

RESEARCH

Finolex Industries | Target: Rs 640 | +17% | BUY

Better PVC-EDC delta aids profitability – upgrade to BUY

Gujarat State Petronet | Target: Rs 375 | +58% | BUY

EBITDA underperforms; volume outlook improving

SUMMARY

Finolex Industries

Finolex Industries' (FNXP) revenue declined 8% YoY, with an 11% drop in PVC pipe and resin volumes. EBITDA margins expanded 140bps YoY to 19.8% mainly due to 335bps higher PVC resin margins, following a ~10% rise in the PVC-EDC delta. Management expects stronger pipe demand in Q4 due to a good crop, and has guided for double-digit growth in FY21. We roll forward to a Mar'21 TP of Rs 640 (earlier Rs 625) and upgrade the stock from ADD to BUY as current valuations of 17x FY22E EPS offer reasonable upside post the recent correction.

[Click here for the full report.](#)

Gujarat State Petronet

Gujarat State Petronet's (GUJS) Q3FY20 EBITDA underperformed estimates at Rs 3.8bn (+7.6% YoY) due to lower volumes (37mmcmd, -5.7% QoQ). Volumes were affected by reduced offtake from refineries – this could reverse from Q4FY20 following the recent crash in LNG prices. Power offtake is guided to pick up (from FY21) on an improved power demand outlook coupled with low LNG prices. We broadly maintain EPS estimates; our DCF-based TP increases to Rs 375 (from Rs 350) on higher value of investments (GUJGA).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.63	3bps	(21bps)	(107bps)
India 10Y yield (%)	6.48	1bps	(12bps)	(82bps)
USD/INR	71.35	(0.1)	(0.7)	(0.8)
Brent Crude (US\$/bbl)	29,551	0.9	2.2	15.7
Dow	2,927	0.9	(6.1)	7.6
Shanghai	41,566	0.8	(0.7)	15.4
Sensex	55.79	3.3	(13.1)	(12.3)
India FII (US\$ mn)	11 Feb	MTD	CYTD	FYTD
FII-D	12.5	1,440.5	(128.4)	2,815.7
FII-E	302.9	2,076.6	3,449.2	10,838.4

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 640 | ▲ 17%

FINOLEX INDUSTRIES

Plastic Products

13 February 2020

Better PVC-EDC delta aids profitability – upgrade to BUY

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Extended monsoon dampens revenue: FNXP's Q3 revenue decreased 8% YoY to Rs 7bn. The PVC resin segment declined 16% YoY with both volumes/realisations slipping 11%/5% YoY. Revenue from PVC pipes & fittings also slipped 6% YoY, with volumes down 11% whereas realisations increased 5%. Pipe volumes were dampened by the extended monsoons during the quarter. Management expects increased pipe demand in Q4 due to a good crop season, followed by double-digit growth in FY21.

Ticker/Price FNXP IN/Rs 546

Market cap US\$ 949.5mn

Shares o/s 124mn

3M ADV US\$ 0.2mn

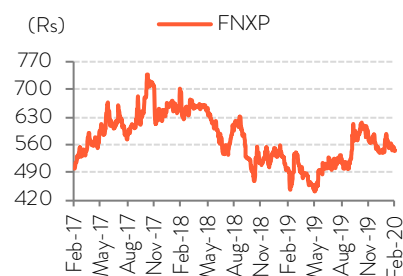
52wk high/low Rs 627/Rs 437

Promoter/FPI/DII 52%/2%/45%

Source: NSE

Higher PVC-EDC delta aids margins: Operating margins expanded 140bps YoY to 19.8% as raw material cost declined 360bps whereas employee cost/other expenses increased by 60bps/160bps – resulting in flat EBIDTA YoY. The PVC resin segment saw EBIT margins rise 335bps YoY due to softening ethylene di-chloride (EDC) prices, which led to a ~10% YoY increase in PVC-EDC delta to US\$ 589/mt (albeit down to US\$ 565/mt currently in February).

