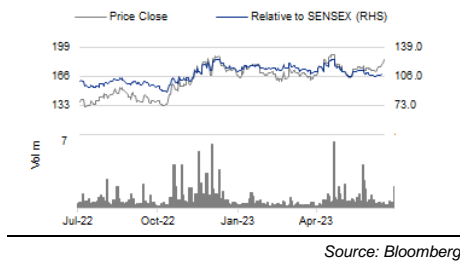


India

REDUCE (no change)

| | | | |
|------------------------------|------------|------------|--------|
| Consensus ratings*: | Buy 11 | Hold 6 | Sell 2 |
| Current price: | Rs184 | | |
| Target price: | Rs177 | | |
| Previous target: | Rs177 | | |
| Up/downside: | -3.8% | | |
| InCred Research / Consensus: | -12.3% | | |
| Reuters: | FNIQ | | |
| Bloomberg: | FNIQ | | |
| Market cap: | US\$1,576m | Rs114,447m | |
| Average daily turnover: | US\$1.9m | Rs141.0m | |
| Current shares o/s: | 620.5m | | |
| Free float: | 47.5% | | |

*Source: Bloomberg



| Price performance | 1M | 3M | 12M |
|-------------------|-------|-------|------|
| Absolute (%) | 4.1 | 12.3 | 36.4 |
| Relative (%) | (2.2) | (0.9) | 12.4 |

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

Finolex Industries

PVC price fall: Good for pipes, bad for resins

- Lower PVC prices aided strong pipe and fittings sales volume growth of 28% yoy while negatively impacting the resin segment's profits (EBIT: NIL) in 1Q.
- PVC resin FG-RM price spreads fell sharply by 15-25% qoq, which led to sub-par EBIT (<Rs1/kg). Pipe EBIT stood at Rs13.7/kg. Agri pipe mix was at 70%.
- Resin spreads improved in Jul 2023. No decision yet on capex or free cash distribution. Retain REDUCE rating. Family legal settlement is key upside risk.

Pipe and fittings segment does well but resin segment disappoints

Finolex Industries' (FIL) revenue/EBITDA/PAT stood at Rs11.8bn/1.5bn/1.1bn, respectively, in 1QFY24, in line with our/Bloomberg consensus estimates. Pipe and fittings sales volume grew to 92.2kt, +28% yoy/+13% qoq and the segment's revenue grew to Rs11.5bn, +2% yoy/+5% qoq. EBIT/kg stood at Rs13.7, despite agri-pipe sales accounting for 70% of the total pipe segment's mix. CPVC pipe and fittings sales volume grew 20% yoy. PVC resin sales volume fell to 46.1kt, down 27% yoy & 21% qoq. The segment's revenue fell 54% yoy and 28% qoq to Rs3.6bn. The segment's EBIT was almost NIL (Rs0.7/kg). Consol. gross/EBITDA margins stood at 33.8%/12.9%, +104bp yoy/+235bp qoy, respectively. Net cash (incl. equivalents) stood at Rs16.5bn vs. Rs13.1bn qoq.

PVC resin FG-RM spreads fell sharply qoq but improving in Jul 2023

The PVC-EDC and PVC-VCM spreads deteriorated qoq to a five-year low of US\$468 and US\$133, respectively. PVC prices have been normalizing back to pre-Covid levels, but the raw material compounds' (EDC and VCM) prices stayed high in 1Q. The spreads bounced back in Jul 2023 as raw material prices fell. The average PVC-EDC and PVC-VCM spreads stood at US\$540 and US\$200 respectively, so far in Jul 2023. These are near- to long-term sustainable levels at which the PVC resin segment's EBIT should be in the range of Rs13-15/kg. Resin output was much lower than expected (40kt, 30% below estimate) owing to plant maintenance shutdown in Apr 2023 (postponed from last fiscal). We expect PVC resin sales and margins to meaningfully improve over the rest of FY24F.

