

Finolex Industries

HOLD

Dismal performance on key parameters

Summary

Finolex Industries' (FIL) Q2FY24 result was below our estimates on key parameters. Lower PVC prices dented NSR, while subdued volume growth weighed on overall Q2FY24 earnings. The management remained optimistic on sales volume pickup in H2FY24 aided by better monsoon and overall demand improvement. Net sales was down by 6.2% YoY to Rs8.8bn, while EBITDA came in at Rs1bn, down by 172.2% YoY. The company reported adjusted net profit of Rs0.9bn, declined by 202.7% over Q2FY23. FIL has healthy cash balance of Rs15bn which would be utilised for capacity addition in near term. The company's focus on increasing share of non-agri products in total sales bodes well for margin improvement. We have maintained our earnings estimates for FY24E/FY25E. Maintain HOLD with a TP of Rs205 assigning 20x PER on FY25E.

Key Highlights and Investment Rationale

- **Marginal growth in pipes segment, PVC segment disappointed:** FIL's blended sales volume was down by 11% YoY to 100,430MT. Pipes volume grew by 6% YoY to 62,914MT, while PVC volume was down by 31% YoY to 37,516MT. PVC/EDC delta stood at \$571MT & PVC/VCM delta stood at \$157MT in Q2FY24. Given current capacity would exhaust in terms of utilization in next couple of years, the management guided capacity addition to be on cards soon. We would be watchful on FIL's performance on further increasing share of non-agri pipes, value added products and margin expansion in near term.
- **Volume growth to drive earnings, HOLD with a TP of Rs205:** FIL's subdued H1FY24 performance was on account of softening of PVC prices, which dented both volume as well as NSR. However, demand dynamics in pipes is encouraging and may aid volume off-take in H2FY24E. The company's wide distribution reach, back integrated operations and strong balance sheet is impressive. HOLD with a TP of Rs205.

TP Rs205

CMP Rs203

Potential upside/downside 1%

Previous Rating HOLD

Price Performance (%)

| | -1m | -3m | -12m |
|---------------|-------|------|------|
| Absolute | (8.3) | 7.6 | 46.7 |
| Rel to Sensex | (6.1) | 10.8 | 37.8 |

V/s Consensus

| EPS (Rs) | FY24E | FY25E |
|--------------|-------|-------|
| IDBI Capital | 8.8 | 10.2 |
| Consensus | 8.8 | 10.1 |
| % difference | 0.3 | 1.1 |

Key Stock Data

| | |
|---------------------------------|---------------------------|
| Bloomberg / Reuters | FNXP IN / FINX.BO |
| Sector | Plastic Building Material |
| Shares o/s (mn) | 620 |
| Market cap. (Rs mn) | 125,833 |
| 3-m daily avg Trd value (Rs mn) | 30.8 |
| 52-week high / low | Rs260 / 131 |
| Sensex / Nifty | 64,572 / 19,282 |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 52.5 |
| FII | 6.7 |
| DII | 12.1 |
| Public | 28.7 |

Financial snapshot

| Year | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|--------|--------|--------|--------|--------|
| Revenue | 34,628 | 46,473 | 43,971 | 48,217 | 52,171 |
| Change (yoy, %) | 16 | 34 | (5) | 10 | 8 |
| EBITDA | 9,893 | 10,237 | 2,925 | 7,125 | 8,317 |
| Change (yoy, %) | 121 | 3 | (71) | 144 | 17 |
| EBITDA Margin(%) | 28.6 | 22.0 | 6.7 | 14.8 | 15.9 |
| Adj.PAT | 7,234 | 6,738 | 2,389 | 5,424 | 6,338 |
| EPS (Rs) | 11.7 | 10.9 | 3.9 | 8.8 | 10.2 |
| Change (yoy, %) | 158 | (6.9) | (64.4) | 127 | 17 |
| PE(x) | 17.4 | 18.7 | 52.5 | 23 | 20 |
| Dividend Yield (%) | 2.2 | 1.5 | 1.7 | 2 | 2 |
| EV/EBITDA (x) | 11 | 12.5 | 44.5 | 17.9 | 15.0 |
| RoE (%) | 28.6 | 19.3 | 5.4 | 11 | 12 |
| RoCE (%) | 31 | 23.8 | 4 | 11 | 12 |

