IDBI capital

Finolex Industries HOLD

Prolonged heavy monsoon dented sales volume

Summary

Finolex Industries' (FIL) Q2FY26 result was a mixed bag as net sales was marginally below our estimate, while margins were beat to our forecast. Volume decreased by about 6% YoY mainly on account of prolonged heavy monsoon. The management anticipates a rebound in deferred demand once the monsoon recedes and does not foresee a significant overall decline in agri demand. The company faced global structural issues in the VCM market, which it is attempting to manage through long-term contracts to ensure continued supply. The management reiterated that the core focus remains on being a pipes and fittings producer and marketer. The long-term endeavour is to achieve a fairly good dependence on both agri and non-agri segments to manage seasonality. The management is focused on to structure the organization to better achieve the aspirational 50% agri-50% non-agri split. We have maintained our earnings estimates for FY26E/FY27E and reiterate HOLD with a revised TP of Rs207 (unchanged) assigning 15x PER on FY27E.

Key Highlights and Investment Rationale

- **Decline in sales volume eroded earnings:** FIL's pipes volume was down by 6% YoY to 65,336MT. PVC/EDC delta stood at $535MT & PVC/VCM delta stood at $151MT in Q2FY26. The agricultural segment and non-agricultural segment contributed 56%:44%. The CPVC segment contributed about 8% to the volume in Q2 and is growing at a double-digit pace. The management guided a mid-single digit growth forecast for the full year considering anticipated benefit of the anti-dumping duty.
- **H2 to be better aided by deferred demand, HOLD with a TP of Rs207**: Subdued demand and raw material prices volatility has dragged H1FY26 performance of FIL. We believe despite near-term challenges, FIL is poised to outperform the peers given its strong brand recall, capacity addition and healthy balance sheet. The management expects ADD on PVC to lead higher domestic prices of PVC, which will support realization and operating margin. HOLD with a TP of Rs207.

TP	Rs207
CMP	**Rs189**
Potential upside/downside	10%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.1)	-	(34.5)
Rel to Sensex	(3.3)	(4.6)	(39.5)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	7.4	13.8
Consensus	8.6	10.4
% difference	*(14.2)*	*32.4*

Key Stock Data

Bloomberg / Reuters	FNXP IN / FINX.BO
Sector	Plastic Building Material
Shares o/s (mn)	620
Market cap. (Rs mn)	117,208
3-m daily avg Trd value (Rs mn)	8.9
52-week high / low	Rs290 / 144
Sensex / Nifty	83,535 / 25,574

Shareholding Pattern (%)

Promoters	52.5
FII	5.9
DII	12.0
Public	29.6

Financial snapshot **(Rs mn)**

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	43,971	43,174	41,420	43,824	49,679
Change (yoy, %)	*(5)*	*(2)*	*(4)*	*6*	*13*
EBITDA	2,925	5,849	4,758	4,157	5,177
Change (yoy, %)	*(71)*	*100*	*(19)*	*(13)*	*25*
EBITDA Margin (%)	*6.7*	*13.5*	*11.5*	*9.5*	*10.4*
Adj.PAT	2,632	4,930	4,003	4,547	5,693
EPS (Rs)	4.3	8.0	6.5	7.4	13.8
Change (yoy, %)	*(60.7)*	*87.3*	*(18.8)*	*14*	*88*
PE(x)	44.4	23.7	29.2	25.7	13.7
Dividend Yield (%)	1.9	1.3	1.9	2.1	4.0
EV/EBITDA (x)	*41.5*	20.6	24.8	28.0	14.6
RoE (%)	*6.0*	9.4	6.8	7.4	9.0
RoCE (%)	*4.0*	7.8	5.7	4.5	5.8

Source: IDBI Capital Research

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Concall Highlights:

Industry Performance:

- The company faced global structural issues in the VCM market, which they are attempting to manage through long-term contracts to ensure continued supply.
- Agri demand was hampered by prolonged monsoon but is expected to recover. The management anticipates a rebound in deferred demand once the monsoon recedes and does not foresee a significant overall decline in agri demand.
- Non-agri sales are driven by momentum in project sales, including infra-related projects and real estate developments.

