INITIATING COVERAGE

CMP: ₹613.8/-

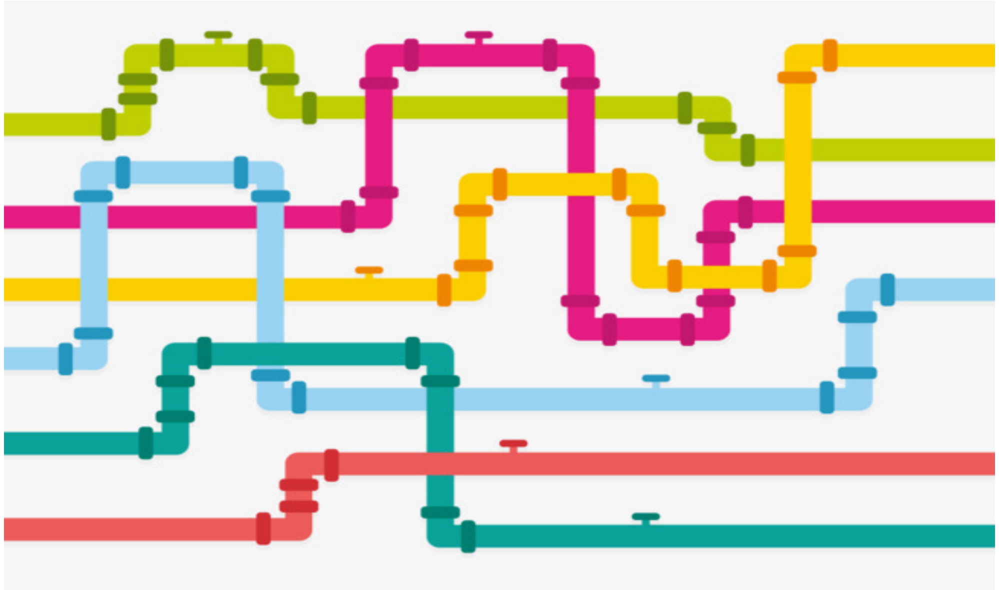
16th August 2018

ACCUMULATE

WAY2WEALTH
A COFFEE DAY COMPANY
Research Desk

SECTOR: Plastic Pipes & Fittings

Finolex Industries Ltd.



Laying the pipes for future growth…

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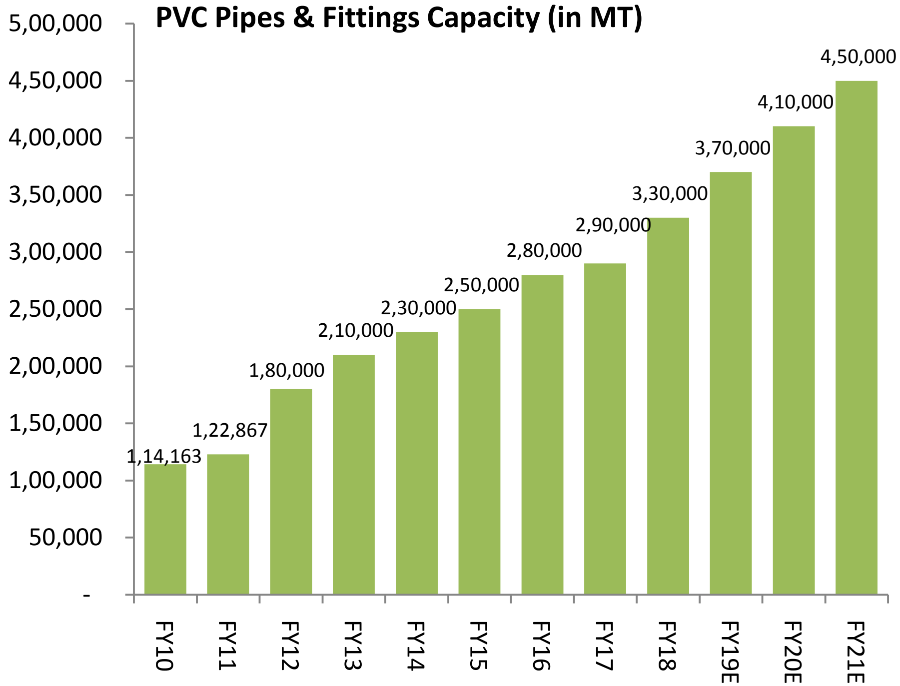
Company Details

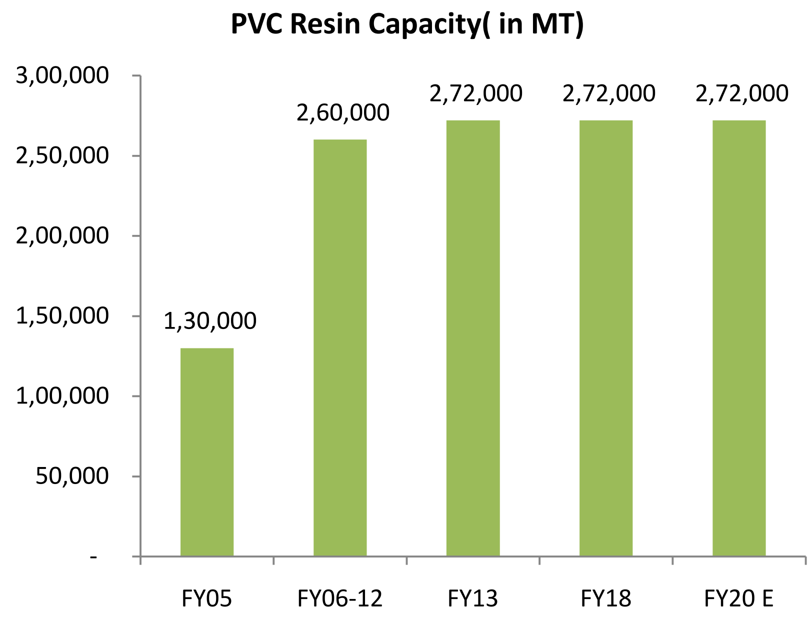
Key Stock Data	
CMP	₹613.8/-
Market Cap (₹ Crs)	7,616.97
52W High/Low	₹752.8/530
Shares o/s (Crs)	12.41
Bloomberg	FIL.IN
NSE Code	FIL
BSE Code	500940

Shareholding Pattern	
Promoters	52.47%
FIIs & DIIs	13.34%
Public & Others	33.84%

Company Overview

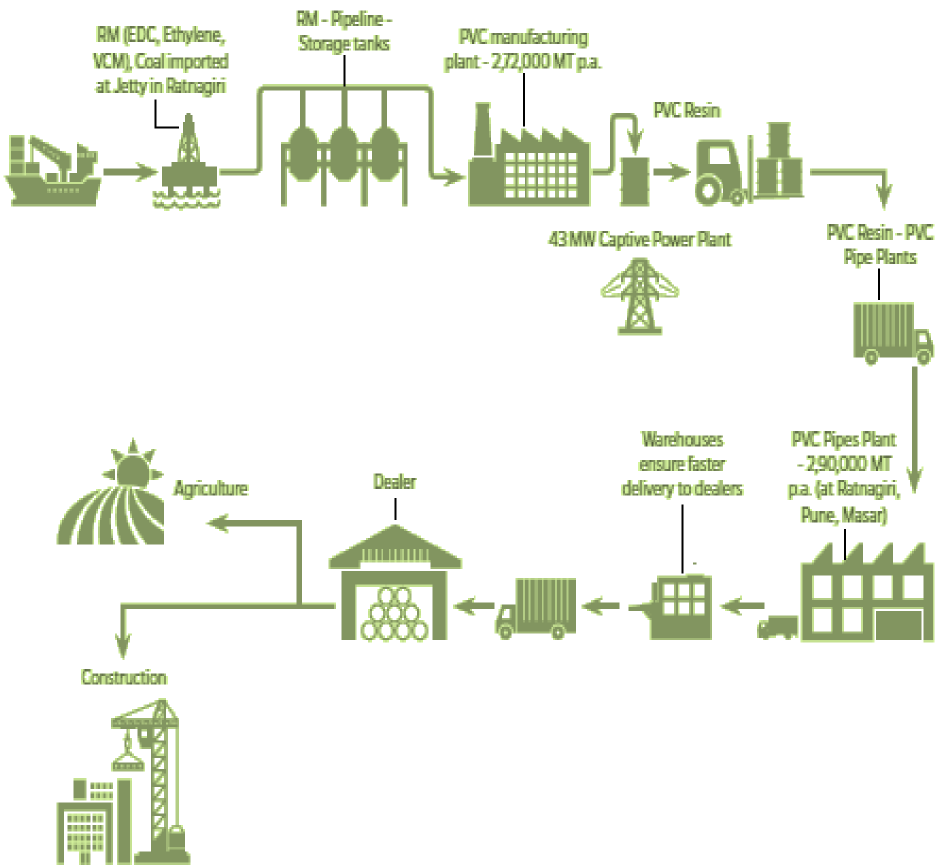
- **Company Brief –** Finolex Industries Ltd. (FIL) is India's leading manufacturer of PVC Pipes & Fittings and the third largest PVC Resin manufacturer. Headquartered in Pune, FIL operates through its state of the art manufacturing plants located in Pune, Ratnagiri in Maharashtra and Masar in Gujarat.
- **Business Operations –** FIL operates in 2 key business segments- a) **PVC pipes and fittings** – wherein it offers manufactures a wide range of products catering to the agriculture and non agriculture sectors & b) **PVC resin** – the company manufactures PVC resin providing consistent raw material for captive consumption (backward integration) and sales in the open market.



