

India

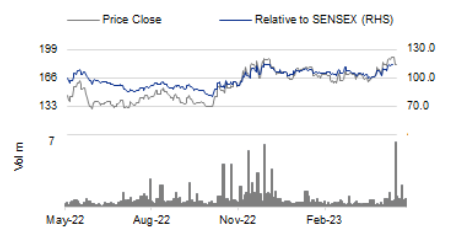
REDUCE (no change)

Consensus ratings*:	Buy 12	Hold 4	Sell 2
Current price:	Rs182		
Target price:	Rs177 ▲		
Previous target:	Rs153		
Up/downside:	-2.7%		
InCred Research / Consensus:	-10.7%		
Reuters:			
Bloomberg:	FNPX IN		
Market cap:	US\$1,556m	Rs112,958m	
Average daily turnover:	US\$2.3m	Rs170.3m	
Current shares o/s:	620.5m		
Free float:	47.5%		

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 8.5%/10.7%.
- FY24F/25F EBITDA cut by 6.7%/6.2%.
- FY24F/25F PAT cut by 9%/7.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.6	6.9	26.5
Relative (%)	9.1	2.6	10.3

Major shareholders	% held
Promoters	52.5
SBI Conservative Hybrid Fund	4.2
Anuj A Sheth	3.3

Analyst(s)



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Finolex Industries

Unfavourable risk-reward; stock fully priced

- Lower opex and high other income led to EBITDA/PAT beat of 15-40% in 4Q. Revenue was in line. Pipe sales volume: +4% yoy, resins: down 27% yoy.
- New MD will continue to focus on improving the non-agri mix led by higher revenue share of CPVC pipes/fittings & reach expansion into North/East India.
- Capacity expansion is vital to avoid capacity constraints, in our view. Current resin spreads are lower vs. pre-Covid. Stock fully priced in. Retain REDUCE.

Better mix, higher sale prices/resin spreads & low opex led 4Q beat

Finolex Industries (FIL) posted revenue/EBITDA/PAT of Rs11.4bn/Rs2.2bn/Rs1.7bn, respectively, in 4QFY23. Revenue was in line while EBITDA/PAT beat estimates by 15-40% vs. our/Bloomberg estimates. Pipe and fittings sales volume grew by 4% yoy to 81.5kt, below our estimate of 88kt. PVC resin sales volume fell by 27% yoy to 58kt, below our estimate of 77kt. Pipe and fittings/resin segments EBIT stood at Rs11/kg and Rs20/kg, respectively, in 4Q. Higher non-agri sales mix, higher realization qoq, higher RM-FG resin spreads, low opex and marginal inventory gains led to EBITDA margin of 19%, +250bp yoy. The PVC-EDC/PVC-VCM spreads moved back to pre-Covid levels and stood at US\$632/US\$154, respectively, in 4Q, sharply down yoy. The higher-than-estimated other income was largely led by mark-to-market revaluation of the equity stake in Finolex Cables as of end-Mar 2023. The net working capital cycle was stable yoy at 38 days.

Focus is on increasing CPVC/fittings mix, distribution expansion

The non-agri sales volume mix improved to 35% of total pipe and fittings vs. 33% yoy in FY23. CPVC pipe and fittings revenue share improved to 15% of total pipe and fittings revenue vs. 12.5% yoy, in our view. The CEO (promoted to MD effective 1 Jun 2023) indicated continued focus on improving the CPVC pipe/fittings sales mix and expanding reach into North/East India (~35-40% of FY23 total revenue) going ahead. Finolex Industries (FIL) commenced sales at its new fittings plant (12kt; capex: Rs1bn) at Pune in Mar 2023. We expect FIL to reach peak capacity utilization (including outsourced fittings capacity of 36kt) by end-Mar 2024F, and capacity expansion is critical to avoid constraints in FY25F, in our view. FIL has budgeted Rs1.5-2bn of capex (largely maintenance-led) for FY24F. Assuming a higher non-agri mix and stable PVC prices (FY23 had high inventory losses), we build in pipe and fittings/resins EBIT/kg of Rs11/Rs14, respectively, for FY25F.

Change in our estimates, valuation and risks

We cut revenue/EBITDA/PAT by 8%/7%/9% and by 11%/6%/7% for FY24F and FY25F, respectively, due to the change in our realization/sales volume assumptions. Capacity constraints and lower resin spreads vs. pre-Covid levels will impact sales volume growth and margins negatively over FY24F-25F. We find the risk-reward ratio unfavourable. Retain REDUCE rating with a higher target price of Rs177 based on a P/E of 18x (5-year mean) on rolled-forward FY25F EPS. Upside risks: Family dispute settlement, large special dividend, and levy of PVC resin import duty.

