

# Finolex Industries

## HOLD

Lower sales volume weighed on quarterly results

### Summary

Finolex Industries' (FIL) Q1FY22 result was below our estimates on key parameters. Statewide lockdown amid second wave of Covid-19 dented volume off-take in a seasonally good quarter for agri-pipes. On a low base of Q1FY21, the earnings growth is encouraging; however, on a sequential quarter result has been subdued. Net sales increased by 71.8% YoY to Rs9.6bn, while EBITDA came in at Rs2bn, a robust growth of 137.3% over Q1FY21. The company reported net profit of Rs1.4bn compared to Rs567mn in the same quarter last year. Despite a muted sales volume growth, the management reiterated to grow sales volume by ~10%-15% in FY22E and achieve pre-pandemic sales volume. Further, non-agri pipes and CPVC pipes are showing good traction and should continue to do well in coming quarters. Increasing share of non-agri pipes in total sales bodes well for margin expansion in future. We prefer FIL in PVC pipes segment given its dominant positioning in agri-pipes segment, backward integrated operations, healthy balance sheet and extensive distribution reach. We have marginally tweaked our earnings estimates upwards and maintain HOLD with a revised TP of Rs200, assigning 22x PER on FY23E.

### Key Highlights and Investment Rationale

#### ■ Sharp increase in realization aided net sales growth

FIL's blended sales volume increased by 8% YoY to 106,068MT. Pipes volume grew by 5.5% YoY to 55,819MT, while PVC volume was up by 10.6% to 50,249MT. NSR further strengthened in both PVC and pipes segment by 92.7%/58.1% respectively over Q1FY21. Though raw material prices saw some softness in the beginning of Q1FY22, prices are again on uptrend and may touch a level of USD 1,300-1,400 by December, 2021. Pipes segment will remain subdued due to seasonal weakness in demand; however, higher sales in non-agri pipes and CPVC pipes should aid net sales in near term.

#### ■ EBITDA margin back to normalized level

The company reported 600bps YoY improvement in EBITDA margin to 21.7%. Though it has substantially declined by 1,110bps QoQ, we expect sustainable EBITDA margin to remain in the range of 18%-19% in near term.

#### ■ Sustainable earnings growth a key, HOLD with a TP of Rs200

FIL remains our preferred pick in pipes segment given its strong positioning in domestic agri-pipes market, backward integrated operations and healthy balance sheet. HOLD with a TP of Rs200.

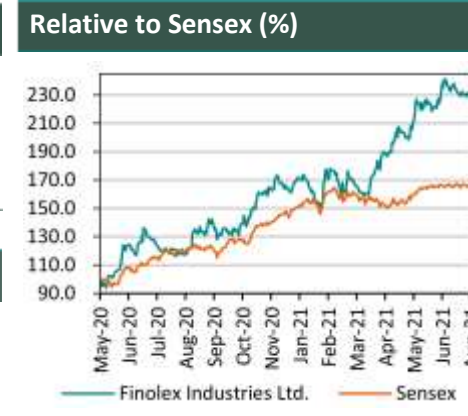
TP	Rs200
CMP	Rs176
Potential upside / downside	+14%

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	8.4	9.1
Consensus	9.0	9.2
% difference	(6.8)	(1.0)

Shareholding Pattern (%)	
Promoters	52.5
FII	2.9
DII	11.5
Public	33.1

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(4.4)	16.2	90.2
Rel to Sensex	(5.3)	7.6	49.4

Key Stock Data	
Bloomberg / Reuters	FNXP IN / FINX.BO
Sector	Plastic Building Material
Shares o/s (mn)	620
Market cap. (Rsmn)	109,049
Market cap. (US\$ mn)	1,466
3-m daily avg Trd value (Rs mn)	280.5
52-week high / low	Rs199 / 88
Sensex / Nifty	52,951 / 15,885



Financial snapshot					
	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	29,845	29,845	34,628	37,291	40,486
EBITDA	4,474	4,474	9,893	7,024	7,437
EBITDA (%)	15.0	15.0	28.6	18.8	18.4
Adj. PAT	2,808	2,808	7,234	5,204	5,634
EPS (Rs)	4.5	4.5	11.7	8.4	9.1
EPS Growth (%)	(27.9)	(27.9)	157.6	(28.1)	8.3
PE (x)	38.9	38.9	15.1	21.0	19.4
Dividend Yield (%)	1.1	1.1	2.3	1.7	1.7
EV/EBITDA (x)	24.8	24.8	10.9	15.0	13.8
RoE (%)	12.4	12.4	28.2	15.8	15.6
RoCE (%)	14.1	14.1	30.3	16.7	16.4

