

October 25, 2024

RESULT REPORT Q2 FY25 | Sector: Building Materials

Finolex Industries Ltd

Disappoints on profitability, assign REDUCE!

Result Synopsis

Finolex Industries Ltd reported a poor performance in Q2FY25 wherein revenue declined by 6%YoY. Pipe revenue declined by 4%YoY wherein volumes grew by 10%YoY driven by higher volumes from plumbing segment & ASP declined by 13%YoY to Rs118/Kg. Though volumes for pipes increased, profitability took a sharp knock and registered an EBIT loss of Rs390Mn Vs profit of Rs680Mn in Q2FY24, largely owing to reduction in ASP.

PVC revenue increased by 4%YoY wherein volumes grew by 7%YoY & ASP declined by 3%YoY to Rs77/Kg. PVC segment's EBIT/kg came in at Rs8.9 Vs Rs5.4/Rs9.9 in Q2FY24/Q1FY25 respectively. Other income for the quarter was elevated at Rs826Mn Vs Rs614Mn/Rs549Mn in Q2FY24/Q1FY25 respectively. PVC (\$/Te) stood at 842 Vs 847 in Q2FY24 & PVC/EDC delta (\$/Te) came in at 509 as compared to 571 in Q2FY24.

Guidance

Management maintained their annual growth guidance of 10-12% for FY25 despite a muted growth in H1FY25. Company is undergoing brownfield expansion at both their plants post which total capacity for pipes & fittings will be 520,000Te from current 470,000Te. This incremental capacity will be operational from Q4FY25.

Our View

Though volume growth in Q2FY25 was 10%YoY, for H1FY25 growth stands at mere 3%YoY. Factoring-in the restocking from Q3FY25 and expected recovery in H2FY25, we expect pipe volumes to grow by 8%YoY for FY25 & 9%CAGR over FY24-FY27E. Owing to slump in profitability in H1FY25, we have revised our EBIT/Kg expectation to Rs9.5 for plastic pipes. For resin biz, we expect a steady growth of 10%CAGR & ~95% should be used for captive consumption. We have revised our EPS estimate downwards by 13%/7% for FY25E/FY26E respectively. At CMP, the stock trades at P/E(x) of 31x on FY27E EPS of Rs9, we continue to value the company at P/E(x) of 30x on FY27E EPS, arriving at a target price of Rs270. Hence, we have assigned a REDUCE rating to the stock.

Result Highlights

- Revenue for the quarter stood at Rs8.28Bn (in-line with our est), a decline of 6%YoY.
- Operating margins contracted sharply to 1.3% Vs 11.7%/18.1% in Q2FY24/Q1FY25 respectively. Hence, EBITDA declined to Rs106Mn Vs Rs1.03Bn in Q2FY24.
- Net profit stood at Rs407Mn as compared to Rs980Mn/Rs837Mn (adjusted for one-time gain) in Q2FY24/Q1FY25 respectively.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	8,284	8,515	8,977	(2.7)	(7.7)	Decent volume growth, profitability y dented.
EBITDA	106	1,458	1,258	(92.8)	(91.6)	
EBITDA Margin (%)	1.3	17.1	14.0	(92.5)	(90.9)	
Adjusted PAT	407	1,260	1,046	(67.7)	(61.1)	

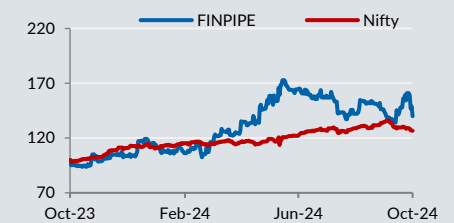
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 282
Target Price	: Rs 270
Potential Return	: -4%

Stock data (as on Oct 25, 2024)

Nifty	24,142
52 Week h/l (Rs)	356 / 186
Market cap (Rs/USD mn)	186453 / 2218
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	385
Div yield (%):	0.8
Bloomberg code:	FNXP IN
NSE code:	FINPIPE

Stock performance



	1M	3M	1Y
Absolute return	-1.6%	-10.8%	46.8%

Shareholding pattern (As of Sep'24 end)

Promoter	52.5%
FII+DII	18.5%
Others	28.7%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	SELL
Target Price	270	271

Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	11.7	8.4	9.0
EPS (Old)	13.2	9.0	-
% change	-10.9%	-6.7%	-

