

October 25, 2022

RESULT REPORT Q2 FY23 | Sector: Building Materials

Finolex Industries Ltd

Sharp fall in PVC prices resulted into EBITDA loss!

Result Synopsis

Finolex Industries Ltd registered revenue decline of 13%YoY & 21%QoQ to Rs9.41Bn. Though volume growth for PVC & Pipes segment came in at 4% & 7% YoY respectively, sharp contraction in PVC resin prices during the quarter lead to significant reduction in Avg. realizations. PVC realizations degrew by 29%YoY & pipes realizations declined by 17% over similar period. Owing to this steep fall in PVC prices (~35%), company witnessed inventory losses which resulted into EBITDA loss of Rs1.4Bn in Q2FY23.

Going ahead, we believe demand from non-agricultural segment is expected to drive the growth in H2FY23. However, with lower PVC prices & pick-up in Government projects, agricultural demand is expected to revive from FY24E. Hence, we reckon Pipe/PVC volumes to grow by 13%/12% CAGR over FY22-FY24E respectively. On PVC prices, we do not foresee major contraction from hereon (fall of ~Rs5Kg is expected in coming months) & therefore inventory losses are likely to get restricted from H2FY23. At CMP, the stock trades at P/E(x) of 16x on FY24E EPS of Rs8.4 (revised downwards by 10%). We continue to value the company at P/E(x) of 15x on FY24E EPS, arriving at a target price of Rs126 (previous Target Price: Rs139). Hence, we assign a REDUCE rating on the stock.

Result Highlights

- Pipe Volumes for the quarter came in at 59,218Te (in-line with our estimate of 61,000Te), reporting a 6.8%YoY growth but a decline of 18%QoQ (3-Year CAGR 17%). Resin volumes stood at 54,063Te (our estimate of 53,300Te), 4%YoY growth & sequential degrowth of 14%.
- Pipe realizations stood at Rs135/Kg (Our estimate of Rs137/Kg), as compared to Rs162/Rs157 in Q2FY22/Q1FY23 respectively. Realizations of PVC resins came in at Rs89 in Q2FY23 Vs Rs126/Rs125 in Q2FY22/Q1FY23 respectively.
- Company reported revenue of Rs9.41Bn, reporting a degrowth of 13%YoY & 21%QoQ. Pipes revenue came in at Rs8Bn, decline of 11%YoY & 29%QoQ. PVC resin revenue stood at Rs4.81Bn, a steep fall of 26%YoY & 28%QoQ.
- Owing to sharp contraction in PVC prices, company registered an EBITDA loss of Rs1.42Bn Vs profit of Rs 1.25Bn in Q1FY23 & Rs3.01Bn in Q2FY22. Pipes EBIT/Kg stood at (Rs8) Vs Rs10/Rs6 in Q2FY22/Q1FY23 respectively. PVC resins EBIT/Kg came in at (Rs20.5) as compared to Rs44/Rs11 in Q2FY22/Q1FY23 respectively.
- Company's Net loss for quarter stood at (Rs955Mn) as compared to profit of Rs992.2Mn in previous quarter & Rs2.3Bn in Q2FY22.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	9,410	9,644	8,840	(2.4)	6.4	
EBITDA	(1,428)	916	975	-	-	Inventory loss due to sharp contraction in PVC prices, lead to EBITDA loss
EBITDA Margin (%)	(15.2)	9.5	11.0	-	-	
Adjusted PAT	(955)	621	766	-	-	

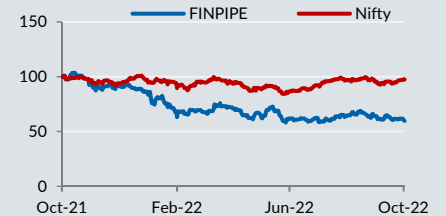
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 135
Target Price	: Rs 126
Potential Downside	: (7%)

Stock data (as on October 25, 2022)

Nifty	17,656
52 Week h/l (Rs)	241 / 122
Market cap (Rs/USD mn)	83,144 / 1,005
Outstanding Shares (mn)	620
6m Avg t/o (Rs mn):	71
Div yield (%):	1.5
Bloomberg code:	FNXP IN
NSE code:	FINPIPE

