

July 29, 2024

RESULT REPORT Q1 FY25 | Sector: Building Materials

Finolex Industries Ltd.

Volume growth to be capped; maintain SELL!

Result Synopsis

Finolex Industries Ltd (FNXP) registered a muted growth in Q1FY25. Plastic pipes segment delivered a marginal volume decline of 2%YoY (Vs est of 5%YoY growth) to 90,620Te (2-year CAGR stood at 12%), wherein pipes volumes declined by 2%YoY & fittings volumes remained flattish over similar period. ASP improved to Rs124/Kg Vs Rs118/Kg in previous quarter largely owing to better growth in plumbing segment coupled with higher resin prices. ASP remained flattish Vs Q1FY24. Hence pipes revenue declined by 3%YoY to Rs11.23Bn. PVC (US\$/Te) prices stood at 855 Vs 805 in Q1FY24 & PVC/EDC (US\$/Te) delta came in at 533 as compared to 468. Consequently, EBIT/Kg stood at Rs14.8 Vs Rs13.7/Rs13.3 in Q1FY24/Q4FY24 respectively. For resin biz, total volumes increased by 51%YoY (on-low base) to 69,625Te (2-year CAGR stood at 5%). Higher resin prices resulted into better realizations and EBIT margins for the segment. Overall EBITDA margins came in at 18% (in-line with our estimates), as compared to 12.9%/16.9% in Q1FY24/Q4FY24 respectively. During the quarter, company had an exceptional gain of Rs4.17Bn, pertaining to net gains on transfer of rights on leasehold land of ~25.27 acres in Pune. Management maintained their annual volume guidance for plastic pipes at 10-15% in FY25E.

We expect pipes volumes to grow by 10% CAGR over FY24-FY26E & resin biz volumes to grow by 12% (incl captive) over similar period. The expected growth in pipes segment is lower Vs expected growth of peers which are likely to grow volumes by 18-20% over similar period, largely on account of capacity constraints. Though management stated that they are considering capex plans and can add capacities via de-bottlenecking, we reckon volume growth will be capped in near-term (at our volume estimate, capacity utilization will be ~76% factoring 20,000Te additional capacity in FY25E). We believe EBIT/Kg for pipes should come in at Rs13 over FY25E & FY26E & the same for resin biz is likely to stand at Rs10 for FY25E & FY26E. At CMP, the stock trades at rich P/E(x) of 36x on FY26E EPS (unchanged). Though we have revalued the stock at industry average of 30x on FY26E EPS, we maintain our SELL rating on the stock with a target price of Rs271.

Result Highlights

- Revenue for the quarter stood at Rs11.41Bn (12% below est), a degrowth of 3%YoY & 8%QoQ.
- EBITDA margins came in at 18.1% (est of 18%) Vs 12.9%/16.9% in Q1FY24/Q4FY24, respectively. Absolute EBITDA stood at Rs2.07Bn, a growth of 36%YoY & flattish QoQ.
- Net profit stood at Rs837Mn (excl exceptional item gain of Rs4.17Bn), a decline of 27%YoY & 49%QoQ.
- Company had gains of Rs4.16Bn pertaining to net gains on transfer of rights on leasehold land of ~25.27 acres in Pune.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	11,405	12,971	12,878	(12.1)	(11.4)	Revenue below estimates but margin in-line.
EBITDA	2,067	2,335	2,097	(11.5)	(1.5)	
EBITDA Margin (%)	18.1	18.0	16.3	0.7	11.3	
PAT	5,007	1,905	1,770	162.9	182.9	

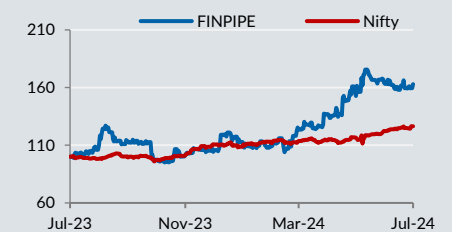
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 325
Target Price	: Rs 271
Potential Return	: -16.7%

Stock data (as on July 29, 2024)

Nifty	24,842
52 Week h/l (Rs)	356 / 186
Market cap (Rs/USD mn)	196,562 / 2,348
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	336
Div yield (%):	0.8
Bloomberg code:	FNXP IN
NSE code:	FINPIPE

Stock performance



	1M	3M	1Y
Absolute return	-0.1%	19.6%	62.9%

Shareholding pattern (As of Jun'24 end)

Promoter	52.5%
FII+DII	18.8%
Others	28.7%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	271	225

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	13.2*	9.0
EPS (Old)	8.2	9.0
% change	60.5%	0.0%

*FY25E EPS revised on account of exceptional item gain.