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	47,094	52,241	56,810
YoY Growth	9.1	10.9	8.7
EBITDA	4,796	6,235	6,751
EBITDA (%)	10.2	11.9	11.9
PAT	7,119	5,205	5,595
YoY Growth	50.3	(26.9)	7.5
ROE	11.8	7.7	7.6
EPS	11.5	8.4	9.0
P/E	24.5	33.5	31.2
BV/Share	104.1	114.0	124.6
P/BV	2.7	2.5	2.3

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Segmental Highlights for Q2FY25:

Plastic Pipes:

- Volumes stood at 69,341Te, a growth of 10% YoY (2-year CAGR stood at 8%).
- ASP came in at Rs118/Kg as compared to Rs136/Rs124 in Q2FY24/Q1FY25 respectively.
- Revenue stood at Rs8.20Bn, a decline of 4%YoY.
- EBIT loss stood at Rs56Mn Vs EBIT of Rs107Mn/Rs148Mn in Q2FY24/Q1FY25 respectively.

Resin segment:

- Volume stood at 40,236Te, a growth of 7%YoY (2-year CAGR stood at -14%).
- ASP stood at Rs77 Vs Rs79 in Q2FY24/Q1FY25 respectively.
- EBIT/Kg came in at Rs8.9 Vs Rs5.4/Rs9.9 in Q2FY24/Q1FY25 respectively.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Revenue	8,832	10,197	12,354	11,405	8,284	(6.2)	(27.4)	20,623	19,689	(4.5)
Expenditure	7,802	8,998	10,265	9,338	8,179	4.8	(12.4)	18,069	17,517	(3.1)
- RM	5,306	6,522	7,739	6,686	5,811	9.5	(13.1)	13,111	12,497	(4.7)
- Staff Cost	503	526	567	576	565	12.3	(2.0)	1,022	1,140	11.6
- Other cost	1,993	1,950	1,959	2,077	1,803	(9.5)	(13.2)	3,937	3,880	(1.4)
Operating Profit	1,030	1,199	2,089	2,067	106	(89.7)	(94.9)	2,555	2,172	(15.0)
OPM(%)	11.7	11.8	16.9	18.1	1.3	-1038 bps	-1684 bps	12.4	11.0	-135 bps
Other Income	614	351	438	549	826	34.7	50.5	1,016	1,375	35.3
Depreciation	274	276	267	261	264	(3.5)	1.3	618	525	(15.0)
Interest	125	77	73	67	68	(45.4)	2.3	215	135	(37.4)
Share of associate	89	117	101	5	20	(77.8)	294.0	164	25	(85.0)
Exceptional	-	-	-	4,170	-	-	-	-	4,170	#DIV/0!
PBT	1,334	1,315	2,288	6,463	619	(53.6)	(90.4)	2,902	7,082	144.0
Tax	354	361	639	1,456	213	(39.9)	(85.4)	770	1,668	116.8
PAT	980	954	1,649	5,007	407	(58.5)	(91.9)	2,133	5,414	153.8
OCI	5,128	(1,032)	(1,325)	10,972	(3,309)	(164.5)	(130.2)	5,860	7,663	30.8
Reported PAT	6,108	(78)	324	15,980	(2,903)	(147.5)	(118.2)	7,993	13,077	63.6
Adjusted PAT	980	954	1,649	837	407	(58.5)	(51.4)	2,133	5,414	153.8

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Segmental	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
PVC Resins										
Volumes Sold (Mt)	37,516	43,738	69,216	69,625	40,236	7.3	(42.2)	83,590	109,861	31.4
Revenue (Rs Mn)	2,979	3,211	5,075	5,482	3,085	3.6	(43.7)	6,573	8,567	30.3
EBIT	204	309	656	691	359	76.0	(48.1)	235	1,050	346.5
EBIT%	6.8	9.6	12.9	12.6	11.6	479 bps	-97 bps	4	12	868 bps
Realization (Rs/Kg)	79	73	73	79	77	(3.4)	(2.6)	79	78	(0.8)
Pipes										
Volumes Sold (Mt)	62,914	81,311	100,171	90,620	69,341	10.2	(23.5)	155,095	159,961	3.1
Revenue (Rs Mn)	8,572	9,916	11,822	11,234	8,196	(4.4)	(27.0)	20,114	19,430	(3.4)
EBIT	676	742	1,328	1,344	(385)	-	-	1,940	959	(50.6)
EBIT%	7.9	7.5	11.2	12.0	(4.7)	--	-	10	5	-471 bps
Realization (Rs/Kg)	136	122	118	124	118	(13.2)	(4.7)	130	121	(6.3)

