

HOLD

TP: Rs 185 | ▲ 5%

FINOLEX INDUSTRIES

| Plastic Products

| 02 August 2021

Higher PVC resin prices aid profitability

- Q1FY22 revenue growth robust at 72% YoY as PVC realisations surged 93% YoY
- Operating margin expanded 600bps YoY to 21.7% on higher gross margin (+810bps) partly offset due to increased other expenses
- We raise FY22/FY23 PAT 8%/2% and roll over to a Jun'22 TP of Rs 185 (vs. Rs 175). Maintain HOLD on full valuations

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Strong revenue growth aided by higher PVC prices: FNXP reported Q1FY22 revenue growth of 72% YoY to Rs 9.7bn as PVC resin realisations surged 93% and PVC pipe realisation increased 58%. PVC resin volumes grew 10.6% YoY whereas pipe volumes increased just 5.5% despite a soft base and peak agriculture demand season. Management stated that strong realisations in the PVC resin segment offset the negative impact of higher prices on agriculture PVC pipe demand.

Agri pipe demand weak in peak season: Q1FY22 which is a busy season for agriculture pipes was affected by both higher PVC prices (passed along) and the pandemic. Management is hopeful of better demand from this segment in Q4 and is targeting 10-15% PVC pipe volume growth in FY22.

Operating margin expands 600bps YoY: FNXP's standalone EBITDA margin increased 600bps YoY to 21.7% aided by higher gross margin (+810bps) from better PVC realisations, partly offset due to increased other expenses (-360bps). EBITDA/PBT thus grew 137%/169% YoY. The average PVC-EDC delta was at US\$ 834/mt (+52% YoY) in Q1, aiding gross margin. It has currently fallen to US\$ 670/mt.

PVC resin prices to remain range bound in near term: PVC resin prices have once again started to increase in August, following some correction towards the end of Q1. Management believes prices could stay in the range of US\$ 1,250-1450/mt between now and Dec'21 due to global supply constraints and higher logistics costs. While PVC resin margins are difficult to forecast, those in the pipe segment are more predictable and should sustain at Rs 8-10/kg, according to FNXP.

Valuations full, HOLD: We raise FY22/FY23 PAT estimates by 8%/2% given the above-expected Q1 PVC resin margins. FNXP has a strong balance sheet and its focus on non-agricultural pipes could aid further margin gains. While we like the company, we find current valuations full at 23.7x FY23E EPS. We maintain HOLD and roll over to a new Jun'22 TP of Rs 185 (from Rs 175), set at an unchanged 24x one-year forward P/E – 30% premium to the stock's five-year average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 177
Market cap	US\$ 1.5bn
Free float	48%
3M ADV	US\$ 2.4mn
52wk high/low	Rs 198/Rs 88
Promoter/FPI/DII	52%/3%/45%

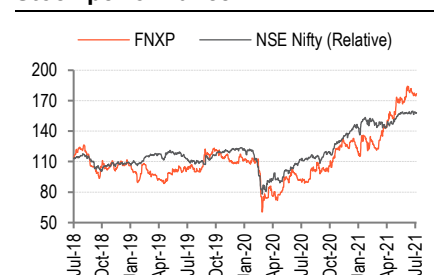
Source: NSE | Price as of 30 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	34,628	37,386	37,593
EBITDA (Rs mn)	9,893	6,437	6,426
Adj. net profit (Rs mn)	7,378	4,533	4,638
Adj. EPS (Rs)	11.9	7.3	7.5
Consensus EPS (Rs)	11.9	8.8	9.0
Adj. ROAE (%)	28.8	13.9	13.2
Adj. P/E (x)	14.9	24.2	23.7
EV/EBITDA (x)	11.0	16.6	16.1
Adj. EPS growth (%)	121.8	(38.6)	2.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Standalone quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net sales	9,657	5,619	71.9	12,493	(22.7)
COGS	5,789	3,826	51.3	6,417	(9.8)
Employee expenses	455	346	31.3	593	(23.4)
Other expenses	1,319	565	133.5	1,382	(4.6)
EBITDA	2,095	882	137.4	4,101	(48.9)
EBITDA margin (%)	21.7	15.7	599bps	32.8	(1,113bps)
Depreciation & amortisation	201	188	6.5	197	1.8
EBIT	1,895	694	172.9	3,904	(51.5)
EBIT margin (%)	19.6	12.4	726bps	31.2	(1,163bps)
Other income	154	83	84.5	135	13.4
Finance costs	48	33	45.1	18	158.7
Profit before tax	2,000	745	168.7	4,021	(50.2)
Tax expenses	532	193	175.3	1,047	(49.2)
Reported Net profit	1,468	551	166.4	2,973	(50.6)