Operating Performance:

- Volume decreased by about 6% to 65,336 metric tons, compared to 69,341 metric tons in the same period last year. This dip was mainly attributed to the prolonged heavy monsoon.
- Total income from operations improved slightly by about 4% to Rs8587mn, up from Rs8284mn in the corresponding quarter last year.
- EBITDA saw a significant improvement, rising to Rs1302mn compared to Rs106mn in the same quarter last year.
- PAT increased to Rs1236mn against Rs407mn in Q2FY25.
- Overall volume decline of 6% was largely driven by the agri segment. The company registered a volume growth of 7% in the non-agri segment.
- The agri/non-agri volume ratio in Q2 FY26 was 56% to 44%, shifting positively from 61% (agri) to 39% (non-agri) in Q2 FY25.
- The CPVC segment contributed about 8% to the volume in Q2 and is growing at a double-digit pace.
- The total installed capacity for pipes and fittings stands at 520,000 MT (520 kta). Capacity utilization for the six months ended was approximately 70%.

Capex:

- The company's Capex planning involves continued investment to support growth in the market. The management plans to invest anywhere between Rs1000mn to Rs2000mn at a minimum annually for Capex. This Capex is specifically for net new capacity addition, not maintenance Capex.

Spreads:

- PVC-EDC spread ($/t) currently stands at $535
- PVC-VCM spread ($/t) currently stands at $151

Guidance:

- The company is currently looking at a mid-single digit growth forecast for the full year. This forecast includes the anticipated benefit of the anti-dumping duty. The management believes that a double-digit kind of growth is sustainable, dependent on continued activity in infra-related projects and real estate developments.
- The full-year EBITDA margin is expected to be maintained in the range of 10% to 12%.
- While Q2 saw 15% EBITDA margins, margins are expected to cool off in the coming two quarters. This cooling off is expected due to the increase in the agri mix volume during Q3 and Q4, reflecting seasonal demand growth in that segment.
- The core focus remains on being a pipes and fittings producer and marketer. The long-term endeavor is to achieve a fairly good dependence on both agri and non-agri segments to manage seasonality. Discussions are ongoing about how to structure the organization to better achieve the aspirational 50% agri / 50% non-agri split.

Exhibit 1: Quarterly Financial Snapshot

Particulars (Rs mn)	Q2FY26	Q1FY26	*QoQ (%)*	Q2FY25	*YoY (%)*
Total revenues	**8,587**	**10,432**	***(17.7)***	**8,284**	***3.7***
Total expenditure	7,286	9,496	*(23.3)*	8,179	*(10.9)*
EBIDTA	**1,302**	**936**	***39.1***	**106**	***1131.5***
EBIDTA margin (%)	*15.2*	*9.0*	*619bps*	*1.3*	*1388bps*
Depreciation	274	266	*3.1*	264	*3.9*
Interest cost	43	55	*(22.0)*	68	*(36.8)*
Other income	578	647	*(10.7)*	826	*(30.1)*
PBT	1,562	1,262	*23.8*	600	*160.4*
Tax	425	328	*29.7*	213	*100.1*
Adj. net profit	**1,136**	**934**	***21.7***	**387**	***193.6***
Share of profit of JV, associate and exceptional items	99	48	*106.2*	20	*403.6*
Consolidated profit	**1,236**	**982**	***25.9***	**407**	***203.7***
EPS (Rs)	2.00	1.59	*25.9*	0.66	*203.7*

