

NEUTRAL

Price	Rs28
Target Price	-
Investment Period	-

Stock Info

Sector	Petrochemicals
Market Cap (Rs cr)	345
Beta	0.5
52 WK High / Low	90/27
Avg Daily Volume	65518
Face Value (Rs)	10
BSE Sensex	9,201
Nifty	2,803

BSE Code	500940
NSE Code	FINPIPE
Reuters Code	FINX.BO
Bloomberg Code	FNXP@IN

Shareholding Pattern (%)

Promoters	52.1
MF/Banks/Indian FIs	7.4
FII/ NRIs/ OCBs	3.7
Indian Public	36.8

Abs.	3m	1yr	3yr
Sensex (%)	(13.4)	(50.7)	(5.6)
Finolex (%)	(18.2)	(67.1)	(61.3)

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Performance Highlights

- Top-line remains flat due to fall in realisations:** Finolex Industries (Finolex) clocked flat Revenues for 3QFY2009 to Rs407.4cr (Rs406.0cr) due to the fall in realisations. During 3QFY2009, sales volume of PVC resins and pipes increased by 20% and 49% yoy respectively but, realisations fell sharply. For 9MFY2009, Top-line grew 15.9% yoy to Rs1,109.7cr (Rs957.7cr).
- Operating Losses at Rs8.7cr:** The company recorded Operating Losses of Rs8.7cr (Profit of Rs42.4cr) during the quarter on the back of high cost inventory of earlier quarters. For 9MFY2009, Operating Profits stood at Rs113.7cr (Rs90.2cr), up 26% yoy.
- Bottom-line turns negative on Rs65cr Forex losses:** The company recorded Net Losses of Rs60.9cr (Profit of Rs21.6cr) primarily on account of the Rs65cr losses arising from forex hedging. To hedge forex fluctuations, the company uses currency derivatives. Finance costs increased to Rs9.1cr (Rs7cr) during the quarter. The company has decided to increase the price of its output to improve Profitability in ensuing quarters. During the quarter, Other Income also de-grew 34.5% to Rs4.3cr (Rs6.6cr). For 9MFY2008, the company clocked Net Losses of Rs70.9cr (Profit of Rs70.0cr).

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	1,027	1,395	1,679	1,827
% chg	39.5	35.8	20.4	8.8
Net Profit	69.9	71.2	(55.3)	64.7
% chg	65.2	1.9	(177.7)	217.1
Diluted EPS (Rs)	12.2	10.7	9.0	10.3
EBITDA Margin (%)	5.6	5.7	(4.5)	5.2
P/E (x)	4.9	4.8	(6.2)	5.3
RoE (%)	0.7	0.6	0.7	0.7
RoCE (%)	13.2	12.8	(11.2)	12.7
P/BV (x)	6.4	6.8	7.4	10.1
EV/Sales (x)	0.5	0.5	0.5	0.4
EV/EBITDA (x)	4.4	5.0	5.7	4.2

Source: Company, Angel Research

Outlook and Valuation

Demand for PVC in India outstrips supply. Petroleum-based products are the major raw materials required for the manufacture of PVC. Raw material prices, which hit historical highs in the first two quarters of FY2009, have now cooled down considerably. There has been a fall in the prices of key raw materials like EDC, Ethylene, and VGCM, which augurs well for the company's future Profitability. However, with the company importing a major portion of its raw material requirements, the current adverse INR v/s USD exchange rate is an area of concern for the company. On a positive note, prices of PVC products globally have started stabilizing, which would lend a boost to the company's Bottom-line going ahead. The domestic demand outlook is also favourable.

We are downgrading our OPM estimates for FY2009E to 9% (9.5%). However, we believe OPMs would improve in FY2010E compared to FY2009E on account of commissioning of the company's captive power plant (CPP), which would lead to cost saving.

We maintain our FY2010E EV/EBITDA multiple for the stock at 5x. But, we are pruning our EBITDA estimate for FY2010E to Rs188cr (Rs194cr), which is primarily due to the reduction in our OPM estimates. We continue to include the value of the 14.5% stake held by the company in Finolex Cables at 25% discount to the current market value of that stock. We have not factored in the Pune land, which the company had proposed to sell at Rs400cr. **We are downgrading the stock from a Buy to Neutral, with a revised SOTP Target Price of Rs27 (Rs80).**

Exhibit 1: SOTP	Old	New
EBITDA FY2010 (<i>PVC business</i>)(Rs cr)	194	188
<i>EV/EBITDA Multiple (x)</i>	5	5
EV (Rs cr)	972	940
(Less) Debt (Rs cr)	519	690
(Add) Cash (Rs cr)	46	46
Total Value of PVC Business (Rs cr)	499	296
Value of Finolex Cables shares (Rs cr)	88	33
Value of the land (Rs cr)	400	0
Total value of Equity (Rs cr)	987	329
Value/Share (Rs)	80	27

Source: Angel Research

Exhibit 2: 3QFY2009 Performance

Y/E March (Rs cr)	3QFY2009	3QFY2008	% chg	9MFY2009	9MFY2008	% chg
Net Sales	407.4	406.0	0.3	1,109.7	957.7	15.9
Consumption of RM	334.2	294.4	13.5	780.0	687.9	13.4
(% of Sales)	82.0	72.5		70.3	71.8	
Staff Costs	11.3	8.8	29.1	31.0	26.3	17.7
(% of Sales)	2.8	2.2		2.8	2.7	
Power & Fuel	41.1	32.8	25.4	109.0	81.8	33.1
(% of Sales)	10.1	8.1		9.8	8.5	
Other Expenses	29.4	27.6	6.6	76.1	71.4	6.6
(% of Sales)	7.2	6.8		6.9	7.5	
Total Expenditure	416.1	363.6	14.4	996.0	867.4	14.8
Operating Profit	(8.7)	42.4	(120.5)	113.7	90.2	26.0
OPM (%)	(2.1)	10.4		10.2	9.4	
Interest	9.1	7.0	30.9	36.5	16.6	119.9
Depreciation	15.1	14.4	5.0	45.3	42.7	6.1
Other Income	4.3	6.6	(34.5)	15.7	24.8	(36.6)
PBT (excl. Extr. Items)	(28.6)	27.6	(203.4)	47.5	55.6	(14.6)
Extr. Income/(Expense)	(65.0)	1.6		(154.1)	42.8	
PBT (incl. Extr. Items)	(93.6)	29.2	(420.0)	(106.6)	98.4	(208.3)
(% of Sales)	(23.0)	7.2		(9.6)	10.3	
Provision for Taxation	(32.7)	7.7	(525.5)	(35.7)	28.4	(225.4)
(% of PBT)	34.9	26.3		33.5	28.9	
Reported PAT	(60.9)	21.6	(382.4)	(70.9)	70.0	(201.4)
PATM (%)	(15.0)	5.3		(6.4)	7.3	
Equity Share Capital	124.0	124.0	-	124.0	124.0	
EPS (Rs)	(4.9)	1.7		(5.7)	5.6	
Adjusted PAT	4.1	20.0	(79.6)	83.2	27.2	206.2

Source: Company, Angel Research



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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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