

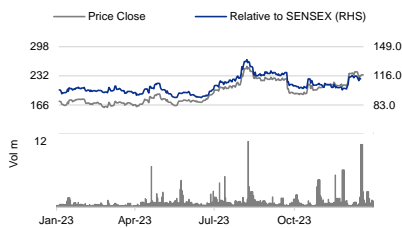
India

REDUCE (no change)

Consensus ratings*: Buy 10 Hold 6 Sell 2	
Current price:	Rs234
Target price:	Rs182
Previous target:	Rs182
Up/downside:	-22.2%
InCred Research / Consensus:	-22.4%
Reuters:	FINX.NS
Bloomberg:	FNXP IN
Market cap:	US\$1,748m Rs145,223m
Average daily turnover:	US\$3.5m Rs289.6m
Current shares o/s:	620.5m
Free float:	47.5%
*Source: Bloomberg	

Key changes in this note

- Revenue altered by -3 to +1% in FY25F/26F
- EBITDA raised by 1-3% in FY25F/26F
- PAT cut by 4% and raised by 5% in FY25F/26F respectively



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.6	4.1	34.4
Relative (%)	11.1	(4.7)	14.1

Major shareholders	% held
Promoters	52.5
SBI Large & Midcap Fund	4.7
Anuj A Sheth	3.3

Research Analyst(s)



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Finolex Industries

Timely capex needed for future growth

- Weak agriculture demand and a high base led 3Q pipe & fittings sales volume to decline to 81.3kt, down 10% yoy. Resin sales volume declined by 32% yoy.
- Despite low volume, better sales mix and cheaper input prices aided margins. Capex is needed as we expect pipe capacity to reach peak utilization in FY25F.
- Resin RM-FG spreads are weak while pipe/fittings sales growth could be constrained for capacity beyond FY25F. Retain REDUCE with a TP of Rs182.

Tepid volume growth offset by better-than-expected margins

Finolex Industries or FIL's 3QFY24 revenue/EBITDA/PAT stood at Rs10bn/Rs1.2bn/Rs954m, down 9%/+30%/+19% yoy, respectively. EBITDA/PAT were 20-30% above our estimates while 20-30% below Bloomberg consensus estimates. Weak agriculture demand and a high base quarter led to a fall in sales volume growth yoy. However, consolidated gross/EBITDA margins improved to 36% & 11.8%, respectively, each expanding by 350bp yoy, led by a better product mix (higher share of construction pipes) and cheaper input prices (latest EDC/VCM shipments were at very low prices). Pipe & fittings sales volume stood at 81.3kt, down 10% yoy and PVC resin sales volume was at 43.7kt, down 32% yoy. Pipe EBIT margin improved to Rs9.1/kg, +20% yoy, while PVC resin margin improved to Rs7/kg, up 2.7x yoy. Non-agri sales volume mix stood at 32%. Net cash stood at Rs15.7bn at the end of Dec 2023.

An optically weak 4Q likely; timely capex needed for future growth

Despite a strong recovery in sales volume expected for pipe & fittings and resins, a high base quarter and flattish margin qoq would lead to an optically weak 4QFY24F. We expect revenue/EBITDA/PAT growth of 6%/-3%/4% yoy, respectively, in 4QFY24F. Pipe & fittings and PVC resin capacity utilization was ~80% in 9MFY24. We expect the capacity to be fully utilized next financial year. We estimate pipe & fittings sales volume/EBIT CAGR at 7.6%/9.7%, respectively, over FY24F-26F. There will be no expansion of the PVC resin division, as per management. A timely capex announcement is needed to ensure growth beyond FY25F, in our view.

Change in our earnings estimates

We incorporate 9MFY24 numbers and marginally alter FY25F-26F estimates. Revenue/EBITDA estimates have been largely retained while PAT stands revised by +8%/-4%/+4.5% for FY24F/25F/26F, respectively. We expect the EBIT margin to stabilize at Rs12k/t for pipes and Rs13.5/kg for resins by FY26F. Owing to capacity constraints, we expect a revenue CAGR of 7% and EBITDA/PAT CAGR of 24% over FY24F-26F.

Valuation and risks

We retain our REDUCE rating and the target price of Rs182 based on a P/E of 20x (past five-year mean) FY25F EPS. Upside risks: Favourable family legal dispute outcome and better resin finished goods-raw materials or FG-RM spreads.

