

Finolex Industries Limited

Industry Plastic Piping
Bloomberg FNXP IN
BSE CODE 500940

De-growth witnessed in agri business, lower margin due to higher pipe volume and lower PVC-EDC delta....

RATING	NEUTRAL
CMP	500
Price Target	490
Potential Upside	-2%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	713/464
Mkt Capital (Rs Cr)	6205
Free float (%)	48%
Avg. Vol 1M (,000)	21
No. of Shares (Cr.)	12
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ Revenue for the quarter came in at Rs.757cr (up 4.7% YoY, 39.4% QoQ). YoY growth was on account of higher realization and QoQ growth was led by higher pipe volume.
- ❑ Pipe and fitting sales volume was at 59178 MT (down 4% YoY, up 31% QoQ) and total PVC resin sales volume came in at 66838 MT (down 6% YoY, up 54% QoQ).
- ❑ PVC resin external sales came in at 22211 MT (down 21% QoQ, up 153% QoQ) and in-house sales increased to 44627 MT (up 3% YoY and 29% QoQ).
- ❑ EBITDA for the quarter came in at Rs.125cr (up 10% YoY, flat QoQ). Margins reduced QoQ to 16.5% (vs.15.7% in 3QFY18 and 23% in 2QFY19).
- ❑ Depreciation for the quarter came in at Rs.20cr (up 27.7% YoY and 18.4% QoQ), increase was primarily on account of capacity addition.
- ❑ Interest cost stood at Rs.2cr as against nil in 3QFY18 and Rs.2.87cr in 2QFY19.
- ❑ Effective tax rate for the quarter was at 35% and PAT was at Rs.79cr (up 13% YoY and 3% QoQ).
- ❑ Lower than expected pickup witnessed in the agri demand is likely impact FY19 volume. However, management maintained 10-15% volume growth guidance in FY20 and EBIT margin of 8% for pipe and fittings going ahead.

View and Valuation

Finpipe's 3QFY19 revenue came in at Rs.757cr (up 5% YoY, 39% QoQ) and EBITDA at Rs.125cr (up 10% YoY, flat QoQ), EBITDA margins came in lower at 16.5% (vs.15.7% in 3QFY18 and 23% in 2QFY19). EBITDA margins contracted QoQ due to increase in pipes and fittings volume (commands lower margin) and fall in PVC prices and increase in EDC prices (raw material). Management stated that pick up in agri division demand from 3QFY19 has been significantly lower than expected and have witnessed de-growth, and remained sluggish in Jan'19 as well, the primary reason for the same is delay in payment to sugarcane farmers. PVC-EDC delta has been declining continuously for last 3 quarters from around USD 717/t in 4QFY18 to USD 482/t in 3QFY19. We have reduced our Revenue/PAT estimates for FY19 by 7%/6% and by 9%/11% for FY20 primarily on account of lower pipe and fittings volume assumption due to lower than expected pick up in agri business. Furthermore, margins are also expected to remain under pressure going ahead due to contraction in PVC-EDC delta from the high of FY18 and management may also have to take some price cuts to destock the current inventory; however management stated price cuts if taken any would be only temporary. We expect Volume (pipe & fittings)/Revenue/PAT CAGR of 6%/8%/6% over FY18-20e and maintain our **NEUTRAL stance with a target price of Rs.490 (11x FY20e EV/EBITDA)**.

Key Risks to our rating and target

- ❑ Lower than expected volume growth.
- ❑ High volatility in oil prices would impact operations as key raw materials (EDC, ethylene and VCM) are crude oil derivative.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2843	2988	2738	2964	3181
EBITDA	404	563	484	560	546
EBIT	354	508	423	488	464
PAT	254	352	299	330	337
EPS (Rs)	21	28	24	27	27
EPS growth (%)	432%	38%	-15%	11%	2%
ROE (%)	16%	15%	11%	11%	11%
ROCE (%)	23%	22%	15%	16%	15%
BV	127	185	223	240	255
P/B (X)	2.9	3.1	3.0	2.1	2.0
P/E (x)	17.8	20.3	27.6	19.0	18.6

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3QFY19 Results Lower margins due to shrinking PVC-EDC delta and higher pipe volume QoQ....

