

October 24, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	238		243	
Sales (Rs.m)	47,100	54,244	46,968	52,586
% Chng.	0.3	3.2		
EBITDA (Rs.m)	5,699	7,410	6,670	7,972
% Chng.	(14.5)	(7.1)		
EPS (Rs.)	7.4	9.6	8.2	9.9
% Chng.	(9.7)	(2.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	43,971	47,100	54,244	62,015
EBITDA (Rs. m)	3,119	5,699	7,410	8,657
Margin (%)	7.1	12.1	13.7	14.0
PAT (Rs. m)	2,532	4,604	5,937	6,918
EPS (Rs.)	4.1	7.4	9.6	11.2
Gr. (%)	(76.5)	81.8	29.0	16.5
DPS (Rs.)	1.5	3.1	4.0	4.6
Yield (%)	0.7	1.6	2.0	2.3
RoE (%)	5.7	9.2	11.3	12.4
RoCE (%)	4.6	8.2	10.7	12.0
EV/Sales (x)	2.6	2.4	2.0	1.8
EV/EBITDA (x)	36.0	19.7	15.0	12.6
PE (x)	49.5	27.2	21.1	18.1
P/BV (x)	2.6	2.4	2.3	2.2

Key Data

FINX.BO | FNXP IN

52-W High / Low	Rs.260 / Rs.130
Sensex / Nifty	64,572 / 19,282
Market Cap	Rs.126bn/ \$ 1,514m
Shares Outstanding	620m
3M Avg. Daily Value	Rs.285.39m

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	(8.3)	22.3	46.7
Relative	(6.2)	12.9	34.7

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Finolex Industries (FNXP IN)

Rating: ACCUMULATE | CMP: Rs203 | TP: Rs238

Weak margin despite wider PVC-EDC spread

We downward revise our FY24 earnings by 9.7% to factor in lower volume growth and EBIT per kg, while marginally cut FY25/FY26 earnings by 2.9%/2% considering gradual improvement over coming years and revise TP to Rs238 (Rs243 earlier) based on 21x Sep'25E EPS plus 50% discount to Finolex Cables' stake. FNXP reported soft volume growth of 6.2% in its seasonally weak quarter as 60% volumes came from agri segment which is highly price-sensitive, thus, in anticipation of PVC resin price drop, sales volume impacted in Q2FY24. The company reiterated guidance of 15% volume growth in pipes and fittings segment in FY24. PVC-EDC spread, which was USD 571/MT in Q2FY24, had improved FNXP's gross margin to ~40% (EBIT/Kg was Rs 11.5). The spread has since decreased to USD 450/MT in Oct-23, even after management expects EBIT per Kg to be Rs 11-12 for FY24.

We expect Revenue/EBITDA/PAT CAGR of 12.1%/40.5%/39.8% for FY23-26E with P&F volume CAGR of 13.9% and EBITDA margin of 13.7%/14.0% for FY25E/FY26E. Maintain 'Accumulate' rating.

Revenues decline 6.2% YoY; P&F vol. grew 6.2 YoY: FNXP revenue came in at Rs8.8bn (down 6.2% YoY), ~10% below our estimate (PLe: Rs9.8bn). The P&F business posted revenue of Rs8.6bn (up ~7% YoY) with 6.2% YoY volume growth. The realizations stood at Rs136 per Kg up 0.6% YoY (PLe: Rs128 per Kg). PVC resin segment posted revenue of Rs3.0bn (down 38.1% YoY), volume down by 30.6% YoY to 37,516 MT. The external sales vol. were down 82.4% YoY and external realization was up 6.2% YoY resulting into 81.3% decline in PVC resin external sales. Gross margin expanded to 39.9% from 9.4% in Q2FY23. (PLe: 35%). FNXP posted EBITDA of Rs1.0bn against loss in Q2FY23 (PLe: Rs1.2bn) with EBITDA margin of 11.7% (PLe: 12.2%) as the PVC-EDC/PVC-VCM spread for Q2FY24 was USD 571/USD157 per MT as against USD 575/USD165 per MT in Q2FY23. P&F business reported EBIT of Rs676mn with EBIT margin of 7.9%. PVC resin EBIT stood at Rs20.4mn with EBIT margin of 6.8%. Reported PAT of Rs980mn against loss in Q2FY23, (PLe: Rs 932mn).

