



India

REDUCE (previously ADD)

Consensus ratings*: Buy 11 Hold 5 Sell 1

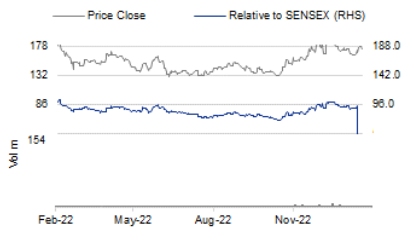
Current price:	Rs173
Target price:	Rs153
Previous target:	Rs153
Up/downside:	-11.6%
InCred Research / Consensus:	-18.1%

Reuters:	
Bloomberg:	FNXP IN
Market cap:	US\$1,482m
	Rs107,622m
Average daily turnover:	US\$2.4m
	Rs171.9m
Current shares o/s:	620.5m
Free float:	47.5%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue raised by 7.6%/17.3%.
- FY23F/24F EBITDA raised by 31.5%/12.9%.
- FY23F/24F PAT raised by 135.7%/cut by 0.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.9)	19.2	(2.4)
Relative (%)	(3.9)	20.0	(5.4)

Major shareholders	% held
Promoters	52.5
SBI Conservative Hybrid Fund	3.8
Anuj A Sheth	3.3

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Finolex Industries**Stock fully priced-in as stability returns**

- 3Q PVC resin and pipe sales volume recovers strongly qoq as PVC prices stable. Inventory loss led to weak margins. EBITDA dips 20-30% vs. estimate.
- Jan 2023 saw good demand with the sales mix improving towards non-agri products. Resin/pipe units near peak utilization. No capex announcement yet.
- PVC price volatility, intense competition, pending legal settlement between the promoter family and fair valuation are key concerns. Downgrade to REDUCE.

Solid bounce-back in 3QFY23 from trough levels of 2Q

Finolex Industries (FIL) posted 3QFY23 revenue/EBITDA/PAT of Rs11.2bn/Rs923m/Rs799m, +12%/-62%/-55% yoy, respectively. Pipe and fittings sales volume (90.4kt, +92% yoy) surprised positively and was 25% above our estimate but inventory losses in the PVC resin segment disproportionately hit margins. The price spread between PVC and EDC/VCM fell further to US\$570/US\$190, down 5%/20% qoq, respectively. Reported EBITDA fell by 20-30% vs. our/Bloomberg consensus estimates. PVC resin sales volume was at 64.7kt, +49% yoy. PVC resin and pipe/fittings EBIT stood at Rs1.9/kg (long-term avg. range is Rs13-15/kg) and Rs7.6/kg, respectively, a strong recovery qoq, as PVC prices stabilized and started rising again in Dec 2022. Resin and pipe plants operated at 85%+ of their capacity, close to peak levels. Pipe fittings are 100% outsourced to exclusive vendors. Net cash & equivalents stood at Rs15.2bn (Dec 2022).

FIL focuses on equal balance between agri:non-agri in sales mix

Non-agri sales volume mix stood at 30% in 9MFY23, and FIL intends to achieve an equal balance of 50:50 between its agri and non-agri product sales over the next three years. FIL indicated no gaps between product stock-keeping units or SKUs offered by it currently vs. peers and will consistently work towards improving the regional mix and distribution reach. As PVC prices rose from Dec 2022, channel restocking drove 3Q pipe sales volume and Jan 2023 started on a relatively lighter note, as per management. FIL expects PVC prices to at least sustain their current levels as global demand rise on China reopening after the new year holidays in Feb 2023F. FIL plants are nearing peak utilization and continued strong demand for pipes, in our view, could lead to capacity shortage in FY24F/25F.

Change in our estimates

We incorporate 3QFY23 actuals. We raise pipe/fittings sales volume, adjusted for latest PVC prices and rationalize EBIT/t estimates. Our EBITDA estimates are up by 13%/5.5% for FY24F/25F, respectively, while EPS is largely similar for FY24F but up 7.5% for FY25F.