Source: Company, BOBCAPS Research

Fig 2 – Standalone segmental performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue					
PVC	6,271	2,943	113.1	9,202	(31.9)
PVC pipes & fittings	8,454	5,070	66.8	9,017	(6.2)
Total	14,725	8,013	83.8	18,219	(19.2)
Inter-segment revenues	5,068	2,392	111.9	5,726	(11.5)
Net sales (inc. other op. inc.)	9,657	5,621	71.8	12,493	(22.7)
EBIT					
PVC	1,579	232	580.1	3,285	(51.9)
PVC pipes & fittings	436	514	(15.2)	695	(37.2)
Total	2,015	747	169.9	3,980	(49.4)
EBIT Margins (%)					
PVC	25.2	7.9	1,728bps	35.7	(1,052bps)
PVC pipes & fittings	5.2	10.1	(498bps)	7.7	(254bps)
Total	20.9	13.3	758bps	31.9	(1,099bps)

Source: Company, BOBCAPS Research

Fig 3 – Consolidated quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net sales	9,657	5,619	71.9	12,493	(22.7)
COGS	5,789	3,826	51.3	6,417	(9.8)
Employee expenses	455	346	31.3	593	(23.4)
Other expenses	1,319	565	133.5	1,382	(4.6)
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Other income	154	83	84.5	135	13.4
Finance costs	48	33	45.1	18	158.7
Profit before tax	2,000	745	168.7	4,021	(50.2)
Tax expenses	529	206	156.6	1,062	(50.2)
Share of profit from associates	(16)	29	(155.4)	30	(153.0)
Reported Net profit	1,455	567	156.6	2,988	(51.3)

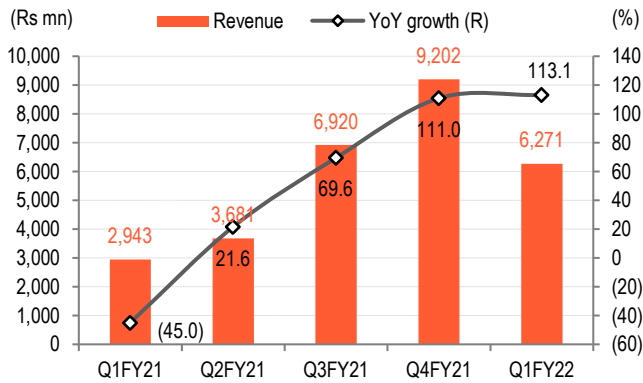
Source: Company, BOBCAPS Research

Fig 4 – Volumes and Realisation

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Volume					
PVC (mt)	50,249	45,435	10.6	75,281	(33.3)
PVC pipes (mt)	55,819	52,911	5.5	60,232	(7.3)
Realisation					
PVC (Rs/t)	1,24,800	64,769	92.7	1,22,241	2.1
PVC pipes (Rs/t)	1,51,452	95,818	58.1	1,49,704	1.2
EBIT/tonne					
PVC (Rs/t)	31,414	5,108	514.9	43,631	(28.0)
PVC pipes (Rs/t)	7,818	9,722	(19.6)	11,537	(32.2)

