

**ADD**

TP: Rs 545 | ▲ 12%

**FINOLEX INDUSTRIES**

Plastic Products

08 July 2020

## Demand traction for agri pipes improved in May-June

We present key takeaways from our recent interaction with the management of Finolex Industries (FNXP).

- FNXP witnessed healthy demand for agricultural pipes in May and June following easing of the nationwide lockdown. Demand remained robust till the onset of the monsoons in mid-June.
- The agriculture segment accounts for ~70% of the company's total turnover and non-agri pipes form the balance.
- Offtake has improved from traditional markets such as Maharashtra, Tamil Nadu, Karnataka, Gujarat and Andhra Pradesh.
- FNXP experienced initial logistical issues due to non-availability of manpower post easing of the lockdown, but these are gradually being ironed out.
- Management is hopeful of good demand for agriculture pipes in H2FY21 due to expectations of good monsoons, higher water reservoir levels and a government thrust on the rural economy.
- Sales of non-agriculture pipes (primarily used in housing) have not yet picked up materially and the outlook for this business remains uncertain.
- The company is targeting its historical 8-9% EBIT margins from the piping segment going ahead as well.
- The PVC-EDC delta is currently at ~US\$ 600/MT, but high-cost inventory carried over from FY20 will nullify any benefits to the company. This inventory is expected to be utilised by Q2FY20.
- FNXP continues to function on the cash-and-carry mode in the agriculture pipe segment. In the non-agri space, it does provide credit 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 489
Market cap	US\$ 809.8mn
Shares o/s	124mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 627/Rs 290
Promoter/FPI/DII	52%/2%/45%

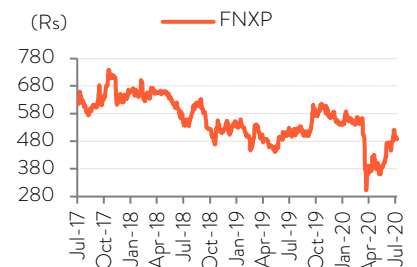
Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs mn)	29,860	26,456	31,225
EBITDA (Rs mn)	4,481	4,403	4,754
Adj. net profit (Rs mn)	3,327	3,075	3,358
Adj. EPS (Rs)	26.8	24.8	27.1
Adj. EPS growth (%)	(13.8)	(7.5)	9.2
Adj. ROAE (%)	14.6	14.9	14.9
Adj. P/E (x)	18.2	19.7	18.1
EV/EBITDA (x)	13.4	13.7	12.6

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

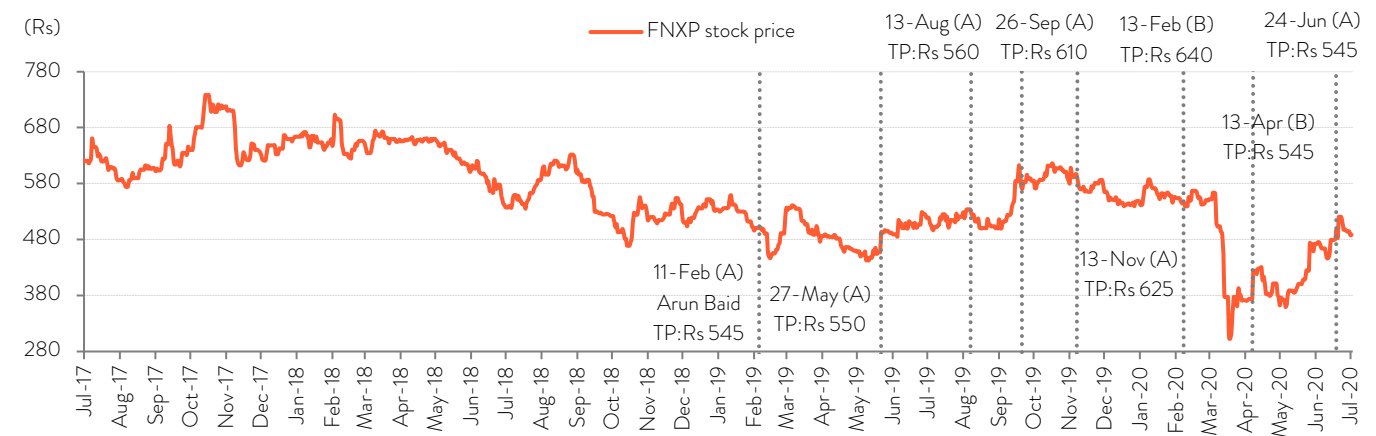
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: FINOLEX INDUSTRIES (FNPX IN)



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

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