We find risk-reward ratio unfavourable; downgrade to REDUCE

Demand revival due to stable PVC prices is a short-term positive. Long overdue promoter family's legal settlement and high competition are larger risks. FIL is up 25%+ since end-Sep 2022. Retain TP of Rs153 (P/E of 18x FY24F EPS, past 5-year mean) but change the rating to REDUCE (vs. ADD) on fair valuation. Upside risk: Large one-time dividend payout.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	34,628	46,473	46,329	49,753	51,987
Operating EBITDA (Rsm)	9,893	10,237	3,058	7,612	8,266
Net Profit (Rsm)	7,378	10,513	2,486	8,962	6,583
Core EPS (Rs)	11.9	10.9	4.0	8.4	10.6
Core EPS Growth	121.8%	(8.5%)	(63.2%)	109.6%	26.3%
FD Core P/E (x)	14.59	10.24	43.29	12.01	16.35
DPS (Rs)	4.0	4.0	4.0	4.0	4.0
Dividend Yield	2.31%	2.31%	2.31%	2.31%	2.31%
EV/EBITDA (x)	10.23	9.19	31.33	11.91	10.62
P/FCFE (x)	(767.63)	42.30	39.13	15.71	21.37
Net Gearing	(20.4%)	(34.5%)	(30.1%)	(37.1%)	(39.8%)
P/BV (x)	3.43	2.74	2.74	2.35	2.16
ROE	28.8%	19.1%	6.3%	12.3%	13.8%
% Change In Core EPS Estimates			135.74%	(0.92%)	7.52%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY23 earnings-call highlights

- Sales mix:** Non-agri pipe sales volume accounted for 27% and 30% of total sales volume in 3QFY23 and 9MFY23, respectively. CPVC sales volume and revenue stood at 4.1kt and Rs1.6bn, respectively, accounting for 15% of total pipe revenue in 3Q. Pipe fittings sales revenue stood at Rs2bn, accounting for 20% of the pipe and fittings segment's revenue for the quarter.
- Raw material-finished goods spreads:** PVC-EDC/PVC-VCM average price spreads stood at US\$570/US\$190 vs. US\$600/US\$235 qoq and US\$794/US\$350 yoy, respectively. Management indicated that current PVC-EDC spreads have widened to US\$665 while PVC-VCM spreads have sustained at 3Q levels.
- PVC price trend:** PVC prices declined for a major part in Oct and Nov 2022 by almost 12% to Rs76/kg in India, resulting in inventory losses for the resin division. Since then, PVC prices rose in Dec 2022 to Rs95/kg, an increase of 18%. Prices remained steady in Jan 2023 in India. Management expects PVC prices to remain at the current levels (to say the least) owing to improving global demand, especially with the Chinese economy reopening in Feb 2023F after the new year holidays.
- Capex:** Although FIL's plants operated at near peak capacity levels of 85%+ in 9MFY23, no capacity expansion has been announced by the company. The budgeted capex is Rs1.5-2bn for FY23F and FY24F.
- Net cash:** At the end of Dec 2022, net cash including equivalents stood at Rs15.2bn. The sale of remaining surplus land announced in Sep 2021 is expected to be completed by Dec 2023F. The estimated leasehold right transfer consideration is ~Rs3.75bn.

