

FIRST LIGHT

02 November 2021

RESEARCH

Finolex Industries | Target: Rs 235 | +7% | HOLD

Strong realisation and volume growth aid profitability

Automobiles

TTMT strong in PV/CV, 2W remain weak

SUMMARY

Finolex Industries

- Q2 revenue growth robust at 85% YoY as PVC realisations surged 63% and pipe volumes grew 27% YoY
- Operating margin expanded 310bps YoY to 27.8% on lower employee cost (-225bps) and other expenses (-220bps)
- We raise FY22-FY24 PAT 23-39% on an above-expected H1 and roll to a new Sep'22 TP of Rs 235 (vs. Rs 185). Retain HOLD on full valuations

[Click here for the full report.](#)

Automobiles

- 4W sales in October hampered by chip crisis though TTMT did well. BJAUT's 2W volumes fell 17% YoY while 3Ws recovered
- CV/3W sales continued to show recovery alongside unlocking. Tractor volumes flattish
- Recent SUV launches seeing high demand amid festive season. EV sales up 3.5x YoY to 38k+, hitting a new peak

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.55	(3bps)	1bps	68bps
India 10Y yield (%)	6.39	2bps	16bps	50bps
USD/INR	74.88	0.1	(1.1)	(1.0)
Brent Crude (US\$/bbl)	84.38	0.1	6.7	125.3
Dow	35,820	0.2	4.4	35.2
Shanghai	3,547	0.8	(1.5)	10.0
Sensex	59,307	(1.1)	(0.6)	49.7
India FI (US\$ mn)	28-Oct	MTD	CYTD	FYTD
FI-D	(68.2)	(173.5)	(98.5)	1,928.8
FI-E	(325.6)	(1,539.1)	6,990.9	(335.5)

Source: Bloomberg

BOBCAPS Research

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HOLD

TP: Rs 235 | ▲ 7%

FINOLEX INDUSTRIES

| Plastic Products

| 01 November 2021

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Strong revenue growth aided by higher PVC prices: FNXP reported Q2FY22 revenue growth of 85% YoY to Rs 10.8bn as PVC resin realisations surged 63% and PVC pipe realisations increased 41%. PVC resin/PVC pipe & fittings revenue grew 78%/80% YoY. PVC is in short supply and, hence, local prices are running higher than the listed rates of local manufacturers, implying market share gains for larger players. PVC resin volumes grew 9.2% YoY whereas pipe volumes increased 27%.

Operating margin expands 310bps YoY: FNXP's standalone EBITDA margin increased 310bps YoY to 27.8% aided by higher PVC margins (+830bps) and better control of cost overheads (-450bps). EBITDA/PBT thus grew 108%/117% YoY. The average PVC-EDC delta was at US\$ 790/t (+21% YoY) in Q2 and is currently trading at US\$ 900/t.

Pricing and supply outlook: Management indicated that global supply constraints and higher logistics costs have kept PVC prices elevated. China has opened up the carbide route, which should help improve supply and bring down prices. While PVC resin margins are difficult to forecast, those in the pipe segment are more predictable and are guided to sustain at Rs 8-10/kg. The PVC business is more sustainable at Rs 15-20 EBIT/kg on a ~US\$ 600/t spread (recent trend: Rs 35-45/kg at +US\$ 800/t spread). As per management, resin prices are at an all-time high and should soften. For CPVC, supply challenges are far more acute and need to be watched.

