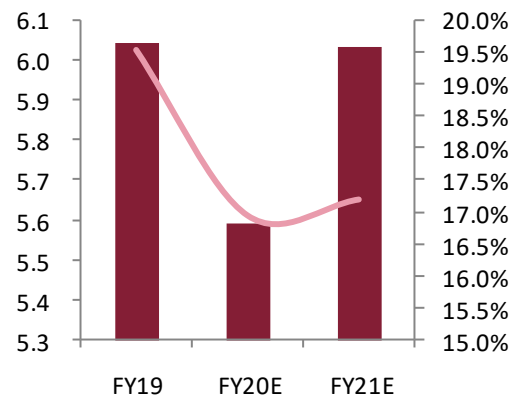
nolex continues to enjoy volume growth across segments and is well placed to capture further opportunities arising in the agri sector. Depressed margins during Q1 are a concern, but the PVC/EDC delta has been improving since July and provide some relief. We maintain our target multiple of 17x and assign it to our September 2020E earnings of Rs. 31.26 post which we arrive at a value of Rs. 531/share. Further we also value the co.'s 15.10% holding in Finolex Cables at Rs. 47/share after giving a holding company discount of 30%. Thus, we arrive at a target price of Rs. 578, which implies an upside of 15% from current levels. We assign an ACCUMULATE rating to the stock.

Financial Snapshot

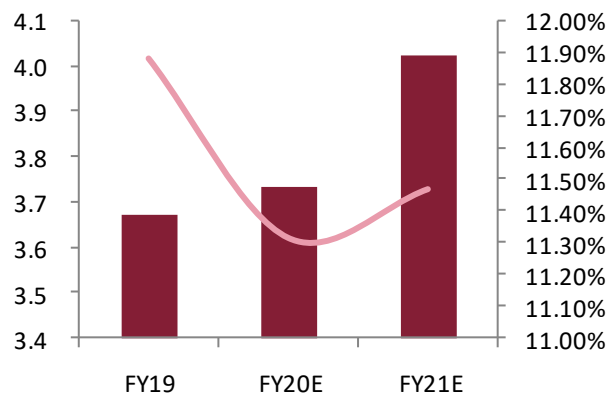
Revenue (Rs. in bn)



EBITDA (Rs. in bn) & OPM (in %)



PAT(Rs. in bn) & NPM (in %)



SUMMARY INCOME STATEMENT						
(in mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income	28,431	26,024	27,378	30,913	33,011	35,077
Cost Of Revenues (incl Stock Adj)	20,089	16,096	17,644	19,209	21,787	23,063
Gross Profit	8,342	9,928	9,734	11,704	11,224	12,014
Employee Cost	925	1,049	1,161	1,344	1,601	1,736
Other Operating Expenses	3,373	3,248	3,733	4,317	4,027	4,244
EBITDA	4,044	5,631	4,839	6,043	5,595	6,033
Other Income	387	232	244	404	594	631
Net Interest Exp.	447	154	98	123	97	113
Depreciation	506	550	606	701	753	801
Exceptional Items	245	0	0	-279	0	0
PBT	3,234	5,158	4,379	5,903	5,340	5,751
Tax	1,251	1,703	1,499	1,819	1,815	1,955
Profit After Tax	1,983	3,455	2,880	4,084	3,524	3,795
Net Profit	1,983	3,455	2,880	4,084	3,524	3,795
EPS	20.8	28.6	24.7	29.6	30.1	32.4