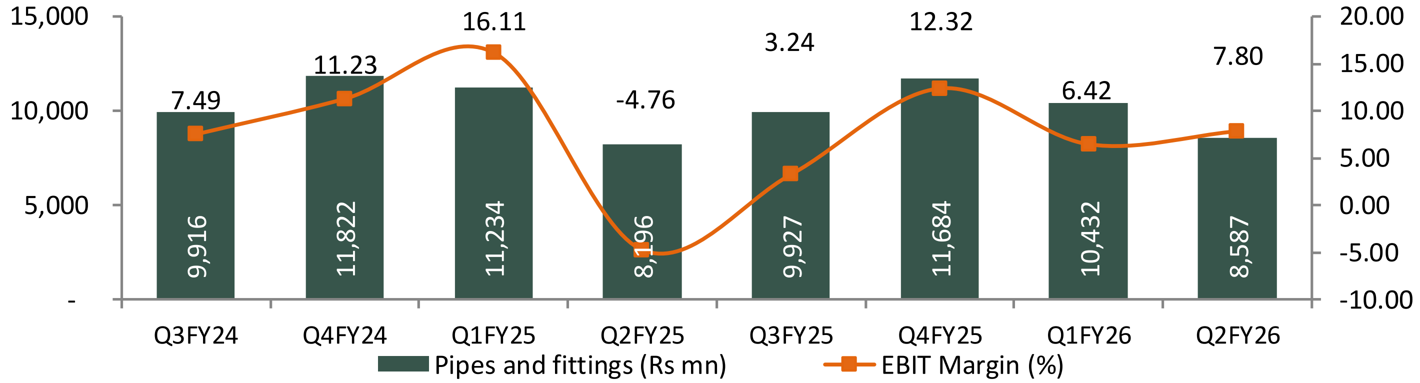
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q2FY26A	Q2FY26E	*Variance (%)*
Net Sales	**8,587**	**8,781**	***(2.2)***
EBITDA	**1,302**	**966**	***34.8***
EBITDA Margin (%)	*15.2*	*11.0*	*416bps*
Net Profit	**1,236**	**1,047**	***18.0***
EPS (Rs)	2.0	1.7	*18.0*

Source: Company; IDBI Capital Research

Exhibit 3: Pipes and Fittings



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	**46,473**	**43,971**	**43,174**	**41,420**	**43,824**	**49,679**
Change (yoy, %)	*34.2*	*(5)*	*(2)*	*(4)*	*6*	*13*
Operating expenses	(36,236)	(41,045)	(37,326)	(36,662)	(39,667)	(44,503)
EBITDA	**10,237**	**2,925**	**5,849**	**4,758**	**4,157**	**5,177**
Change (yoy, %)	*3.5*	*(71)*	*100*	*(19)*	*(13)*	*25*
Margin (%)	*22.0*	*6.7*	*13.5*	*11.5*	*9.5*	*10.4*
Depreciation	(834)	(892)	(1,160)	(1,067)	(1,173)	(1,233)
EBIT	**9,403**	**2,033**	**4,688**	**3,691**	**2,984**	**3,944**
Interest paid	(141)	(272)	(365)	(296)	(82)	(74)
Other income	822	1,209	1,800	2,466	2,960	3,403
Pre-tax profit	**13,845**	**2,970**	**6,123**	**10,031**	**5,862**	**7,273**
Tax	(3,346)	(581)	(1,576)	(2,259)	(1,476)	(1,831)
Effective tax rate (%)	*24.2*	*19.6*	*25.7*	*22.5*	*25.2*	*25.2*
Minority Interest	-	-	-	-	-	-
Net profit	**10,514**	**2,147**	**4,165**	**7,370**	**4,227**	**5,193**
Exceptional items	3,761	-	-	4,170	-	-
Adjusted net profit	**6,724**	**2,632**	**4,930**	**4,003**	**4,547**	**5,693**
Change (yoy, %)	*(9)*	*(61)*	*87*	*(19)*	*14*	*25*
EPS	10.8	*4.3*	*8.0*	6.5	7.4	13.8
Dividend per sh	3	*4*	*3*	4	4	8
Dividend Payout (%)	*33*	*99*	*38*	*67*	*65*	*65*