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	723	809	828	543	757	4.7%	39.4%	2,988	2,738	-8.4%
Other Income	10	3	14	12	17	68.5%	40.8%	24	25	4%
Total Income	733	812	842	555	774	5.6%	39.5%	3,012	2,763	-8.3%
COGS	486	477	500	289	487	0.4%	68.6%	1,995	1,764	-11.6%
Staff Cost	29	30	33	31	33	11.6%	6.3%	105	116	10.7%
Other Exp.	94	114	102	98	111	18.0%	14.0%	325	373	14.9%
Expenditure	609	621	634	418	632	3.6%	51.2%	2,425	2,254	-7.0%
EBITDA	113	188	194	125	125	10.3%	0.0%	563	484	-14.0%
Depreciation	15	16	16	17	20	27.7%	18.4%	55	61	10.1%
EBIT	98	172	178	108	105	7.5%	-2.8%	508	423	-16.7%
Interest	0	3	5	3	2	-	-40.6%	15	10	-36.0%
PBT	109	172	186	118	121	11.3%	2.7%	517	439	-15.1%
Excpt. Item	0	0	28	0	0	-	-	-	-	-
Tax	39	51	55	41	42	8.1%	2.2%	165	140	-14.9%
PAT	70	121	103	76	79	13.1%	3.0%	352	299	-15.2%

Operating Matrix	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Pipes & Fittg. Prod. (MT)	57071	74054	52672	61887	71774	73276	52013	63525	2.6%
PVC Pipes Sales	59865	68171	43032	56842	66753	73065	40648	54309	-4.5%
PVC Fittings Sales	4117	3347	4214	4672	5005	4571	4625	4869	4.2%
Pipes & Fittig. Sales(MT)	63982	71518	47246	61514	71758	77636	45273	59178	-3.8%
PVC Resin Prod.(MT)	67143	63805	34528	81839	82672	52757	45839	76686	-6.3%
PVC Resin External Sales	36124	15725	6494	27967	17126	13048	8781	22211	-20.6%
PVC Resin Inhouse Sales	40417	59273	34045	43140	54997	55406	34680	44627	3.4%
PVC Sales(MT)	76541	74998	40539	71107	72123	68454	43461	66838	-6.0%

Pipe & fittings volume though increased QoQ, but declined on YoY

Pipe & Fittings sale volume for 3QFY19 came in at 59178 MT (down 4% YoY, up 31% QoQ). Volume increased QoQ led by post monsoon buying, however volume on YoY basis have de-grown by 4% and the de-growth continued in Jan'19 and start of Feb'19 as well, management stated that pickup in Maharashtra and Karnataka (key regions for company) have been slower than expected in terms of agri business, primary reason being delay in payment to sugarcane farmers. Management states as the payment is done to farmers demand would again see the pickup. Company might have to take price cut in 4QFY19 to destock the inventory buildup happen in 3QFY19; however it is expected to be temporary if taken.

Margins lower QoQ due to higher pipe volume and lower PVC-EDC delta

Company's margins in 3QFY19 saw contraction on QoQ basis due to increase in pipe and fittings volume (commands lower margin) by 31% (QoQ) and lower PVC-EDC delta. Gross margin for the quarter came in at 35.6% (vs.33% in 3QFY18 and 46.7% in 2QFY19) and EBITDA margin was at 16.5% (vs.15.7% in 3QFY18 and 23% in 2QFY19). PVC-EDC delta has been declining continuously from 4QFY18 high of around USD 717/t to USD 482/t in 3QFY19 on the back of falling PVC prices and increasing EDC prices (raw material). We expect margins to remain lower in 4QFY19 as well due to low PVC-EDC spread and furthermore, management stated that they might have to take price cut in 4QFY19 to destock the inventory buildup.

