

HOLD

TP: Rs 175 | ▼ 4%

FINOLEX INDUSTRIES

| Plastic Products

| 28 June 2021

Higher PVC prices boost profitability

- FNXF reported strong Q4FY21 revenue growth of 63% YoY as PVC prices surged 68% YoY, driving up realisations
- Operating margin beat estimates, expanding 20ppt YoY to 32.8% primarily due to a higher gross margin (+14ppt)
- We raise FY22/FY23 PAT ~18% and increase our TP to Rs 175 (vs. Rs 135). Realign from ADD to HOLD (as per our new rating scale) on full valuations

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Strong revenue growth aided by higher PVC prices: FNXF reported revenue growth of 63% YoY as PVC prices surged 68% YoY and PVC pipe realisation increased 48%. PVC resin volumes grew 25% YoY whereas pipe volumes declined 4%. Management stated that Q4 was its best-ever quarter aided by record PVC resin realisations which offset the negative impact of higher prices on agriculture PVC pipe demand. For FY21, revenue grew 16% YoY with PVC resin/pipe volumes declining 1%/17% YoY whereas realisation increased 37%/24% YoY.

Agri pipe demand softens: Q1FY22 which is a busy season for agriculture pipes has been affected by both the higher PVC prices and the pandemic. The non-agri segment continues to do well (~37% of revenue in FY21) and management is hopeful of better volumes from agri pipes in H2FY22.

Operating margin swells 20ppt YoY: FNXF's standalone EBITDA margin increased 20ppt YoY to 32.8% aided by a higher gross margin (14ppt) from better PVC realisations, as well as lower other expenses (-500bps). EBITDA/PBT thus grew 296%/421% YoY. Similarly, for FY21, the company reported a 14ppt rise in operating margin to 28.6%, resulting in EBITDA/PBT growth of 121%/148% YoY.

PVC prices have begun to correct: The average PVC-EDC delta was at US\$ 877/mt (+53% YoY) in Q4, US\$ 711 (+27% YoY) in FY21 and currently stands at US\$ 715/mt. As per management, PVC prices have started to correct in Q1FY22 whereas EDC prices have remained firm, resulting in margin pressure. While PVC resin margins are difficult to forecast, those in the pipe segment are more predictable and should sustain at ~Rs 10/kg according to FNXF.

Valuations full, HOLD: We raise FY22/FY23 PAT estimates 18%/19% given the Q4 margin beat. FNXF has a strong balance sheet and its focus on non-agri pipes could aid further margin gains. While we like the company, we find current valuations full at 24.9x FY23E P/E. We realign to HOLD (from ADD) as per our new rating scale. Post estimate revision, we raise our Mar'22 TP to Rs 175 (from Rs 135), set at 24x FY23E P/E – a 30% premium to the five-year average vs. 20% earlier.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 182
Market cap	US\$ 1.5bn
Free float	48%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 198/Rs 27
Promoter/FPI/DII	52%/3%/45%

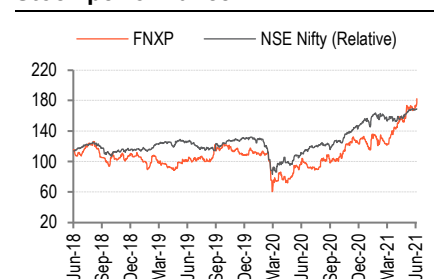
Source: NSE | Price as of 28 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	34,628	34,395	35,344
EBITDA (Rs mn)	9,893	5,962	6,281
Adj. net profit (Rs mn)	7,378	4,209	4,537
Adj. EPS (Rs)	11.9	6.8	7.3
Consensus EPS (Rs)	9.4	7.4	8.2
Adj. ROAE (%)	28.8	12.9	13.0
Adj. P/E (x)	15.3	26.9	24.9
EV/EBITDA (x)	11.4	18.5	16.9
Adj. EPS growth (%)	121.8	(43.0)	7.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Standalone quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net sales	12,493	7,687	62.5	10,669	17.1	34,628	29,845	16.0
COGS	6,417	5,009	28.1	5,863	9.4	19,288	19,427	(0.7)
Employee expenses	593	408	45.6	368	61.4	1,668	1,456	14.6
Other expenses	1,382	1,234	12.0	971	42.3	3,780	4,489	(15.8)
EBITDA	4,101	1,035	296.1	3,467	18.3	9,893	4,474	121.1
EBITDA margin (%)	32.8	13.5	1,935bps	32.5	33bps	28.6	15.0	1,358bps
Depreciation & amortisation	197	189	4.3	199	(0.8)	777	738	5.3
EBIT	3,904	846	361.1	3,268	19.4	9,116	3,736	144.0
EBIT margin (%)	31.2	11.0	2,023bps	30.6	61bps	26.3	12.5	1,381bps
Other income	135	10	1,281.6	182	(25.4)	725	308	135.0
Finance costs	18	85	(78.3)	18	2.8	73	113	(35.5)
Profit before tax	4,021	771	421.2	3,432	17.2	9,768	3,932	148.4
Tax expenses	1,047	214	388.7	873	19.9	2,488	690	260.6
Reported Net profit	2,973	557	433.7	2,559	16.2	7,280	3,242	124.6

