

January 19, 2024

RESULT REPORT Q3 FY24 | Sector: Building Materials

Finolex Industries Ltd

Decent quarter overall, stretched valuations compel us to maintain a SELL rating!

Result Synopsis

FNXP registered strong volumes of 81,312Te, a degrowth of 10%YoY (high-base) & a robust growth of 29%QoQ (3-year CAGR stood at 14%), driven by plumbing & sanitation pipes. Pipes ASP declined to Rs122/Kg from Rs136/Kg in the previous quarter owing to fall in PVC resin prices. Consequently, EBIT/Kg came in at Rs9.1 as against Rs10.7 in Q2FY24. Resin biz continued to remain under pressure wherein volumes declined by 32%YoY & grew by 17%QoQ (low base). The ASP of this segment stood at Rs73/Kg, a decline of Rs6/Kg on sequential basis. EBIT/Kg came in at Rs7.1 Vs Rs5.4 in the previous quarter. Overall EBITDA margins remained flattish on a sequential basis at 11.8%.

We believe with strong industry tailwinds, FNXP should register a decent volume growth of 13%CAGR over FY23-FY26E. Moreover, with the company's focus on expanding the contribution of plumbing segment, the profitability should also improve. We reckon EBITDA margins to improve to 12.4% by FY26E, hence overall EBITDA is likely to grow by 35%CAGR over FY23-FY26E. At CMP, the stock trades at a rich P/E(x) of 27.2x/25.1x on FY25E/FY26E EPS of Rs8.5/Rs9.2. We continue to value the company at a P/E(x) of 20x on FY26E EPS, arriving at a target price of Rs185, maintaining our SELL rating on the stock.

Result Highlights

- Company reported revenue of Rs10.2Bn, a degrowth of 9%YoY & a growth of 15.5%QoQ. Pipes revenue came in at Rs9.9Bn, decline of 8%YoY & an increase of 16%QoQ. PVC resin revenue stood at Rs3.2Bn, a steep fall of 36%YoY & an increase of 8%QoQ.
- Pipes volumes stood at 81,312Te, a decline of 10%YoY and an increase of 29%QoQ (3-year CAGR stood at 14%). PVC resins volumes stood at 43,738Te, a decrease of 32%YoY and an increase of 17%QoQ (3-year CAGR stood at -14%).
- Pipes ASP came in at Rs122/Kg as compared to Rs119/Rs136 in Q3FY23/Q2FY24 respectively. Resins ASP came in at Rs73/Kg Vs Rs78/Rs79 in Q3FY23/Q2FY24 respectively.
- Pipes EBIT/kg for the quarter stood at Rs9.1 Vs Rs7.6/Rs10.7 in Q3FY23/Q2FY24. Resin's EBIT/kg stood at Rs7.1 Vs Rs1.9/Rs5.4 in Q3FY23/Q2FY24 respectively.
- Net profit stood at Rs954Mn, a growth of 20%YoY & marginal decline of 2.5% on sequential basis which was largely on account of reduction in other income which stood at Rs351Mn Vs Rs614Mn in previous quarter.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	10,197	9,983	10,836	2.1	(5.9)	Overall beat on our estimates.
EBITDA	1,199	1,048	1,413	14.4	(15.2)	
EBITDA Margin (%)	11.8	10.5	13.0	12.0	(9.8)	
Adjusted PAT	954	1,004	1,090	(5.0)	(12.4)	

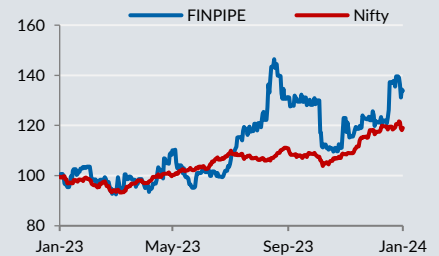
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 231
Target Price	: Rs 185
Potential Downside	: -20%

Stock data (as on Jan 19, 2024)

Nifty	21,622
52 Week h/l (Rs)	260 / 158
Market cap (Rs/USD mn)	143.641 / 1,729
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	234
Div yield (%):	0.7
Bloomberg code:	FNXP IN
NSE code:	FINPIPE