Figure 1: Pipe and fittings segment's quarterly trend

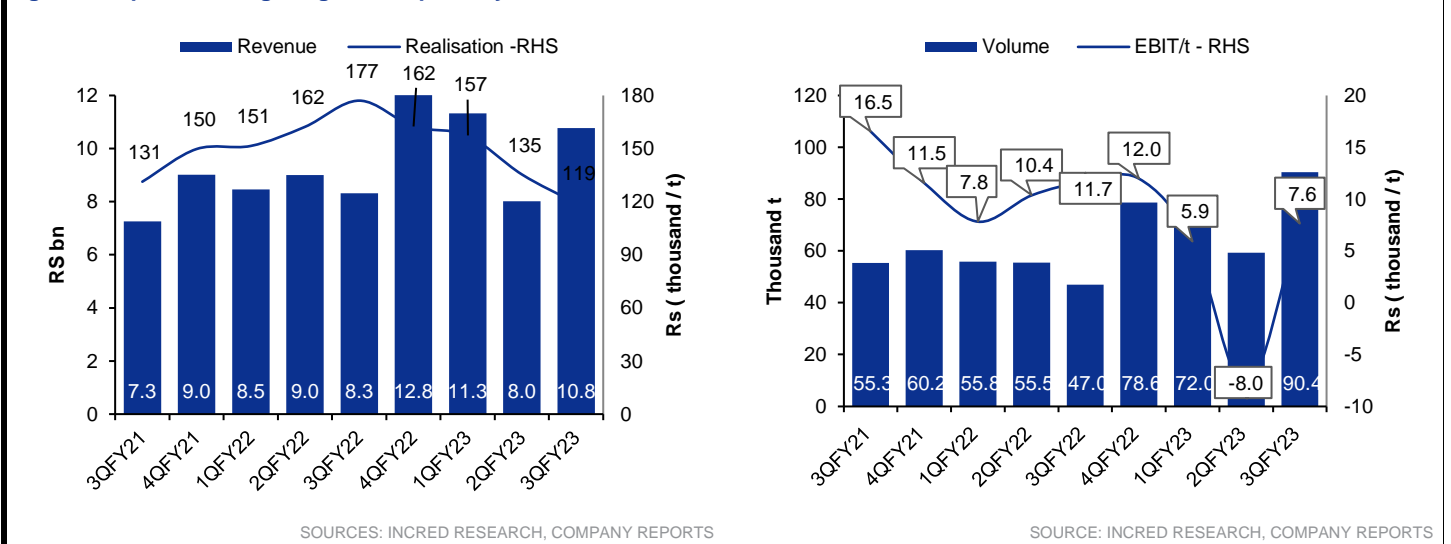
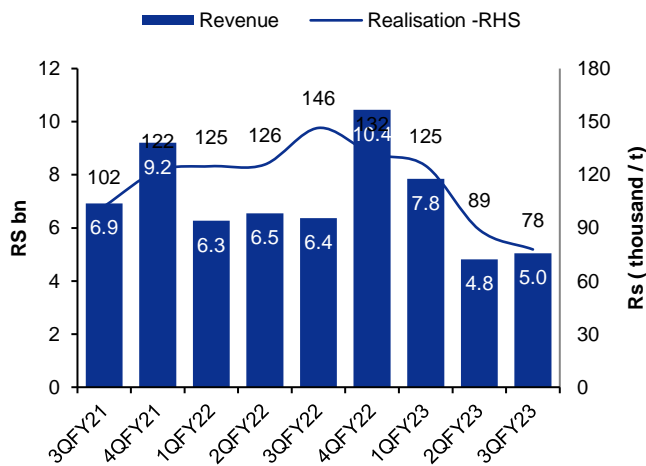
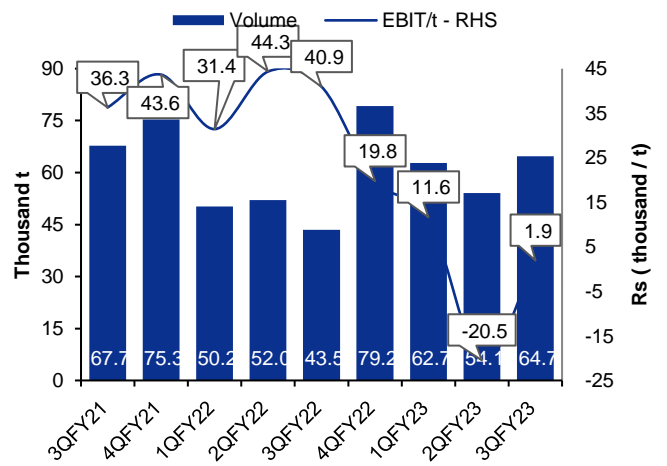