No change in estimates; no decision on capex or use of free cash

Resin sales volume of 258kt, +8% yoy, in FY24F could be slightly lower, given a very weak 1Q. However, we maintain our estimates as the potential exists for a catch-up in the rest of the year. Free surplus cash of Rs16.5bn could be utilized for capex, stock buyback or a special dividend, as per management. The existing capacity is sufficient to meet FY24F-25F growth targets & the capex guidance of Rs2-2.5bn/year was retained for FY24F/25F.

Valuation and risks

The FY20-25F EPS CAGR is estimated at 13% and we believe FIL is fairly priced at a five-year mean P/E of 18x. We maintain our target price of Rs177 on stock, and also its REDUCE rating. Clarity on the promoter family's legal settlement or any special dividend payout are key upside risks.

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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 | 8,491 | 6,093 |
| 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) | 15.51 | 10.89 | 45.65 | 13.48 | 18.78 |
| DPS (Rs) | 4.0 | 4.0 | 1.5 | 4.0 | 4.0 |
| Dividend Yield | 2.17% | 2.17% | 0.81% | 2.17% | 2.17% |
| EV/EBITDA (x) | 10.92 | 9.86 | 34.67 | 13.75 | 12.30 |
| P/FCFE (x) | (816.31) | 44.98 | 43.74 | 28.08 | 33.29 |
| Net Gearing | (20.4%) | (34.5%) | (26.5%) | (30.5%) | (32.6%) |
| P/BV (x) | 3.65 | 2.91 | 2.33 | 2.08 | 1.95 |
| ROE | 28.8% | 19.1% | 5.7% | 9.1% | 10.7% |
| % Change In Core EPS Estimates | | | | (0.01%) | (0.02%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call highlights

- Sales mix and growth aspiration:** Agri and non-agri pipe and fittings revenue grew equally at 28% yoy in 1QFY24. Non-agri pipes accounted for 30% of the total sales volume in 1QFY24. Management is focused on achieving an equal mix between agri and non-agri pipes over the next three-to-five years. CPVC sales volume grew by 20% yoy and fittings volume rose by 28% yoy. Management expects a long-term sales volume CAGR of 15% for pipes and fittings, of which agri pipes are expected to grow in single digits, in line with industry growth.
- Resin division update:** The Ratnagiri plant was shut down for maintenance for a major part of Apr 2023 that led to a significant decline in production. Typically, the plant undertakes maintenance in Oct/Nov every year. However, this did not happen last fiscal and had to be done this year. The company expects to achieve resin sales volume of 230kt in FY24F and 250-260kt in FY25F. Around 55% of the capacity uses EDC and ethylene for manufacturing resin.
- PVC prices:** Domestic prices declined by ~10% or nearly Rs8.5/kg, between Apr and Jun 2023 to Rs80-83/kg in India. A marginal rise of Rs1.5/kg was announced by Reliance Industries yesterday.
- In-house manufacturing capacity:** FIL undertook modular capacity expansion in the pipe and fittings division to the extent of 20kt last fiscal. The total segment's capacity now stands at 390kt. In addition to this, the company had set up a fittings plant having a capacity of 12kt. The plant is expected to reach peak capacity utilization by end-Aug 2023F and has spare land to be expanded further.
- Depreciation expenses update:** Reassessment of the useful life of certain assets led to a one-time increase in depreciation expenses by Rs90-100m in 1QFY24. Management indicated this as a one-time adjustment and depreciation expenses will be back to Rs250-260m/quarter from 2QFY24F.
- Capex:** The company maintained its annual capex guidance of Rs2-2.5bn for FY24F and FY25F. Bulk of this capex will be utilized towards maintenance of the PVC resin facility while the rest will be incurred on fittings moulds/dyes.
- Net cash:** At end of Jun 2023, net cash, including equivalents, stood at Rs16.5bn. In addition to this, spare land sale proceeds of ~Rs3.5bn are expected by end of Mar 2024F.

