

October 23, 2023

RESULT REPORT Q2 FY24 | Sector: Building Materials

Finolex Industries Ltd

Underperformance to continue, retain SELL!

Result Synopsis

FNXP's reported benign volume growth of 6%YoY & degrowth of 32%QoQ to 62,914Te for Pipe segment. Strong growth in plumbing segment aided the volume growth while declining resin prices encouraged dealers to maintain low-level of inventory in agri-segment which is more price sensitive market. Volumes of Non-Agri to total pipes & fittings for the quarter stood at 40% Vs 37% in Q2FY23. Pipes realization came in at Rs136/kg as compared to RsRs135/Rs125 in Q2FY23/Q1FY24 respectively. For pipes, EBIT/Kg declined sequentially to Rs11/kg as compared to Rs14.

Resin production during the quarter was impacted due to constrain in EDC/VCM supplies from Middle East supplier that led to steep volume decline of 31%YoY & 19%QoQ to 37,516Te. Due to improved PVC-EDC spread/PVC-VCM spread, EBIT/kg for resins improved to Rs5/kg in Q2FY24 as compared to Rs1/kg in previous quarter. With restoration of constant supply, management expects resin production to stabilize from Q4 onwards. Management has lowered their resin volume guidance 200,000-220,000Te from 230,000Te. Further, company expects resin segment to register ~Rs7-8/kg of EBIT for FY24.

We reckon that pipe division will deliver decent volume growth 13%CAGR over FY23-25E, owing to strong industry tailwinds & company's rapidly growing presence in non-agri segment. Resin segment is expected to remain under pressure due to ongoing supply chain issues & margins will also be under check due to contracting PVC-EDC & PVC-VCM delta as resin prices have reduced drastically in Oct'23. We reckon FNXP will continue to underperform Vs its peers & with no major improvement in business performance, we remain pessimistic on Finolex Industries Ltd. At CMP the company trades at P/E(x) of 22.2x on FY25E EPS of Rs9.1, we have revalued the company at P/E(x) of 18x (5-year avg) on FY25E EPS & continue to maintain our SELL rating on the stock.

Result Highlights

- Company reported consol revenue of Rs8.83Bn, a degrowth of 6%YoY & 25%QoQ.
- EBITDA Margin came in at 11.7% v/s 12.9% in Q1FY24 & negative 15.2% in Q2FY23 (impacted due to sharp inventory loss). Absolute EBITDA declined by 33%QoQ to Rs1.03Bn.
- PAT stood at Rs980Mn, a degrowth of 15%QoQ.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	8,832	8,644	9,315	2.2	(5.2)	
EBITDA	1,030	1,325	1,450	(22.3)	(29.0)	Revenue In-line with estimates, margin lower than expected.
EBITDA Margin (%)	11.7	15.3	15.6	-367 bps	-390 bps	
Adjusted PAT	980	1,027	1,131	(4.6)	(13.4)	

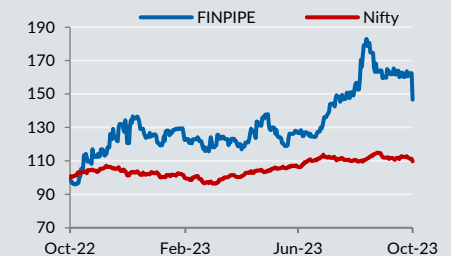
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 203
Target Price	: Rs 164
Potential Upside	: -19%

Stock data (as on October 23, 2023)

Nifty	19,279
52 Week h/l (Rs)	260 / 130
Market cap (Rs/USD mn)	139034 / 1672
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	172
Div yield (%):	0.7
Bloomberg code:	FNXP IN
NSE code:	FINPIPE

Stock performance



	1M	3M	1Y
Absolute return	-8.3%	7.7%	46.6%

Shareholding pattern (As of June'23 end)

Promoter	52.5%
FII+DII	17.7%
Others	29.5%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	164	140

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	6.6	9.1	9.8
EPS (Old)	8.2	9.4	-
% change	-19.3%	-2.7%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	48,259	53,124	57,355
YoY Growth	9.8	10.1	8.0
EBIDTA	5,323	7,229	7,610
EBIDTA (%)	11.0	13.6	13.3
PAT	4,092	5,628	6,058
YoY Growth	63.3	37.5	7.6
ROE	8.1	10.4	10.3
EPS	6.6	9.1	9.8
P/E	30.5	22.2	20.6
BV/Share	83.9	91.0	98.8
P/BV	2.4	2.2	2.0

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Pipes:

- Pipes volume stood in at Rs62,914Te, a growth of 6%YoY & degrowth of 32%QoQ. Pipes Revenue stood at Rs8.57Bn, a growth of 7%YoY & degrowth of 26%QoQ. ASP came in at Rs136/Kg as compared to Rs135/Rs125 in Q2FY23/Q1FY24 respectively. EBIT/Kg came in at Rs11 as compared to Rs14 in Q1FY24 & loss of Rs8/kg in Q2FY23.

