

FIRST LIGHT

RESEARCH

Finolex Industries | Target: Rs 545 | +12% | ADD

Demand traction for agri pipes improved in May-June

Banking

Lending rates remain stable in May

SUMMARY

Finolex Industries

Key takeaways from our recent interaction with the management of Finolex Industries (FNXP): (1) FNXP witnessed healthy demand for agricultural pipes in May and June following easing of the nationwide lockdown. Demand remained robust till the onset of the monsoons in mid-June. (2) Offtake has improved from traditional markets such as Maharashtra, Tamil Nadu, Karnataka, Gujarat and Andhra Pradesh. (3) Management is hopeful of good demand for agriculture pipes in H2FY21 due to expectations of good monsoons, higher water reservoir levels and a government thrust on the rural economy.

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

Banking

As per latest RBI data, the weighted average lending rate (WALR) on fresh rupee loans sanctioned by public sector banks (PSB) declined 26bps MoM to ~8.2% in May, whereas that for scheduled commercial banks (SCB) remained unchanged at 8.5% as private players managed to improve fresh lending rates by 30bps to 9.2%. The WALR on outstanding loans was stable at 9.9%. Banks have been reducing MCLR on the back of lower policy rates, which has translated into lower fresh rates.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.64	(4bps)	(26bps)	(143bps)
India 10Y yield (%)	5.79	(4bps)	3bps	(80bps)
USD/INR	74.94	(0.3)	0.9	(9.3)
Brent Crude (US\$/bbl)	43.08	0	1.8	(32.9)
Dow	25,890	(1.5)	(4.5)	(3.3)
Shanghai	3,345	0.4	14.1	14.2
Sensex	36,675	0.5	7.0	(5.3)
India FII (US\$ mn)	06 Jul	MTD	CYTD	FYTD
FII-D	103.9	118.4	(14,163.6)	(4,404.1)
FII-E	63.7	(120.1)	(2,561.6)	4,041.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



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TP: Rs 545 | ▲ 12%

FINOLEX INDUSTRIES

Plastic Products

08 July 2020

Demand traction for agri pipes improved in May-June

We present key takeaways from our recent interaction with the management of Finolex Industries (FNXP).

- FNXP witnessed healthy demand for agricultural pipes in May and June following easing of the nationwide lockdown. Demand remained robust till the onset of the monsoons in mid-June.
- The agriculture segment accounts for ~70% of the company's total turnover and non-agri pipes form the balance.
- Offtake has improved from traditional markets such as Maharashtra, Tamil Nadu, Karnataka, Gujarat and Andhra Pradesh.
- FNXP experienced initial logistical issues due to non-availability of manpower post easing of the lockdown, but these are gradually being ironed out.
- Management is hopeful of good demand for agriculture pipes in H2FY21 due to expectations of good monsoons, higher water reservoir levels and a government thrust on the rural economy.
- Sales of non-agriculture pipes (primarily used in housing) have not yet picked up materially and the outlook for this business remains uncertain.
- The company is targeting its historical 8-9% EBIT margins from the piping segment going ahead as well.
- The PVC-EDC delta is currently at ~US\$ 600/MT, but high-cost inventory carried over from FY20 will nullify any benefits to the company. This inventory is expected to be utilised by Q2FY20.
- FNXP continues to function on the cash-and-carry mode in the agriculture pipe segment. In the non-agri space, it does provide credit to dealers.
- The company remains net-debt free and has no major capex plans for FY21.

Arun Baid

research@bobcaps.in

Ticker/Price	FNXP IN/Rs 489
Market cap	US\$ 809.8mn
Shares o/s	124mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 627/Rs 290
Promoter/FPI/DII	52%/2%/45%

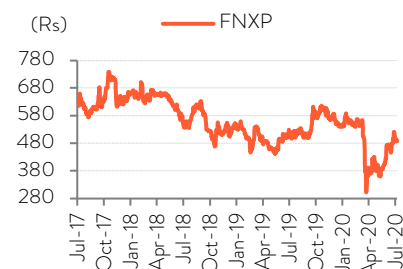
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs mn)	29,860	26,456	31,225
EBITDA (Rs mn)	4,481	4,403	4,754
Adj. net profit (Rs mn)	3,327	3,075	3,358
Adj. EPS (Rs)	26.8	24.8	27.1
Adj. EPS growth (%)	(13.8)	(7.5)	9.2
Adj. ROAE (%)	14.6	14.9	14.9
Adj. P/E (x)	18.2	19.7	18.1
EV/EBITDA (x)	13.4	13.7	12.6

