

Finolex Industries Limited

Industry Plastic Piping
Bloomberg FNXP IN
BSE CODE 500940

Strong volume growth, lower PVC price impacts margin....

RATING **NEUTRAL**

CMP **527**

Price Target **520**

Potential Upside **-1%**

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L 713/440
Mkt Capital (Rs Cr) 6540
Free float (%) 48%
Avg. Vol 1M (,000) 49
No. of Shares (Cr.) 12
Promoters Pledged % 0%

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1QFY20 Result Update

- ❑ Company's revenue for the quarter came in at Rs.944cr (up 14.0% YoY) driven by higher pipe and fittings sales at Rs.851cr (up 17.8% YoY).
- ❑ Pipes and fittings volume for the quarter stood at 91655MT (up 18.1% YoY and 13.5% QoQ), seasonally strong quarter and delayed demand pick up in late FY19 led to robust volume growth in the quarter.
- ❑ Pipes and fittings realization in the quarter fell by 5.2% QoQ to Rs.92871/t in line with 4.0% QoQ fall in PVC prices.
- ❑ Total PVC resin sale was at 78512MT (up 14.7% YoY), and captive sales stood at 66894MT (up 20.7% YoY) higher in line higher pipe volume, external PVC sale was down 11% to 11618MT.
- ❑ EBITDA for the quarter came in at Rs.124cr (down 36.3% YoY), and EBITDA margin stood at 13.1% (vs. 23.4% in 1QFY19).
- ❑ PVC EBIT margin in the quarter stood at 7.7% (vs. 24.5% in 1QFY19), and pipes and fittings margin was at 8.5% (vs. 8.2% in 1QFY19). Significant fall in EBIT margin is primarily on account of substantial fall in PVC/EDC delta.
- ❑ Management stated PVC/EDC delta in the quarter stood at USD490/t (vs. USD689/t in 1QFY19). In Aug'19 the delta has improved to USD570/t.
- ❑ Management has maintained its 12%-15% of volume growth for FY20 and capex is expected to be around Rs.100cr in FY20.

View and Valuation

Finpipe registered strong volume growth of 18% YoY in 1QFY20 driven by delayed pickup in demand towards late FY19 leading to shift of some volume to 1QFY20. Finpipe is one of the leaders in agri pipe business and drives 70% of its sale from agri pipe. Different govt. schemes and initiatives like Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Har Ghar Jal, doubling farm income and housing for all will help company to grow its pipe business going ahead; company is also trying to grow its high margin non-agri business by giving 30 days credit as compare to cash and carry model for agri. Our PAT estimate for FY20 reduced by 2% due to 1QFY20 numbers but we maintain our FY21 estimates. Finpipe's margin have seen significant improvement in past few years on the back of higher PVC prices and its balance sheet continue to remain healthy, however, we believe the stock is rightly priced at current levels and maintain our **NEUTRAL stance with an unchanged target price of Rs.520 (10x FY21e EV/EBITDA)**.

Key Risks to our rating and target

- ❑ Lower than expected volume growth.
- ❑ High volatility in PVC and EDC prices which will lead to frequent inventory gain and losses.

Fig in Rs.cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	2988	2738	3091	3129	3435
EBITDA	563	484	604	561	639
EBIT	508	423	534	481	557
PAT	352	299	350	337	398
EPS (Rs)	28	24	28	27	32
EPS growth (%)	38%	-15%	17%	-4%	0%
ROE (%)	15%	11%	14%	12%	13%
ROCE (%)	22%	15%	21%	18%	19%
BV	185	223	204	219	238
P/B (X)	3.1	3.0	2.5	2.4	2.2
P/E (x)	20.3	27.6	17.8	19.4	16.4

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1QFY20 Results**Robust volume growth, margin continues to fall....****Standalone**