Figure 2: PVC resin segment's quarterly trend

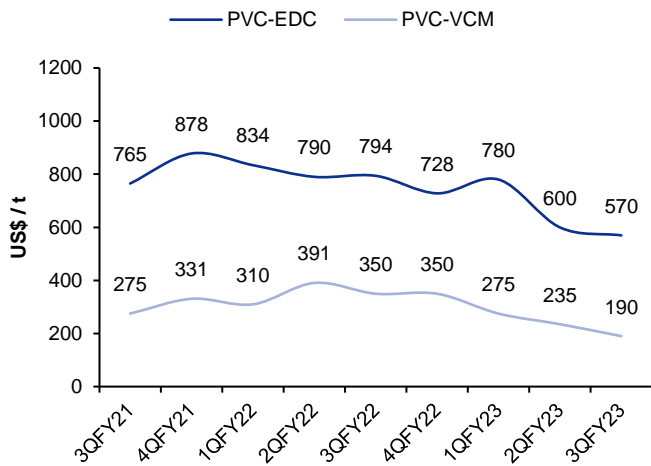


SOURCE: INCRED RESEARCH, COMPANY REPORTS



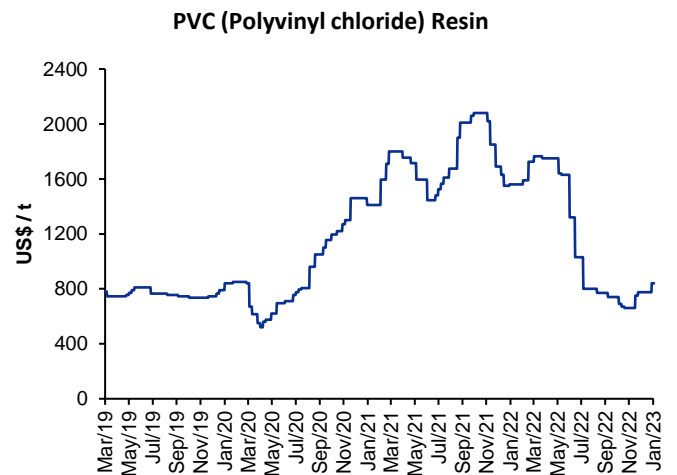
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PVC resin price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

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

Spread (US\$/mt)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)
PVC-EDC	570	794	(28.2)	600	(5.0)
PVC-VCM	190	350	(45.7)	235	(19.1)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	11,248	10,047	11.9	9,411	19.5	32,557	30,534	6.6
EBITDA	923	2,419	(61.9)	-1,427	(164.7)	755	7,529	(90.0)
EBITDA margin (%)	8.2	24.1	-1587 bp	-15.2	2336 bp	2.3	24.7	-2234 bp
Adj. PAT	799	1,774	(54.9)	-954	(183.8)	6,753	838	706.0
Diluted EPS (Rs)	1.3	2.9		-1.5		1.4	9.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: EBIT/t

	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)
PVC	1,921	40,924	(95.3)	-20,472	(109.4)
PVC Pipes and fittings	7,622	11,695	(34.8)	-8,043	(194.8)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 3QFY23 segment-wise result snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue								
PVC resin	5,041	6,363	(20.8)	4,811	4.8	17,697	19,177	(7.7)
Pipe and fittings	10,772	8,319	29.5	8,017	34.4	30,109	25,769	16.8
Less: Inter-segmental revenue	4,564	4,629	(1.4)	3,417	33.6	-	-	-
Total	11,248	10,053	11.9	9,411	19.5	47,806	44,946	6.4
EBIT								
PVC resin	124	1,779	(93.0)	-1,107	(111.2)	-254	5,663	(104.5)
Pipe and fittings	689	550	25.4	-476	(244.7)	639	1,561	(59.1)
Total	813	2,328	(65.1)	-1,583	(151.4)	385	7,224	(94.7)
EBIT margin (%)								
PVC resin	2.5	28.0	-2549 bp	-23.0	2547 bp	-1.4	29.5	-3,096 bp
Pipe and fittings	6.4	6.6	-21 bp	-5.9	1234 bp	2.1	6.1	-394 bp
Total	7.2	23.2	-1593 bp	-16.8	2405 bp	0.8	16.1	-1527 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var (%)
Revenue	11,248	10,551	6.6
EBITDA	923	1,337	(31.0)
EBITDA margin (%)	8.2	12.7	-447 bp
Adj. PAT	799	971	(17.7)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	3QFY23A	3QFY23C	Var (%)
Revenue	11,248	9,473	18.7
EBITDA	923	1,160	(20.4)
EBITDA margin (%)	8.2	12.2	-404 bp
Adj. PAT	799	866	(7.7)