STOCK PERFORMANCE



Source: NSE

Upgrade to BUY: We broadly maintain earnings estimates and roll over to a Mar'21 TP of Rs 640, set at an unchanged 20x one-year forward P/E. The stock has corrected ~10% since Nov'19 and offers reasonable upside potential at current valuations of 16.8x FY22E EPS, leading us to upgrade our rating from ADD to BUY.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	27,378	30,913	32,859	35,633	38,856
EBITDA (Rs mn)	4,839	6,043	5,067	5,337	5,724
Adj. net profit (Rs mn)	2,993	3,857	3,556	3,735	4,037
Adj. EPS (Rs)	24.1	31.1	28.7	30.1	32.5
Adj. EPS growth (%)	(15.7)	28.9	(7.8)	5.0	8.1
Adj. ROAE (%)	11.7	14.4	13.4	13.4	13.7
Adj. P/E (x)	22.6	17.6	19.0	18.1	16.8
EV/EBITDA (x)	14.1	11.3	13.2	12.1	11.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 375 | ▲ 58%

**GUJARAT STATE
PETRONET**

| Oil & Gas

| 13 February 2020

EBITDA underperforms; volume outlook improving

Gujarat State Petronet's (GUJS) Q3FY20 EBITDA underperformed estimates at Rs 3.8bn (+7.6% YoY) due to lower volumes (37mmscmd, -5.7% QoQ).

Volumes were affected by reduced offtake from refineries – this could reverse from Q4FY20 following the recent crash in LNG prices. Power offtake is guided to pick up (from FY21) on an improved power demand outlook coupled with low LNG prices. We broadly maintain EPS estimates; our DCF-based TP increases to Rs 375 (from Rs 350) on higher value of investments (GUJGA).

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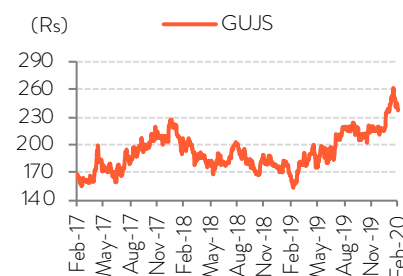
Volumes decline: Lower offtake from the refinery/petchem segment at 11.8mmscmd (-16% YoY) dampened volumes. Offtake increased from the CGD (10.7mmscmd, +35% YoY), power (5.9mmscmd, +32% YoY) and fertiliser (4.06mmscmd, +7.3% YoY) segments. Management sees better potential ahead from the power segment as spot LNG prices remain low (<US\$ 3/mmbtu) and demand for power is improving.

RIL offtake steady for now: RIL continues to absorb ~9mmscmd (stable QoQ), implying its petcoke gasifiers are some time away from being commissioned. While GUJS could see volume loss (4-6mmscmd) once RIL's petcoke gasification plant comes online, this could be made up by incremental power and CGD demand in FY20-FY21.

Maintain BUY: GUJS has healthy volumes levers in place, viz. (a) planned connectivity to all the five LNG regasification terminals in Gujarat, and (b) an improving demand outlook from CGD and power. Commissioning of the Mundra LNG terminal is expected add to volumes from Q4FY20. At 11.3x FY22E EPS, valuations look attractive considering stronger volume visibility.

Ticker/Price	GUJS IN/Rs 238
Market cap	US\$ 1.9bn
Shares o/s	564mn
3M ADV	US\$ 1.8mn
52wk high/low	Rs 264/Rs 149
Promoter/FPI/DII	38%/16%/46%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,317	18,773	22,760	22,779	26,241
EBITDA (Rs mn)	11,478	15,426	17,073	16,770	19,090
Adj. net profit (Rs mn)	6,684	7,947	10,395	10,165	11,912
Adj. EPS (Rs)	11.9	14.1	18.4	18.0	21.1
Adj. EPS growth (%)	34.5	18.9	30.8	(2.2)	17.2
Adj. ROAE (%)	14.2	15.2	17.3	14.8	15.5
Adj. P/E (x)	20.1	16.9	12.9	13.2	11.3
EV/EBITDA (x)	11.8	9.6	9.4	9.3	7.9

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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