Source: IDBI Capital Research

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Concall Highlights:

- Revenues decreased on account of decline in PVC prices due to lower PVC prices, revenue decreased somewhat by 6% year over year to Rs883Cr in Q2FY24 as opposed to Rs941Cr in Q2FY23.
- Substantial improvement in operating performance compared to a loss of Rs142Cr in Q2FY23, EBITDA increased to Rs102Cr in Q2FY24. EBITDA margins during Q2FY24 increased on a YoY basis to 11.6% as compared to -15.1% in corresponding period of Q2FY23.
- PBT was Rs125.65 Cr as opposed to Rs129.25 Cr LY in PBT deficit. Whereas the company reported a PAT of Rs98.78 Cr in Q2FY24 as compared to loss of Rs93.78 Cr in Q2FY23.
- On a segmental basis Pipes and Fittings revenue increased by 7% to Rs 857.15 Cr in Q2FY24 on YoY basis.
- The volume of PVC pipes and fittings grew by 6.2% to reach 62,914 metric tons, while the EBIT in Pipes and fittings was Rs 67.60Cr
- The revenue from Resins segment decreased to 38% to Rs297.85Cr on a YoY basis whereas volume of PVC resin decreased by 30.6% YoY, totaling 37,516 metric tons & EBIT from Resin segment stood at Rs20.47 Cr.
- Volume of PVC Pipes & Fittings increased noticeably by 18.2% to 1,55,095 MT. Volume of PVC Resin fell by 28.4% year over year to 83,590 MT.
- Liquidity of the company remains strong with net operating Cash flow of Rs58 Cr is generated. The Company continues to have a strong balance sheet with a net cash surplus of about Rs1,500 Cr.
- The pricing of PVC witnessed an increment of Rs 4, resulting in a modest inventory gain. In the event of a decline in PVC prices, an inventory loss may be anticipated.
- The management has provided guidance, emphasizing the favorable growth prospects within the agri pipes segment. Their immediate focus remains directed towards its expansion.
- The volume guidance for Pipes and Fittings for the fiscal year 2024 stands at 15-20%.
- Noteworthy price points in Q2FY24 include PVC, EDC, and VCM prices at \$847, \$276, and \$690, respectively. During this period, the PVC-EDC delta stood at \$571, while the PVC-VCM delta was recorded at \$157.

- In Q2FY24, the volume contribution between agri and non-agri segments stood at 60% and 40%, respectively.
- Plans for capital expenditure are imminent, primarily focused on the Pipes and Fittings segment. Simultaneously, initiatives are underway to drive innovation within the logistics domain.
- The peak capacity for Fittings amounts to 48,000 metric tons, with 12,000 metric tons being in-house production, and the remainder in captive facilities. The company has noted a significant growth in the contribution of fittings to overall sales volume.

Exhibit 1: Quarterly Financial Snapshot

| Particulars (Rs mn) | Q2FY24 | Q1FY24 | QoQ (%) | Q2FY23 | YoY (%) |
|--|--------------|---------------|-----------------|----------------|----------------|
| Total revenues | 8,832 | 11,792 | (25.1) | 9,411 | (6.2) |
| Total expenditure | 7,802 | 10,267 | (24.0) | 10,838 | (28.0) |
| EBIDTA | 1,030 | 1,525 | (32.5) | (1,427) | (172.2) |
| <i>EBIDTA margin(%)</i> | <i>11.7</i> | <i>12.9</i> | <i>(620)bps</i> | <i>(15.2)</i> | <i>230bps</i> |
| Depreciation | 274 | 344 | (20.4) | 216 | 27.0 |
| Interest cost | 125 | 90 | 38.1 | 43 | 189.1 |
| Other income | 614 | 403 | 52.4 | 388 | 58.0 |
| PBT | 1,245 | 1,493 | (16.6) | (1,297) | (196.0) |
| Tax | 320 | 416 | (23.1) | (350) | (191.4) |
| Adj. net profit | 891 | 1,078 | (17.3) | (947) | (194.1) |
| share of profit of JV, associate and exceptional items | 89 | 76 | 17.0 | (7) | (1463.1) |
| consolidated profit | 980 | 1,153 | (15.1) | (954) | (202.7) |
| EPS (Rs) | 1.58 | 1.87 | (15.1) | (1.54) | (202.6) |

