

21 July 2023

India | Equity Research | Q1FY24 results review

Finolex Industries

Plastic

Pipe segment profitability to remain stable; PVC resin performance to improve

In Q1FY24, Finolex Industries (FNXP) reported pipe volume growth of 28.1% YoY (+13.2% QoQ, flat 4-year CAGR) on a low base, driven by an uptick in agri sector (70% vol mix) and sustained demand from plumbing segment. Consolidated EBIDTA margin contracted 612bps QoQ to 12.9% (+235bps YoY on low base) primarily due to a steep decline in the profitability of PVC resin segment (EBIT/kg down 96.6% QoQ due to contraction in PVC-EDC/VCM spreads). Pipe EBIT/kg was up 23.7% QoQ to INR13.7(+132% YoY) driven by operating leverage and lower power cost. With PVC-EDC/VCM delta normalising, we expect profitability to improve going ahead. We tweak estimates and roll over our SoTP-based TP to INR 230 (vs INR 210 earlier) for Sept'24. Maintain BUY led by demand tailwinds and improved profitability.

Pipe volume grew 28.1% YoY, led by agriculture and plumbing

FNXP reported Q1FY24 pipe volume growth of 28.1% YoY (+13.2% QoQ, flat 4-year CAGR) on a low base, whereas PVC resin segment volume declined 26.6% YoY (-20.7% QoQ). Pipe volume growth was driven by seasonally strong demand from agri sector (70% volume mix) and continued momentum in plumbing segment. PVC resin volume declined in Q1 due to temporary plant shutdown in Apr'23 for maintenance. Consolidated revenue was flat YoY (+3.3% QoQ; 5.7% 4-year CAGR) as realisation for resin/pipe segment declined 37.6%/20.4% YoY. We believe FNXP has demand tailwinds (driven by lower PVC prices and an uptick in real estate) which may enable pipe volume CAGR of 11.3% over FY23-FY26E. Management has guided for pipe volume CAGR of 15% over the next 3-5 years driven by plumbing segment.

Strong EBIT/kg performance in pipe segment

Consolidated EBIDTA margin declined 612bps QoQ to 12.9% (+235bps YoY on low base) despite strong profitability in pipe segment, as resin segment profitability was impacted by contraction in PVC-EDC/VCM spreads. EBIT/kg of resin declined 96.6% QoQ to INR0.7 (-94.2% YoY). Pipe EBIT/kg grew 23.7% QoQ to INR13.7 (+132% YoY) due to operating leverage and lower fuel cost. Resin profitability should improve going forward as spreads have started normalising. Management stated sustainable EBIT/kg guidance of INR14-15 for resin and has now guided for ~INR12 (vs INR10 earlier) for pipes. We have modelled in FY24E/FY25E resin/pipe EBIT/kg of ~INR13/INR11, respectively.

Financial summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	43,971	41,689	46,650	51,391
EBITDA	2,925	7,774	8,184	8,728
EBITDA %	6.7	18.6	17.5	17.0
Net Profit	2,388	5,840	6,191	6,579
EPS (INR)	3.9	9.4	10.0	10.6
EPS % Chg YoY	(70.4)	144.6	6.0	6.3
P/E (x)	47.8	19.5	18.4	17.3
EV/EBITDA (x)	34.5	12.8	11.9	10.9
RoCE (%)	2.9	8.6	8.6	8.7
RoE (%)	5.4	11.5	11.5	11.5

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Market Data

Market Cap (INR)	114bn
Market Cap (USD)	1,397mn
Bloomberg Code	FNXP IN
Reuters Code	FINX.BO
52-week Range (INR)	196 /122
Free Float (%)	46.0
ADTV-3M (mn) (USD)	2

Price Performance (%)	3m	6m	12m
Absolute	12.3	5.9	38.3
Relative to Sensex	14.1	12.4	23.5

