

May 23, 2023

Q4FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	194		224	
Sales (Rs. m)	44,652	49,500	47,469	52,695
% Chng.	(5.9)	(6.1)		
EBITDA (Rs. m)	7,189	7,950	7,642	8,463
% Chng.	(5.9)	(6.1)		
EPS (Rs.)	8.4	9.4	9.2	10.2
% Chng.	(8.4)	(8.3)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	46,473	43,971	44,652	49,500
EBITDA (Rs. m)	10,385	3,119	7,189	7,950
Margin (%)	22.3	7.1	16.1	16.1
PAT (Rs. m)	10,812	2,290	5,185	5,793
EPS (Rs.)	17.4	3.7	8.4	9.4
Gr. (%)	49.9	(78.7)	126.4	11.7
DPS (Rs.)	4.0	3.9	2.2	2.6
Yield (%)	2.2	2.1	1.2	1.4
RoE (%)	30.6	5.2	10.3	10.9
RoCE (%)	25.3	4.6	11.3	12.0
EV/Sales (x)	2.1	2.3	2.2	2.0
EV/EBITDA (x)	9.6	31.9	13.8	12.3
PE (x)	10.4	49.2	21.7	19.4
P/BV (x)	2.9	2.3	2.2	2.1

Key Data

FINX.BO | FNXP IN

52-W High / Low	Rs.196 / Rs.122
Sensex / Nifty	61,982 / 18,348
Market Cap	Rs.113bn/ \$ 1,364m
Shares Outstanding	620m
3M Avg. Daily Value	Rs.124.41m

Shareholding Pattern (%)

Promoter's	52.81
Foreign	5.51
Domestic Institution	12.26
Public & Others	29.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.6	16.9	23.6
Relative	5.5	16.0	8.2

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Finolex Industries (FNXP IN)

Rating: ACCUMULATE | CMP: Rs182 | TP: Rs194

Result in-line, margin improved while soft volume

Quick Pointers:

- Soft volume growth of 3.6% YoY in Pipe & fittings segment.
- EBIT/kg improved to ~Rs 11/kg (vs Rs7.6 in Q3FY23) in P&F segment.

We downward revised our FY24/FY25 earnings estimate by -5.8%/-5.9% and downgrade the rating to 'Accumulate' from BUY to factor in 1) soft vol. growth guidance of ~10% in agri. segment for FY24, b) correction in PVC resin prices to USD 800/MT which will impact realization, and c) correction in PVC-EDC spread to USD 470-480/MT which will impact EBITDA margin. Finolex Industries (FNXP) delivered decent volume growth slightly below expectations, mainly due to agri. pipe segment (down ~3% YoY, as inventory filling happened in Q3FY23), while plumbing segment vol. grew by ~6% YoY. FNXP reported improvement in EBIT/kg to ~Rs 11/kg in P&F segment with favorable pricing and product mix. We believe FNXP has limited upside from current level as PVC-ECD spread is not favorable towards the company and soft vol. growth guidance in agri. We estimate FY23-25E Sales/EBITDA/PAT CAGR of 6.1%/64.8%/51.1%, with volume CAGR of 10.5% and EBITDA margin of 16.1% (350bps below pre-COVID level). We revise our TP to Rs194 (Rs224 earlier), based on 19x FY25E EPS plus 50% discount to Finolex Cables' stake. Downgrade to 'Accumulate'.

Revenues decline 28.4% YoY, Adj. PAT up by 39.7% YoY: FNXP revenue came in at Rs 11.4bn (down 28.4% YoY), 2.4% above our estimate (PL: Rs11.1bn). The pipes & fittings business posted revenue of Rs 11.0bn (down 13.7% YoY), primarily dragged by 16.7% YoY decline in realization despite 3.6% YoY volume growth. PVC resin segment posted revenue of Rs5.0bn (down 52% YoY), dragged by slump in realization by 34.6% YoY and volume down by 26.6% YoY. The external sales vol. down 86% YoY and external realisation down 12.5% YoY. Gross margin expanded by 1,170bps YoY to 42.2% mainly with stabilisation in PVC resin prices. FNXP posted EBITDA of Rs2.2bn (down 17.8% YoY), in-line with our est. of Rs 2.2bn with EBITDA margin of 19.1% (up 250bps YoY) against our estimate of 20%. Pipes & fittings business reported EBIT of Rs 901mn (down 4.3% YoY) and EBIT margin of 8.2%. PVC resin EBIT stood at Rs1.17bn (down 25.1% YoY) and EBIT margin of 23.4%. Reported adj. PAT of Rs 1.7bn (up 39.7% YoY), in-line with our estimates.