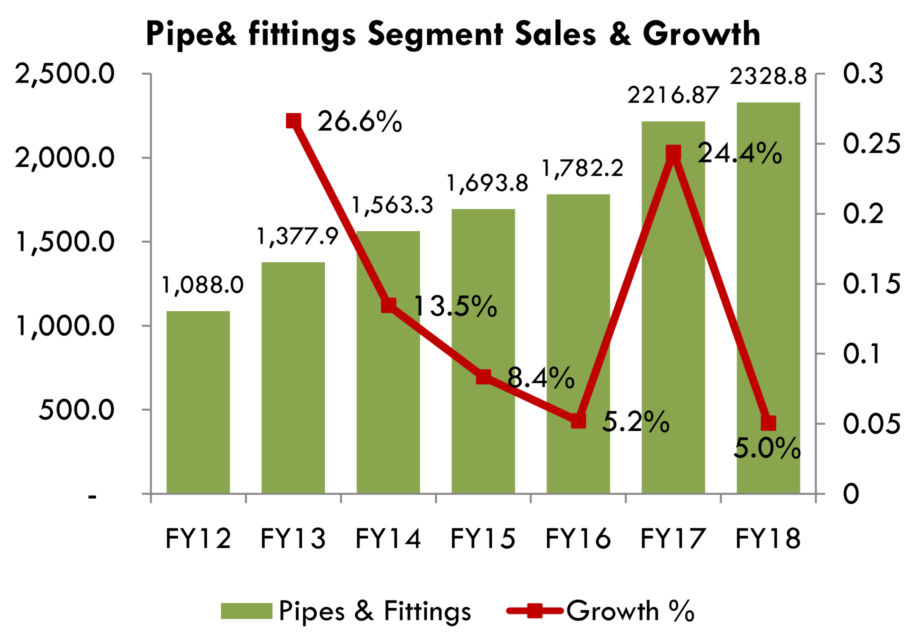


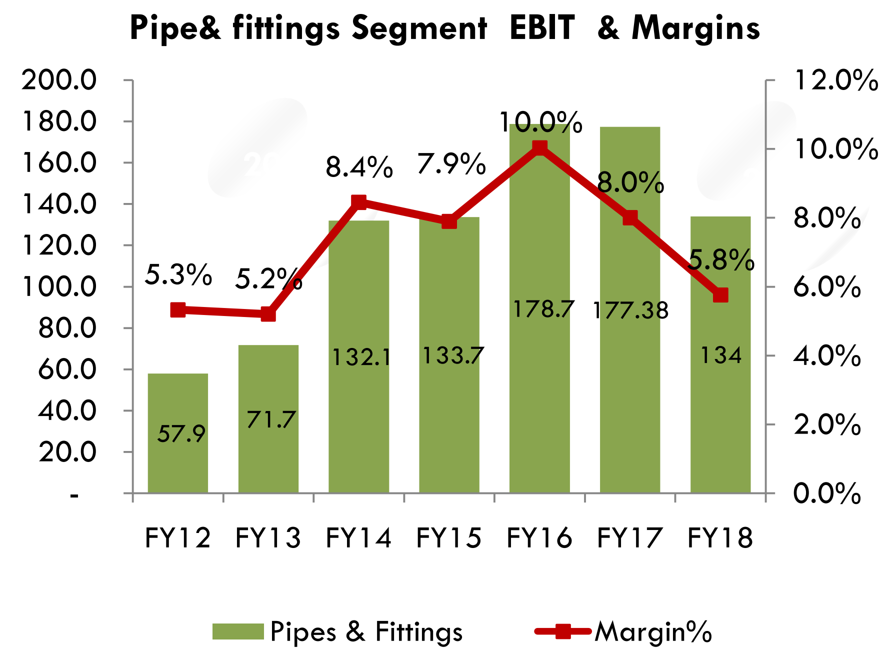
- **Integrated operations –** FIL is the only PVC pipes manufacturing company in India which enjoys backward integration with its own PVC resins manufacturing unit. Integrated production plants ensure a steady supply of raw material to control the quality of pipes and fittings. The company imports raw materials such as Ethylene dichloride (EDC), Ethylene, Vinyl Chloride Monomer (VCM) and coal, which are stored in bulk at plant in Ratnagiri, and used for manufacturing PVC resin. The company has a captive power plant is that it ensures a steady power supply and reduces the manufacturing costs. The majority of the PVC resin manufactured is transported to FIL's PVC pipes and fittings manufacturing plants, while the rest is sold in the open market.

- **Distribution & Market Reach:** The Company primarily caters to the agriculture segment with a growing presence in construction and industrial businesses. Their current mix of agricultural vs. non. Agricultural is 70:30. The company intends to increase its mix of non agricultural over the next few years. The Company works on a unique cash & carry model. It has more than 850 dealers and 18,000 retail outlet touch points. Going forward, the company plans to expand its distribution network in all geographies with higher focus in the northern and the eastern region. Presently they have warehouses at Delhi, Indore, Cuttack & Chinchwad. With strong presence in Maharashtra and Gujarat, FIL commands more than 20% market share in the organised segment. Western and southern region together contributes 75% to the business.

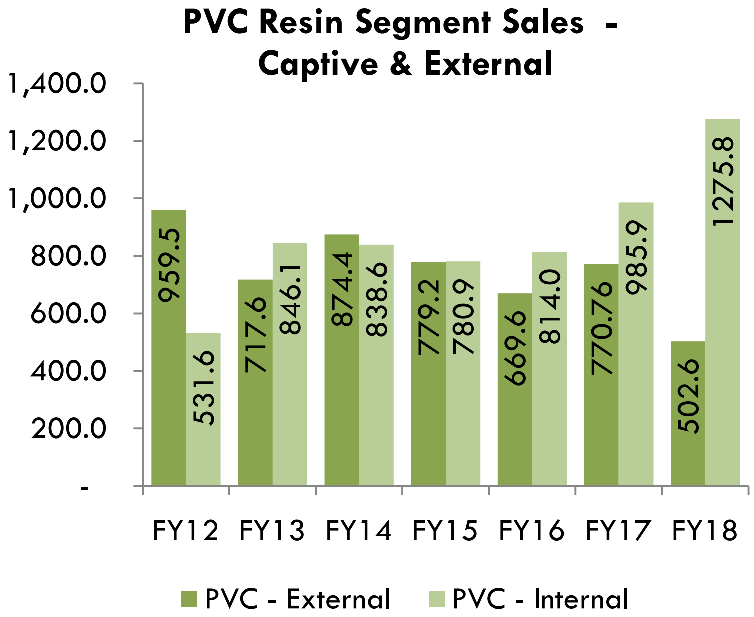


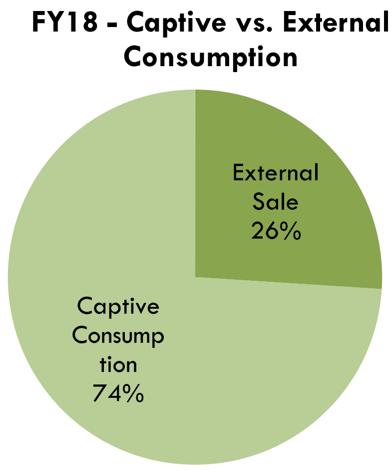
- **PVC Pipes and Fittings division:** This division contributes ~82% to the company's topline in value terms (reported topline ex- captive consumption). This segment has recorded a CAGR of ~10%+ over the last 4 years. It is a key revenue driver for the company with a steadily increasing in-house consumption of PVC resin. The company works on a unique cash & carry model. ~70% of the company's output finds application in the agricultural sector. The demand for PVC pipes and fittings will continue to grow due to the fact that more than half of the cultivated area in India has no access to irrigation coupled with increased investment in housing & construction.With a current capacity at 330,000 MTPA, FIL continues to invests in the expansion of PVC pipes & fittings capacity.

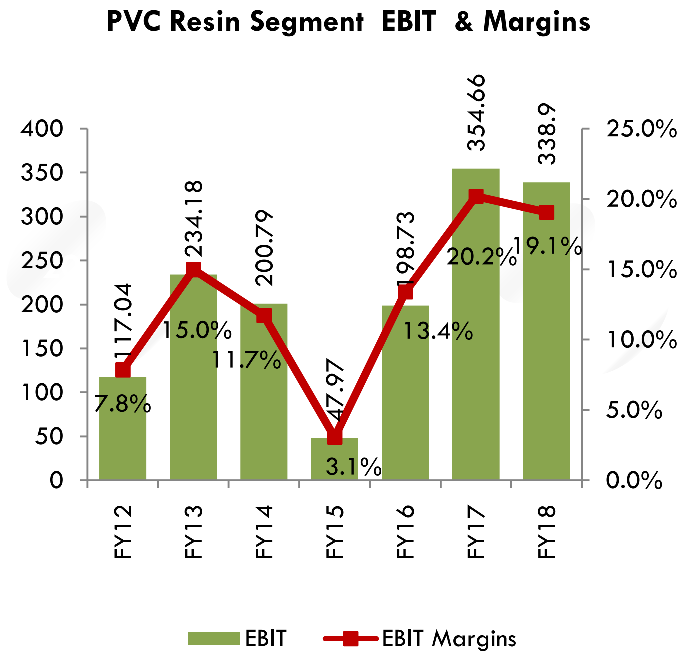




- **PVC Resin division:** This division contributes ~18% to the company's topline in value terms (reported topline ex- captive consumption). The Company has manufacturing facility in Ratnagiri, Maharashtra, with a total capacity of about 2,72,000 MT p.a. Of the total capcity 250,000 MT is suspension PVC and the balance 22,000 MT is emulsion PVC. The backward integration of PVC resin gives an unique advantage of consistent high quality raw material. With the rising internal consumption of PVC resin and branding initiatives, the company's business model is increasingly transforming from B2B to B2C.







- **Power Plant:** FIL has set up a 43 MW power plant at Ratnagiri in order to provide uninterrupted high quality power to its production facility there. Generating power from this plant has resulted in substantial savings, as compared to the cost of purchasing power from the grid.

Investment Theme

Topline Drivers : a)Capacity expansion in the pipes & fittings segment by ~35% over the next 3 years. Total capacity to increase from 330,000MT currently to 450,000MT by FY21. b) Improvement in asset turnover as focus increase on value added offerings like CPVC & fittings.

Profitability Drivers : 1)Healthy PVC – EDC spread yo ensure sustainable profitability, 2) Focus of CPVC to aid margin improvement in pipes & fittings segment,3) Increase in share of fittings also to aid margin expansion.

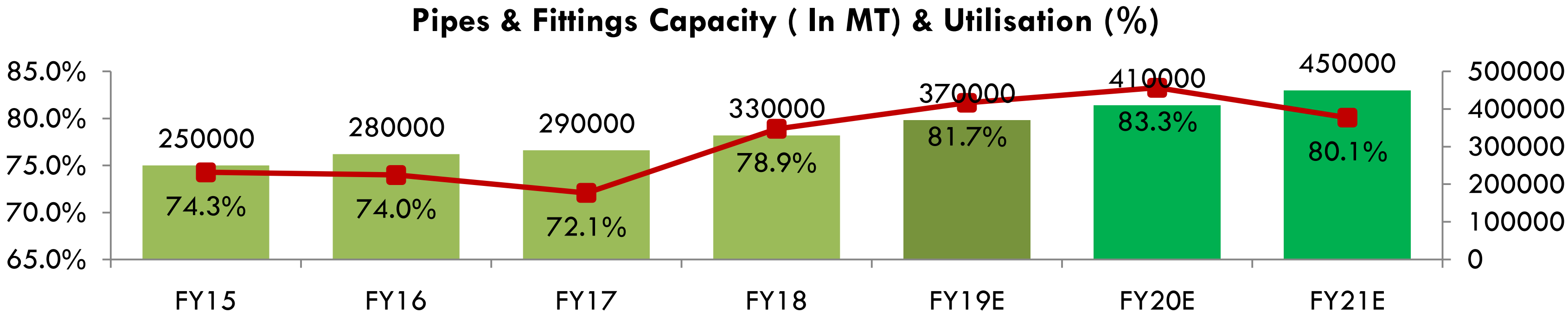
Valuations & Outlook : 1)The company is transforming it's business model from B2B to B2C as it increases internal consumption of its PVC resin for its pipes & fittings division. 2) The mix value added products to push up margins in pipe segment to low double digits. 3) Lower volatility in margins given higher internal consumption of resin and price pass-through to the pipe segment.