Stock performance



	1M	3M	1Y
Absolute return	-6.8%	4.5%	-39.0%

Shareholding pattern (As of Sep'22 end)

Promoter	52.5%
FII+DII	15.5%
Others	31.8%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	NEUTRAL
Target Price	126	139

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	2.1	8.4
EPS (Old)	6.6	9.3
% change	(69%)	(10%)

Financial Summary

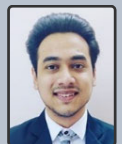
(Rs mn)	FY22	FY23E	FY24E
Revenue	46,473	40,531	44,269
YoY Growth	34.2	(12.8)	9.2
EBIDTA	10,237	1,755	7,083
EBIDTA %	22.0	4.3	16.0
PAT	10,513	1,274	5,199
YoY Growth	42.5	(87.9)	308.1
ROE	26.8	3.2	12.0
EPS	16.9	2.1	8.4
P/E	8.7	65.8	16.1
BV	63.3	63.4	69.7
EV/EBITDA	9.2	49.2	12.1

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Exhibit 2: Quarterly snapshot

Rs mn	Q2 FY22	Q3 FY22	Q4 FY22	Q1FY23	Q2FY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Revenue	10,830	10,053	15,946	11,898	9,410	(13.1)	(20.9)	46,473	34,628	34.2
Expenditure	7,815	7,634	13,299	10,639	10,838	38.7	1.9	36,236	24,735	46.5
- RM	6,027	5,592	11,083	7,999	8,528	41.5	6.6	28,491	19,288	47.7
- Staff Cost	423	449	583	511	423	0.1	(17.2)	1,908	1,668	14.4
- Other cost	1,365	1,593	1,634	2,130	1,887	38.2	(11.4)	5,837	3,780	54.4
Operating Profit	3,015	2,419	2,647	1,259	(1,428)	-	-	10,237	9,893	3.5
OPM(%)	27.8	24.1	16.6	10.6	(15.2)	-	-	22.0	28.6	-654 bps
Other Income	289	194	248	251	388	34.2	54.9	822	716	14.9
Depreciation	206	212	216	213	216	4.6	1.0	834	777	7.3
Interest	4	9	81	113	43	951.2	(62.0)	141	73	93.8
Share of associate	(14)	(7)	22	(14)	(7)	-	-	(15)	162	(109.1)
Exceptional			3,761	-	-	-	-	3,761	-	-
PBT	3,080	2,385	6,381	1,169	(1,305)	-	-	13,831	9,921	39.4
Tax	748	611	1,429	177	(350)	-	-	3,317	2,543	30.5
PAT	2,333	1,774	4,951	992	(955)	-	-	10,513	7,378	42.5

Source: Company, YES Sec

Exhibit 3: Segmental Highlights:

PVC Resins	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1FY23	Q2FY23	y/y (%)	q/q (%)
Volumes Sold (Mt)	50,249	52,029	43,464	79,182	62,746	54,063	3.9	(13.8)
Revenue (Rs Mn)	6,271	6,543	6,363	10,444	7,846	4,811	(26.5)	(38.7)
EBIT	1,579	2,306	1,779	1,565	729	(1,107)	(148.0)	(251.8)
EBIT%	25	35	28	15	9	(23)	-5042 bps	-2447 bps
Realization (Rs/Kg)	125	126	146	132	125	89	(29.2)	(28.8)
Pipes	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1FY23	Q2FY23	y/y (%)	q/q (%)
Volumes Sold (Mt)	55,819	55,453	46,994	78,629	71,960	59,218	6.8	(17.7)
Revenue (Rs Mn)	8,454	8,996	8,319	12,769	11,320	8,017	(10.9)	(29.2)
EBIT	436	575	550	942	426	(476)	(182.9)	(211.9)
EBIT%	5	6	7	7	4	(6)	-2156 bps	-1894 bps
Realization (Rs/Kg)	151	162	177	162	157	135	(16.5)	(13.9)