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	43,174	47,937	53,177
YoY Growth	(1.8)	11.0	10.9
EBIDTA	5,843	6,265	6,900
EBIDTA (%)	13.5	13.1	13.0
PAT	4,736	8,139	5,577
YoY Growth	89.0	71.9	(31.5)
ROE	9.0	13.4	8.1
EPS	7.7	13.2	9.0
P/E	30.1	24.7	36.0
BV/Share	91.1	105.8	116.3
P/BV	2.5	3.1	2.8

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Segmental Highlights for Q1FY25

Pipes division

- Pipes sales stood at Rs11.23Bn, a decrease of 3%YoY & 5%QoQ.
- Volumes stood at 90,620Te, a degrowth of 2%YoY & 10%QoQ (2-year CAGR 12%).
- ASP came in at Rs124/Kg Vs Rs125/Rs118 in Q1FY24/Q4FY24, respectively.
- EBIT% came in at 12% Vs 11%/11.2% in Q1FY24/Q4FY24, respectively. EBIT/Kg stood at Rs14.8 as compared to Rs13.7/Rs13.3 in Q1FY24/Q4FY24, respectively.

Resin division

- Resin sales stood at Rs5.48Bn, a growth of 53%YoY & 8% sequentially.
- Volumes stood at 69,625Te (incl internal), an increase of 51%YoY (low-base impact) & remaining flattish sequentially (2-year CAGR 5%).
- ASP remained flattish on YoY basis & improved by 7%QoQ to Rs79/Kg.
- EBIT% came in at 12.6% Vs 12.9% in Q4FY24. EBIT/Kg expanded by 5%QoQ to Rs9.9 from Rs9.5 in Q4FY24 & as compared to Rs0.7 in Q1FY24 (impacted due to inventory loss).

Other Key Highlights

- Average PVC prices for Q1FY25 increased to US\$855/Te from US\$805/Te in Q1FY24.
- Average PVC/EDC delta increased from US\$468/Te in Q1FY24 to US\$533/Te in Q1FY25.
- Company saw stable demand for the quarter with higher growth from non-agri (urban) segment compared to agri segment.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Revenue	11,411	11,792	8,832	10,197	12,354	11,405	(3.3)	(7.7)
Expenditure	9,236	10,267	7,802	8,998	10,265	9,338	(9.0)	(9.0)
- RM	6,592	7,805	5,306	6,522	7,739	6,686	(14.3)	(13.6)
- Staff Cost	480	519	503	526	567	576	11.0	1.6
- Other Cost	2,165	1,943	1,993	1,950	1,959	2,077	6.9	6.0
Operating Profit	2,174	1,525	1,030	1,199	2,089	2,067	35.5	(1.1)
OPM(%)	19.1	12.9	11.7	11.8	16.9	18.1	519 bps	121 bps
Other Income	292	403	614	351	438	549	36.4	25.4
Depreciation	238	344	274	276	267	261	(24.2)	(2.2)
Interest	65	90	125	77	73	67	(26.3)	(9.0)
Share of P/L of Ass.	135	76	89	117	101	5	(93.4)	(95.0)
Exceptional	-	-	-	-	-	4,170	-	-
PBT	2,298	1,569	1,334	1,315	2,288	6,463	312.0	182.5
Tax	633	416	354	361	639	1,456	250.3	127.8
PAT	1,665	1,153	980	954	1,649	5,007	334.2	203.7
OCI	5,901	732	5,128	(1,032)	(1,325)	10,972	1,399.1	(928.1)
Reported PAT	7,566	1,885	6,108	(78)	324	15,980	747.6	4,831.9
Adjusted PAT	1,665	1,153	980	954	1,649	837	(27.4)	(49.2)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
PVC Resins								
Volumes Sold (Te)	58,132	46,074	37,516	43,738	69,216	69,625	51.1	0.6
Revenue (Rs mn)	5,013	3,594	2,979	3,211	5,075	5,482	52.5	8.0
EBIT	1,173	31	204	309	656	691	2,115.1	5.3
EBIT%	23.4	0.9	6.8	9.6	12.9	12.6	1174 bps	-33 bps
ASP (Rs/Kg)	86	78	79	73	73	79	0.9	7.4
Pipes								
Volumes Sold (Te)	81,451	92,181	62,914	81,311	100,171	90,620	(1.7)	(9.5)
Revenue (Rs mn)	11,021	11,542	8,572	9,916	11,822	11,234	(2.7)	(5.0)
EBIT	903	1,264	676	742	1,328	1,344	6.3	1.2
EBIT%	8.2	11.0	7.9	7.5	11.2	12.0	101 bps	73 bps
ASP (Rs/Kg)	135	125	136	122	118	124	(1.0)	5.0