Resins:

- Volume declined sharply by 31%YoY & 19%QoQ to 37,516Te, resulting into steep decline of revenue by 38%oY & 17%QoQ to Rs2,98Bn. ASP came in at Rs79/Kg as compared Rs89/Rs78 in Q2FY23/Q1FY24 respectively. EBIT/Kg improved to Rs5 v/s Rs1 in Q1FY24 & loss of Rs21/kg in Q2FY23 respectively.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Revenue	11,898	9,410	11,248	11,411	11,792	8,832	(6.1)	(25.1)	21,308	20,623	(3.2)
Expenditure	10,639	10,838	10,329	9,236	10,267	7,802	(28.0)	(24.0)	21,477	18,069	(15.9)
- RM	7,999	8,528	7,602	6,592	7,805	5,306	(37.8)	(32.0)	16,527	13,111	(20.7)
- Staff Cost	511	423	484	480	519	503	18.9	(3.1)	934	1,022	9.4
- Other cost	2,130	1,887	2,243	2,165	1,943	1,993	5.6	2.6	4,017	3,937	(2.0)
Operating Profit	1,259	(1,428)	919	2,174	1,525	1,030	(172.1)	(32.5)	(169)	2,555	(1,612.4)
OPM(%)	10.6	(15.2)	8.2	19.1	12.9	11.7	2684 bps	-127 bps	(0.8)	12.4	1318 bps
Other Income	251	388	278	292	403	614	58.0	52.4	639	1,016	59.0
Depreciation	213	216	225	238	344	274	27.0	(20.4)	429	618	44.0
Interest	113	43	51	65	90	125	189.1	38.1	156	215	37.3
Share of associate	(14)	(7)	129	135	76	89	(1,463.1)	17.0	(20)	164	(905.4)
PBT	1,169	(1,305)	1,049	2,298	1,569	1,334	(202.2)	(15.0)	(136)	2,902	(2,238.8)
Tax	177	(350)	254	633	416	354	(201.2)	(14.8)	(173)	770	(545.3)
PAT	992	(955)	795	1,665	1,153	980	(202.6)	(15.1)	37	2,133	5,649.1

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
PVC Resins											
Volumes Sold (Mt)	62,747	54,063	64,697	58,132	46,074	37,516	(30.6)	(18.6)	116,810	83,590	(28.4)
Revenue (Rs Mn)	7,846	4,811	5,049	5,013	3,594	2,979	(38.1)	(17.1)	12,657	6,573	(48.1)
EBIT	729	(1,107)	124	1,173	31	204	(118.4)	553.8	(378)	235	(162.3)
EBIT%	9	(23)	2	23	1	7	2986 bps	598 bps	(3)	4	656 bps
Realization (Rs/Kg)	125	89	78	86	78	79	(10.8)	1.8	108	79	(27.4)
Pipes											
Volumes Sold (Mt)	71,960	59,219	90,396	81,452	92,181	62,914	(12.6)	(31.7)	131,179	155,095	18.2
Revenue (Rs Mn)	11,320	8,017	10,772	11,021	11,542	8,572	(24.3)	(25.7)	19,337	20,114	4.0
EBIT	426	(476)	689	903	1,264	676	58.8	(46.5)	(51)	1,940	(3,942.4)
EBIT%	4	(6)	6	8	11	8	413 bps	-307 bps	(0)	10	991 bps
Realization (Rs/Kg)	157	135	119	135	125	136	(13.4)	8.8	147	130	(12.0)

