

I India
ADD (no change)

Consensus ratings*: Buy 14 Hold 3 Sell 0

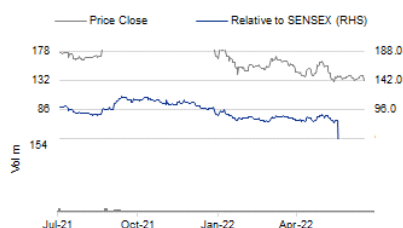
Current price:	Rs132
Target price:	Rs169
Previous target:	Rs187
Up/downside:	28.0%
InCred Research / Consensus:	-8.2%

Reuters:	
Bloomberg:	FNXP IN
Market cap:	US\$1,127m Rs81,841m
Average daily turnover:	US\$1.3m Rs91.0m
Current shares o/s:	620.5m
Free float:	47.5%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue cut by 19%/18%.
- FY23F/24F EBITDA cut by 34%/20%.
- FY23F/24F APAT cut by 38%/20%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.8)	(17.1)	(24.3)
Relative (%)	(10.0)	(14.8)	(28.3)

Major shareholders	% held
Promoters	52.5
Anuj A Sheth	3.3
HDFC Mutual Fund	2.9

Analyst(s)

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Finolex Industries

Marred by price volatility and cost pressure

- 1QFY23 volume lower than pre-Covid level. A sharp rise in fuel cost & currency depreciation led to EBITDA and APAT miss by 42% and 38%, respectively.
- Input cost volatility continues to impact agricultural pipe demand. Stability in PVC prices could revive volume growth. Management targets pre-Covid level.
- Agri, plumbing and infrastructure demand may see a strong comeback as PVC prices retract to long-term average level. Retain Add rating. Cut TP to Rs169.

Rise in fuel cost and forex loss hits 1QFY23 margins

Finolex Industries' (FNXP) 1QFY23 results were far below expectations, with revenue/EBITDA/APAT missing our and Bloomberg consensus estimates by 13%/42%/38% and 6%/32%/25%, respectively. Revenue at Rs11.9bn (-25% qoq) missed estimate due to lower sales of PVC resin to outside customers (higher captive consumption). Pipe and fittings (P&F) and PVC resin sales volume declined by 8%/21% qoq to 72,000t/63,000t, respectively. P&F/PVC segment average realization was down 3%/5% to Rs1,57,000/Rs1,25,000, respectively. PVC-EDC spread was up 7% qoq to US\$780/t; PVC-VCM spread was down 21% qoq to US\$275/t. Gross margin at 32.8% expanded 228bp qoq, while a sharp increase in coal cost (captive power plant) and currency depreciation led to EBITDA margin contraction of 6pp qoq and 11pp yoy in 1QFY23 to 10.6%. This also hit P&F/PVC resin EBIT/t, leading to a decline of 41%/51% qoq to Rs11,618/Rs5,917, respectively. 1QFY23 agri: non-agri revenue mix stood at 60:40. CPVC pipe and fittings revenue was at Rs1.5bn, ~13% of the P&F segment's sales. Fittings volume/revenue at 6,445t/Rs2bn contributed ~9%/18% to sales, respectively. APAT at Rs992m was down 17% qoq.

Management targets to get back to pre-Covid sales volume in FY23F

Management stated that good monsoons and elevated PVC prices kept agri pipe demand muted over the past two seasons (2020/2021). Agri volume remained lower than the pre-Covid level in 1QFY23, while non-agri volume grew 20% vs. pre-Covid level. Management targets sales volume to touch FY19/FY20 level in FY23F. Capex guidance remains at Rs2-2.5bn over the next two years, largely to be spent on fittings' moulds, and maintenance.

Change in estimates

Realization has been cut to reflect the sharp fall in PVC prices. FY23F/24F revenue cut by 18-19%. EBITDA is likely to remain under pressure due to higher fuel cost. We have cut FY23F/24F EBITDA and APAT estimates by 34%/20% and 38%/20%, respectively. Revised FY20-FY24F revenue/EBITDA/APAT CAGR stands at 7%/9%/11%, respectively.