Source: Company, BOBCAPS Research

Fig 2 – Standalone segmental performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue								
PVC	9,202	4,362	111.0	6,920	33.0	22,733	16,777	35.5
PVC pipes & fittings	9,017	6,322	42.6	7,258	24.2	26,353	25,540	3.2
Total	18,219	10,683	70.5	14,178	28.5	49,086	42,316	16.0
Inter-segment revenues	5,726	2,997	91.1	3,509	63.2	14,458	12,471	15.9
Net sales (inc. other op. inc.)	12,493	7,687	62.5	10,669	17.1	34,628	29,845	16.0
EBIT								
PVC	3,285	314	947.7	2,456	33.7	6,964	1,996	248.9
PVC pipes & fittings	695	625	11.1	914	(23.9)	2,512	2,022	24.2
Total	3,980	939	323.8	3,370	18.1	9,476	4,018	135.8
EBIT Margins (%)								
PVC	35.7	7.2	2,850bps	35.5	19bps	30.6	11.9	2,380bps
PVC pipes & fittings	7.7	9.9	(219bps)	12.6	(488bps)	9.5	7.9	(21bps)
Total	31.9	12.2	1964bps	31.6	27bps	27.4	13.5	1,839bps

Source: Company, BOBCAPS Research

Fig 3 – Consolidated quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net sales	12,493	7,687	62.5	10,669	17.1	34,628	29,845	16.0
COGS	6,417	5,009	28.1	5,863	9.4	19,288	19,427	(0.7)
Employee expenses	593	408	45.6	368	61.4	1,668	1,456	14.6
Other expenses	1,382	1,234	12.0	971	42.3	3,780	4,489	(15.8)
EBITDA	4,101	1,035	296.1	3,467	18.3	9,893	4,474	121.1
EBITDA margin (%)	32.8	13.5	1,935bps	32.5	33bps	28.6	15.0	1,358bps
Depreciation & amortisation	197	189	4.3	199	(0.8)	777	738	5.3
EBIT	3,904	846	361.1	3,268	19.4	9,116	3,736	144.0
EBIT margin (%)	31.2	11.0	2,023bps	30.6	61bps	26.3	12.5	1,381bps
Other income	135	10	1,281.6	182	(25.4)	716	299	139.2
Finance costs	18	85	(78.3)	18	2.8	73	113	(35.5)
Profit before tax	4,021	771	421.2	3,432	17.2	9,759	3,923	148.8
Tax expenses	1,062	301	253.3	896	18.6	2,543	852	198.5
Share of profit from associates	30	116	(74.0)	58	(47.8)	162	256	(36.7)
Reported Net profit	2,988	587	409.4	2,594	15.2	7,378	3,327	121.8

Source: Company, BOBCAPS Research

Fig 4 – Volume & Realisation

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume								
PVC (MT)	75,281	60,100	25.3	67,741	11.1	2,36,087	2,39,188	(1.3)
PVC pipes (MT)	60,232	62,464	(3.6)	55,299	8.9	2,12,060	2,54,958	(16.8)
Realisation								
PVC (Rs/t)	1,22,241	72,571	68.4	1,02,149	19.7	96,291	70,141	37.3
PVC pipes (Rs/t)	1,49,704	1,01,207	47.9	1,31,250	14.1	1,24,271	1,00,171	24.1
EBIT/tonne								
PVC (Rs/t)	43,631	5,216	736.4	36,262	20.3	29,498	8,344	253.5
PVC pipes (Rs/t)	11,537	10,012	15.2	16,519	(30.2)	11,845	7,932	49.3