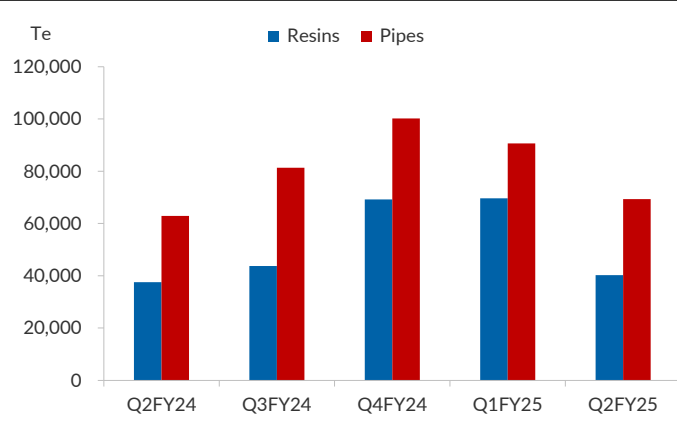
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management maintained their guidance of 10-12%YoY growth for FY25.
- Company stated that demand since Aug'24 has been better Vs June-July'24 wherein the demand was washed-out. This has been on the back of steady resin prices since mid-Aug.
- With steep fall in ASP due to reduction in resin prices, the pipe segment witnessed a major knock-on profitability.
- Management mentioned that there was no inventory loss for the quarter.
- Currently, there are brownfield expansion going-on at both plants. Post which, total pipes and fittings plant will have capacity of 520,000Te from current 470,000Te. Furthermore, company is planning a greenfield capex of 100,000Te, however the plans are still under consideration.
- Capex plans for FY25 is ~Rs1.5Bn including maintenance capex.
- PVC resin plant sells materials at market rate to pipe plant.
- Decision regarding ADD on PVC is due in Dec'24. ADD on CPVC has already been imposed.
- Since demand has improved from Mid-August, company has not seen any downtick due to upcoming state elections.
- PVC-EDC/PVC-VCM delta for Q2FY25 stood at \$513/\$130 Vs \$571/\$157 in Q2FY24. Currently the delta of PVC-EDC/PVC-VCM is \$490/\$130 respectively.
- Agri-Non:Agri mix for the quarter stood at 60%-40%. In coming years, company aims to improve the mix to 50%-50%.
- Agri segment grew by 12% and Non-Agri segment grew by 9-10% in Q2FY25.
- Management expects that PVC prices are nearing bottom and should stabilize from hereon.
- Cash balance as of Sept'24 stood at Rs23.80Bn.

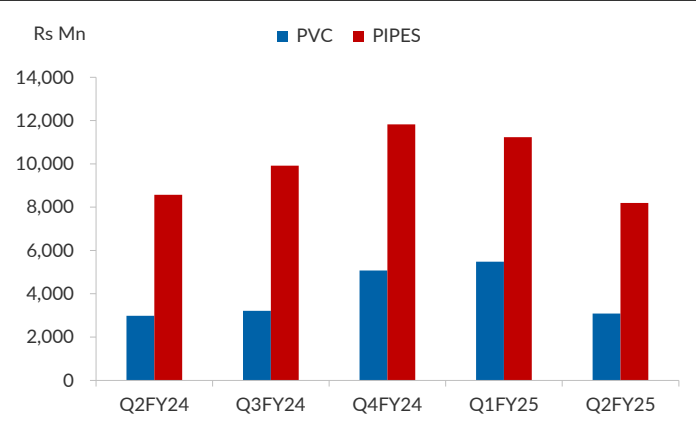
QUARTERLY TRENDS

Exhibit 4: Total volumes grew by 9%YoY...



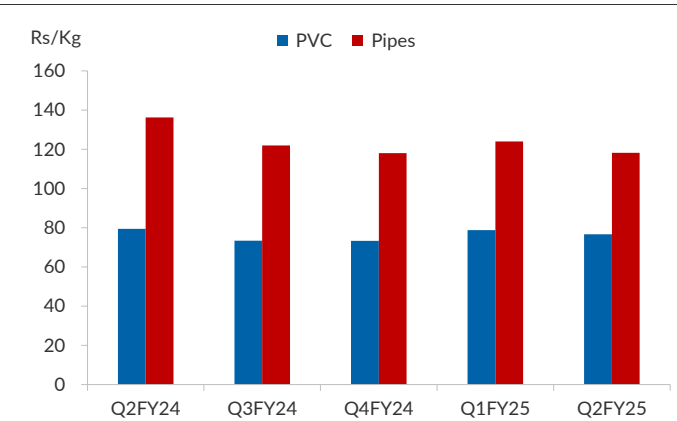
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Exhibit 5: Subdued revenue...



