

India

ADD (no change)

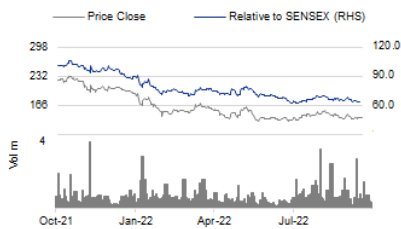
Consensus ratings*: Buy 12 Hold 4 Sell 1

Current price:	Rs138
Target price:	Rs153
Previous target:	Rs169
Up/downside:	10.9%
InCred Research / Consensus:	-10.0%
Reuters:	FINX.NS
Bloomberg:	FNXP IN
Market cap:	US\$1,038m
	Rs85,874m
Average daily turnover:	US\$1.0m
	Rs84.7m
Current shares o/s:	620.5m
Free float:	47.5%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue raised by 12.5%/9.5%.
- FY23F EBITDA/PAT cut by 56.8%/69.5%.
- FY24F EBITDA/PAT raised by 7.8%/6.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.8)	0.2	(37.5)
Relative (%)	(5.7)	(5.3)	(35.9)

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

Analyst(s)



Rahul AGARWAL

T (91) 22 4161 1553
E rahul.agarwal@incredcapital.com

Harshit SARAWAGI

T (91) 22 4161 0000
E harshit.sarawagi@incredcapital.com

Finolex Industries

Sustained fall in PVC price poses problems

- FNXP posted 2Q EBITDA/PAT losses due to large inventory loss realized on a continuous fall in RM/FG prices. Sep-end inventory was also marked down.
- PVC prices fell ~25% in 2Q and 3.5% in Oct. Given enough global supplies, 3QFY23F cash flow is at risk. Free cash balance was flat qoq at Rs13bn.
- Noise around promoter litigation settlement and surplus cash distribution to shareholders lends support to the stock price, in our view. Retain ADD rating.

Sharp decline in RM/FG prices led to significant inventory loss

2QFY23 cash flow of Finolex Industries (FNXP) fell significantly due to inventory losses recognized on the goods sold at sub-optimal realization and mark-to-market (MTM) valuation of Sep 2022-end inventory (market price below cost price). The loss was amplified in 2Q as no MTM inventory revaluation happened on 30 Jun 2022 (market price a tad higher than cost of inventory), but the goods were sold at a significant loss due to a sharp fall in finished good prices in case of resins and pipes in 2Q. On a ballpark basis, inventory loss was ~Rs2bn, in our view. FNXP posted consolidated 2Q EBITDA/PAT loss of Rs1.4bn/Rs954m, respectively, significantly missing our/Bloomberg consensus estimates. PVC pipes/resins posted EBIT loss of Rs475m/Rs1.1bn, respectively. Pipes & fittings/resin sales volume stood at 59k/54kt, +7%/+4% yoy, respectively, in 2QFY23.

PVC price has to stabilize before sales volume and margins recover

Indian PVC resin prices fell further by 3.5% (to Rs84/kg so far in Oct 2022) and are likely to fall further given enough global supplies, dumping by China and easing sea freight rates. Since Sep 2022-end, inventory has been marked down to market price, and 3QFY23F inventory loss will be curtailed to the extent of the difference between actual realization and Sep 2022-end prices of resins and pipes. Once PVC prices stabilize, pipe sales volume could meaningfully pick up as end-customer demand is robust in India and there is also restocking demand from dealers/distributors (channel inventory is abysmally low).

Change in our estimates; introduce FY25F financials

We account for 1H actuals and current PVC prices in our FY23F/24F estimates. We raise revenue estimates by 12.5% and cut EBITDA/PAT estimates by 55% to 70% for FY23F. Assuming PVC prices stabilize by Mar 2023F, we raise revenue/EBITDA/PAT estimates by 9.5%/7.8%/6.2%, respectively, for FY24F.