Retain Add rating with lower target price of Rs169

Improving sales mix (rising share of CPVC, fittings and non-agri products) keep us positive on FNXP. We retain Add rating on it with a lower target price of Rs169 (21x FY24F EPS) from Rs187 earlier. Downside risks: Input price volatility, promoter's pending legal dispute.

Financial Summary

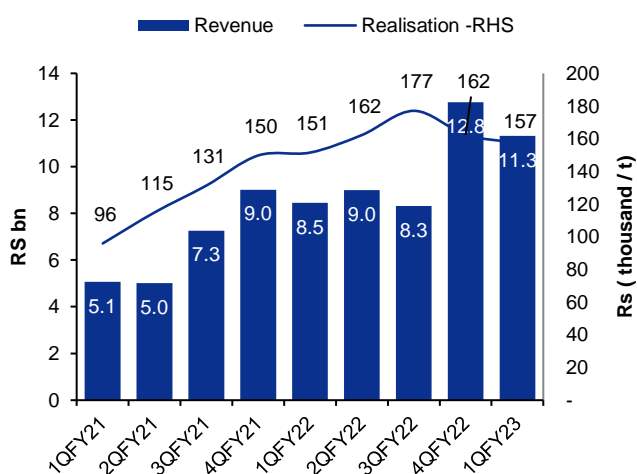
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	29,860	34,628	46,473	38,282	38,719
Operating EBITDA (Rsm)	4,481	9,893	10,237	5,379	6,253
Net Profit (Rsm)	3,327	7,378	10,513	7,204	4,951
Core EPS (Rs)	5.4	11.9	10.9	5.6	8.0
Core EPS Growth	(15.8%)	121.8%	(8.5%)	(48.9%)	43.4%
FD Core P/E (x)	24.60	11.09	7.78	11.36	16.53
DPS (Rs)	2.0	4.0	4.0	4.0	4.0
Dividend Yield	1.83%	3.03%	3.03%	3.03%	3.03%
EV/EBITDA (x)	18.40	7.63	6.67	11.89	9.88
P/FCFE (x)	23.44	(583.74)	32.17	13.21	19.03
Net Gearing	3.0%	(20.4%)	(34.5%)	(40.7%)	(43.2%)
P/BV (x)	4.12	2.61	2.08	1.86	1.76
ROE	14.6%	28.8%	19.1%	8.3%	10.9%
% Change In Core EPS Estimates				(37.46%)	(19.56%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

