

March 28, 2023

## Management Meet Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	224		224	
Sales (Rs. m)	47,469	52,695	47,503	52,691
% Chng.	(0.1)	-		
EBITDA (Rs. m)	7,642	8,463	7,648	8,462
% Chng.	(0.1)	-		
EPS (Rs.)	9.2	10.2	9.2	10.2
% Chng.	(0.1)	-		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	46,473	44,636	47,469	52,695
EBITDA (Rs. m)	10,237	3,848	7,642	8,463
Margin (%)	22.0	8.6	16.1	16.1
PAT (Rs. m)	10,664	3,166	5,683	6,337
EPS (Rs.)	17.2	5.1	9.2	10.2
Gr. (%)	47.8	(70.3)	79.5	11.5
DPS (Rs.)	4.0	3.9	2.2	2.6
Yield (%)	2.4	2.3	1.3	1.6
RoE (%)	30.2	7.9	13.4	13.9
RoCE (%)	24.9	7.0	15.0	15.7
EV/Sales (x)	1.9	2.0	1.8	1.6
EV/EBITDA (x)	8.6	22.9	11.2	9.8
PE (x)	9.6	32.4	18.1	16.2
P/BV (x)	2.6	2.5	2.3	2.2

### Key Data

FINX.BO | FNXP IN

52-W High / Low	Rs.195 / Rs.122
Sensex / Nifty	57,654 / 16,986
Market Cap	Rs.103bn / \$ 1,246m
Shares Outstanding	620m
3M Avg. Daily Value	Rs.116.28m

### Shareholding Pattern (%)

Promoter's	52.81
Foreign	5.40
Domestic Institution	11.62
Public & Others	30.16
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.0)	19.2	10.6
Relative	1.8	18.0	10.1

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## Agri-pipe vol.& PVC-EDC drives profitability

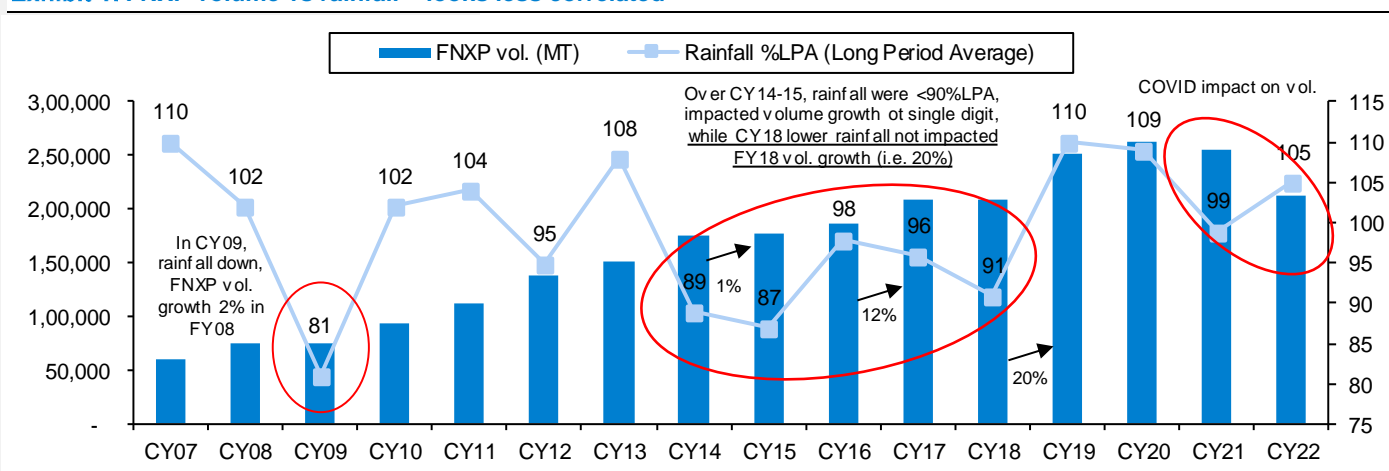
We remain positive on Finolex Industries (FNXP)'s volume growth and healthy margin with PVC-EDC spread for near term, post our recent management meeting. FNXP will continue to focus on maintaining its leadership position in agri. pipe market and Q4/Q1 being seasonally strong quarters for agri-pipe volumes will benefit the company, in our view. Also, higher PVC-EDC spread (in range of USD600-650/MT) will help in maintaining EBITDA margin between 16-17%. We expect Sales/EBITDA/PAT CAGR of 7.7%/31.9%/25.6% over FY23-25E and arrive at SOTP based TP of Rs224 (unchanged; valuing business at 21x FY25 EPS). Maintain 'BUY'.

