

RESEARCH

Top picks

- **Large-cap ideas**
 - Bajaj Finance replaced by **Tata Consultancy Services**
(see [Demand recovery drives outperformance, 8Oct20](#))
- **Mid-cap ideas**
 - Chola Investment replaced by **Greenply Industries**
(see [Q1 revenues slump; outlook improving, 17Aug20](#))

Finolex Industries | Target: Rs 580 | +5% | ADD

Higher PVC resin prices aid profits; valuations fair – cut to ADD

SUMMARY

Finolex Industries

Finolex Industries' (FNXP) Q2FY21 revenue grew 2% YoY, aided by a 15% rise in PVC resin volumes while pipes declined 9%. EBITDA margins swelled 10ppt YoY to 24.7% on higher PVC resin prices, spurring 77% YoY growth in EBITDA. Management retained guidance of flat pipe volumes in FY21. We raise FY21 EPS 17% to factor in the (transient) PVC price rise and keep FY22/FY23 broadly unchanged. On rollover, we have a new Dec'21 TP of Rs 580 (vs. Rs 560). At 18.9x FY23E EPS, positives look priced in after the recent rally – cut from BUY to ADD.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
TCS	Buy	3,180
Tech Mahindra	Buy	980

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	135
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.80	(4bps)	15bps	(104bps)
India 10Y yield (%)	5.84	(1bps)	(20bps)	(67bps)
USD/INR	73.85	(0.3)	(0.3)	(4.2)
Brent Crude (US\$/bbl)	40.46	(3.1)	(3.5)	(34.3)
Dow	27,685	(2.3)	1.9	2.2
Shanghai	3,251	(0.8)	1.0	9.1
Sensex	40,146	(1.3)	7.4	2.8
India FII (US\$ mn)	23 Oct	MTD	CYTD	FYTD
FII-D	250.3	617.5	(14,062.2)	(4,302.7)
FII-E	145.6	2,313.0	6,353.0	12,956.0

Source: Bank of Baroda Economics Research

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ADD

TP: Rs 580 | ▲ 5%

FINOLEX INDUSTRIES

Plastic Products

27 October 2020

Higher PVC resin prices aid profits; valuations fair – cut to ADD

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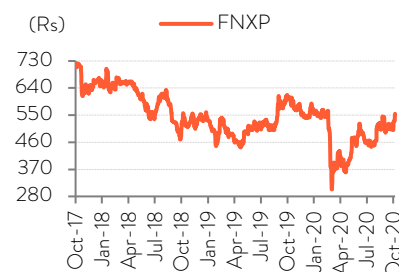
Modest revenue growth: FNXP's Q2 revenue increased 1.6% YoY to Rs 5.9bn. The PVC resin segment increased 22% YoY with both volumes/realisations rising 15%/6% YoY, while PVC pipes & fittings declined 3% YoY due to a 9% drop in volumes even as realisations increased 7% YoY. Pipe volumes increased in the non-agriculture segment whereas agricultural pipes declined during the quarter. Management expects strong demand for agri pipes in H2 due to good monsoons this year, and has maintained guidance of flat pipe volumes in FY21.

Ticker/Price	FNXP IN/Rs 554
Market cap	US\$ 932.6mn
Shares o/s	124mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 619/Rs 290
Promoter/FPI/DII	52%/2%/45%

Source: NSE

Higher PVC prices aid margins: Operating margins expanded 1,050bps YoY due to inventory gains from rising PVC prices – consequently, EBITDA increased 77% YoY. EBIT margins in the PVC resin segment surged 1,200bps YoY due to inventory gains. Management believes PVC prices will normalise by end-Q3/early-Q4 as supply conditions improve.

STOCK PERFORMANCE



Source: NSE

Downgrade to ADD: We raise FY21 earnings estimates by 17% due to inventory gains on PVC resin but keep FY22/FY23 forecasts broadly unchanged. After the recent rally, FNXP is trading at 18.9x FY23E EPS. We see limited upside from these levels and hence downgrade the stock from BUY to ADD. Our revised Dec'21 TP of Rs 580 is set at an unchanged 20x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,913	29,860	30,387	31,114	33,543
EBITDA (Rs mn)	6,043	4,481	5,293	4,842	5,106
Adj. net profit (Rs mn)	3,857	3,327	3,737	3,366	3,637
Adj. EPS (Rs)	31.1	26.8	30.1	27.1	29.3
Adj. EPS growth (%)	28.9	(13.8)	12.3	(9.9)	8.1
Adj. ROAE (%)	14.4	14.6	17.9	14.7	14.7
Adj. P/E (x)	17.8	20.7	18.4	20.4	18.9
EV/EBITDA (x)	11.4	15.2	12.9	14.1	12.9

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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