Conference call highlights:

- Management stated there is nothing particular in the recent budget that would give fast flip to the growth.
- EDC availability has been an issue currently that has led to higher EDC prices leading to lower PVC-EDC delta.
- CPVC volume in 3QFY19 was at 2300MT vs. 1500MT in 3QFY18 and revenue was at Rs.61cr in 3QFY19 and Rs.38cr in 3QFY18.
- Column pipe volume for the quarter was at 845MT vs. 422MT in 3QFY18 and revenue was at Rs.10cr in 3QFY19 and Rs.5cr in 3QFY18.
- Increase in Depreciation in 3QFY19 is because of new capacity addition and it is expected to be in the same range going ahead.
- FY19 capex to be around Rs.154cr and Rs.100-150cr is expected in FY20.
- Volume growth is expected to be 10-15% in FY20. However, 4QFY19 volume growth will be in single digit only. EBIT margin in pipe is expected to be around 8% going ahead.

Exhibit: Net sales and growth trend

slowdown in YoY growth due to lower pipe volume....

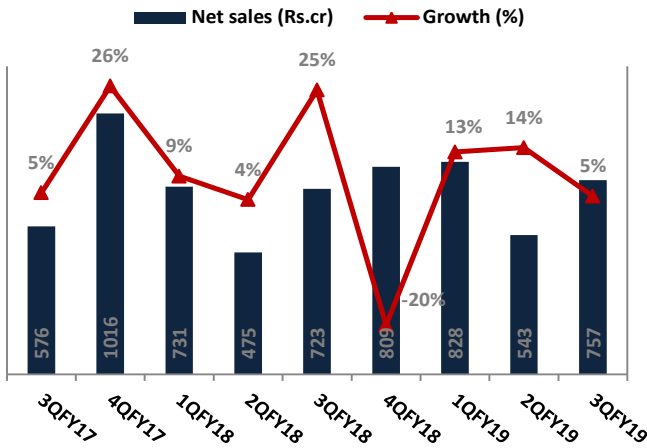


Exhibit: Cost of good sold and gross margin trend

gross margins falls as higher priced EDC inventory comes in and PVC prices fell further in 3QFY19....

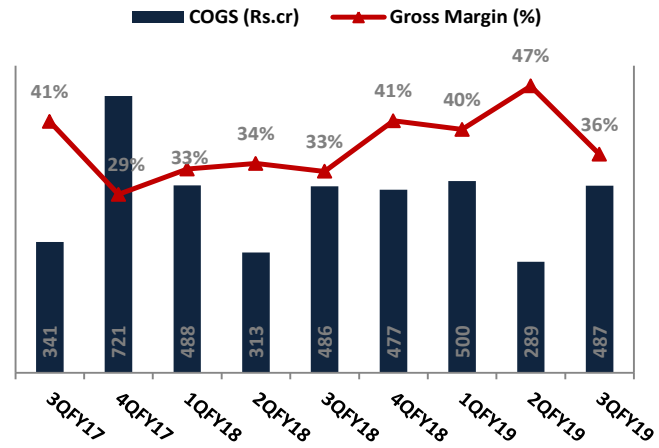


Exhibit: EBITDA and EBITDA margin trend

EBITDA margin also decline QoQ in line with fall in gross margin....

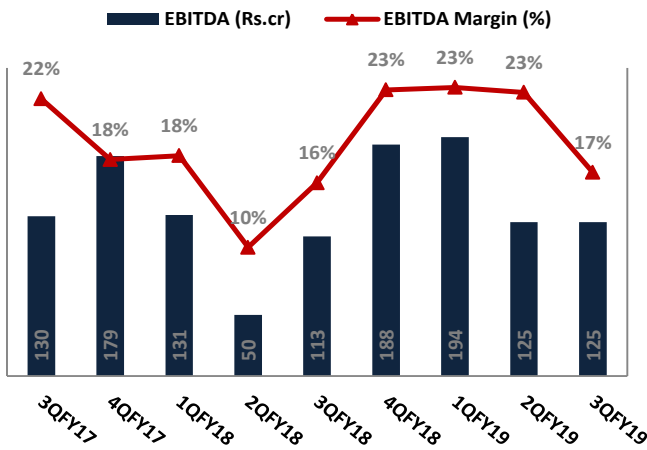


Exhibit: PVC and EDC price trend

PVC-EDC spread has been decreasing since 4QFY18, however, PVC prices have also picked up in Jan'19....

