

Finolex Industries Limited

 29th Jun 2019

Initiating Coverage (BUY)

CMP

INR 506

Target Price

INR 643

Stock Details

Industry	Plastic Products
Bloomberg Code	FNXP:IN
BSE Code	500940
Face Value (Rs.)	10.00
Market Cap. (Rs. Cr.)	6,274.26
52wk. Low/High (Adjusted) (Rs.)	440.00/712.90

Shareholding Pattern Dec '18

Promoter (%)	52.47
FII (%)	2.34
DII (%)	10.63
Public - Other (%)	34.56
No. of Share Outstanding (Cr.)	12.41

Valuation Summary

	FY 18A	FY 19A	FY 20P	FY 21P
P/E (x)*	26.62	17.10	17.00	17.00
EV/EBITDA (x)	16.03	9.73	10.07	10.14
P/BV (x)	2.92	2.44	2.62	2.69

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Lakhs	FY 18A	FY 19A	FY 20P	FY 21P
Net Sales	276,218	313,173	343,446	377,738
EBITDA	50,832	64,471	71,741	78,150
Net Profit	30,633	36,725	42,664	46,904
EPS (Rs.)*	24.7	29.6	34.4	37.8

*Un adjusted

Key Ratios

	FY 18A	FY 19A	FY 20P	FY 21P
EBITDA Margin (%)	18.4	20.6	20.9	20.7
EBIT Margin (%)	16.2	18.3	18.8	18.8
Net Pro. Margin (%)	11.1	11.7	12.4	12.4
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	12.0	13.7	16.0	16.4
RoCE (%)	11.0	12.6	14.6	15.0

One Year Price / Volume



We recommend 'BUY' on FINOLEX INDUSTRIES LTD for a target of INR 643 - valuing the company at P/E 17x of FY21E Earning.

INVESTMENT RATIONALE:

- Finolex Industries is India's only company that makes both PVC resin and pipes.
- Policy, capacity and improving margins all flowing through
- EXPANDING FOOTPRINT - network in all geographies with higher focus in the northern and eastern regions
- CAPACITY EXPANSION - Increase installed capacities of PVC pipes and fittings in order to capture expected increase in demand.
- CASH-N-CARR - Follow Cash-n-carry model to keep the balance sheet light.
- BRANDING - Among leading brand and promoting quality consciousness amongst consumer.
- Constant addition of products to its range would lead to strong sales growth.

VALUATIONS AND VIEW:

Finolex Industries is available at a steep discount to its close competitor Supreme, despite a similar growth profile and stronger balance sheet, mainly due to margin volatility. We expect the discount to close as PVC resin fundamentals is expected to improve and the weighting of the more stable pipes business increases - making the company's margins less volatile overall. We value the business at 17x FY21E EPS and recommend a BUY rating on the stock with a target price of INR 643 per share.

RISK & CONCERNS:

- **Industry and Market:** Economic slowdown may impact the top line of the business.
- **Business Structure:** concerns about a possible corporate restructuring, given family-related disputes.
- **Competition:** The Pipes Market competitive landscape has become much more dynamic.

COMPANY BACKGROUND:

Finolex Industries Limited (FIL) started in 1981 as a pipe manufacturing company headquartered in Pune. It is the only PVC pipes company to have an integrated set up for production of PVC resin.

Finolex Industries Limited is India's leading manufacturer of PVC-U Pipes and Fittings and the second largest manufacturer of PVC Resin. It has state-of-the-art manufacturing plants in Pune that serves as its headquarter, Ratnagiri in Maharashtra and Masar in Gujarat. It also carry out distribution from its warehouses in Chinchwad, Cuttack, Delhi, and Indore.

Finolex Industries not only makes the pipes and fittings that are going into modernisation and acceleration of India's agricultural and construction sectors, it also produces the polyvinyl chloride (PVC) resin that those pipes and fittings are made from. This means that, unlike its peers – Supreme and Astral – it is a 'backward integrated' company and the only one in the market. The company is also expected to increase its consumer-focussed pipes and fittings capacity by a CAGR of 10% over the next five years.

Businesses

- PVC resin business (generates 70% of its earnings)
- Agri Pipes and Fittings, Column Pipes, ASTM Pipes and Fittings, CPVC Pipes and Fittings, Sewerage Pipe
- Solvent Cement

INDUSTRY OVERVIEW:

India's PVC demand has grown at a CAGR of 10% for the last decade – the highest globally – and it is expected to drive 20% of global demand from 2019-23e. India is the largest importer of PVC resins in the world – sourcing more than 50% of its needs overseas. We believe that its dependence on imports should only increase going forward.

The demand for PVC in India is huge and has been increasing at an annual rate of 7.25% from fiscal year 2011-12 to 2016-17, whereas production trails demand. In India, the PVC resin market has largely been dominated by imports as domestic capacity is only 45% of the demand. About 73 per cent of the total demand for PVC in India comes from pipes segment which are widely used in the agriculture and construction sector. The remaining 27 percent of demand comes from other applications where PVC is used to manufacture, profiles, insulation etc.