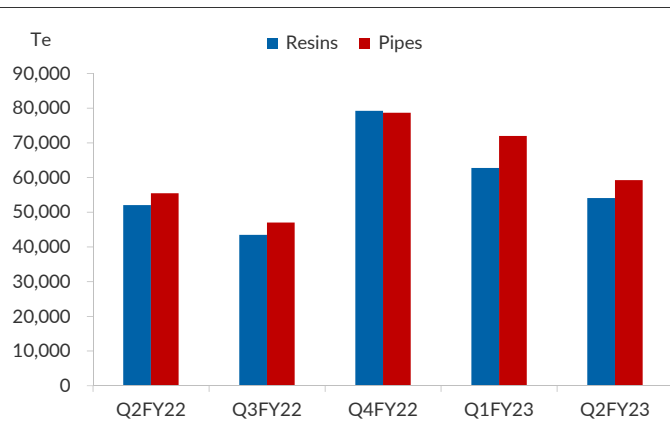
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Demand:** Given the seasonality factor Q2 is usually weak for the company. However, owing to strong demand, company registered best ever Q2 volumes for pipes division. Management stated that channel-inventory continues to remain low but with lower PVC prices, company expects demand to pick-up from both Agricultural & Plumbing segment.
- **Prices:** PVC-EDC was at \$575 as on Sept'22 & \$600 during Q2FY23. PVC-VCM came in at \$235 in Q2FY23 & the same stood at \$165 during Sept'22. Ethylene prices as on Sept'22 stood at \$900 as compared to \$975 in Q2FY23.
- **Outlook on PVC prices:** Management stated that PVC prices could fall by another Rs3/Kg in coming 2-weeks. However, prices are likely to settle in this range going ahead.
- **Margins:** In this quarter, contraction in PVC prices lead to fall in margins. On steady basis, management is confident of maintaining margins of Rs8-10/Kg for Pipes & Rs15/Kg for PVC.
- **Capex:** Company will incur replacement capex of Rs2.5Bn in FY23E & Rs2Bn in FY24.
- **Utilization of cash:** Management reiterated that if cash is not deployed into business, the same shall be rewarded back to shareholders & decision on the same will be taken in coming-quarters.
- **CPVC:** In Q2FY23, company sold 4,000Te CPVC Vs 3,600Te sold in Q2FY22. In revenue terms- Q2FY23 was Rs1.7Bn as compared to Rs1.25Bn in Q2FY22. In fittings, company sold 7,000Te with revenue of Rs2Bn in Q2FY23.

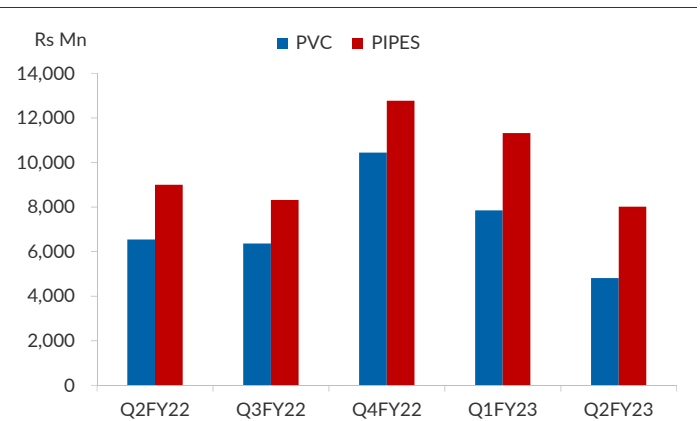
QUARTERLY TRENDS

Exhibit 4: Pipe volume grew by 7%YoY...



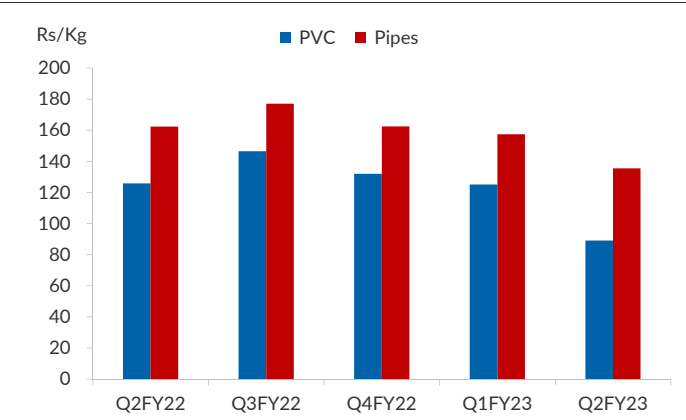
Source: Company, YES Sec

Exhibit 5: While pipe revenue declined by 11%YoY...