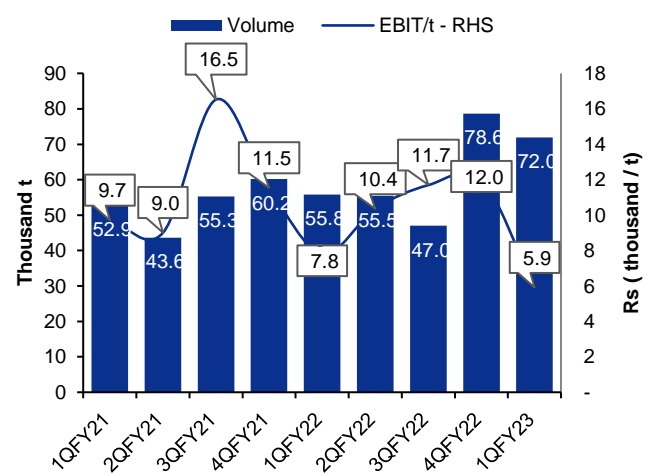
1QFY23 earnings-call highlights

- Change in senior leadership:** FNXP has appointed Mr. Ajit Venkataraman as Chief Executive Officer (CEO) of the company w.e.f. 1 Aug 2022. He is an MBA from the University of Michigan and brings in 27 years of rich experience across the US, India & Southeast Asia. His strength lies in strategic planning, managing joint ventures, new market entry, business turnaround, product development and management. He was previously associated with some prominent companies like Tecumseh, Kearney, Tata Motors & APM Terminals Inland Services Asia and Greaves Cotton Limited.
- Demand:** Management stated that good monsoons and elevated PVC prices kept agriculture pipe demand muted for the past two-to-three years. Management expects PVC price decline to lift volume back to the pre-Covid level.
- Guidance:** Management targets to reach the pre-Covid level (FY19/FY20) sales volume in FY23F.
- PVC price trend:** Management expects PVC resin prices to stabilize around the end of Aug 2022F. It stated that surplus PVC resin in China is being shipped to India, leading to a higher drop in PVC prices in Asia compared to the US.
- CPVC price and demand trend:** CPVC prices have declined, but not with the same intensity as PVC prices, thereby widening the gap. However, management stated that demand for CPVC products continues to be strong.
- Pipes and fittings:** 1QFY23 agri: non-agri mix stood at 60:40. CPVC revenue at Rs1.5bn contributed 13% to the P&F segment's sales. CPVC volume came in at 3,600t. Fittings revenue for the quarter came in at Rs2bn.
- Margin:** Sharp decline in PVC prices led to inventory losses. This, along with a 30% qoq increase in other expenses (led by a rise in fuel cost and forex loss on buyers' credit) kept 1QFY23 margin under pressure. Average PVC-EDC spread came in at US\$780/t vs. US\$728/t qoq. Average PVC-VCM spread stood at US\$275/t. Management generally carries two months of inventory and will suffer from inventory loss on the same in a declining PVC price scenario in 2QFY23F.
- Cash surplus:** As at end-Jun 2022, it stood at Rs13bn.
- Capex:** Management gave capex guidance of Rs2-2.5bn over FY23F-24F.

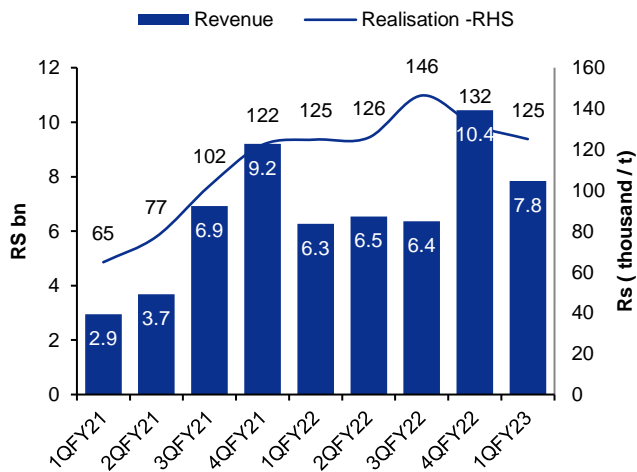
Figure 1: Pipe and fittings segment's quarterly trend