ESG Disclosure	2021	2022	Change
ESG score	28.4	29.1	0.7
Environment	2.1	2.1	0.0
Social	17.0	19.0	2.1
Governance	66.1	66.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	1.7	2.6
EBITDA	0.5	0.7
EPS	0.1	0.3

Previous Reports

24-05-2023: [Q4FY23 results review](#)

03-03-2023: [Company update](#)

Valuation and view

FNXP's operational performance in Q1 has been broadly in line with pipes profitability being superior. With PVC-EDC and PVC-VCM spreads normalising, profitability in PVC resin segment is expected to improve whereas in PVC pipe it should normalise due to stable RM prices. We believe there are demand and margin tailwinds for the company due to lower raw material prices in both agri and non-agri segments. Maintain BUY with a rolled over SoTP-based Sept'24E target price of INR 230 (earlier INR 210).

Exhibit 1: Q1FY24 consolidated result review

INR mn	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Net Revenue	11,792	11,898	-0.9%	11,411	3.3%
Raw Material	7,805	7,999	-2.4%	6,592	18.4%
% of sales	66.2%	67.2%	-104 bps	57.8%	842 bps
Employee expenses	519	511	1.6%	480	8.2%
% of sales	4.4%	4.3%	11 bps	4.2%	20 bps
Other expenses	1,943	2,130	-8.8%	2,165	-10.2%
% of sales	16.5%	17.9%	-142 bps	19.0%	-249 bps
Total Expenditure	10,267	10,639	-3.5%	9,236	11.2%
% of sales	87.1%	89.4%	-235 bps	80.9%	612 bps
EBITDA	1,525	1,259	21.1%	2,174	-29.9%
EBITDA margin (%)	12.9%	10.6%	235bps	19.1%	-612bps
Depreciation & amortisation	344	213	61.2%	238	44.5%
EBIT	1,181	1,046	12.9%	1,936	-39.0%
EBIT margin (%)	10.0%	8.8%	123bps	17.0%	-696bps
Other income	403	251	60.6%	292	37.9%
Finance costs	90	113	-20.4%	65	39.6%
Exceptional items	-	140	nm	-7	nm
PBT	1,493	1,323	12.9%	2,156	-30.8%
Tax expenses	416	317	31.3%	626	-33.6%
Share of profit from associates	76	-14	nm	135	-43.7%
Reported PAT	1,153	992	16.2%	1,665	-30.7%
Adjusted PAT	1,153	886	30.2%	1,670	-31.0%

Source: Company data, I-Sec research

Exhibit 2: Q1FY24 standalone result review

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Revenue	11,792	11,898	-0.9%	11,411	3.3%
Raw Material	7,805	7,999	-2.4%	6,592	18.4%
% of sales	66.2%	67.2%	-104 bps	57.8%	842 bps
Employee expenses	519	511	1.6%	480	8.2%
% of sales	4.4%	4.3%	11 bps	4.2%	20 bps
Other expenses	1,943	2,130	-8.8%	2,165	-10.2%
% of sales	16.5%	17.9%	-142 bps	19.0%	-249 bps
Total Expenditure	10,267	10,639	-3.5%	9,236	11.2%
% of sales	87.1%	89.4%	-235 bps	80.9%	612 bps
EBITDA	1,525	1,259	21.1%	2,174	-29.9%
margin (%)	12.9%	10.6%	235bps	19.1%	-612bps
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EBIT	1,181	1,046	12.9%	1,936	-39.0%
margin (%)	10.0%	8.8%	123bps	17.0%	-696bps
Other income	403	251	60.6%	292	37.9%
Finance costs	90	113	-20.4%	65	39.6%
Exceptional items	-	140	nm	-	nm
PBT	1,493	1,323	12.9%	2,164	-31.0%
Tax expenses	384	322	19.5%	580	-33.7%
Reported PAT	1109	1001	10.8%	1584	-30.0%
Adjusted PAT	1109	895	23.8%	1584	-30.0%