At the CMP of ₹613.8/- the stock trades at 22x & 20.3x it FY19 and FY20 estimated EPS of ₹27.9/- & ₹30.2/-

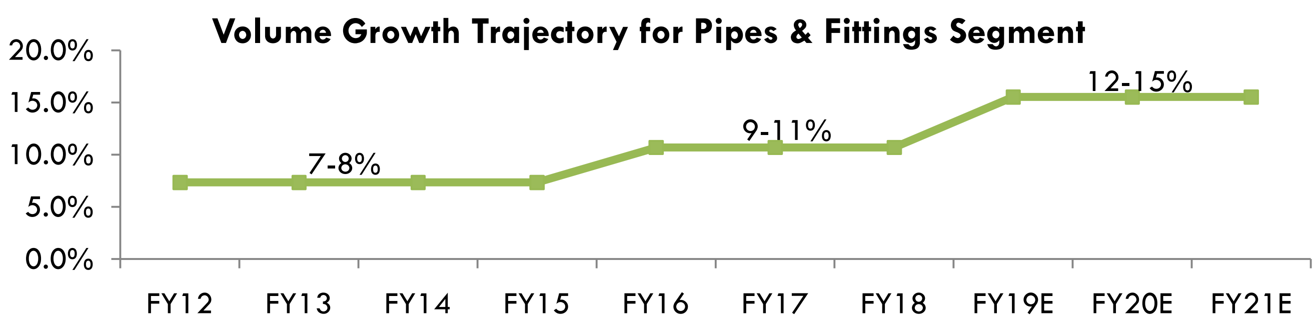
Investment Rationale

Capacity Expansion to Drive Volume Growth

- **Capacity expansion in the Pipes & Fittings segment to drive volumes growth:** The company embarked on an ₹250 crs. Capex plan in FY17. The planned expansion is aimed at taking capacity up from 290,000 MT in FY17 to 370,000 Mt by FY19. The first phase of the expansion was undertaken in FY18. The company expanded it's capacity in the pipes & fittings segment by ~ 14% to 330,000 MT at the end of FY18, on an investment of ~₹150 crs. The Company will invest ~₹100 crs. to expand capacity to 370,000 MT by the end of FY19. We expect similar spends of ~₹100-150 crs. over FY20 & FY21 to take up the capacity to 450,000 MT.

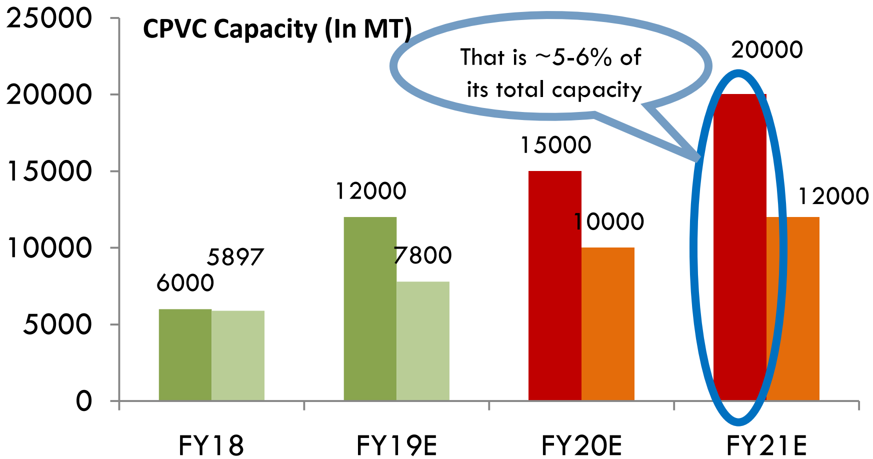


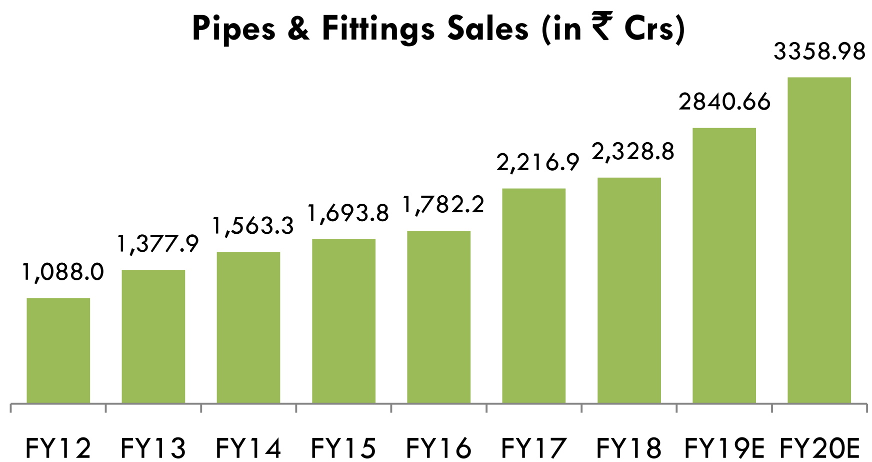
- We expect the new capacity expansion to aid volume growth over the next 2 to 3 years. Given the macro factors are stable, i.e. good monsoons, housing & construction investments etc., we expect volumes to grow at 12-15% CAGR over next 2-3 years.



Pipes & Fittings Segment Poised for Healthy Growth

- Given the ATR (asset turnover) of ~3-3.2x in the pipes and fittings segment we expect the new capacities to add between ₹250-350 crs. Annually to the topline. Privy the discounting environment prevailing in this segment since FY18, we expect prices to stabilise going into FY19-20. Subdued demand on account of demonetization overhang & the impeding implementation of GST during FY18 lead the company to a decision of offering discounts to revive demand. While part of the realization dip in FY18, for the segment, was driven by a correction in raw material prices we believe 5-7% discounting over and above that to have prevailed during the year.
- While the discounting environment is stable a drawdown of the same will take time. We believe the key drivers for realization will be the increasing contribution of fittings & CPVC pipes. The company recorded a sales volume of ~5900 MT in the CPVC segment in FY18 up 40% YOY. CPVC sales in value terms stood at ₹147crs. in FY18. Evident from theses numbers is the fact that realizations in CPVC are ~2.8-3x the average realizations for the company currently. Hence as contribution of CPVC increases the multiplier effect on the segment growth will be higher.





- We expect the pipes & fittings segment to grow at ~15-17% CAGR over next 2 to 3 years on the back of increase in volumes and larger contribution of CPVC to the topline which will lead to better realizations.

Focus on Value Added Offerings to Aid Margin Expansion

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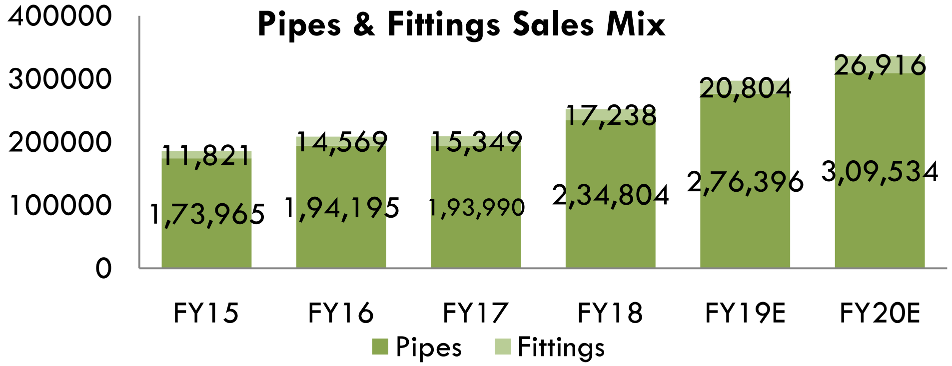
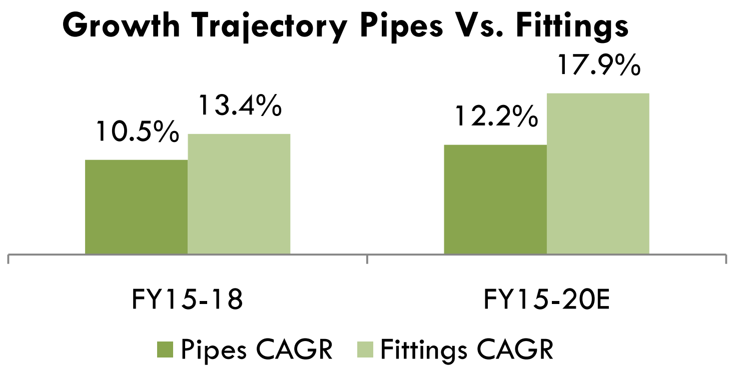
- **Product mix change in favor of value added products to aid margin expansion :** While Pipes & Fittings segment account for ~75-80% of the topline its contribution to EBIT is ~30-35%. The key drivers for the segment margins are a) demand elasticity - which drives ability of manufacturers to pass through raw material cost increases, b) competitive pricing (discounting), c) product mix - CPVC and fittings are margin accretive, & d) mix between agri & non agri segment.

PVC pipes & fittings segment pricing is impacted by the volatility in raw material prices. There is a direct pass through in a perfect market scenario . **BUT FOR…**

Rising Competitive intensity & slowdown in demand due to macro factors (ex- inadequate rainfall).

- The mix of fittings as a percentage of total volumes sold is also a key determinant of profitability for the segment. Fittings is a value added offering and hence enjoy a superior margin over pipes. Over the years while as a mix percentage it has remained at ~6.5-7% of total volumes, we expect it to rise to ~8% by FY20 & inch to 12-15% in 2-3 years further down the line. Privy to company's focus on expanding its fittings offering and raising its share to ~15% in the next 3-4 years we can see that the CAGR for fittings volumes growth is north of 13.5% vs. pipes at 10.5% over the last 3 years.