Con call highlights: 1) Mgmt. expects good vol. growth of 15-20% in plumbing segment while agri. segment is expected to be soft (8-10%), 2) FNXP volume contribution in P&F was 65:35 in agri:plumbing, 3) Lower production in PVC resin segment in Q3-Q4FY23 was due to shipment issues from RM supplier-side, 4) Commissioned fitting plant near Pune of 12KMTPA with capex of Rs1bn, which will be fully operational in next 2-3months, 5) PVC-EDC spread come down to USD 470-480/MT from Q4FY23 of USD 632/MT, 6) Capex for FY24 would be between Rs1.5-2bn which will largely be used as replacement & maintenance capex, 7) The average PVC/EDC/CM prices were USD920/288/766 per MT and USD1058/410/844 per MT for Q4FY23 and FY23, 8) Mgmt. expects agri demand to normalize with normal rainfall expectation and stability in PVC resin prices.

Exhibit 1: Q4FY23 Result Overview: Sales decline 28.4% YoY; Adj. PAT grew by 39.7% YoY

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	11,411	15,946	(28.4)	11,248	1.4%	43,968	46,482	(5.4)
Expenditure								
Operating & Manufacturing Expenses	6,592	11,083	(40.5)	7,602	-13.3%	30,721	28,489	7.8
<i>% of Net Sales</i>	<i>57.8</i>	<i>69.5</i>		<i>67.6</i>		<i>69.9</i>	<i>61.3</i>	
Gross Profit	4,819	4,863	(0.9)	3,646	32.2%	13,247	17,994	(26.4)
<i>% of Net Sales</i>	<i>42.2</i>	<i>30.5</i>		<i>32.4</i>		<i>30.1</i>	<i>38.7</i>	
Personnel Cost	480	583	(17.7)	484	-0.8%	1,897	1,910	(0.7)
<i>% of Net Sales</i>	<i>4.2</i>	<i>3.7</i>		<i>4.3</i>		<i>4.3</i>	<i>4.1</i>	
Other Expenses	2,165	1,634	32.5	2,243	-3.5%	8,425	5,908	42.6
<i>% of Net Sales</i>	<i>19.0</i>	<i>10.2</i>		<i>19.9</i>		<i>19.2</i>	<i>12.7</i>	
Total Expenditure	2,644	2,217	19.3	2,727	-3.0%	10,322	7,817	32.0
EBITDA	2,174	2,647	(17.8)	919	136.7%	2,925	10,176	(71.3)
<i>Margin (%)</i>	<i>19.1</i>	<i>16.6</i>		<i>8.2</i>		<i>6.7</i>	<i>21.9</i>	
Other income	292	248	17.9	278	5.0%	1,214	890	36.4
Depreciation	238	216	10.4	225	5.8%	892	834	7.0
EBIT	1,936	2,431	(20.4)	694	179.1%	2,033	9,342	(78.2)
Interest	65	81	(19.9)	51	25.9%	272	141	93.4
PBT	2,164	6,359	(66.0)	921	135.0%	2,975	13,852	(78.5)
Total Taxes	633	1,428	(55.7)	254	149.6%	716	3,321	(78.4)
<i>ETR (%)</i>	<i>29.3</i>	<i>22.5</i>		<i>27.6</i>		<i>24.1</i>	<i>24.0</i>	
Adj. PAT	1,531	4,930	(69.0)	667	129.5%	2,259	10,531	(78.5)
Exceptional Items	-	(3,761)		-		-	(3,761)	
Reported PAT	1,665	1,192	39.7	795	109.3%	2,522	6,792	(62.9)

Source: Company, PL

Exhibit 2: Segmental Breakup: Pipe revenues decline by 13.7%, while margins expanded by 80bps YoY