Source: Company data, I-Sec research

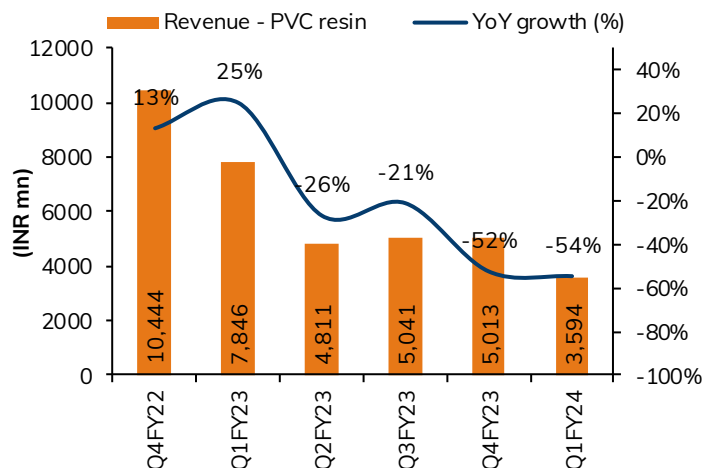
Exhibit 3: Q1FY24 segmental result review

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue					
PVC	3,594	7,846	-54.2%	5,013	-28.3%
PVC pipes & fittings	11,542	11,320	2.0%	11,021	4.7%
Total	15,136	19,166	-21.0%	16,034	-5.6%
Inter-segment revenues	3,345	7,268	-54.0%	4,623	-27.7%
Net revenue	11,792	11,898	-0.9%	11,411	3.3%
EBIT					
PVC	31	729	-95.7%	1,173	-97.3%
PVC pipes & fittings	1,264	426	196.9%	903	40.0%
Total	1,296	1,155	12.2%	2,076	-37.6%
EBIT Margins (%)					
PVC	0.9%	9.3%	-842 bps	23.4%	-2252 bps
PVC pipes & fittings	11.0%	3.8%	719 bps	8.2%	276 bps
Total	11.0%	9.7%	128 bps	18.2%	-720 bps
per unit analysis					
Volume					
PVC (MT)	46,074	62,746	-26.6%	58,132	-20.7%
PVC pipes (MT)	92,181	71,960	28.1%	81,452	13.2%
Realisation					
PVC (INR/t)	78,007	1,25,041	-37.6%	86,233	-9.5%
PVC pipes (INR/t)	1,25,211	1,57,311	-20.4%	1,35,308	-7.5%
EBIT/tonne					
PVC (INR/t)	677	11,618	-94.2%	20,170	-96.6%
PVC pipes (INR/t)	13,716	5,917	131.8%	11,089	23.7%