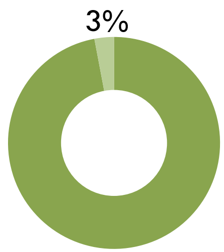




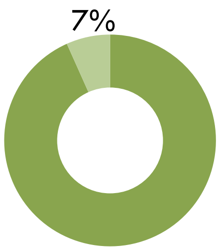
CPVC Pipes & Fittings – The New Growth Engine

- Currently the market for CPVC piper & fittings is estimated at at ~100,000 MT. Finolex has a market share of ~5% in this segment. CPVC pipes & fittings demand is growing at 20%+ p.a on the back of demand from urban infrastructure sector. The company is closely assessing the demand for CPVC pipes and is building capacities around it. Through the CPVC segment, the company aims to increase its presence in the non agri sector. In a bid to strengthen its commitment to the housing & real estate the company recently signed(Feb 2017) an agreement with Lubrizol for the manufacturing and sale of Finolex FlowGuard Plus CPVC pipes and fittings in India. CPVC pipes are 2-3 times more expensive than normal PVC pipes. Over the last few years many players have entered the segment and hence the margins have gone down from their superlative levels of 15-18% to 12-13%. That is ~1.2-1.5x normal PVC pipes and fitting margins. Also the margins in CPVC fittings are even more attractive at ~20-22%. Over the next 2- 3 years we expect FIL to double its volumes from FY18 levels of ~5900 MT. Given the multiplier effect of this segment as it enjoys higher realizations and better margins we expect this to aid margin expansion in the pipe & fittings segment.

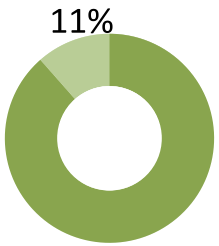
Volume Share of CPVC by FY20E



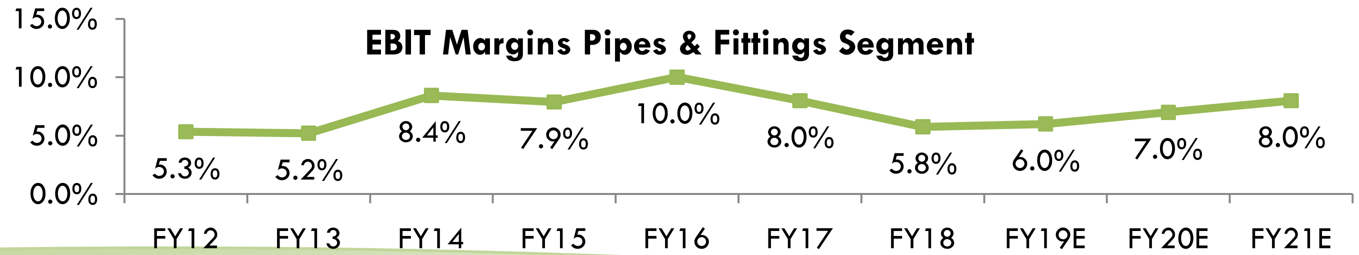
Value Share of CPVC by FY20E



EBIT Share of CPVC by FY20E



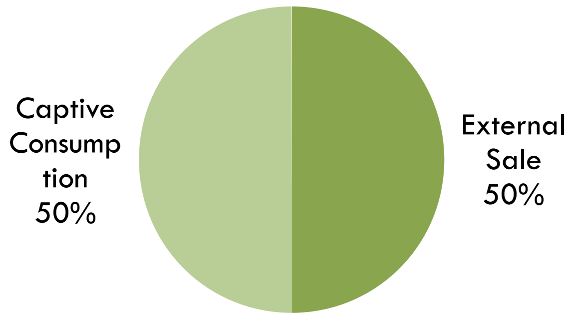
- We expect EBIT in the pipes & fittings segment to grow at a faster rate of 22-25% over the next two years given stable demand and competitive intensity and improvement in product mix. EBIT margins will inch up to 8% by FY21.



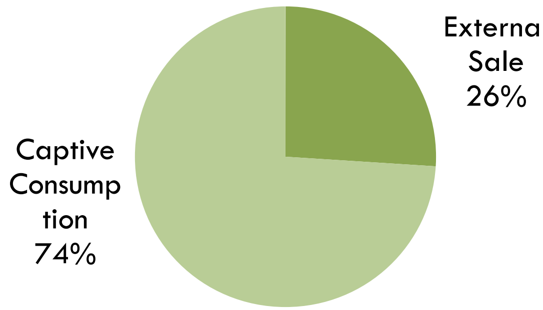
- **Integrated business model evolving from B2B to B2C –** Finolex Industries is the only PVC pipes manufacturer who is backward integrated for PVC resin. It is the second largest PVC resin manufacturer in India. PVC resin account for 90% of the PVC pipes raw material input. Currently Finolex has a capacity of 272,000 MT of PVC resin (250K of suspension resin &22k of emulsion resin). PVC resin is a highly capital intensive business and given the current duty structure(low import duties of 7.5% on PVC resin) the company does not intend to expand its capacities.

- Over the last few years, the company has consciously increased its captive consumption from 50-55% to ~74% in FY18. This backward integration ensures consistent supply of quality product with certain cost advantages. We expect by FY20-21, 90% of the PVC resin production will be internally consumed.

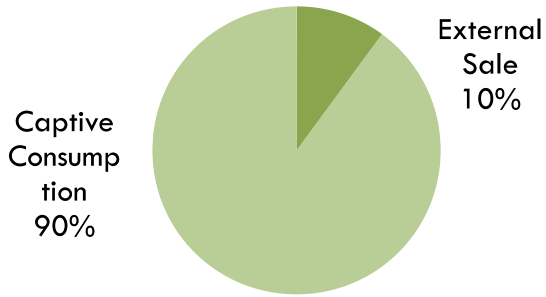
FY15 - Captive vs. External Consupmtion of PVC Resin



FY18 - Captive vs. External Consupmtion of PVC Resin



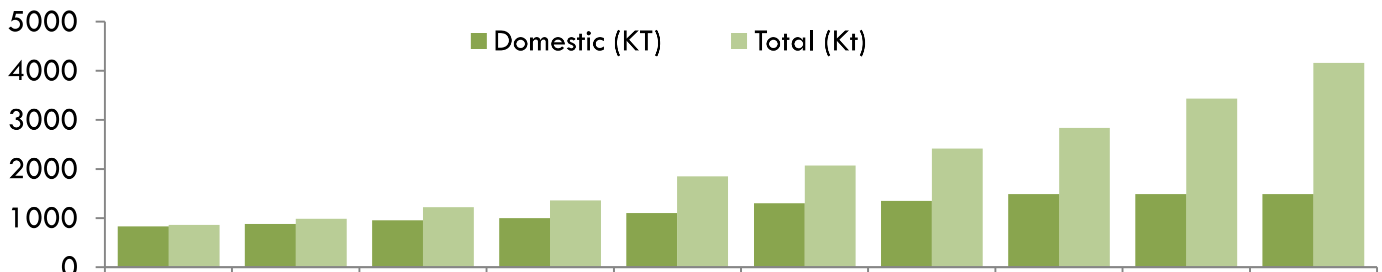
FY20E - Captive vs. External Consumption of PVC Resin



- As captive consumption continues to grow, the company is less dependent on open market purchases of PVC resin. This has resulted in the Company steadily moving away from a B2B business model of PVC resin to a B2C business of PVC pipes and fittings. The company believes this transition will enable the company to have better control on margins.

The Spreads & Profitability Play

- **Spreads & Profitability:** A key metric of profitability for PVC resin manufacturers is the spread between EDC(Ethylene Di-Chloride) and PVC resin prices. A healthy spread assures good margins. To understand the linkages between the various moving parts in the PVC manufacturing process it is important to understand a) the demand and supply for PVC in India, b) the manufacturing process and key feedstock's & c) the demand supply dynamics of each feedstock and its impact on pricing.
  - Lets start with the PVC industry demand supply scenario. Global PVC Capacity is estimated at 55 Mn MTPA and India's capacity is stagnant at 1.4 Mn MTPA (2.5%). In comparison, China's capacity is 23.89 Mn MTPA (42% of global capacity).
  - The Indian industry is facing challenges due to high power cost, cheaper imports and impact of cascading duties and taxes. More than a 50% (~1.5 mn MT) of PVC is imported from China, South Korea and Taiwan. The demand for PVC in India is growing at over 10% p.a., and domestic manufacturers are at a disadvantage due to non-availability of ethylene and the high cost of power. The import duty for PVC in India is 7.5% vs. peer countries like Indonesia, Brazil, Philippines & Malaysia have higher comparable tariffs at 10%, 14%, 15%, & 20% respectively.
  - EDC and VCM are key inputs in the manufacture of PVC. These are not manufactured on a merchant basis by any Indian company. Current custom duty on import of EDC & VCM is 2%.

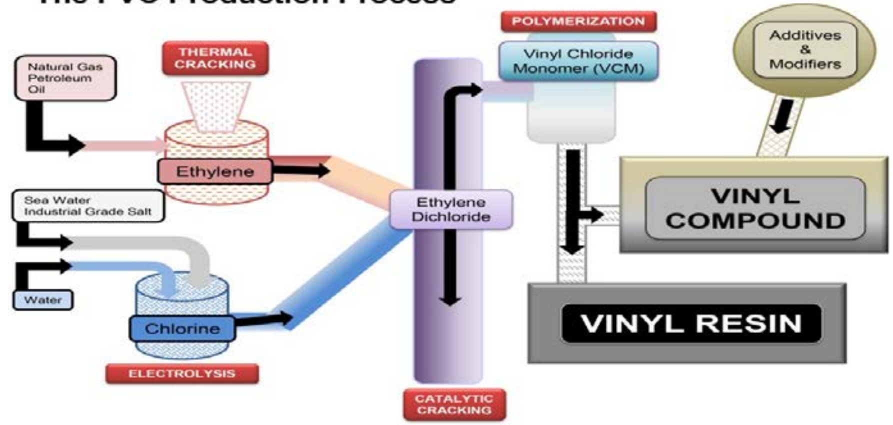


	2002	2004	2006	2008	2010	2012	2014	2016	2018	2020
Domestic (KT)	830	878	953	998	1104	1298	1353	1485	1485	1485
Total (Kt)	862	985	1220	1357	1847	2069	2418	2838	3434	4155

Manufacturing Process & Key Feedstock

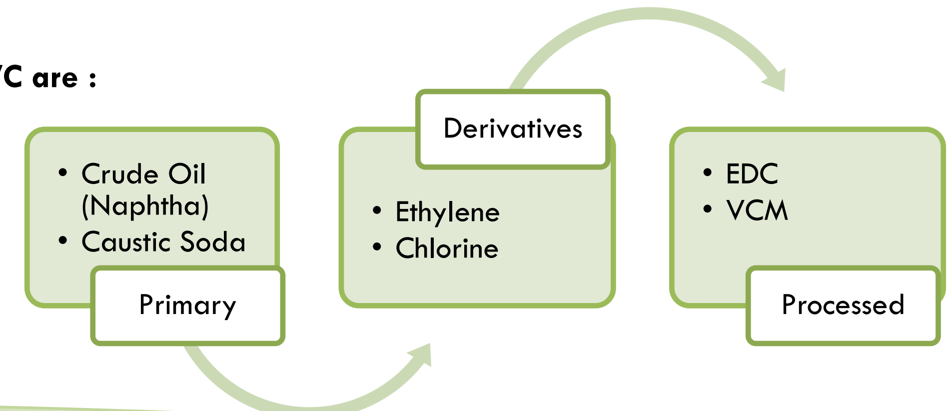
- Coming to the manufacturing process. As can bee seen from the diagram below EDC is the key raw material in the process of manufacturing of PVC resin. EDC is produced from ethylene which is extracted from a crude derivative (Naphtha), and the remaining input is Chlorine, a by product from the production of caustic soda.