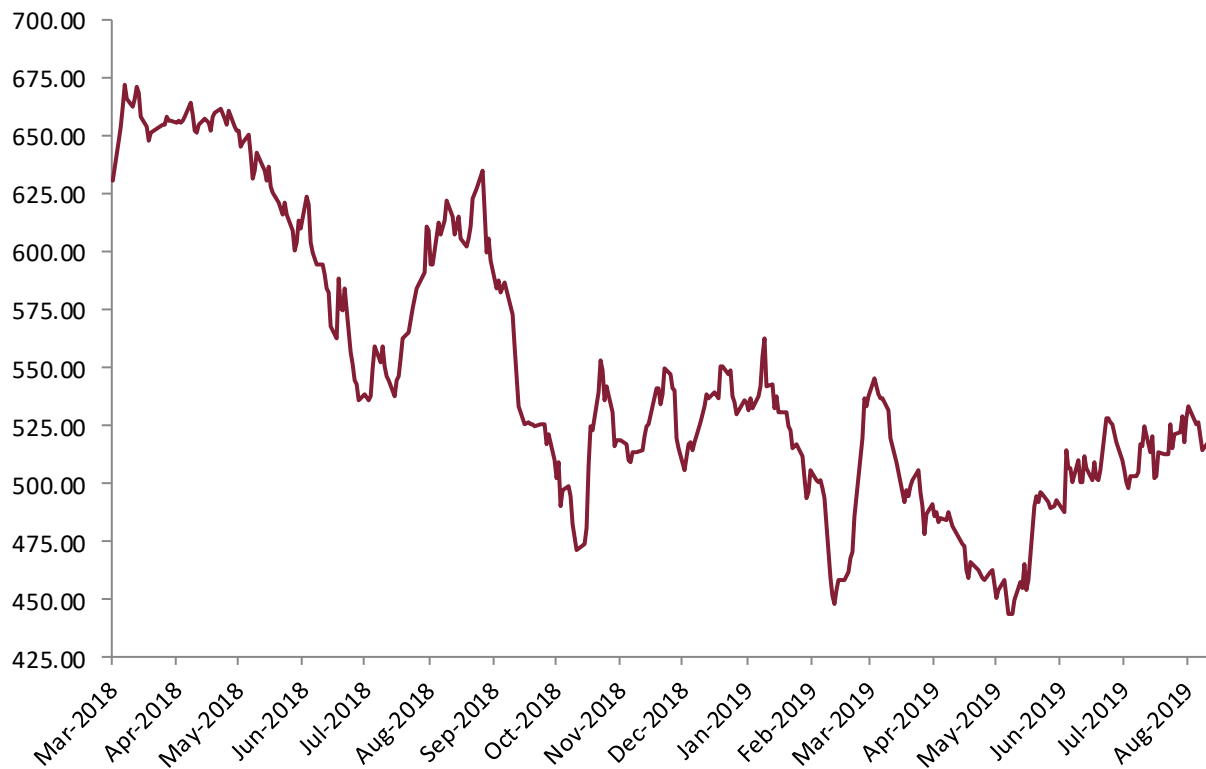
SUMMARY BALANCE SHEET						
(in mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Assets						
Net Block	8,496	8,551	8,842	9,509	10,256	10,955
Capital WIP	66	217	903	902	250	250
Intangible Assets under development						
Other Non Current Assets	7,620	13,905	17,114	12,381	12,381	12,381
Long Term Loans & Advances	0	0	0	0	0	0
Current Assets						
Current Investment	1,687	566	656	2,261	2,500	2,650
Inventories	4,472	5,574	6,116	6,205	7,054	7,496
Trade receivables	176	525	431	743	543	577
Cash and cash equivalents	104	163	234	291	1,126	1,807
Short-term loans and advances	2	2	2	3	3	3
Other Current Assets	1,228	463	749	1,032	1,032	1,032
Total Current Assets	7,670	7,293	8,188	10,535	12,258	13,564
Current Liabilities & Provisions						
Trade payables	2,432	2,275	2,505	2,838	2,804	2,691
Other current liabilities	2,308	1,366	1,385	1,387	1,387	1,387
Short-term provisions	11	12	14	24	24	24
Total Current Liabilities	4,751	3,653	3,904	4,249	4,215	4,102
Net Current Assets	2,919	3,640	4,285	6,286	8,043	9,462
Non-Current Assets held for Disposal	-	-	12	-	-	-
Total Assets	19,102	26,314	31,157	29,078	30,930	33,049
Liabilities						
Share Capital	1,241	1,241	1,241	1,241	1,241	1,241
Reserves and Surplus	14,664	21,907	26,710	24,521	26,273	28,291
Total Shareholders Funds	15,905	23,148	27,951	25,762	27,514	29,532
Money Received against warrants						
Total Debt	1,117	942	1,007	906	1,006	1,106
Long Term Provisions	112	111	134	206	206	206
Other Long Term Liabilities	531	617	648	580	580	580
Net Deferred Tax Liability	1,436	1,496	1,416	1,625	1,625	1,625
Total Liabilities	19,102	26,314	31,157	29,078	30,930	33,048

