

Finolex Industries Ltd.

Sensex: 24677

CMP: INR 357



Plastic Products

We met the management of Finolex Industries to get a sense of its business potential and strategy going ahead given government's increasing focus on irrigation sector. FIL is one of the leading PVC manufacturers in India having completely integrated operations through its own PVC resin manufacturing unit. It operates under 3 business segments i.e PVC pipes & fittings (capacity 0.25 mtpa), PVC resin (capacity 0.27 mtpa) and Power (capacity 43 MW). Given below are the key takeaways from the meet -

Ideally placed to tap increasing demand

FIL with 20% MS in organised PVC Pipe and Fittings in India is best placed to benefit from government's increasing focus on irrigation sector. Government has already allocated INR 500 bn (to be spent over 5 years) under PMKSY for irrigation to bring more and more cultivable land under irrigation. This bodes well for companies like FIL that supplies pipes and fittings for irrigation (70% of revenues).

Capacity expansion on anvil

FIL is planning to incur ~INR 1 bn to expand its PVC pipes and fittings capacity by 40% to 0.35 mtpa by FY18. Capacity will increase from 0.25 mtpa currently to 0.28 mtpa/0.31 mtpa/0.35 mtpa by FY16/FY17/FY18 at a capex of INR 300 mn/INR 350 mn/INR 350 mn respectively. FIL has an established pan India distribution network with 16,000+ touch points & 650 distributors and has recently commissioned additional warehouses at Indore, Noida and Cuttack for faster delivery and enhanced distribution reach. Management expects to maintain revenue CAGR of +15% over the next couple of years (9MFY16 ~10%).

Value added products to drive incremental margins

FIL is planning to increase its sales of higher margin products viz. fittings, column pipes and CPVC pipes to improve margins. Fittings currently accounts for ~8% of PVC volumes and FIL targets to increase this share to 10-12%. Both Fittings & CPVC segments are expected to clock ~25% CAGR over the next 3-5 years. This will result in improved margins.

Targeting to be a debt free co. by FY19

FIL currently has debt of INR 3.6 bn. It has already repaid ~INR 2 bn in 9MFY16 and is targeting to become a debt free companies by FY19 by repaying both its long term & short term debt. While it is expected to generate operating cash flows of +INR 6 bn over the next 3 years, capex commitment during the same period amounts to INR 1 bn.

Other Highlights

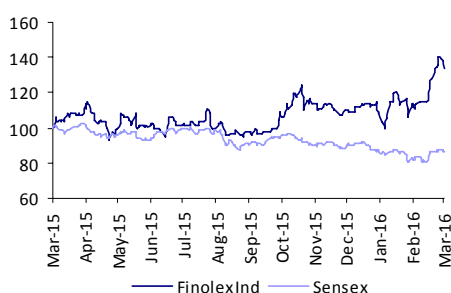
- FIL derives ~75% of its revenue from West and South India, ~20% from North India and remaining 5% from East India.
- Domestic PVC pipes and fittings market is estimated at ~1.7 mtpa (INR 150 bn), out of which 60% is organized.
- Currently FIL uses ~55% of PVC Resins internally and sells balance 45% in outside market. It is planning to increase its internal consumption to ~75% by FY18.

Outlook & Valuation

Finolex remains well placed to benefit from improving growth prospects for PVC pipes on the back of expected surge in demand from irrigation sector and increasing preference for PVC pipes for household purposes. Timely capacity expansion and enhanced distribution network will aid the company to grow at +15% CAGR over the next couple of years. Increasing contribution from value added products in addition to plans of becoming a debt free company would further aid profitability. Currently the stock is trading at a P/E of 26.0x its TTM earnings.