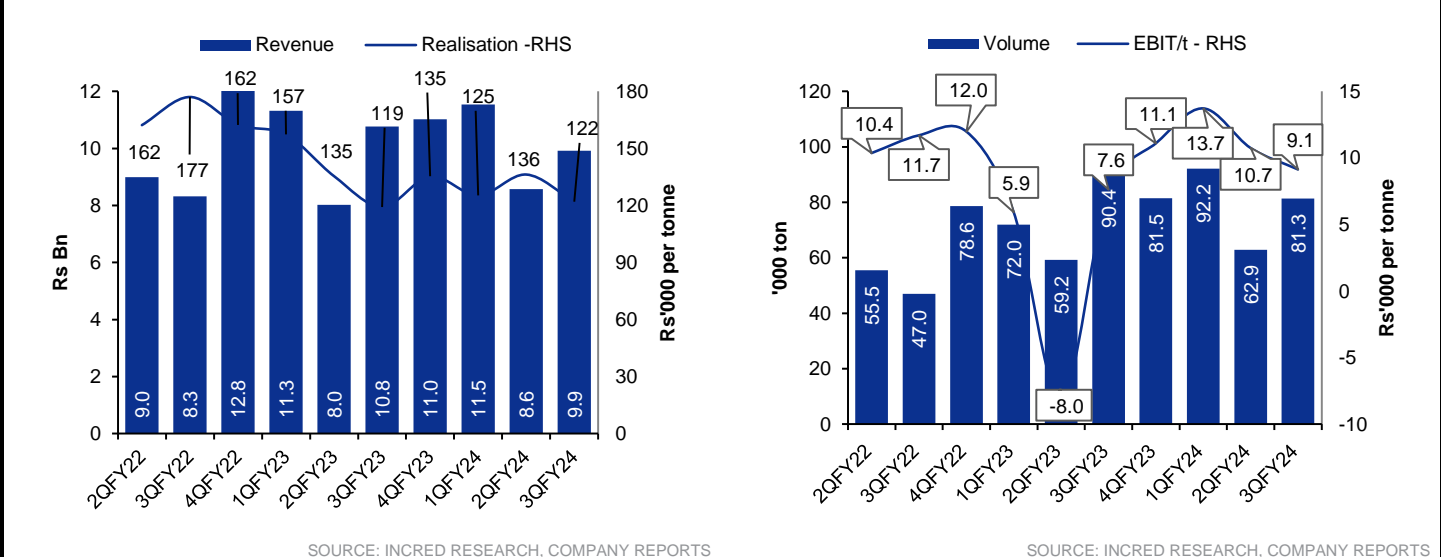
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	46,473	43,971	42,868	46,704	49,250
Operating EBITDA (Rsm)	10,237	2,925	5,851	8,173	8,988
Net Profit (Rsm)	10,513	2,507	4,822	9,774	7,384
Core EPS (Rs)	10.9	4.0	7.8	9.3	11.9
Core EPS Growth	(8.5%)	(62.9%)	92.4%	19.7%	27.9%
FD Core P/E (x)	13.81	57.93	30.11	14.86	19.67
DPS (Rs)	4.0	1.5	3.0	4.0	4.4
Dividend Yield	1.71%	0.64%	1.28%	1.71%	1.88%
EV/EBITDA (x)	12.86	45.19	22.30	15.22	13.44
P/FCFE (x)	57.08	55.50	42.23	18.70	22.08
Net Gearing	(34.5%)	(26.5%)	(28.3%)	(35.1%)	(38.3%)
P/BV (x)	3.70	2.96	2.79	2.45	2.27
ROE	19.1%	5.7%	9.5%	10.4%	12.0%
% Change In Core EPS Estimates			7.87%	(3.88%)	4.54%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings-call takeways