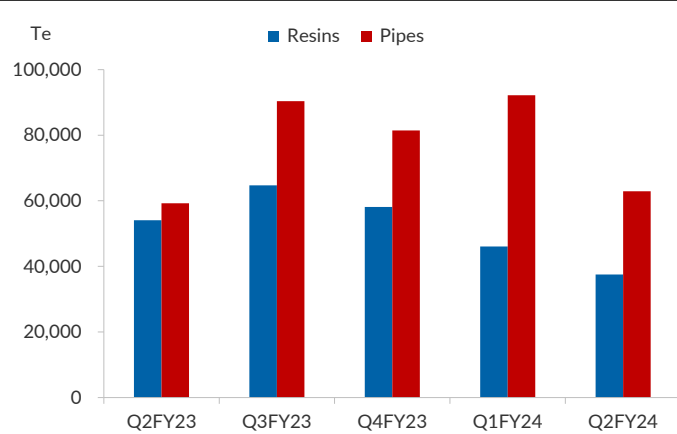
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Volume guidance:** Management maintained their Plastic Pipe volume guidance of 15-20% for FY24. For resin biz, company lowered their FY24 volume number to 200,000-220,000Te.
- **Margin guidance:** For pipes company expects EBIT/Kg to come in at Rs10-12 for FY24 which should gradually improve to Rs14. In resins, EBIT/Kg should be ~Rs8 for FY24.
- Non-Agri mix for the quarter stood at 40% Vs 37% in Q2FY23 & the same for H1FY24 was 32% Vs 30% in H1FY23. Management stated that Non-agri is growing at faster pace Vs agri pipes.
- During the quarter, Resin biz was impacted due to constrain in supply of Raw Material EDC-VCB from a supplier in Middle East. The issues are improving gradually & the same should normalize by Q4FY24.
- For pipes as well, the resin prices were falling during the quarter, which lead to postponement in buying from the channel. Management commented that if there was no destocking, pipe volume growth could have been ~20-23%YoY.
- **Prices:** PVC/VCM/EDC stood at \$847/\$690/\$276 respectively in Q2FY24 & the current prices are \$770/\$675/\$320 respectively. PVC-EDC/PVC-VCM delta was \$571/\$157 respectively during the quarter & the same is ~\$450/\$95 respectively.
- During Q2FY24, there was no major inventory gain. Given the sharp fall in prices since Oct'23, if prices remain at similar levels there will be some element of inventory loss in Q3FY24.
- CPVC prices were down by 5%, however there was no material inventory loss.
- Management stated that they are considering capacity expansion for pipes & fittings to cater the incremental demand. However, company will provide clarity on the same post finalizing the plans.
- Current fittings capacity is ~48,000Te of which 12,000Te is in-house and balance is outsourced.

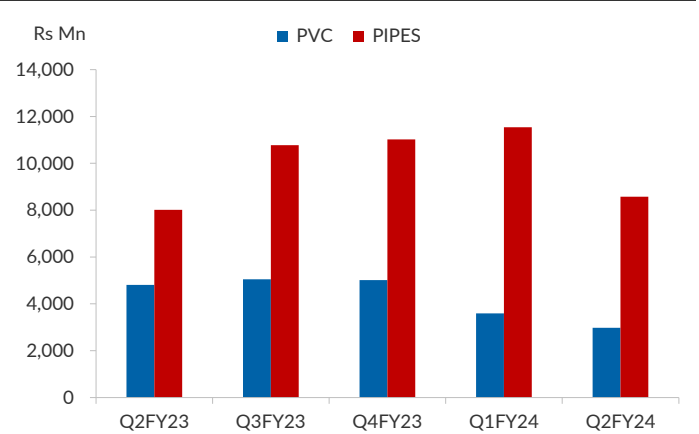
QUARTERLY TRENDS

Exhibit 4: Pipes volumes grew by 6% YoY...



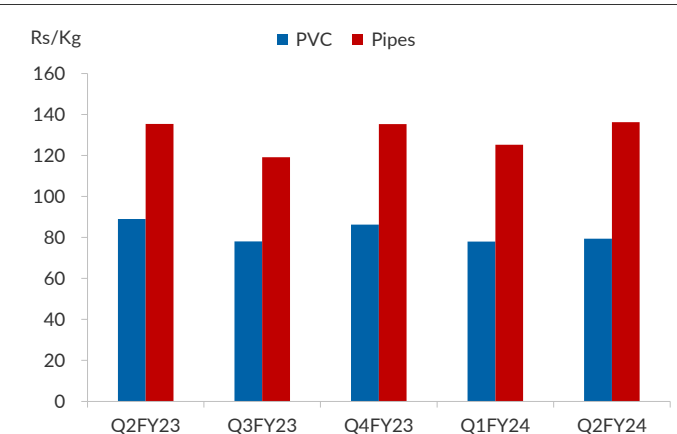
Source: Company, YES Sec

Exhibit 5: Pipe revenue increased by 7%YoY...