Shareholding (%)	Dec-15
Promoters	52.47
FIIIs	5.87
DIIIs	5.71
Others	35.95

Relative Price Performance



Key Data	
BSE Code	500940
NSE Code	FINPIPE
Bloomberg Code	FNXP IN
Reuters Code	FINX.BO
Shares O/S (mn)	124.10
Face Value	10
Mcap (INR bn)	44.27
52 Week H/L	376.40/245.10
2W Avg. Qty, NSE	138132
Free Float (INR bn)	21.04
Beta	0.73

Y/E (INR mn)	FY12	FY13	FY14	FY15
Net Sales	20998	21448	24530	24762
Growth	6.17%	2.15%	14.37%	0.94%
EBIDTA Margin	10.32%	12.25%	13.32%	7.23%
APAT	617	1864	1978	633
Growth	-16.82%	201.86%	6.12%	-68.00%
EPS	2.49	7.51	7.97	5.10
P/E	10.06	6.40	12.00	55.62
P/BV	0.94	1.66	3.00	4.47
EV/EBIDTA	6.61	6.84	8.27	20.80
Net Debt-Equity Ratio	1.53	1.15	0.88	0.79
RoACE	11.15%	14.72%	19.97%	9.55%
RoAE	9.63%	26.95%	26.18%	8.03%

Quarterly Result

Particulars (INR mn)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	YoY Chg	QoQ Chg	9MFY16	9MFY15	YoY Chg
Net Sales	6377	7769	6284	4618	5409	-15.18%	17.12%	16311	16748	-2.61%
Other Operating Income	53	78	50	49	63	19.62%	27.90%	162	167	-3.00%
Other Income	14	50	27	386	35	146.15%	-90.88%	448	153	193.84%
Total Income	6444	7896	6361	5053	5507	-14.54%	8.98%	16921	17068	-0.86%
Total Expenditure	6650	7133	5060	4145	4631	-30.36%	11.71%	13836	15570	-11.14%
Raw Materials Consumed	5264	5985	4083	3155	3591	-31.77%	13.81%	10830	12201	-11.24%
Employee Cost	172	203	222	207	245	42.37%	18.62%	674	537	25.68%
Power, Oil & Fuel	455	164	210	193	196	-57.03%	1.35%	598	962	-37.79%
Other Expenses	758	781	545	590	598	-21.10%	1.44%	1733	1871	-7.36%
EBIDT	(206)	764	1301	908	876	LP	-3.51%	3085	1497	106.04%
EBIDTM	-3.42%	9.10%	20.11%	11.19%	15.37%	1880 bps	418 bps	16.01%	7.95%	806 bps
Interest	287	104	158	164	80	-71.94%	-50.89%	402	763	-47.33%
EBDT	(492)	660	1143	744	796	LP	6.90%	2684	735	265.25%
Depreciation	146	143	125	127	127	-12.98%	0.71%	379	444	-14.75%
PBT	(639)	517	1019	618	668	LP	8.17%	2305	291	693.39%
Tax	(201)	241	316	199	239	-218.89%	19.79%	754	89	742.95%
Net profit	(438)	277	703	419	430	LP	2.65%	1551	201	671.36%
Extra-ordinary Items	(131)	(38)	0	166	0	-	-	165	(206)	-179.84%
APAT	(307)	315	703	253	430	LP	69.99%	1386	408	240.22%
APATM	-6.87%	3.56%	11.18%	9.07%	7.95%	1482 bps	(112 bps)	9.51%	1.20%	831 bps
EPS	(2.48)	2.54	5.66	2.04	3.46	LP	69.99%	11.17	3.28	240.22%
Equity	1241	1241	1241	1241	1241	-	-	1241	1241	-

Financials

Income Statement

Y/E (INR mn)	FY12	FY13	FY14	FY15
Net Sales	20998	21448	24530	24762
<i>Growth</i>	<i>6.17%</i>	<i>2.15%</i>	<i>14.37%</i>	<i>0.94%</i>
Raw Materials Consumed	15292	14159	16523	18098
Selling and Distribution Exp.	728	702	770	927
Total Expenditure	18830	18822	21262	22972
EBIDTA (without OI)	2168	2627	3269	1790
<i>Growth</i>	<i>-1.34%</i>	<i>21.18%</i>	<i>24.44%</i>	<i>-45.23%</i>
<i>EBITDA Margin</i>	<i>10.32%</i>	<i>12.25%</i>	<i>13.32%</i>	<i>7.23%</i>
Depreciation	755	544	623	587
EBIT	1412	2082	2646	1203
<i>EBIT Margin</i>	<i>6.73%</i>	<i>9.71%</i>	<i>10.79%</i>	<i>4.86%</i>
Interest Expenses	750	515	664	598
Other Income	305	334	437	203
EBT	967	1902	2419	808
Tax Expenses	216	540	717	330
PAT	751	1361	1702	478
Excep./Extra. Items	134	(503)	(277)	(155)
APAT	617	1864	1978	633
<i>Growth</i>	<i>-16.82%</i>	<i>201.86%</i>	<i>6.12%</i>	<i>-68.00%</i>
<i>APAT Margin</i>	<i>2.94%</i>	<i>8.69%</i>	<i>8.06%</i>	<i>2.56%</i>