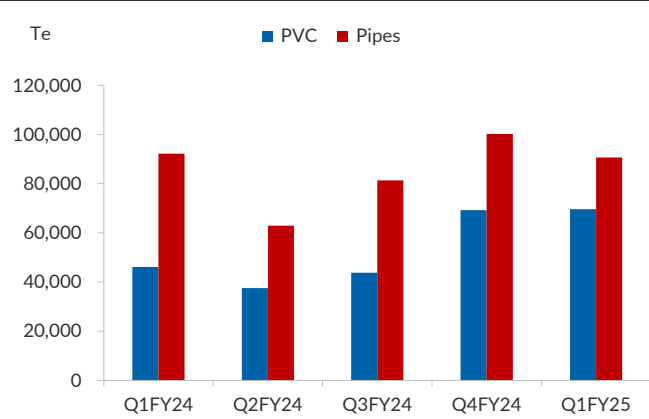
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management maintained their volume growth guidance for plastic pipes at 10-15% for FY25E.
- During the quarter, volumes were lower due to supply-side constraints. The growth in plumbing and sanitation was better than agri-segment.
- In Q1FY25, Agri/Non-agri mix stood at 70%/30%. Management is focused on growing the non-agri mix to 50% in next 3-5years.
- There were no major inventory gains during Q1FY25.
- Current capacity for pipes stands at 470,000Te (including fittings) and in Q1FY25 the plant operated at 80-85%. Going ahead, adding 20-25,000Te capacity in existing plants is not a challenge for the company.
- Company is in process of finalizing capex plans in new regions (will take 18-24m to set-up plant post all approvals). Management specified they are not looking at any inorganic growth. Barring the said capex, annual capex for will be Rs1.5Bn.
- Margins during the quarter were better owing to operating efficiency and discounts being consolidated in Q1FY25. However from next quarter, the discounts will get normalized.
- PVC/EDC/PVC prices in Q1FY25 was \$855/\$322/\$671 Vs \$805/\$337/\$672 in Q1FY24 respectively. Current price of PVC is \$820. PVC-EDC/PVC-VCM delta was \$533/\$184 in Q1FY25 Vs \$468/\$133 in Q1FY24 and the same as on date is \$480/\$80.
- Resin prices were higher due to logistics issues. However with easing of logistics challenges and better availability of material, resin prices have started to correct.
- Current distribution network: Dealer/Retailer nos are 900/30,000 respectively.

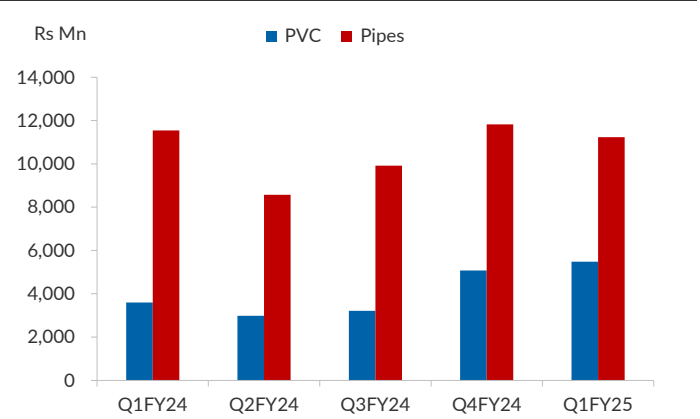
QUARTERLY TRENDS

Exhibit 4: Pipe volume decreased by 2%YoY...



