

**BUY**

<b>Price</b>	<b>Rs51</b>
<b>Target Price</b>	<b>Rs65</b>
<b>Investment Period</b>	<b>12 months</b>

**Stock Info**

Sector	Petrochemicals
Market Cap (Rs cr)	630
Beta	0.5
52 WK High / Low	64/25
Avg. Daily Volume	53965
Face Value (Rs)	10
BSE Sensex	15,670
Nifty	4,636
BSE Code	500940
NSE Code	FINPIPE
Reuters Code	FINX.BO
Bloomberg Code	FNXP@IN

**Shareholding Pattern (%)**

Promoters	52.1
MF/Banks/Indian FIs	7.3
FII/ NRIs/ OCBs	3.2
Indian Public/others	37.4

<b>Abs.</b>	<b>3m</b>	<b>1yr</b>	<b>3yr</b>
Sensex (%)	37.4	9.2	45.9
Finolex (%)	62.3	(12.9)	(30.5)

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**Performance Highlights**

- Top-line declines by 21.2%:** During 1QFY2010, Finolex Industries (Finolex) clocked a Revenue of Rs330.9cr (Rs420.1cr). The revenue fell primarily on account of a fall in realisations. The sale volume of PVC fell by 6% yoy to 51,385MT (54,734MT), while the volume of PVC pipes increased by 31.5% to 29,346MT (22,316MT).
- Operating Profit at Rs97.2cr:** The OPM for the quarter was up 1,941bp yoy, and stood at 29.4% (9.9%). The phenomenal expansion in the OPM was on account of a substantial decline in crude-based raw material prices. The company's Operating Profit for the quarter grew 132.6% yoy to Rs97.2cr (Rs41.8cr). The substantial reduction in the prices of raw materials, such as EDC and Ethylene, from the highs witnessed in 1HFY2009 is expected to enable the company to maintain good margins, going ahead, albeit at a slightly lower level than this quarter, as we believe that these margins are not sustainable.
- Net Profit at Rs47.9cr:** On the Bottom-line front, the company recorded a Net Profit of Rs47.9cr (Rs11.7cr), up 307.7% yoy. The substantial growth in the Net Profit was primarily on account of a tremendous growth in the company's Operational Profit. During the quarter, the company's loss on forex decreased substantially to Rs6.6cr (Loss of Rs30cr), down by 78% yoy. The reduction in forex losses also boosted the company's Bottom-line significantly.

**Key Financials**

<b>Y/E March (Rs cr)</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>
<b>Net Sales</b>	<b>1,395</b>	<b>1,493</b>	<b>1,718</b>	<b>1,935</b>
% chg	35.8	7.0	15.1	12.6
<b>Net Profit</b>	<b>71.2</b>	<b>(37.9)</b>	<b>111.1</b>	<b>112.1</b>
% chg	1.9	(153.2)	-	0.9
<b>OPM (%)</b>	<b>10.7</b>	<b>0.7</b>	<b>14.9</b>	<b>13.6</b>
<b>EPS (Rs)</b>	<b>5.7</b>	<b>-</b>	<b>9.0</b>	<b>9.0</b>
<b>P/E (x)</b>	<b>8.8</b>	<b>-</b>	<b>5.7</b>	<b>5.6</b>
<b>P/BV (x)</b>	<b>1.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
<b>RoE (%)</b>	<b>12.8</b>	<b>(7.6)</b>	<b>20.9</b>	<b>19.9</b>
<b>RoCE (%)</b>	<b>6.8</b>	<b>(3.5)</b>	<b>12.4</b>	<b>12.5</b>
<b>EV/Sales (x)</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>
<b>EV/EBITDA (x)</b>	<b>6.9</b>	<b>114.2</b>	<b>4.5</b>	<b>4.3</b>

Source: Company, Angel Research

### Operational Highlights

During the quarter, the company produced 54,100MT (51,750MT) of PVC, up 4.5% yoy, while it produced 29,828MT (20,600MT) of PVC pipes, up 44.8% yoy. The sales volume of PVC fell by 6% yoy to 51,385MT (54,734MT), while the volume of PVC pipes increased by 31.5% yoy to 29,346MT (22,316MT). The company has already initiated measures to increase the PVC pipes capacity from 97,200MTPA to 140,000MTPA by the end of current financial year.