The PVC Production Process



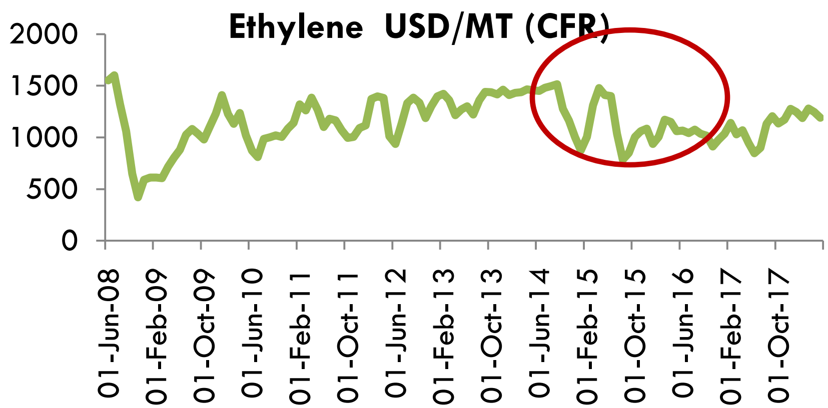
- EDC is the cracked using ethylene and through the process of polymerization VCM (Vinyl Chloride Monomer) is produced. Hence in the process of manufacturing PVC the manufacturer has a choice of either adopting the EDC route or directly procuring VCM and producing through the VCM Route.

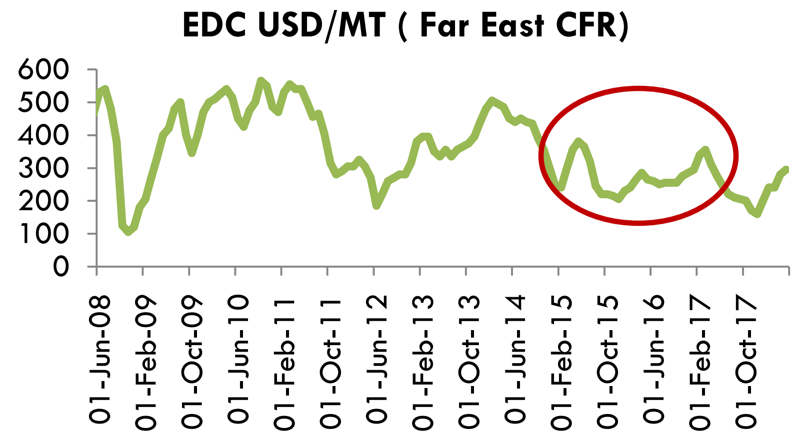
- **Hence the key feedstock for the production of PVC are :**



EDC – Trend, Demand & Supply

- Coming to the most important aspect, the inter-linkages between the feedstock & its derivates. While its obvious that the derivatives trend with prices of the primary input in the long run; demand supply dynamics play an important role in the short to medium term in determining the price trends.
- For example, lets take ethylene & EDC and track the trend in movement . Note the disconnect in trend between ethylene & EDC between Jan 2016 to Dec 2017. While ethylene prices moved up or stayed in a strong range EDC prices continued to trend lower. This was primarily because of supply glut of EDC.
  - While it is important to assess the supply demand dynamics of EDC it should be noted that in the long run it tends to trend with input prices. Over 1/3rd of the EDC mix is ethylene & rest chlorine. Industry experts suggest that at prevailing ethylene prices ECD should be trading at near about $400/- per tonne vs. $245/T in FY18. The convertors (primarily caustic soda manufacturers) are selling EDC at ethylene cash cost loss only because they have to dispose of Chlorine which they cant store and hence the step down production of EDC.
  - Over the last 4-5 years Chor Alkai industry has seen a upsurge in demand hence casustic soda production has been rising. Chlorine, which is a by –product of the process cannot be stored hence forward integration to produce EDC is the only option. This has lead to high supply of EDC over the last few years and lower prices(even a disconnect with crude oil prices).

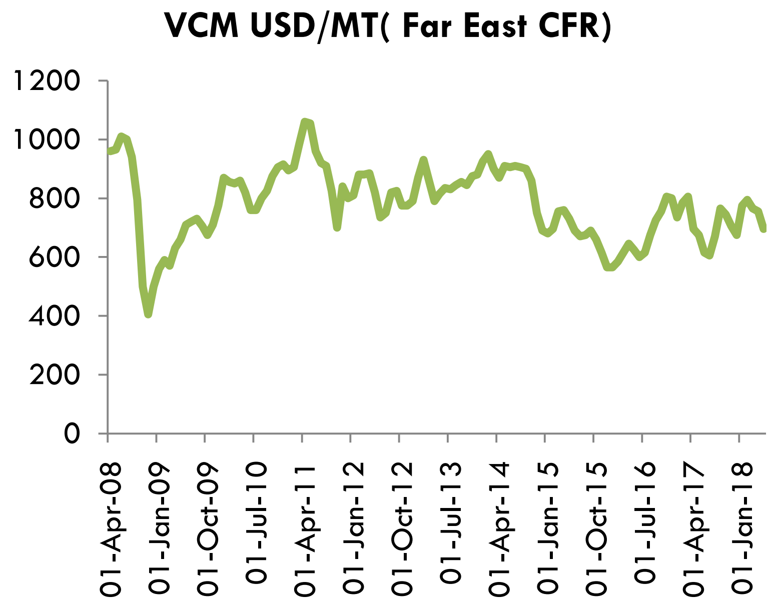


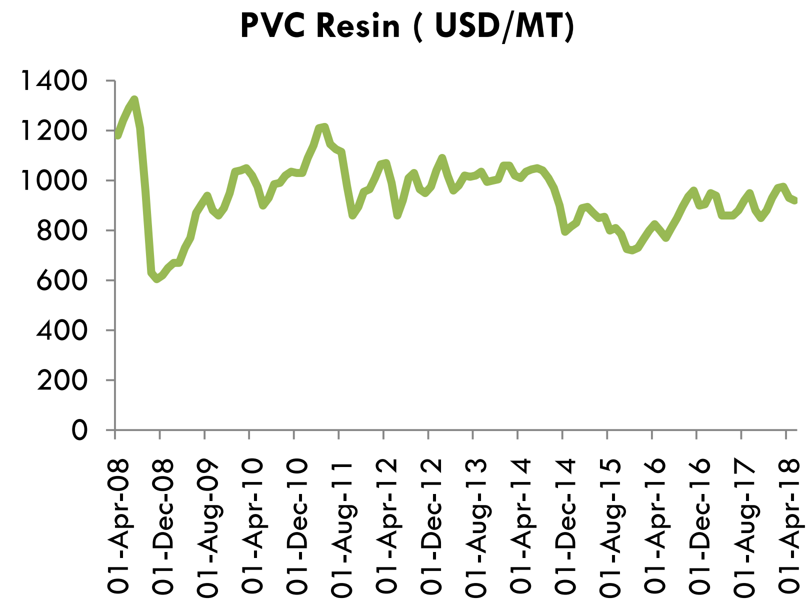


VCM – Trend, Demand & Supply

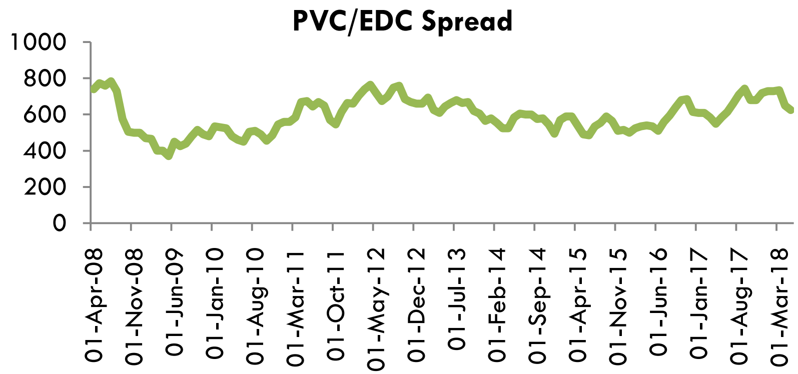
- VCM (Vinyl Chlorine Monomer) is the intermediate product between EDC & PVC. Hence manufacturers of PVC have the option to adopt either VCM Route or EDC Route for manufacturing PVC. It is important to note that VCM transportation is viable only in short distances unlike EDC. Hence imports of VCM depends on local continental capacities. Incase of India that would be Middle East, Korea, China Taiwan etc are the key geographies for sourcing VCM.

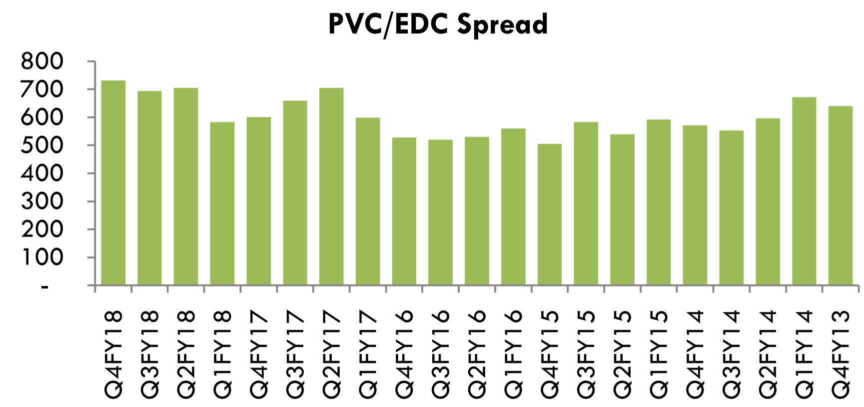
- Hence VCM prices tend to trend with PVC resin prices in the region.