Stock performance



	1M	3M	1Y
Absolute return	7.8%	3.8%	33.8%

Shareholding pattern (As of Dec'23 end)

Promoter	52.5%
FII+DII	18.8%
Others	28.4%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	185	164

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	5.8	8.5	9.2
EPS (Old)	8.2	9.4	-
% change	-28.7%	-9.9%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	44,393	51,118	56,196
YoY Growth	1.0	15.1	9.9
EBIDTA	4,315	6,575	7,022
EBIDTA (%)	9.7	12.9	12.5
PAT	3,613	5,238	5,717
YoY Growth	44.2	45.0	9.1
ROE	7.2	9.8	9.9
EPS	5.8	8.5	9.2
P/E	39.4	27.2	24.9
BV/Share	83.1	89.6	96.9
P/BV	2.8	2.6	2.4

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Exhibit 2: Quarterly Snapshot:

Rs mn	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% yoy	% qoq	9MFY23	9MFY24	% yoy
Revenue	9,410	11,248	11,411	11,792	8,832	10,197	(9.3)	15.5	32,556	30,820	(5.3)
Expenditure	10,838	10,329	9,236	10,267	7,802	8,998	(12.9)	15.3	31,806	27,067	(14.9)
- RM	8,528	7,602	6,592	7,805	5,306	6,522	(14.2)	22.9	24,129	19,633	(18.6)
- Staff Cost	423	484	480	519	503	526	8.7	4.6	1,417	1,547	9.2
- Other cost	1,887	2,243	2,165	1,943	1,993	1,950	(13.1)	(2.2)	6,260	5,887	(6.0)
Operating Profit	(1,428)	919	2,174	1,525	1,030	1,199	30.5	16.4	750	3,754	400.6
OPM(%)	(15.2)	8.2	19.1	12.9	11.7	11.8	2684 bps	-127 bps	2.3	12.2	988 bps
Other Income	388	278	292	403	614	351	26.2	(42.8)	917	1,367	49.1
Depreciation	216	225	238	344	274	276	22.5	0.7	654	893	36.6
Interest	43	51	65	90	125	77	49.3	(38.5)	208	291	40.3
Share of associate	(7)	129	135	76	89	117	(8.9)	32.2	108	281	160.3
PBT	(1,305)	1,049	2,298	1,569	1,334	1,315	25.3	(1.4)	913	4,217	361.7
Tax	(350)	254	633	416	354	361	42.3	2.0	81	1,131	1,297.4
PAT	(955)	795	1,665	1,153	980	954	19.9	(2.6)	833	3,087	270.8
OCI	2,053	1,720	5,901	732	5,128	(1,032)	(160.0)	(120.1)	3,770	4,829	28.1
Reported PAT	1,098	2,515	7,566	1,885	6,108	(78)	(103.1)	(101.3)	4,602	7,916	72.0

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% yoy	% qoq	9MFY23	9MFY24	% yoy
PVC Resins											
Volumes Sold (Te)	54,063	64,697	58,132	46,074	37,516	43,738	(32.4)	16.6	181,507	127,328	(29.8)
Revenue (Rs Mn)	4,811	5,049	5,013	3,594	2,979	3,211	(36.4)	7.8	17,706	9,783	(44.7)
EBIT	(1,107)	124	1,173	31	204	309	148.4	51.4	(254)	544	(314.6)
EBIT%	(23)	2	23	1	7	10	2986 bps	598 bps	(1)	6	699 bps
Realization (Rs/Kg)	89	78	86	78	79	73	(5.9)	(7.5)	98	77	(21.2)
Pipes											
Volumes Sold (Te)	59,219	90,396	81,452	92,181	62,914	81,312	(10.0)	29.2	221,575	236,407	6.7
Revenue (Rs Mn)	8,017	10,772	11,021	11,542	8,572	9,916	(7.9)	15.7	30,109	30,030	(0.3)
EBIT	(476)	689	903	1,264	676	742	7.8	9.8	639	2,683	320.2
EBIT%	(6)	6	8	11	8	7	413 bps	-307 bps	2	9	681 bps
Realization (Rs/Kg)	135	119	135	125	136	122	2.3	(10.5)	136	127	(6.5)