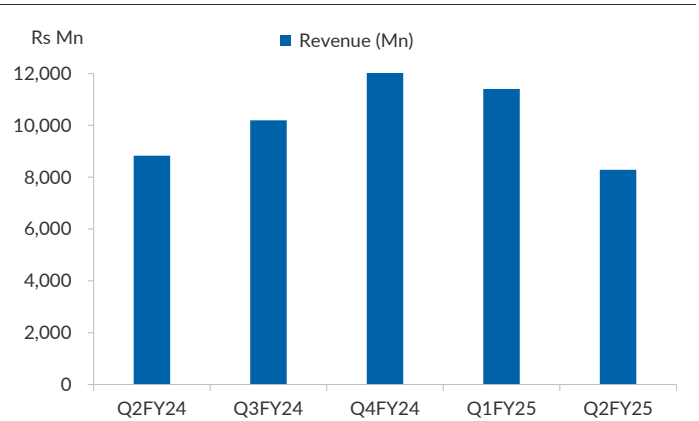
Source: Company, YES Sec

Exhibit 6: Decline in realizations...



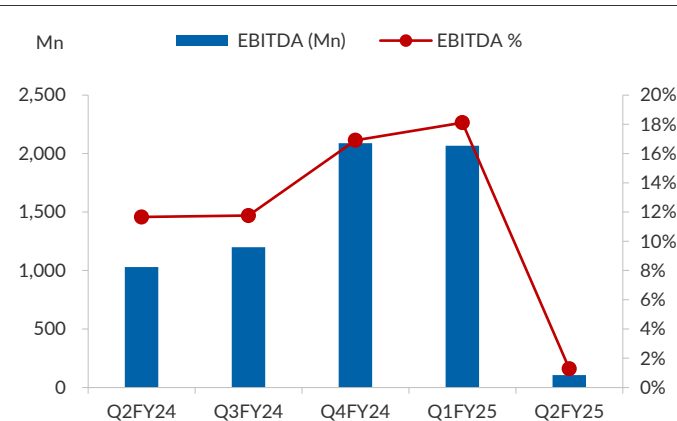
Source: Company, YES Sec

Exhibit 7: Overall revenue declined by 6%YoY...



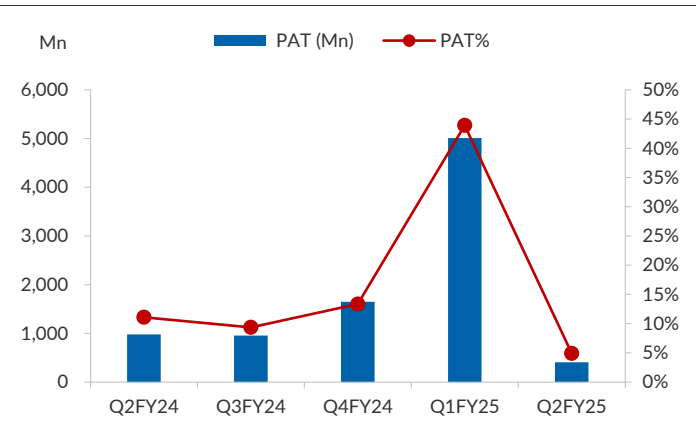
Source: Company, YES Sec

Exhibit 8: Pipe margins took a sharp knock...



Source: Company, YES Sec

Exhibit 9: Net profit contracted...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Sales	43,966	43,174	47,094	52,241	56,810
COGS	30,721	27,372	31,160	33,955	36,803
GOGS %sales	69.9%	63.4%	66.2%	65.0%	64.8%
GP	13,246	15,803	15,933	18,286	20,007
GP%	30.1%	36.6%	33.8%	35.0%	35.2%
EBITDA	2,924	5,843	4,978	6,235	6,751
EBITDA%	6.7%	13.5%	10.6%	11.9%	11.9%
Depreciation	892	1,160	1,219	1,284	1,350
Finance Cost	272	365	307	307	307
Other Income	1,209	1,805	2,052	2,296	2,365
PBT	3,212	6,506	9,674	6,940	7,460
Tax	706	1,770	2,419	1,735	1,865
PAT	2,506	4,736	7,256	5,205	5,595
PAT%	5.7%	11.0%	15.4%	10.0%	9.8%