- Fluctuation in PVC resin prices impacting volume growth:** Fluctuation in PVC resin prices impacted volume growth for FNXP in FY23. PVC resin prices were stable post severe correction in Nov-2022 to Rs66/kg, which drove volume growth for FNXP at 92% YoY in Q3FY23. However, PVC resin prices again slowly moved upward to Rs91/kg by Feb-2023. Further, slow opening of China market post Chinese new year, impacted PVC resin prices (latest post Rs3/kg correction in PVC resin prices on 15<sup>th</sup> Mar-23, stable at Rs81/Kg). Thus, with this volatility in raw material prices, there was an impact seen in agri-pipe volume. We observed strong traction in agri-pipe volume at the start of Q4FY23, which eventually moderated in March-2023 with raw material volatility. However, domestic major PVC resin supplier (Reliance Ind.) initiated price protection in PVC resin wef 17<sup>th</sup> Mar-23 till 1<sup>st</sup> Apr-23, which we believe would help agri-pipe volume growth in its seasonal strong quarter. Also, Q4/Q1 being seasonally strong quarter for agri-pipe sales, there was deferment in purchase by farmers in last two seasons (CY21/CY22). Thus we believe that volume growth for the company would be ~32%/14%/12% for FY23/FY24/FY25E.
- Focus on 50:50 revenue mix from agri and plumbing piping:** FNXP is focusing on increasing contribution from plumbing segment to diversify its revenue mix by increasing product basket, distributors and partnering with plumbers, contractors, MEP consultants & builders. CPVC volume contribution increased to 5.3% in 9MFY23 from 3.7% in 9MFY20. Plumbing volume contribution in FNXP reached 33% by 9MFY23, which is expected to increase to 50%. FNXP increased its SKUs to 2,200 - doubled in last few years.
- Capacity expansion in existing facilities:** FNXP has total pipe & fitting capacity of 370KMT, which is expected to increase in coming years in existing facilities, but management has not given timeline and quantity of expansion. Lack of capacity expansion plan, was major cause of concern for the company in the past, which expected to be addressed now.
- Building team to drive plumbing growth:** Key managerial team of FNXP has seen complete overhaul change (of 11 KMPs, 6 are fresh hires). The company has also hired several senior level appointments for various functions (i.e. technical, finance, strategic affairs, marketing etc).

### Other key highlights of our management meeting:

- FNXP is currently focusing on advertisements (~1.5% sales) for their plumbing & sanitation business. Also connecting with architects, plumbers, engineering companies, builders to drive plumbing volume.
- The company is expending on IT for data management and data analytics, which will drive growth in future.
- Management expecting incremental growth from plumbing & sanitation segment in coming years.
- FNXP has fittings capacity of 48KMT at its Pune facility.