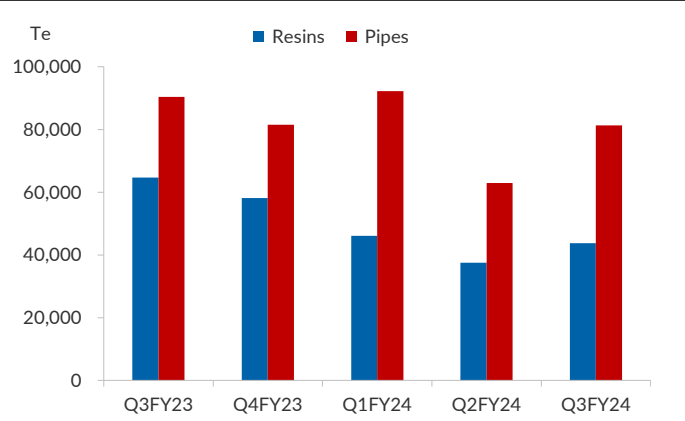
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Overall demand was soft in Q3FY24. Agri demand continued to remain muted, however plumbing segment witnessed high double-digit growth. CPVC segment also grew like non-agri biz.
- Owing to fall in resin prices in Oct'23, there was an inventory loss during the quarter, however company is unable to quantify the same as they use their own resins. On Net-basis, resin prices declined by ~Rs5/Kg in Q3FY24.
- Management is confident of growing non-agri segment by 15%+ for FY24. However, for agri segment, management stated that demand has not picked-up yet. Company aims to double the pipe volumes in next 4-5years. Moreover, for FY24, company is confident of achieving EBIT/Kg of Rs10. For resins biz, company maintained their volume guidance of 200,000-220,000Te for FY24.
- Agri-Non Agri mix for the quarter stood at 68%-32% respectively.
- Commenting on red-sea shipment crisis, currently company is not facing any challenges & they are covered for coming quarter in terms of available inventory.
- Management expects PVC prices to remain range bound between \$750-800/MT. Currently prices are at lower end at ~\$750-770/MT. CPVC prices are continuing the downward trend.
- **Prices:** PVC/EDC/VCM prices for the quarter stood at \$787/\$322/\$645 & currently the price are \$760/\$350/\$620 respectively. In Q3FY24, PVC-EDC delta stood at \$465, PVC-VCM delta stood at \$143. Currently the PVC-EDC/PVC-VCM delta is ~\$410/\$140 respectively.
- **Capex:** For resins biz company does not require any capex, the maintenance capex will be ~Rs1Bn per annum. For pipes, the company will require new plant in next couple of years. However, for now the annual capex will be Rs1.5Bn per annum. 9MFY24 capex stood at Rs850Mn.
- Management intends to dispose the balance land parcel of 3.5acres soon. In previous sale of 3.5acres, company had a net gain of Rs3.76Bn & management stated that for balance land, the gain will be higher than the former sale.
- Current net cash position stands at Rs15.70Bn.

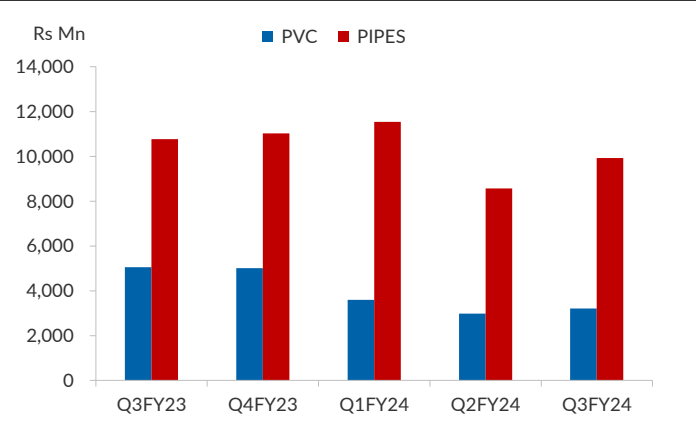
QUARTERLY TRENDS

Exhibit 4: Pipes volume declined by 10% YoY...