Key Ratios

Y/E	FY12	FY13	FY14	FY15
Per Share Data (INR)				
Adjusted EPS	2.49	7.51	7.97	5.10
CEPS	5.12	9.86	10.99	11.03
BVPS	53.36	58.12	63.63	63.45
Return Ratios				
RoACE	11.15%	14.72%	19.97%	9.55%
RoAE	9.63%	26.95%	26.18%	8.03%
Balance Sheet Ratios				
Net Debt-Equity Ratio	1.53	1.15	0.88	0.79
Current Ratio	2.20	2.08	2.28	2.36
Interest Cover Ratio	2.29	4.70	4.64	2.35
Efficiency Ratios				
Total Asset Turnover	1.36	1.31	1.59	1.68
Inventory Days	73	115	103	104
Debtors Days	8	7	6	7
Creditors Days	29	44	23	37
Valuations				
P/E	10.06	6.40	12.00	55.62
P/BV	0.94	1.66	3.00	4.47
Market Cap / Sales	0.30	0.56	0.97	1.42
EV/EBIDTA	6.61	6.84	8.27	20.80

Balance Sheet

Y/E (INR mn)	FY12	FY13	FY14	FY15
SOURCES OF FUNDS				
Share Capital	1241	1241	1241	1241
Reserves	5380	5971	6656	6633
Total Networth	6621	7212	7897	7874
Secured Loans	10226	8198	6937	6159
Unsecured Loans	197	197	197	212
Total Debt	10423	8395	7134	6371
Other Liabilities	40	141	85	90
Total Liabilities	17084	15748	15116	14335
APPLICATION OF FUNDS				
Net Block	7840	8795	9052	8678
Capital Work in Progress	854	506	325	104
Investments	4932	3596	2215	1797
Total Current Assets	6259	6909	7249	7425
Total Current Liabilities	2851	3323	3182	3149
Net Current Assets	3409	3586	4067	4276
Net Deferred Tax	(899)	(936)	(1063)	(1108)
Other Assets	948	201	521	588
Total Assets	17084	15748	15116	14335

Cash Flow

Y/E (INR mn)	FY12	FY13	FY14	FY15
EBT	967	1902	2419	808
Add: Depreciation	755	544	623	587
Add: Interest paid	750	515	664	598
Change in Working Capital	(327)	(377)	(362)	(296)
Direct taxes paid	(317)	(557)	(585)	(181)
Less: Other Income/Exceptionals	(305)	(334)	(437)	(203)
Cash flow from operations (a)	1523	1692	2321	1313
Change in Investments	(2852)	1336	1382	418
Change in Fixed Assets	(630)	(1443)	(790)	(440)
Change in CWIP	(132)	348	182	221
Others	82	1182	60	141
Cash flow from investing (b)	(3532)	1423	833	340
Change in Equity	1	0	0	0
Debt Raised/(Repaid)	2956	(2028)	(1260)	(764)
Dividend paid	(372)	(372)	(683)	(869)
Interest paid	(750)	(515)	(664)	(598)
Others	197	(400)	(429)	491
Cash flow from financing (c)	2032	(3315)	(3036)	(1739)
Net Change in Cash (a+b+c)	22	(200)	119	(86)
Opening Cash	269	291	91	209
Closing Cash	291	91	209	123

Sharad Avasthi

Head - Equity Research

sharad.avasthi@spagroupindia.com

Tel.: +91-33-4011 4800

Ext.832

Analyst Certification of Independence: The analyst(s) for this report certifies that all the views expressed in this report accurately reflect his or her personal views about the subject company(ies) or issuers and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of SPA Securities Limited, and have no bearing whatsoever on any recommendation that they have given in the Research Report. Disclaimer and Disclosures as required under SEBI (Research Analyst) Regulations, 2014: SPA Securities Limited (hereinafter refer as SPA Securities) and its affiliates are engaged in investment banking, investment advisory, stock broking, institutional equities, Mutual Fund Distributor and insurance broking. SPA Securities is a SEBI registered securities broking Company having membership of NSE, BSE & MCX for Equity, Future & Option, Currency Derivatives segment and Wholesale Debt Market. The Company is focused primarily on providing securities broking services to institutional clients and is empanelled as an approved securities broker with all the major Nationalised, Private and Co-operative banks, Corporate houses, Insurance Companies, Financial Institutions, Asset Management Companies and Provident Fund Trusts. Details of affiliates are available on our website i.e. www.spasecurities.com.