Fig in Rs.cr

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	828	543	757	964	944	14.0%	-2.1%	2,738	3,091	12.9%
Other Income	14	12	17	12	6	-58.5%	-53.5%	25	42	64%
Total Income	842	555	774	976	950	12.8%	-2.8%	2,763	3,133	13.4%
COGS	500	289	487	642	667	33.4%	3.9%	1,764	1,921	8.9%
Staff Cost	33	31	33	38	34	5.7%	-10.0%	116	134	15.7%
Other Exp.	102	98	111	138	119	17.2%	-13.5%	373	432	15.6%
Expenditure	634	418	632	818	820	29.4%	0.3%	2,254	2,487	10.3%
EBITDA	194	125	125	146	124	-36.3%	-15.7%	484	604	24.9%
EBITDAmargin	23.4%	23.0%	16.5%	15.2%	13.1%	-44.1%	-13.8%	17.7%	19.5%	10.6%
Depreciation	16	17	20	18	17	3.6%	-5.1%	61	70	15.6%
EBIT	178	108	105	129	107	-39.9%	-17.1%	423	534	26.2%
Interest	5	3	2	2	1	-83.4%	-63.1%	10	12	25.0%
PBT	186	118	121	139	112	-40.1%	-19.5%	439	564	28.4%
Excpt. Item	28	0	0	0	0	-	-	-	28	-
Tax	55	41	42	47	39	-28.8%	-17.3%	140	186	32.5%
PAT	103	76	79	91	72	-29.8%	-20.7%	299	350	17.2%
Adj PAT	131	76	79	91	72	-44.7%	-20.7%	299	378	26.5%

Operating Matrix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Pipes & Fittg. Prod. (MT)	52672	61887	71774	73276	52013	63525	67814	88297	20.5%
PVC Pipes Sales	43032	56842	66753	73065	40648	54309	75043	86349	18.2%
PVC Fittings Sales	4214	4672	5005	4571	4625	4869	5728	5306	16.1%
Pipes & Fittig. Sales(MT)	47246	61514	71758	77636	45273	59178	80771	91655	18.1%
PVC Resin Prod.(MT)	34528	81839	82672	52757	45839	76686	84221	51785	-1.8%
PVC Resin External Sales	6494	27967	17126	13048	8781	22211	22640	11618	-11.0%
PVC Resin Inhouse Sales	34045	43140	54997	55406	34680	44627	53909	66894	20.7%
PVC Sales(MT)	40539	71107	72123	68454	43461	66838	76549	78512	14.7%

Strong volume growth continued

Pipe sales volume post strong growth of 18.1% YoY to 91655MT over a healthy base of 77636MT, the growth was driven by delayed demand pickup in 4QFY19 out of which some portion of volume came in 1QFY20, furthermore, June quarter is a seasonally strong quarter which also aided the growth. Management maintained its 12%-15% growth in pipe volume for FY20 and expect to add around 30000-40000MT of capacity at a capex of Rs.100cr. It currently has a capacity of 370000MT.

PVC/EDC delta continued its downward trend in 1QFY20

PVC/EDC delta further contracted in 1QFY20 to USD 490/t (vs. USD689/t in 1QFY19) leading to significantly lower EBITDA margins at 13.1% (vs. 23.4% in 1QFY19). Pipe and fittings EBIT margin remained in the range of 7.5%-8.5% and was at 8.5% for the quarter, however, PVC EBIT margin contracted significantly to 7.7% (vs.24.5% in 1QFY19 and 14.5% in 4QFY19). PVC/EDC delta has seen improvement after 1QFY20, with the delta of around USD570/t in Aug'19.

Concall highlights:

- ❑ Pipe volume registered robust growth of 18% YoY to 91655MT due to delayed pickup towards the end of FY19 leading to shift in volume to 1QFY20.
- ❑ PVC/EDC delta for the quarter was at USD490/t (vs. USD689/t in 1QFY19), delta is currently around USD575/t. 1QFY20 EDC price was at USD393/t, Ethylene at USD858/t and VCM at USD718/t.
- ❑ Lower PVC/EDC delta led to lower YoY margin in the quarter.
- ❑ Column pipe volume for the quarter was at 1189MT (vs. 665MT in 1QFY19) and revenue was Rs.14cr (vs. Rs.8cr in 1QFY19).
- ❑ 1QFY20 CPVC volume was 2321MT (vs. 1704MT in 1QFY19) and revenue was at Rs.66cr (vs.Rs.43cr in 1QFY19).
- ❑ Company is providing 30 days credit for non agri business and agri business continue to be on cash and carry model.
- ❑ Company's pipe capacity is around 370000MT and is running at around 65-70% of utilization level. Management expects to add 30000-40000MT in FY20 at a capex of Rs.100cr.
- ❑ Management maintained 12-15% of volume growth in pipe for FY20.