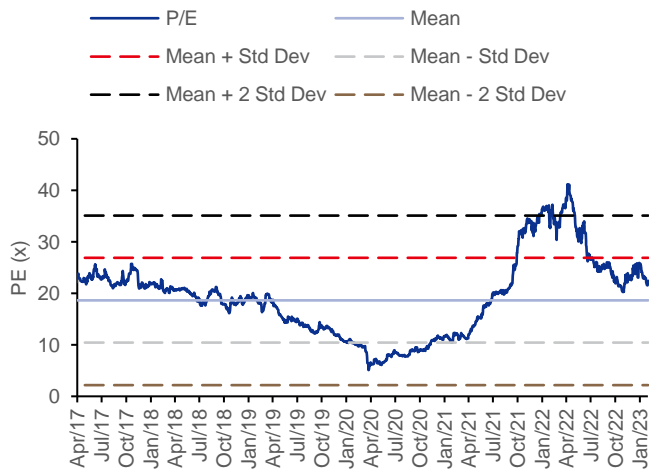
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Estimates revision summary (Rsm)

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	46,329	49,753	51,987	43,063	42,399	42,900	7.6	17.3	21.2
EBITDA	3,058	7,612	8,266	2,325	6,741	7,829	31.5	12.9	5.6
Adjusted consol. PAT	2,486	5,212	6,583	1,055	5,260	6,123	135.7	-0.9	7.5
EPS	4.0	8.4	10.6	1.7	8.5	9.9	135.7	-0.9	7.5
EBITDA margin (%)	6.6	15.3	15.9	5.4	15.9	18.3	120 bp	-60 bp	-235 bp

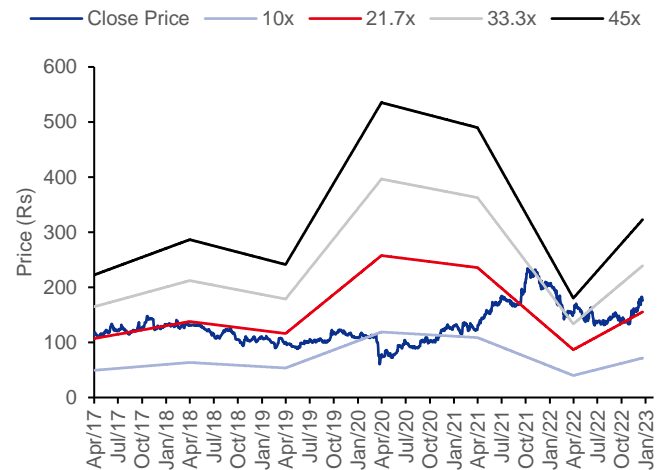
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E SD (five-year mean P/E)



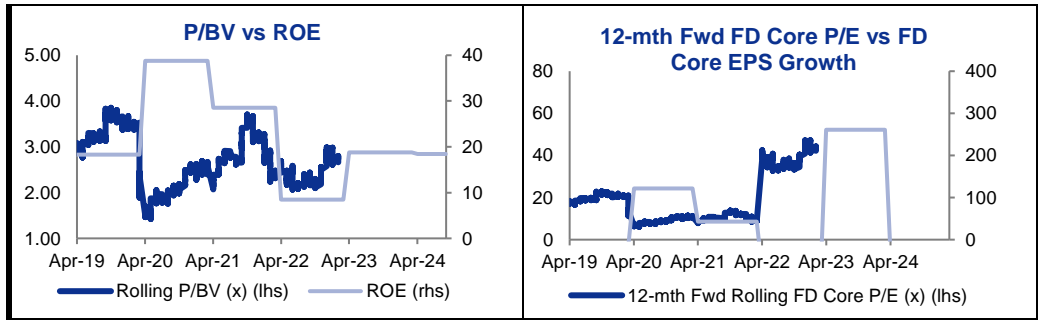
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: 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	46,329	49,753	51,987
Gross Profit	15,341	17,983	13,945	17,961	18,767
Operating EBITDA	9,893	10,237	3,058	7,612	8,266
Depreciation And Amortisation	(777)	(834)	(885)	(940)	(1,011)
Operating EBIT	9,116	9,403	2,173	6,672	7,255
Financial Income/(Expense)	347	347	342	600	802
Pretax Income/(Loss) from Assoc.	162	(15)	209	199	219
Non-Operating Income/(Expense)	296	335	600	500	525
Profit Before Tax (pre-EI)	9,921	10,070	3,324	7,971	8,801
Exceptional Items					
Pre-tax Profit	9,921	10,070	3,324	7,971	8,801
Taxation	(2,543)	(3,317)	(838)	(2,759)	(2,218)
Exceptional Income - post-tax		3,761		3,750	
Profit After Tax	7,378	10,513	2,486	8,962	6,583
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,378	10,513	2,486	8,962	6,583
Recurring Net Profit	7,378	6,753	2,486	5,212	6,583
Fully Diluted Recurring Net Profit	7,378	6,753	2,486	5,212	6,583