Source: BOBCAPS Research, Company

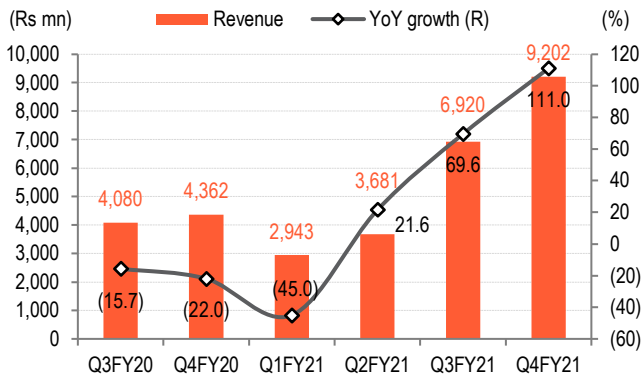
Fig 5 – PVC-EDC delta

PVC/EDC Spread	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Spread (US\$/mt)	523	490	583	589	574	547	654	765	877
YoY (%)	(33.4)	(28.8)	(9.0)	10.1	9.8	11.6	12.2	29.9	52.8

Source: Company, BOBCAPS Research

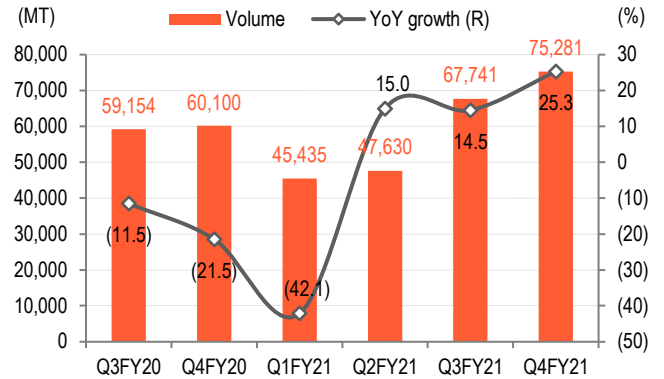
STANDALONE QUARTERLY TRENDS

Fig 1 – PVC resin revenue growth



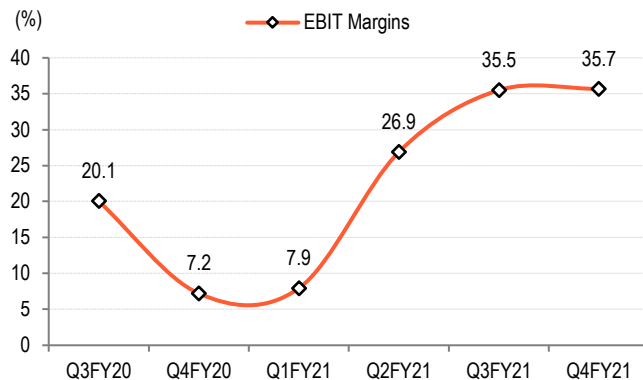
Source: Company, BOBCAPS Research

Fig 2 – PVC resin volume growth



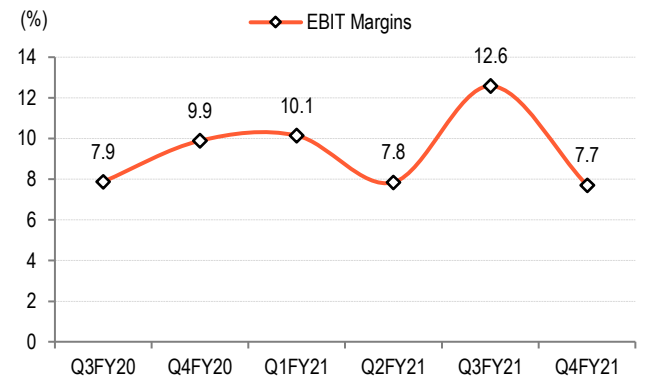
Source: Company, BOBCAPS Research

Fig 3 – PVC resin EBIT margin



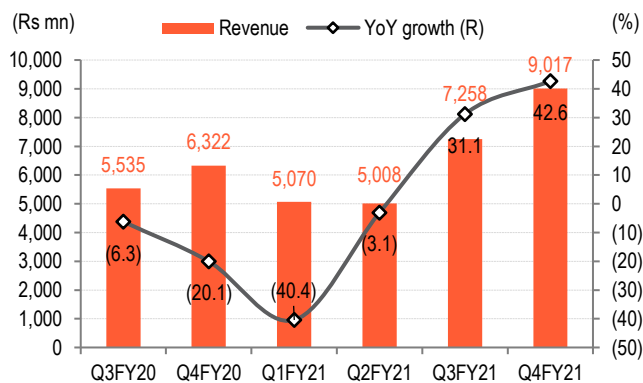
Source: Company, BOBCAPS Research

Fig 4 – PVC pipes & fittings EBIT margin



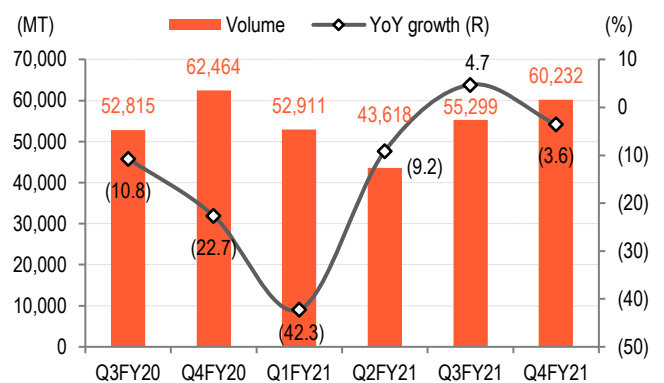
Source: Company, BOBCAPS Research

Fig 5 – PVC pipes & fittings revenue growth



Source: Company, BOBCAPS Research

Fig 6 – PVC pipes & fittings volume growth



Source: Company, BOBCAPS Research

Earnings call highlights

- PVC prices reached historical highs in Q4FY21 which aided a strong performance for FNXP.
- PVC resin prices have declined from an average of US\$ 1,483/mt in Q4 to US\$ 1,380/mt currently but remain well above the historical mean of US\$ 900-950. The company expects prices to stay elevated in the range of US\$ 1,100-1,200 due to supply issues in near-term.
- During Q4, the average PVC-EDC delta stood at US\$ 877/mt (vs.US\$ 574/mt in Q4FY20). This delta has currently fallen to US\$ 715/mt.
- With PVC prices correcting from Q4 levels and the PVC-EDC delta falling, FNXP expects margins to come off historic highs.
- Management did not give out guidance for PVC resin margins as these are volatile, but believes they could stabilise at ~Rs 15,000/t when the pricing situation normalises. In PVC pipes, management has guided for sustainable margins of ~Rs 10,000/t.