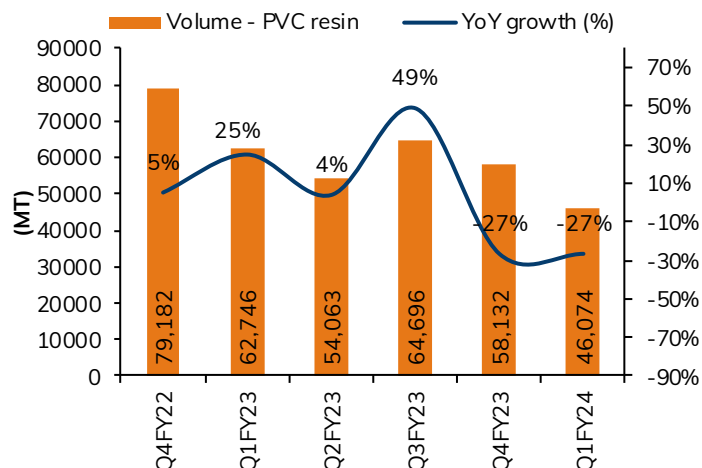
Source: Company data, I-Sec research

Key takeaways from Q1FY24 earnings conference call

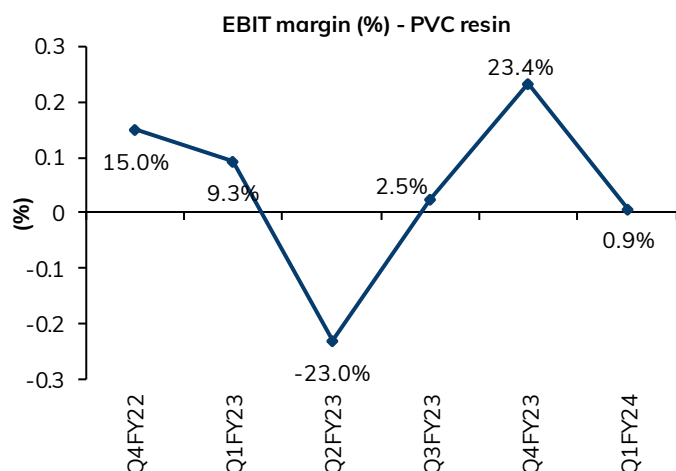
- **Demand:** Management reported good demand conditions across segments with **both agri and non-agri segment volumes growing by ~28% YoY each. Non-agri segment formed ~30% of volume mix in Q1FY24** and management re-emphasised its continued focus on improving product mix towards higher non-agri contribution.
- **Industry outlook:** Management expects industry pipe volumes in **agri segment to grow in high single digits** (driven by affordable PVC prices and higher rural income).
- **Pricing:** For Q1FY24, management reported average price of PVC-EDC spread at USD 468/MT (vs USD 785/MT YoY) and for PVC-VCM spread at USD 133/MT (vs USD 279/MT YoY). **Current PVC-EDC spread has increased to USD 540/MT and PVC-VCM spread has improved to USD 200/MT.**
- **Profitability:** PVC resin profitability was negatively impacted by a **sharp contraction in PVC-EDC/VCM spread**. However, **pipes profitability reported a positive surprise due to operating leverage and cost optimisation** (lower power and fuel costs). Management stated **PVC-EDC/VCM spreads had bottomed out in Q1FY24 and that profitability for both resin and pipes segments should normalise going forward.**
- **Product mix (%):** Non-agri / agri mix for Q1FY24 stood at 30% / 70% in volume terms, respectively.
- **Guidance:** Management has guided for **~15% pipe volume CAGR over the next 5 years**. For FY24, it has revised down its PVC resin production to 239,000MT (from 250,000-260,000MT earlier due to temporary plant shutdown in Apr'23). For remaining 9MFY24, it has guided **for PVC resin EBIT/kg to normalise to INR 14-15/kg and pipes to normalise to ~INR 12/kg.**
- **CPVC:** Management indicated CPVC volume grew ~20% YoY in Q1FY24 and expects slight moderation in CPVC prices going ahead.
- **Capex:** FNXP envisages capex of **INR 2bn-2.5bn for FY24 and FY25**, which will be mostly utilised in maintenance activities and for addition of moulds in pipe and fittings.
- FNXP had done a re-evaluation of useful life of its assets in Q1 which led to higher depreciation in the quarter by INR 60-70mn. Going forward, it expects depreciation to normalise to INR 250-270mn per quarter.
- Management indicated that **current channel inventory remains moderate.**
- **Distribution:** FNXP currently has >800 distributors and >22,000 retail touchpoints.
- As on Q1FY24, FNXP had a **net cash surplus of INR 16.5bn.**
- Management stated they will distribute surplus cash if they do not find proper avenues for investments. However, they refrained from giving a time frame within which this would be done.