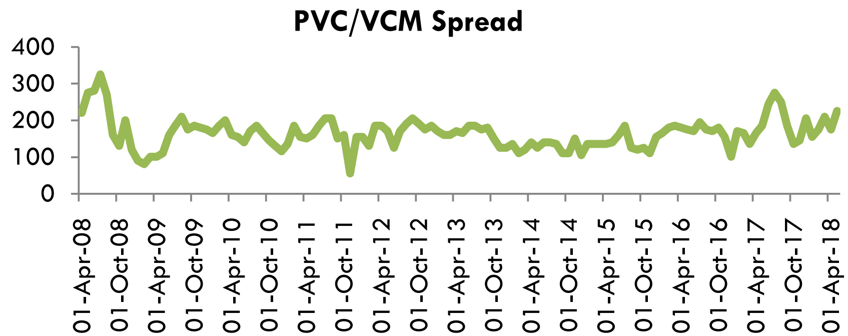


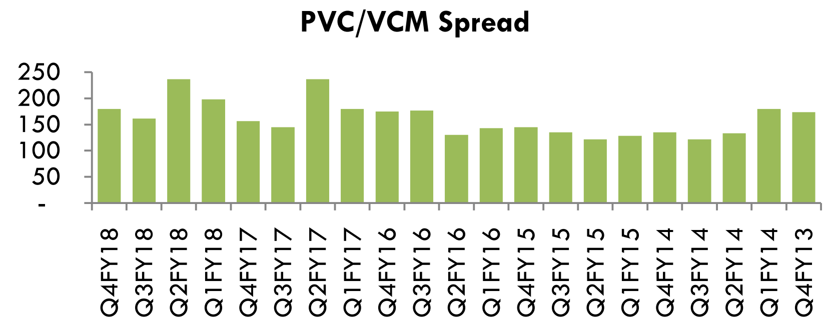
- **PVC/EDC –** For those using the EDC route of production of PVC, the spread between PVC and EDC determines the profitability for the PVC resin end product. The higher the spread the better the profitability.





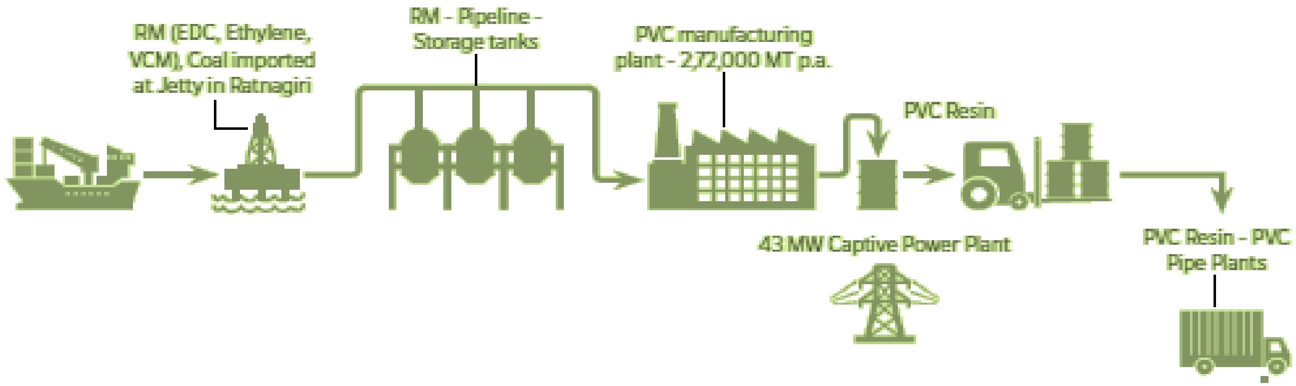
- PVC/VCM – For those using the VCM route of production of PVC this spread is relevant. Since VCM is produced post processing EDC the per tonne cost is higher. VCM prices trend closely with PVC resin prices, i.e. the finished product prices. $150 is perceived a reasonable spread between the two for VCM buyers to sustain PVC business else it would be better for them to buy PVC resin itself.



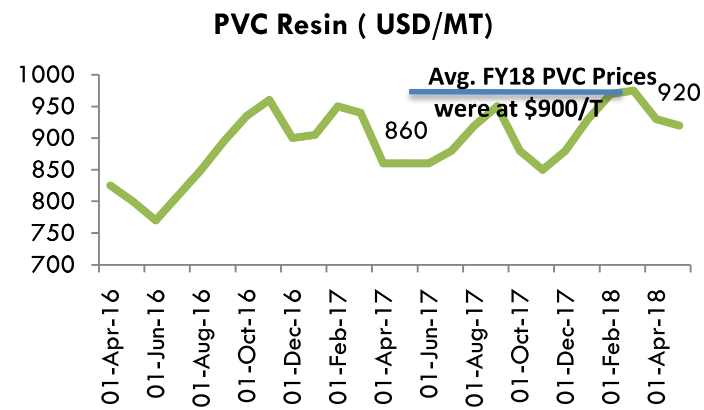


PVC- EDC Spread & Finolex

- **Healthy PVC-EDC margins to ensure sustainable profitability :** Finolex has a PVC resin capacity of 272,000 MT. It produces PVC both through EDC & VCM route . ~46% of its PVC production is done through the VCM route & the remaining 56% through the EDC route. The company mainly imports EDC & VCM from Middle East.

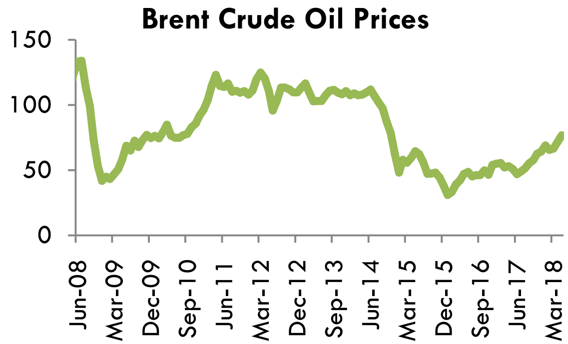


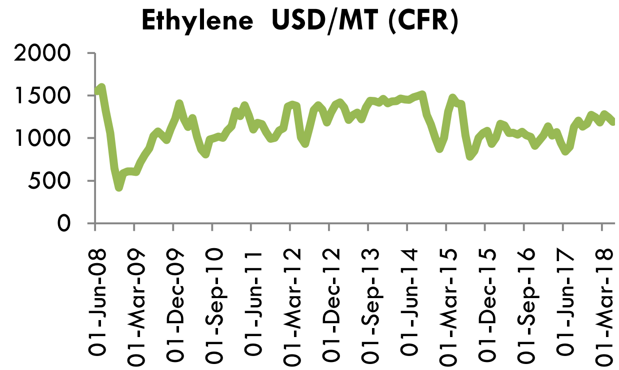
- **The 2 variables that determine this spread are a) PVC prices & b) EDC prices.**
  a) PVC prices in India are expected to stay be stable with upward bias given the healthy demand growth of double digit . We expect PVC resin prices to be around ~$920-1050/MT. Along with that recent uptick in EDC prices (Apr-Jun 2018 of ~15% vs. FY18 average) will also see some pass through.

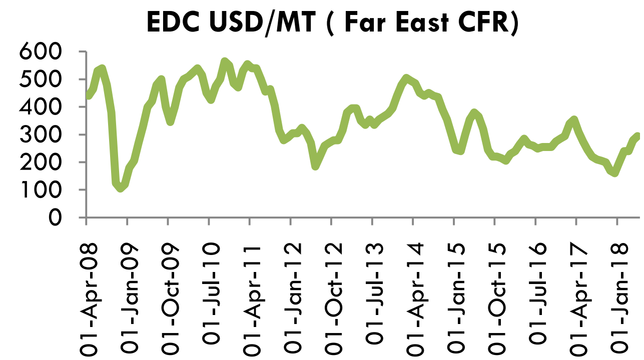


PVC- EDC Spread & Finolex

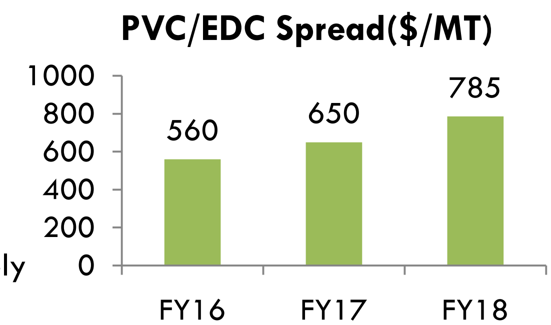
b) Ethylene prices in Asia have remained high since 2014 on account of tight supply.







- Many of the EDC manufacturers are forward integrators (from the caustic soda industry) and produce EDC only because they cannot store Chlorine(the other feedstock in EDC Production). So over the last few years due to the disconnect in EDC realizations and movement of ethylene prices, the manufacturers are actually selling at EDC at ethylene cash loss and only looking to monetize their chlorine production(a by product caustic soda manufacturing process.).
- While average ethylene prices moved up by ~7% in FY18 to $1110-1115/MT, average EDC prices were down ~15% to $245/MT. The PVC/EDC spread expanded from $560/MT in FY16 to $785/MT in FY18.
- During Q1FY19 EDC prices have spiked. Avg. EDC prices for Q1FY19 is up 15.5% at $280/MT vs. $ 245/MT, on the back of rising crude oil prices. EDC prices have been depressed for last 2-3 years. Currently ruling at ~$310/MT we expect EDC prices to rise faster than PVC prices this year. Having said that we believe spreads for FY19 to be healthy at ~$650-670/MT.



- Any sharp upturn or downturn in crude prices may lead to an inventory gain and loss respectively for the company.

Key Monitorables

TOPLINE

+	−
Volume growth in the Pipes & Fittings segment on the back of expansion Rising share of value added goods i.e. fittings & CPVC to improve realization per MT.	Contribution from PVC Resin (contributes ~18% to net sales) will continue to de-grow as internal consumption goes up. Discounting in the pipes segment will exert pressure on realisation.

EBIDTA

+	−
Healthy PVC/EDC spreads to continue to drive profitability in the PVC Segment. Mix change in the pipes segment, more CPVC and fittings will aid EBIDTA margins move up to lower double digits from the current 8-9%. range.	As the proportion of PVC resin contribution to total operating profit comes down the EBIDTA margins will trend with Pipes & fittings segment which is lower than the resin segment. Volatility in raw material prices will impact profitability. This degree of impact should lower given theat internal consumption of resin is going up, hence pass-through.

RAW MATERIALS

+	−
Large capacity and low operating rates for EDC globally has kept prices lower hence widening spread between PVC/EDC is aiding improvement in profitability . The prices trend not only inline with crude but more so in tandem with demand supply. Hence while crude prices were rising in FY17 still EDC continued to fall since supply was abundant. PVC resin demand is well paced in South East Asia and hence prices have been trending upwards last 2-3 years even as raw material prices are lower.	Crude has seen a sharp run up in the past 6 months. Ethylene a key input to EDC has also seen an increase. After 2-3 years of disconnect in trends between EDC has started moving up iat the start of FY19 . But the spread remains healthy given the fact that EDC remains highly undervalued vs. its input cost while PVC prices have been on the uptrend n the back of healthy demand.

Valuation & Outlook

Finolex is a leading player in the PVC pipes & fittings industry with ~20% market share. The company caters to a large diaspora across Western & Southern India. It is the only player in the industry which is backward integrated. The company manufactures PVC resin for captive consumption as well as open market sale. Given that a large part of it's business comes from the agriculture sector (~70%), the sustainability of its cash and carry model is privy to its brand strength.

