

Industry **Plastic Piping**
 Bloomberg **FNXP IN**
 BSE CODE **500940**

Reduced cost of material coincide margin expansion

RATING	NEUTRAL
CMP	540
Price Target	520
Potential Upside	-4%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	635/440
Mkt Capital (Rs Cr)	6714
Free float (%)	48%
Avg. Vol 1M (,000)	32
No. of Shares (Crs)	12
Promoters Pledged %	0%

3QFY20 Result Update

- FINPIPE reported revenue of Rs. 699 Cr. de-grew by 7.6% YoY largely on account of volume de-growth of both PVC and Pipes & fitting by 11.5% and 10.8% YoY respectively. However, realization of PVC pipes and fittings grew by 5% YoY.
- Volumes in Agri sector were impacted due to extended monsoon till mid-November and drastically affected volumes in Agri sector while, volumes in non-Agri sector shown a double digit growth despite the slowdown in the real-estate sector.
- Reduced EDC prices expanded the gross margins by 360 bps to 39.2% in 3QFY20. This operating leverage benefit passed on and stretched EBITDA margin by 330 bps to 19.8%.
- Spread of PVC to EDC in 3QFY20 was \$ 589 while currently; it's slightly reduced to \$ 560-565. Margins are expected to deteriorate based on fall in spread of PVC to EDC.
- PAT during the quarter stood at Rs. 93 Cr. with the PAT growth of 18.6% YoY largely driven by reduced tax rates.
- Current capacity of manufacturing pipes is at 370000 T with the utilization level of around 70-75%.

View and Valuation

Subdued volume growth in FY20 on account of extended monsoon till mid-November. Agri and housing mix currently stood at 70:30. Based on various proposals presented by government in the budget like crop insurance, Credit facility availed to farmers, minimum support price, 100 Smart cities, AMRUT etc. leads to volume growth of both Agri as well as housing sector pipes. Lower cost of raw material in 3QFY20 expanded margin, in line with the spread of PVC to EDC prices. However in 4QFY20 margins will suppressed due to contraction in spread. PAT margins further stretched on the back of reduced tax rates. We, maintain our NEUTRAL stance on the stock with the target price of Rs. 520 (at 11x 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	3207	3485
EBITDA	563	484	604	545	585
EBIT	508	423	534	470	508
PAT	352	299	350	398	395
EPS (Rs)	28	24	28	32	32
EPS growth (%)	38%	-15%	17%	14	-1
ROE (%)	15%	11%	14%	14	13
ROCE (%)	22%	15%	21%	17	17
BV	185	223	204	223.8	242.5
P/B (X)	3.1	3.0	2.5	2.4	2.2
P/E (x)	20.3	27.6	17.8	16.8	16.9

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Extended monsoon led volume de-growth

3QFY20 Results

Standalone

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	757	964	944	577	699	-7.6%	21.3%	2,738	3,091	12.9%
Other Income	17	12	6	17	7	-61.0%	-61.4%	25	42	64%
Total Income	774	976	950	594	706	-8.8%	18.9%	2,763	3,133	13.4%
COGS	487	642	667	350	425	-12.8%	21.6%	1,764	1,921	8.9%
Staff Cost	33	38	34	34	34	2.4%	-0.7%	116	134	15.7%
Other Exp.	111	138	119	111	102	-8.3%	-8.1%	373	432	15.6%
Expenditure	632	818	820	495	561	-11.2%	13.4%	2,254	2,487	10.3%
EBITDA	125	146	124	82	138	10.8%	68.8%	484	604	24.9%
EBITDAmargin	16.5%	15.2%	13.1%	14.2%	19.8%	19.8%	39.2%	17.7%	19.5%	10.6%
Depreciation	20	18	17	19	19	-4.4%	-3.3%	61	70	15.6%
EBIT	105	129	107	63	120	13.6%	91.2%	423	534	26.2%
Interest	2	2	1	0	2	3.6%	669.6%	10	12	25.0%
PBT	121	139	112	80	125	3.1%	56.2%	439	564	28.4%
Excpt. Item	0	0	0	0	0	-	-	-	28	-
Tax	42	47	39	-23	31	-25.8%	-236.8%	140	186	32.5%
PAT	79	91	72	103	93	18.6%	-9.1%	299	350	17.2%
Adj PAT	79	91	72	103	93	18.6%	-9.1%	299	378	26.5%