Exhibit 4: Quarterly PVC resin revenue


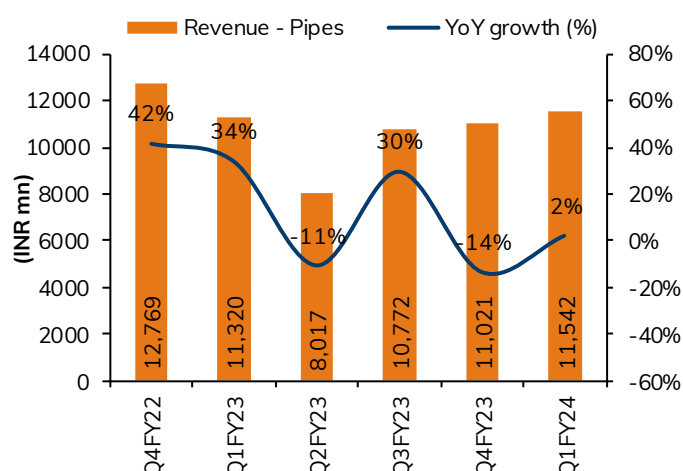
Source: I-Sec research, Company data

Exhibit 5: Quarterly PVC resin volume


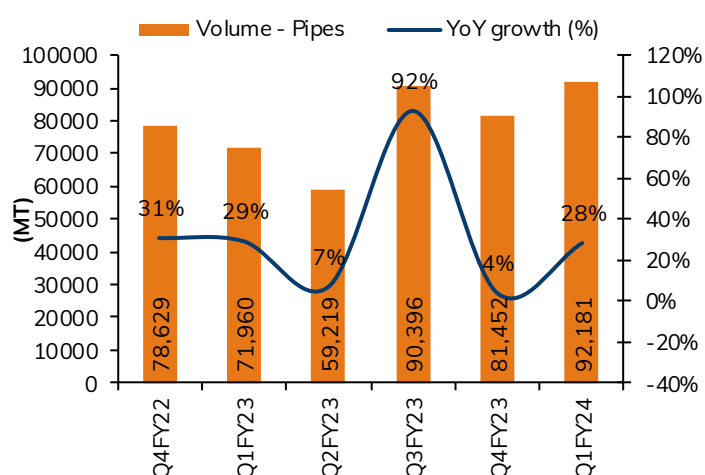
Source: I-Sec research, Company data

Exhibit 6: Quarterly PVC EBIT margin


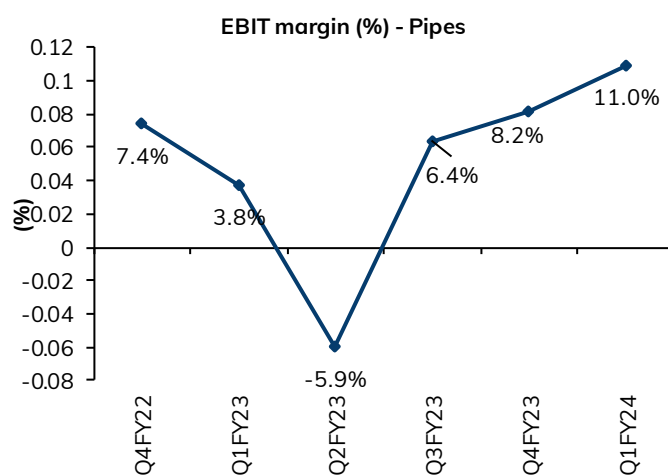
Source: I-Sec research, Company data

Exhibit 7: Quarterly pipes and fittings revenue


Source: I-Sec research, Company data

Exhibit 8: Quarterly pipes and fittings volume


Source: I-Sec research, Company data

Exhibit 9: Quarterly pipes and fittings EBIT margin


Source: I-Sec research, Company data

Valuations

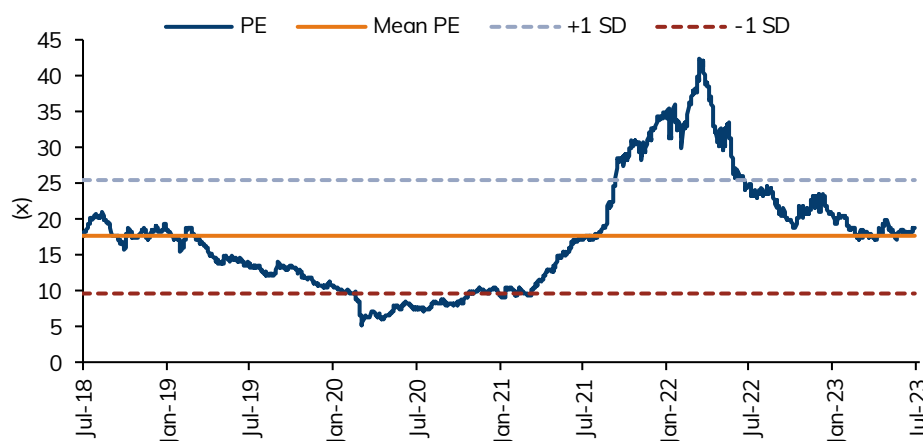
Finolex is a strong player in the agricultural pipe market and is also expanding in plumbing segment. It has a strong brand with wide distribution and robust balance sheet. We like the company for its leadership position in the agricultural pipe segment. Maintain BUY with rolled over Sept'24E SoTP-based revised target price of INR 230 (earlier: INR 210).

Exhibit 10: SoTP-based valuations

Particulars	EBIDTA-Sept'25 (INR Mn)	Target Multiple (x)	Amount (INR mn)
PVC resin	3,337	6	20,022
PVC pipe & fittings	5,119	18	92,146
Enterprise Value			1,12,168
Finolex cable investment value at 40% holding company disc			13,270
Add: Net (debt)/cash as of FY25E			16,847
Equity value			1,42,285
Total no. of Finolex shares (mn)			618
Target Price (INR/share)			230