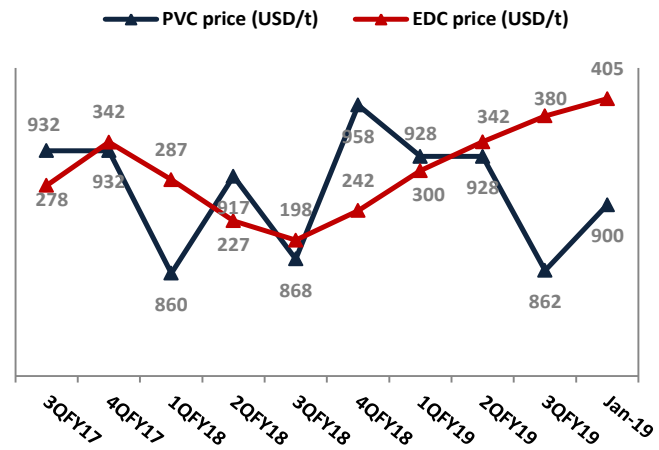


Exhibit: Pipe & fittings volume and realization

sales volume lower YoY due to subdued demand from agri business, realization fell QoQ in line with fall in PVC prices....

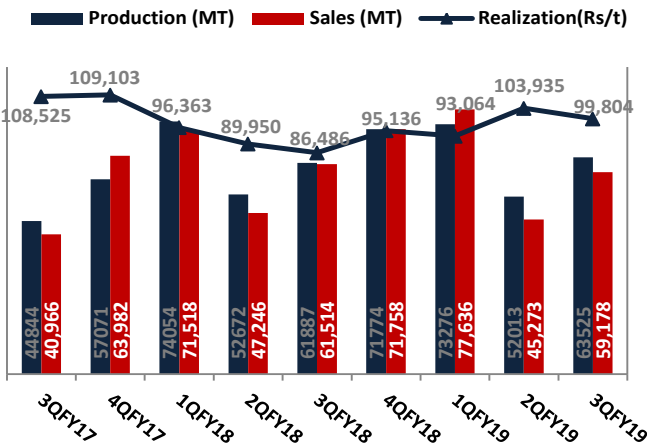
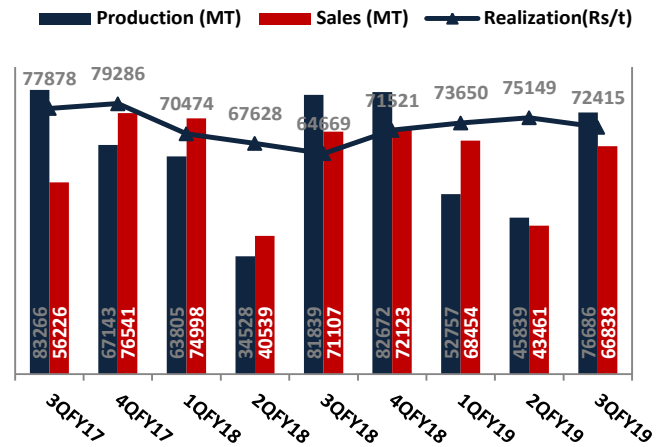


Exhibit: PVC resin volume and realization trend

sales volume in PVC resin also declined YoY and realization also fell on QoQ basis....



Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	124	124	124	124	124	124	124	124
Reserves	597	666	663	1,446	2,167	2,640	2,852	3,040
Networth	721	790	787	1,570	2,291	2,765	2,976	3,164
Debt	711	656	587	112	94	101	150	150
Other Non Cur Liab	0	0	0	-	-	-	-	-
Total Capital Employed	1,432	1,446	1,374	1,682	2,386	2,865	3,126	3,314
Net Fixed Assets (incl CWIP)	930	938	878	856	877	975	1,028	1,002
Non Cur Investments	127	127	125	648	1,166	1,490	1,654	1,783
Other Non Cur Asst	8	33	-	17	126	159	111	111
Non Curr Assets	1,077	1,117	1,062	1,582	2,226	2,645	2,853	2,955
Inventory	483	506	559	447	557	612	662	711
Debtors	39	41	49	18	52	43	47	50
Cash & Bank	9	21	12	10	16	23	28	83
Other Curr Assets	-	-	-	105	46	22	24	26
Curr Assets	961	794	798	767	729	808	880	994
Creditors	185	111	200	243	227	250	271	291
Provisions (both)	93	110	39	12	12	15	13	13
Other Curr Liab	234	137	134	82	73	40	43	46
Curr Liabilities	499	351	365	475	365	390	397	426
Net Curr Assets	462	443	433	292	364	418	483	568
Total Assets	2,039	1,911	1,859	2,349	2,955	3,455	3,733	3,950