### Outlook and Valuation

The demand for PVC in India outstrips its supply. The major raw materials for manufacturing PVC are petroleum-based products. The prices of raw materials, which touched their historical highs during 1HFY2009, have cooled down considerably since then. The phenomenal decline in the prices of key raw materials like EDC, Ethylene, and VGCM has enabled Finolex to clock phenomenally high profits during the quarter, with the company managing to enter into contracts for procuring them at very low rates. We expect the company to maintain high operating profits, at least over the next few quarters. We also expect Finolex's OPM to improve on account of the commissioning of the company's captive power plant (CPP) in 2QFY2009, which will lead to a significant saving in costs.

We maintain our FY2011E EV/EBITDA multiple for the stock at 5x. But, we are enhancing our EBITDA estimate for FY2010E and FY2011E, which is primarily due to the expansion in our OPM estimates. We continue to include the value of the 14.5% stake held by the company in Finolex Cables, now at a 25% discount to the current market value of that stock, and the estimated value of the Pune land at Rs200cr, which the company was planning to sell at Rs400cr. **We maintain a Buy on the stock, with a revised SOTP Target Price of Rs65 (Rs42).**

#### Exhibit 1: SOTP-based Valuation

EBITDA FY2011 (PVC business)(Rs cr)	262
EV/EBITDA Multiple (x)	5
EV (Rs cr)	1310
(Less) Debt (Rs cr)	803
(Add) Cash (Rs cr)	32
<b>Total Value of PVC Business (Rs cr)</b>	<b>539</b>
Value of Finolex Cables shares (Rs cr)	66
Value of the land (Rs cr)	200
Total value of Equity (Rs cr)	805
<b>Value / Share (Rs)</b>	<b>65</b>

Source: Angel Research

**Exhibit 2: 1QFY2010 Performance**

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
<b>Net Sales</b>	<b>330.9</b>	<b>420.1</b>	<b>(21.2)</b>	<b>1,492.9</b>	<b>1,394.9</b>	<b>7.0</b>
Cons. of RM	158.4	277.4	(42.9)	979.8	957.3	2.3
(% of Sales)	47.9	66.0		65.6	68.6	
Staff Costs	12.6	11.0	14.8	37.6	30.1	25.1
(% of Sales)	3.8	2.6		2.5	2.2	
Power & Fuel	30.6	32.0	(4.4)	166.2	119.1	39.5
(% of Sales)	9.2	7.6		11.1	8.5	
Other Exp	32.2	57.9	(44.4)	299.4	139.3	115.0
(% of Sales)	9.7	13.8		20.1	10.0	
<b>Total Exp.</b>	<b>233.8</b>	<b>378.3</b>	<b>(38.2)</b>	<b>1,483.0</b>	<b>1,245.8</b>	<b>19.0</b>
<b>Operating Profit</b>	<b>97.2</b>	<b>41.8</b>	<b>132.6</b>	<b>10.0</b>	<b>149.1</b>	<b>(93.3)</b>
OPM (%)	29.4	9.9		0.7	10.7	
Interest	15.6	15.7	(0.4)	46.8	30.3	54.5
Depreciation	15.0	15.0	(0.3)	58.3	57.5	1.5
Other Income	3.8	5.2	(26.5)	36.2	40.5	(10.6)
<b>PBT (incl. Extr. It.)</b>	<b>70.4</b>	<b>16.2</b>	<b>333.3</b>	<b>(59.0)</b>	<b>101.8</b>	<b>(158.0)</b>
Extr. Income / (Exp)				(187.3)	4.9	
<b>PBT (incl. Extr. It)</b>	<b>70.4</b>	<b>16.2</b>	<b>333.3</b>	<b>128.3</b>	<b>96.9</b>	<b>32.3</b>
(% of Sales)	21.3	3.9		8.6	6.9	
Provision for Tax	22.5	4.5	400.0	(21.1)	30.6	(169.0)
(% of PBT)	32.0	27.7		(16.5)	31.6	
<b>Reported PAT</b>	<b>47.9</b>	<b>11.7</b>	<b>307.7</b>	<b>(37.9)</b>	<b>71.2</b>	<b>(153.2)</b>
PATM (%)	14.5	2.8		(2.5)	5.1	
Eq. sh. Capital	124.0	124.0	-	124.0	124.0	
<b>EPS (Rs)</b>	<b>3.9</b>	<b>0.9</b>		<b>(3.1)</b>	<b>5.7</b>	
<b>Adjusted PAT</b>	<b>47.9</b>	<b>11.7</b>	<b>307.7</b>	<b>149.4</b>	<b>66.3</b>	<b>125.2</b>

Source: Company, Angel research



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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b> <b>Reduce (Downside upto 15%)</b>	<b>Accumulate (Upside upto 15%)</b> <b>Sell (Downside &gt; 15%)</b>	<b>Neutral (5 to -5%)</b>
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