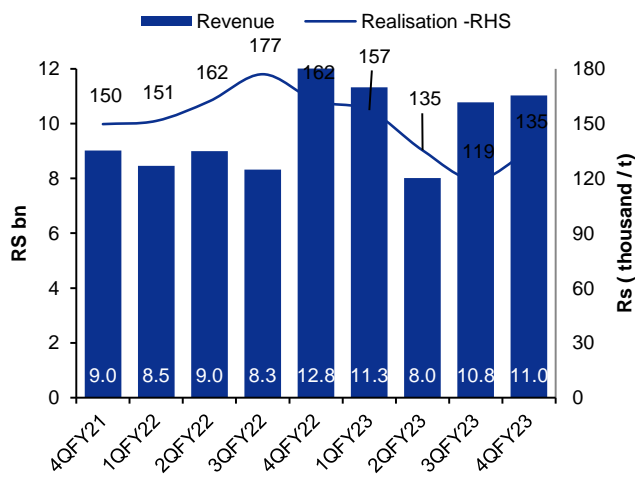
Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	34,628	46,473	43,971	45,535	46,408
Operating EBITDA (Rsm)	9,893	10,237	2,925	7,103	7,750
Net Profit (Rsm)	7,378	10,513	2,507	8,492	6,094
Core EPS (Rs)	11.9	10.9	4.0	7.6	9.8
Core EPS Growth	121.8%	(8.5%)	(62.9%)	89.1%	28.5%
FD Core P/E (x)	15.31	10.74	45.06	13.30	18.54
DPS (Rs)	4.0	4.0	1.5	4.0	4.0
Dividend Yield	2.20%	2.20%	0.82%	2.20%	2.20%
EV/EBITDA (x)	10.77	9.71	34.16	13.54	12.11
P/FCFE (x)	(805.69)	44.40	43.17	27.71	32.85
Net Gearing	(20.4%)	(34.5%)	(26.5%)	(30.5%)	(32.6%)
P/BV (x)	3.60	2.88	2.30	2.05	1.93
ROE	28.8%	19.1%	5.7%	9.1%	10.7%
% Change In Core EPS Estimates				(9.02%)	(7.44%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

