

ADD

TP: Rs 675 | ▲ 5%

FINOLEX INDUSTRIES

Plastic Products

02 February 2021

Higher PVC prices aid profitability

Finolex Industries' (FNXP) Q3FY21 revenue grew 53% YoY, aided by a 15% rise in PVC resin volumes while pipe volumes increased 5%. EBITDA margins swelled 13ppt YoY to 32.5% on a higher PVC-EDC delta, spurring 150% YoY growth in EBITDA. Management is hopeful of better volumes in Q4 with the onset of the busy season. We hike FY21 EBITDA by 35% to factor in the stronger PVC-EDC delta and marginally raise FY22/FY23 estimates by 4%/3%. On rollover, we have a new Mar'22 TP of Rs 675 (vs. Rs 580) set at 22x P/E (vs. 20x).

Arun Baid

research@bobcaps.in

Strong revenue growth aided by higher PVC prices: FNXP's Q3 revenue increased 52.5% YoY to Rs 10.7bn. The PVC resin segment increased 70% YoY with both volumes/realisations rising 15%/48%, while PVC pipes & fittings increased 31% YoY with volumes/realisations up 5%/25%. Pipe volumes increased in both the agriculture and non-agriculture segments, with the latter seeing better growth during the quarter. Management expects demand for pipes in Q4 to be driven by the agriculture segment and is hopeful of PVC resin prices correcting in the latter part of Q4 or in early Q1FY22.

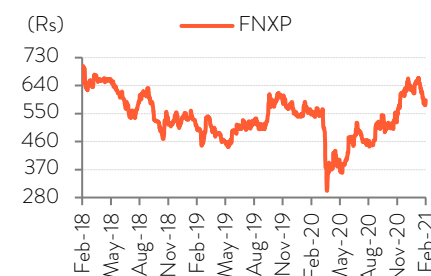
Higher PVC prices aid margins: Operating margins swelled 1,260bps YoY due to inventory gains from rising PVC prices – EBITDA thus increased 150% YoY. EBIT margins in the PVC resin segment surged 1,545bps YoY led by inventory gains as the PVC-EDC delta in Q3 was US\$ 765/mt (vs. US\$ 589/mt YoY). Management indicated that current margins are not sustainable in the medium term as PVC resin prices are likely to correct from historical highs.

Maintain ADD: We raise our FY21 EBITDA estimate by 35% (due to inventory gains) and marginally by 4%/3% for FY22/FY23. We also increase our target P/E from 20x to 22x, in line with the five-year average forward P/E, and maintain ADD as we roll over to a revised Mar'22 TP of Rs 675 (vs. Rs 580).

Ticker/Price	FNXP IN/Rs 643
Market cap	US\$ 1.1bn
Shares o/s	124mn
3M ADV	US\$ 1.0mn
52wk high/low	Rs 674/Rs 290
Promoter/FPI/DII	52%/2%/45%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,913	29,860	33,957	32,058	34,488
EBITDA (Rs mn)	6,043	4,481	7,143	5,023	5,249
Adj. net profit (Rs mn)	3,857	3,327	5,366	3,557	3,802
Adj. EPS (Rs)	31.1	26.8	43.2	28.7	30.6
Adj. EPS growth (%)	28.9	(13.8)	61.3	(33.7)	6.9
Adj. ROAE (%)	14.4	14.6	25.2	15.0	14.7
Adj. P/E (x)	20.7	24.0	14.9	22.4	21.0
EV/EBITDA (x)	13.2	17.6	11.1	15.7	14.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net sales	10,669	6,994	52.5	5,858	82.1	22,147	22,199	(0.2)
COGS	5,863	4,252	37.9	3,181	84.3	12,870	14,417	(10.7)
Employee expenses	368	347	6.0	361	1.8	1,075	1,048	2.6
Other expenses	971	1,005	(3.4)	868	11.9	2,406	3,279	(26.6)
EBITDA	3,467	1,390	149.5	1,448	139.5	5,797	3,455	67.8
EBITDA margin (%)	32.5	19.9	1,262bps	24.7	778bps	26.2	15.6	1,061bps
Depreciation & amortisation	199	188	5.8	193	2.6	580	549	5.6
EBIT	3,268	1,202	171.9	1,254	160.6	5,217	2,906	79.5
EBIT margin (%)	30.6	17.2	1,345bps	21.4	922bps	23.6	13.1	1,046bps
Other income	182	62	192.9	255	(28.7)	589	284	107.8
Finance costs	18	18	1.1	8	132.5	58	29	102.8
Exceptional items	-	-	NM	(70)	NM	-	-	NM
Profit before tax	3,432	1,246	175.4	1,571	118.4	5,748	3,161	81.9
Tax expenses	873	313	178.9	374	133.5	1,441	476	202.9
Reported Net profit	2,559	933	174.2	1,197	113.7	4,307	2,685	60.4
Adjusted Net Profit	2,559	933	174.2	1,144	123.7	4,307	2,685	60.4

