

BUY

Price	Rs58
Target Price	Rs90
Investment Period	12 months

Stock Info

Sector	Petrochemicals
Market Cap (Rs cr)	724
Beta	0.89
52 WK High / Low	126/57
Avg Daily Volume	239251
Face Value (Rs)	10
BSE Sensex	14,293
Nifty	4,266
BSE Code	500940
NSE Code	FINPIPE
Reuters Code	FINX.BO
Bloomberg Code	FXP IN

Shareholding Pattern (%)

Promoters	52.1
MF/Banks/Indian FIs	8.4
FII/ NRIs/ OCBs	4.3
Indian Public	35.2

Abs.	3m	1yr	3yr
Sensex (%)	(6.5)	(1.3)	99.9
Finolex Ind. (%)	0.8	(29.3)	(16.0)

Sulabh Agrawal

Tel: 022 – 4040 3800 Ext: 346

 e-mail: sulabh.agrawal@angeltrade.com
Performance Highlights

- Topline up 63%:** For 4QFY2008, Finolex Industries (Finolex) posted a yoy Top-line growth of 63.4% to Rs501cr (Rs307cr). Revenue increased on account of the hike in the finished product prices and higher volumes of PVC resin sold. Revenues ended higher by over 60% yoy for the third consecutive quarter.
- Margins contract substantially:** Finolex's OPM for 4QFY2008 contracted to 5.6% (11.3%) primarily due to the increase in raw material costs. The international prices of its primary raw materials spiked 30-35% during 4QFY2008. Such increase in costs is usually passed on with a lag of approximately two months. The decline in OPM was however, to a large extent, restricted owing to the hike in the finished product prices. However, the decline in OPM resulted in 4QFY2008 Operating Profit dipping to Rs28.2cr (Rs34.6cr).
- Finance costs increase 271%:** Finance costs during 4QFY2008 increased to Rs13.7cr (Rs3.7cr) owing to the derivative losses. Finolex imports most of its raw material requirements and has an active foreign exchange hedge policy in place. We believe that the company will continue using the hedges as it has substantial foreign currency exposure.
- Net Profit declines a substantial 93.1%:** Finolex's Earnings for the quarter declined 93.1% yoy to Rs1.2cr (Rs17.5cr). Earnings were impacted by the decline in OPMs and increase in finance costs.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	1,027.1	1,635.0	1,840.3	1,895.7
<i>% chg</i>	39.5	59.2	12.6	3.0
Net Profit	69.9	71.2	69.5	87.3
<i>% chg</i>	65.2	1.9	-2.3	25.5
Diluted EPS (Rs)	5.6	5.7	5.6	7.0
EBITDA Margin (%)	12.2	9.1	10.3	11.3
P/E (x)	10.4	10.2	10.4	8.3
RoE (%)	13.2	12.8	11.9	13.9
RoCE (%)	8.3	9.4	9.7	10.9
P/BV (x)	1.4	1.3	1.2	1.2
EV/Sales (x)	1.1	0.7	0.6	0.6
EV/EBITDA (x)	9.4	7.9	6.2	5.5

Source: Company, Angel Research

Key Developments

- **FY2008 Highlights:** Revenues for FY2008 increased 59% to Rs1,635cr (Rs1,027cr) on account of an approximately 35% hike in the prices across products and over 50% increase in the sales volume of PVC resin. OPMs during FY2008 declined by 311bp yoy to 9.1% (12.2%). Finance costs of the company increased to Rs30.3cr (Rs13.7cr) primarily on account of foreign exchange derivative losses. The company has an active foreign exchange hedge policy in place. We expect the company to continue to use the derivative products as a major hedge against its foreign currency exposure.
- **Commissioning of captive power plant (CPP) delayed:** Finolex is in the process of installing a CPP in two phases. The first phase of 22MW was expected to be completed during 4QFY2008, but the commissioning has been delayed to the beginning of 3QFY2009. PVC manufacturing being a power-intensive industry, had the first phase of the CPP been completed as per schedule, it would have reduced the company's operating costs for the quarter under review. On a conservative basis, we believe that the CPP would be fully commissioned during 4QFY2009E and benefits from the same would start accruing from the beginning of FY2010E. We have factored in benefits of the CPP accruing from FY2010E as against our earlier estimate of the benefits accruing from FY2009E.
- **Sale of land at Pune drags:** Finolex plans to sell its 80 acre plot at Pune, which is expected to fetch approximately Rs500cr. However, there has been continuous delay in the sale of this land. Further, the Real Estate market in India has also been witnessing a slowdown over the past several months. We believe the environment is not conducive for a real estate deal of this size to materialise. As per our interaction with the management, they maintained continuing their pursuits to sell the land. Accordingly, we have conservatively valued the land at Rs5cr per acre amounting to Rs400cr for the 80 acres. Any change in the deal price would impact our Target Price accordingly.

