

May 13, 2024

RESULT REPORT Q4 FY24 | Sector: Building Materials

Finolex Industries Ltd.

Volume growth to be ~10% CAGR; maintain SELL!

Result Synopsis

Finolex Industries Ltd (FNXP) registered a revenue growth of 8%YoY & 21%QoQ. Pipe division reported the highest-ever quarterly volumes of 100,171Te, a growth of 23%YoY & QoQ. ASP declined on a sequential basis by Rs4/Kg to Rs118/Kg while EBIT/Kg came in at Rs13.3 compared to Rs9.1 in Q3FY24. Resin segment volumes grew by 19%YoY & 58%QoQ (2-year CAGR stood at -7%), ASP stood at Rs73/Kg Vs Rs86/Rs73 in Q4FY23/Q3FY24, respectively & EBIT/Kg came in at Rs9.5 as compared to Rs7.1 in Q3FY24. Overall, operating margins expanded by 515bps on a QoQ basis owing to a 132bps increase in GP margins driven by better volumes coupled with a sharp decline in other expenses as %sales to 16% Vs 19% in Q3FY23.

Management stated that pipe volumes are likely to grow at a CAGR of 10-15%, which is in line with industry growth, and going ahead mix of the non-agri segment is expected to expand to 50% Vs 30% as on FY24, which should lead to gradual improvement in EBIT/Kg to Rs14. In the resin segment, management aims to deliver volumes similar to FY23 levels of ~230,000Te in FY25E.

We expect the company's pipe volumes to grow at a CAGR of 10% over FY24-FY26E. We have assumed an annual capacity expansion of 20,000Te (via de-bottlenecking) for FY25E/FY26E, enabling the company to operate at 77%/80% utilization levels in FY25E/FY26E, respectively. Hence, until the company finalizes plans for future expansion and sets up additional capacity (which is unlikely before FY27E if work commences in this fiscal), we believe FNXP's pipe volume growth will be capped. EBIT/Kg is expected to come in at Rs13 in FY25E & FY26E, which will improve gradually with a better product mix. We expect Revenue/EBITDA/PAT growth of 11%/9%/9% CAGR over FY24-FY26E. At CMP, the stock trades at P/E(x) of 33x/30x on FY25E/FY26E EPS of Rs8.2/Rs9.0, respectively. We have valued the company at a P/E(x) of 25x (a discount Vs industry peers due to lower volume growth and margins) on FY26E EPS arriving at a target price of Rs225. Hence, we maintain our SELL rating on the stock.

Result Highlights

- Revenue for the quarter stood at Rs12.35Bn, a growth of 8%YoY & 21%QoQ.
- EBITDA margins came in at 16.9% Vs 19.1%/11.8% in Q4FY23/Q3FY24, respectively (higher margin in Q4FY23 due to inventory gains). Absolute EBITDA stood at Rs2.09Bn, a degrowth of 4%YoY & a growth of 74%QoQ.
- Net profit stood at Rs1.65Bn, remaining flattish on YoY basis & a growth of 73%QoQ.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	12,354	11,981	11,926	3.1	3.6	Overall beat on our estimates.
EBITDA	2,089	1,438	1,800	45.3	16.1	
EBITDA Margin (%)	16.9	12.0	15.1	491 bps	182 bps	
Adjusted PAT	1,649	1,165	1,438	41.5	14.6	

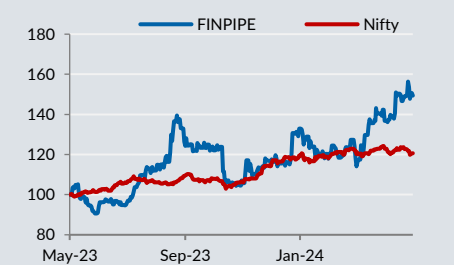
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 271
Target Price	: Rs 225
Potential Return	: -16.8%

Stock data (as on May 13, 2024)

Nifty	22,104
52 Week h/l (Rs)	288 / 163
Market cap (Rs/USD mn)	169,116 / 2,026
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	268
Div yield (%):	0.6
Bloomberg code:	FNXP IN
NSE code:	FINPIPE

Stock performance



	1M	3M	1Y
Absolute return	9.1%	23.9%	49.3%

Shareholding pattern (As of Mar'24 end)

