

Company Update
Plastic Products
Finolex Industries Ltd.
BUY

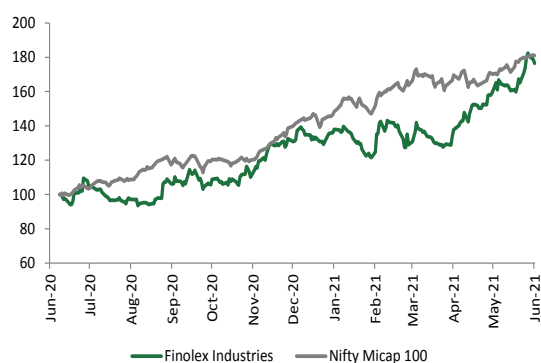
CMP (Rs)	173
Target Price (Rs)	222
Potential Upside	28.3%
Sensex	52,329
Nifty	15,752

Key Stock data

BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP:IN
Shares o/s, Cr (FV 2)	62.1
Market Cap (Rs Cr)	10,728
3M Avg Volume	626,155
52 week H/L	176/88

Shareholding Pattern

(%)	Sep-20	Dec-20	Mar-21
Promoter	52.5	52.5	52.5
FII	2.1	2.3	2.7
DII	13.3	12.9	11.8
Others	32.1	32.4	33.0

1 Year relative price performance

Research Analyst

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The best in the industry

Finolex Industries Limited (FIL) is a leading manufacturer of PVC pipes and fittings (installed capacity 3,70,000 MT per annum) and the only backward integrated player in PVC resin (installed capacity of 2,72,000 MT per annum). The company offers the latest range of PVC-U pipes and fittings which are used in agriculture, construction and industrial operations. Further, for providing better service to customers, it has strategically located manufacturing plants at Urse and Ratnagiri in Maharashtra and Masar in Gujarat. For the distribution network, the company has over 900 dealers and 21,000 retailers' touchpoints.

Investment Rationale

- Increasing demand for PVC pipes to drive healthy sector growth
- Sole manufacturer of PVC resin is an advantage
- Mix of agri and non-agri pipes segment would help the company in earning strong revenue and margins

Key Risk and Concerns

- High volatility in commodity price i.e. raw materials for manufacturing PVC resin, can impact the profits of the company.
- Dispute in promoters over ownership of Finolex group.

Outlook & Valuation

FIL is the second-largest player in the organized plastic pipe segment (60-65% market) with a 9% share. FIL is well established in agri pipes and has plans to expand in non-agri segment, its backward integrated manufacturing of PVC resin, strong distribution network and changing product mix would aid in earning better revenues as well as profits. Besides its strong brand recall value, growth plans and expansion in the PVC pipes segment are encouraging which makes it one of our preferred picks in this space. On the financial front, FIL has a healthy balance, decent cash flow and it has lowered its debt to comfortable levels over the years. We have initiated a BUY on the stock with a target price of Rs 222.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	2,986.0	3,335.0	3,835.2	4,410.5
EBITDA	448.0	861.0	894.0	1,014.8
EBITDAM (%)	15.0	25.8	23.3	23.0
APAT	307.1	628.2	640.0	727.4
APATM (%)	10.3	18.8	16.7	16.5
EPS (Rs)	4.9	10.1	10.3	11.7
PE (x)	35.0	17.1	16.8	14.8
RoE (%)	16.7	27.5	24.0	23.0