Figure 1: Pipe and fittings segment - quarterly trend

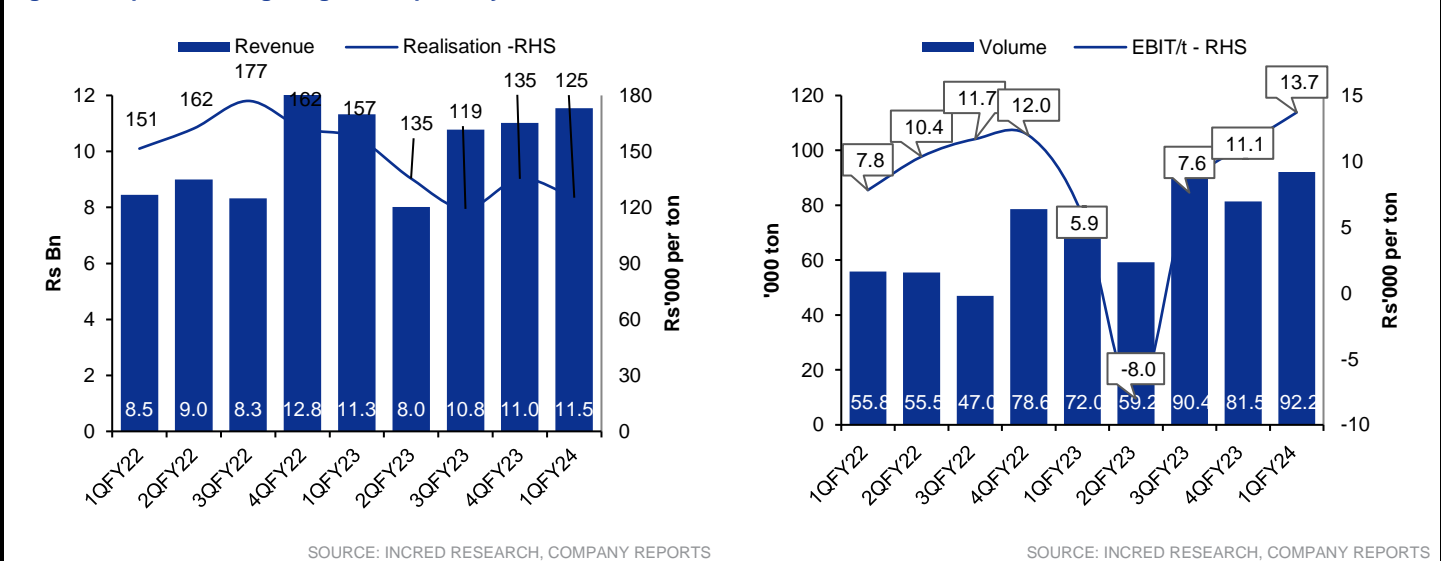
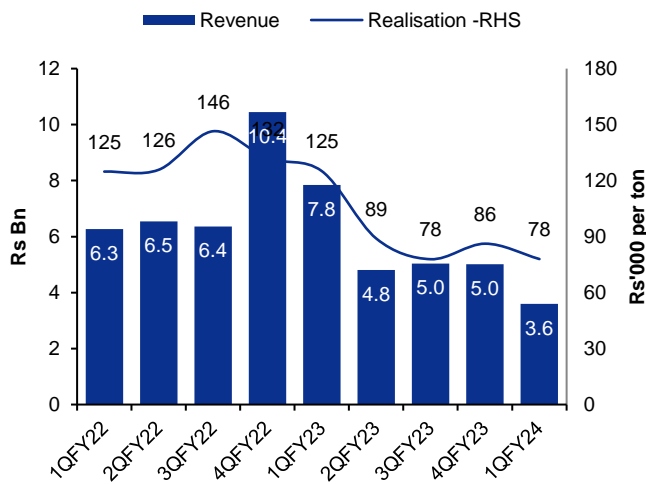
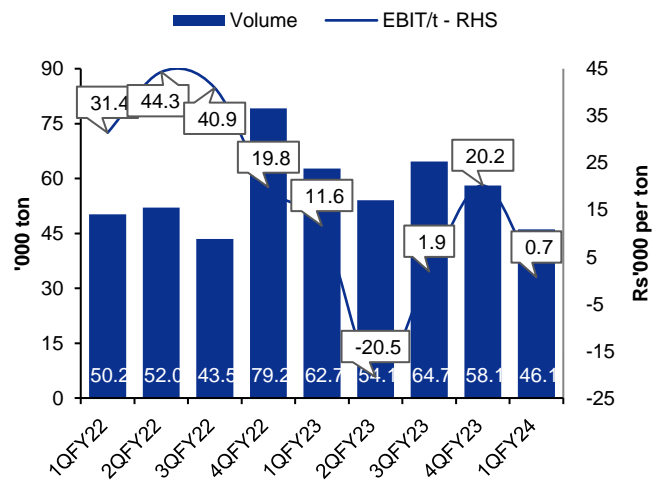