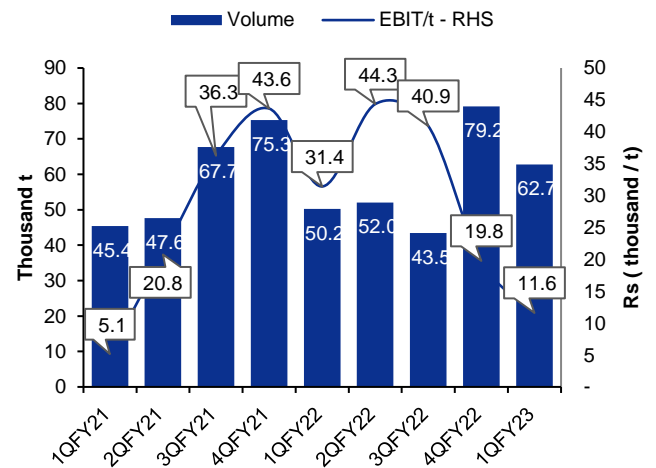
SOURCE: INCRED RESEARCH, COMPANY REPORTS



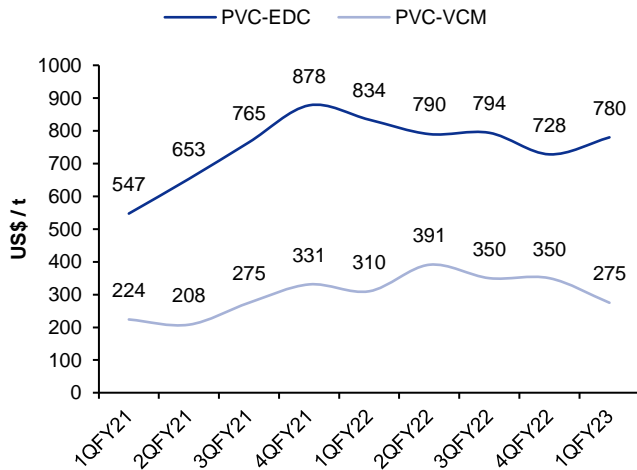
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Figure 2: PVC resin segment's quarterly trend


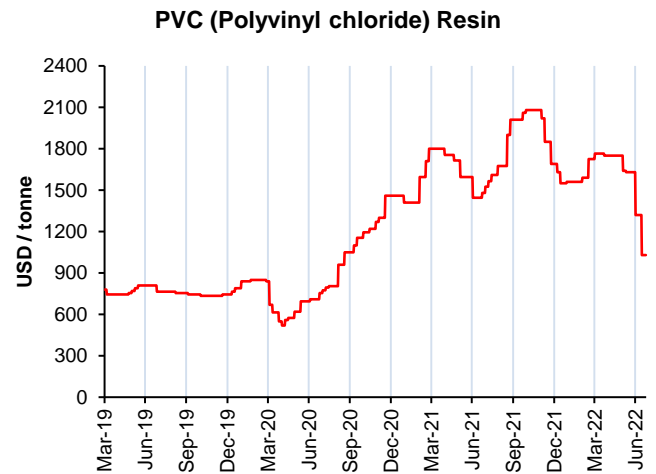
SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: PVC-EDC and PVC-VCM spreads' trend (quarterly)


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PVC price trend


SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 5: PVC spread (finished goods – raw material spread)

Spread (US\$/MT)	1QFY23	1QFY22	yoy (%)	4QFY22	qoq (%)
PVC-EDC	780	834	(6.5)	728	7.1
PVC-VCM	275	310	(11.3)	350	(21.4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 1QFY23 results snapshot

YE Mar (Rs m)	1QFY23	1QFY22	yoy (%)	4QFY22	qoq (%)
Revenue					
PVC resins	7,846	6,271	25.1	10,444	(24.9)
Pipes and fittings	11,320	8,454	33.9	12,769	(11.3)
Less: Inter-segmental revenue	7,268	5,068	43.4	7,268	0.0
Total	11,898	9,657		15,946	
EBIT					
PVC resins	729	1,579	(53.8)	1,565	(53.4)
Pipes and fittings	426	436	(2.4)	942	(54.8)
Total	1,155	2,015		2,507	
EBIT margin (%)					
PVC resins	9.3	25.2	-1588 bp	15.0	-569 bp
Pipes and fittings	3.8	5.2	-140 bp	7.4	-361 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 1QFY23 segment-wise result snapshot

YE Mar (Rs m)	4QFY22	4QFY21	yoy (%)	3QFY22	qoq (%)
Revenue					
PVC resins	10,444	9,202	13.5	6,363	64.1
Pipes and fittings	12,769	9,017	41.6	8,319	53.5
Less: Inter-segmental revenue	7,268	5,726	26.9	4,629	57.0
Total	15,946	12,493		10,053	
EBIT					
PVC resins	1,565	3,285	(52.4)	1,779	(12.0)
Pipes and fittings	942	695	35.5	550	71.4
Total	2,507	3,980		2,328	
EBIT margin (%)					
PVC resins	15.0	35.7	-2071 bp	28.0	-1297 bp
Pipes and fittings	7.4	7.7	-33 bp	6.6	77 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	1QFY23A	1QFY23F	Var (%)
Revenue	11,898	13,714	(13.2)
EBITDA	1,259	2,152	(41.5)
EBITDA margin (%)	10.6	15.7	-511 bp
Adj. PAT	992	1,592	(37.7)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus

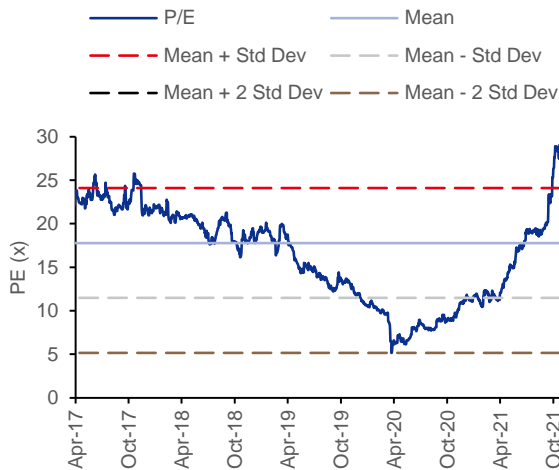
Rs m	1QFY23A	1QFY23C	Var (%)
Revenue	11,898	12,641	(5.9)
EBITDA	1,259	1,853	(32.1)
EBITDA margin (%)	10.6	14.7	-408 bp
Adj. PAT	992	1,325	(25.1)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Estimates revision summary (Rsm)

	New estimates		Old estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	38,282	38,719	47,017	46,941	-18.6	-17.5
EBITDA	5,379	6,253	8,111	7,769	-33.7	-19.5
Adjusted consol. PAT	3,454	4,951	5,523	6,155	-37.5	-19.6
EPS	5.6	8.0	8.9	9.9	-37.5	-19.6
EBITDA margin (%)	14.1	16.2	17.3	16.6	-320 bp	-40 bp

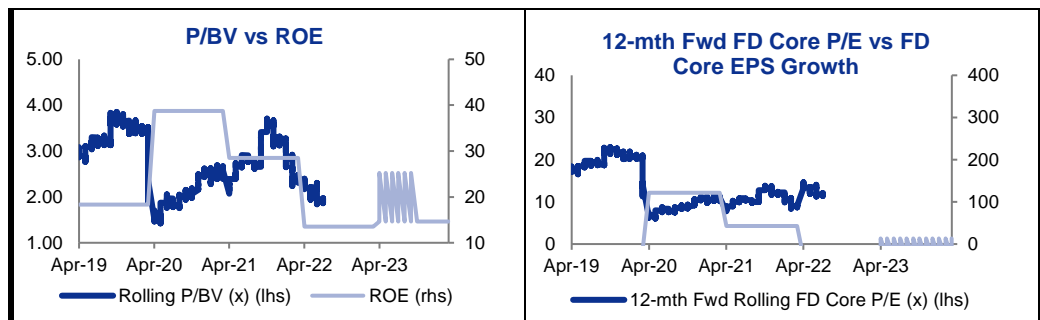
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: P/E SD (five-year mean P/E)


SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band


SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Net Revenues	29,860	34,628	46,473	38,282	38,719
Gross Profit	10,433	15,341	17,983	13,686	13,939
Operating EBITDA	4,481	9,893	10,237	5,379	6,253
Depreciation And Amortisation	(738)	(777)	(834)	(860)	(903)
Operating EBIT	3,743	9,116	9,403	4,518	5,350
Financial Income/(Expense)	63	347	347	749	896
Pretax Income/(Loss) from Assoc.	256	162	(15)	153	163
Non-Operating Income/(Expense)	118	296	335	200	210
Profit Before Tax (pre-EI)	4,178	9,921	10,070	5,620	6,619
Exceptional Items					
Pre-tax Profit	4,178	9,921	10,070	5,620	6,619
Taxation	(852)	(2,543)	(3,317)	(2,166)	(1,668)
Exceptional Income - post-tax			3,761	3,750	
Profit After Tax	3,327	7,378	10,513	7,204	4,951
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,327	7,378	10,513	7,204	4,951
Recurring Net Profit	3,327	7,378	6,753	3,454	4,951
Fully Diluted Recurring Net Profit	3,327	7,378	6,753	3,454	4,951