Promoter	52.5%
FII+DII	17.4%
Others	29.8%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	225	185

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	8.2	9.0
EPS (Old)	8.5	9.2
% change	-3.4%	-2.0%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	43,174	48,715	53,085
YoY Growth	(1.8)	12.8	9.0
EBIDTA	5,843	6,353	6,898
EBIDTA (%)	13.5	13.0	13.0
PAT	4,736	5,078	5,576
YoY Growth	89.0	7.2	9.8
ROE	9.0	8.7	8.9
EPS	7.7	8.2	9.0
P/E	46.2	33.0	30.1
BV/Share	91.1	97.8	105.3
P/BV	2.5	2.8	2.6

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Segmental Highlights for Q4FY24

Pipes division

- Pipes sales stood at Rs11.82Bn, a growth of 7%YoY & 19%QoQ.
- Volumes stood at 100,171Te, a growth of 23%YoY & QoQ.
- ASP came in at Rs118/Kg Vs Rs135/Rs122 in Q4FY23/Q3FY24, respectively.
- EBIT% came in at 11% Vs 8%/7% in Q4FY23/Q3FY24, respectively. EBIT/Kg stood at Rs13 as compared to Rs11/Rs9 in Q4FY23/Q3FY24, respectively.

Resin division

- Resin sales stood at Rs5.07Bn, remaining flattish on YoY basis & a growth of 58%QoQ.
- Volumes stood at 69,216Te (incl internal), a growth of 19%YoY & 58%QoQ.
- ASP came in at Rs73/Kg Vs Rs86/Rs73 in Q4FY23/Q3FY24, respectively.
- EBIT% came in at 13% Vs 23% (inventory gains) /10% in Q4FY23/Q3FY24, respectively. EBIT/Kg stood at Rs9.5 as compared to Rs20/Rs7 in Q4FY23/Q3FY24, respectively (Q4FY24 profitability is not comparable due to inventory gains in the quarter).

Exhibit 2: Quarterly Snapshot:

Rs mn	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% yoy	% qoq	FY23	FY24	% yoy
Revenue	11,248	11,411	11,792	8,832	10,197	12,354	8.3	21.2	43,966	43,174	(1.8)
Expenditure	10,329	9,236	10,267	7,802	8,998	10,265	11.1	14.1	41,042	37,332	(9.0)
- RM	7,602	6,592	7,805	5,306	6,522	7,739	17.4	18.7	30,721	27,372	(10.9)
- Staff Cost	484	480	519	503	526	567	18.2	7.8	1,897	2,114	11.5
- Other Cost	2,243	2,165	1,943	1,993	1,950	1,959	(9.5)	0.5	8,425	7,846	(6.9)
Operating Profit	919	2,174	1,525	1,030	1,199	2,089	(3.9)	74.3	2,924	5,843	99.8
OPM(%)	8.2	19.1	12.9	11.7	11.8	16.9	-214 bps	515 bps	6.7	13.5	688 bps
Other Income	278	292	403	614	351	438	50.0	24.7	1,209	1,805	49.3
Depreciation	225	238	344	274	276	267	12.1	(3.2)	892	1,160	30.1
Interest	51	65	90	125	77	73	13.2	(4.6)	272	365	33.9
Share of P/L of Ass.	129	135	76	89	117	101	(25.1)	(13.9)	243	382	57.5
PBT	1,049	2,298	1,569	1,334	1,315	2,288	(0.4)	74.0	3,212	6,506	102.6
Tax	254	633	416	354	361	639	0.9	77.0	714	1,770	147.8
PAT	795	1,665	1,153	980	954	1,649	(1.0)	72.9	2,498	4,736	89.6
OCI	1,720	5,901	732	5,128	(1,032)	(1,325)	(122.5)	28.4	9,671	3,504	(63.8)
Reported PAT	2,515	7,566	1,885	6,108	(78)	324	(95.7)	(517.5)	12,168	8,240	(32.3)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% yoy	% qoq	FY23	FY24	% yoy
PVC Resins											
Volumes Sold (Te)	64,697	58,132	46,074	37,516	43,738	69,216	19.1	58.3	239,639	196,544	(18.0)
Revenue (Rs Mn)	5,049	5,013	3,594	2,979	3,211	5,075	1.2	58.1	22,718	14,858	(34.6)
EBIT	124	1,173	31	204	309	656	(44.0)	112.5	919	1,200	30.6
EBIT%	2	23	1	7	10	13	-1046 bps	331 bps	4	8	403 bps
ASP (Rs/Kg)	78	86	78	79	73	73	(15.0)	(0.1)	95	76	(20.3)
Pipes											
Volumes Sold (Te)	90,396	81,452	92,181	62,914	81,312	100,171	23.0	23.2	303,027	336,578	11.1
Revenue (Rs Mn)	10,772	11,021	11,542	8,572	9,916	11,822	7.3	19.2	41,130	41,852	1.8
EBIT	689	903	1,264	676	742	1,328	47.0	78.9	1,542	4,011	160.2
EBIT%	6	8	11	8	7	11	304 bps	375 bps	4	10	584 bps
ASP (Rs/Kg)	119	135	125	136	122	118	(12.8)	(3.2)	136	124	(8.4)