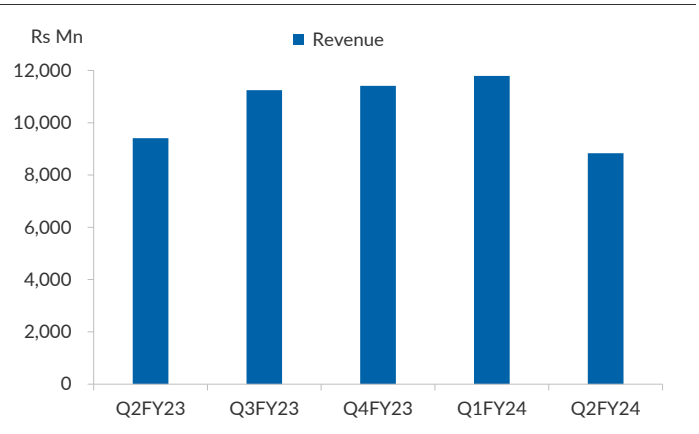
Source: Company, YES Sec

Exhibit 6: Pipes Realizations improved to Rs136/kg...



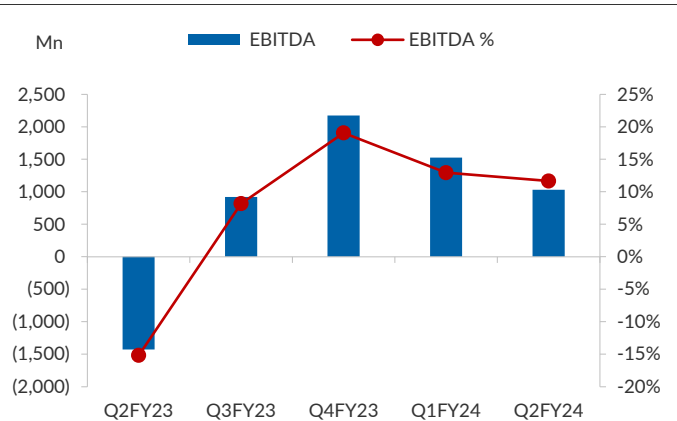
Source: Company, YES Sec

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



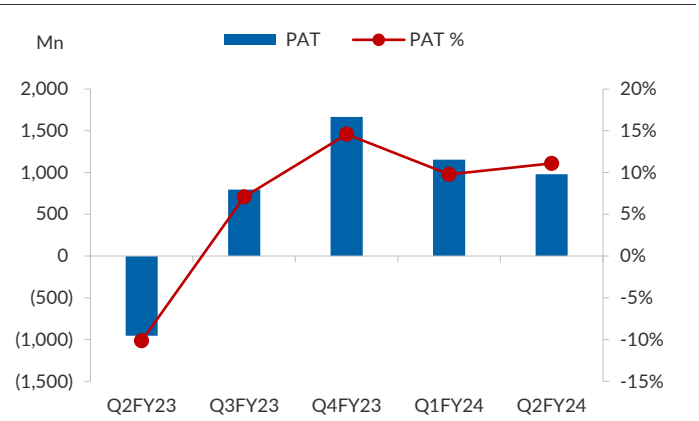
Source: Company, YES Sec

Exhibit 8: Blended margin came in 11.7%...



Source: Company, YES Sec

Exhibit 9: Net Profit stood at Rs980Mn...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sales	46,473	43,966	48,259	53,124	57,355
COGS	28,491	30,721	31,582	33,407	36,007
COGS %sales	61.3%	69.9%	65.4%	62.9%	62.8%
GP	17,983	13,246	16,677	19,718	21,348
GP%	38.7%	30.1%	34.6%	37.1%	37.2%
EBITDA	10,237	2,924	5,323	7,229	7,610
EBITDA%	22.0%	6.7%	11.0%	13.6%	13.3%
Depreciation	834	892	1,215	1,305	1,395
Finance Cost	141	272	356	356	356
Other Income	822	1,209	1,494	1,646	1,907
PBT	13,831	3,212	5,245	7,213	7,765
Tax	3,317	706	1,153	1,585	1,707
PAT	10,513	2,506	4,092	5,628	6,058
PAT%	22.6%	5.7%	8.5%	10.6%	10.6%