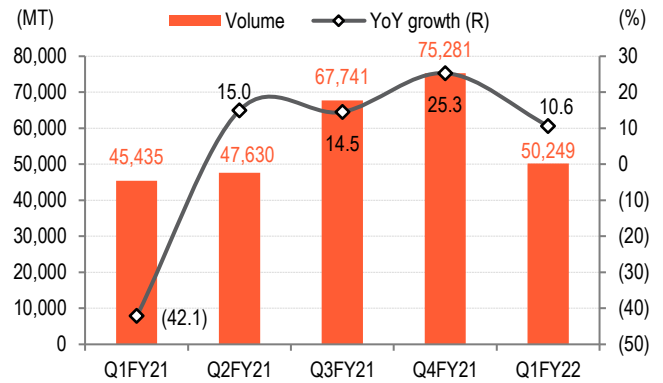
Source: Company, BOBCAPS Research

Fig 5 – Standalone PVC resin revenue growth



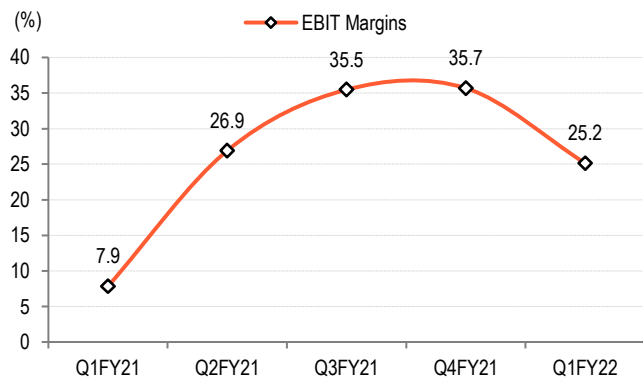
Source: Company, BOBCAPS Research

Fig 6 – Standalone PVC resin volume growth



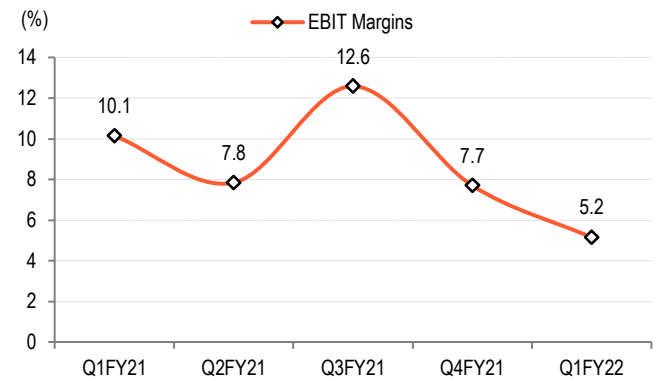
Source: Company, BOBCAPS Research

Fig 7 – Standalone PVC resin EBIT margin



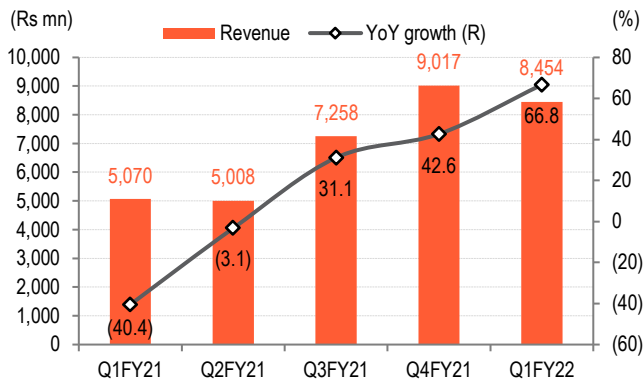
Source: Company, BOBCAPS Research

Fig 8 – Standalone PVC pipes & fittings EBIT margin



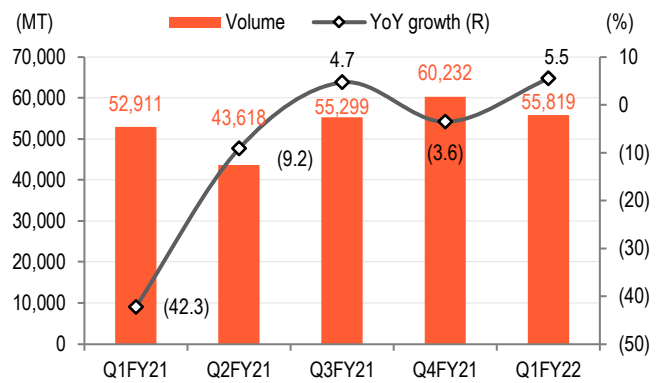
Source: Company, BOBCAPS Research

Fig 9 – Standalone PVC pipes & fittings revenue growth



Source: Company, BOBCAPS Research

Fig 10 – Standalone PVC pipes & fittings volume growth



Source: Company, BOBCAPS Research

Earnings call highlights

- Following a historical rally, PVC resin prices began to correct towards the end of Q1FY22 but have started to increase once again in Q2. On average, prices have declined from US\$ 1,543/mt in Q1 to US\$ 1,360/mt currently.
- Management expects PVC resin to hold in the range of US\$ 1,250-1,450/mt over Aug-Dec'21 due to global supply constraints, increased freight rates and higher container cost.
- During Q1, the average PVC-EDC delta stood at US\$ 834/mt (vs. US\$ 547/mt in Q1FY20). This delta has currently fallen to US\$ 670/mt.
- Management did not give out guidance for PVC resin margins as these are volatile. In PVC pipes, FNXP has guided for sustainable margins of Rs 8,000-10,000/t.
- Agriculture pipes contributed ~68% of Q1 turnover. Demand during the quarter was affected by higher PVC resin prices and further dampened by the second Covid wave. Management believes demand for agriculture pipes would return in H2FY22.
- CPVC volumes increased 176% YoY in Q1.
- FNXP aims to grow pipe volumes by 10-15% in FY22.