Source: I-Sec research, Company data

Exhibit 11: 1-year forward P/E band



Source: I-Sec research, Bloomberg, Company data

Key downside risks

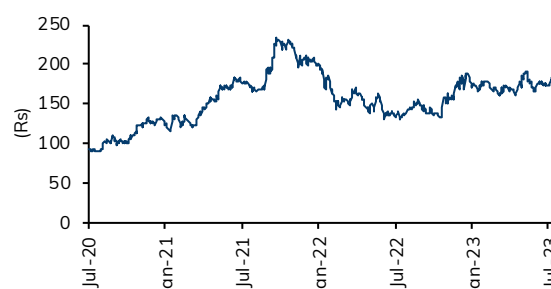
- Lower-than-expected demand for agricultural pipes may adversely affect volume growth for the company.
- Any slowdown in housing market will adversely affect volumes in the plumbing market.
- Sharp fall in PVC-EDC spreads.

Exhibit 12: Shareholding pattern

%	Sep'22	Dec'22	Mar'23
Promoters	52.5	52.5	52.5
Institutional investors	18.7	17.0	17.8
MFs and others	12.7	11.1	11.7
FIs/Banks	-	-	-
Insurance	0.4	0.5	0.5
FIIIs	5.6	5.4	5.6
Others	28.8	30.5	29.7

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial summary

Exhibit 14: Profit and loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	43,971	41,689	46,650	51,391
Operating Expenses	41,045	33,914	38,465	42,663
EBITDA	2,925	7,774	8,184	8,728
EBITDA Margin (%)	6.7	18.6	17.5	17.0
Depreciation & Amortization	892	1,109	1,195	1,281
EBIT	2,033	6,665	6,989	7,447
Interest expenditure	272	350	319	289
Other Non-operating Income	1,209	1,334	1,451	1,485
Recurring PBT	2,970	7,650	8,121	8,643
Less: Taxes	(875)	(2,010)	(2,130)	(2,264)
PAT	2,096	5,640	5,991	6,379
Profit / (Loss) from Associates	243	200	200	200
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	169	-	-	-
Net Income (Reported)	2,507	5,840	6,191	6,579
Net Income (Adjusted)	2,388	5,840	6,191	6,579