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	9,893	10,237	3,058	7,612	8,266
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,433	(756)	(883)	(429)	(280)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	549	441	1,151	1,299	1,546
Net Interest (Paid)/Received	(347)	(347)	(342)	(600)	(802)
Tax Paid	(2,118)	(3,356)	(838)	(2,759)	(2,218)
Cashflow From Operations	9,410	6,220	2,146	5,124	6,512
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)	2,000		
Other Investing Cashflow	389	544	604	812	954
Cash Flow From Investing	(8,766)	(4,403)	854	2,725	(975)
Debt Raised/(repaid)	(784)	728	(250)	(1,000)	(500)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(42)	(2,482)	(2,482)	(2,482)	(2,482)
Preferred Dividends					
Other Financing Cashflow	(77)	(141)	(262)	(212)	(152)
Cash Flow From Financing	(903)	(1,895)	(2,994)	(3,694)	(3,134)
Total Cash Generated	(259)	(79)	6	4,154	2,403
Free Cashflow To Equity	(140)	2,544	2,750	6,849	5,037
Free Cashflow To Firm	571	1,676	2,738	7,636	5,385

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	14,342	18,496	20,899
Total Debtors	1,480	3,345	2,539	2,726	2,849
Inventories	9,188	10,155	9,520	10,223	10,682
Total Other Current Assets	779	625	721	775	809
Total Current Assets	19,879	30,460	27,121	32,220	35,239
Fixed Assets	10,024	9,932	10,392	11,290	12,458
Total Investments	11,723	12,033	12,033	12,033	12,033
Intangible Assets					
Total Other Non-Current Assets	1,314	1,029	1,434	1,434	1,184
Total Non-current Assets	23,060	22,994	23,860	24,757	25,676
Short-term Debt	2,039	2,780	2,530	1,530	1,030
Current Portion of Long-Term Debt					
Total Creditors	3,952	4,631	3,808	4,089	4,273
Other Current Liabilities	3,371	4,577	3,173	3,408	3,561
Total Current Liabilities	9,362	11,989	9,511	9,027	8,864
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	11,698	11,214	11,051
Shareholders Equity	31,390	39,278	39,282	45,762	49,864
Minority Interests					
Total Equity	31,390	39,278	39,282	45,762	49,864

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	16.0%	34.2%	(0.3%)	7.4%	4.5%
Operating EBITDA Growth	120.8%	3.5%	(70.1%)	149.0%	8.6%
Operating EBITDA Margin	28.6%	22.0%	6.6%	15.3%	15.9%
Net Cash Per Share (Rs)	10.30	21.85	19.04	27.34	32.02
BVPS (Rs)	50.59	63.30	63.31	73.75	80.36
Gross Interest Cover	125.39	66.74	8.28	31.41	47.60
Effective Tax Rate	25.6%	32.9%	25.2%	34.6%	25.2%
Net Dividend Payout Ratio	25.0%	24.6%	74.7%	31.1%	28.2%
Accounts Receivables Days	11.66	18.95	23.18	19.31	19.57
Inventory Days	168.11	123.90	110.88	113.33	114.85
Accounts Payables Days	59.48	54.98	47.56	45.33	45.94
ROIC (%)	52.7%	60.8%	13.7%	37.9%	38.3%
ROCE (%)	32.4%	25.3%	6.4%	16.3%	16.3%
Return On Average Assets	26.6%	20.2%	5.7%	13.7%	13.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
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