

BUY

TP: Rs 560 | ▲ 11%

FINOLEX INDUSTRIES

Plastic Products

02 September 2020

Demand situation steadily improving

We recently interacted with the management of Finolex Industries (FNXP).

Following are the key takeaways:

- Demand for agriculture pipes slowed from June due to early onset of the monsoon this year. Offtake remains weak as this is a seasonally dull demand period due to rainfall across the country.
- The agriculture segment accounts for ~70% of the company's total turnover and non-agriculture pipes form the balance.
- Following easing of the lockdown, FNXP had initially experienced logistical issues due to non-availability of manpower, but this has been steadily improving every month.
- The company is hopeful of good demand for agriculture pipes from H2FY21 due to the normal monsoons, higher water reservoir levels and a government thrust on the rural economy.
- Sale of non-agriculture pipes (primarily used in housing) picked up in July and showed similar growth trends in August.
- Aggregate pipe volume demand in July was at 90-95% of year-ago sales and could remain at these levels in the near term.
- FNXP is targeting historical 8-9% EBIT margins from the piping segment going ahead as well.
- The PVC-EDC delta is currently at ~US\$ 680/mt and will thus nullify the high-cost inventory carried over from FY20. This inventory is expected to be utilised by Q2FY21.
- Business in the agriculture pipe segment continues on the cash-and-carry mode. In the non-agri space, credit is provided to dealers.
- The company remains net-debt free and has no major capex plans for FY21.

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Ticker/Price	FNXP IN/Rs 505
Market cap	US\$ 858.1mn
Shares o/s	124mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 627/Rs 290
Promoter/FPI/DII	52%/2%/45%

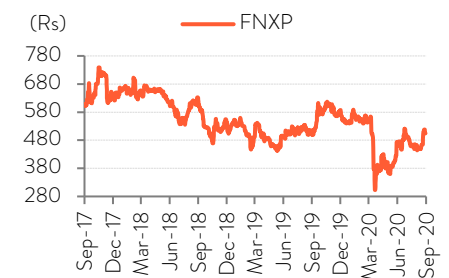
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	28,490	30,992	33,397
EBITDA (Rs mn)	4,630	4,755	5,046
Adj. net profit (Rs mn)	3,207	3,349	3,611
Adj. EPS (Rs)	25.8	27.0	29.1
Adj. EPS growth (%)	(3.6)	4.4	7.8
Adj. ROAE (%)	15.5	14.9	14.8
Adj. P/E (x)	19.5	18.7	17.4
EV/EBITDA (x)	13.4	13.0	11.9

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

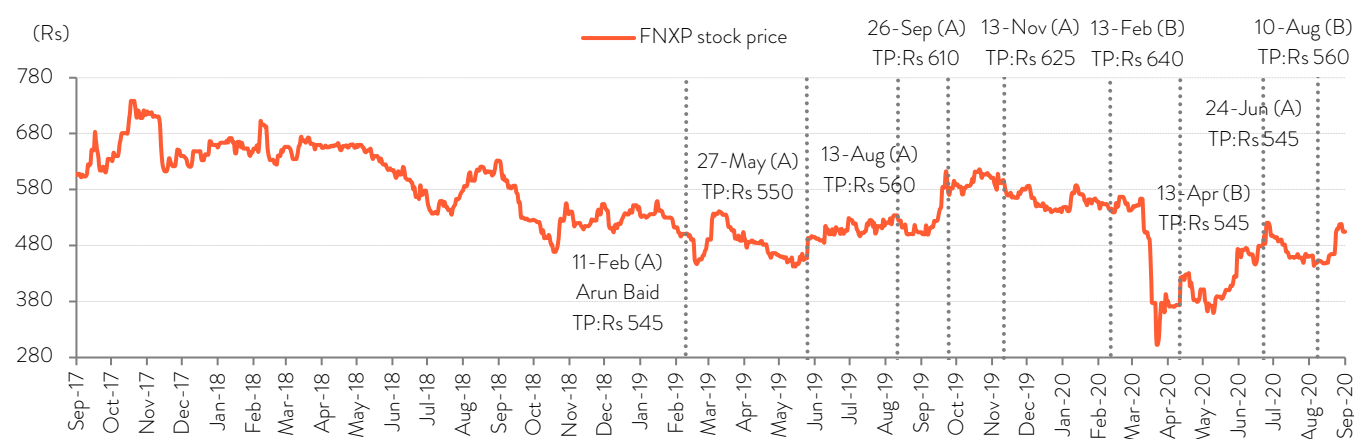
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): FINOLEX INDUSTRIES (FNXP IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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