Con call highlights: **1)** Mgmt. has reiterated its guidance of 15% volume for FY24 **2)** P&F segment has a agri:non-agri mix of 60:40 in volume terms in Q2FY24 which will improve to 50:50 in next 4-5 years, **3)** Major focus will be on non-agri segment growth going forward, **4)** Retail network increased to 23,000 pan India, **5)** PVC-EDC spread has reduced to USD 450/MT and PVC-VCM to USD95/MT by Oct-23, **6)** Higher realization in external sales PVC resin was because of product mix, emulsion grade is better than the suspension grade PVC resin, **7)** P&F industry import around 50% of PVC resin requirement, **8)** Mgmt. is targeting EBIT/kg to be at Rs14 per Kg with improved volume growth and reduction in fuel costs, **9)** Captive fittings plant has capacity of 12kMT and company also outsource, **10)** In Q2FY24, there was marginal inventory gain.

Exhibit 1: Q2FY24 Result Overview: Sales decline 6.2% YoY, EBITDA margin of 11.7%

Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Net Sales	8,832	9,411	(6.2)	11,792	(25.1)	20,623	21,309	(3.2)
Expenditure								
Operating & Manufacturing Expenses	5,306	8,529	(37.8)	7,802	(32.0)	13,108	16,528	(20.7)
<i>% of Net Sales</i>	<i>60.1</i>	<i>90.6</i>	<i>(30.6)</i>	<i>66.2</i>		<i>63.6</i>	<i>77.6</i>	
Gross Profit	3,526	882	299.8	3,989	(11.6)	7,515	4,781	57.2
<i>% of Net Sales</i>	<i>39.9</i>	<i>9.4</i>	<i>30.6</i>	<i>33.8</i>		<i>36.4</i>	<i>22.4</i>	
Personnel Cost	503	423	18.9	519	(3.1)	1,022	934	9.4
<i>% of Net Sales</i>	<i>5.7</i>	<i>4.5</i>	<i>1.2</i>	<i>4.4</i>		<i>5.0</i>	<i>4.4</i>	
Other Expenses	1,993	1,886	5.7	1,946	2.4	3,939	4,016	(1.9)
<i>% of Net Sales</i>	<i>22.6</i>	<i>20.0</i>	<i>2.5</i>	<i>16.5</i>		<i>19.1</i>	<i>18.8</i>	
Total Expenditure	2,496	2,309	8.1	2,465	1.3	4,961	4,949	0.2
EBITDA	1,030	(1,427)	NA	1,525	(32.5)	2,555	(168)	NA
<i>Margin (%)</i>	<i>11.7</i>	<i>(15.2)</i>		<i>12.9</i>		<i>12.4</i>	<i>(0.8)</i>	
Other income	614	388	58.0	403	52.4	1,016	639	59.0
Depreciation	274	216	27.0	344	(20.4)	618	429	44.0
EBIT	756	(1,642)	NA	1,181	(36.0)	1,937	(597)	NA
Interest	125	43	189.1	90	38.1	215	156	37.3
PBT	1,245	(1,297)	NA	1,493	(16.6)	2,738	(114)	NA
Total Taxes	354	(350)	NA	416	(14.8)	770	(168)	NA
<i>ETR (%)</i>	<i>28.4</i>	<i>27.0</i>		<i>27.8</i>		<i>28.1</i>		
Adj. PAT	891	(947)	NA	1,078	(17.3)	1,969	53	
Exceptional Items	-	-		-		-	-	
Reported PAT	980	(954)	NA	1,153	(15.1)	2,133	47	NA

Source: Company, PL

Exhibit 2: Segmental Breakup: P&F revenue up 2%, while margins expanded by 720bps YoY

Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenues								
PVC	2,979	4,811	(38.1)	3,594	(17.1)	6,573	12,657	(48.1)
PVC Pipe & Fittings	8,572	8,017	6.9	11,542	(25.7)	20,114	19,337	4.0
EBIT								
PVC	204	(1,107)	NA	31	554	235	(378)	NA
<i>EBIT margin (%)</i>	<i>6.8</i>	<i>(23.0)</i>		<i>0.9</i>		<i>3.6</i>	<i>(3.0)</i>	
PVC Pipe & Fittings	676	(476)	NA	1,264	(47)	1,940	(51)	NA
<i>EBIT margin (%)</i>	<i>7.9</i>	<i>(5.9)</i>		<i>11.0</i>		<i>9.6</i>	<i>(0.3)</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	43,971	47,100	54,244	62,015
YoY gr. (%)	(5.4)	7.1	15.2	14.3
Cost of Goods Sold	30,527	31,699	36,452	41,674
Gross Profit	13,443	15,402	17,792	20,341
Margin (%)	30.6	32.7	32.8	32.8
Employee Cost	1,897	2,167	2,408	2,753
Other Expenses	3,889	3,297	3,255	3,659
EBITDA	3,119	5,699	7,410	8,657
YoY gr. (%)	(70.0)	82.7	30.0	16.8
Margin (%)	7.1	12.1	13.7	14.0
Depreciation and Amortization	892	1,184	1,268	1,352
EBIT	2,227	4,515	6,142	7,305
Margin (%)	5.1	9.6	11.3	11.8
Net Interest	272	402	381	381
Other Income	1,209	1,780	1,940	2,110
Profit Before Tax	3,164	5,893	7,701	9,034
Margin (%)	7.2	12.5	14.2	14.6
Total Tax	874	1,549	1,997	2,327
Effective tax rate (%)	27.6	26.3	25.9	25.8
Profit after tax	2,290	4,344	5,703	6,707
Minority interest	-	-	-	-
Share Profit from Associate	243	260	234	211
Adjusted PAT	2,532	4,604	5,937	6,918
YoY gr. (%)	(76.5)	81.8	29.0	16.5
Margin (%)	5.8	9.8	10.9	11.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,532	4,604	5,937	6,918
YoY gr. (%)	(64.0)	81.8	29.0	16.5
Margin (%)	5.8	9.8	10.9	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,532	4,604	5,937	6,918
Equity Shares O/s (m)	618	618	618	618
EPS (Rs)	4.1	7.4	9.6	11.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	25,993	28,192	30,192	32,192
Tangibles	25,993	28,192	30,192	32,192
Intangibles	-	-	-	-
Acc: Dep / Amortization	15,610	16,794	18,062	19,414
Tangibles	15,610	16,794	18,062	19,414
Intangibles	-	-	-	-
Net fixed assets	10,384	11,398	12,130	12,778
Tangibles	10,384	11,398	12,130	12,778
Intangibles	-	-	-	-
Capital Work In Progress	606	425	443	464
Goodwill	-	-	-	-
Non-Current Investments	22,216	22,216	22,216	22,216
Net Deferred tax assets	(1,248)	(1,248)	(1,248)	(1,248)
Other Non-Current Assets	476	476	476	476
Current Assets				
Investments	18,191	17,391	18,000	18,000
Inventories	6,732	8,481	9,488	10,847
Trade receivables	2,975	3,187	3,671	4,196
Cash & Bank Balance	86	213	1,158	2,990
Other Current Assets	-	-	-	-
Total Assets	62,830	65,017	68,960	73,508
Equity				
Equity Share Capital	1,237	1,237	1,237	1,237
Other Equity	47,794	50,049	53,006	56,480
Total Network	49,031	51,286	54,242	57,717
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	181	181	181	181
Other non current liabilities	662	662	662	662
Current Liabilities				
ST Debt / Current of LT Debt	5,264	4,764	4,764	4,764
Trade payables	2,893	3,099	3,569	4,080
Other current liabilities	3,182	3,399	3,896	4,436
Total Equity & Liabilities	62,830	65,017	68,960	73,508