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenues								
PVC	5012.9	10444	(52.0)	5040.9	(1)	22710.3	29621	(23.3)
PVC Pipe & Fittings	11021.1	12769.2	(13.7)	10771.5	2	41130	38538.3	6.7
EBIT								
PVC	1172.5	1564.6	(25.1)	124.3	843	919	7227.7	(87.3)
<i>EBIT margin (%)</i>	<i>23.4</i>	<i>15.0</i>		<i>2.5</i>		<i>4.0</i>	<i>24.4</i>	
PVC Pipe & Fittings	901.2	942	(4.3)	689	31	1539.7	2502.5	(38.5)
<i>EBIT margin (%)</i>	<i>8.2</i>	<i>7.4</i>		<i>6.4</i>		<i>3.7</i>	<i>6.5</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	46,473	43,971	44,652	49,500
YoY gr. (%)	34.2	(5.4)	1.6	10.9
Cost of Goods Sold	28,344	30,527	29,917	33,462
Gross Profit	18,130	13,443	14,735	16,038
Margin (%)	39.0	30.6	33.0	32.4
Employee Cost	1,908	1,897	2,054	2,198
Other Expenses	1,974	3,889	1,786	1,980
EBITDA	10,385	3,119	7,189	7,950
YoY gr. (%)	5.0	(70.0)	130.5	10.6
Margin (%)	22.3	7.1	16.1	16.1
Depreciation and Amortization	834	892	927	993
EBIT	9,551	2,227	6,262	6,957
Margin (%)	20.6	5.1	14.0	14.1
Net Interest	141	272	352	333
Other Income	822	1,209	1,100	1,200
Profit Before Tax	13,978	3,164	7,011	7,824
Margin (%)	30.1	7.2	15.7	15.8
Total Tax	3,181	874	1,826	2,030
Effective tax rate (%)	22.8	27.6	26.0	26.0
Profit after tax	10,797	2,290	5,185	5,793
Minority interest	(15)	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,812	2,290	5,185	5,793
YoY gr. (%)	49.9	(78.8)	126.4	11.7
Margin (%)	23.3	5.2	11.6	11.7
Extra Ord. Income / (Exp)	(3,761)	-	-	-
Reported PAT	7,051	2,290	5,185	5,793
YoY gr. (%)	(2.3)	(67.5)	126.4	11.7
Margin (%)	15.2	5.2	11.6	11.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,051	2,290	5,185	5,793
Equity Shares O/s (m)	620	618	618	618
EPS (Rs)	17.4	3.7	8.4	9.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	24,650	25,993	28,192	30,192
Tangibles	24,650	25,993	28,192	30,192
Intangibles	-	-	-	-
Acc: Dep / Amortization	14,718	15,610	16,537	17,529
Tangibles	14,718	15,610	16,537	17,529
Intangibles	-	-	-	-
Net fixed assets	9,932	10,384	11,655	12,662
Tangibles	9,932	10,384	11,655	12,662
Intangibles	-	-	-	-
Capital Work In Progress	95	606	425	443
Goodwill	-	-	-	-
Non-Current Investments	12,033	22,216	22,216	22,216
Net Deferred tax assets	(1,104)	(1,248)	(1,248)	(1,248)
Other Non-Current Assets	543	476	476	476
Current Assets				
Investments	16,100	18,191	17,691	18,000
Inventories	10,155	6,732	8,004	8,709
Trade receivables	3,345	2,975	3,022	3,350
Cash & Bank Balance	236	86	424	1,626
Other Current Assets	-	-	-	-
Total Assets	53,454	62,851	65,113	68,786
Equity				
Equity Share Capital	1,241	1,237	1,237	1,237
Other Equity	38,037	47,794	50,483	53,486
Total Network	39,278	49,031	51,720	54,723
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	155	181	181	181
Other non current liabilities	671	662	662	662
Current Liabilities				
ST Debt / Current of LT Debt	2,780	5,264	4,764	4,764
Trade payables	4,631	2,893	2,938	3,257
Other current liabilities	4,577	3,182	3,229	3,566
Total Equity & Liabilities	53,452	62,830	65,113	68,786

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	13,830	3,213	7,253	8,066
Add. Depreciation	834	892	927	993
Add. Interest	141	272	352	333
Less Financial Other Income	822	1,209	1,100	1,200
Add. Other	(4,583)	(1,209)	(1,100)	(1,200)
Op. profit before WC changes	10,222	3,168	7,432	8,192
Net Changes-WC	(1,637)	794	(1,239)	(467)
Direct tax	(3,317)	(706)	(1,826)	(2,030)
Net cash from Op. activities	5,268	3,257	4,367	5,695
Capital expenditures	(756)	(1,855)	(2,017)	(2,018)
Interest / Dividend Income	822	1,209	1,100	1,200
Others	64	(10,146)	-	-
Net Cash from Invt. activities	130	(10,792)	(917)	(818)
Issue of share cap. / premium	-	-	-	-
Debt changes	742	2,505	(521)	-
Dividend paid	(3,261)	(1,119)	(2,739)	(3,032)
Interest paid	(141)	(272)	(352)	(333)
Others	-	-	-	-
Net cash from Fin. activities	(2,660)	1,113	(3,611)	(3,366)
Net change in cash	2,737	(6,422)	(162)	1,511
Free Cash Flow	4,512	1,402	2,350	3,677