**Exhibit 1: FNXP volume vs rainfall – looks less correlated**

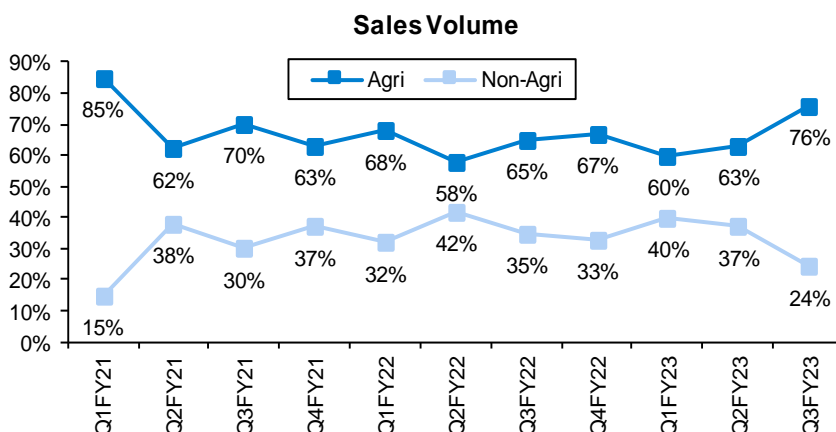


Source: Company, India Meteorological Department, PL

**Exhibit 2: Key Managerial Personnel (KMPs) hired in last two years**

Name	Joining Date	Designation	Education	Years of Experience	Previous Employment
Ajit Venkataraman	Aug-22	CEO	IIT (Madras), MS & MBA - Michigan State University	27 years	Greaves Cotton Ltd - Executive Director Engine Business (2+years), APM Terminals - MD (4 years), Tata Motors - VP-Org Strategy & CEO (Thailand)
Niraj Kedia	Aug-20	CFO	CA	20+ years	BVG India - CFO (1yrs 7mon), Jet Airways - DGM (4yrs 6mon), PWC, E&Y
Saumya Chakrabarti	Sep-21	Director (Technical)	BSc (Hons)	35+ years	OPAL - COO (4years 6months), Reliance Ind, ISRL, Haldia Petrochemicals
Sarita Tripathi	Mar-23	Chief Human Resources Officer	IIM - Lucknow	12+ years	Cappgemini - HR Head (Fin Div.), Vodafone, Tata Motors
Murali Raj G R	Dec-21	Chief Information Officer	BE (Electrical & Electronics)	28+ years	HIL - CIO (~4years), Tesco, HP
Prashant Joshi	Nov-21	President -Operations (Pipe Division)		30+ years	Time Technoplast - COO
Ashok Jaiswar	Feb-22	VP & Head Marketing & Communication	BE-University Of Mumbai	25+ years	Ampere Electric Vehicles - Head Marketing (3+ years), Greaves Cotton - Head Marketing (5+ years), FCA, Bajaj Auto, Mahindra & Mahindra and Piaggio Vehicles
Vishal Mittal	Jul-21	GM - Head direct and indirect procurement	IIT (Kanpur) - Chemical Engineering	15+ years	Kansai Nerolac Paints - Chief Manager purchase (~4years), Asian Paints - Purchase (8+ years)

Source: Company, PL

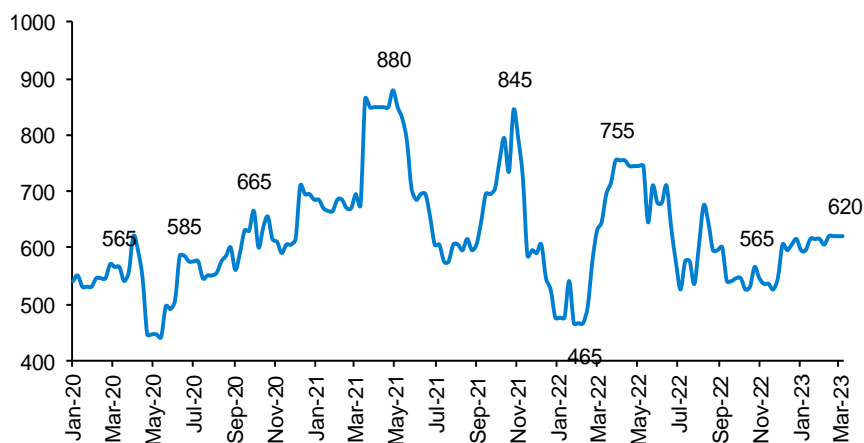
**Exhibit 3: Sales volume contribution – Plumbing target to contribute 50%**


Source: Company, PL

**Exhibit 4: Duty on major raw materials**

Material (%)	Ethylene	EDC	VCM	PVC (resin/compound)	CPVC (resin/compound)
BCD (Basic Customs Duty)	2.5	Nil	2.5	7.5	7.5
SWS (Social Welfare Surcharge)	10	10	10	10	10
IGST (Integrated Goods and Services Tax)	18	18	18	18	18
GST Comp. Cess	Nil	Nil	Nil	Nil	Nil