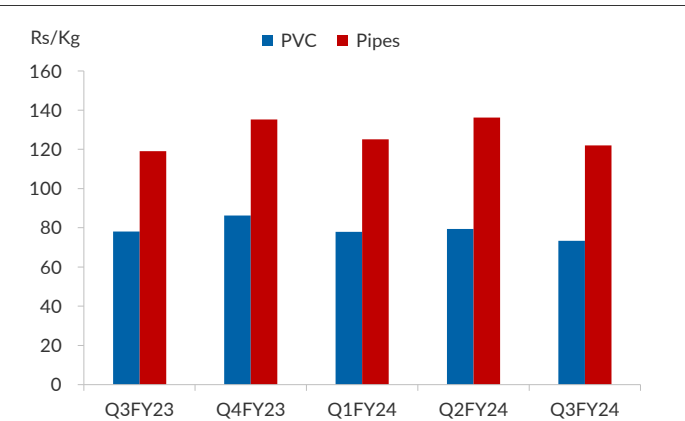
Source: Company, YES Sec

Exhibit 5: Pipes revenue decreased by 8% YoY...



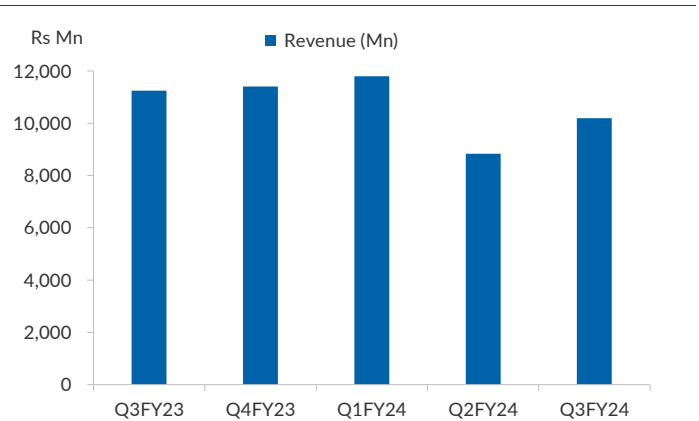
Source: Company, YES Sec

Exhibit 6: Pipes Realizations fell QoQ to Rs122/kg ...



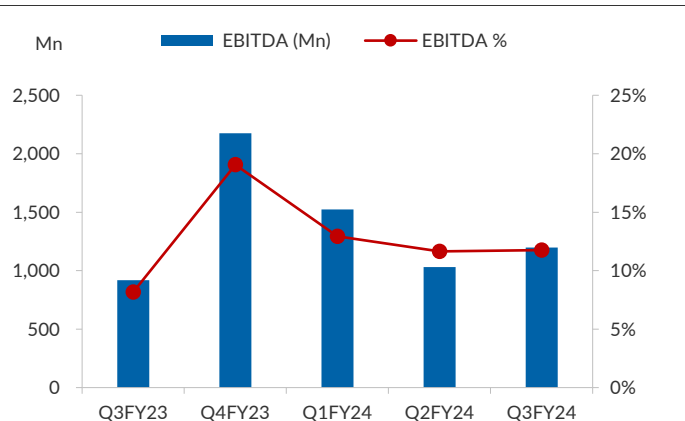
Source: Company, YES Sec

Exhibit 7: Net Revenue declined by 9.3% YoY...



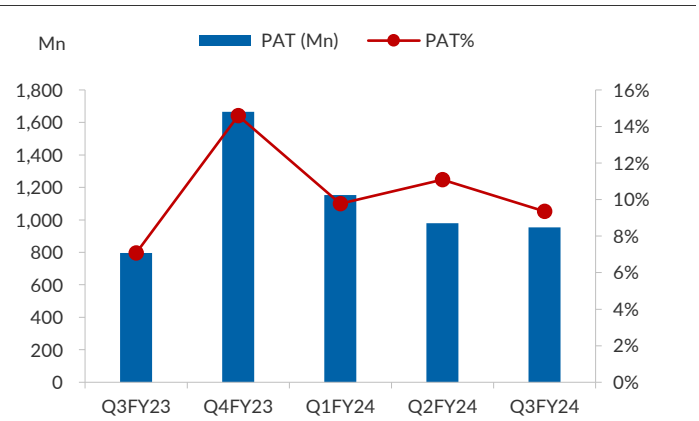
Source: Company, YES Sec

Exhibit 8: Operating margin stood at 11.8%...