- Sales mix and growth aspiration:** Non-agri pipe and fittings accounted for 32% of total sales volume in 3QFY24 and 9MFY24. Management maintained its aspiration of achieving an equal mix between agri and non-agri pipes and fitting sales over the next three years. Management expects sales volume CAGR of 7-9% for agri products and 13-15% for non-agri products over the next three-to-five years.
- Resin sales to catch up in 4QFY24F:** Management maintained its guidance on PVC resin sales volume of 200-220kt, implying 80-85kt of sales in 4QFY24F.
- PVC prices:** Indian PVC prices remained largely stable at ~Rs80/kg during the quarter, barring the volatility at the start and the end of 3QFY24. In early Oct 2023, PVC prices corrected by Rs11/kg to stabilize at Rs77/kg for the rest of the quarter. The average price stood at Rs78-80/kg in Nov/Dec 2023. Since 1 Jan 2024, PVC price, as quoted by Reliance Industries, has stabilized at Rs77/kg. Most plastic product companies' management indicated that PVC price should stabilize at the current level over the next three-to-six months.
- Capex:** We expect FIL to utilize 80%+ of its manufacturing capacity for pipes, fittings and resins by the end of Mar 2024F. The company is in the process of finalizing a capex plan for manufacturing pipes and fittings (no expansion in PVC resins) as its existing plants have touched the maximum utilization rate and this would hinder growth beyond FY25F. We have built in maintenance and debottlenecking capex over FY24F-26F. Management gave guidance of incurring Rs1.5bn (9M: Rs850m) capex in FY24F.
- Cash flow:** At the end of Dec 2023, net cash, including equivalents, stood at Rs15.7bn. The surplus land sale (~37acres; 50% pending) is delayed, and we expect ~Rs4bn (Rs3.7bn gain on the first 50% land parcel sale) profit on the sale of land assets in FY25F.

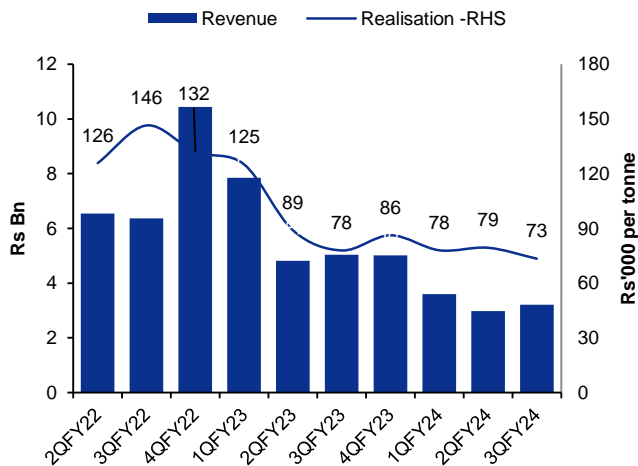
Figure 1: Pipe and fittings segment - quarterly trend



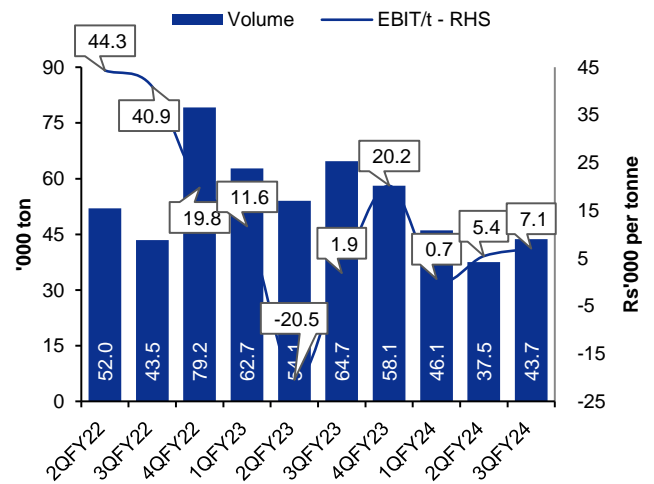
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Figure 2: PVC resin segment - quarterly trend