- The company remains net surplus with cash on books of Rs 6.06bn as of 30 Jun 2021.

Valuation methodology

FNXP features among the major PVC pipe players in India with 22,000 dealers, sub-dealers and retailers spread across the country. The company has a strong presence in the agricultural pipe market and also plans to build a significant footprint in the plumbing market following its foray into CPVC pipes.

We raise FY22/FY23 PAT estimates by 8%/2% given above-expected margins in the PVC resin segment. On rollover, we arrive at a revised Jun'22 TP of Rs 185 (from Rs 175), set at an unchanged 24x one-year forward P/E multiple – a 30% premium to the stock's five-year average. We believe FNXP merits a premium to historical multiples due to its strong balance sheet and near-term earnings upsides from higher PVC prices. That said, current valuations look full at 23.7x FY23E EPS. We thus maintain HOLD.

Fig 11 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	37,386	37,593	34,395	35,344	8.7	6.4
EBITDA	6,437	6,426	5,962	6,281	8.0	2.3
PAT	4,533	4,638	4,209	4,537	7.7	2.2

Source: BOBCAPS Research

Fig 12 – Key assumptions

Parameter	FY19	FY20	FY21	FY22E	FY23E	FY24E
PVC resin external sales (mt)	66,680	55,599	80,468	70,007	61,606	54,214
Growth (%)	(0.9)	(16.6)	44.7	(13.0)	(12.0)	(12.0)
Realisation (Rs/mt)	77,463	77,705	1,02,838	92,500	86,580	82,880
Growth (%)	3.9	0.3	32.3	(10.1)	(6.4)	(4.3)
PVC pipe volumes (mt)	2,62,858	2,54,958	2,12,060	2,39,628	2,68,383	3,00,589
Growth (%)	4.3	(3.0)	(16.8)	13.0	12.0	12.0
Realisation (Rs/mt)	97,954	1,00,171	1,24,271	1,26,292	1,18,209	1,13,158
Growth (%)	6.0	2.3	24.1	1.6	(6.4)	(4.3)
PVC pipe EBITDA (Rs/mt)	8,471	9,587	13,844	9,300	10,000	10,200
Growth (%)	27.6	13.2	44.4	(32.8)	7.5	2.0
PVC resin EBITDA (Rs/mt)	15,273	8,940	31,086	17,700	15,500	15,000
Growth (%)	9.5	(41.5)	247.7	(43.1)	(12.4)	(3.2)