Figure 2: PVC resin segment - quarterly trend

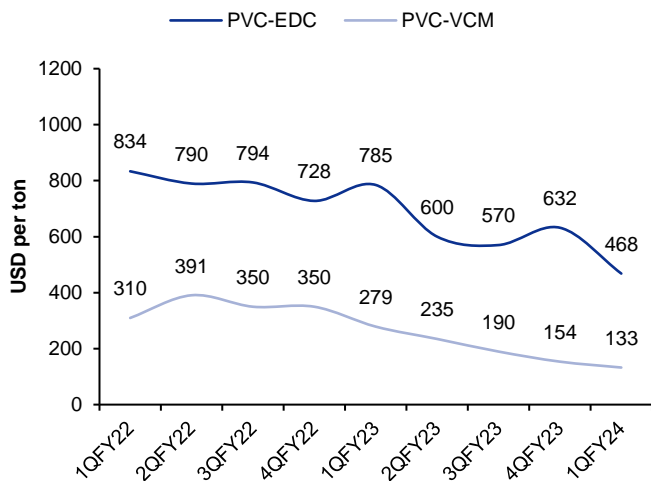


SOURCE: INCRED RESEARCH, COMPANY REPORTS



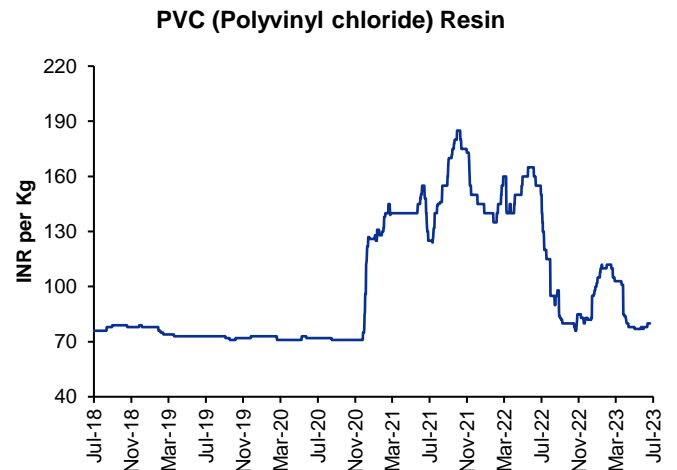
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PVC price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

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

| Spread (US\$/mt) | 1QFY24 | 1QFY23 | yoy (%) | 4QFY23 | qoq (%) |
|------------------|--------|--------|---------|--------|---------|
| PVC-EDC | 468 | 785 | (40.4) | 632 | (25.9) |
| PVC-VCM | 133 | 279 | (52.3) | 154 | (13.6) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 1QFY24 results snapshot