Exhibit: Net sales and growth trend

Strong demand pick up in pipe & fitting led to healthy growth in sales....

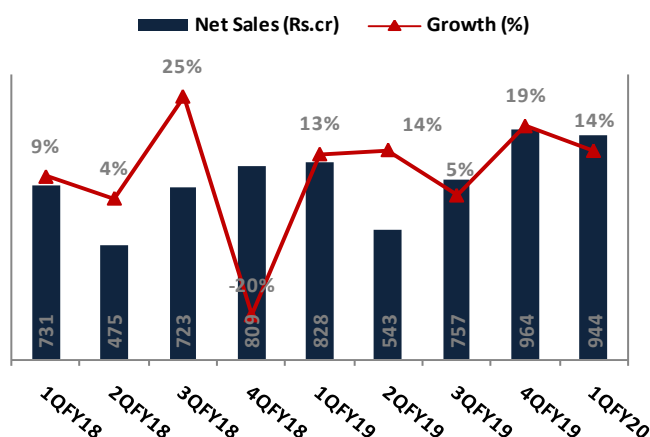


Exhibit: Cost of good sold and gross margin trend

Contraction PVC/EDC delta and volatile PVC prices have led to fall in gross margin....

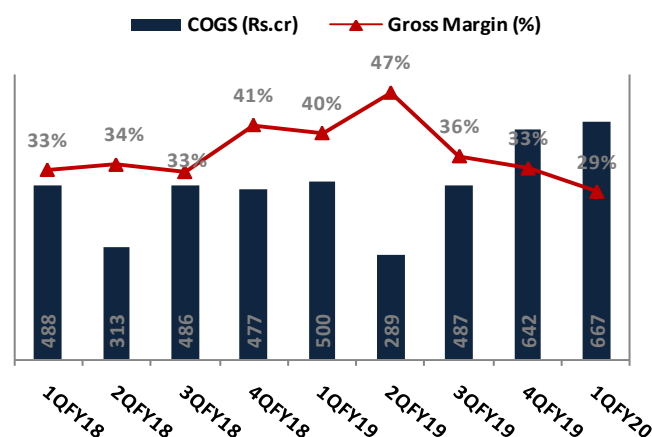


Exhibit: EBITDA and EBITDA margin trend

decline in EBITDA margin is in line with continuously reducing PVC/EDC spread and volatile PVC prices....

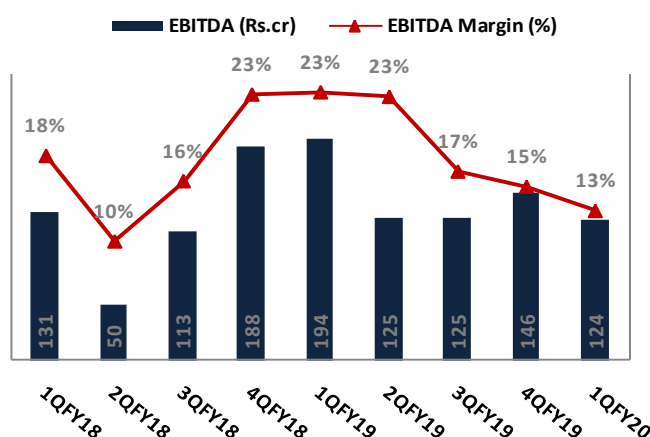


Exhibit: PVC and EDC price trend

PVC/EDC delta has seen improvement starting Jul'19....