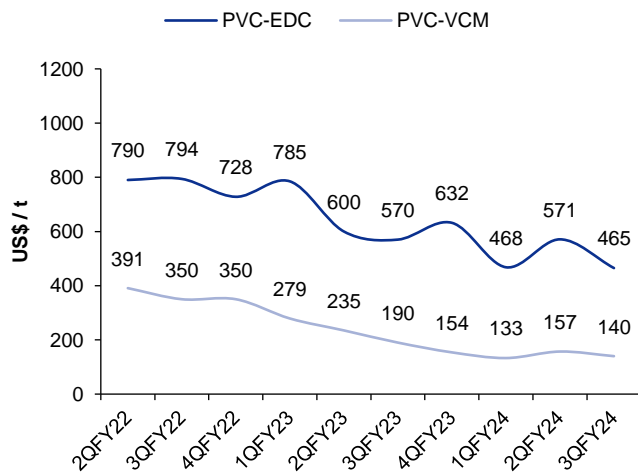


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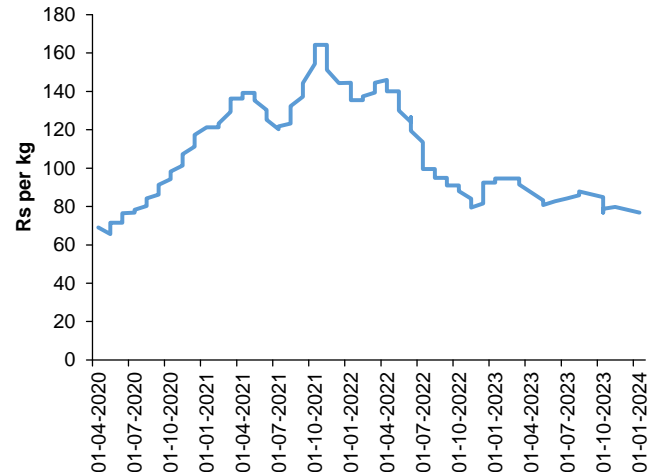
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: PVC-VCM and PVC-EDC spread trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Reliance Industries' quote for PVC prices



SOURCE: INCRED RESEARCH, BLOOMBERG

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

Spread (US\$/mt)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)
PVC-EDC	465	570	(18.4)	571	(18.6)
PVC-VCM	140	190	(26.3)	157	(10.8)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY24 results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	10,197	11,248	(9.3)	8,832	15.5	30,820	32,557	(5.3)
EBITDA	1,199	923	29.9	1,030	16.4	3,754	755	397.1
EBITDA margin (%)	11.8	8.2	355 bp	11.7	10 bp	12.2	2.3	986 bp
Adj. PAT	954	799	19.3	980	(2.6)	2,507	3,087	(18.8)
Diluted EPS (Rs)	1.5	1.3		1.6		5.0	1.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: EBIT/t

Rs/t	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
PVC	7,060	1,921	267.5	5,438	29.8	4,272	(1,397)	(405.9)
PVC pipes and fittings	9,130	7,622	19.8	10,745	(15.0)	11,348	2,882	293.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 3QFY24 segment-wise result snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue								
PVC resins	3,211	5,041	(36.3)	2,979	7.8	9,783	17,697	(44.7)
Pipes and fittings	9,916	10,772	(7.9)	8,572	15.7	30,030	30,109	(0.3)
Less: Inter-segmental revenue	2,930	4,564	(35.8)	2,719	7.8	-	-	-
Total	10,197	11,248	(9.3)	8,832	15.5	39,813	47,806	(16.7)
EBIT								
PVC resins	309	124	148.4	204	51.4	544	-254	(314.6)
Pipes and fittings	742	689	7.8	676	9.8	2,683	639	320.2
Total	1,051	813	29.3	880	19.5	3,227	385	738.1
EBIT margin (%)								
PVC resins	9.6	2.5	715 bp	6.8	277 bp	5.6	-1.4	699 bp
Pipes and fittings	7.5	6.4	109 bp	7.9	-40 bp	8.9	2.1	681 bp
Total	10.3	7.2	308 bp	10.0	34 bp	8.1	0.8	730 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	10,197	10,777	(5.4)
EBITDA	1,199	916	30.9
EBITDA margin (%)	11.8	8.5	326 bp
Adj. PAT	954	794	20.2

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	10,197	12,550	(18.8)
EBITDA	1,199	1,556	(22.9)
EBITDA margin (%)	11.8	12.4	-64 bp
Adj. PAT	954	1,439	(33.7)

