

India

June 19, 2023 - 5:31 PM

REDUCE (no change)

Consensus ratings*:	Buy 11 Hold 5 Sell 2
Current price:	Rs175
Target price:	Rs177
Previous target:	Rs177
Up/downside:	1.1%
InCred Research / Consensus:	-13.0%
Reuters:	FINX.NS
Bloomberg:	FNXP IN
Market cap:	US\$1,323m Rs108,366m
Average daily turnover:	US\$2.0m Rs162.6m
Current shares o/s:	620.5m
Free float:	47.5%

*Source: Bloomberg

Key financial forecast

	Mar-24F	Mar-25F
Net Profit (Rsm)	8,492	6,094
Core EPS (Rs)	7.64	9.82
Core EPS Growth	89.1%	28.5%
FD Core P/E	22.85	17.78
Recurring ROE	9.1%	10.7%
P/BV (x)	1.97	1.85
DPS (Rs)	4.00	4.00
Dividend Yield	2.29%	2.29%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(8.3)	7.5	32.2
Relative (%)	(10.7)	(1.7)	7.1

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

Brokers Poll 2023

BROKERS POLL 2023

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InCred Research

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Finolex Industries

Company NDR update

- We hosted Finolex Industries' management for investor meetings in Mumbai. Mr. Anil Whabi has retired & Mr. Ajit Venkataraman is the new MD w.e.f 1 Jun 2023.
- New MD and CHRO hiring are steps to professionalize, delegate and encourage independent decisions. Aspires for a non-agri sales mix of 50%.
- Capacity constraints need to be addressed, in our view. Clarity on free cash utilization and promoter family settlement awaited. Retain REDUCE rating.

Mr. Ajit Venkataraman takes over as new MD from 1 Jun 2023

- Mr. Ajit Venkataraman is an MBA from University of Michigan and brings in 28 years of work experience across the US, India & South-East Asia.
- He has worked with automobile and logistics industries in the past.
- He was previously associated with a few prominent companies like Tecumseh, A. T. Kearney, Tata Motors, APM Terminals Inland Services Asia, and Greaves Cotton.
- Mr. Venkataraman was the chief executive officer of Finolex Industries (FIL) since 1 Aug 2022.
- Mr. Anil V. Whabi will cease to be a director of the company after rendering close to nine years of service.

Professionals to take decisions; Finolex evolves as a plumbing brand

- The appointment of a new managing director (MD) and a chief human resource officer (CHRO) are steps taken to professionalize, delegate and encourage independent decisions by professionals going ahead. Incrementally, the promoter family will be available for strategic inputs, and most decisions will be taken by senior management.
- The Finolex brand customer perception is gradually shifting from being a predominantly agriculture plastic pipe brand to a non-agri plumbing and sanitation pipe brand. FIL aspires to increase its share of plumbing and sanitation pipe revenue to ~50% of its total business over the next two-to-three years.
- CPVC pipe and fittings' revenue share to keep improving due to FIL's focus on the non-agri segment. Also, distribution channel expansion into North and East India will help FIL to de-risk from its dependence on West and South India (two-thirds of the business).
- Non-agri pipe industry sales are likely to grow at 1.5x agri-pipe sales over the next five years, as per management.
- FIL had 800 distributors and 22k retailers across India at the end of Mar 2023.

Peak capacity utilization by Mar 2024F; capex imminent

- In-house/outsourced pipe and fittings manufacturing capacity will reach the utilization rate of 80%+ by Mar 2024F, in our view. We expect FIL to announce pipe capex in the current year to avoid capacity constraints in FY25F.
- Existing plants have expansion constraints, and we expect greenfield pipe expansion to be the most likely outcome. The plant will need 15-18 months to get completed.

No update on promoter family settlement - progress seems to be slow

- The matter remains sub-judice and there is no clarity on free cash utilization and payout to shareholders. A large special dividend payout is a possibility, which remains a key risk to our REDUCE rating on the stock.

Profit & Loss

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

Balance Sheet

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

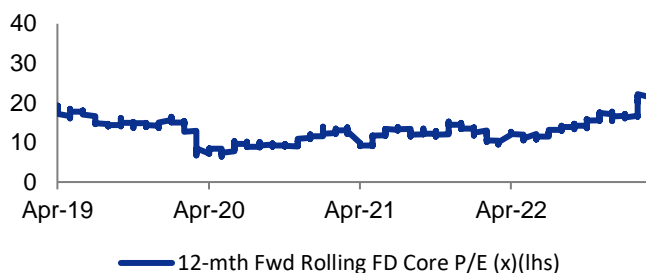
Cash Flow

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

Key Ratios

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

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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