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1,241	1,237	1,237	1,237	1,237
Reserves	38,037	47,794	50,650	55,041	59,863
Equity	39,278	49,031	51,886	56,278	61,099
Non-current liab	2,187	2,460	2,460	2,460	2,460
Payables	4,631	2,893	2,974	3,146	3,391
Provisions	42	45	45	45	45
Other current Liab	4,535	3,137	3,137	3,137	3,137
Total Equity & Liab	53,454	62,851	65,787	70,350	75,417
Gross Block	24,660	26,005	28,005	30,005	32,005
Acc Dep	14,737	15,629	16,844	18,149	19,545
Net Block	9,923	10,376	11,160	11,855	12,460
CWIP	95	438	438	438	438
Other Noncurrent	12,049	21,834	21,834	21,834	21,834
Inventory	10,155	6,732	6,920	7,320	7,890
Receivables	3,345	2,975	3,967	4,366	4,714
Cash & Bank	810	606	1,578	4,647	8,191
Loans	87	228	228	228	228
Other Current Assets	538	712	712	712	712
Total Assets	53,454	62,851	65,787	70,350	75,417

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	13,831	3,213	5,245	7,213	7,765
Depreciation & Amortization	834	892	1,215	1,305	1,395
Finance cost	141	272	356	356	356
(Incr)/Decr in Working Capital	(756)	804	(1,099)	(628)	(673)
Taxes	(3,356)	(679)	(1,153)	(1,585)	(1,707)
Cash from ops.	6,220	3,017	4,565	6,662	7,137
(Incr)/ Decr in PP&E	(844)	(1,687)	(2,000)	(2,000)	(2,000)
Cash Flow from Investing	(4,403)	(2,877)	(2,000)	(2,000)	(2,000)
(Decr)/Incr in Borrowings	728	2,477	-	-	-
Finance cost	(141)	(252)	(356)	(356)	(356)
Cash Flow from Financing	(1,895)	(289)	(1,593)	(1,593)	(1,593)
Incr/(Decr) in cash	(79)	(150)	972	3,069	3,544
Cash and cash equivalents at beginning of year	314	236	606	1,578	4,647
Cash and cash equivalents at end of year	235	86	1,578	4,647	8,191

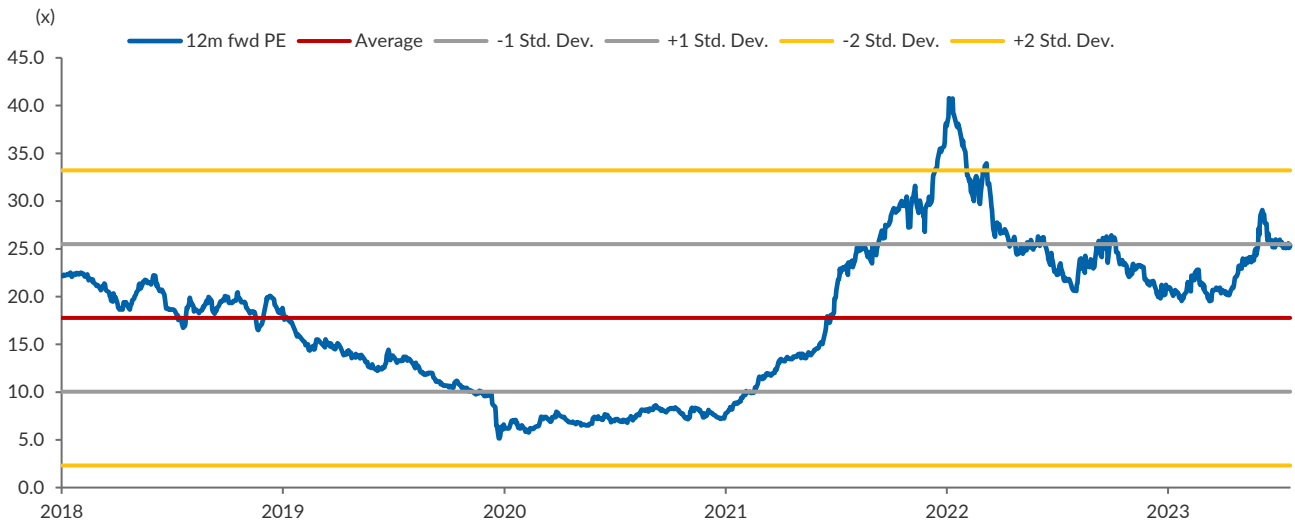
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Total Sales	34.2%	-5.4%	9.8%	10.1%	8.0%
EBIDTA	3.5%	-71.4%	82.0%	35.8%	5.3%
EBIT	4.0%	-68.3%	72.8%	35.1%	7.3%
PAT	42.5%	-76.2%	63.3%	37.5%	7.6%
Profitability (%)					
GP Margin	38.7%	30.1%	34.6%	37.1%	37.2%
EBIDTA Margins	22.0%	6.7%	11.0%	13.6%	13.3%
EBIT Margins	22.0%	7.4%	11.6%	14.2%	14.2%
PAT Margins	22.6%	5.7%	8.5%	10.6%	10.6%
ROCE	27.3%	7.0%	10.6%	13.4%	13.3%
ROE	29.8%	5.7%	8.1%	10.4%	10.3%
Per Share Data (Rs)					
EPS	16.9	4.0	6.6	9.1	9.8
CEPS	18.3	5.5	8.6	11.2	12.1
BVPS	63.3	79.3	83.9	91.0	98.8
Valuations (x)					
P/E (x)	8.7	44.1	31.0	22.5	20.9
P/CEPS (x)	8.1	32.2	23.9	18.3	17.0
P/BV (x)	2.3	2.2	2.4	2.3	2.1
EV/EBIDTA	9.2	39.0	24.5	17.6	16.3
Gearing Ratios					
Debt/Equity	0.1	0.1	0.1	0.1	0.1
Net Debt/Equity	0.1	0.1	0.1	0.0	(0.0)
Net Debt/EBIDTA	0.2	1.6	0.7	0.1	(0.4)
Int Coverage	72.6	11.9	15.7	21.2	22.8
WCC Days					
Debtors	26	25	30	30	30
Inventory	130	80	80	80	80
Creditors	59	34	34	34	34