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	6,732	6,504	7,377	8,182
Cash & cash eqv.	18,277	19,877	21,211	23,345
Sundry Debtors	2,975	3,084	3,451	3,801
Other Current Assets	2,080	1,942	2,173	2,394
Trade payables	2,893	2,967	3,370	3,758
Other Current Liabilities	4,027	3,176	3,678	4,099
Net Current Assets	23,143	25,264	27,165	29,864
Investments	21,798	21,798	21,798	21,798
Net Fixed Assets	10,814	11,705	12,510	13,228
Other Non Current Assets	176	176	176	176
Total Assets	55,931	58,943	61,648	65,066
Liabilities				
Borrowings	5,264	5,064	4,364	4,164
Other Non Current Liabilities	1,636	1,636	1,636	1,636
Total Liabilities	6,900	6,700	6,000	5,800
Equity Share Capital	1,237	1,237	1,237	1,237
Reserves & Surplus	47,794	51,006	54,411	58,030
Total Net Worth	49,031	52,243	55,648	59,266
Minority Interest	-	-	-	-
Total Liabilities & Net Worth	55,931	58,943	61,648	65,066

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

Quarterly Trend	Sept'22	Dec'22	Mar'23	Jun'23
Net sales	9,411	11,248	11,411	11,792
% growth (YoY)	-13.1	11.9	-28.4	-0.9
EBITDA	-1,427	919	2,174	1,525
EBITDA Margin (%)	-15.2	8.2	19.1	12.9
Other Income	388	278	292	403
Extraordinary Items	-	-	-	-
Net profit	-951	772	1,670	1,153

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,827	6,229	6,620	7,094
Working Capital Changes	538	(521)	(566)	(566)
Capital Commitments	(1,687)	(2,000)	(2,000)	(2,000)
Free Cashflow	2,140	4,229	4,620	5,094
Other investing cashflow	(10,146)	-	-	-
Cashflow from Investing Activities	(11,833)	(2,000)	(2,000)	(2,000)
Issue of Share Capital	(4)	-	-	-
Inc (Dec) in Borrowings	2,484	(200)	(700)	(200)
Dividend paid	(928)	(2,628)	(2,786)	(2,961)
Others	8,395	200	200	200
Cash flow from Financing Activities	9,947	(2,628)	(3,286)	(2,961)
Chg. in Cash & Bank balance	1,941	1,601	1,334	2,133
Closing cash & balance	18,277	19,877	21,211	23,345

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.1	9.4	10.0	10.6
Adjusted EPS (Diluted)	3.9	9.4	10.0	10.6
Cash EPS	5.3	11.2	11.9	12.7
Dividend per share (DPS)	1.5	4.3	4.5	4.8
Book Value per share (BV)	79.3	84.5	90.0	95.8
Dividend Payout (%)	38.8	45.0	45.0	45.0
Growth (%)				
Net Sales	(5.4)	(5.2)	11.9	10.2
EBITDA	(71.5)	165.8	5.3	6.6
EPS (INR)	(70.4)	144.6	6.0	6.3
Valuation Ratios (x)				
P/E	47.8	19.5	18.4	17.3
P/CEPS	34.8	16.4	15.4	14.5
P/BV	2.3	2.2	2.0	1.9
EV / EBITDA	34.5	12.8	11.9	10.9
EV / Sales	2.3	2.4	2.1	1.8
Dividend Yield (%)	0.8	2.3	2.4	2.6
Operating Ratios				
Gross Profit Margins (%)	30.1	42.3	41.4	40.7
EBITDA Margins (%)	6.7	18.6	17.5	17.0
Effective Tax Rate (%)	29.4	26.3	26.2	26.2
Net Profit Margins (%)	5.4	14.0	13.3	12.8
NWC / Total Assets (%)	7.7	8.3	8.7	8.9
Net Debt / Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(4.4)	(1.9)	(2.1)	(2.2)
Profitability Ratios				
RoCE (%) (post-tax)	2.9	8.6	8.6	8.7
RoE (%)	5.4	11.5	11.5	11.5
Cash Conversion Cycle (on net sales)				
Inventory Days	56	57	58	58
Receivables Days	25	27	27	27
Payables Days	24	26	26	27

Source Company data, I-Sec research

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