Source: Company, YES Sec

Exhibit 9: Net margin came in at 9.4%...



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	44,393	51,118	56,196
COGS	28,491	30,721	28,724	32,054	35,436
COGS %sales	61.3%	69.9%	64.7%	62.7%	63.1%
GP	17,983	13,246	15,669	19,064	20,760
GP%	38.7%	30.1%	35.3%	37.3%	36.9%
EBITDA	10,237	2,924	4,315	6,575	7,022
EBITDA%	22.0%	6.7%	9.7%	12.9%	12.5%
Depreciation	834	892	1,215	1,305	1,395
Finance Cost	141	272	356	356	356
Other Income	822	1,209	1,888	2,071	2,353
PBT	13,831	3,212	4,632	6,984	7,623
Tax	3,317	706	1,019	1,746	1,906
PAT	10,513	2,506	3,613	5,238	5,717
PAT%	22.6%	5.7%	8.1%	10.2%	10.2%

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	50,170	54,172	58,652
Equity	39,278	49,031	51,407	55,408	59,889
Non-current Liab	2,187	2,460	2,460	2,460	2,460
Payables	4,631	2,893	2,705	3,019	3,337
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	65,039	69,354	74,153
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 Non-current	12,049	21,834	21,834	21,834	21,834
Inventory	10,155	6,732	6,294	7,024	7,765
Receivables	3,345	2,975	3,649	4,201	4,619
Cash & Bank	810	606	1,774	4,111	7,147
Loans	87	228	228	228	228
Other	538	712	712	712	712
Total Assets	53,454	62,851	65,039	69,354	74,153

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	13,831	3,213	4,632	6,984	7,623
Depreciation & Amortization	834	892	1,215	1,305	1,395
Finance cost	141	272	356	356	356
(Incr)/Decr in Working Capital	(756)	804	(424)	(969)	(840)
Taxes	(3,356)	(679)	(1,019)	(1,746)	(1,906)
Cash from ops.	6,220	3,017	4,761	5,931	6,629
(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)	1,168	2,338	3,036
Cash and cash equivalents at beginning of year	314	236	606	1,774	4,111
Cash and cash equivalents at end of year	235	86	1,774	4,111	7,147

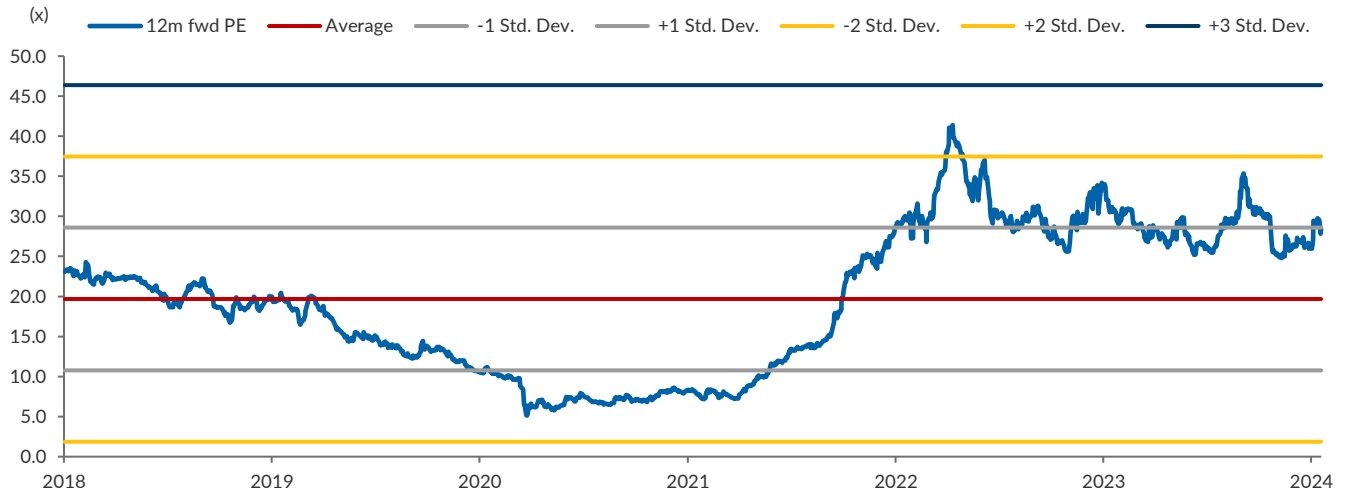
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Total Sales	34.2%	-5.4%	1.0%	15.1%	9.9%
EBIDTA	3.5%	-71.4%	47.6%	52.4%	6.8%
EBIT	4.0%	-68.3%	53.9%	47.2%	8.7%
PAT	42.5%	-76.2%	44.2%	45.0%	9.1%
Profitability (%)					
GP Margin	38.7%	30.1%	35.3%	37.3%	36.9%
EBIDTA Margins	22.0%	6.7%	9.7%	12.9%	12.5%
EBIT Margins	22.0%	7.4%	11.2%	14.4%	14.2%
PAT Margins	22.6%	5.7%	8.1%	10.2%	10.2%
ROCE	27.3%	7.0%	9.5%	13.1%	13.3%
ROE	29.8%	5.7%	7.2%	9.8%	9.9%
Per Share Data (Rs)					
EPS	16.9	4.0	5.8	8.5	9.2
CEPS	18.3	5.5	7.8	10.6	11.5
BVPS	63.3	79.3	83.1	89.6	96.9
Valuations (x)					
P/E (x)	8.7	44.1	39.4	27.2	24.9
P/CEPS (x)	8.1	32.2	29.5	21.7	20.0
P/BV (x)	2.3	2.2	2.8	2.6	2.4
EV/EBIDTA	9.2	39.0	33.8	21.8	20.0
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	0.8	0.2	(0.3)
Int Coverage	72.6	11.9	14.0	20.6	22.4
WCC Days					
Debtors	26	25	30	30	30
Inventory	130	80	80	80	80
Creditors	59	34	34	34	34