Source: Company, BOBCAPS Research

Fig 13 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	950	19.0	24	29.6	19.9	23.3	32
Somany Ceramics	SOMC IN	BUY	640	16.4	21.8	29.1	13.2	15.3	22
Greenply Industries	MTLM IN	HOLD	230	18.7	9.2	11.3	23.0	22.9	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4145	16.1	115.4	138.1	16.2	17.1	30
Astral	ASTRA IN	SELL	1210	16.3	20.2	25.2	20.3	22.6	48
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- volatility in PVC-EDC spreads,
- slowdown in agricultural/housing markets, and
- increased competition from unorganised players, leading to lower profitability.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	29,860	34,628	37,386	37,593	38,957
EBITDA	4,481	9,893	6,437	6,426	6,900
Depreciation	(738)	(777)	(935)	(940)	(974)
EBIT	3,743	9,116	5,502	5,486	5,926
Net interest inc./(exp.)	(119)	(73)	(82)	(59)	(41)
Other inc./(exp.)	299	716	481	523	564
Exceptional items	0	0	0	0	0
EBT	3,923	9,759	5,901	5,950	6,449
Income taxes	(852)	(2,543)	(1,527)	(1,562)	(1,701)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	256	162	160	250	300
Reported net profit	3,327	7,378	4,533	4,638	5,049
Adjustments	0	0	0	0	0
Adjusted net profit	3,327	7,378	4,533	4,638	5,049

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	2,334	3,952	2,969	2,977	3,047
Other current liabilities	1,723	3,085	2,561	2,369	2,455
Provisions	297	420	512	515	534
Debt funds	2,827	2,039	1,239	439	239
Other liabilities	1,873	2,053	1,943	1,833	1,723
Equity capital	1,241	1,241	1,241	1,241	1,241
Reserves & surplus	18,619	30,149	32,642	35,193	37,970
Shareholders' fund	19,860	31,390	33,883	36,434	39,210
Total liab. and equities	28,913	42,939	43,106	44,566	47,208
Cash and cash eq.	932	3,363	2,654	2,574	3,875
Accounts receivables	732	1,480	1,024	1,030	1,067
Inventories	8,578	9,188	9,236	9,393	9,480
Other current assets	710	779	1,024	1,133	1,067
Investments	6,607	16,792	16,992	17,692	18,392
Net fixed assets	10,153	10,013	10,578	11,138	11,665
CWIP	73	82	50	50	50
Intangible assets	16	11	11	11	11
Deferred tax assets, net	0	0	0	0	0
Other assets	1,113	1,233	1,536	1,545	1,601
Total assets	28,913	42,939	43,106	44,566	47,208

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	1,057	9,209	3,260	4,400	5,241
Capital expenditures	(603)	(647)	(1,469)	(1,500)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	942	(5,859)	(200)	(700)	(700)
Cash flow from investing	340	(6,507)	(1,669)	(2,200)	(2,200)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,921	(788)	(800)	(800)	(200)
Interest expenses	(119)	(73)	(82)	(59)	(41)
Dividends paid	(2,873)	(42)	(2,040)	(2,087)	(2,272)
Other financing cash flows	315	632	622	666	773
Cash flow from financing	(756)	(271)	(2,300)	(2,280)	(1,740)
Chg in cash & cash eq.	641	2,431	(709)	(80)	1,301
Closing cash & cash eq.	932	3,363	2,654	2,574	3,875