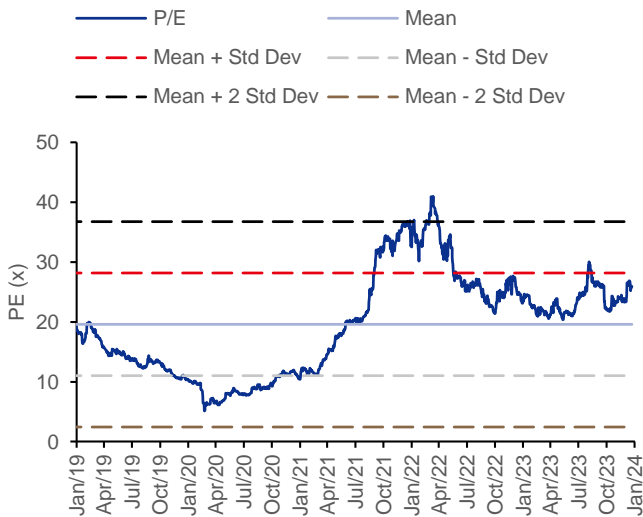
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenues	42,868	46,704	49,250	43,006	46,215	50,813	-0.3	1.1	-3.1
EBITDA	5,851	8,173	8,988	5,849	7,949	8,968	0.0	2.8	0.2
Adjusted consol. PAT (a)	4,822	5,774	7,384	4,471	6,008	7,063	7.9	-3.9	4.5
EPS	7.8	9.3	11.9	7.2	9.7	11.4	7.9	-3.9	4.5
EBITDA margin (%)	13.7	17.5	18.3	13.6	17.2	17.7	5 bps	30 bps	60 bps

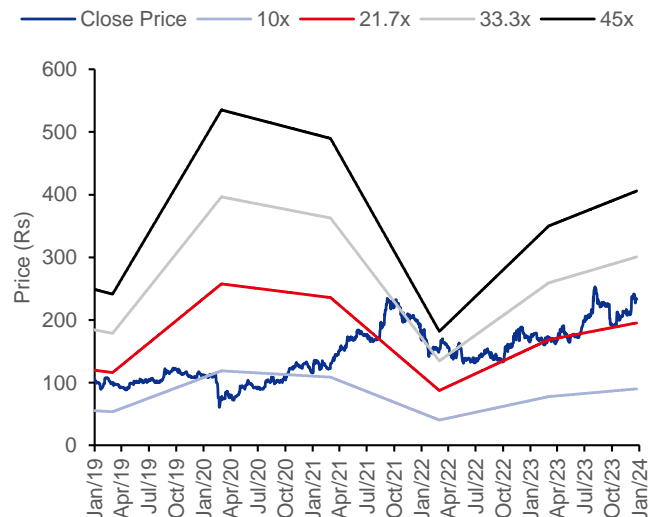
SOURCES: INCRED RESEARCH, COMPANY REPORTS

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



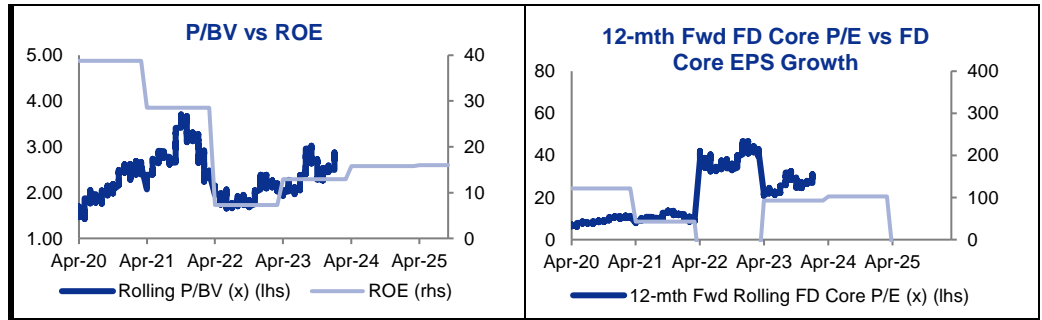
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	46,473	43,971	42,868	46,704	49,250
Gross Profit	17,983	13,250	15,968	19,499	21,178
Operating EBITDA	10,237	2,925	5,851	8,173	8,988
Depreciation And Amortisation	(834)	(892)	(1,190)	(1,275)	(1,361)
Operating EBIT	9,403	2,033	4,662	6,898	7,627
Financial Income/(Expense)	347	147	984	1,078	1,367
Pretax Income/(Loss) from Assoc.	(15)	243	421	463	509
Non-Operating Income/(Expense)	335	790	450	350	368
Profit Before Tax (pre-EI)	10,070	3,213	6,517	8,789	9,871
Exceptional Items					
Pre-tax Profit	10,070	3,213	6,517	8,789	9,871
Taxation	(3,317)	(706)	(1,694)	(3,015)	(2,488)
Exceptional Income - post-tax	3,761			4,000	
Profit After Tax	10,513	2,507	4,822	9,774	7,384
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,513	2,507	4,822	9,774	7,384
Recurring Net Profit	6,753	2,507	4,822	5,774	7,384
Fully Diluted Recurring Net Profit	6,753	2,507	4,822	5,774	7,384