OPERATING MATRIX	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
Pipes & Fittg. Prod. (MT) Production (MT)	71774	73276	52013	63525	67814	88297	62786	53,355	-16.0%
PVC Pipes Sales PVC Pipes Sales	66753	73065	40648	54309	75043	86349	43255	47,328	-12.9%
PVC Fittings Sales PVC Fittings Sales	5005	4571	4625	4869	5728	5306	4769	5,487	12.7%
Pipes & Fittg. Sales(MT)	71758	77636	45273	59178	80771	91655	48,024	52,815	-10.8%
PVC Resin Prod.(MT)	82672	52757	45839	76686	84221	51785	41347	83,370	8.7%
PVC Resin External Sales	17126	13048	8781	22211	22640	11618	6997	19,908	-10.4%
PVC Resin Inhouse Sales	54997	55406	34680	44627	53909	66894	34425	39,246	-12.1%
PVC Sales(MT)	72123	68454	43461	66838	76549	78512	41422	59,154	-11.5%

Volumes and realization of PVC pipes and Resins

Sales Volumes for PVC resin reduced by 10.4% YoY to 19908 MT on account of lower demand globally along with the reduce PVC prices. PVC pipes and fittings sales volumes fall by 12.9% YoY to 47328 MT on the back prolonged monsoon due to which the fitting business stops even in 3QFY20. Realization of PVC resins business reduced by 4.7% YoY but PVC pipes and fittings business it grew by 5% YoY.

Margins expansion with reduced raw material prices

Margins expansion in 3QFY20 driven by lower raw material procurement as compared to 2QFY20 (In 2QFY20 inventory used is of higher cost procured pre-monsoon). PVC to EDC delta which is higher at \$ 589 against \$ 535 in 3QFY19 further helps in stretching margins.

Concall Highlights:

- Sales volumes for PVC pipes business is at 52815 MT de-grew by 10.8% YoY , PVC Rasin sales volumes decline by 11.5% to 59194 MT.
- Around 40% of the total market for CPVC pipes in India are imported from China as well as Korea, while both the countries got into Anti-dumping duties. (Total Market is 1.5-2 Lac Tonnes of which ~50-60K Tonnes are from China and Korea).
- Volumes in non-agri sector shown a double digit growth despite the slowdown in the real-estate sector.
- PVC piping volume de-growth in 3QFY20 was due to extended monsoon exit and the cyclones thereafter. Around 70% of the supplies goes for irrigation which affected the volumes in PVC segment.
- Fall in EDC in 3QFY20 to \$ 279 is now coming up; currently it's at \$ 330 (almost \$ 50). PVC prices in during the quarter are around \$ 870 to 890 (up \$ 20). Fall in Delta by ~ \$ 30.
- In 3QFY20 fall in PVC pipes prices by Rs. 5 while CPVC pipes prices remained flat.
- In the month of Jan PVC prices were raised by ~ 5%.
- CPVC prices were not increased by the company on the back of anti-dumping imposed while the peers have increased the same.
- Change in CPVC prices are largely dependent on currency fluctuation (INR to USD) as per the contract signed by company with its Supplier -Lubrizol (signed last year till 3 Years).

Exhibit: Net sales and growth trend

Volume de-growth of 11% YoY in 3QFY20 due to prolonged monsoon...

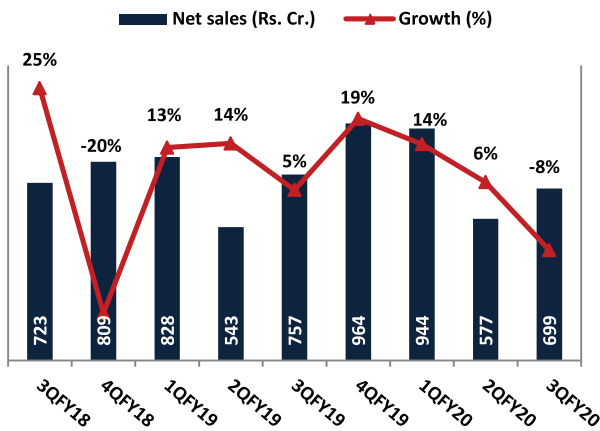


Exhibit: Cost of good sold and gross margin trend

Expansion PVC/EDC delta and reduced PVC prices have led gross margin expansion...