Source: Company, BOBCAPS Research

FIG 2 – STANDALONE SEGMENTAL PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue								
PVC	6,920	4,080	69.6	3,681	88.0	13,543	12,456	8.7
PVC pipes & fittings	7,258	5,535	31.1	5,008	44.9	17,336	19,218	(9.8)
Total	14,178	9,615	47.4	8,689	63.2	30,879	31,673	(2.5)
Inter-segment revenues	3,509	2,621	33.9	2,831	23.9	8,732	9,475	(7.8)
Net sales (inc. other op. inc.)	10,669	6,994	52.5	5,858	82.1	22,147	22,199	(0.2)
EBIT								
PVC	2,456	818	200.2	991	147.9	3,680	1,683	118.7
PVC pipes & fittings	914	436	109.7	393	132.4	1,821	1,398	30.3
Total	3,370	1,254	168.8	1,384	143.5	5,500	3,080	78.6
EBIT Margins (%)								
PVC	35.5	20.1	1,545bps	26.9	857bps	27.2	13.5	2,199bps
PVC pipes & fittings	12.6	7.9	472bps	7.8	474bps	10.5	7.3	531bps
Total	31.6	17.9	1,366bps	23.6	796bps	24.8	13.9	1,771bps

Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net sales	10,669	6,994	52.5	5,858	82.1	22,147	22,199	(0.2)
COGS	5,863	4,252	37.9	3,181	84.3	12,870	14,417	(10.7)
Employee expenses	368	347	6.0	361	1.8	1,075	1,048	2.6
Other expenses	971	1,005	(3.4)	868	11.9	2,406	3,279	(26.6)
EBITDA	3,467	1,390	149.5	1,448	139.5	5,797	3,455	67.8
EBITDA margin (%)	32.5	19.9	1,262bps	24.7	778bps	26.2	15.6	1,061bps
Depreciation & amortisation	199	188	5.8	193	2.6	580	549	5.6
EBIT	3,268	1,202	171.9	1,254	160.6	5,217	2,906	79.5
EBIT margin (%)	30.6	17.2	1,345bps	21.4	922bps	23.6	13.1	1,046bps
Other income	182	62	192.9	315	(42.4)	580	274	111.4
Finance costs	18	18	1.1	8	132.5	58	29	102.8
Profit before tax	3,432	1,246	175.4	1,562	119.7	5,738	3,151	82.1
Tax expenses	896	341	162.3	379	136.6	1,480	551	168.7
Share of profit from associates	58	80	(28.1)	45	28.4	132	140	(5.7)
Reported Net profit	2,594	985	163.3	1,228	111.2	4,390	2,740	60.2

Source: Company, BOBCAPS Research

FIG 4 – VOLUMES AND REALISATIONS

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volume								
PVC (mt)	67,741	59,154	14.5	47,630	42.2	1,60,806	1,79,088	(10.2)
PVC pipes (mt)	55,299	52,815	4.7	43,618	26.8	1,51,828	1,92,494	(21.1)
Realisation								
PVC (Rs/t)	1,02,149	68,978	48.1	77,275	32.2	84,220	69,551	21.1
PVC pipes (Rs/t)	1,31,250	1,04,802	25.2	1,14,822	14.3	1,14,182	99,835	14.4
EBIT/tonne								
PVC (Rs/t)	36,262	13,832	162.2	20,806	74.3	22,882	9,395	143.5
PVC pipes (Rs/t)	16,519	8,248	100.3	9,010	83.3	11,993	7,260	65.2