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


BANKING

08 July 2020

Lending rates remain stable in May

Fresh lending rate for SCBs steady at 8.5%: As per latest RBI data, the weighted average lending rate (WALR) on fresh rupee loans sanctioned by public sector banks (PSB) declined 26bps MoM to ~8.2% in May, whereas that for scheduled commercial banks (SCB) remained unchanged at 8.5% as private players managed to improve fresh lending rates by 30bps to 9.2%. The WALR on outstanding loans was stable at 9.9%. Banks have been reducing MCLR on the back of lower policy rates, which has translated into lower fresh rates.

Term deposit rate largely stable at 6.1%: The weighted average domestic term deposit rate (WADTDR) of SCBs held at ~6.1% in May. PSBs clocked improvement of ~13bps MoM to ~6.2% while private banks saw a decline of 8bps to ~6.2%.

Spreads for private banks steady: Private banks managed to maintain their spreads at ~4.6% given that the reduction in outstanding lending rates was compensated for by lower term deposit rates. However, the same for PSBs declined by ~10bps MoM to 3.2% in May.

Likely pressure on NIMs ahead: The median MCLR of SCBs has dipped 15bps MoM to 7.7% in Jun'20. A bulk of the banking sector's loan portfolio is still linked to MCLR where both large/mid-sized private banks and PSBs have cut rates by 15-90bps since Jan'20. We believe that surplus liquidity and weak credit growth would translate into lower lending rates. This apart, banks would also begin to register the impact of repo-linked loans. The resultant margin pressure is likely to be mitigated to some extent by reduced deposit rates.

FIG 1 – MCLR OF BANKS DOWN >15BPS SINCE JAN'20

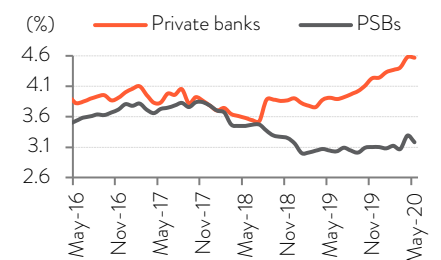
Banks	1-year MCLR (%)						Change (bps) Jun-20 over Jan-20
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	
AXSB IN	8.15	8.15	8.10	7.95	7.80	7.75	(40)
HDFCB IN	8.15	8.15	8.15	7.95	7.95	7.65	(50)
ICICIBC IN	8.20	8.20	8.15	8.00	7.75	7.70	(50)
IIB IN	9.30	9.30	9.25	9.25	9.25	9.15	(15)
KMB IN	8.40	8.35	8.35	8.10	7.90	7.75	(65)
CBK IN	8.35	8.20	8.20	7.85	7.85	7.65	(70)
SBIN IN	7.90	7.85	7.75	7.40	7.25	7.00	(90)

Source: RBI, BOBCAPS Research

Vikesh Mehta

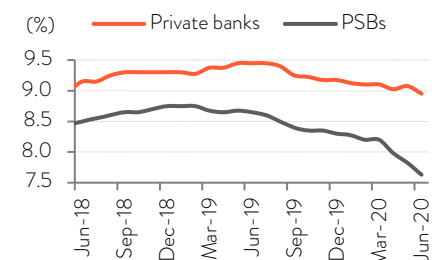
research@bobcaps.in

LENDING SPREADS OF PRIVATE BANKS STABLE IN MAY'20



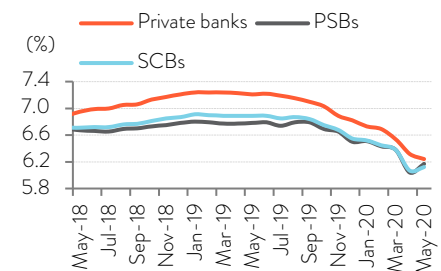
Source: RBI, BOBCAPS Research

MEDIAN MCLR ON THE DECLINE



Source: RBI, BOBCAPS Research

TERM DEPOSIT RATES FOR SCBs REMAIN STEADY IN MAY'20



Source: RBI, BOBCAPS Research



Disclaimer

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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