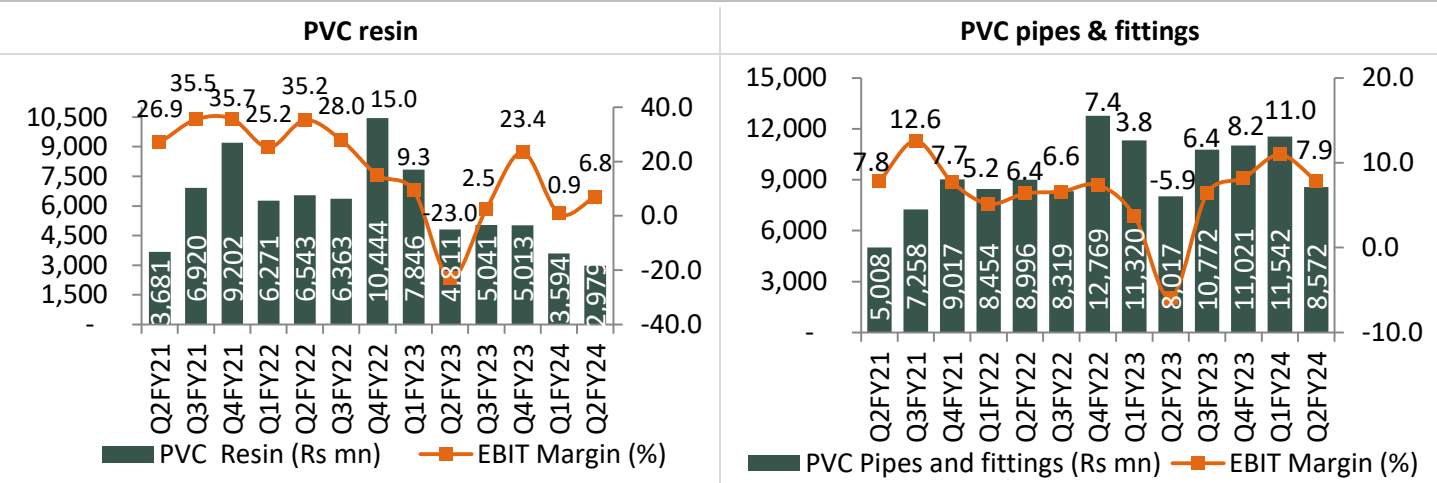
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

| Particulars (Rs mn) | Q2FY24A | Q2FY24E | Variance (%) |
|--------------------------|--------------|---------------|---------------|
| Net Sales | 8,832 | 10,377 | (14.9) |
| EBITDA | 1,030 | 1,293 | (20.4) |
| <i>EBITDA Margin (%)</i> | <i>11.7</i> | <i>12.5</i> | <i>-80bps</i> |
| Net Profit | 980 | 1,024 | (4.4) |
| EPS (Rs) | 1.6 | 1.7 | (4.4) |