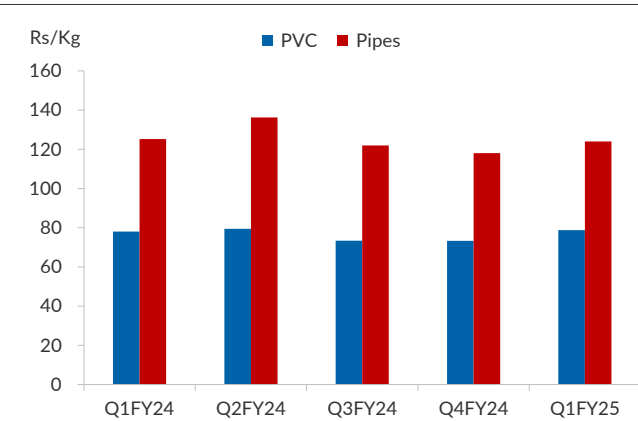
Source: Company, YES Sec

Exhibit 5: Pipe revenue declined by 3%YoY...



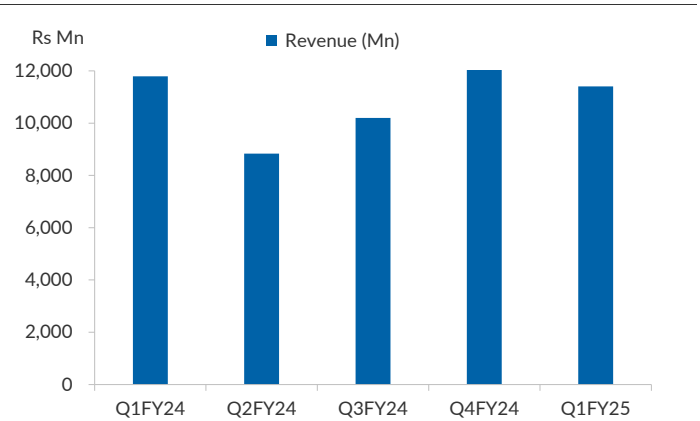
Source: Company, YES Sec

Exhibit 6: Pipes ASP were flattish YoY at Rs124/kg ...



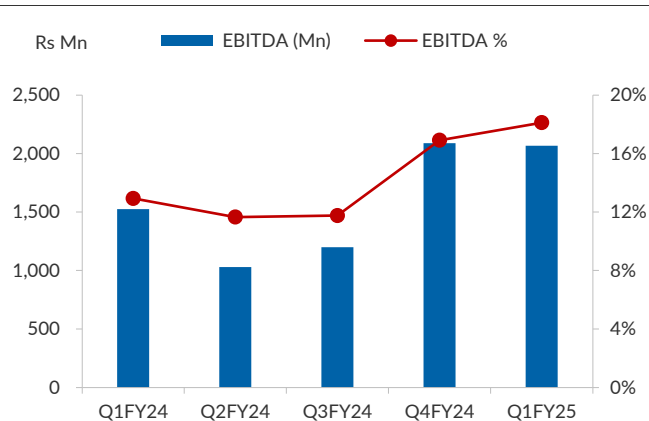
Source: Company, YES Sec

Exhibit 7: Net Revenue degrew by 3%YoY...



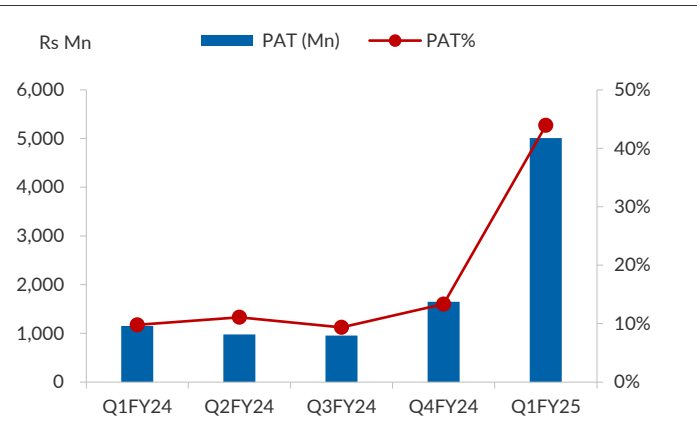
Source: Company, YES Sec

Exhibit 8: Blended margin came in at 18.1% ...



