

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 |

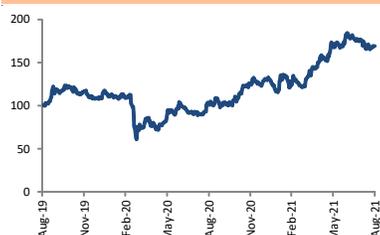
Shareholding Pattern (%)

| | 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.

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