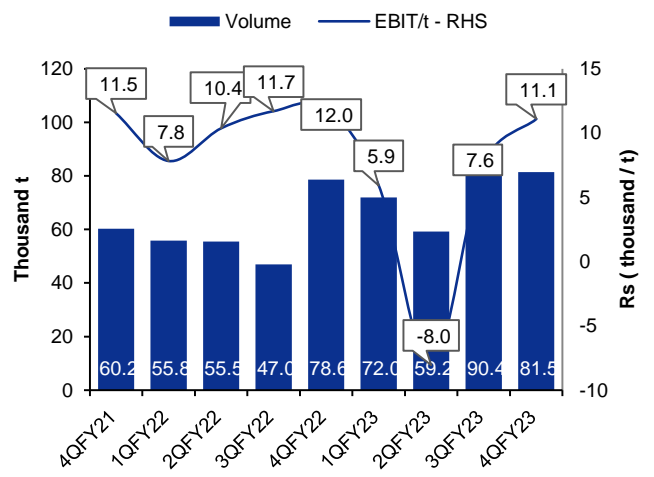
4QFY23 earnings call highlights

- **Sales mix and growth aspirations:** Non-agri pipe sales volume accounted for 35% of total pipes and fittings sales volume in FY23. Management indicated that non-agri sales volume will grow by 15-20% yoy and agri-related sales will grow by 8-10% yoy in FY24F. Management aspires to have an equal revenue share between agri and non-agri sales going ahead. CPVC product sales have grown faster than FIL's growth rate. FIL expects CPVC pipes and fittings and plumbing/sanitation product sales to continue to grow faster vs. blended sales growth over FY24F-25F.
- **Margins:** Management indicated a higher share of CPVC and plumbing product sales going ahead, which will enable consistent margin expansion. The company expects EBIT/kg to sustain at Rs14-15 in the resin segment and at Rs11-12/kg in the pipes segment over the medium term, assuming PVC prices are stable at current levels.
- **Resin raw material supplies:** A few suppliers of VCM had plant outages during Jan-Mar 2023, affecting import supplies to FIL. Coupled with this, the scheduled maintenance shutdown at its resin plant led to a 28% decline yoy in resin production in 4Q. Management indicated that supply is back to normal level now.
- **RM-FG spreads:** PVC-EDC/PVC-VCM average price spreads stood at US\$632/US\$154 vs. US\$728/US\$350 yoy and US\$570/US\$190 qoq, respectively, in 4QFY23. These spreads declined further to US\$475/US\$125, respectively, in May 2023.
- **PVC prices:** Indian PVC resin prices started rising from end-Nov 2022 – Jan 2023. Feb 2023 was largely stable while the prices again declined in Mar 2023. The current PVC price is Rs78/kg, down 18% from Jan 2023 level.
- **Total capacity:** The PVC pipes and fittings segment had a manufacturing capacity of 370kt for pipes and 48kt for fittings (36kt with exclusive outsourcing partners) at the end of Mar 2023. The PVC resin segment had a capacity of 272k at the end of Mar 2023.
- **Capex:** The company has commissioned a new state-of-the-art facility for PVC fittings having an annual capacity of 12kt at a capital outflow of Rs1bn. It expects to achieve peak utilization of this new capacity over the next three-to-six months. The budgeted capex is Rs1.5-2bn vs. Rs1.7bn yoy, for FY24F, largely on maintenance of existing plants and related facilities.
- **Net WC cycle:** The net working capital cycle was stable yoy at 38 days of sales. Debtors stood at 25 days of sales at the end of Mar 2023. Given the rising non-agri credit sales mix, management expects the debtors cycle to peak at 30 days of sales going ahead. Non-agri credit sales period ranges between 30-60 days.
- **Net cash:** At end of Mar 2023, net cash including equivalents stood at Rs15bn. FIL expects to complete the pending leasehold land sale at MIDC in Pune for at least Rs3.5bn by the end of Mar 2024.
- **Dividend:** FIL's board has recommended a dividend of Rs1.5/share or 35%+ payout for FY23. Given large amounts of free cash and land sale proceeds likely, the possibility of a large special dividend payout remains a key risk to our REDUCE rating on the stock.

Figure 1: Pipe and fittings segment - quarterly trend

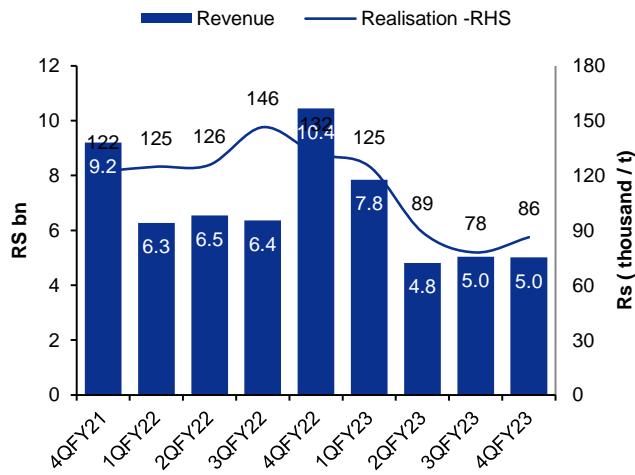


SOURCE: INCRED RESEARCH, COMPANY REPORTS

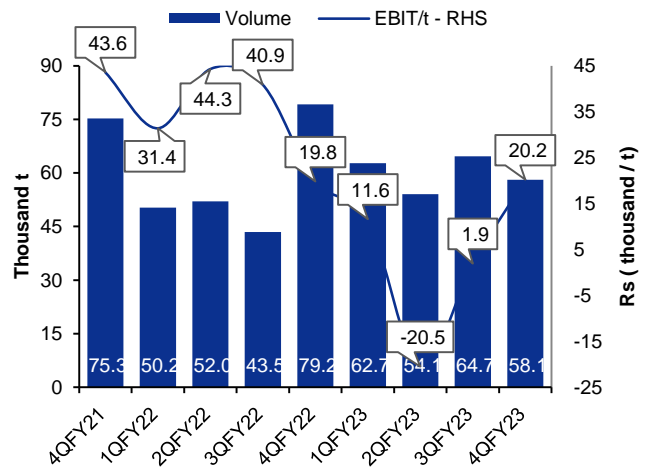


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: PVC resin segment - quarterly trend