Source: Company-Annual Report, Indsec Research

SUMMARY CASH FLOW STATEMENT						
<i>(in mn)</i>	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	3,828	5,251	4,542	5,345	5,340	5,751
Depreciation & Amort., Total	506	550	606	701	753	801
After other adjustments	14	(177)	(269)	123	97	113
(Inc) / Dec in Working Capital	2,005	(1,531)	(300)	678	(684)	(588)
Taxes	(663)	(1,752)	(1,195)	(1,812)	(1,815)	(1,955)
Others	-	-	-	-	-	-
Cash from Ops.	5,690	2,342	3,384	5,034	3,691	4,121
Capital Expenditure & investments	(772)	371	(1,619)	(3,020)	(1,087)	(1,650)
Cash from Investing	(772)	371	(1,619)	(3,020)	(1,087)	(1,650)
Issue of Share capital	-	-	-	-	-	-
Net Borrowings	(4,070)	(1,174)	65	(101)	100	100
Others	(576)	(113)	(100)	80	76	60
Issuance of Dividend	(291)	(1,474)	(1,718)	(1,984)	(1,984)	(1,984)
Cash from Financing	(4,937)	(2,761)	(1,752)	(2,005)	(1,807)	(1,824)
Extraordinary receipts/payment	-	-	-	-	-	-
Net Change in Cash	(19)	(49)	13	8	797	647
BF Cash	123	104	55	68	76	911
CSR Expense	-	-	-	-	-	38
END Cash	104	55	68	76	872	1,596

SUMMARY RATIOS						
	FY16	FY17	FY18	FY19	FY20E	FY21E
<u>Profitability</u>						
Return on Assets	10.8%	11.8%	8.7%	11.0%	10.6%	10.8%
Return on Capital	23.1%	22.1%	15.5%	21.5%	19.1%	19.1%
Return on Equity	16.2%	15.3%	11.0%	14.3%	13.6%	13.6%
<u>Margin Analysis</u>						
Gross Margin	29.3%	38.1%	35.6%	37.9%	34.0%	34.3%
EBITDA Margin	14.2%	21.6%	17.7%	19.5%	17.0%	17.2%
Net Income Margin	9.1%	13.6%	11.2%	11.9%	11.3%	11.5%
<u>Short-Term Liquidity</u>						
Current Ratio	1.3x	1.6x	1.7x	2.0x	2.3x	2.6x
Quick Ratio	0.5x	0.4x	0.4x	0.8x	1.0x	1.2x
Avg. Days Sales Outstanding	4	5	6	7	6	6
Avg. Days Inventory Outstanding	57	78	82	73	78	78
Avg. Days Payables	31	32	33	34	31	28
<u>Long-Term Solvency</u>						
Total Debt / Equity	0.1x	0.0x	0.0x	0.0x	0.0x	0.0x
EBITDA / Interest Expense	8.8x	34.5x	45.6x	46.8x	56.0x	51.7x
<u>Valuation Ratios</u>						
EV/EBITDA	15.3x	11.1x	13.0x	10.1x	10.7x	9.8x
PER	24.2x	17.6x	20.4x	17.0x	16.7x	15.5x
P/B	3.9x	2.7x	2.2x	2.4x	2.3x	2.1x

Source: Company-Annual Report, Indsec Research

Stock Price movement from Initiation (9th March 2018) to 20th August 2019


Recommendation History					
Date	Closing Price	TP	Periods (in mts)	Rating	Analyst
21-Aug-19	503	578	12m	ACCUMULATE	Malay Shah / Jimeet M. Shah
28-May-19	490	581	12m	ACCUMULATE	Jimeet M. Shah
13-Feb-19	501	590	12m	ACCUMULATE	Jimeet M. Shah
31-Oct-18	553	726	12m	BUY	Jimeet M. Shah
14-Aug-18	613	801	12m	BUY	Jimeet M. Shah
25-May-18	628	815	12m	BUY	Jimeet M. Shah
9-Mar-18	633	844	12m	BUY	Jimeet M. Shah

INDSEC Rating Distribution

BUY : Expected total return of over 20% within the next 12 months.

ACCUMULATE : Expected total return between 10 to 20% within the next 12 months.

REDUCE : Expected total return below 10% within the next 12 months.

SELL : Expected total return is below the market return within the next 12 months.

NEUTRAL: No investment opinion on the stock under review.

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