| YE Mar (Rs m) | 1QFY24 | 1QFY23 | yoy (%) | 4QFY23 | qoq (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 11,792 | 11,898 | (0.9) | 11,411 | 3.3 |
| EBITDA | 1,525 | 1,259 | 21.1 | 2,174 | (29.9) |
| EBITDA margin (%) | 12.9 | 10.6 | 235 bp | 19.1 | -612 bp |
| Adj. PAT | 1,153 | 992 | 16.2 | 1,665 | (30.7) |
| Diluted EPS (Rs) | 1.9 | 1.6 | | 2.7 | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: EBIT/t

| | 1QFY24 | 1QFY23 | yoy (%) | 4QFY23 | qoq (%) |
|------------------------|--------|--------|---------|--------|---------|
| PVC | 677 | 11,618 | (94.2) | 20,170 | (96.6) |
| PVC pipes and fittings | 13,716 | 5,917 | 131.8 | 11,089 | 23.7 |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 1QFY24 segment-wise results snapshot

| YE Mar (Rs m) | 1QFY24 | 1QFY23 | yoy (%) | 4QFY23 | qoq (%) |
|-------------------------------|---------------|---------------|---------------|---------------|----------------|
| Revenue | | | | | |
| PVC resins | 3,594 | 7,846 | (54.2) | 5,013 | (28.3) |
| Pipes and fittings | 11,542 | 11,320 | 2.0 | 11,021 | 4.7 |
| Less: Inter-segmental revenue | 3,345 | 7,268 | (54.0) | 4,623 | (27.7) |
| Total | 11,792 | 11,898 | (0.9) | 11,411 | 3.3 |
| EBIT | | | | | |
| PVC resins | 31 | 729 | (95.7) | 1,173 | (97.3) |
| Pipes and fittings | 1,264 | 426 | 196.9 | 903 | 40.0 |
| Total | 1,296 | 1,155 | 12.2 | 2,076 | (37.6) |
| EBIT margin (%) | | | | | |
| PVC resins | 0.9 | 9.3 | -842 bp | 23.4 | -2252 bp |
| Pipes and fittings | 11.0 | 3.8 | 719 bp | 8.2 | 276 bp |
| Total | 11.0 | 9.7 | 128 bp | 18.2 | -720 bp |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

| Rs m | 1QFY24 | 1QFY24F | Var (%) |
|-------------------|--------------|--------------|------------|
| Revenue | 11,792 | 11,486 | 2.7 |
| EBITDA | 1,525 | 1,546 | (1.4) |
| EBITDA margin (%) | 12.9 | 13.5 | -57 bp |
| Adj. PAT | 1,153 | 1,092 | 5.6 |

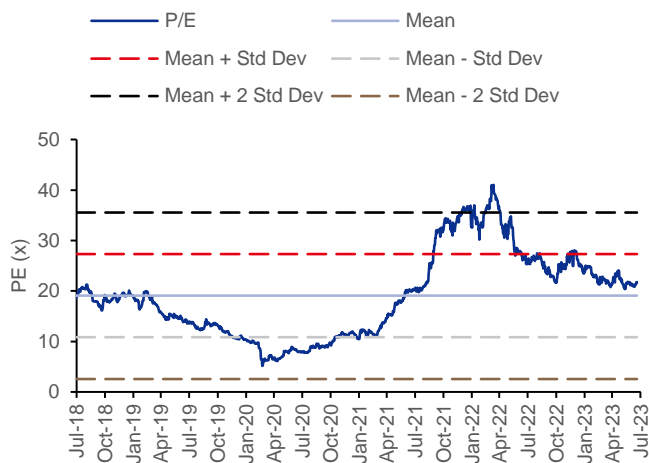
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus estimates

| Rs m | 1QFY24 | 1QFY24C | Var (%) |
|-------------------|--------------|--------------|------------|
| Revenue | 11,792 | 11,180 | 5.5 |
| EBITDA | 1,525 | 1,592 | (4.2) |
| EBITDA margin (%) | 12.9 | 14.2 | -131 bp |
| Adj. PAT | 1,153 | 1,101 | 4.8 |