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	4,481	9,893	10,237	5,379	6,253
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,681)	1,433	(756)	166	(107)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	348	549	441	1,102	1,270
Net Interest (Paid)/Received	(48)	(347)	(347)	(749)	(896)
Tax Paid	(1,128)	(2,118)	(3,356)	(2,166)	(1,668)
Cashflow From Operations	971	9,410	6,220	3,731	4,851
Capex	(613)	(647)	(844)	(1,405)	(1,110)
Disposals Of FAs/subsidiaries	10		3,806	3,750	
Acq. Of Subsidiaries/investments	1,034	(8,507)	(7,910)		
Other Investing Cashflow	158	389	544	869	987
Cash Flow From Investing	590	(8,766)	(4,403)	3,214	(123)
Debt Raised/(repaid)	1,932	(784)	728	(750)	(427)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,873)	(42)	(2,482)	(2,482)	(2,482)
Preferred Dividends					
Other Financing Cashflow	(111)	(77)	(141)	(120)	(91)
Cash Flow From Financing	(1,052)	(903)	(1,895)	(3,352)	(3,000)
Total Cash Generated	508	(259)	(79)	3,593	1,728
Free Cashflow To Equity	3,492	(140)	2,544	6,195	4,301
Free Cashflow To Firm	1,460	571	1,676	6,825	4,637

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Cash And Equivalents	2,223	8,432	16,336	19,928	21,657
Total Debtors	732	1,480	3,345	2,307	2,387
Inventories	8,578	9,188	10,155	8,365	8,460
Total Other Current Assets	710	779	625	515	520
Total Current Assets	12,243	19,879	30,460	31,115	33,024
Fixed Assets	10,169	10,024	9,932	10,477	10,684
Total Investments	5,316	11,723	12,033	12,033	12,033
Intangible Assets					
Total Other Non-Current Assets	1,186	1,314	1,029	1,029	1,029
Total Non-current Assets	16,670	23,060	22,994	23,539	23,746
Short-term Debt	2,827	2,039	2,780	2,030	1,603
Current Portion of Long-Term Debt					
Total Creditors	2,334	3,952	4,631	3,815	3,858
Other Current Liabilities	1,753	3,371	4,577	2,622	2,652
Total Current Liabilities	6,914	9,362	11,989	8,467	8,113
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	783	793	827	827	827
Total Non-current Liabilities	783	793	827	827	827
Total Provisions	1,357	1,395	1,360	1,360	1,360
Total Liabilities	9,053	11,549	14,176	10,654	10,300
Shareholders Equity	19,860	31,390	39,278	44,000	46,470
Minority Interests					
Total Equity	19,860	31,390	39,278	44,000	46,470

Key Ratios					
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	(3.4%)	16.0%	34.2%	(17.6%)	1.1%
Operating EBITDA Growth	(25.9%)	120.8%	3.5%	(47.5%)	16.3%
Operating EBITDA Margin	15.0%	28.6%	22.0%	14.0%	16.2%
Net Cash Per Share (Rs)	(0.97)	10.30	21.85	28.85	32.32
BVPS (Rs)	32.01	50.59	63.30	70.91	74.89
Gross Interest Cover	31.42	125.39	66.74	37.57	58.89
Effective Tax Rate	20.4%	25.6%	32.9%	38.5%	25.2%
Net Dividend Payout Ratio	35.8%	25.0%	24.6%	44.2%	37.5%
Accounts Receivables Days	9.01	11.66	18.95	26.94	22.13
Inventory Days	138.87	168.11	123.90	137.41	123.91
Accounts Payables Days	48.59	59.48	54.98	62.66	56.51
ROIC (%)	24.7%	52.7%	60.8%	28.5%	32.9%
ROCE (%)	15.0%	32.4%	25.3%	11.9%	13.1%
Return On Average Assets	13.2%	26.6%	20.2%	9.0%	10.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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