Valuation and risks

Favourable resolution of promoter-director appointments at the Sep 2022 annual general meeting (AGM) led to speculation on inheritance dispute settlement of the promoter family. Surplus cash is at ~15% of current market cap. We retain ADD rating on FNXP with a lower target price of Rs153 (Rs169 earlier) based on a lower exit P/E of 18x (remove industry cycle premium of 20% from five-year mean; 21x earlier) FY24F EPS. Downside risks: Weak raw material/finished goods prices, capital allocation.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	34,628	46,473	43,063	42,399	42,900
Operating EBITDA (Rsm)	9,893	10,237	2,325	6,741	7,829
Net Profit (Rsm)	7,378	10,513	4,805	5,260	6,123
Core EPS (Rs)	11.9	10.9	1.7	8.5	9.9
Core EPS Growth	121.8%	(8.5%)	(84.4%)	398.8%	16.4%
FD Core P/E (x)	11.64	8.17	17.87	16.32	14.02
DPS (Rs)	4.0	4.0	3.0	3.5	3.5
Dividend Yield	2.89%	2.89%	2.17%	2.53%	2.53%
EV/EBITDA (x)	8.03	7.06	30.40	10.15	8.35
P/FCFE (x)	(612.51)	33.75	24.55	18.60	16.17
Net Gearing	(20.4%)	(34.5%)	(36.0%)	(38.6%)	(41.6%)
P/BV (x)	2.74	2.19	2.03	1.90	1.74
ROE	28.8%	19.1%	2.6%	12.0%	12.9%
% Change In Core EPS Estimates			(69.47%)	6.24%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY23 earnings-call highlights

- Sales mix:** Non-agri pipe sales accounted for 37% and 31% of sales volume in 2QFY23 and 1HFY23, respectively. CPVC pipes and fittings revenue was at Rs1.7bn, +36% yoy, accounting for 21% of the total pipes and fittings segment's revenue. CPVC sales volume stood at 4kt, +11% yoy. Fittings sales volume was 7kt with revenue at Rs2bn in 2QFY23.
- PVC resin division's raw material-finished goods spreads:** PVC-EDC and PVC-VCM average spreads deteriorated qoq to US\$600/t and US\$235/t, down 23% and 14% qoq, respectively. The spreads continued to fall in Oct 2022, with PVC-EDC prices falling to as much as US\$510/t based on last week's prices.
- Raw material inventory:** Given shutdown of the jetty due to the monsoon season in 2Q, the company typically has a higher inventory of raw material bought in 1Q itself. The sharp PVC price correction impact in the form of very high inventory loss was hence, amplified during the quarter. In our view, the total inventory loss incurred was over Rs2bn in 2QFY23.
- Gross debt:** Most short-term debt gets repaid by Sep and peaks out in Mar every year. Gross debt stood at Rs272m as at end-Sep 2022 (vs. Rs2.8bn as at end-Mar 2022).
- Capex:** Management maintained capex guidance of Rs2-2.5bn in FY23F (1HFY23: Rs664m). No capex relating to capacity expansion is planned for either PVC resins or pipes/fittings.
- Net cash and bank balance:** Including liquid investments, it stood at Rs13bn as at end-Sep 2022. No decision taken so far on surplus cash distribution.
- Net working capital was stable while capex was Rs660m in 1HFY23.