SPA Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH00002615.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in the last five years. We have not been debarred from doing business by any Stock Exchange/SEBI or any other authorities, nor has our certificate of registration been cancelled by SEBI at any point of time.

General Disclosures: This Research Report (hereinafter called "report") has been prepared by SPA Securities and is meant for sole use by the recipient and not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, (as defined under section 2(h) of securities Contracts (Regulation) Act, 1956, through SPA Securities nor any solicitation or offering of any investment/trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments.

This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by SPA Securities to be reliable, although its accuracy and completeness cannot be guaranteed. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. Any review, retransmission or any other use is prohibited. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. While we would endeavour to update the information herein on a reasonable basis, we are under no obligation to update the information. Also, there may be regulatory, compliance or other reasons that prevent us from doing so. Hence all such information and opinions are subject to change without notice.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report. Neither SPA Securities nor its affiliates or their respective directors, employees, agents or representatives shall be responsible or liable in any manner, directly or indirectly, for the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. SPA Securities may have issued other reports in the past that are inconsistent with and reach different conclusion from the information presented in this report.

SPA Securities, its affiliates and employees may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report.

The user should consult their own advisors to determine the merits and risks of investment and also read the Risk Disclosure Documents for Capital Markets and Derivative Segments as prescribed by Securities and Exchange Board of India before investing in the Indian Markets.

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject SPA Securities or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of SPA Securities.

List of Associates as per SEBI (Research Analyst) Regulations, 2014

Statements on ownership and material conflicts of interest, compensation - SPA and Associates

Disclosure of interest statement	Yes/No
SPA Securities/its Affiliates/Analyst/his or her Relative financial interest in the company	No
SPA Securities/its Affiliates/Analyst/his or her Relative actual/beneficial ownership of more than 1% in subject company at the end of the month	No
Immediately preceding the date of the publication of the research report or date of public appearance.	No
Investment banking relationship with the company covered	No
Any other material conflict of interest at the time of publishing the research report	No
Receipt of compensation by SPA Securities or its Affiliated Companies from the subject company covered for in the last twelve months:	
<ul style="list-style-type: none"> Managing/co-managing public offering of securities Investment banking/merchant banking/brokerage services products or services other than those above in connection with research report 	No
Whether Research Analyst has served as an officer, director or employee of the subject company covered	No
Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;	No

For statements on ownership and material conflicts of interest, compensation, etc. for individual Research Analyst(s), please refer to each specific research report.

SPA Securities Ltd: Mittal Court, A-Wing, 10th Floor, Nariman Point, Mumbai - 400 021, Tel. No. : +91-022-4289 5600, Fax: +91 (22) 2657 3708/9

For More Information Visit Us At : www.spasecurities.com

SPA CAPITAL SERVICES LIMITED

Investment Advisory services,
AMFI Reg. No. ARN-0007

SPA CAPITAL ADVISORS LIMITED

SEBI registered Category-1
Merchant Bankers
SEBI Regn. No. INM000010825

SPA COMTRADE PRIVATE LIMITED

SPA INSURANCE BROKING SERVICES LTD

Direct Broker for Life and General
Insurance Broking
IRDA Lic. Code No. DB053/03

SPA Securities Ltd SEBI Reg. Nos.

NSE Cash	INB231178238
NSE Future & Option	INF231173238
NSE Currency Derivatives	INE231178238
BSE Cash	INB011178234
BSE Currency Derivatives	INE011178234
MCX-SX Cash	INB261178231
MCX-SX Future & Option	INF261178231
MCX-SX Currency Derivatives	INE261178238
Mutual Fund	ARN 77388
CDSL DP	IN-DP-CDSL-485-2008
NSDL DP	IN-DP-NSDL-316-2009
SEBI Research Analyst	INH100002615