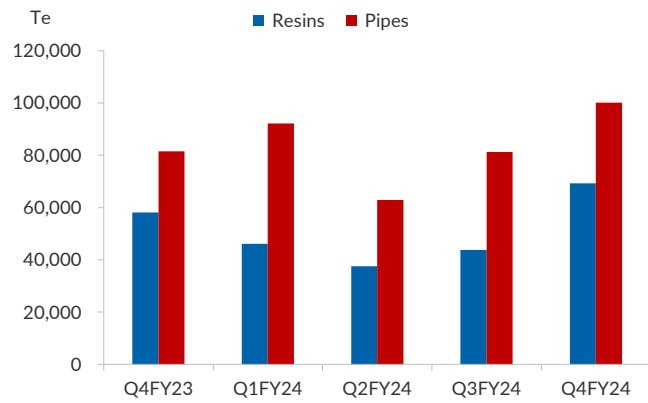
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management stated that the industry should grow by 10-15% CAGR for the next 5 years & company should grow at a similar rate wherein agri-segment is expected to grow in high-single-digit and non-agri should grow by 20%+. Ongoing demand has been strong in both Agri and Non-agri segments, and there has not been any material slowdown due to elections.
- EBIT/Kg is likely to improve gradually with a better product mix to Rs14/Kg for pipes. However, in the near term, the management reiterated their guidance of Rs10-12/Kg.
- Management expects volumes for the resin biz for FY25E to come in at similar levels of FY23 at ~230,000Te.
- Company is considering expansion plans for the pipe's biz however, excluding the same, total capex for FY25E will be Rs1.5Bn. Management does not foresee any capacity constraints as company can add new machinery at existing plants to cater to the growth.
- For FY24, non-agri segment grew by 15-18%YoY. Agri-Non Agri mix stood at 64%-36% in FY24 & the same mix stood at 70%-30% in Q4FY24 Vs 70%-30% in Q4FY23, which the management aims to improve to 50%-50% mix in 3-4 years.
- The company stated that on the industry level, no major capacities are expected to commence for PVC resins in FY25E & FY26E.
- PVC/EDC/VCM rates stood at \$785/\$385/\$650 for Q4FY24 and currently the rates are \$800/\$320/\$660. The delta of PVC-EDC stood at \$427, and PVC-VCM stood at \$135 for Q4FY24. Currently, the delta for PVC-EDC/PVC-VCM is \$480/\$140, respectively.
- There was no material inventory gain or loss in Q4FY24.
- Other expenses for the quarter were lower on account of the reduction in power cost.
- The Company has more than 10 acres of land available for sale. The property prices in Pune have inched up post the last sale of 25 acres, where the company made Rs4.75Bn.
- Currently company has a 900+ dealer & 24,000+ retailer network.

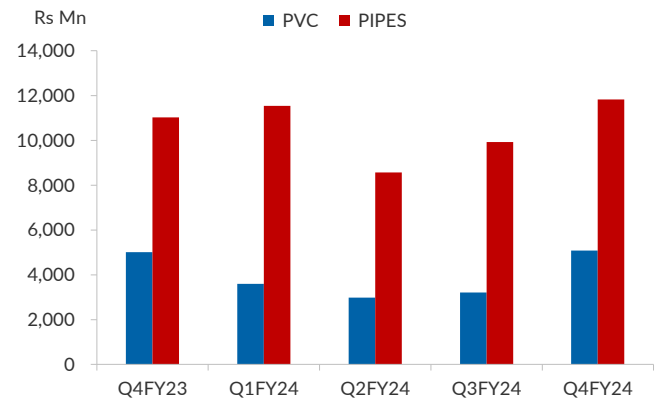
QUARTERLY TRENDS

Exhibit 4: Pipe volume increased by 23% YoY...