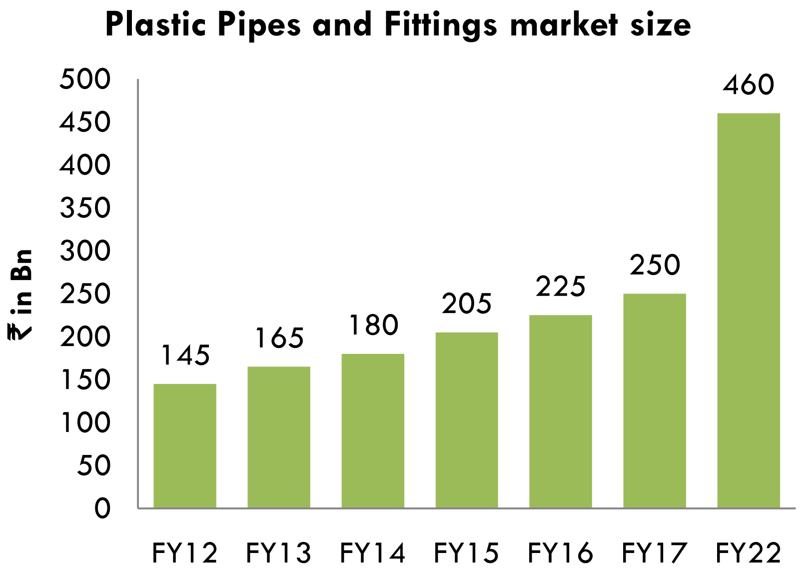
PVC pipes & fittings demand tends to trend investments behind irrigation, housing & construction sectors. Finolex has a strong distribution network and is increasing its pipes & fittings capacity by ~35% over the next 3 years. The company has stepped up its captive consumption of resin from ~50-55% few years back to ~74-75% in FY18. This is indicative of a business model transformation from a B2B player to a B2C player and hence we expect earnings multiple to trend closer to its competitors (which trade north of 30x TTM). Having said that the mix of agri vs. non agri, 70:30 incase of FIL, has kept margins lower at 8-9% for FIL vs. peers 13-15%. The transformation in business model will help reduce volatility in earnings & improve return ratios in the long run. Along with that he company's focus on value added offerings like CPVC pipes & fitting and PVC fittings will enable margin expansion for this segment over the next 2-3 years. With crude prices rallying in the last few months derivative prices have started moving up as well. EDC prices, which have been depressed(undervalued) for last 2-3 years, has now started moving up. PVC resin prices on the other hand have been rising during the same period and are expected to stay firm given healthy demand for it. While the PVC – EDC spread might trend down from its peak at $785/MT in FY18, we expect it to be in a healthy range of $650-$670/MT. This will enable the company to sustain health profitability in their resin segment. **We had recently released a Lighthouse Report on Finolex Industries Ltd. dated 27th July 2018 at a price of ₹554.15/- wherein we expressed our positive view on the stock. We are following up on the same with a detailed initiating coverage now. We expect the company's grow its topline at a CAGR of ~11-12%, EBIDTA at ~13-14% & PAT at 10-11% over the next 2-3 years. At the CMP of ₹613.8/- the stock trades at ~22x & ~20.3x its FY19E & FY20E estimated EPS of ₹27.9/- & ₹30.2/- respectively. We advise investors to remain cognizant of the volatility in commodity prices & those investors who have a long term investment horizon and a high risk appetite to *ACCUMULATE* the stock.**

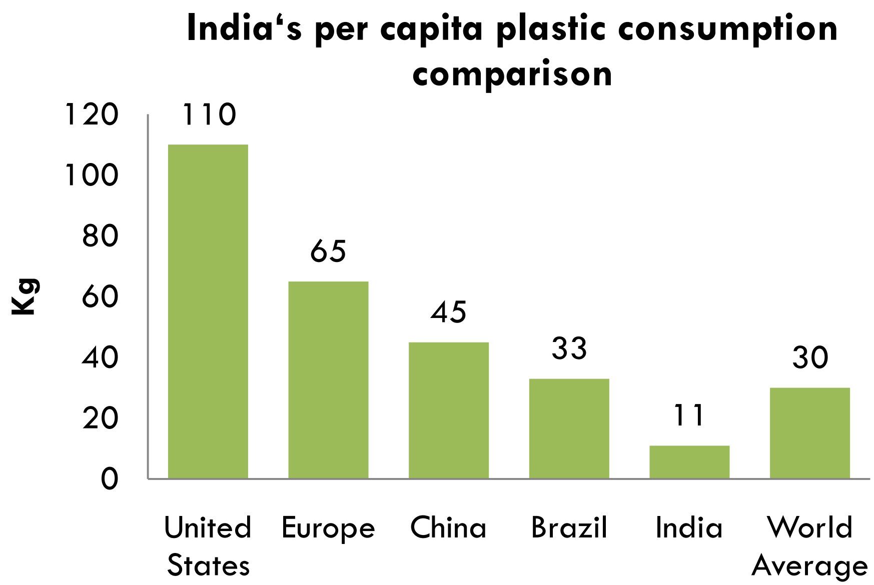
Risks & Concerns

- Approximately 70% of FIL's pipes & fittings sales is from the agricultural sector. Inadequate rainfall as well as unseasonal rains adversely impacts demands.
- Raw material volatility – Most on the raw materials for the company are crude derivatives. Hence volatility in crude prices has a trickle down impact. Having said that all inputs have their own supply demand dynamics, a change in which also impacts prices.
- Any sharp downturn in crude prices can lead to inventory losses for the company (and vice –a versa incase of sharp upturn).
- Demand elasticity is key for pass-through of raw material price increases. Any macro negative can curtail companies ability to pass-through or even resort to discounting to drive up demand.

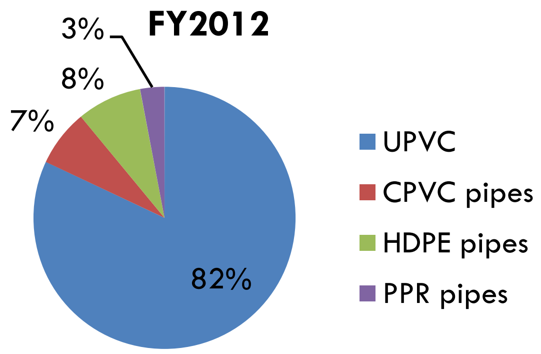
Industry Overview

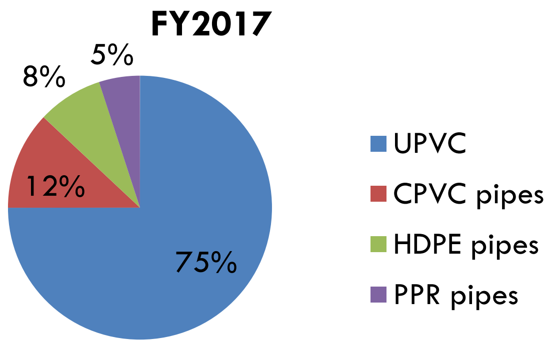
- The Indian plastic pipes and fittings industry rose at a healthy 10-12% CAGR between 2011-12 and 2016-17 to approximately ₹250 billion. Industry growth was driven by rising demand from the construction and irrigation sectors. India has very low per capita plastic consumption of approximately 11 kg compared with the global average of 30 kg. Traditional materials dominate the application areas of plastic.



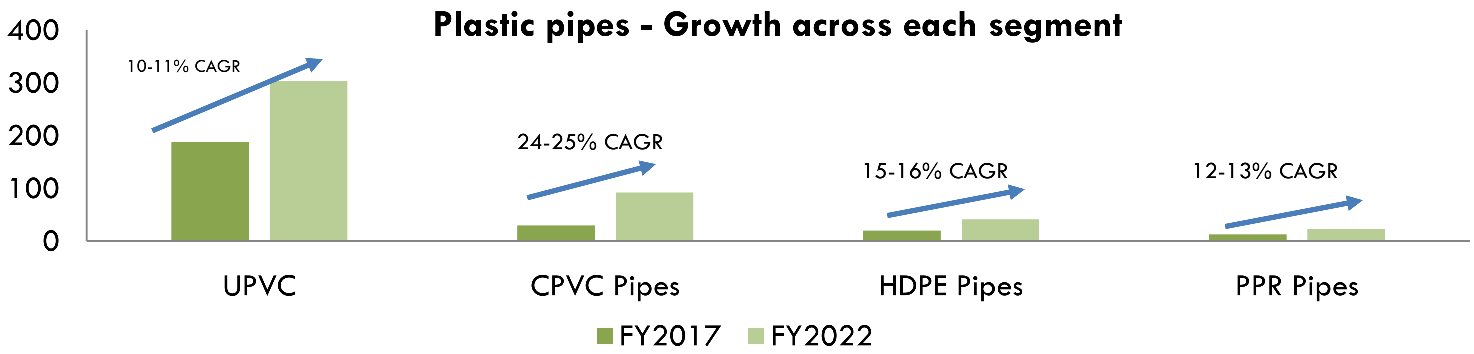


- Within the construction space, the sub-segments propelling offtake were increasing investments in WSS projects, substitution of metal pipes with polymer pipes, as well as replacement demand. Superior real estate properties and low prices have accelerated the substitution of metal pipes by plastic pipes. Another factor driving long term demand is the replacement of older pipes with plastic pipes.
- **Plastic pipes – Shift in demand segmentation by type**



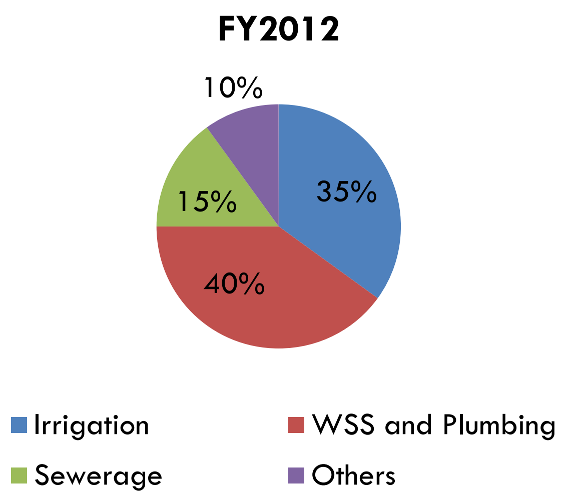


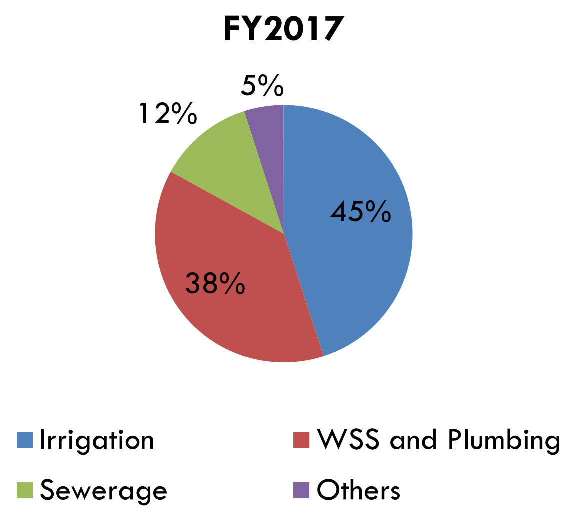
- **Plastic pipes - Growth across each segment**