Source: IDBI Capital Research;

**Concall Highlights:**

- **PVC pipes & fittings** volumes grew by 5.5% YoY to 55,819MT
- **PVC resin** volumes grew by 10.6% YoY to 50,249MT
- **CPVC** volumes saw a threefold increase in Q1FY22 it stood at 2,431MT compared to 882MT in Q1FY21 & Value in CPVC increased to Rs880mn in Q1FY22 from Rs290mn in Q1FY21
- Liquid investment of the company are Rs6,060mn
- **Fittings** volumes increased in Q1FY22 to 5,192MT as compared to 3,054MT & Value increased to Rs1,410mn from Rs660mn
- **Column pipes and casing** put together contributes 2,000MT sales per month & Column pipe alone contributes 200MT sales on monthly basis. Company is focusing on further penetrating in these segments
- **Revenue Mix:** In Q1FY22 Agri contributed 68%-69% rest was contributed by non-agri
- **Distribution Network** includes 900 dealers and 21,000 retail touch points, 2100+ SKU's

**Management Outlook:****Pricing:**

- **PVC prices:** In Q1FY22 stood at \$1,543MT (\$740MT in Q1FY21, currently \$1,360MT)
- **EDC prices:** In Q1FY22 stood at \$709MT (\$193MT in Q1FY21, currently \$690MT)
- **Ethylene prices:** In Q1FY22 stood at \$991MT (\$537MT in Q1FY21, currently \$1005MT)
- **VCM prices:** In Q1FY22 stood at \$1,233MT (\$516MT in Q1FY21, currently \$1,080MT)
- PVC/EDC Delta stood at \$834MT in Q1FY22 & PVC/VCM delta stood at \$311MT
- As per management, prices are hardening now and till December-2021 it expects prices to be in a range of \$1,300-\$1,400

**Demand:**

- Management stated that July was a better month in comparison with Q1FY22 performance
- Management guided that they expect volumes to increase by 10%-15% over last year and will attempt to reach pre pandemic levels
- Management stated that it will focus on non agri segment. It does not see a pickup in agri sector due to seasonality impact and expects demand to come back in spring & summer.
- As per management, currently there is subdued demand in government projects they expect housing segment projects to go up in long term.
- As per management only 3-4% of housing cost is towards piping requirement. The demand for PVC pipes is expected to progressively rise as these pipes will be required for last mile connectivity

**Exhibit 1: Financial snapshot**

(Rs mn)

Particulars (Rs mn)	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
<b>Total revenues</b>	<b>9,657</b>	<b>12,493</b>	<b>(22.7)</b>	<b>5,621</b>	<b>71.8</b>
Total expenditure	7,563	8,392	(9.9)	4,738	59.6
<b>EBIDTA</b>	<b>2,094</b>	<b>4,101</b>	<b>(48.9)</b>	<b>882</b>	<b>137.3</b>
<i>EBIDTA margin(%)</i>	<i>21.7</i>	<i>32.8</i>	<i>(1110)bps</i>	<i>15.7</i>	<i>600bps</i>
Depreciation	201	197	1.8	188	6.5
Interest cost	48	18	164.4	33	45.1
Other income	154	135	14.1	83	85.1
PBT	2,000	4,021	(50.3)	745	168.6
Tax	529	1,062	(50.2)	206	156.5
<b>Adj. net profit</b>	<b>1,471</b>	<b>2,959</b>	<b>(50.3)</b>	<b>538</b>	<b>173.2</b>
share of profit of JV and associate	(16)	30	(153.3)	29	(155.4)
<b>consolidated profit</b>	<b>1,455</b>	<b>2,989</b>	<b>(51.3)</b>	<b>567</b>	<b>156.5</b>
EPS (Rs)	2.4	4.8	(51.2)	0.9	158.2

Source: Company; IDBI Capital Research

**Exhibit 2: Segmental revenue performance**

(Rs mn)

Particulars (Rs mn)	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
<b>Revenue mix</b>					
PVC	6,271	9,202	(31.9)	2,943	113.1
PVC Pipes and fittings	8,454	9,017	(6.2)	5,070	66.8
<b>EBIT</b>					
PVC	1579	3284	(51.9)	232	580.1
PVC Pipes and fittings	436	695	(37.2)	514	(15.2)
<b>EBIT (%)</b>					
PVC	25.2	35.7	(1052)bps	7.9	1728bps
PVC Pipes and fittings	5.2	7.7	(255)bps	10.1	(498)bps
<b>Capital employed</b>					
PVC	9,976	6,523	52.9	7,121	40.1
PVC Pipes and fittings	10,386	10,253	1.3	8,064	28.8