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	5.4	11.9	7.3	7.5	8.1
Adjusted EPS	5.4	11.9	7.3	7.5	8.1
Dividend per share	2.0	4.0	2.7	2.8	3.1
Book value per share	32.0	50.6	54.6	58.7	63.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	3.7	3.2	2.9	2.7	2.6
EV/EBITDA	24.4	11.0	16.6	16.1	14.8
Adjusted P/E	33.0	14.9	24.2	23.7	21.8
P/BV	5.5	3.5	3.2	3.0	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	84.8	75.6	76.8	77.9	78.3
Interest burden (PBT/EBIT)	104.8	107.1	107.2	108.5	108.8
EBIT margin (EBIT/Revenue)	12.5	26.3	14.7	14.6	15.2
Asset turnover (Rev./Avg TA)	95.9	96.4	86.9	85.8	84.9
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.2	1.2
Adjusted ROAE	14.6	28.8	13.9	13.2	13.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(3.4)	16.0	8.0	0.6	3.6
EBITDA	(25.9)	120.8	(34.9)	(0.2)	7.4
Adjusted EPS	(13.8)	121.8	(38.6)	2.3	8.9
Profitability & Return ratios (%)					
EBITDA margin	15.0	28.6	17.2	17.1	17.7
EBIT margin	12.5	26.3	14.7	14.6	15.2
Adjusted profit margin	11.1	21.3	12.1	12.3	13.0
Adjusted ROAE	14.6	28.8	13.9	13.2	13.3
ROCE	15.2	32.5	16.1	15.2	15.5
Working capital days (days)					
Receivables	9	12	12	10	10
Inventory	139	168	140	141	139
Payables	37	46	41	35	34
Ratios (x)					
Gross asset turnover	1.3	1.5	1.5	1.4	1.4
Current ratio	1.5	1.6	1.9	2.2	2.5
Net interest coverage ratio	31.4	125.4	67.2	93.5	145.9
Adjusted debt/equity	0.1	0.0	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

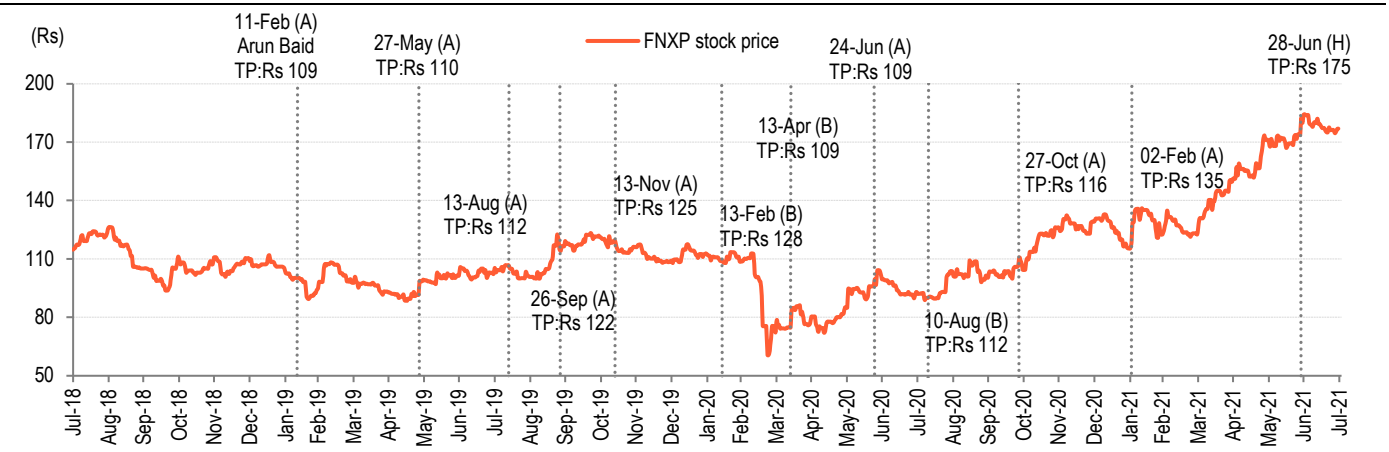
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): FINOLEX INDUSTRIES (FNPX IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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