Source : Company; RBL Research

Investment Rationale

- **Increasing demand for PVC pipes to drive healthy sector growth:** The Indian plastic pipes and fittings industry grew at a healthy CAGR of 10-12% in between FY14-20 and was worth 300bn in 2019-20. In the next 5-6 years, the industry is expected to grow at a CAGR of 12-14% and reach 500-550bn. The growth would continue to be driven by rising demand from the construction and irrigation sectors which are major end-user contributors. Also, government initiatives and investment in irrigation, housing and sanitation through schemes such as 'Housing for All', 'Atal Mission for Rejuvenation and Urban Transformation' and 'Pradhan Mantri Krishi Sinchayee Yojana' would further propel the demand for PVC pipes. In addition, demand from rural areas, pickup in real estate, traction from tier 2 & 3 cities and awareness about branded products would also help in driving sector growth.
- **Sole manufacturer of PVC resin is an advantage:** PVC resin is the third-largest polymer in terms of production and consumption and largely used in several activities such as pipes and fittings (~70-75% is consumed), agriculture, construction, window frames and shutters, wires and cables, etc. It is also a preferred plastic material for application in flooring, films and sheets. Overall in India, there is high demand but production is low so ~50-60% of industry demand is accomplished through imports. FIL is present in the business of manufacturing PVC resin (B2B) and PVC pipes & fittings (B2C). Amongst the industry, FIL is the only player in the industry which has expertise in manufacturing PVC resin with the capacity of 2,72,000 MT p.a. Major portion of its production is consumed internally for pipes and fitting segments while the remaining is sold for industry consumption. Going forward, with increasing demand for usage of PVC resin in pipes, agriculture, flooring, films, etc. domestic players like FIL would benefit as it caters to growing demand due to its manufacturing and would have better-operating leverage than peers.
- **Mix of agri and non-agri pipes segment would help the company in earning strong revenue and margins:** FIL is one of the oldest and India's largest manufacturers of PVC pipes and fitting which commands a market share of 9% in the organized plastic piping sector. At present, it enjoys a leadership position in agri pipes with a strong product portfolio and derives ~70% of revenue while ~30% is through the non-agri segment. Going forward, the company plans to expand its non-agri business to 50% in the next 4-5 years as there is high growth potential as well as can earn better margins as compared to agri pipes. Amongst non-agri space, CPVC and HDPE pipes are the one's management would be looking to expand as it is expected to grow at a CAGR of 20%+ and 12-13% over FY19-24, respectively. For FY22E and FY23E, revenue and margins are expected to grow strong with increasing share from the non-agri segment.

P & L Account - consolidated

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Net sales	2,986.0	3,335.0	3,835.2	4,410.5
Expenditure				
Cost of materials	2,037.7	1,845.5	2,492.9	2,866.8
Purchase of stock in trade	13.8	9.7	11.1	12.8
(Increase) / Decrease In Stocks	(108.9)	94.9	(115.1)	(132.3)
Total raw materials	1,942.7	1,950.0	2,389.0	2,747.3
Gross Profit	1,043.3	1,384.9	1,446.2	1,663.2
Employee cost	145.5	148.9	161.1	189.7
Other expenses	449.0	375.0	391.2	458.7
Total expenditure	2,538.0	2,473.9	2,941.2	3,395.6
EBITDA	448.0	861.0	894.0	1,014.8
EBITDAM (%)	15.0	25.8	23.3	23.0
Depreciation	73.8	78.0	92.0	105.9
PBIT	374.2	783.0	801.9	909.0
Other income	29.9	76.0	76.7	88.2
Interest expenses	11.9	7.8	7.8	7.5
PBT	392.2	851.2	870.8	989.7
Tax	85.2	222.9	230.8	262.3
PAT (after Exceptional)	307.1	628.2	640.0	727.4
PAT Margin %	10.3	18.8	16.7	16.5
EPS	4.9	10.1	10.3	11.7