Source: Company, PL

**Exhibit 5: PVC – EDC spreads**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>46,473</b>	<b>44,636</b>	<b>47,469</b>	<b>52,695</b>
YoY gr. (%)	34.2	(4.0)	6.3	11.0
Cost of Goods Sold	28,491	32,620	31,804	35,622
Gross Profit	17,983	12,016	15,665	17,073
Margin (%)	38.7	26.9	33.0	32.4
Employee Cost	1,908	2,009	2,184	2,340
Other Expenses	1,974	2,857	1,899	2,108
<b>EBITDA</b>	<b>10,237</b>	<b>3,848</b>	<b>7,642</b>	<b>8,463</b>
YoY gr. (%)	3.5	(62.4)	98.6	10.7
Margin (%)	22.0	8.6	16.1	16.1
Depreciation and Amortization	834	863	912	962
<b>EBIT</b>	<b>9,403</b>	<b>2,985</b>	<b>6,730</b>	<b>7,501</b>
Margin (%)	20.2	6.7	14.2	14.2
Net Interest	141	250	202	198
Other Income	822	1,068	1,100	1,200
<b>Profit Before Tax</b>	<b>13,831</b>	<b>3,802</b>	<b>7,628</b>	<b>8,503</b>
Margin (%)	29.8	8.5	16.1	16.1
Total Tax	3,181	636	1,945	2,165
Effective tax rate (%)	23.0	16.7	25.5	25.5
<b>Profit after tax</b>	<b>10,650</b>	<b>3,166</b>	<b>5,683</b>	<b>6,337</b>
Minority interest	(15)	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>10,664</b>	<b>3,166</b>	<b>5,683</b>	<b>6,337</b>
YoY gr. (%)	47.8	(70.3)	79.5	11.5
Margin (%)	22.9	7.1	12.0	12.0
Extra Ord. Income / (Exp)	(3,761)	-	-	-
<b>Reported PAT</b>	<b>6,904</b>	<b>3,166</b>	<b>5,683</b>	<b>6,337</b>
YoY gr. (%)	(4.3)	(54.1)	79.5	11.5
Margin (%)	14.9	7.1	12.0	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,904	3,166	5,683	6,337
<b>Equity Shares O/s (m)</b>	<b>620</b>	<b>620</b>	<b>620</b>	<b>620</b>
<b>EPS (Rs)</b>	<b>17.2</b>	<b>5.1</b>	<b>9.2</b>	<b>10.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>24,650</b>	<b>26,255</b>	<b>27,755</b>	<b>29,255</b>
Tangibles	24,650	26,255	27,755	29,255
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>14,718</b>	<b>15,581</b>	<b>16,493</b>	<b>17,455</b>
Tangibles	14,718	15,581	16,493	17,455
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>9,932</b>	<b>10,674</b>	<b>11,261</b>	<b>11,800</b>
Tangibles	9,932	10,674	11,261	11,800
Intangibles	-	-	-	-
Capital Work In Progress	95	240	240	240
Goodwill	-	-	-	-
Non-Current Investments	12,033	13,113	13,113	13,113
Net Deferred tax assets	(1,104)	(1,104)	(1,104)	(1,104)
Other Non-Current Assets	543	543	543	543
<b>Current Assets</b>				
Investments	16,300	15,300	14,500	13,500
Inventories	10,155	9,782	9,803	10,833
Trade receivables	3,345	3,212	3,416	3,792
Cash & Bank Balance	881	1,984	4,773	8,106
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>54,336</b>	<b>55,240</b>	<b>58,040</b>	<b>62,318</b>
<b>Equity</b>				
Equity Share Capital	1,241	1,241	1,241	1,241
Other Equity	38,037	39,678	42,619	45,899
<b>Total Networkth</b>	<b>39,278</b>	<b>40,918</b>	<b>43,860</b>	<b>47,140</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	155	155	155	155
Other non current liabilities	779	779	779	779
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,780	2,780	2,280	2,280
Trade payables	4,634	4,448	4,797	4,733
Other current liabilities	4,569	4,049	4,012	4,987
<b>Total Equity &amp; Liabilities</b>	<b>54,336</b>	<b>55,240</b>	<b>58,040</b>	<b>62,318</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	13,831	3,902	7,728	8,603
Add. Depreciation	834	863	912	962
Add. Interest	141	250	202	198
Less Financial Other Income	822	1,068	1,100	1,200
Add. Other	(4,583)	(1,068)	(1,100)	(1,200)
Op. profit before WC changes	10,223	3,948	7,742	8,563
Net Changes-WC	(790)	430	134	(409)
Direct tax	(3,317)	(636)	(1,945)	(2,165)
<b>Net cash from Op. activities</b>	<b>6,115</b>	<b>3,742</b>	<b>5,932</b>	<b>5,989</b>
Capital expenditures	(756)	(1,750)	(1,500)	(1,500)
Interest / Dividend Income	822	1,068	1,100	1,200
Others	64	(1,080)	-	-
<b>Net Cash from Inv. activities</b>	<b>130</b>	<b>(1,762)</b>	<b>(400)</b>	<b>(300)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	742	-	(500)	-
Dividend paid	(3,262)	(1,626)	(2,841)	(3,158)
Interest paid	(141)	(250)	(202)	(198)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,661)</b>	<b>(1,876)</b>	<b>(3,544)</b>	<b>(3,356)</b>
<b>Net change in cash</b>	<b>3,584</b>	<b>103</b>	<b>1,988</b>	<b>2,333</b>
Free Cash Flow	5,359	1,992	4,432	4,489