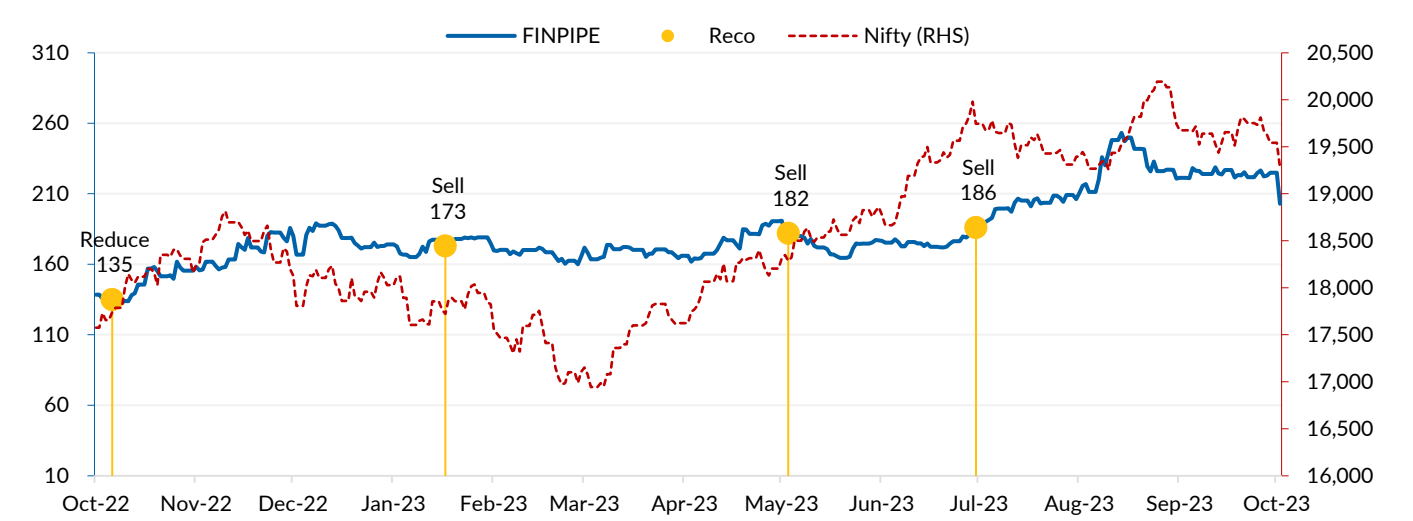
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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Name of the Research Analyst : Udit Gajiwala, Vicky Waghvani

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Sr. No.	Particulars	Yes/No
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2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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