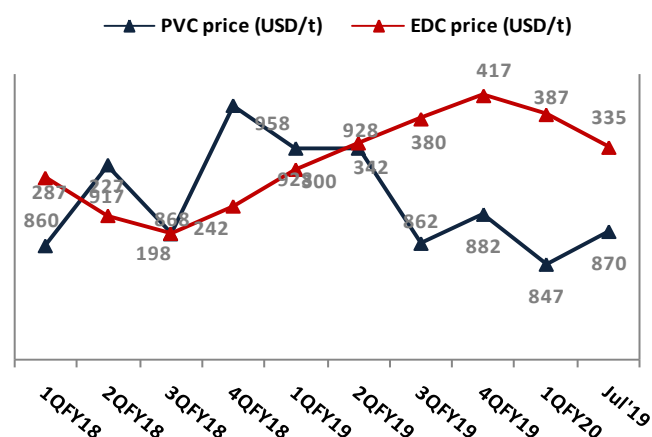


Exhibit: Pipe & fittings volume and realization

Volume growth driven by delayed demand pick up towards late FY19 coupled with seasonally strong quarter....

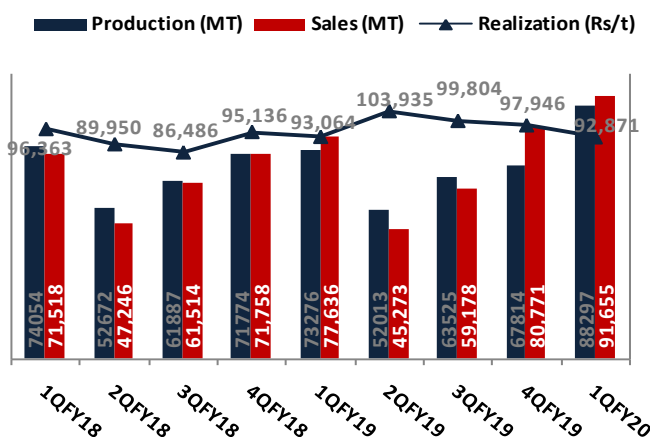
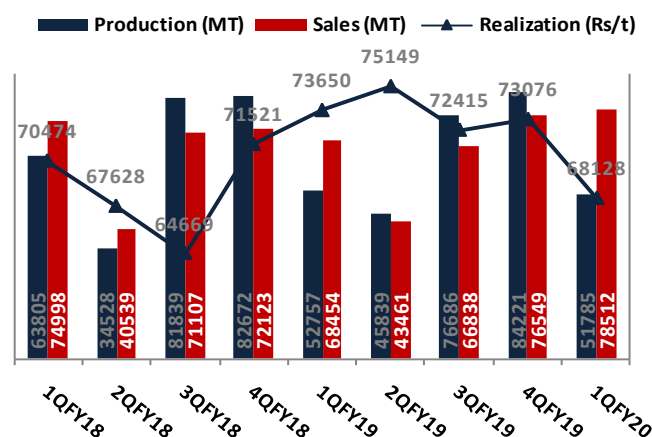


Exhibit: PVC resin volume and realization trend

QoQ increase in PVC volume was on account of higher captive consumption....



Financial Details (Standalone)

Balance Sheet

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	124	124	124	124	124	124	124	124
Reserves	666	663	1,446	2,167	2,640	2,404	2,592	2,826
Networth	790	787	1,570	2,291	2,765	2,528	2,716	2,950
Debt	656	587	112	94	101	91	150	100
Other Non Cur Liab	0	0	-	-	-	-	-	-
Total Capital Employed	1,446	1,374	1,682	2,386	2,865	2,619	2,866	3,050
Net Fixed Assets (incl CWIP)	938	878	856	877	975	1,041	1,061	1,078
Non Cur Investments	127	125	648	1,166	1,490	1,077	1,324	1,324
Other Non Cur Asst	33	-	17	126	159	55	55	55
Non Curr Assets	1,117	1,062	1,582	2,226	2,645	2,220	2,488	2,532
Inventory	506	559	447	557	612	620	628	689
Debtors	41	49	18	52	43	74	75	83
Cash & Bank	21	12	10	16	23	29	22	60
Other Curr Assets	-	-	105	46	22	42	43	47
Curr Assets	794	798	767	729	808	1,053	1,037	1,219
Creditors	111	200	243	227	250	284	287	315
Provisions (both)	110	39	12	12	15	23	22	22
Other Curr Liab	137	134	82	73	40	43	44	48
Curr Liabilities	351	365	475	365	390	425	428	470
Net Curr Assets	443	433	292	364	418	629	608	748
Total Assets	1,911	1,859	2,349	2,955	3,455	3,274	3,524	3,751