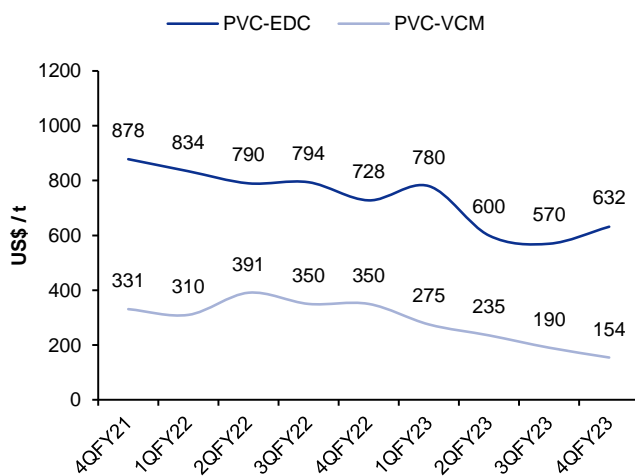


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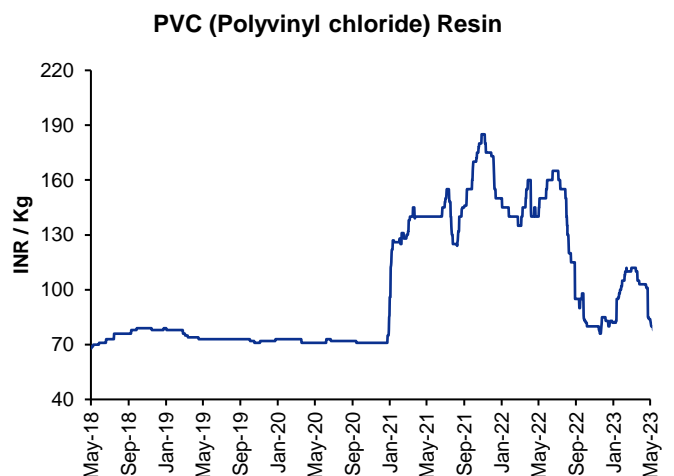
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: PVC-VCM and PVC-EDC spread 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)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)
PVC-EDC	632	728	(13.2)	570	10.9
PVC-VCM	154	350	(56.1)	190	(18.9)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 4QFY23 results snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	11,411	15,946	(28.4)	11,248	1.4	46,329	46,473	(0.3)
EBITDA	2,174	2,647	(17.8)	923	135.6	3,058	10,237	(70.1)
EBITDA margin (%)	19.1	16.6	246 bp	8.2	1,085 bp	6.6	22.0	-1,543 bp
Adj. PAT	1,665	1,191	39.8	799	108.3	2,378	6,753	(64.8)
Diluted EPS (Rs)	2.7	1.9		1.3		3.8	10.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 4QFY23 segment-wise result snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue								
PVC resins	5,013	10,444	(52.0)	5,041	(0.6)	22,710	29,621	(23.3)
Pipes and fittings	11,021	12,769	(13.7)	10,772	2.3	41,133	38,527	6.8
Less: Inter-segmental revenue	4,623	7,268	(36.4)	4,564	1.3	19,873	21,675	(8.3)
Total	11,411	15,946	(28.4)	11,248	1.4	43,971	46,473	(5.4)
EBIT								
PVC resins	1,173	1,565	(25.1)	124	843.3	919	7,228	(87.3)
Pipes and fittings	903	942	(4.1)	689	31.1	1,542	2,502	(38.4)
Total	2,076	2,507	(17.2)	813	155.2	2,461	9,730	(74.7)
EBIT margin (%)								
PVC resins	23.4	15.0	841 bp	2.5	2,092 bp	4.0	24.4	-2,035 bp
Pipes and fittings	8.2	7.4	82 bp	6.4	180 bp	3.7	6.5	-275 bp
Total	18.2	15.7	247 bp	7.2	1,096 bp	3.9	14.3	-1,042 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	11,411	11,299	1.0
EBITDA	2,174	1,876	15.9
EBITDA margin (%)	19.1	16.6	245 bp
Adj. PAT	1,665	1,192	39.6

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus estimates

Rs m	4QFY23	4QFY23C	Var (%)
Revenue	11,411	12,356	(7.7)
EBITDA	2,174	1,751	24.2
EBITDA margin (%)	19	14.2	489 bp
Adj. PAT	1,665	1,379	20.8