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	3,213	6,153	7,935	9,245
Add. Depreciation	892	1,184	1,268	1,352
Add. Interest	272	402	381	381
Less Financial Other Income	1,209	1,780	1,940	2,110
Add. Other	(1,209)	(1,780)	(1,940)	(2,110)
Op. profit before WC changes	3,168	5,959	7,644	8,868
Net Changes-WC	814	(1,595)	(653)	(974)
Direct tax	(706)	(1,549)	(1,997)	(2,327)
Net cash from Op. activities	3,277	2,816	4,994	5,567
Capital expenditures	(1,855)	(2,017)	(2,018)	(2,020)
Interest / Dividend Income	1,209	1,780	1,940	2,110
Others	(10,146)	-	-	-
Net Cash from Invt. activities	(10,792)	(237)	(78)	90
Issue of share cap. / premium	-	-	-	-
Debt changes	2,505	(521)	-	-
Dividend paid	(1,119)	(2,349)	(2,981)	(3,443)
Interest paid	(272)	(402)	(381)	(381)
Others	-	-	-	-
Net cash from Fin. activities	1,113	(3,272)	(3,362)	(3,824)
Net change in cash	(6,402)	(693)	1,554	1,832
Free Cash Flow	1,422	799	2,976	3,547

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	4.1	7.4	9.6	11.2
CEPS	5.5	9.4	11.7	13.4
BVPS	79.3	82.9	87.7	93.3
FCF	2.3	1.3	4.8	5.7
DPS	1.5	3.1	4.0	4.6
Return Ratio(%)				
RoCE	4.6	8.2	10.7	12.0
ROIC	5.4	8.9	11.9	13.6
RoE	5.7	9.2	11.3	12.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	57	66	65	65
Valuation(x)				
PER	49.5	27.2	21.1	18.1
P/B	2.6	2.4	2.3	2.2
P/CEPS	36.6	21.6	17.4	15.1
EV/EBITDA	36.0	19.7	15.0	12.6
EV/Sales	2.6	2.4	2.0	1.8
Dividend Yield (%)	0.7	1.6	2.0	2.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	11,248	11,411	11,792	8,832
YoY gr. (%)	11.9	(28.4)	(0.9)	(6.2)
Raw Material Expenses	7,602	6,592	7,802	5,306
Gross Profit	3,646	4,819	3,989	3,526
Margin (%)	32.4	42.2	33.8	39.9
EBITDA	919	2,174	1,525	1,030
YoY gr. (%)	(62.0)	(17.8)	21.1	(172.2)
Margin (%)	8.2	19.1	12.9	11.7
Depreciation / Depletion	225	238	344	274
EBIT	694	1,936	1,181	756
Margin (%)	6.2	17.0	10.0	8.6
Net Interest	51	65	90	125
Other Income	278	292	403	614
Profit before Tax	921	2,164	1,493	1,245
Margin (%)	8.2	19.0	12.7	14.1
Total Tax	254	633	416	354
Effective tax rate (%)	27.6	29.3	27.8	28.4
Profit after Tax	667	1,531	1,078	891
Minority interest	-	-	-	-
Share Profit from Associates	129	135	76	89
Adjusted PAT	795	1,665	1,153	980
YoY gr. (%)	(55.3)	39.7	15.2	(202.7)
Margin (%)	7.1	14.6	9.8	11.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	795	1,665	1,153	980
YoY gr. (%)	(55.3)	39.7	15.2	(202.7)
Margin (%)	7.1	14.6	9.8	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	795	1,665	1,153	980
Avg. Shares O/s (m)	618	618	618	618
EPS (Rs)	1.3	2.7	1.9	1.6

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Accumulate	243	227
2	20-Jul-23	Accumulate	197	184
3	04-Jul-23	Accumulate	194	175
4	23-May-23	Accumulate	194	182
5	06-Apr-23	BUY	224	172
6	28-Mar-23	BUY	224	165
7	01-Mar-23	BUY	224	169

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,983	1,844
2	Bajaj Electricals	BUY	1,421	1,056
3	Century Plyboard (I)	BUY	855	653
4	Cera Sanitaryware	Accumulate	8,857	8,176
5	Crompton Greaves Consumer Electricals	BUY	401	301
6	Finolex Industries	Accumulate	243	227
7	Greenpanel Industries	BUY	495	374
8	Havells India	Accumulate	1,538	1,363
9	Kajaria Ceramics	Accumulate	1,368	1,230
10	KEI Industries	BUY	2,908	2,726
11	Polycab India	Accumulate	5,943	5,339
12	R R Kabel	BUY	1,624	1,503
13	Supreme Industries	Accumulate	4,225	3,925
14	Voltas	Hold	909	819

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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