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	10,237	2,925	5,851	8,173	8,988
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(756)	(2,088)	(834)	(611)	(395)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	441	3,005	1,855	1,891	2,244
Net Interest (Paid)/Received	(347)	(147)	(984)	(1,078)	(1,367)
Tax Paid	(3,356)	(679)	(1,694)	(3,015)	(2,488)
Cashflow From Operations	6,220	3,017	4,194	5,360	6,982
Capex	(844)	(1,687)	(1,600)	(1,897)	(1,958)
Disposals Of FAs/subsidiaries	3,806	11		4,000	
Acq. Of Subsidiaries/Investments	(7,910)	(1,620)	2,000		
Other Investing Cashflow	544	419	1,345	1,301	1,552
Cash Flow From Investing	(4,403)	(2,877)	1,745	3,404	(406)
Debt Raised/(repaid)	728	2,477	(2,500)	(1,000)	
Proceeds From Issue Of Shares			4		
Shares Repurchased					
Dividends Paid	(2,482)	(2,482)	(1,861)	(2,482)	(2,730)
Preferred Dividends					
Other Financing Cashflow	(141)	(252)	(361)	(223)	(185)
Cash Flow From Financing	(1,895)	(257)	(4,718)	(3,705)	(2,915)
Total Cash Generated	(79)	(117)	1,221	5,060	3,661
Free Cashflow To Equity	2,544	2,617	3,439	7,764	6,576
Free Cashflow To Firm	1,676	(133)	5,578	8,541	6,391

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	16,336	18,277	17,498	22,557	26,218
Total Debtors	3,345	2,975	3,054	3,455	3,711
Inventories	10,155	6,732	8,221	8,957	9,445
Total Other Current Assets	625	936	940	1,024	1,079
Total Current Assets	30,460	28,920	29,712	35,992	40,454
Fixed Assets	9,932	10,384	11,132	11,753	12,350
Total Investments	12,033	22,216	22,216	22,216	22,216
Intangible Assets					
Total Other Non-Current Assets	1,029	1,328	989	989	989
Total Non-current Assets	22,994	33,927	34,337	34,959	35,555
Short-term Debt	2,780	5,260	2,760	1,760	1,760
Current Portion of Long-Term Debt					
Total Creditors	4,631	2,893	3,523	3,839	4,048
Other Current Liabilities	4,577	3,182	3,288	3,583	3,778
Total Current Liabilities	11,989	11,335	9,572	9,182	9,586
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	827	988	988	988	988
Total Non-current Liabilities	827	988	988	988	988
Total Provisions	1,360	1,493	1,493	1,493	1,493
Total Liabilities	14,176	13,816	12,053	11,663	12,067
Shareholders Equity	39,278	49,031	51,996	59,288	63,942
Minority Interests					
Total Equity	39,278	49,031	51,996	59,288	63,942

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	34.2%	(5.4%)	(2.5%)	8.9%	5.5%
Operating EBITDA Growth	3.5%	(71.4%)	100.0%	39.7%	10.0%
Operating EBITDA Margin	22.0%	6.7%	13.7%	17.5%	18.3%
Net Cash Per Share (Rs)	21.85	20.98	23.75	33.52	39.42
BVPS (Rs)	63.30	79.02	83.80	95.55	103.05
Gross Interest Cover	66.74	7.47	12.92	30.96	41.25
Effective Tax Rate	32.9%	22.0%	26.0%	34.3%	25.2%
Net Dividend Payout Ratio	24.6%	29.0%	28.6%	28.2%	27.7%
Accounts Receivables Days	18.95	26.23	25.67	25.43	26.55
Inventory Days	123.90	100.31	101.45	115.24	119.63
Accounts Payables Days	54.98	44.70	43.53	49.39	51.27
ROIC (%)	60.8%	12.8%	28.6%	39.4%	40.7%
ROCE (%)	25.3%	4.9%	10.7%	13.8%	14.2%
Return On Average Assets	20.2%	5.3%	8.7%	11.4%	11.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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