Source: Company

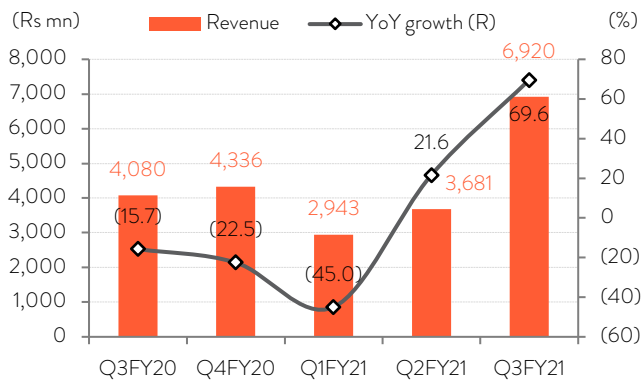
FIG 5 – PVC-EDC DELTA

PVC/EDC Spread	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Spread (US\$/mt)	523	490	583	589	574	547	654	765
YoY (%)	(33.4)	(28.8)	(9.0)	10.1	9.8	11.6	12.2	29.9

Source: Company, BOBCAPS Research

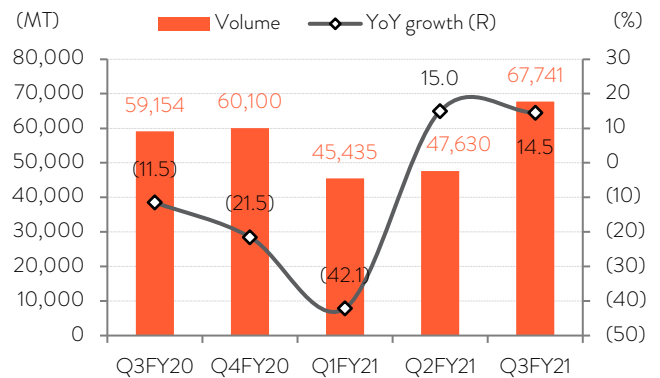
STANDALONE QUARTERLY TRENDS

FIG 6 – PVC RESIN REVENUE GROWTH



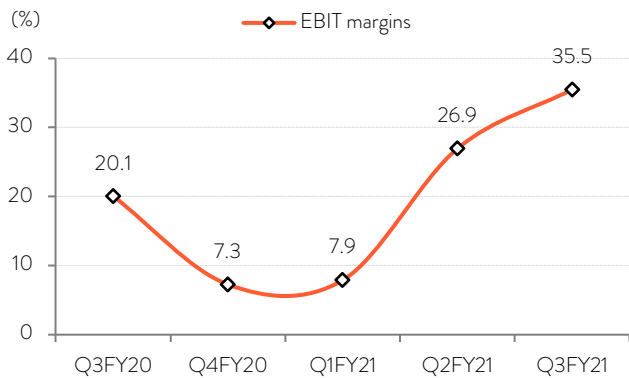
Source: Company, BOBCAPS Research

FIG 7 – PVC RESIN VOLUME GROWTH



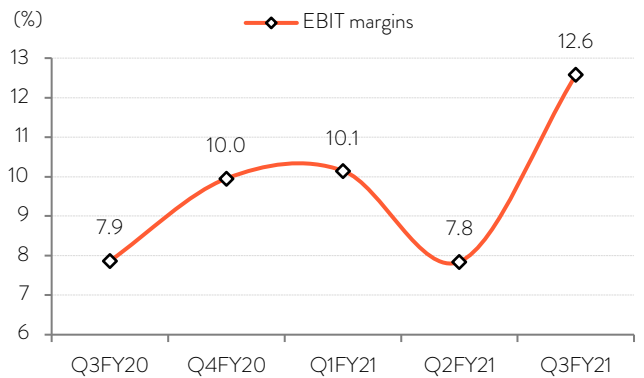
Source: Company, BOBCAPS Research

FIG 8 – PVC RESIN EBIT MARGINS



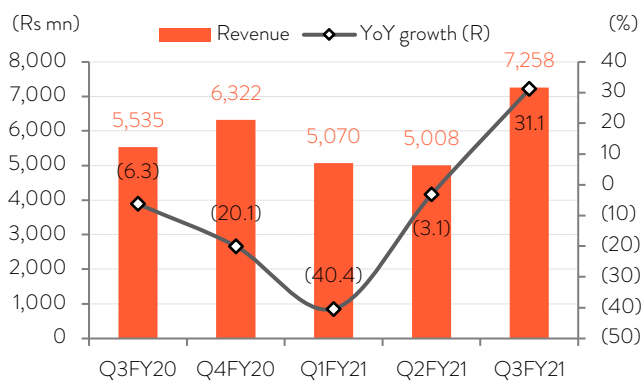
Source: Company, BOBCAPS Research

FIG 9 – PVC PIPES & FITTINGS EBIT MARGINS



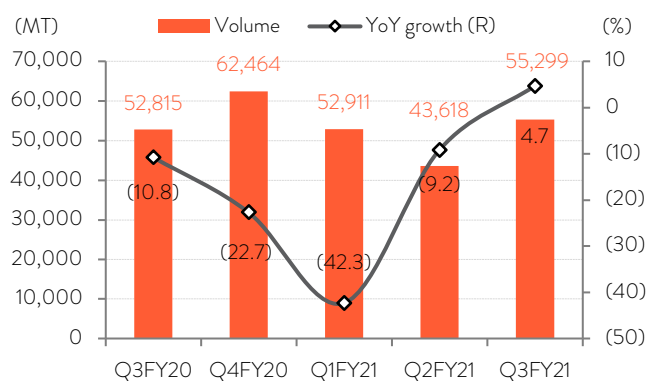
Source: Company, BOBCAPS Research

FIG 10 – PVC PIPES & FITTINGS REVENUE GROWTH



Source: Company, BOBCAPS Research

FIG 11 – PVC PIPES & FITTINGS VOLUME GROWTH



Source: Company, BOBCAPS Research

Earnings call highlights

- PVC prices reached historical highs in Q3FY21 which aided a better performance for FNXP.
- During Q3, the average PVC-EDC delta stood at US\$ 765/mt (vs. US\$ 589/mt in Q3FY20) and is holding at this level currently.
- PVC resin prices are currently at US\$ 1,350/mt and are expected to come down by end-Q4FY21 to early-Q1FY22 as supplies increase.