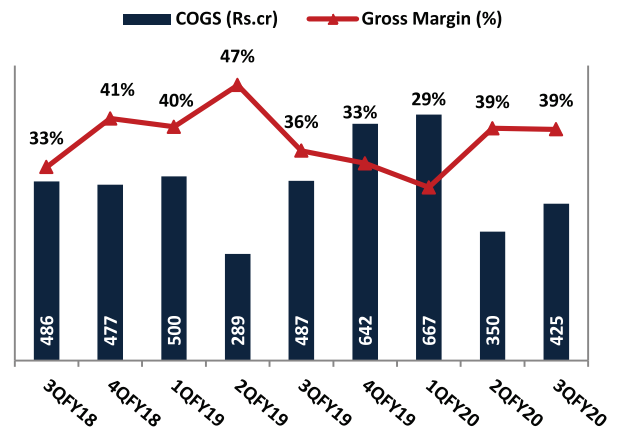


Exhibit: EBITDA and EBITDA margin trend

Operating leverage benefit expanded EBITDA margins...

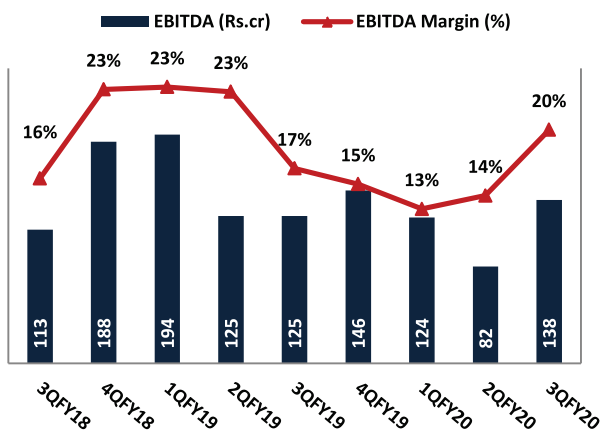


Exhibit: PVC and EDC price trend

PVC/EDC delta stretched with the reduced PVC prices and increase in EDC prices...

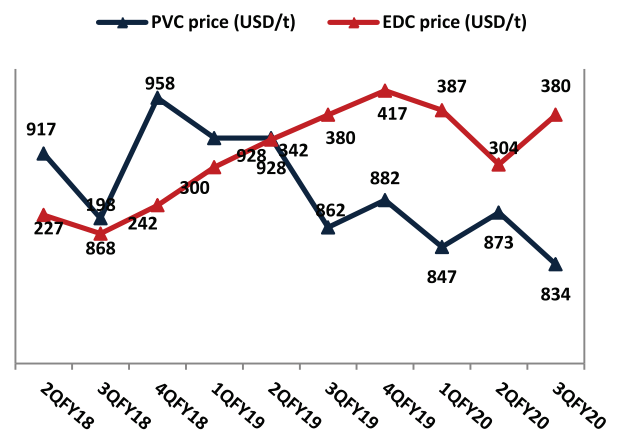


Exhibit: Pipe & fittings volume and realization

Sequential fall in volumes due to prolonged monsoon in 3QFY20...

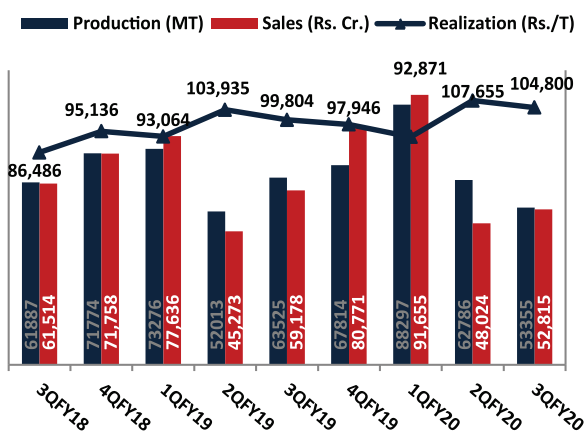
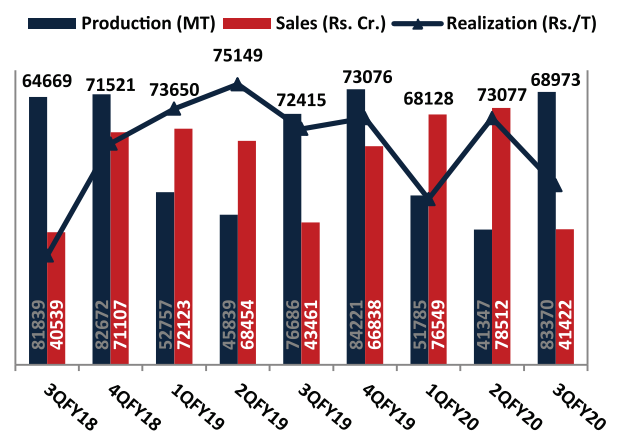


Exhibit: PVC resin volume and realization trend

PVC resin volumes declined during the quarter on account of reduced demand...