Income Statement

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	2,453	2,476	2,843	2,988	2,738	3,091	3,129	3,435
Change (%)	14%	1%	15%	5%	-8%	13%	1%	10%
Other Income	44	20	40	24	25	42	42	48
EBITDA	397	213	404	563	484	604	561	639
Change (%)	51%	-46%	90%	39%	-14%	25%	-7%	14%
Margin (%)	16%	9%	14%	19%	18%	20%	18%	19%
Depr & Amor.	62	59	51	55	61	70	81	82
EBIT	334	155	354	508	423	534	481	557
Int. & other fin. Cost	66	60	45	15	10	12	17	11
EBT	312	115	349	517	439	564	506	594
Exp Item	70	34	(24)	-	-	28	-	-
Tax	72	33	119	165	140	186	169	196
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	170	48	254	352	299	350	337	398
Adjusted PAT	240	82	230	352	299	378	337	398
Change (%)	25%	-72%	180%	53%	-15%	27%	-11%	18%
Margin(%)	7%	2%	9%	12%	11%	11%	11%	12%

Financial Details (Standalone)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	22%	6%	16%	15%	11%	14%	12%	13%
ROCE	33%	16%	23%	22%	15%	21%	18%	19%
Asset Turnover	1.28	1.33	1.21	1.01	0.79	0.94	0.89	0.92
Debtor Days	6	7	2	6	6	9	9	9
Inv Days	75	82	57	68	82	73	73	73
Payable Days	17	29	31	28	33	34	34	34
Int Coverage	5.0	2.6	7.9	33.1	43.1	43.5	28.9	50.2
P/E	13.9	73.7	17.8	20.3	27.6	17.8	19.4	16.4
Price / Book Value	3.0	4.5	2.9	3.1	3.0	2.5	2.4	2.2
EV/EBITDA	6.5	17.3	11.2	12.7	17.0	10.2	11.6	10.1
FCF per share	14.2	14.8	45.7	12.7	13.4	29.1	26.4	26.4
Div Yield	2.9%	2.5%	0.5%	1.7%	1.7%	2.0%	1.9%	2.1%

Cash Flow Statement

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	242	81	373	517	439	564	506	594
(inc)/Dec in Working Capital	(100)	48	230	(138)	(30)	65	(6)	(64)
Non Cash Op Exp	154	125	61	48	49	82	97	93
Int Paid (+)	62	57	42	15	10	12	17	11
Tax Paid	(52)	(39)	(66)	(175)	(120)	(186)	(169)	(196)
others								
CF from Op. Activities	244	214	598	252	338	497	428	427
(inc)/Dec in FA & CWIP	(105)	(67)	(31)	(31)	(95)	(172)	(137)	(101)
Free Cashflow	177	184	567	157	166	361	327	328
(Pur)/Sale of Inv	169	48	(93)	123	4	(185)	(228)	(65)
others								
CF from Inv. Activities	110	22	(77)	35	(162)	(321)	(329)	(165)
inc/(dec) in NW	0	-	-	-	-	-	-	-
inc/(dec) in Debt	49	21	(58)	-	-	-	-	-
Int. Paid	(67)	(58)	(44)	(18)	(10)	(12)	(17)	(11)
Div Paid (inc tax)	(43)	(79)	(98)	(29)	(149)	(172)	(149)	(149)
others								
CF from Fin. Activities	(343)	(245)	(494)	(282)	(175)	(171)	(106)	(225)
Inc(Dec) in Cash	12	(9)	27	4	1	4	(7)	38
Add: Opening Balance	9	21	12	2	6	23	29	22
Closing Balance	21	12	39	6	7	28	22	60

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