Earnings upgraded but valuations full, HOLD: We raise FY22/FY23/FY24 PAT estimates by 39%/25%/23% given the above-expected H1FY22 PVC resin margins and volume growth. On rollover, we arrive at a new Sep'22 TP of Rs 235 (from Rs 185), set at an unchanged 24x one-year forward P/E, ~14% premium to the stock's five-year average. 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 ~24x FY23E EPS – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 220
Market cap	US\$ 1.8bn
Free float	48%
3M ADV	US\$ 3.0mn
52wk high/low	Rs 245/Rs 103
Promoter/FPI/DII	52%/4%/43%

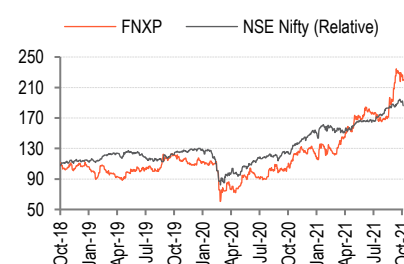
Source: NSE | Price as of 1 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	34,628	37,522	40,133
EBITDA (Rs mn)	9,893	8,809	7,940
Adj. net profit (Rs mn)	7,378	6,305	5,806
Adj. EPS (Rs)	11.9	10.2	9.4
Consensus EPS (Rs)	11.9	8.8	9.0
Adj. ROAE (%)	28.8	19.0	15.9
Adj. P/E (x)	18.5	21.7	23.5
EV/EBITDA (x)	13.8	15.2	16.3
Adj. EPS growth (%)	1009.0	(14.5)	(7.9)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



AUTOMOBILES

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4W: Due to the chip shortage, MSIL's October domestic sales fell (-32% YoY) but MM (+8%) and TTMT (+44%) stayed on course. MSIL's relatively smaller export pie surged 122% YoY, marking its eighth consecutive month of 100%+ growth, largely owing to strong sales in Africa. Apr-Oct'22 sales for MSIL/MM/TTMT grew 22%/62%/96% YoY. Demand is improving but production constraints due to the chip crisis are hurting deliveries. New launches include MSIL's hatchback Celerio and an SUV. Recent SUV launches (MM's XUV700, TTMT's Punch) have had a good response.

2W: BJAUT's domestic sales declined 26% YoY in October and exports fell 5%, leading to a 17% drop in total sales. Total sales in HMCL and EIM declined by 32% and 34% respectively. TVSL fared better with a lower fall of 14% in domestic sales, a 2.5% rise in exports and a 11% decline in overall sales. Apr-Oct'22 volumes for BJAUT/TVSL are still up 27%/24% YoY. TVSL has launched its new Jupiter 125cc scooter and BJAUT will introduce its high-end new generation bike Pulsar 250cc.

3W: Domestic 3W sales for October rose 58%/13%/7% YoY for BJAUT/MM/TVSL over a low base as the segment recovered amid the lifting of Covid restrictions. Exports for BJAUT fell by 3% but were up 6% for TVSL. Total sales for BJAUT/MM/TVSL grew 16%/13%/7% YoY in October and 55%/245%/77% in Apr-Oct'22.

CV: Domestic CV sales increased 21%/13%/28% YoY for TTMT/AL/EIM, indicating that the segment is recovering. By category, however, the outlook looks mixed as MHCVs grew 52%/35% for TTMT/AL while LCVs grew 13% for TTMT but dipped 4% for AL. Total sales for TTMT/AL/EIM (including exports) grew by 19%/11%/38% YoY in Oct'22 and by 82%/70%/85% YoY over Apr-Oct'22.

Tractor: Domestic tractor volumes were flattish with MM up 1% and ESC down 1% YoY. Apr-Oct'22 sales for MM have been stronger, rising 15% vs. 8% for ESC.

EV: Sales across 2W/3W/4W grew over 3.5x vs. Oct'20 to 38,400. According to the Vahan database, HMCL, Okinawa and Ather are the top 3 EV players in 2Ws while TTMT and MM are the main 4W/CV suppliers.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	142	80	SELL
BJAUT IN	3,707	3,200	SELL
HMCL IN	2,657	2,900	HOLD
MM IN	884	630	SELL
MSIL IN	7,482	8,000	HOLD
TVSL IN	663	480	SELL
VSTT IN	2,892	2,300	HOLD

Price & Target in Rupees | Price as of 29 Oct 2021



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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.

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