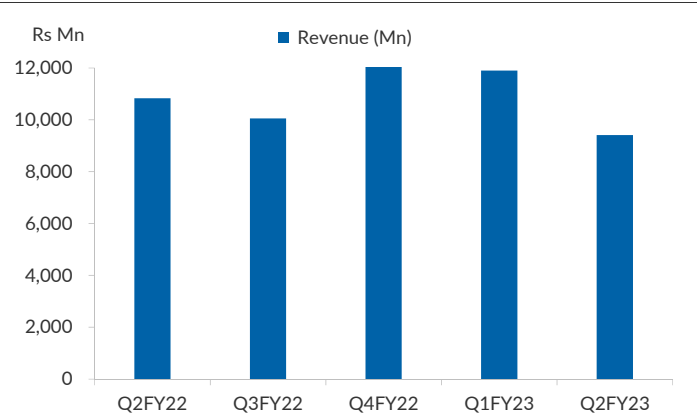
Source: Company, YES Sec

Exhibit 6: Sharp contraction in PVC prices...



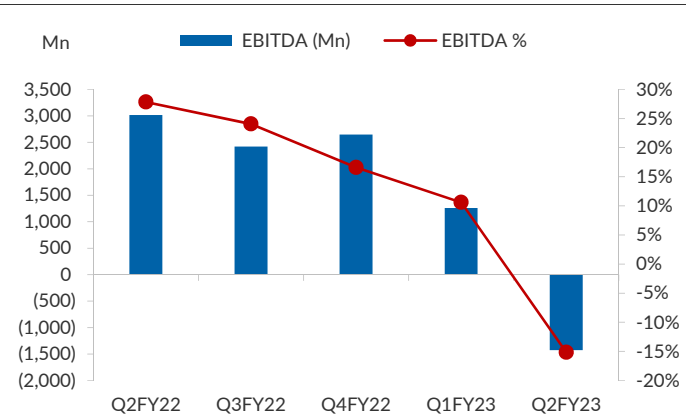
Source: Company, YES Sec

Exhibit 7: Overall Revenue degrew by 13%YoY...



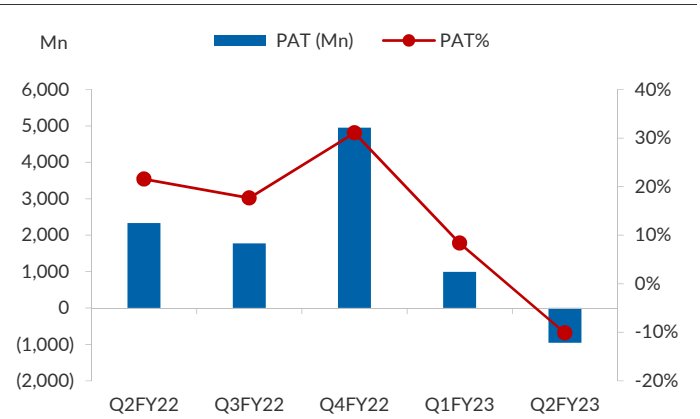
Source: Company, YES Sec

Exhibit 8: Contraction in PVC lead to EBITDA loss...



