

Pick of the week



Finolex Industries Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹618

Target Price

₹730

Potential Upside

18.1%

Investment Argument

- FIL would be a major beneficiary from the government's focus on irrigation, providing piped water to all by 2024 and improvement in rural consumption in the long term.
- The management has maintained positive demand outlook in the longer run in PVC pipes business and expects higher volume growth in non-agri category.
- FIL believes that there is an opportunity to gain market share as weaker companies (particularly from unorganized space) may find difficult to sail though in the current challenging macro environment.
- We believe that the higher spread and demand supply mismatch in PVC resin would positively impact resin margin in the near term. Margin outlook for Q4FY21 remains strong based on recent trends in PVC-EDC spread.
- We value the stock on sum of the parts (SoTP) basis and arrive at fair value of Rs730, where we value PVC pipes business at 15x FY23E EV/EBITDA (operating profit) and PVC Resin business at 7x FY23E EV/EBITDA.