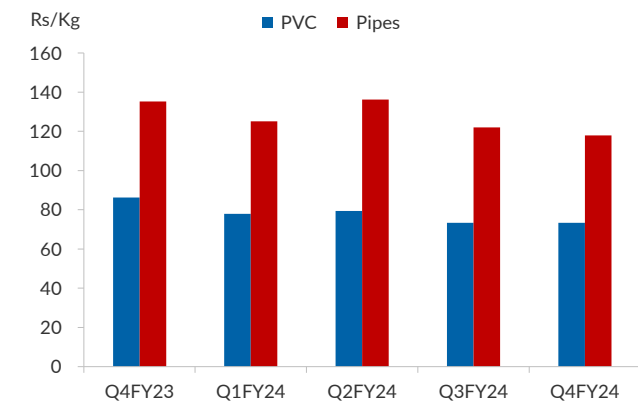
Source: Company, YES Sec

Exhibit 5: Pipe revenue improved by 19% YoY...



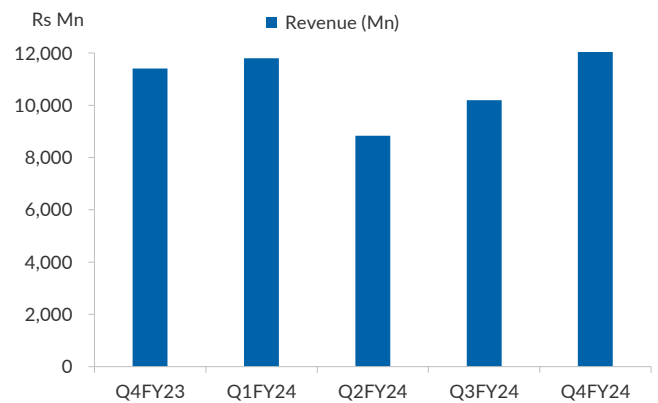
Source: Company, YES Sec

Exhibit 6: Pipes ASP declined to Rs118/kg ...



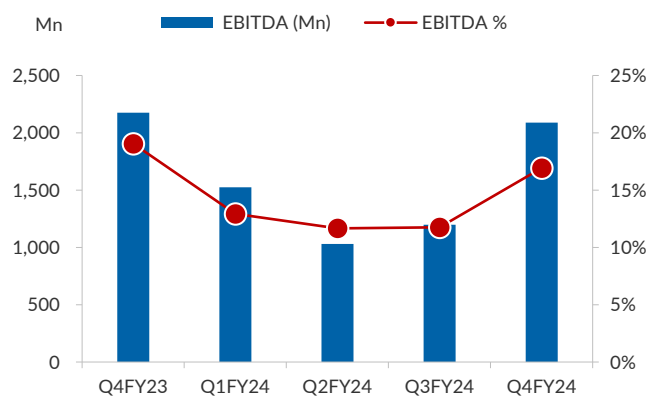
Source: Company, YES Sec

Exhibit 7: Net Revenue grew by 8% YoY...



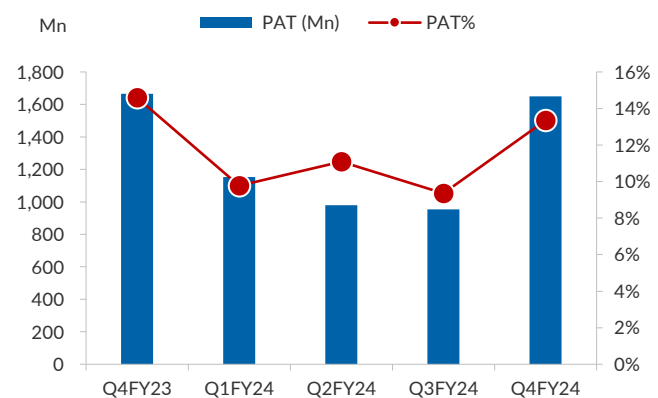
Source: Company, YES Sec

Exhibit 8: Blended margin came in at 17% YoY...