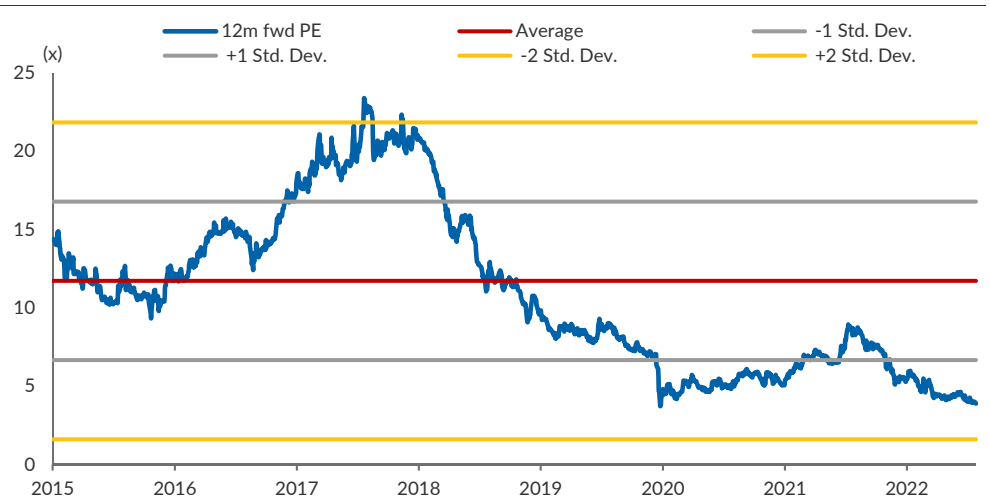
Source: Company, YES Sec

Exhibit 9: Net loss stood at Rs955Mn...



Source: Company, YES Sec

Exhibit 10: 1-year forward P/E Band:



Source: YSEC Research & Company Data

FINANCIALS

Exhibit 11: Income Statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Sales	34,628	46,473	40,531	44,269	47,349
COGS	19,288	28,491	29,502	29,218	31,251
COGS %sales	55.7%	61.3%	72.8%	66.0%	66.0%
GP	15,341	17,983	11,029	15,051	16,099
GP%	44.3%	38.7%	27.2%	34.0%	34.0%
EBITDA	9,893	10,237	1,755	7,083	7,576
EBITDA%	28.6%	22.0%	4.3%	16.0%	16.0%
Depreciation	777	834	889	940	991
Finance Cost	73	141	200	141	40
Other Income	716	822	1,023	885	947
PBT	9,921	13,831	1,699	6,931	7,539
Tax	2,543	3,317	425	1,733	1,885
PAT	7,378	10,513	1,274	5,199	5,654
PAT%	21.3%	22.6%	3.1%	11.7%	11.9%

Source: Company, YES Sec

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	1,241	1,241	1,241	1,241	1,241
Reserves	30,149	38,037	38,070	42,028	47,682
Equity	31,390	39,278	39,311	43,269	48,923
Non-current liab	2,188	2,187	2,067	2,067	2,067
Payables	3,952	4,631	5,310	4,675	5,000
Provisions	38	42	30	30	30
Other current Liab	3,339	4,535	2,950	3,506	3,750
Total Equity & Liab	42,945	53,454	52,449	56,326	60,550
Gross Block	23,916	24,660	26,160	27,660	29,160
Acc Dep	13,903	14,737	15,626	16,567	17,558
Net Block	10,013	9,923	10,534	11,093	11,602
CWIP	82	95	100	106	112
Other Noncurrent	12,010	12,049	12,159	13,281	14,205
Inventory	9,188	10,155	10,515	11,687	12,500
Receivables	1,480	3,345	2,027	2,656	2,841
Cash & Bank	3,363	810	234	727	2,672
Loans	8	87	87	87	87
Other	770	538	469	512	548
Total Assets	42,939	53,454	52,449	56,326	60,550

Source: Company, YES Sec

Exhibit 13: Cash Flow

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
PBT	9,921	13,831	1,699	6,931	7,539
Depreciation	777	834	889	940	991
Finance cost	73	141	200	141	40
before working capital changes	10,095	10,332	2,778	7,968	8,523
Cash from operations	11,528	9,576	2,655	4,923	5,134
Taxes paid	(2,118)	(3,356)	(425)	(1,733)	(1,885)
CFO	9,410	6,220	2,231	3,190	3,250
Capex	(649)	(844)	(616)	(565)	(514)
Cash flow from investing Activities	(8,766)	(4,403)	(616)	(565)	(514)
Movement in Loan	(784)	728	-	-	-
Interest paid	(77)	(141)	(200)	(141)	(40)
Net Cash from financing Activities	(903)	(1,895)	(2,191)	(2,132)	(790)
NET movement in cash	(259)	(79)	(577)	493	1,946
Opening balance of Cash	573	314	810	234	727
Closing balance of Cash	314	235	234	727	2,672