- Agriculture demand was affected by the higher PVC resin prices in Q4 and further dampened by the second wave of the pandemic in Q1FY22. Management believes demand for agri pipes would return in H2FY22. On the non-agricultural side, there was no material impact on demand from higher PVC prices.
- During Q4, agri pipe volumes declined 14% YoY whereas the non-agri segment grew 22%. For FY21, agri pipe volumes declined 21% and non-agri fell 4.5% YoY.
- Agri pipes contributed 63% of turnover for the year. Management is targeting a higher 40% share from the non-agri segment going forward.
- CPVC volumes increased 67% YoY in Q4 and 4% YoY in FY21 to 9,635mt.
- In FY22, FNXP aims to match FY19 sales volume of ~263,000mt (+24% YoY) despite a tepid Q1.
- South and West India are the major markets for the company and account for ~75% of total revenue.
- Current pipe capacity is 370,000mtpa which includes 20,000t of CPVC capacity and is sufficient to meet demand for a couple of years.
- The capex plan for FY22 totals Rs 1bn but will be increased if demand in the pipe segment picks up.
- The company remains net cash-surplus.

Valuation methodology

FNXP is one of 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 plans to build a significant footprint in the plumbing market following its foray into CPVC pipes.

We raise FY22/FY23 PAT estimates by 18%/19% given above-expected margins in the PVC resin segment. Our Mar'22 TP stands revised to Rs 175 (from Rs 135), set at a higher 24x FY23E P/E multiple (vs. 22x earlier) – a 30% premium to the five-year average vs. 20% earlier. We believe FNXP merits a premium to historical multiples due to its strong balance sheet and near-term earnings upsides from higher PVC prices.

Though we like the company for its sound balance sheet and growing focus on the high-margin non-agri segment, current valuations look full at 24.9x FY23E P/E. We thus realign to HOLD (from ADD) as per our new rating scale.