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	1,237	1,237	1,237	1,237	1,237
Reserves	47,794	55,106	63,153	69,285	75,807
Equity	49,031	56,343	64,390	70,522	77,044
Non-current liab	2,460	3,201	3,201	3,201	3,201
Payables	2,893	2,886	3,305	3,581	3,881
Provisions	45	45	45	45	45
Other current Liab	3,137	4,260	4,260	4,260	4,260
Total Equity & Liab	62,851	70,579	79,044	85,452	92,274
Gross Block	26,005	27,200	28,700	30,200	31,700
Acc Dep	15,629	16,789	18,008	19,292	20,642
Net Block	10,376	10,411	10,692	10,907	11,058
CWIP	438	189	189	189	189
Otheer Noncurrent	21,834	26,437	26,437	26,437	26,437
Inventory	6,732	7,280	8,336	9,031	9,789
Receivables	2,975	4,576	4,992	5,537	6,022
Cash & Bank	606	317	7,030	11,981	17,412
Loans	228	168	168	168	168
Other	712	601	601	601	601
Total Assets	62,851	70,579	79,044	85,452	92,274

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before exceptional item and tax	3,213	6,506	9,493	6,940	7,460
Depreciation	892	1,160	1,219	1,284	1,350
Finance cost	272	365	307	307	307
(Incr)/Decr in Working Capital	804	(876)	(1,053)	(965)	(941)
Taxes paid	(679)	(1,448)	(2,373)	(1,735)	(1,865)
CFO	3,017	3,533	7,592	5,831	6,310
Capex	(1,687)	(864)	(1,500)	(1,500)	(1,500)
Net cash flow from investing Activities	(2,877)	(830)	(1,500)	(1,500)	(1,500)
Movement in Loan	2,477	(1,460)	-	-	-
Interest paid	(252)	(345)	(307)	(307)	(307)
Net Cash from financing Activities	(289)	(2,767)	621	621	621
NET INCREASE /(DECREASE) IN CASH	(150)	(64)	6,713	4,952	5,431
Opening balance of Cash	236	606	317	7,030	11,981
Closing balance of Cash	86	542	7,030	11,981	17,412