India's PVC market is grossly underpenetrated, with a per capita consumption at about 2.2 kg. which is ~3-4x higher in countries such as Brazil, Malaysia and Thailand. With rapid urbanization and rising farm irrigation spends, the market can grow at 12-15% CAGR to ~H 35,000 Crore over the next 3 years.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Astral Poly	1,321	80.2	15,825.9	0.05	62.5	(4.36)	774.7	21.27	12.39
Supreme Inds.	1,124	35.6	14,272.7	1.16	124.1	(34.98)	1,530.9	4.05	6.63
Responsive Ind	90	84.8	2,408.8	0.11	(11.3)	(396.60)	76.7	(67.60)	3.76
Time Technoplast	94	10.5	2,133.7	0.85	73.7	33.10	1,082.1	14.78	1.28
Jai Corp	106	379.7	1,890.7	0.47	-	-	-	-	1.69
Nilkamal Ltd	1,178	15.8	1,757.1	1.10	28.1	(16.79)	554.8	(6.92)	1.99
Finolex Inds.	506	17.0	62,792.3	2.00	91.4	(24.44)	964.2	19.17	2.44

*TTM

FINANCIAL OVERVIEW

Q4 FY19 Performance Highlight							
(in Cr.)	Mar FY18	Jun FY18	Sep FY18	Dec FY18	Mar FY19	YoY (%)	QoQ (%)
Revenue	809.13	827.85	542.64	756.59	964.24	19.17%	27.45%
Other Income	2.76	13.73	12.27	17.27	12.25		
Total Income	811.88	841.58	554.91	773.86	976.49	20.28%	26.18%
Expenditure	-624.58	-667.10	-420.60	-633.34	-820.11		
As a % of Sales	77.19%	80.58%	77.51%	83.71%	85.05%		
Interest	-3.35	-5.24	-2.88	-1.71	-2.36	-29.55%	38.01%
PBDT	187.31	174.47	134.31	140.53	156.38		
As a % of Sales	23.15%	21.08%	24.75%	18.57%	16.22%		
Depreciation	-15.6	-16.19	-16.58	-19.63	-17.67		
PBT	171.71	158.28	117.73	120.9	138.71	-19.22%	14.73%
As a % of Sales	21.22%	19.12%	21.70%	15.98%	14.39%		
Tax	-50.76	-54.98	-41.31	-42.21	-47.32	-6.78%	12.11%
Net Profit	120.95	103.3	76.42	78.69	91.39	-24.44%	16.14%
As a % of Sales	14.95%	12.48%	14.08%	10.40%	9.48%		
Equity	--	--	--	--	--	--	--
EPS (Rs)	9.75	8.32	6.16	6.34	7.36	-24.51%	16.09%
CEPS (Rs)	--	--	--	--	--		
OPM %	23.15	21.08	24.75	18.57	16.22		
NPM %	14.95	12.48	14.08	10.4	9.48		

Income Statement (Consolidated)

Y/E Mar (Rs Lakhs)	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P	FY 22P
Net Sales	245,283	260,236	273,779	309,132	340,045	374,050	403,974
Other Operating Income	3,819	2,317	2,440	4,041	3,400	3,688	4,196
Expenditure	207,772	203,930	225,386	248,703	271,705	299,588	324,126
EBITDA	41,330	58,623	50,832	64,471	71,741	78,150	84,044
Depreciation	5,057	5,505	6,060	7,008	7,211	7,213	7,214
EBIT	36,273	53,119	44,772	57,463	64,530	70,937	76,830
Interest Expenses	4,464	1,538	982	1,227	1,283	1,446	1,544
PBT	31,809	51,581	43,790	56,236	63,247	69,491	75,287
Tax	10,990	17,028	14,792	18,122	20,582	22,588	24,449
Other Income	-	-	-	-	-	-	-
Extraordinary Items	2,448	-	-	(2,790)	-	-	-
Net Income Before Adjustment	23,267	34,552	28,999	35,324	42,664	46,904	50,838
Minority Int./Income from Assoc.	(628)	(932)	(1,635)	(1,401)	-	-	-
Adjusted PAT	23,895	35,485	30,633	36,725	42,664	46,904	50,838

Balance Sheet (Consolidated)

Y/E Mar (Rs Lakhs)	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P	FY 22P
Equity share capita	12,410	12,410	12,410	12,410	12,410	12,410	12,410
Reserves & surplus	87,017	219,067	267,103	245,210	263,933	284,517	306,827
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	99,426	231,477	279,513	257,620	276,343	296,926	319,236
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	-	35	32	34	34	34	34
Net deferred tax liability	11,801	14,965	14,164	16,247	16,247	16,247	16,247
Other Long-term Liabilities	39	6,135	6,445	5,767	6,344	6,979	7,537
Long-term Provisions	1,122	1,115	1,343	2,058	2,264	2,490	2,690
Total Liabilities	112,388	253,727	301,499	281,729	301,233	322,678	345,746
Net block	85,626	87,688	97,458	104,114	97,793	91,511	85,109
Investment, Loan & Adv.	23,370	139,056	172,216	123,813	146,169	169,063	195,983
Total Current Assets	76,597	72,927	80,930	105,345	120,824	130,647	139,907
Current Liabilities & Provisions	73,205	45,945	49,107	51,545	63,554	68,545	75,255
Net Current Assets	3,392	26,982	31,823	53,800	57,270	62,102	64,652
Total Assets	112,388	253,727	301,499	281,729	301,233	322,678	345,746

Cash Flow (Consolidated)

Y/E Mar (Rs Lakhs)	FY 19E	FY 20P	FY 21P	FY 22P
Operating Cash Flow	33,786	43,861	50,208	54,097
Cash Flow from Investments	(16,091)	(26,644)	(23,917)	(27,823)
Cash Flow from Financing	(17,619)	(15,257)	(24,322)	(26,919)
Net Changes in Cash	76	1,960	1,969	(645)
Opening Cash	682	758	2,718	4,686
Closing Cash Balance	758	2,718	4,686	4,041

Research Analyst Details

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