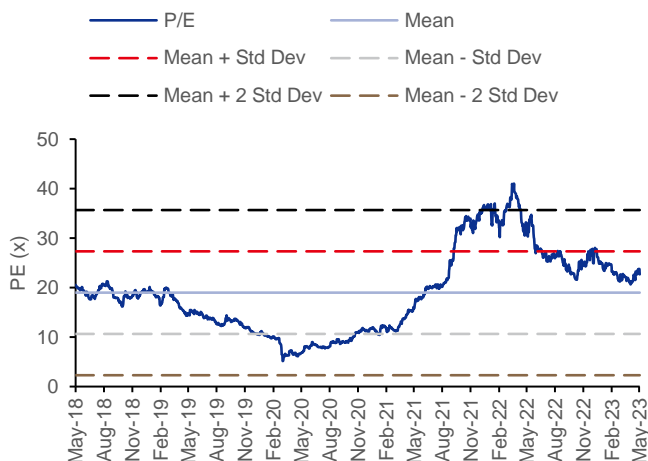
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Estimates revision summary (Rsm)

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	45,535	46,408	49,753	51,987	-8.5	-10.7
EBITDA	7,103	7,750	7,612	8,266	-6.7	-6.2
Adjusted consol. PAT	4,742	6,094	5,212	6,583	-9.0	-7.4
EPS	7.6	9.8	8.4	10.6	-9.0	-7.4
EBITDA margin (%)	15.6	16.7	15.3	15.9	30 bp	80 bp

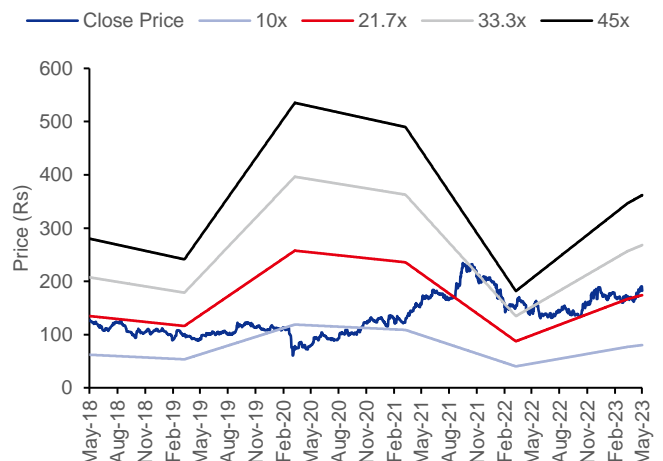
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



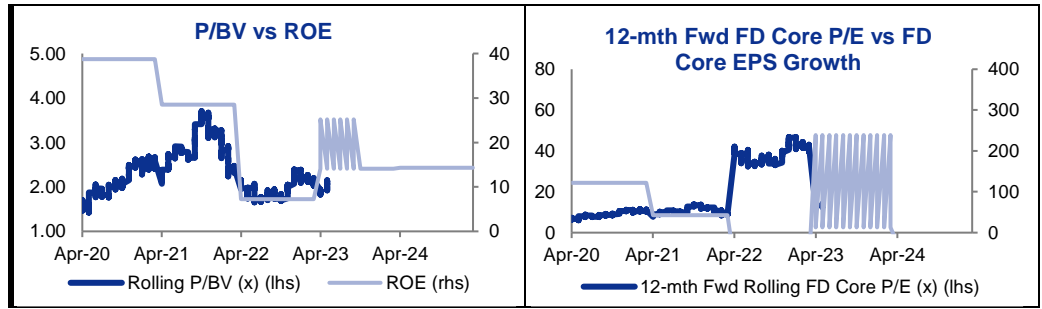
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	34,628	46,473	43,971	45,535	46,408
Gross Profit	15,341	17,983	13,250	17,189	18,424
Operating EBITDA	9,893	10,237	2,925	7,103	7,750
Depreciation And Amortisation	(777)	(834)	(892)	(948)	(1,008)
Operating EBIT	9,116	9,403	2,033	6,155	6,742
Financial Income/(Expense)	347	347	147	800	998
Pretax Income/(Loss) from Assoc.	162	(15)	243	184	194
Non-Operating Income/(Expense)	296	335	790	200	210
Profit Before Tax (pre-EI)	9,921	10,070	3,213	7,339	8,143
Exceptional Items					
Pre-tax Profit	9,921	10,070	3,213	7,339	8,143
Taxation	(2,543)	(3,317)	(706)	(2,597)	(2,049)
Exceptional Income - post-tax		3,761		3,750	
Profit After Tax	7,378	10,513	2,507	8,492	6,094
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,378	10,513	2,507	8,492	6,094
Recurring Net Profit	7,378	6,753	2,507	4,742	6,094
Fully Diluted Recurring Net Profit	7,378	6,753	2,507	4,742	6,094