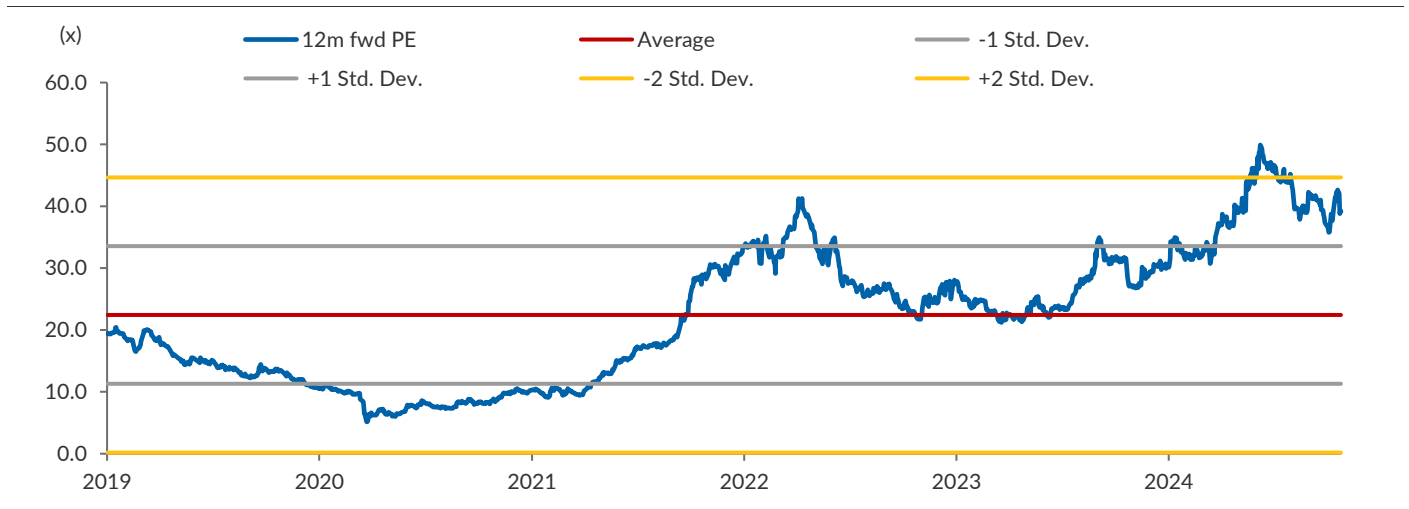
Source: Company, YES Sec

Exhibit 13: Ratios

Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)					
Total Sales	-5.4	-1.8	9.1	10.9	8.7
EBIDTA	-71.4	99.8	-17.9	30.0	8.3
EBIT	-68.3	100.2	-13.2	28.7	7.2
PAT	-76.2	89.0	50.3	-26.9	7.5
Profitability (%)					
GP Margins	30.1	36.6	33.4	35.0	35.2
EBIDTA Margins	6.7	13.5	10.2	11.9	11.9
EBIT Margins	7.4	15.0	12.0	13.9	13.7
PAT Margins	5.7	11.0	15.1	10.0	9.8
ROCE	7.0	11.7	8.9	10.3	10.1
ROE	5.7	9.0	11.8	7.7	7.6
Per Share Data (Rs)					
EPS	4.0	7.7	11.5	8.4	9.0
CEPS	5.5	9.5	13.5	10.5	11.2
BVPS	79.3	91.1	104.1	114.0	124.6
Valuations (x)					
P/E (x)	44.1	30.1	24.5	33.5	31.2
P/CEPS (x)	32.2	24.1	20.9	26.9	25.1
P/BV (x)	2.2	2.5	2.7	2.5	2.3
EV/EBIDTA	39.0	24.9	35.7	26.7	23.8
Gearing Ratios					
Debt/Equity	0.1	0.1	0.1	0.1	0.0
Net Debt/Equity	0.1	0.1	(0.0)	(0.1)	(0.2)
Net Debt/EBIDTA	1.6	0.6	(0.7)	(1.3)	(2.0)
Int Coverage	11.9	17.8	18.4	23.6	25.3
WCC Days					
Debtors	25	39	39	39	39
Inventory	80	97	97	97	97
Creditors	34	38	38	38	38

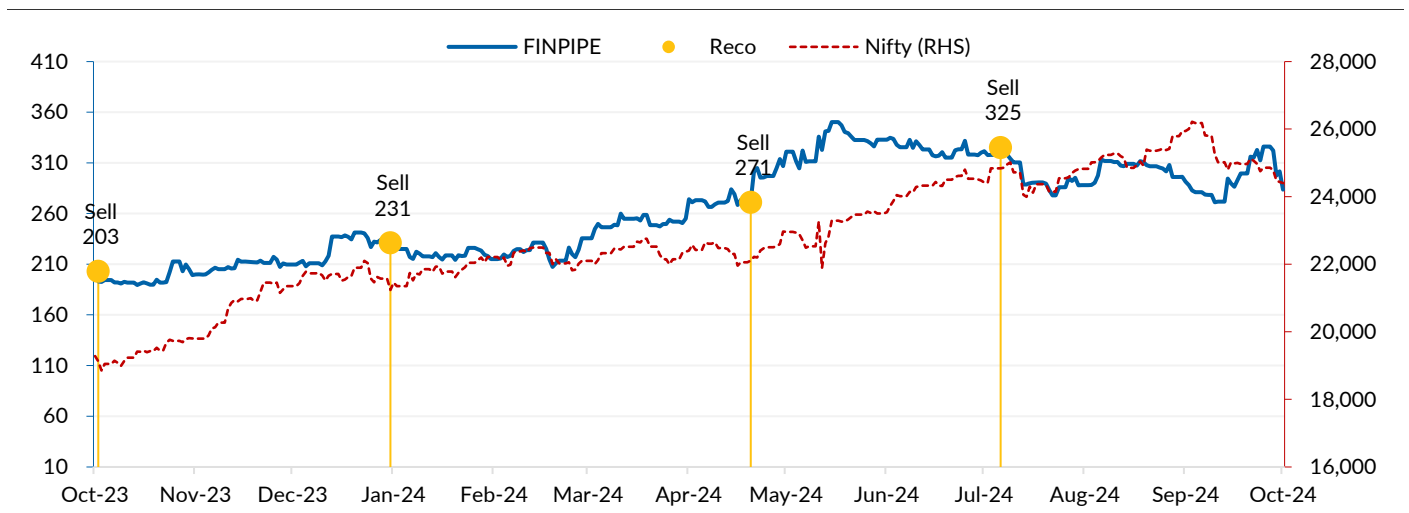
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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