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2,145	2,453	2,476	2,843	2,988	2,738	2,964	3,181
Change (%)	2%	14%	1%	15%	5%	-8%	8%	7%
Other Income	33	44	20	40	24	25	61	48
EBITDA	263	397	213	404	563	484	560	546
Change (%)	21%	51%	-46%	90%	39%	-14%	16%	-3%
Margin (%)	12%	16%	9%	14%	19%	18%	19%	17%
Depr & Amor.	54	62	59	51	55	61	73	81
EBIT	208	334	155	354	508	423	488	464
Int. & other fin. Cost	51	66	60	45	15	10	15	17
EBT	190	312	115	349	517	439	533	496
Exp Item	-	70	34	(24)	-	-	28	-
Tax	54	72	33	119	165	140	175	159
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	136	170	48	254	352	299	330	337
Adjusted PAT	136	170	48	230	352	299	358	337
Change (%)	81%	25%	-72%	180%	53%	-15%	20%	-6%
Margin(%)	6%	7%	2%	9%	12%	11%	11%	11%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	19%	22%	6%	16%	15%	11%	11%	11%
ROCE	24%	33%	16%	23%	22%	15%	16%	15%
Asset Turnover	1.05	1.28	1.33	1.21	1.01	0.79	0.79	0.81
Debtor Days	7	6	7	2	6	6	6	6
Inv Days	82	75	82	57	68	82	82	82
Payable Days	32	17	29	31	28	33	33	33
Int Coverage	4.0	5.0	2.6	7.9	33.1	43.1	32.5	27.9
P/E	8.8	13.9	73.7	17.8	20.3	27.6	19.0	18.6
Price / Book Value	1.7	3.0	4.5	2.9	3.1	3.0	2.1	2.0
EV/EBITDA	5.0	6.5	17.3	11.2	12.7	17.0	11.1	11.3
Div Yield	3%	3%	2%	1%	2%	2%	2%	2%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	190	242	81	373	517	439	533	496
<i>(inc)/Dec in Working Capital</i>	(5)	(100)	48	230	(138)	(30)	(16)	(25)
<i>Non Cash Op Exp</i>	128	154	125	61	48	49	88	98
<i>Int Paid (+)</i>	47	62	57	42	15	10	15	17
<i>Tax Paid</i>	(39)	(52)	(39)	(66)	(175)	(120)	(175)	(159)
<i>others</i>								
CF from Op. Activities	274	244	214	598	252	338	458	410
<i>(inc)/Dec in FA & CWIP</i>	(68)	(105)	(67)	(31)	(31)	(95)	(172)	(126)
<i>Free Cashflow</i>	-	-	-	-	-	-	-	-
<i>(Pur)/Sale of Inv</i>	162	169	48	(93)	123	4	(195)	(128)
<i>others</i>								
CF from Inv. Activities	62	110	22	(77)	35	(162)	(321)	(182)
<i>inc/(dec) in NW</i>	-	0	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	11	49	21	(58)	-	-	-	-
<i>Int. Paid</i>	(58)	(67)	(58)	(44)	(18)	(10)	(15)	(17)
<i>Div Paid (inc tax)</i>	(44)	(43)	(79)	(98)	(29)	(149)	(172)	(149)
<i>others</i>								
CF from Fin. Activities	(356)	(343)	(245)	(494)	(282)	(175)	(115)	(166)
<i>Inc(Dec) in Cash</i>	(20)	12	(9)	27	4	1	22	62
<i>Add: Opening Balance</i>	29	9	21	12	2	6	7	21
Closing Balance	9	21	12	39	6	7	28	83

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