Source: Company, YES Sec

Exhibit 9: Net profit was Rs5Bn (incl exceptional gain)...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	46,473	43,966	43,174	47,937	53,177
COGS	28,491	30,721	27,372	30,716	34,225
COGS %sales	61.3%	69.9%	63.4%	64.1%	64.4%
GP	17,983	13,246	15,803	17,221	18,951
GP%	38.7%	30.1%	36.6%	35.9%	35.6%
EBITDA	10,237	2,924	5,843	6,265	6,900
EBITDA%	22.0%	6.7%	13.5%	13.1%	13.0%
Depreciation	834	892	1,160	1,219	1,284
Finance Cost	141	272	365	307	307
Other Income	822	1,209	1,805	1,943	2,127
PBT	13,831	3,212	6,506	10,852	7,436
Tax	3,317	706	1,770	2,713	1,859
PAT	10,513	2,506	4,736	8,139	5,577
PAT%	22.6%	5.7%	11.0%	17.0%	10.5%

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	1,241	1,237	1,237	1,237	1,237
Reserves	38,037	47,794	55,106	64,173	70,677
Equity	39,278	49,031	56,343	65,410	71,914
Non-current Liab	2,187	2,460	3,201	3,201	3,201
Payables	4,631	2,893	2,886	3,239	3,609
Provisions	42	45	45	45	45
Other current Liab	4,535	3,137	4,260	4,260	4,260
Total Equity & Liab	53,454	62,851	70,579	79,998	86,872
Gross Block	24,660	26,005	27,200	28,700	30,200
Acc Dep	14,737	15,629	16,789	18,008	19,292
Net Block	9,923	10,376	10,411	10,692	10,907
CWIP	95	438	189	189	189
Other Non-current	12,049	21,834	26,437	26,437	26,437
Inventory	10,155	6,732	7,280	8,170	9,103
Receivables	3,345	2,975	4,576	5,081	5,637
Cash & Bank	810	606	317	8,061	13,231
Loans	87	228	168	168	168
Other	538	712	601	601	601
Total Assets	53,454	62,851	70,579	79,998	86,872

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	13,831	3,213	6,506	10,852	7,436
Depreciation & Amortization	834	892	1,160	1,219	1,284
Finance cost	141	272	365	307	307
(Incr)/Decr in Working Capital	(756)	804	(876)	(1,042)	(1,119)
Taxes	(3,356)	(679)	(1,448)	(2,713)	(1,859)
Cash from ops.	6,220	3,017	3,533	8,623	6,049
(Incr)/ Decr in PP&E	(844)	(1,687)	(864)	(1,500)	(1,500)
Cash Flow from Investing	(4,403)	(2,877)	(830)	(1,500)	(1,500)
(Decr)/Incr in Borrowings	728	2,477	(1,460)	-	-
Finance cost	(141)	(252)	(345)	(307)	(307)
Cash Flow from Financing	(1,895)	(289)	(2,767)	621	621
Incr/(Decr) in cash	(79)	(150)	(64)	7,744	5,170
Cash and cash equivalents at beginning of year	314	236	606	317	8,061
Cash and cash equivalents at end of year	235	86	542	8,061	13,231