Source: Company Data, PL Research

Key Financial Metrics

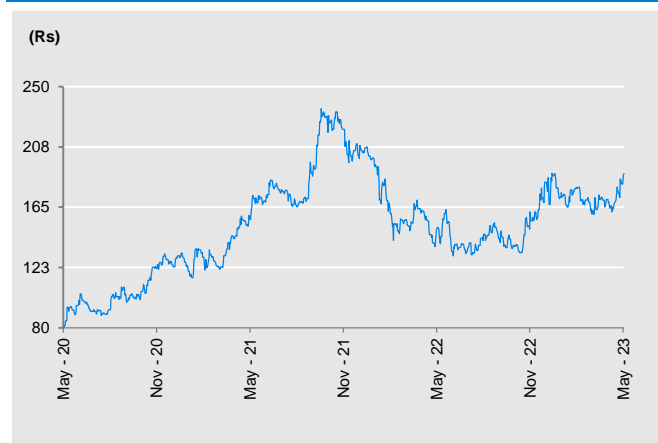
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	17.4	3.7	8.4	9.4
CEPS	18.8	5.1	9.9	11.0
BVPS	63.3	79.3	83.6	88.5
FCF	7.3	2.3	3.8	5.9
DPS	4.0	3.9	2.2	2.6
Return Ratio(%)				
RoCE	25.3	4.6	11.3	12.0
ROIC	34.5	5.4	12.4	13.4
RoE	30.6	5.2	10.3	10.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	70	57	66	65
Valuation(x)				
PER	10.4	49.2	21.7	19.4
P/B	2.9	2.3	2.2	2.1
P/CEPS	9.7	35.4	18.4	16.6
EV/EBITDA	9.6	31.9	13.8	12.3
EV/Sales	2.1	2.3	2.2	2.0
Dividend Yield (%)	2.2	2.1	1.2	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	11,898	9,411	11,248	11,411
YoY gr. (%)	23.2	(13.1)	11.9	(28.4)
Raw Material Expenses	7,999	8,528	7,602	6,592
Gross Profit	3,900	883	3,646	4,819
Margin (%)	32.8	9.4	32.4	42.2
EBITDA	1,259	(1,427)	919	2,174
YoY gr. (%)	(39.9)	(147.3)	(62.0)	(17.8)
Margin (%)	10.6	(15.2)	8.2	19.1
Depreciation / Depletion	213	216	225	238
EBIT	1,046	(1,642)	694	1,936
Margin (%)	8.8	(17.5)	6.2	17.0
Net Interest	113	43	51	65
Other Income	251	393	278	292
Profit before Tax	1,183	(1,293)	921	2,164
Margin (%)	9.9	(13.7)	8.2	19.0
Total Tax	182	(353)	254	633
Effective tax rate (%)	15.4	27.3	27.6	29.3
Profit after Tax	1,001	(939)	667	1,531
Minority interest	-	-	-	-
Share Profit from Associates	-	-	129	135
Adjusted PAT	1,001	(939)	795	1,665
YoY gr. (%)	(32.0)	(140.0)	(55.3)	39.7
Margin (%)	8.4	(10.0)	7.1	14.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,001	(939)	795	1,665
YoY gr. (%)	(32.0)	(140.0)	(55.3)	39.7
Margin (%)	8.4	(10.0)	7.1	14.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,001	(939)	795	1,665
Avg. Shares O/s (m)	618	618	618	618
EPS (Rs)	1.6	(1.5)	1.3	2.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	224	172
2	28-Mar-23	BUY	224	165
3	01-Mar-23	BUY	224	169

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	1,830	1,687
2	Bajaj Electricals	Accumulate	1,280	1,053
3	Cera Sanitaryware	BUY	7,706	6,690
4	Crompton Greaves Consumer Electricals	BUY	403	298
5	Finolex Industries	BUY	224	172
6	Havells India	BUY	1,447	1,245
7	Kajaria Ceramics	Accumulate	1,264	1,185
8	KEI Industries	Hold	1,811	1,836
9	Polycab India	Hold	3,249	3,381
10	Prince Pipes and Fittings	BUY	693	574
11	Supreme Industries	BUY	3,245	2,722
12	Voltas	Hold	848	808

PL's Recommendation Nomenclature (Absolute Performance)

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

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