Source : Company; RBL Research

Balance sheet - consolidated

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Share Capital	124.1	124.1	124.1	124.1
Reserves & Surplus	1,861.9	2,265.5	2,685.2	3,197.2
Total Shareholder's Fund	1,986.0	2,389.6	2,809.3	3,321.3
Short term borrowing	282.7	233.4	230.1	220.5
Total Debt	282.7	233.4	230.1	220.5
Deferred tax liabilities	135.7	151.5	174.3	200.4
Long term provision	26.7	29.8	34.3	39.5
Other long term liabilities	51.6	57.6	66.2	76.2
Total	214.0	239.0	274.8	316.1
Current Liabilities				
Trade payables	233.4	260.4	294.2	338.3
Short term provisions	3.0	3.4	3.9	4.4
Other current liabilities	172.3	193.4	222.4	255.8
Total	691.4	690.6	750.6	819.1
Total liabilities	2,891.3	3,319.2	3,834.8	4,456.5
Application of Assets				
Net Block	1,016.9	1,118.5	1,252.6	1,440.3
Current work in process	7.3	7.3	7.3	7.3
Non current investment	531.6	667.0	767.0	882.1
Long term loans and advances	2.7	3.0	3.4	4.0
Other non-current assets	108.6	121.3	139.5	160.5
Total	1,667.0	1,917.1	2,169.9	2,494.1
Current Assets				
Current investments	129.1	166.7	191.8	220.5
Inventories	857.8	950.2	1,071.8	1,208.3
Trade receivables	73.2	80.4	92.5	106.3
Cash balance	57.4	92.4	191.7	302.9
Bank balance	35.8	28.0	20.2	12.7
Short term loans and advances	0.9	1.0	1.2	1.3
Other current assets	70.1	83.4	95.9	110.3
Total	1,224.3	1,402.1	1,664.9	1,962.4
Total assets	2,891.3	3,319.2	3,834.8	4,456.5

Source : Company; RBL Research

Cashflow - consolidated

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Profit before tax	417.8	879.7	903.6	1,027.5
Add: Depreciation	73.8	78.0	92.0	105.9
Add: Interest cost	10.1	7.8	7.8	7.5
Others	(23.6)	-	-	-
Operating profit before wc	478.1	965.6	1,003.5	1,140.8
Changes in working capital	(268.1)	(52.6)	(65.7)	(67.2)
Cash from Operations	210.0	913.0	937.8	1,073.6
Less: Taxes	(112.8)	(222.9)	(230.8)	(262.3)
Cash flow from Operations	97.1	690.1	707.0	811.4
Net cash used in Investing				
Purchase of fixed assets	(61.3)	(179.6)	(226.1)	(293.6)
Purchase of investments	94.2	(173.0)	(125.1)	(143.8)
Sales of fixed assets	10.2	-	-	-
Dividend Income//Interest Rec.	15.8	7.8	7.8	7.5
Cash flow from investing	59.0	(344.8)	(343.4)	(429.9)
Cash flow from Financing				
Proceeds of borrowings	193.2	(49.2)	(3.3)	(9.6)
Dividend (Incl dividend tax)	(287.3)	(253.2)	(253.2)	(253.2)
Interest cost	(11.1)	(7.8)	(7.8)	(7.5)
Cash flow from Financing	(105.2)	(310.2)	(264.3)	(270.2)
Net cash Inflow/Outflow	50.8	35.0	99.3	111.2
Opening cash	6.5	57.4	92.4	191.7
Closing Cash	57.4	92.4	191.7	302.9

Source : Company; RBL Research

Key Financial ratios - consolidated

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Per share Data				
EPS (Rs)	4.9	10.1	10.3	11.7
Book value per share (Rs)	32.0	38.5	45.3	53.5
Dividend per share (Rs)	23.1	17.0	17.0	17.0
Dividend Yield (%)	13.6	10.0	10.0	10.0
Dividend Payout (%)	86.4	38.5	37.6	33.1
Profitability Ratios				
EBITDAM(%)	15.0	25.8	23.3	23.0
PBTM (%)	13.1	25.5	22.7	22.4
NPM (%)	10.3	18.8	16.7	16.5
RoE (%)	16.7	27.5	24.0	23.0
RoCE (%)	16.5	29.9	26.4	25.7
Efficiency Data				
Debt-Equity Ratio	0.1	0.1	0.1	0.1
Interest Cover Ratio	0.0	0.0	0.0	0.0
Fixed Asset Ratio	0.3	0.3	0.3	0.3
Debtors (Days)	8.9	8.8	8.8	8.8
Inventory (Days)	104.9	104.0	102.0	100.0
Payable (Days)	28.5	28.5	28.0	28.0
WC (Days)	85.3	84.3	82.8	80.8
Valuation				
P/E (x)	35.0	17.1	16.8	14.8
P/BV	5.4	4.5	3.8	3.2
EV/EBITDA	24.5	12.6	12.1	10.5
EV/Sales	3.7	3.3	2.8	2.4

Source : Company; RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I/we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above, are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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