Key growth drivers for the industry trend in-line with investments undertaken in the following areas:

- **Irrigation – PMKSY –** The irrigation sector is the key end-use segment for plastic pipes, accounting for 45% share of the industry. Of India's approximately 142 million hectares of cultivated land, a little less than 50% is irrigated. Aiming to enhance the area under cultivation by 2.85 million hectares in 2017-18 and by 8 million hectares by 2019-20.
- **Urban infrastructure – Swachh Bharat Mission, Smart Cities Mission –** Swachh Bharat Mission was launched to focus on sanitation and accelerate efforts to achieve universal sanitation coverage. *Smart Cities Mission:* The mission will cover 100 cities (distributed among states and union territories) over 2015-16 to 2019-20.
- **Real estate – Housing for All scheme –** Real estate is a key end-use sector for plastic pipes and fittings in India. Housing for all by 2022:The Ministry of Housing and Urban Poverty Alleviation has estimated a shortage of nearly 20 million dwelling units for the urban poor. PMAY aims to address this by providing central assistance to the implementing agencies through states and union territories to all eligible families/beneficiaries by 2021-22.





Financials

INCOME STATEMENT

(₹Cr)

Particulars	FY16	FY17	FY18	FY19E	FY20E
Revenue From Operations(Net)	**2,843.1**	**2,602.4**	**2,737.8**	**3,194.9**	**3,533.4**
EXPENSES:	-	-	-	-	-
Total Raw Material Cost	2,008.9	1,609.6	1,764.4	2,009.3	2,219.7
Raw Material as a % of Net Revenues	70.7%	61.8%	64.4%	62.9%	62.8%
Employee Benefits Expenses	92.5	104.9	116.1	143.8	166.1
Employee Expenses as a % of Net Revenues	3.3%	4.0%	4.2%	4.5%	4.7%
Other Expenses	337.3	324.9	373.3	453.7	512.3
Other Expenses as a % of Net Revenues	11.9%	12.5%	13.6%	14.2%	14.5%
Total Expenses	**2,438.7**	**2,039.3**	**2,253.9**	**2,606.7**	**2,898.2**
EBIDTA	**404.4**	**563.0**	**483.9**	**588.1**	**635.3**
EBIDTA Margins	*14.2%*	*21.6%*	*17.7%*	*18.4%*	*18.0%*
Other Income	39.6	23.2	24.4	24.0	24.0
Depreciation and Amortization Expenses	50.6	55.1	60.6	65.0	70.0
Profit before Exceptional and Extraordinary Items and Tax	-	-	-	-	-
EBIT	**393.5**	**531.1**	**447.7**	**505.1**	**547.3**
EBIT Margins	*13.8%*	*20.4%*	*16.4%*	*15.8%*	*15.5%*
Finance Costs	*44.7*	*15.4*	*9.8*	*10.0*	*10.0*
PBT	**348.8**	**515.8**	**437.9**	**495.1**	**537.3**
PBT Margins	*12.3%*	*19.8%*	*16.0%*	*15.5%*	*15.2%*
PBT before Extraordinary Items	348.8	515.8	437.9	495.1	537.3
Extraordinary Items	(24.5)	-	-	-	-
PBT after Extraordinary Items	**373.3**	**515.8**	**437.9**	**495.1**	**537.3**
Share in (loss)/profit of associate	-	9.3	16.3	22.0	22.0
PBT after share in loss/profit of associate	**373.3**	**525.1**	**454.2**	**517.1**	**559.3**
Tax Expenses	118.9	170.3	147.9	170.7	184.6
Tax Rates %	*31.8%*	*32.4%*	*32.6%*	*33.0%*	*33.0%*
Reported PAT	**254.4**	**354.8**	**306.3**	**346.5**	**374.7**
PAT Margins	*8.9%*	*13.6%*	*11.2%*	*10.8%*	*10.6%*
EPS	**20.5**	**28.6**	**24.7**	**27.9**	**30.2**

BALANCE SHEET

(₹Cr)

Particulars	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS:					
Shareholders Funds	**1,569.8**	**2,314.8**	**2,795.1**	**3,107.0**	**3,444.2**
Share Capital	124.1	124.1	124.1	124.1	124.1
Reserves & Surplus	1,445.8	2,190.7	2,671.0	2,982.9	3,320.1
Loan Funds	-	-	-	-	-
Deferred Tax Liability	127.6	149.6	141.6	165.0	182.0
Long-Term Provisions	11.2	11.1	13.4	14.5	15.2
Government Grant	52.8	61.4	64.4	72.0	77.0
Total Non Current Liabilities	**192.0**	**222.5**	**219.8**	**251.5**	**274.2**
Short-Term Borrowings	111.7	94.2	100.7	111.0	95.0
Trade Payables	243.2	227.5	250.5	290.0	330.0
Other Current Liabilities	82.3	75.6	61.9	67.0	75.0
Short-Term Provisions	1.1	1.2	1.4	1.5	1.8
Other Financial Liabilities	144.2	55.5	70.2	85.0	99.0
Government Grant	4.3	5.5	6.3	7.8	8.9
Total Current Liabilities	**586.8**	**459.4**	**491.1**	**562.3**	**609.7**
Total Liabilities	**2,348.7**	**2,996.7**	**3,506.0**	**3,920.8**	**4,328.1**

BALANCE SHEET

(₹Cr)

Particulars	FY16	FY17	FY18	FY19E	FY20E
APPLICATION OF FUNDS:					
Fixed Assets	856.3	876.9	974.6	1,064.7	1,154.7
Investments	648.5	1,207.0	1,541.2	1,672.0	1,845.0
Long-Term Loans and Advances	0.0	0.0	0.0	-	-
Other Non-Current Assets	76.9	183.5	182.1	209.0	226.0
Total Non Current Assets	**1,581.7**	**2,267.4**	**2,697.9**	**2,945.7**	**3,225.7**
Current Investments	168.7	56.6	65.6	78.0	89.0
Inventories	447.2	557.4	611.6	750.0	814.0
Sundry Debtors	17.6	52.5	43.1	55.0	68.0
Cash & Bank Balance	10.4	16.3	23.4	21.9	49.2
Other Current Assets	122.8	46.3	64.2	70.0	82.0
Short- term Loans & Advances	0.2	0.2	0.2	0.2	0.2
Total Current Assets	**767.0**	**729.3**	**808.1**	**975.1**	**1,102.4**
Total Assets	**2,348.7**	**2,996.7**	**3,506.0**	**3,920.8**	**4,328.1**

CASHFLOW STATEMENT

(₹Cr)

Particulars	FY16	FY17	FY18	FY19E	FY20E
Cash Flow from operation					
Profit before tax	373.3	517.0	437.9	495.1	537.3
Depreciation	50.6	55.1	60.6	65.0	70.0
Interest income	(6.4)	(2.2)	(4.0)	(4.0)	(4.0)
Tax Paid	66.3	175.2	147.9	170.7	184.6
Working Capital	229.6	(153.1)	(21.8)	(110.8)	(37.0)
Others	17.3	(7.4)	(4.2)	(9.0)	(9.0)
Operating Cash Flow	598.0	234.2	320.6	265.7	372.7
Cash flow from Investing Activities	**(77.2)**	**47.9**	**(51.6)**	**11.2**	**(46.0)**
Capital Expenditure	(124.0)	29.3	(70.7)	(10.1)	(70.0)
Change in other non curr assets	46.8	18.6	19.1	21.3	24.0
Free cash flow	520.79	282.08	268.96	276.91	326.71
Cash flow from Financing activities	**(493.6)**	**(276.1)**	**(257.0)**	**(267.4)**	**(290.9)**
Debt financing/disposal	(407.0)	(117.4)	(100.7)	(111.0)	(95.0)
Dividends paid	(29.1)	(147.4)	(146.4)	(146.4)	(175.7)
Interest Paid	(44.1)	(16.1)	(9.8)	(10.0)	(10.0)
Other items	(13.5)	4.8	-	-	(10.2)
Net Working Capital in Cash	(1.9)	6.0	12.0	9.5	35.8
Opening Cash Balance	**12.3**	**10.4**	**11.4**	**12.4**	**13.4**
Closing Cash Balance	**10.4**	**16.4**	**23.4**	**21.9**	**49.2**

RATIO ANALYSIS

Growth Ratios	FY16	FY17	FY18	FY19E	FY20E
Net Sales	14.8%	-8.5%	5.2%	16.7%	10.6%
EBIDTA	89.6%	39.2%	-14.0%	21.5%	8.0%
PAT	433.0%	39.5%	-13.7%	13.1%	8.1%

Valuation Ratios	FY16	FY17	FY18	FY19E	FY20E
CEPS	24.6	33.0	29.6	33.2	35.8
EPS	20.5	28.6	24.7	27.9	30.2
P/CEPS	25.0	18.6	20.8	18.5	17.1
P/EPS	29.9	21.5	24.9	22.0	20.3
EV/EBIDTA	19.1	13.7	15.9	13.1	12.1
Debt/Networth	0.1	0.0	0.0	0.0	0.0

Profitability Ratios	FY16	FY17	FY18	FY19E	FY20E
EBIDTA Margins	14.2%	21.6%	17.7%	18.4%	18.0%
EBIT Margins	13.8%	20.4%	16.4%	15.8%	15.5%
APAT Margins	8.9%	13.6%	11.2%	10.8%	10.6%
ROCE	22.3%	20.9%	14.8%	15.0%	14.7%
RONW	16.2%	15.3%	11.0%	11.2%	10.9%

Working Capital Ratios	FY16	FY17	FY18	FY19E	FY20E
Inventory Turnover	6.4	4.7	4.5	4.3	4.3
Inventory Days	57	78	82	86	84
Debtor Turnover	161.4	56.9	65.6	58.1	52.0
Debtor Days	2	6	6	6	7
Creditor Turnover	8.1	7.3	7.3	6.9	6.7
Creditor Days	45	50	50	53	54
Working Capital Cycle	15	35	37	39	37
Current Ratio	1.1	1.6	1.6	1.7	1.8

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Disclosure of Interest Statement in Finolex Industries Ltd. as on August 16, 2018

Name of the Security	**Finolex Industries Ltd.**
Name of the analyst	**Shivani V. Vishwanathan, Ashwini SOnawane**
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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