Exhibit 1: Average Crude oil prices

Quarter	Average price	Move	% Move
4QFY2007	58.1	(2.4)	(4.0)
1QFY2008	68.8	10.7	18
2QFY2008	75.0	6.3	9
3QFY2008	89.0	14.0	19
4QFY2008	96.6	7.5	8
1QFY2009	120.6	24.1	25

Source: Bloomberg, Angel Research, Note: 1QFY2009 prices are average for date up to 19.06.2008

- **Steep upward movement in the raw material prices:** The crude oil prices have been moving up rapidly during the last several quarters. The main raw materials for the manufacture of PVC are crude oil derivatives, Ethylene and EDC. The raw materials track the crude oil prices with a lag effect. As for Finolex, it passes on the increase in raw material prices with a lag effect of approximately 45-60 days. Hence, any upward movement in the crude oil prices impacts the company's OPMs in the immediate quarter. Conversely, when the raw material prices dip, benefits of the same are also passed on with a lag effect leading to increase in OPM in the interim. In line with this, the 19% and 8% upward movement in the crude oil prices during 3QFY2008 and 4QFY2008 respectively, adversely impacted Finolex's 4QFY2008 OPM. During 1QFY2009, crude oil prices spurted 25%. We have built in the price hike in our model and have assumed that the crude oil prices will remain range bound at \$120 per barrel during 2HFY2009 and slip to \$110 per barrel in FY2010E. Any further downward movement in the crude oil prices would pose an upside risk to our estimates. Refer to sensitivity table on next page.

Exhibit 2: Sensitivity analysis (Rs cr) - FY2009E

Average oil price	Revenue	OPM (%)	Operating Profit
\$110	1,775.9	11.0	194.5
\$120	1,840.3	10.3	188.6
\$130	1,950.8	9.2	180.4

Exhibit 3: Sensitivity analysis (Rs cr) - FY2010E

Average oil price	Revenue	OPM (%)	Operating Profit
\$100	1,819.9	12.0	217.8
\$110	1,895.7	11.3	213.3
\$120	2,009.4	10.3	206.0

Source: Company, Angel Research

Outlook and Valuation

The demand for PVC in India outstrips supply. The major raw materials for manufacturing PVC are petroleum-based products. Finolex passes on any increase in the raw material prices with a lag effect.

We are assuming average crude oil prices to remain flat in the range of \$120 per barrel in FY2009E and drop to \$110 per barrel in FY2010E. Also, benefits of CPP would start accruing from FY2010E.

We are downgrading our FY2010E EV/EBITDA multiple for the stock from 6x to 5x owing to the volatility in the prices of petroleum-based products and reduce our EBITDA estimates from Rs266cr to Rs213cr. 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 also downgraded our estimated value of the Pune land that the company plans to sell from Rs500cr to Rs400cr due to the cooling off in the real estate market. **We maintain a Buy on the stock, with a SOTP Target Price of Rs90.**

Exhibit 4: SOTP

EBITDA FY2010 (PVC business)(Rs cr)	213
EV/EBITDA Multiple (x)	5
EV (Rs cr)	1,066
(Less) Debt (Rs cr)	519
(Add) Cash (Rs cr)	71
Total Value of PVC Business (Rs cr)	618
Value of Finolex Cables shares (Rs cr)	98
Value of the land	400
Total value of Equity (Rs cr)	1,117
Value/Share (Rs)	90

Source: Angel Research

Exhibit 5: 4QFY2008 Performance

Y/E Mar (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Net Sales	501.0	306.6	63.4	1,635.0	1,027.1	59.2
Total Expenditure	472.8	272.0	73.8	1,486.0	901.5	64.8
Operating Profit	28.2	34.6	(18.5)	149.1	125.6	18.6
OPM (%)	5.6	11.3	-	9.1	12.2	-
Interest	13.7	3.7	271.5	30.3	13.7	120.8
Depreciation	14.7	13.9	5.8	57.5	54.6	5.2
Other Income	3.6	9.5	(62.1)	40.5	44.4	(8.9)
Profit before Tax	3.4	26.5	(87.3)	101.8	101.7	0.1
Tax	2.1	9.0	(76.2)	30.6	31.8	(3.9)
Profit after Tax	1.2	17.5	(93.1)	71.2	69.9	1.9
Diluted EPS (Rs)	0.1	1.4	(93.1)	5.7	5.6	1.9

Source: Angel Research



Angel Broking Limited

Research Team Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

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