Fig 7 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	34,395	35,344	32,058	34,488	7.3	2.5
EBIDTA	5,962	6,281	5,023	5,249	18.7	19.7
PAT	4,209	4,537	3,557	3,802	18.3	19.3

Source: BOBCAPS Research

Fig 8 – Key assumptions

Key assumptions	FY19	FY20	FY21P	FY22E	FY23E
PVC resin external sales (mt)	66,680	55,599	80,468	70,007	61,606
Growth (%)	(1)	(17)	45	(13)	(12)
PVC pipe volumes (mt)	2,62,858	2,54,958	2,12,060	2,39,628	2,68,383
Growth (%)	4	(3)	(17)	13	12
PVC pipe EBITDA (Rs/mt)	8,471	9,587	13,844	10,000	10,000
Growth (%)	28	13	44	(28)	0
PVC resin EBITDA (Rs/mt)	15,273	8,940	31,086	15,000	14,900
Growth (%)	9	(41)	248	(52)	(1)

Source: BOBCAPS Research

Fig 9 – Peer comparison

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	REDUCE	950	19	24.0	29.6	19.9	23.3	32
Somany Ceramics	BUY	640	16	21.8	29.1	13.2	15.3	22
Greenply Industries	ADD	230	19	9.2	11.3	23.0	22.9	20
Century Plyboard	SELL	370	19	11.9	14.7	19.1	19.6	25
Greenpanel Industries	BUY	295	24	12.1	16.3	18.4	20.4	18
Cera Sanitaryware	HOLD	4,145	16	115.4	138.1	16.2	17.1	30
Astral Ltd	SELL	1,210	16	20.2	25.2	20.3	22.6	48
Finolex Industries	HOLD	175	1	6.8	7.3	12.9	13.0	24
Supreme Industries	SELL	1,805	8	52.8	60.1	20.2	20.8	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)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	30,913	29,860	34,628	34,395	35,344
EBITDA	6,043	4,481	9,893	5,962	6,281
Depreciation	(701)	(738)	(777)	(894)	(954)
EBIT	5,342	3,743	9,116	5,068	5,327
Net interest inc./(exp.)	(123)	(119)	(73)	(82)	(59)
Other inc./(exp.)	404	299	716	481	547
Exceptional items	0	0	0	0	0
EBT	5,624	3,923	9,759	5,467	5,816
Income taxes	(1,812)	(852)	(2,543)	(1,418)	(1,529)
Extraordinary items	(279)	0	0	0	0
Min. int./Inc. from assoc.	140	256	162	160	250
Reported net profit	3,672	3,327	7,378	4,209	4,537
Adjustments	184	0	0	0	0
Adjusted net profit	3,857	3,327	7,378	4,209	4,537

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	2,838	2,334	3,952	2,709	2,755
Other current liabilities	1,387	1,723	3,085	2,356	2,227
Provisions	230	297	420	471	484
Debt funds	906	2,827	2,039	1,239	439
Other liabilities	2,205	1,873	2,053	1,943	1,833
Equity capital	1,241	1,241	1,241	1,241	1,241
Reserves & surplus	24,521	18,619	30,149	32,458	34,953
Shareholders' fund	25,762	19,860	31,390	33,699	36,194
Total liab. and equities	33,327	28,913	42,939	42,255	43,737
Cash and cash eq.	291	932	3,363	3,193	3,269
Accounts receivables	743	732	1,480	918	940
Inventories	6,205	8,578	9,188	8,155	8,209
Other current assets	1,035	710	779	918	940
Investments	13,619	6,607	16,792	16,992	17,692
Net fixed assets	9,489	10,153	10,013	10,642	11,216
CWIP	902	73	82	50	50
Intangible assets	20	16	11	11	11
Deferred tax assets, net	0	0	0	0	0
Other assets	1,023	1,113	1,233	1,376	1,410
Total assets	33,327	28,913	42,939	42,255	43,737

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Cash flow from operations	3,535	1,057	9,209	3,665	4,558
Capital expenditures	(1,366)	(603)	(647)	(1,469)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	(1,605)	942	(5,859)	(200)	(700)
Cash flow from investing	(2,971)	340	(6,507)	(1,669)	(2,200)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(101)	1,921	(788)	(800)	(800)
Interest expenses	(123)	(119)	(73)	(82)	(59)
Dividends paid	(1,532)	(2,873)	(42)	(1,889)	(2,042)
Other financing cash flows	1,416	315	632	604	619
Cash flow from financing	(340)	(756)	(271)	(2,167)	(2,282)
Chg in cash & cash eq.	223	641	2,431	(170)	76
Closing cash & cash eq.	291	932	3,363	3,193	3,269