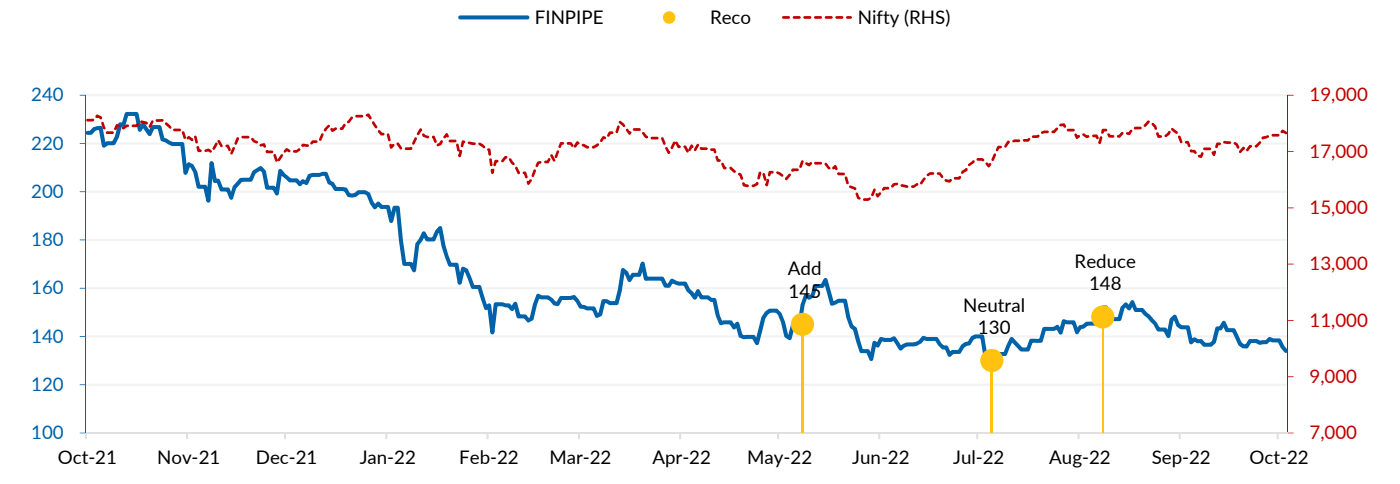
Source: Company, YES Sec

Exhibit 14: Ratios

Ratios	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
Total Sales	16.0%	34.2%	(12.8%)	9.2%	7.0%
EBIDTA	121.1%	3.5%	(82.9%)	303.7%	7.0%
EBIT	143.6%	4.0%	(81.5%)	272.1%	7.2%
PAT	121.8%	42.5%	(87.9%)	308.1%	8.8%
Profitability (%)					
GP Margins	44.3%	38.7%	27.2%	34.0%	34.0%
EBIDTA Margins	28.6%	22.0%	4.3%	16.0%	16.0%
EBIT Margins	28.4%	22.0%	4.7%	15.9%	15.9%
PAT Margins	21.3%	22.6%	3.1%	11.7%	11.9%
Return Ratios(%)					
ROCE	29.3%	24.7%	4.6%	15.5%	14.8%
ROE	23.5%	26.8%	3.2%	12.0%	11.6%
Per Share Data (Rs)					
EPS	11.9	16.9	2.1	8.4	9.1
CEPS	13.1	18.3	3.5	9.9	10.7
BVPS	50.6	63.3	63.4	69.7	78.8
Valuations (x)					
P/E (x)	16.1	8.7	65.8	16.1	14.8
P/BV (x)	3.8	2.3	2.1	1.9	1.7
EV/EBIDTA	11.8	9.2	49.2	12.1	10.8
Marketcap/sales	3.4	2.0	2.1	1.9	1.8
Gearing Ratios					
Debt/Equity	0.1	0.1	0.1	0.1	0.0
Net Debt/Equity	(0.0)	0.1	0.1	0.0	(0.0)
Net Debt/EBIDTA	(0.1)	0.2	1.5	0.3	(0.2)
Int Coverage	135.2	72.6	9.4	49.9	190.5

Source: Company, YES Sec

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

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

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.