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	2,653	2,885
Networth	790	787	1,570	2,291	2,765	2,528	2,777	3,009
Debt	656	587	112	94	101	91	50	60
Other Non Cur Liab	0	0	-	-	-	-	-	-
Total Capital Employed	1,446	1,374	1,682	2,386	2,865	2,619	2,827	3,069
Net Fixed Assets (incl CWIP)	938	878	856	877	975	1,041	1,068	1,090
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	2,494	2,544
Inventory	506	559	447	557	612	620	644	700
Debtors	41	49	18	52	43	74	77	84
Cash & Bank	21	12	10	16	23	29	25	33
Other Curr Assets	-	-	105	46	22	42	44	48
Curr Assets	794	798	767	729	808	1,053	1,002	1,233
Creditors	111	200	243	227	250	284	294	320
Provisions (both)	110	39	12	12	15	23	22	22
Other Curr Liab	137	134	82	73	40	43	45	49
Curr Liabilities	351	365	475	365	390	425	439	477
Net Curr Assets	443	433	292	364	418	629	563	756
Total Assets	1,911	1,859	2,349	2,955	3,455	3,274	3,496	3,776

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	3,207	3,485
Change (%)	14%	1%	15%	5%	-8%	13%	4%	9%
Other Income	44	20	40	24	25	42	37	27
EBITDA	397	213	404	563	484	604	545	585
Change (%)	51%	-46%	90%	39%	-14%	25%	-10%	7%
Margin (%)	16%	9%	14%	19%	18%	20%	17%	17%
Depr & Amor.	62	59	51	55	61	70	75	77
EBIT	334	155	354	508	423	534	470	508
Int. & other fin. Cost	66	60	45	15	10	12	6	7
EBT	312	115	349	517	439	564	501	529
Exp Item	70	34	(24)	-	-	28	0	0
Tax	72	33	119	165	140	186	103	133
Minority Int & P/L share of Ass.	-	-	-	-	-	-	0	0
Reported PAT	170	48	254	352	299	350	398	395
Adjusted PAT	240	82	230	352	299	378	398	395
Change (%)	25%	-72%	180%	53%	-15%	27%	5%	-1%
Margin(%)	7%	2%	9%	12%	11%	11%	12%	11%

Financial Details (Standalone)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	22%	6%	16%	15%	11%	14%	14%	13%
ROCE	33%	16%	23%	22%	15%	21%	17%	17%
Asset Turnover	1.28	1.33	1.21	1.01	0.79	0.94	0.92	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	84.8	77.0
P/E	13.9	73.7	17.8	20.3	27.6	17.8	16.8	16.9
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	12.3	11.4
FCF per share	14.2	14.8	45.7	12.7	13.4	24.6	29.1	25.7
Div Yield	3%	2%	1%	2%	2%	2%	2%	2%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	242	81	373	517	439	536	501	529
(inc)/Dec in Working Capital	(100)	48	230	(138)	(30)	(4)	-16	-61
Non Cash Op Exp	154	125	61	48	49	52	80	83
Int Paid (+)	62	57	42	15	10	12	6	7
Tax Paid	(52)	(39)	(66)	(175)	(120)	(177)	-103	-133
others								
CF from Op. Activities	244	214	598	252	338	407	462	418
(inc)/Dec in FA & CWIP	(105)	(67)	(31)	(31)	(95)	(172)	-102	-101
Free Cashflow	177	184	567	157	166	305	362	319
(Pur)/Sale of Inv	169	48	(93)	123	4	(144)	-171	-150
others								
CF from Inv. Activities	110	22	(77)	35	(162)	(236)	-272	-249
inc/(dec) in NW	0	-	-	-	-	-	0	0
inc/(dec) in Debt	49	21	(58)	-	-	-	0	0
Int. Paid	(67)	(58)	(44)	(18)	(10)	(12)	-6	-7
Div Paid (inc tax)	(43)	(79)	(98)	(29)	(149)	(172)	-150	-149
others								
CF from Fin. Activities	(343)	(245)	(494)	(282)	(175)	(171)	-195	-160
Inc(Dec) in Cash	12	(9)	27	4	1	1	-5	8
Add: Opening Balance	9	21	12	2	6	7	29	25
Closing Balance	21	12	39	6	7	8	24	33

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