Source: Company; IDBI Capital Research

Exhibit 3: Quarterly Revenue & EBIT Performance



Source: Company; IDBI Capital Research

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 29,845 | 34,628 | 46,473 | 43,971 | 48,217 | 52,171 |
| <i>Change (yoy, %)</i> | (3) | 16 | 34 | (5) | 10 | 8 |
| Operating expenses | (25,371) | (24,735) | (36,236) | (41,045) | (41,092) | (43,854) |
| EBITDA | 4,474 | 9,893 | 10,237 | 2,925 | 7,125 | 8,317 |
| <i>Change (yoy, %)</i> | -26 | 121 | 3 | -71 | 144 | 17 |
| <i>Margin (%)</i> | 15.0 | 28.6 | 22.0 | 6.7 | 14.8 | 15.9 |
| Depreciation | (738) | (777) | (834) | (892) | (966) | (1,019) |
| EBIT | 3,736 | 9,116 | 9,403 | 2,033 | 6,159 | 7,298 |
| Interest paid | (113) | (73) | (141) | (272) | (180) | (162) |
| Other income | 299 | 716 | 822 | 1,209 | 1,270 | 1,333 |
| Pre-tax profit | 3,923 | 9,759 | 13,845 | 2,970 | 7,249 | 8,470 |
| Tax | (1,114) | (2,524) | (3,346) | (581) | (1,824) | (2,132) |
| <i>Effective tax rate (%)</i> | 28 | 26 | 24 | 20 | 25 | 25 |
| Minority Interest | - | - | - | - | - | - |
| Net profit | 2,808 | 7,234 | 10,499 | 2,389 | 5,424 | 6,338 |
| Exceptional items | - | - | 3,761 | - | - | - |
| Adjusted net profit | 2,808 | 7,234 | 6,738 | 2,389 | 5,424 | 6,338 |
| <i>Change (yoy, %)</i> | (28) | 158 | (7) | (65) | 127 | 17 |
| EPS | 4.5 | 11.7 | 10.9 | 3.9 | 8.7 | 10.2 |
| Dividend per sh | 2 | 4 | 3 | 4 | 4 | 5 |
| <i>Dividend Payout %</i> | 53 | 41 | 33 | 109 | 55 | 59 |

Balance Sheet

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Shareholders' funds | 19,860 | 30,729 | 39,278 | 49,031 | 51,487 | 54,115 |
| Share capital | 1,241 | 1,241 | 1,241 | 1,237 | 1,237 | 1,237 |
| Reserves & surplus | 18,619 | 29,488 | 38,037 | 47,794 | 50,250 | 52,878 |
| Total Debt | 2,828 | 2,039 | 2,780 | 5,285 | 4,492 | 4,043 |
| Other liabilities | 1,964 | 2,092 | 2,207 | 2,282 | 2,439 | 2,608 |
| Curr Liab & prov | 4,262 | 7,210 | 9,188 | 6,253 | 6,600 | 6,872 |
| Current liabilities | 2,636 | 7,037 | 8,991 | 6,027 | 6,362 | 6,620 |
| Provisions | 1,626 | 173 | 197 | 226 | 238 | 252 |
| Total liabilities | 9,054 | 11,340 | 14,176 | 13,820 | 13,531 | 13,523 |
| Total equity & liabilities | 28,913 | 42,069 | 53,454 | 62,851 | 65,018 | 67,638 |
| Net fixed assets | 10,226 | 10,094 | 10,018 | 10,814 | 11,374 | 11,879 |
| Investments | 1,245 | 5,069 | 15,525 | 17,671 | 16,787 | 15,948 |
| Other non-curr assets | 6,315 | 12,075 | 12,832 | 23,105 | 23,176 | 23,244 |
| Current assets | 11,127 | 14,830 | 15,078 | 11,261 | 13,680 | 16,567 |
| Inventories | 8,578 | 9,188 | 10,155 | 6,732 | 7,068 | 7,563 |
| Sundry Debtors | 732 | 1,480 | 3,345 | 2,975 | 3,094 | 3,187 |
| Cash and Bank | 932 | 3,363 | 810 | 606 | 2,503 | 4,749 |
| Loans and advances | 207 | 15 | 231 | 236 | 260 | 275 |
| Total assets | 28,913 | 42,069 | 53,454 | 62,851 | 65,018 | 67,638 |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------------------------|--------------|----------------|-----------------|----------------|----------------|----------------|
| Pre-tax profit | 3,923 | 9,759 | 13,845 | 2,970 | 7,249 | 8,470 |
| Depreciation | 738 | 777 | 834 | 892 | 966 | 1,019 |
| Tax paid | (1,271) | (2,696) | (3,171) | (449) | (1,715) | (2,004) |
| Chg in working capital | (2,218) | 1,782 | (1,069) | 852 | (132) | (331) |
| Other operating activities | - | - | - | - | - | - |
| Cash flow from operations (a) | 1,172 | 9,622 | 10,439 | 4,265 | 6,368 | 7,153 |
| Capital expenditure | (552) | (646) | (758) | (1,688) | (1,526) | (1,523) |
| Chg in investments | 1,016 | (3,824) | (10,456) | (2,146) | 884 | 839 |
| Other investing activities | - | - | - | - | - | - |
| Cash flow from investing (b) | 463 | (4,470) | (11,213) | (3,834) | (643) | (684) |
| Equity raised/(repaid) | 0 | 0 | 0 | (4) | 0 | 0 |
| Debt raised/(repaid) | 1,933 | (790) | 742 | 2,505 | (793) | (449) |
| Dividend (incl. tax) | (1,489) | (2,978) | (2,234) | (2,606) | (2,968) | (3,710) |
| Chg in minorities | - | - | - | - | - | - |
| Other financing activities | (1,428) | 1,046 | (286) | (531) | (67) | (64) |
| Cash flow from financing (c) | (984) | (2,722) | (1,778) | (636) | (3,828) | (4,223) |
| Net chg in cash (a+b+c) | 651 | 2,430 | (2,552) | (205) | 1,897 | 2,246 |