- Management believes agricultural demand will improve in Q4FY21. However, it is unsure about the extent of potential demand postponement due to higher PVC prices.
- On the non-agricultural side, the company does not see any material impact on demand from higher PVC prices as this input forms a very small portion of overall cost.
- CPVC volumes increased 21% YoY in Q3 whereas revenues were up ~24%.
- FNXP is focusing on further increasing its dealer reach in order to have more business in the non-agri pipe segment.
- The company will not expand its PVC resin capacity until it gets long-term commitments for supply of feedstock.
- Capex plans stand at Rs 1.5bn-2bn for FY22 with pipe capacity to increase by ~30,000t.
- The company remains net debt-free.

Valuation methodology

FNXP is one of the major PVC pipe players in India with 18,000 dealers and sub-dealers spread across the country. The company has a strong presence in the agricultural pipe market and plans to build a significant footprint in the plumbing market following its recent foray into CPVC pipes.

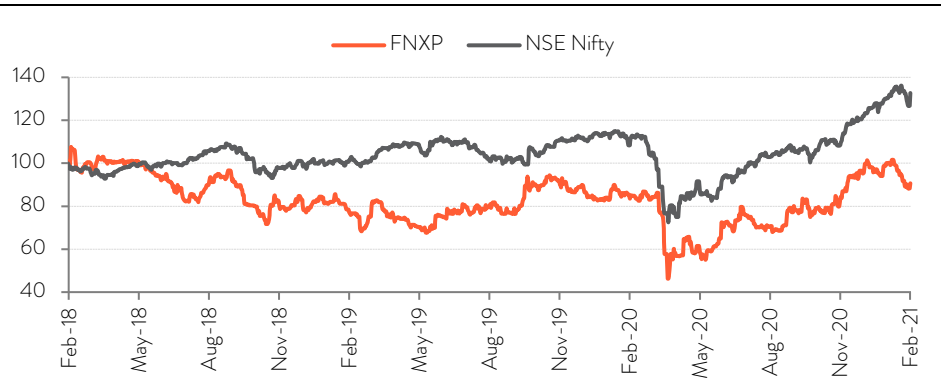
Post Q3, we increase our FY21 EBITDA estimate by 35% due to better transient PVC prices and also raise FY22/FY23 estimates marginally by 4%/3%. We roll over to a revised Mar'22 target price of Rs 675 (earlier Rs 580), based on a revised 22x one-year forward P/E multiple (earlier 20x) – in line with the stock's five-year average. Maintain ADD.