Figure 1: Pipes and fittings segment's quarterly trend

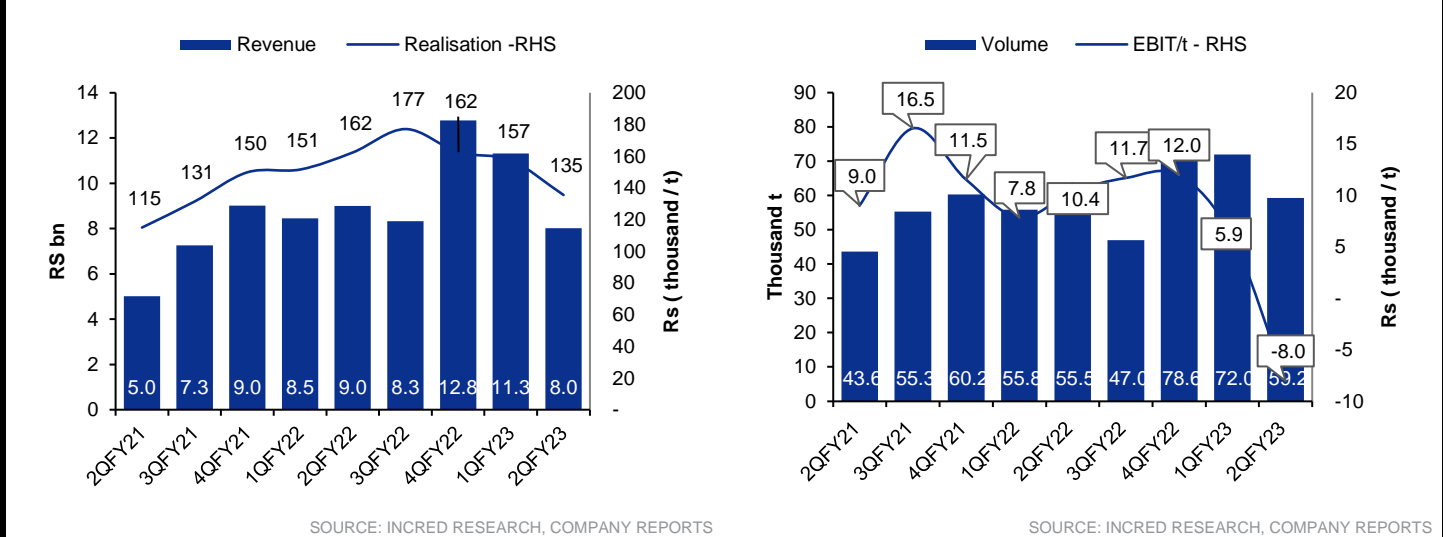
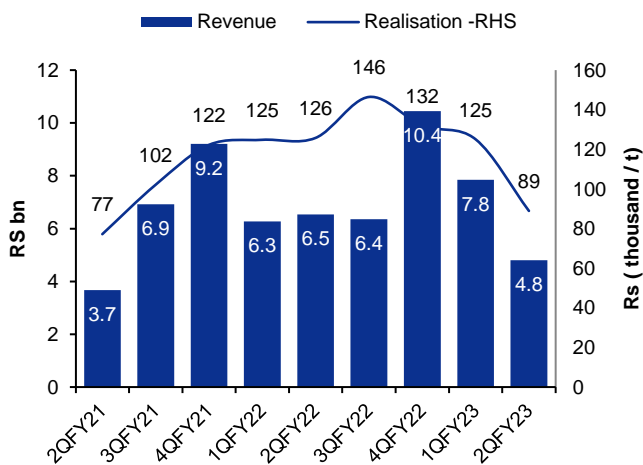
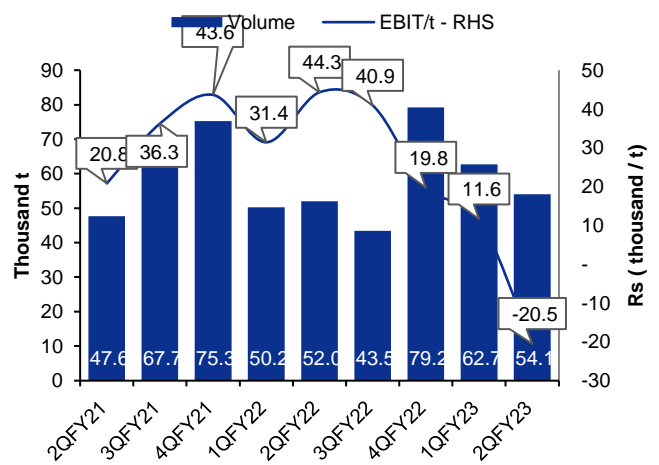