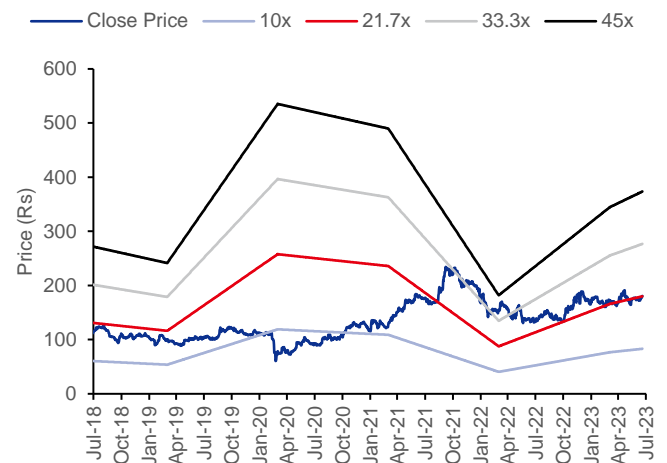
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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



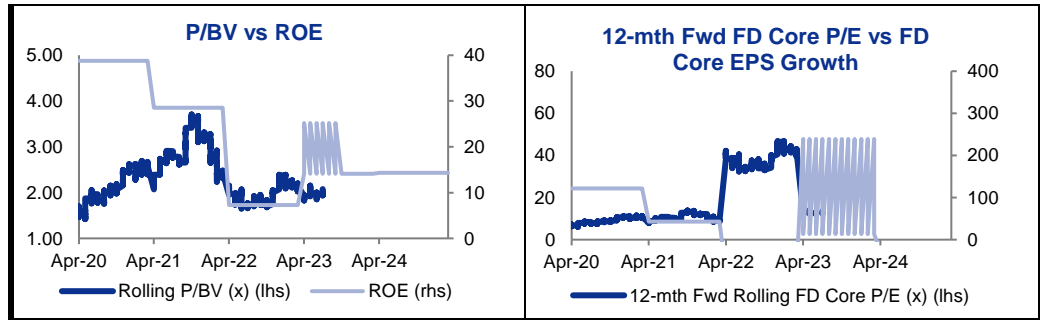
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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 | 844 | 1,042 |
| Pretax Income/(Loss) from Assoc. | 162 | (15) | 243 | 184 | 194 |
| Non-Operating Income/(Expense) | 296 | 335 | 790 | 155 | 164 |
| Profit Before Tax (pre-EI) | 9,921 | 10,070 | 3,213 | 7,338 | 8,142 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 9,921 | 10,070 | 3,213 | 7,338 | 8,142 |
| 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 | 8,491 | 6,093 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 7,378 | 10,513 | 2,507 | 8,491 | 6,093 |
| Recurring Net Profit | 7,378 | 6,753 | 2,507 | 4,741 | 6,093 |
| Fully Diluted Recurring Net Profit | 7,378 | 6,753 | 2,507 | 4,741 | 6,093 |

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 | 1,400 |
| Net Interest (Paid)/Received | (347) | (347) | (147) | (844) | (1,042) |
| Tax Paid | (2,118) | (3,356) | (679) | (2,597) | (2,049) |
| Cashflow From Operations | 9,410 | 6,220 | 3,017 | 3,176 | 5,304 |
| 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 | 1,150 | 1,209 |
| Cash Flow From Investing | (8,766) | (4,403) | (2,877) | 3,400 | (366) |
| 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) | 1,292 | 789 |
| Free Cashflow To Equity | (140) | 2,544 | 2,617 | 4,076 | 3,437 |
| Free Cashflow To Firm | 571 | 1,676 | (133) | 6,270 | 4,771 |

SOURCES: 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 | 20,358 |
| 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 | 32,668 | 34,344 |
| 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 | 55,044 | 58,655 |
| Minority Interests | | | | | |
| Total Equity | 31,390 | 39,278 | 49,031 | 55,044 | 58,655 |

| 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% | 12.7% | 13.2% |
| Return On Average Assets | 26.6% | 20.2% | 5.3% | 10.0% | 10.4% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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