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	9,893	10,237	2,925	7,103	7,750
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,433	(756)	(2,088)	(1,669)	(755)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	549	441	3,005	1,183	1,401
Net Interest (Paid)/Received	(347)	(347)	(147)	(800)	(998)
Tax Paid	(2,118)	(3,356)	(679)	(2,597)	(2,049)
Cashflow From Operations	9,410	6,220	3,017	3,221	5,349
Capex	(647)	(844)	(1,687)	(1,500)	(1,575)
Disposals Of FAs/subsidiaries		3,806	11	3,750	
Acq. Of Subsidiaries/investments	(8,507)	(7,910)	(1,620)		
Other Investing Cashflow	389	544	419	1,105	1,165
Cash Flow From Investing	(8,766)	(4,403)	(2,877)	3,355	(410)
Debt Raised/(repaid)	(784)	728	2,477	(2,500)	(1,500)
Proceeds From Issue Of Shares				4	
Shares Repurchased					
Dividends Paid	(42)	(2,482)	(2,482)	(2,482)	(2,482)
Preferred Dividends					
Other Financing Cashflow	(77)	(141)	(252)	(306)	(167)
Cash Flow From Financing	(903)	(1,895)	(257)	(5,283)	(4,149)
Total Cash Generated	(259)	(79)	(117)	1,293	790
Free Cashflow To Equity	(140)	2,544	2,617	4,076	3,439
Free Cashflow To Firm	571	1,676	(133)	6,270	4,772

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	8,432	16,336	18,277	19,569	20,359
Total Debtors	1,480	3,345	2,975	3,743	3,814
Inventories	9,188	10,155	6,732	8,109	8,900
Total Other Current Assets	779	625	936	1,248	1,271
Total Current Assets	19,879	30,460	28,920	32,669	34,345
Fixed Assets	10,024	9,932	10,384	11,274	11,840
Total Investments	11,723	12,033	22,216	22,216	22,216
Intangible Assets					
Total Other Non-Current Assets	1,314	1,029	1,328	989	989
Total Non-current Assets	23,060	22,994	33,927	34,479	35,045
Short-term Debt	2,039	2,780	5,260	2,760	1,260
Current Portion of Long-Term Debt					
Total Creditors	3,952	4,631	2,893	3,743	3,814
Other Current Liabilities	3,371	4,577	3,182	3,119	3,179
Total Current Liabilities	9,362	11,989	11,335	9,622	8,253
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	793	827	988	988	988
Total Non-current Liabilities	793	827	988	988	988
Total Provisions	1,395	1,360	1,493	1,493	1,493
Total Liabilities	11,549	14,176	13,816	12,103	10,734
Shareholders Equity	31,390	39,278	49,031	55,045	58,656
Minority Interests					
Total Equity	31,390	39,278	49,031	55,045	58,656

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	16.0%	34.2%	(5.4%)	3.6%	1.9%
Operating EBITDA Growth	120.8%	3.5%	(71.4%)	142.8%	9.1%
Operating EBITDA Margin	28.6%	22.0%	6.7%	15.6%	16.7%
Net Cash Per Share (Rs)	10.30	21.85	20.98	27.09	30.78
BVPS (Rs)	50.59	63.30	79.02	88.71	94.53
Gross Interest Cover	125.39	66.74	7.47	20.13	40.38
Effective Tax Rate	25.6%	32.9%	22.0%	35.4%	25.2%
Net Dividend Payout Ratio	25.0%	24.6%	29.0%	33.8%	30.5%
Accounts Receivables Days	11.66	18.95	26.23	26.93	29.72
Inventory Days	168.11	123.90	100.31	95.55	110.93
Accounts Payables Days	59.48	54.98	44.70	42.72	49.28
ROIC (%)	52.7%	60.8%	12.8%	37.8%	36.4%
ROCE (%)	32.4%	25.3%	4.9%	12.6%	13.1%
Return On Average Assets	26.6%	20.2%	5.3%	10.1%	10.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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