FIG 12 – REVISED ESTIMATES

(Rs mn)	New			Old			YoY (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	33,957	32,058	34,488	30,387	31,114	33,543	11.7	3.0	2.8
EBITDA	7,143	5,023	5,249	5,293	4,842	5,106	34.9	3.7	2.8
PAT	5,366	3,557	3,802	3,737	3,366	3,638	43.6	5.7	4.5

Source: BOBCAPS Research

FIG 13 – RELATIVE STOCK PERFORMANCE



Source: NSE

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)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	30,913	29,860	33,957	32,058	34,488
EBITDA	6,043	4,481	7,143	5,023	5,249
Depreciation	(701)	(738)	(781)	(866)	(931)
EBIT	5,342	3,743	6,362	4,158	4,318
Net interest income/(expenses)	(123)	(119)	(75)	(58)	(44)
Other income/(expenses)	404	299	667	385	489
EBT	5,624	3,923	6,954	4,485	4,762
Income taxes	(1,812)	(852)	(1,808)	(1,198)	(1,281)
Extraordinary items	(279)	0	0	0	0
Min. int./Inc. from associates	140	256	220	270	320
Reported net profit	3,672	3,327	5,366	3,557	3,802
Adjustments	184	0	0	0	0
Adjusted net profit	3,857	3,327	5,366	3,557	3,802

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	2,838	2,334	2,419	2,544	2,768
Other current liabilities	1,387	1,723	1,489	1,405	1,512
Provisions	230	297	279	351	378
Debt funds	906	2,827	927	727	527
Other liabilities	2,205	1,873	1,763	1,653	1,543
Equity capital	1,241	1,241	1,241	1,241	1,241
Reserves & surplus	24,521	18,619	21,570	23,526	25,617
Shareholders' fund	25,762	19,860	22,811	24,767	26,858
Total liabilities and equities	33,327	28,913	29,687	31,447	33,585
Cash and cash eq.	291	932	1,418	3,438	3,955
Accounts receivables	743	732	930	878	945
Inventories	6,205	8,578	7,875	6,881	7,486
Other current assets	1,035	710	1,116	1,054	1,134
Investments	13,619	6,607	7,107	7,307	8,007
Net fixed assets	9,489	10,153	9,872	10,506	10,575
CWIP	902	73	50	50	50
Intangible assets	20	16	16	16	16
Other assets	1,023	1,113	1,302	1,317	1,417
Total assets	33,327	28,913	29,687	31,447	33,585

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	6,045	4,661	7,735	5,350	5,694
Interest expenses	123	119	75	58	44
Changes in working capital	(209)	(2,295)	(241)	1,136	(522)
Other operating cash flows	(2,425)	(1,428)	(2,475)	(1,583)	(1,769)
Cash flow from operations	3,535	1,057	5,094	4,961	3,446
Capital expenditures	(1,366)	(603)	(477)	(1,500)	(1,000)
Other investing cash flows	(1,605)	942	(500)	(200)	(700)
Cash flow from investing	(2,971)	340	(977)	(1,700)	(1,700)
Debt raised/repaid	(101)	1,921	(1,900)	(200)	(200)
Interest expenses	(123)	(119)	(75)	(58)	(44)
Dividends paid	(1,532)	(2,873)	(2,415)	(1,600)	(1,711)
Other financing cash flows	1,416	315	759	617	725
Cash flow from financing	(340)	(756)	(3,631)	(1,241)	(1,229)
Changes in cash and cash eq.	223	641	486	2,020	517
Closing cash and cash eq.	291	932	1,418	3,438	3,955