Figure 2: PVC resin segment's quarterly trend

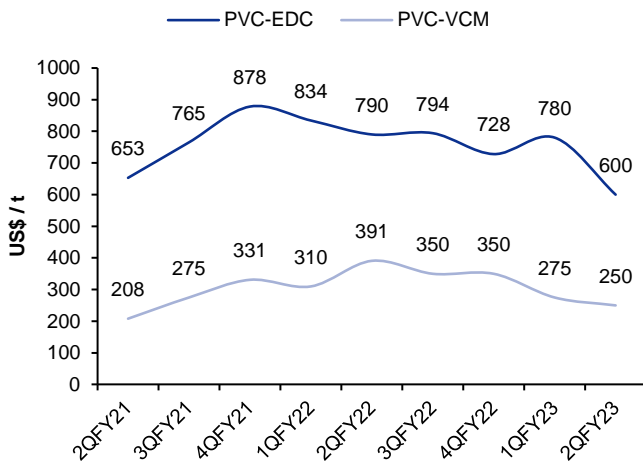


SOURCE: INCRED RESEARCH, COMPANY REPORTS



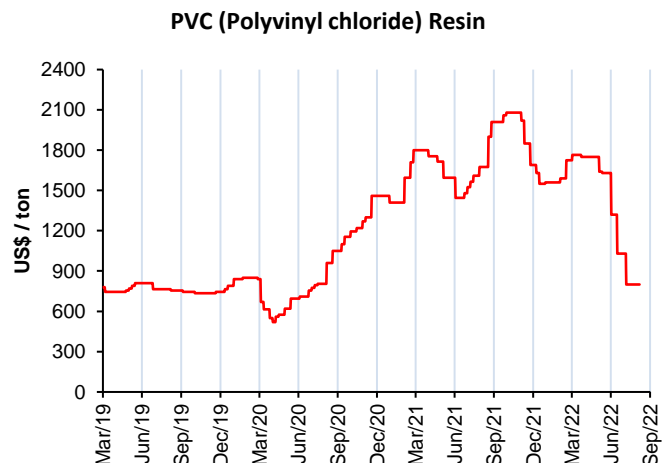
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Poly vinyl chloride's price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

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

Spread (US\$/mt)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
PVC-EDC	600	790	(24.1)	780	(23.1)
PVC-VCM	250	391	(36.1)	275	(9.1)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 2QFY23 results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)	H1FY23	H1FY22	yoy (%)
Revenue	9,411	10,830	(13.1)	11,898	(20.9)	21,309	20,487	4.0
EBITDA	-1,427	3,015	(147.3)	1,259	(213.3)	-168	5,110	(103.3)
EBITDA margin (%)	-15.2	27.8	-4,300 bp	10.6	-2,574 bp	-0.8	24.9	-2,573 bp
Adj. PAT	-954	2,333	(140.9)	992	(196.1)	38	3,788	(99.0)
Diluted EPS (Rs)	-1.5	3.8		1.6		0.1	6.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 2QFY23 segment-wise result snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
Revenue					
PVC resins	4,811	6,543	(26.5)	7,846	(38.7)
Pipes and fittings	8,017	8,996	(10.9)	11,320	(29.2)
Less: Inter-segmental revenue	3,417	4,710	(27.5)	7,268	(53.0)
Total	9,411	10,830		11,898	
EBIT					
PVC resins	-1,107	2,306	(148.0)	729	(251.8)
Pipes and fittings	-476	575	(182.9)	426	(211.9)
Total	-1,583	2,880		1,155	
EBIT margin (%)					
PVC resins	-23.0	35.2	-5,825 bp	9.3	-3,230 bp
Pipes and fittings	-5.9	6.4	-1,233 bp	3.8	-970 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	2QFY23A	2QFY23F	Var (%)
Revenue	9,411	7,748	21.5
EBITDA	-1,427	1,175	(221.4)
EBITDA margin (%)	-15.2	15.2	-3,032 bp
Adj. PAT	-954	965	(198.8)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus

Rs m	2QFY23A	2QFY23C	Var (%)
Revenue	9,411	8,840	6.5
EBITDA	-1,427	975	(246.3)
EBITDA margin (%)	-15.2	11.0	-2,619 bp
Adj. PAT	-954	771	(223.7)

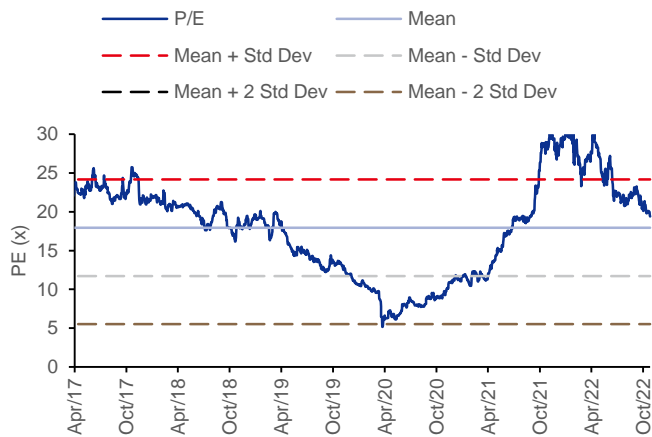
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Estimates revision summary (Rsm)

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	43,063	42,399	42,900	38,282	38,719	NA	12.5	9.5	NA
EBITDA	2,325	6,741	7,829	5,379	6,253	NA	-56.8	7.8	NA
Adjusted consol. PAT	1,055	5,260	6,123	3,454	4,951	NA	-69.5	6.2	NA
EPS	1.7	8.5	9.9	5.6	8.0	NA	-69.5	6.2	NA
EBITDA margin (%)	5.4	15.9	18.3	14.1	16.2	NA	-865 bp	-25 bp	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



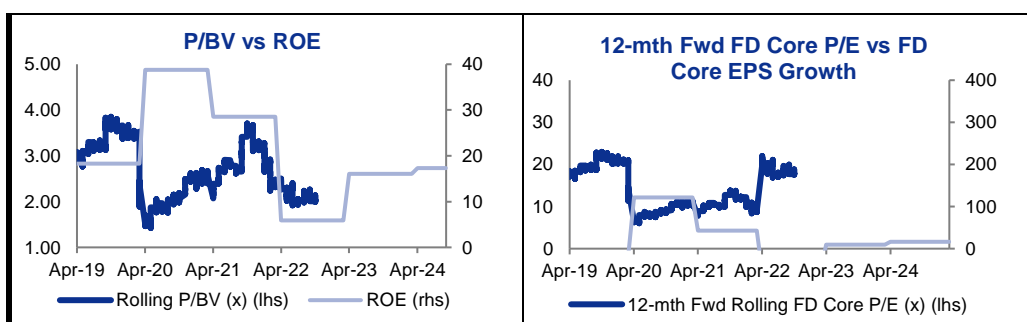
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	34,628	46,473	43,063	42,399	42,900
Gross Profit	15,341	17,983	12,919	15,582	16,302
Operating EBITDA	9,893	10,237	2,325	6,741	7,829
Depreciation And Amortisation	(777)	(834)	(905)	(963)	(1,039)
Operating EBIT	9,116	9,403	1,420	5,779	6,790
Financial Income/(Expense)	347	347	392	471	567
Pretax Income/(Loss) from Assoc.	162	(15)		153	168
Non-Operating Income/(Expense)	296	335	600	630	662
Profit Before Tax (pre-EI)	9,921	10,070	2,413	7,033	8,186
Exceptional Items					
Pre-tax Profit	9,921	10,070	2,413	7,033	8,186
Taxation	(2,543)	(3,317)	(1,358)	(1,772)	(2,063)
Exceptional Income - post-tax		3,761	3,750		
Profit After Tax	7,378	10,513	4,805	5,260	6,123
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,378	10,513	4,805	5,260	6,123
Recurring Net Profit	7,378	6,753	1,055	5,260	6,123
Fully Diluted Recurring Net Profit	7,378	6,753	1,055	5,260	6,123