Financial Ratios

| Year-end: March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------|------|------|------|------|-------|-------|
| Book Value (Rs) | 32 | 49 | 63 | 79 | 83 | 87 |
| Adj EPS (Rs) | 4.5 | 11.7 | 10.9 | 3.9 | 8.7 | 10.2 |
| Adj EPS growth (%) | (28) | 158 | (7) | (65) | 127 | 17 |
| EBITDA margin (%) | 15.0 | 28.6 | 22.0 | 6.7 | 14.8 | 15.9 |
| Pre-tax margin (%) | 13.1 | 28.2 | 29.8 | 6.8 | 15.0 | 16.2 |
| Net Debt/Equity (x) | 0 | (0) | 0 | 0 | 0 | (0) |
| ROCE (%) | 14 | 31 | 24 | 4 | 11 | 12 |
| ROE (%) | 12.4 | 28.6 | 19.3 | 5.4 | 10.8 | 12.0 |

DuPont Analysis

| | | | | | | |
|---------------------|-----|------|------|-----|------|------|
| Asset turnover (x) | 1.0 | 1.0 | 1.0 | 0.8 | 0.8 | 0.8 |
| Leverage factor (x) | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| Net margin (%) | 9.4 | 20.9 | 14.5 | 5.4 | 11.2 | 12.1 |

Working Capital & Liquidity ratio

| | | | | | | |
|-----------------|-----|----|----|----|----|----|
| Inventory days | 105 | 97 | 80 | 56 | 54 | 53 |
| Receivable days | 9 | 16 | 26 | 25 | 23 | 22 |
| Payable days | 33 | 64 | 47 | 26 | 27 | 26 |

Valuations

| Year-end: March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------|------|------|------|------|-------|-------|
| PER (x) | 44.9 | 17.4 | 18.7 | 52.5 | 23.1 | 19.8 |
| Price/Book value (x) | 6.4 | 4.1 | 3.2 | 2.6 | 2.4 | 2.3 |
| EV/Net sales (x) | 4.3 | 3.6 | 2.8 | 3.0 | 2.6 | 2.4 |
| EV/EBITDA (x) | 28.6 | 12.6 | 12.5 | 44.5 | 17.9 | 15.0 |
| Dividend Yield (%) | 1.0 | 2.0 | 1.5 | 1.7 | 2.0 | 2.5 |

Source: Company; IDBI Capital Research



Notes

| | | |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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