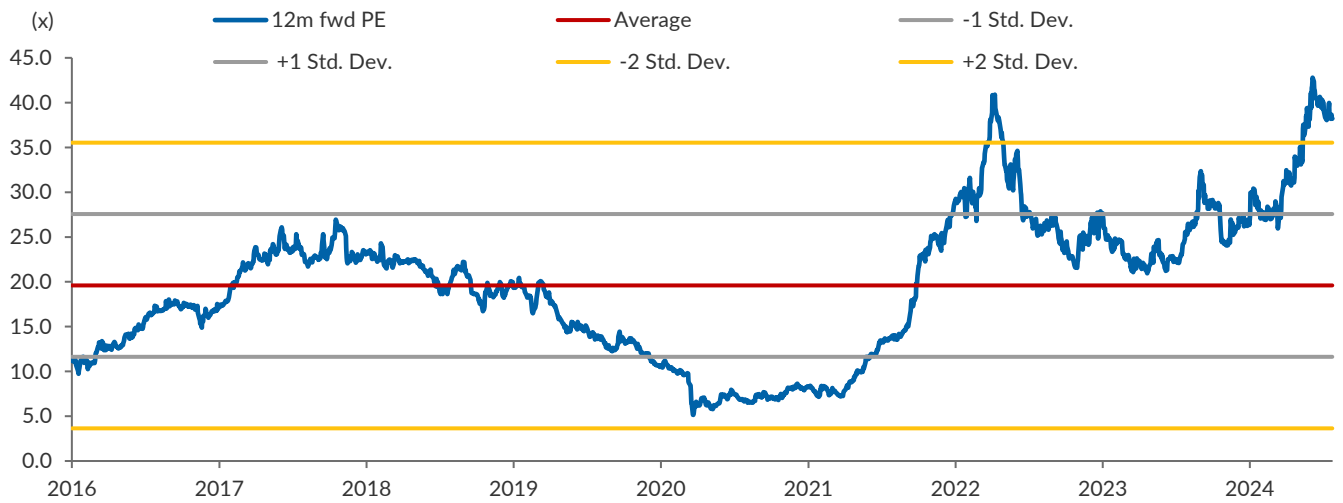
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	34.2%	-5.4%	-1.8%	11.0%	10.9%
EBITDA growth	3.5%	-71.4%	99.8%	7.2%	10.1%
EBIT growth	4.0%	-68.3%	100.2%	7.7%	10.8%
PAT growth	42.5%	-76.2%	89.0%	71.9%	-31.5%
Profitability ratios (%)					
EBITDA margin	22.0%	6.7%	13.5%	13.1%	13.0%
EBIT margin	22.0%	7.4%	15.0%	14.6%	14.6%
PAT margin	22.6%	5.7%	11.0%	17.0%	10.5%
RoCE	27.3%	7.0%	11.7%	10.9%	10.8%
RoE	29.8%	5.7%	9.0%	13.4%	8.1%
Per share values					
EPS	16.9	4.0	7.7	13.2	9.0
CEPS	18.3	5.5	9.5	15.1	11.1
BVPS	63.3	79.3	91.1	105.8	116.3
Valuation ratios (x)					
P/E	8.7	44.1	30.1	24.7	36.0
P/CEPS	8.1	32.2	24.1	21.5	29.3
P/B	2.3	2.2	2.5	3.1	2.8
EV/EBITDA	9.2	39.0	24.9	31.4	27.8
Leverage ratios (x)					
Debt/ Equity	0.1	0.1	0.1	0.1	0.1
Net debt/Equity	0.1	0.1	0.1	(0.1)	(0.1)
Net debt/EBITDA	0.2	1.6	0.6	(0.7)	(1.4)
Int coverage	72.6	11.9	17.8	22.8	25.3
NWC days					
Receivables	26	25	39	39	39
Inventory	130	80	97	97	97
Payables	59	34	38	38	38

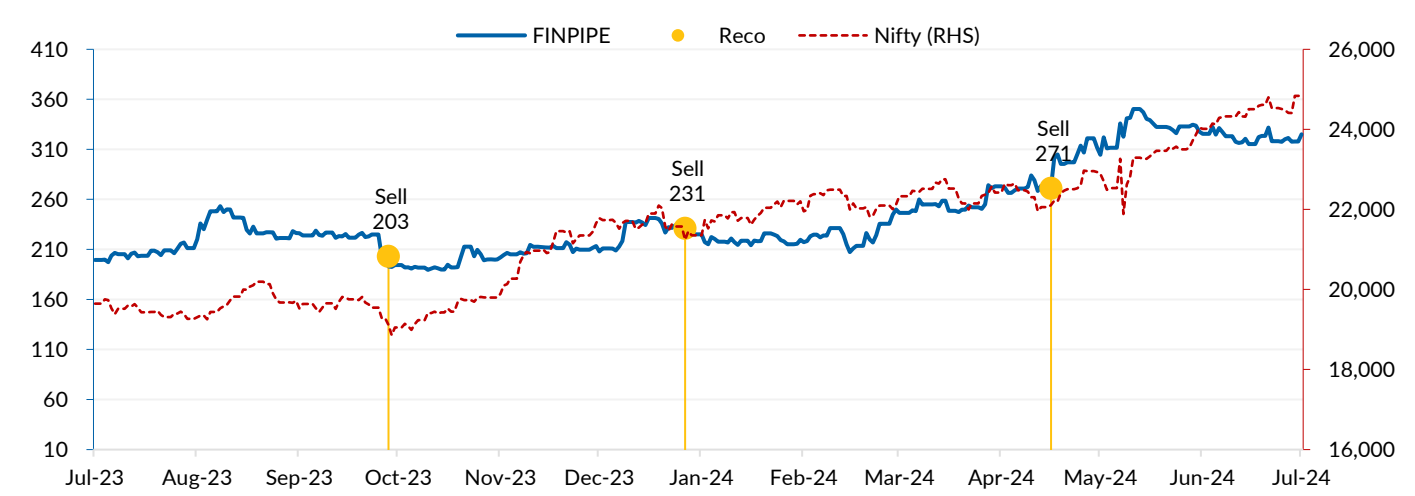
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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