Source: Company, YES Sec

Exhibit 9: Net margin stood at 13%...



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	48,715	53,085
COGS	28,491	30,721	27,372	31,407	34,136
COGS %sales	61.3%	69.9%	63.4%	64.5%	64.3%
GP	17,983	13,246	15,803	17,308	18,949
GP%	38.7%	30.1%	36.6%	35.5%	35.7%
EBITDA	10,237	2,924	5,843	6,353	6,898
EBITDA%	22.0%	6.7%	13.5%	13.0%	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	6,770	7,434
Tax	3,317	706	1,770	1,693	1,859
PAT	10,513	2,506	4,736	5,078	5,576
PAT%	22.6%	5.7%	11.0%	10.4%	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	59,256	63,904
Equity	39,278	49,031	56,343	60,493	65,141
Non-current Liab	2,187	2,460	3,201	3,201	3,201
Payables	4,631	2,893	2,886	3,312	3,600
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	75,154	80,090
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	8,354	9,079
Receivables	3,345	2,975	4,576	5,164	5,627
Cash & Bank	810	606	317	2,950	6,482
Loans	87	228	168	168	168
Other	538	712	601	601	601
Total Assets	53,454	62,851	70,579	75,154	80,090

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	6,770	7,434
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)	(1,235)	(901)
Taxes	(3,356)	(679)	(1,448)	(1,693)	(1,859)
Cash from ops.	6,220	3,017	3,533	5,368	6,265
(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)	(1,234)	(1,234)
Incr/(Decr) in cash	(79)	(150)	(64)	2,634	3,531
Cash and cash equivalents at beginning of year	314	236	86	317	2,950
Cash and cash equivalents at end of year	235	86	22	2,950	6,482

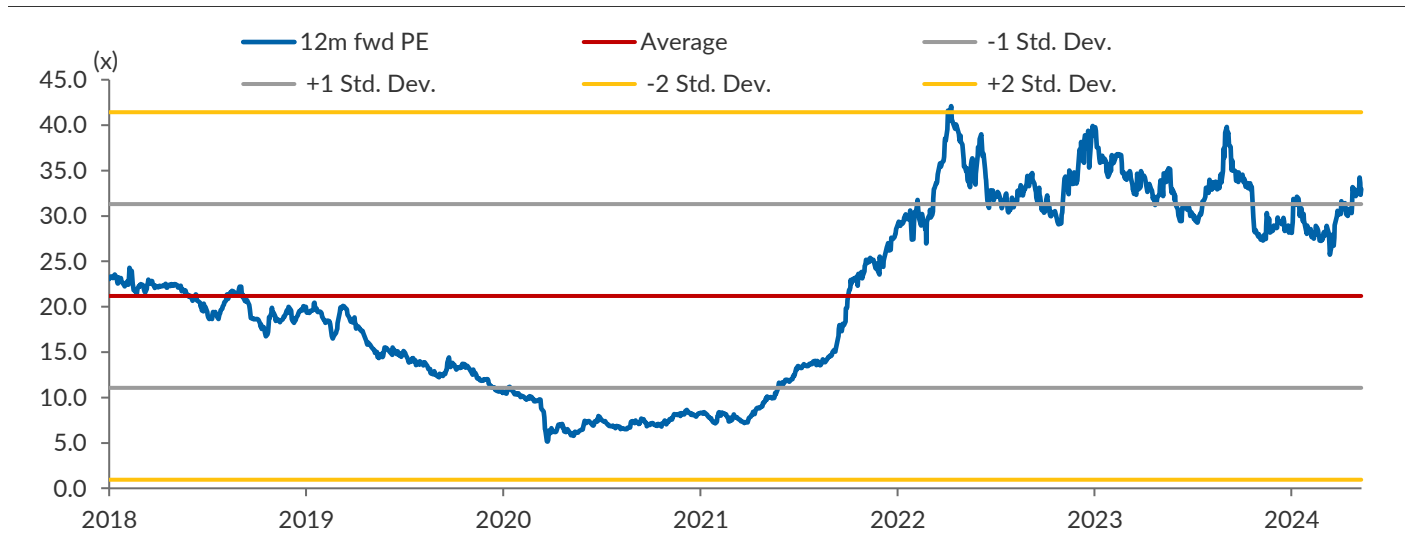
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	34.2%	-5.4%	-1.8%	12.8%	9.0%
EBITDA growth	3.5%	-71.4%	99.8%	8.7%	8.6%
EBIT growth	4.0%	-68.3%	100.2%	9.1%	9.4%
PAT growth	42.5%	-76.2%	89.0%	7.2%	9.8%
Profitability ratios (%)					
EBITDA margin	22.0%	6.7%	13.5%	13.0%	13.0%
EBIT margin	22.0%	7.4%	15.0%	14.5%	14.6%
PAT margin	22.6%	5.7%	11.0%	10.4%	10.5%
RoCE	27.3%	7.0%	11.7%	11.5%	11.7%
RoE	29.8%	5.7%	9.0%	8.7%	8.9%
Per share values					
EPS	16.9	4.0	5.0	8.2	9.0
CEPS	18.3	5.5	9.5	10.2	11.1
BVPS	63.3	79.3	91.1	97.8	105.3
Valuation ratios (x)					
P/E	8.7	44.1	46.2	32.9	29.9
P/CEPS	8.1	32.2	24.1	26.5	24.3
P/B	2.3	2.2	2.5	2.8	2.6
EV/EBITDA	9.2	39.0	24.9	26.4	23.8
Leverage ratios (x)					
Debt/ Equity	0.1	0.1	0.1	0.1	0.1
Net debt/Equity	0.1	0.1	0.1	0.0	(0.0)
Net debt/EBITDA	0.2	1.6	0.6	0.1	(0.4)
Int coverage	72.6	11.9	17.8	23.1	25.3
NWC days					
Receivables	26	25	39	39	39
Inventory	130	80	97	97	97
Payables	59	34	38	38	38