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	**39,278**	**49,031**	**56,343**	**60,969**	**62,387**	**64,120**
Share capital	1,241	1,237	1,237	1,237	1,237	1,237
Reserves & surplus	38,037	47,794	55,106	59,732	61,151	62,883
Total Debt	**2,780**	**5,285**	**3,844**	**2,273**	**2,045**	**1,841**
Other liabilities	2,207	2,282	2,968	2,896	3,010	3,146
Curr Liab & prov	**9,188**	**6,253**	**7,424**	**7,682**	**8,051**	**8,639**
Current liabilities	8,991	6,027	7,146	7,406	7,761	8,334
Provisions	197	226	278	277	290	305
Total liabilities	**14,176**	**13,820**	**14,236**	**12,851**	**13,106**	**13,626**
Total equity & liabilities	**53,454**	**62,851**	**70,578**	**73,819**	**75,494**	**77,746**
Net fixed assets	10,018	10,814	10,600	10,603	10,974	11,279
Investments	15,525	17,671	19,052	21,441	20,368	19,350
Other non-curr assets	12,832	23,105	27,985	28,405	28,991	29,025
Current assets	**15,078**	**11,261**	**12,942**	**13,371**	**15,161**	**18,091**
Inventories	10,155	6,732	7,280	7,824	8,372	9,209
Sundry Debtors	3,345	2,975	4,576	3,793	3,906	4,063
Cash and Bank	810	606	317	1,254	2,396	4,307
Loans and advances	769	948	769	501	487	513
Total assets	**53,454**	**62,851**	**70,578**	**73,819**	**75,494**	**77,746**

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	13,845	2,970	6,123	10,031	5,862	7,273
Depreciation	834	892	1,160	1,067	1,173	1,233
Tax paid	(3,171)	(449)	(734)	(2,202)	(1,387)	(1,721)
Chg in working capital	(1,069)	852	(911)	481	(266)	(415)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	**10,439**	**4,265**	**5,638**	**9,377**	**5,382**	**6,370**
Capital expenditure	(758)	(1,688)	(946)	(1,070)	(1,544)	(1,539)
Chg in investments	(10,456)	(2,146)	(1,381)	(2,389)	1,072	1,018
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(11,213)**	**(3,834)**	**(2,327)**	**(3,459)**	**(472)**	**(520)**
Equity raised/(repaid)	0	(4)	0	0	0	0
Debt raised/(repaid)	742	2,505	(1,441)	(1,572)	(227)	(205)
Dividend (incl. tax)	(2,234)	(2,606)	(1,855)	(2,671)	(2,968)	(3,710)
Chg in monorities	-	-	-	-	-	-
Other financing activities	(286)	(531)	(305)	(737)	(573)	(24)
Cash flow from financing (c)	**(1,778)**	**(636)**	**(3,601)**	**(4,980)**	**(3,768)**	**(3,939)**
Net chg in cash (a+b+c)	**(2,552)**	**(205)**	**(289)**	**938**	**1,142**	**1,911**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	63	79	91	98	100	155
Adj EPS (Rs)	*10.8*	*4.3*	*8.0*	*6.5*	*7.4*	*13.8*
Adj EPS growth (%)	*-9*	*-61*	*87*	*-19*	*14*	*88*
EBITDA margin (%)	*22.0*	*6.7*	*13.5*	*11.5*	*9.5*	*10.4*
Pre-tax margin (%)	*29.8*	*6.8*	*14.2*	*24.2*	*13.4*	*14.6*
Net Debt/Equity (x)	*0.1*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*
ROCE (%)	*24*	*4*	*8*	*6*	*4*	*6*
ROE (%)	*19.2*	*6*	*9*	*7*	*7*	*9*
DuPont Analysis						
Asset turnover (x)	1.0	0.8	0.6	0.6	0.6	0.6
Leverage factor (x)	1.4	1.3	1.3	1.2	1.2	1.2
Net margin (%)	*14.5*	*6.0*	*11.4*	*9.7*	*10.4*	*11.5*
Working Capital & Liquidity ratio						
Inventory days	80	56	62	69	70	68
Receivable days	26	25	39	33	33	30
Payable days	47	26	28	44	43	41

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	17.4	44.4	23.7	29.2	25.7	13.7
Price/Book value (x)	3.0	2.4	2.1	1.9	1.9	1.2
EV/Net sales (x)	2.6	2.8	2.8	2.8	2.7	1.5
EV/EBITDA (x)	11.6	41.5	20.6	24.8	28.0	14.6
Dividend Yield (%)	*1.6*	*1.9*	*1.3*	*1.9*	*2.1*	*4.0*

Source: Company; IDBI Capital Research

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

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