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	9,893	10,237	2,325	6,741	7,829
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,433	(756)	(474)	83	(63)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	549	441	992	1,254	1,396
Net Interest (Paid)/Received	(347)	(347)	(392)	(471)	(567)
Tax Paid	(2,118)	(3,356)	(1,358)	(1,772)	(2,063)
Cashflow From Operations	9,410	6,220	1,093	5,835	6,533
Capex	(647)	(844)	(1,750)	(1,838)	(1,929)
Disposals Of FAs/subsidiaries		3,806	3,750		
Acq. Of Subsidiaries/investments	(8,507)	(7,910)			
Other Investing Cashflow	389	544	655	720	807
Cash Flow From Investing	(8,766)	(4,403)	2,655	(1,118)	(1,122)
Debt Raised/(repaid)	(784)	728	(250)	(100)	(100)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(42)	(2,482)	(1,861)	(2,172)	(2,172)
Preferred Dividends					
Other Financing Cashflow	(77)	(141)	(262)	(248)	(240)
Cash Flow From Financing	(903)	(1,895)	(2,374)	(2,520)	(2,512)
Total Cash Generated	(259)	(79)	1,374	2,197	2,899
Free Cashflow To Equity	(140)	2,544	3,498	4,617	5,311
Free Cashflow To Firm	571	1,676	3,486	4,469	5,170

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	8,432	16,336	17,710	19,907	22,806
Total Debtors	1,480	3,345	2,360	2,323	2,351
Inventories	9,188	10,155	9,439	9,293	9,403
Total Other Current Assets	779	625	671	660	668
Total Current Assets	19,879	30,460	30,179	32,183	35,227
Fixed Assets	10,024	9,932	10,122	11,246	12,386
Total Investments	11,723	12,033	12,033	12,033	12,033
Intangible Assets					
Total Other Non-Current Assets	1,314	1,029	1,684	1,434	1,184
Total Non-current Assets	23,060	22,994	23,839	24,714	25,604
Short-term Debt	2,039	2,780	2,530	2,430	2,330
Current Portion of Long-Term Debt					
Total Creditors	3,952	4,631	4,129	4,066	4,114
Other Current Liabilities	3,371	4,577	2,950	2,904	2,938
Total Current Liabilities	9,362	11,989	9,609	9,400	9,382
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	793	827	827	827	827
Total Non-current Liabilities	793	827	827	827	827
Total Provisions	1,395	1,360	1,360	1,360	1,360
Total Liabilities	11,549	14,176	11,796	11,587	11,569
Shareholders Equity	31,390	39,278	42,221	45,310	49,261
Minority Interests					
Total Equity	31,390	39,278	42,221	45,310	49,261

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	16.0%	34.2%	(7.3%)	(1.5%)	1.2%
Operating EBITDA Growth	120.8%	3.5%	(77.3%)	189.9%	16.1%
Operating EBITDA Margin	28.6%	22.0%	5.4%	15.9%	18.3%
Net Cash Per Share (Rs)	10.30	21.85	24.46	28.17	33.00
BVPS (Rs)	50.59	63.30	68.05	73.02	79.39
Gross Interest Cover	125.39	66.74	5.41	23.26	28.24
Effective Tax Rate	25.6%	32.9%	56.3%	25.2%	25.2%
Net Dividend Payout Ratio	25.0%	24.6%	77.2%	30.9%	26.5%
Accounts Receivables Days	11.66	18.95	24.17	20.16	19.88
Inventory Days	168.11	123.90	118.62	127.47	128.28
Accounts Payables Days	59.48	54.98	53.04	55.77	56.12
ROIC (%)	52.7%	60.8%	8.9%	33.6%	37.7%
ROCE (%)	32.4%	25.3%	4.6%	13.7%	14.9%
Return On Average Assets	26.6%	20.2%	3.8%	11.8%	12.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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