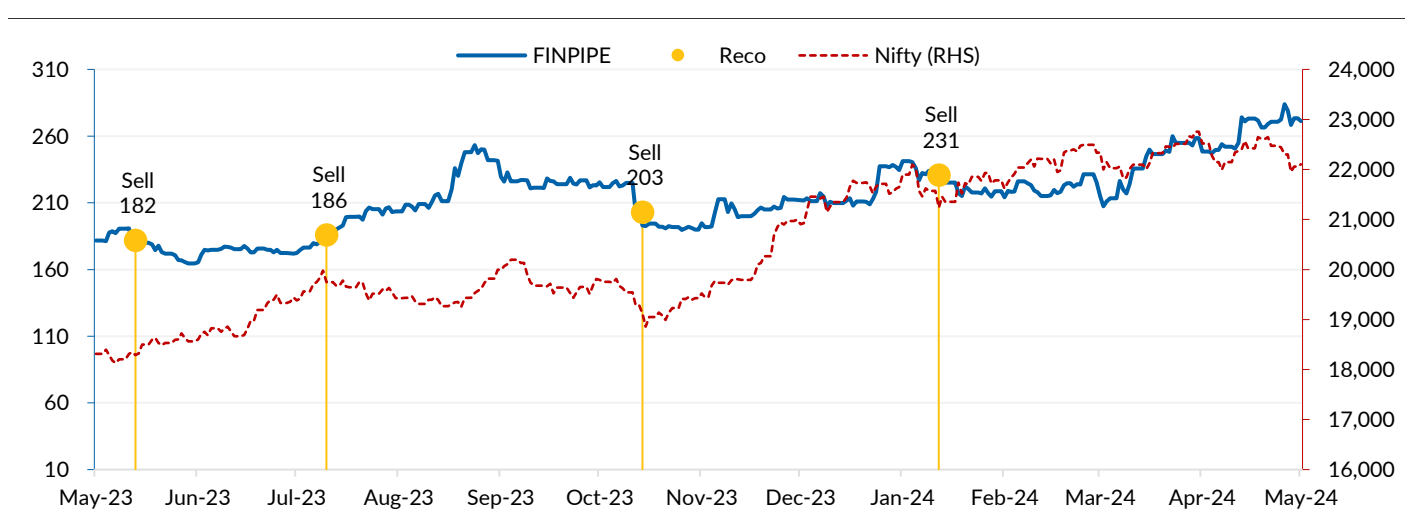
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



DISCLAIMER

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

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NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |
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Name of the Research Analyst : Udit Gajiwala, Shalin Damani

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

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

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