Source: Company; IDBI Capital Research

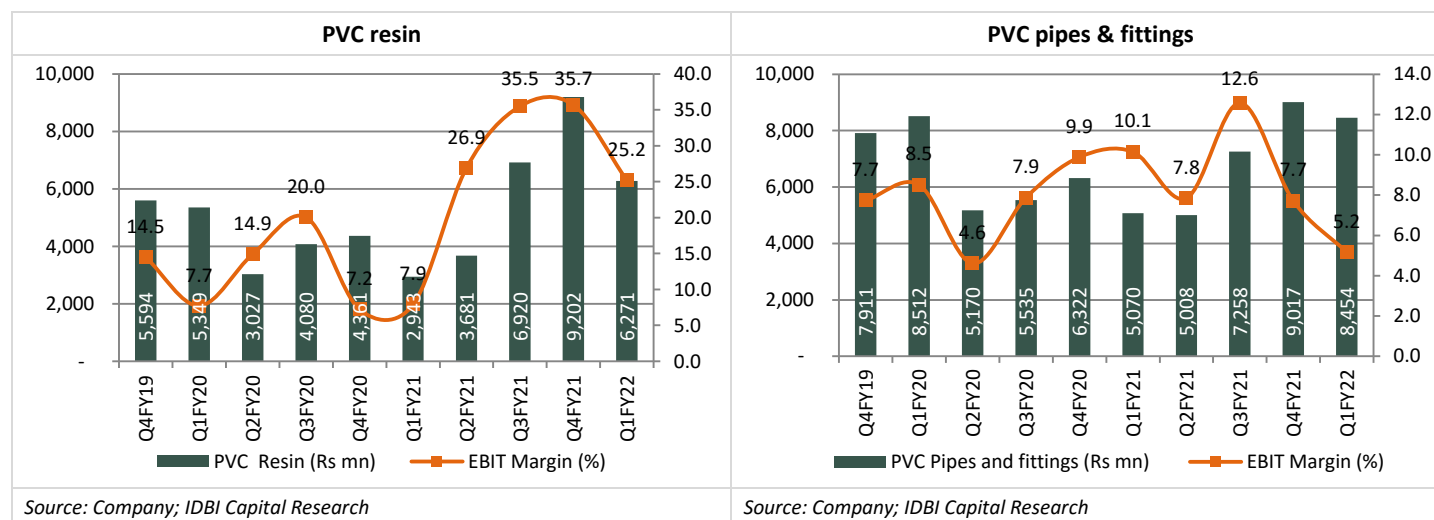
Exhibit 3: Actual vs. estimates

(Rs mn)

Particulars (Rs mn)	Q1FY22A	Q1FY22E	Variance (%)
Net Sales	9,657	10,588	(8.8)
EBITDA	2,094	2,260	(7.3)
EBITDA Margin (%)	21.7	21.4	30bps
Net Profit	1,455	1,632	(10.9)
EPS (Rs)	2.4	2.6	(10.9)

Source: Company; IDBI Capital Research

Exhibit 4: Quarterly Revenue &amp; EBIT Performance



## Exhibit 5: Change in estimates

(Rs mn)

Particulars	FY22E			FY23E		
	Earlier	New	% Chg	Earlier	New	% Chg
Net sales	35,450	37,291	5.2	38,488	40,486	5.2
EBITDA	6,200	7,024	13.3	6,938	7,437	7.2
EBITDA Margin (%)	17.5	18.8	130bps	18.0	18.4	40bps
PAT	4,588	5,204	13.4	5,260	5,634	7.1
EPS (Rs)	7.4	8.4	13.4	8.5	9.1	7.1

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>29,845</b>	<b>34,628</b>	<b>37,291</b>	<b>40,486</b>
<i>Growth (%)</i>	<i>(3.5)</i>	<i>16.0</i>	<i>7.7</i>	<i>8.6</i>
Operating expenses	(25,371)	(24,735)	(30,267)	(33,049)
<b>EBITDA</b>	<b>4,474</b>	<b>9,893</b>	<b>7,024</b>	<b>7,437</b>
<i>Growth (%)</i>	<i>-26.0</i>	<i>121.1</i>	<i>-29.0</i>	<i>5.9</i>
Depreciation	(738)	(777)	(867)	(893)
<b>EBIT</b>	<b>3,736</b>	<b>9,116</b>	<b>6,157</b>	<b>6,544</b>
Interest paid	(113)	(73)	(61)	(46)
Other income	299	716	859	1,030
<b>Pre-tax profit</b>	<b>3,923</b>	<b>9,759</b>	<b>6,955</b>	<b>7,529</b>
Tax	(1,114)	(2,524)	(1,750)	(1,895)
<i>Effective tax rate (%)</i>	<i>28.4</i>	<i>25.9</i>	<i>25.2</i>	<i>25.2</i>
<b>Net profit</b>	<b>2,808</b>	<b>7,234</b>	<b>5,204</b>	<b>5,634</b>
<b>Adjusted net profit</b>	<b>2,808</b>	<b>7,234</b>	<b>5,204</b>	<b>5,634</b>
<i>Growth (%)</i>	<i>(27.9)</i>	<i>157.6</i>	<i>(28.1)</i>	<i>8.3</i>
<i>Shares o/s (mn nos)</i>	<i>620</i>	<i>620</i>	<i>620</i>	<i>620</i>

### Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	3,923	9,759	6,955	7,529
Depreciation	738	777	867	893
Tax paid	(1,271)	(2,487)	(1,645)	(1,781)
Chg in working capital	(2,218)	1,453	(276)	(254)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>1,172</b>	<b>9,503</b>	<b>5,899</b>	<b>6,387</b>
Capital expenditure	(552)	(646)	(755)	(754)
Chg in investments	1,016	(3,824)	(355)	(380)
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>463</b>	<b>(4,470)</b>	<b>(1,110)</b>	<b>(1,134)</b>
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	1,933	(788)	(510)	(382)
Dividend (incl. tax)	(1,489)	(2,978)	(2,234)	(2,234)
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(1,428)</b>	<b>1,164</b>	<b>(42)</b>	<b>(43)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(984)</b>	<b>(2,603)</b>	<b>(2,785)</b>	<b>(2,659)</b>

## Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	10,226	10,094	9,983	9,844
Investments	1,245	5,069	5,424	5,804
Other non-curr assets	6,315	12,621	12,650	12,693
<b>Current assets</b>	<b>11,127</b>	<b>15,154</b>	<b>17,910</b>	<b>21,201</b>
Inventories	8,578	9,188	9,831	10,421
Sundry Debtors	732	1,480	1,524	1,570
Cash and Bank	932	3,363	5,367	7,960
Marketable Securities	-	-	-	-
Loans and advances	207	462	487	514
<b>Total assets</b>	<b>28,913</b>	<b>42,939</b>	<b>45,967</b>	<b>49,541</b>
<b>Shareholders' funds</b>	<b>19,860</b>	<b>31,390</b>	<b>34,360</b>	<b>37,760</b>
Share capital	1,241	1,241	1,241	1,241
Reserves & surplus	18,619	30,149	33,119	36,519
<b>Total Debt</b>	<b>2,828</b>	<b>2,040</b>	<b>1,530</b>	<b>1,148</b>
Secured loans	1	1	1	1
Unsecured loans	2,827	2,039	1,529	1,147
Other liabilities	1,964	2,181	2,312	2,460
<b>Curr Liab &amp; prov</b>	<b>4,262</b>	<b>7,328</b>	<b>7,764</b>	<b>8,173</b>
Current liabilities	2,636	4,454	4,756	4,999
Provisions	1,626	2,874	3,008	3,174
<b>Total liabilities</b>	<b>9,054</b>	<b>11,549</b>	<b>11,607</b>	<b>11,781</b>
<b>Total equity &amp; liabilities</b>	<b>28,913</b>	<b>42,939</b>	<b>45,967</b>	<b>49,541</b>
<b>Book Value (Rs)</b>	<b>32</b>	<b>50</b>	<b>55</b>	<b>60</b>

Source: Company; IDBI Capital Research

## Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	4.5	11.7	8.4	9.1
Adj EPS growth (%)	(27.9)	157.6	(28.1)	8.3
EBITDA margin (%)	15.0	28.6	18.8	18.4
Pre-tax margin (%)	13.1	28.2	18.6	18.6
ROE (%)	12.4	28.2	15.8	15.6
ROCE (%)	14.1	30.3	16.7	16.4
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.0	1.0	0.8	0.8
Leverage factor (x)	1.4	1.4	1.4	1.3
Net margin (%)	9.4	20.9	14.0	13.9
Net Debt/Equity (x)	0.1	(0.0)	(0.1)	(0.2)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	105	97	96	94
Receivable days	9	16	15	14
Payable days	33	58	51	49

## Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	38.9	15.1	21.0	19.4
Price / Book value (x)	5.6	3.5	3.2	2.9
PCE (x)	30.8	13.6	18.0	16.7
EV / Net sales (x)	3.7	3.1	2.8	2.5
EV / EBITDA (x)	24.8	10.9	15.0	13.8
Dividend Yield (%)	1.1	2.3	1.7	1.7





# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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