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	29.6	26.8	43.2	28.7	30.6
Adjusted EPS	31.1	26.8	43.2	28.7	30.6
Dividend per share	10.0	10.0	15.6	10.3	11.0
Book value per share	207.6	160.0	183.8	199.6	216.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.6	2.6	2.3	2.5	2.2
EV/EBITDA	13.2	17.6	11.1	15.7	14.5
Adjusted P/E	20.7	24.0	14.9	22.4	21.0
P/BV	3.1	4.0	3.5	3.2	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	68.6	84.8	77.2	79.3	79.8
Interest burden (PBT/EBIT)	105.3	104.8	109.3	107.9	110.3
EBIT margin (EBIT/Revenue)	17.3	12.5	18.7	13.0	12.5
Asset turnover (Revenue/Avg TA)	90.4	95.9	115.9	104.9	106.1
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.4	1.3	1.3
Adjusted ROAE	14.4	14.6	25.2	15.0	14.7

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	12.9	(3.4)	13.7	(5.6)	7.6
EBITDA	24.9	(25.9)	59.4	(29.7)	4.5
Adjusted EPS	28.9	(13.8)	61.3	(33.7)	6.9
Profitability & Return ratios (%)					
EBITDA margin	19.5	15.0	21.0	15.7	15.2
EBIT margin	17.3	12.5	18.7	13.0	12.5
Adjusted profit margin	12.5	11.1	15.8	11.1	11.0
Adjusted ROAE	14.4	14.6	25.2	15.0	14.7
ROCE	19.2	15.2	27.4	16.9	16.3
Working capital days (days)					
Receivables	7	9	9	10	10
Inventory	117	139	146	128	114
Payables	39	37	32	34	33
Ratios (x)					
Gross asset turnover	1.4	1.3	1.4	1.3	1.3
Current ratio	1.5	1.5	2.2	2.4	2.6
Net interest coverage ratio	43.5	31.4	84.7	71.8	98.4
Adjusted debt/equity	0.0	0.1	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

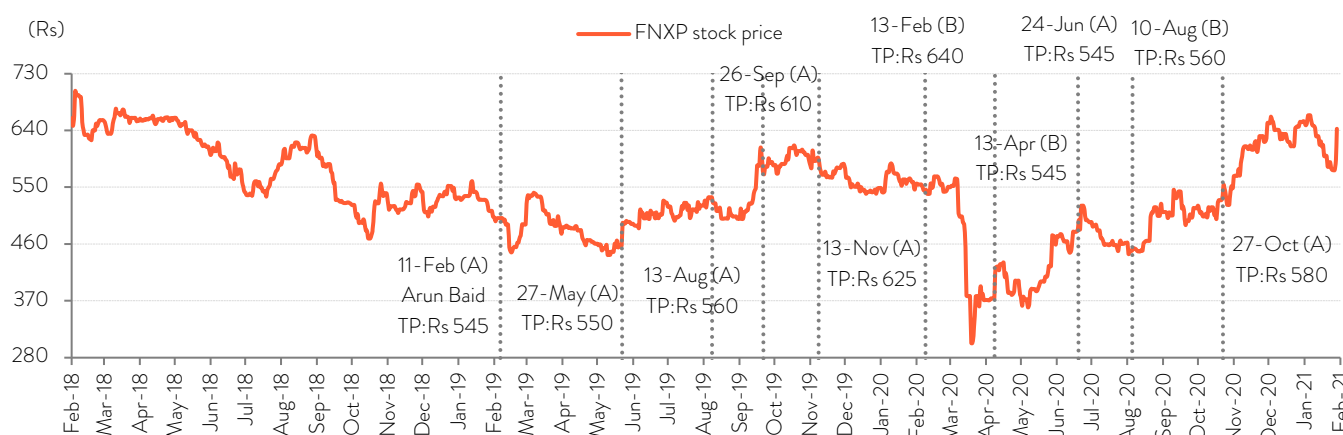
ADD – Expected return from >+5% to +15%

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 (FNPX IN)



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

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As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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