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	5.9	5.4	11.9	6.8	7.3
Adjusted EPS	6.2	5.4	11.9	6.8	7.3
Dividend per share	2.0	2.0	4.0	2.5	2.7
Book value per share	41.5	32.0	50.6	54.3	58.3

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	3.7	3.8	3.3	3.2	3.0
EV/EBITDA	18.8	25.1	11.4	18.5	16.9
Adjusted P/E	29.3	34.0	15.3	26.9	24.9
P/BV	4.4	5.7	3.6	3.4	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	68.6	84.8	75.6	77.0	78.0
Interest burden (PBT/EBIT)	105.3	104.8	107.1	107.9	109.2
EBIT margin (EBIT/Revenue)	17.3	12.5	26.3	14.7	15.1
Asset turnover (Rev./Avg TA)	90.4	95.9	96.4	80.6	81.9
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.4	1.3	1.2
Adjusted ROAE	14.4	14.6	28.8	12.9	13.0

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	12.9	(3.4)	16.0	(0.7)	2.8
EBITDA	24.9	(25.9)	120.8	(39.7)	5.3
Adjusted EPS	28.9	(13.8)	121.8	(43.1)	8.1
Profitability & Return ratios (%)					
EBITDA margin	19.5	15.0	28.6	17.6	18.5
EBIT margin	17.3	12.5	26.3	15.0	15.8
Adjusted profit margin	12.5	11.1	21.3	12.5	13.2
Adjusted ROAE	14.4	14.6	28.8	12.9	13.0
ROCE	19.2	15.2	32.5	14.7	15.1
Working capital days (days)					
Receivables	7	9	12	13	10
Inventory	117	139	168	149	140
Payables	39	37	46	43	34
Ratios (x)					
Gross asset turnover	1.4	1.3	1.5	1.4	1.3
Current ratio	1.5	1.5	1.6	2.0	2.3
Net interest coverage ratio	43.5	31.4	125.4	61.3	92.1
Adjusted debt/equity	0.0	0.1	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%

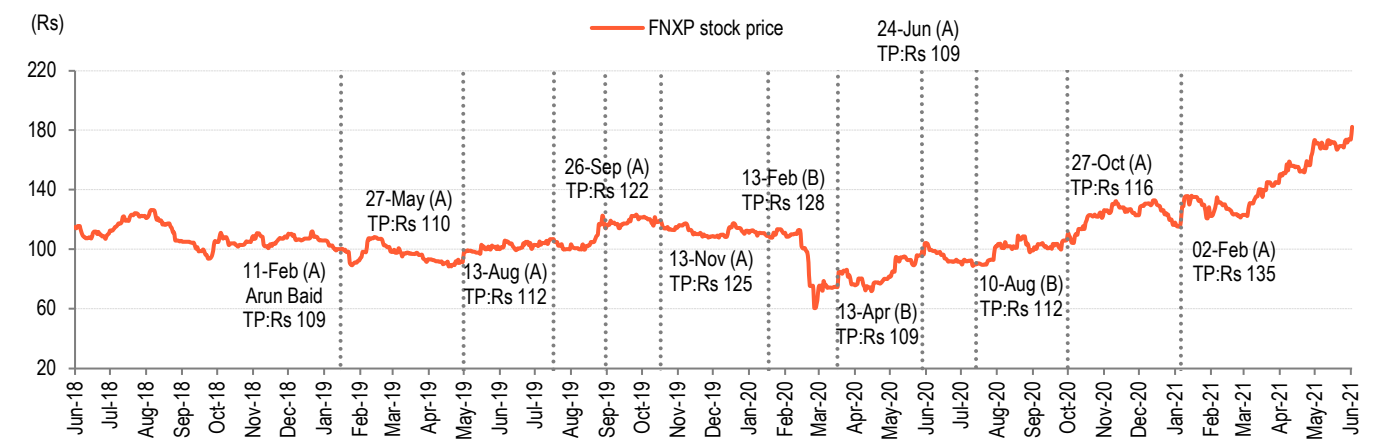
HOLD – Expected return from -6% to +15%

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 (FNXP IN)



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

Rating distribution

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