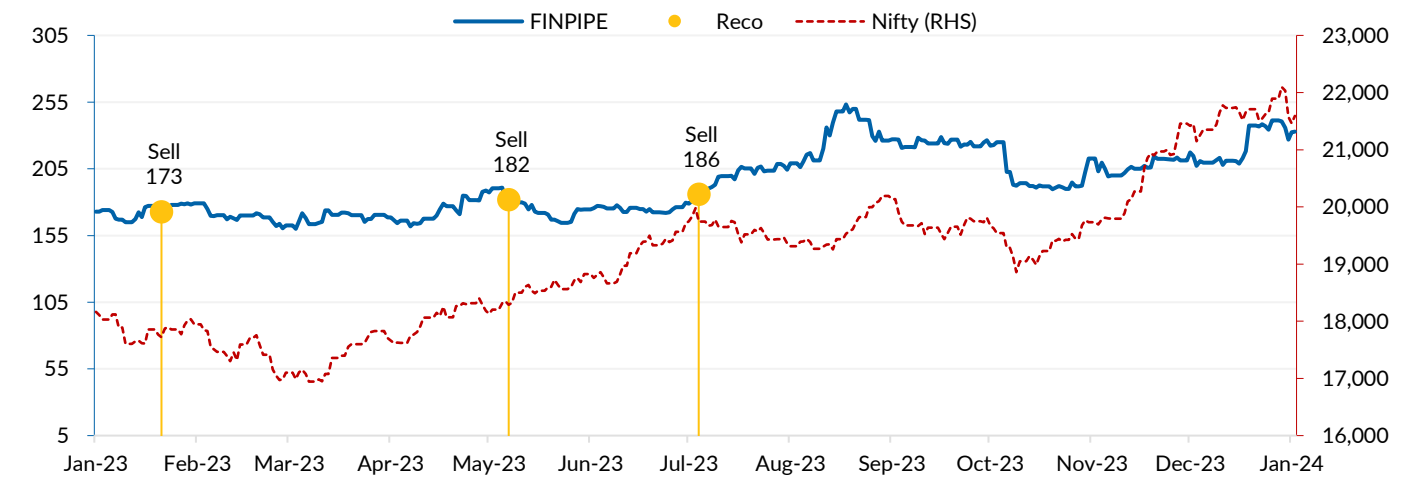
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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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, 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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