Source: Company Data, PL Research

**Key Financial Metrics**

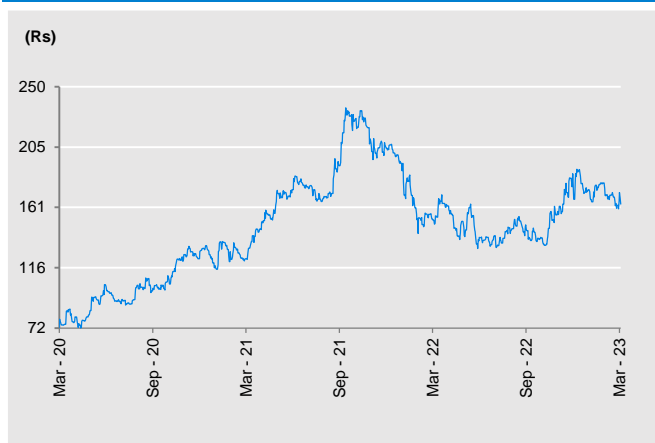
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	17.2	5.1	9.2	10.2
CEPS	18.5	6.5	10.6	11.8
BVPS	63.3	65.9	70.7	76.0
FCF	8.6	3.2	7.1	7.2
DPS	4.0	3.9	2.2	2.6
<b>Return Ratio(%)</b>				
RoCE	24.9	7.0	15.0	15.7
ROIC	35.2	9.7	19.5	21.4
RoE	30.2	7.9	13.4	13.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	70	70	65	69
<b>Valuation(x)</b>				
PER	9.6	32.4	18.1	16.2
P/B	2.6	2.5	2.3	2.2
P/CEPS	8.9	25.5	15.6	14.1
EV/EBITDA	8.6	22.9	11.2	9.8
EV/Sales	1.9	2.0	1.8	1.6
Dividend Yield (%)	2.4	2.3	1.3	1.6

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>15,946</b>	<b>11,898</b>	<b>9,411</b>	<b>11,248</b>
YoY gr. (%)	27.6	23.2	(13.1)	11.9
Raw Material Expenses	11,083	7,999	8,528	7,602
Gross Profit	4,863	3,900	883	3,646
Margin (%)	30.5	32.8	9.4	32.4
<b>EBITDA</b>	<b>2,647</b>	<b>1,259</b>	<b>(1,427)</b>	<b>919</b>
YoY gr. (%)	(35.5)	(39.9)	(147.3)	(62.0)
Margin (%)	16.6	10.6	(15.2)	8.2
Depreciation / Depletion	216	213	216	225
<b>EBIT</b>	<b>2,431</b>	<b>1,046</b>	<b>(1,642)</b>	<b>694</b>
Margin (%)	15.2	8.8	(17.5)	6.2
Net Interest	81	113	43	51
Other Income	248	251	393	278
<b>Profit before Tax</b>	<b>2,974</b>	<b>1,183</b>	<b>(1,293)</b>	<b>921</b>
Margin (%)	18.7	9.9	(13.7)	8.2
Total Tax	1,421	182	(353)	260
Effective tax rate (%)	47.8	15.4	27.3	28.3
<b>Profit after Tax</b>	<b>1,553</b>	<b>1,001</b>	<b>(939)</b>	<b>660</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,553</b>	<b>1,001</b>	<b>(939)</b>	<b>660</b>
YoY gr. (%)	(47.8)	(32.0)	(140.0)	(62.9)
Margin (%)	9.7	8.4	(10.0)	5.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,553</b>	<b>1,001</b>	<b>(939)</b>	<b>660</b>
YoY gr. (%)	(47.8)	(32.0)	(140.0)	(62.9)
Margin (%)	9.7	8.4	(10.0)	5.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,553</b>	<b>1,001</b>	<b>(939)</b>	<b>660</b>
Avg. Shares O/s (m)	620	620	620	620
<b>EPS (Rs)</b>	<b>2.5</b>	<b>1.6</b>	<b>(1.5)</b>	<b>1.1</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Mar-23	BUY	224	169

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	2,160	1,889
2	Bajaj Electricals	Accumulate	1,286	1,154
3	Cera Sanitaryware	BUY	7,280	6,184
4	Crompton Greaves Consumer Electricals	BUY	406	305
5	Finolex Industries	BUY	224	169
6	Havells India	BUY	1,447	1,205
7	Kajaria Ceramics	BUY	1,302	1,057
8	KEI Industries	Hold	1,572	1,508
9	Polycab India	Hold	2,750	2,761
10	Prince Pipes and Fittings	BUY	693	552
11	Supreme Industries	BUY	3,177	2,761
12	Voltas	BUY	980	850

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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