

Finolex Industries Ltd.

No. of shares (m)	620.47
Mkt cap (Rs crs/\$m)	15768/1891.2
Current price (Rs/\$)	255/3.1
Price target (Rs/\$)	212/2.5
52 W H/L (Rs.)	265/162
Book Value (Rs/\$)	89/1.1
Beta	0.9
Daily volume NSE (avg. monthly)	1426100
P/BV (FY24e/25e)	2.8/2.6
EV/EBITDA (FY24e/25e)	19.9/16.4
P/E (FY24e/25e)	38.8/30.1
EPS growth (FY23/24e/25e)	-68.5/66.0/33.4
OPM (FY23/24e/25e)	6.7/12.2/14.2
ROE (FY23/24e/25e)	5.7/7.7/9.1
ROCE (FY23/24e/25e)	5.3/7.5/8.8
D/E ratio (FY23/24e/25e)	0.1/0.1/0.1
BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP IN
Reuters	FINX.NS

Shareholding pattern

	%
Promoters	52.5
MFs / Banks / FIs/Others	11.0
FPIs	6.4
Govt. Holding	0.0
Public & Others	30.1
Total	100.0

As on March 31, 2024

Recommendation

REDUCE

Analyst

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Company Brief

Headquartered in Pune, Finolex Industries is a leading manufacturer of PVC -U pipes & fittings and PVC resin. It has strong presence in both agri and non-agri pipes & fittings in India.

Highlights

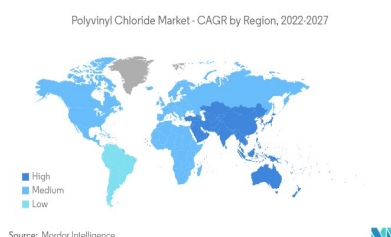
- Despite pulverization of agri - pipes volumes during Q3, Finolex's PVC pipes & fittings segment managed to restrict its overall volume decline to just 10%, all thanks to robust growth in non-agri pipes which seems to have been by frantic activity in construction sector. With stress in agri pipes dispatches continuing for a while now, Finolex's PVC pipes & fittings volumes grew by a miserable 6.7% in 9MFY24.
- Barely ebullient PVC prices coupled with weak dispatches of PVC resins explain much of the timidity in revenues of Finolex's PVC segment, thus casting its harrowing shadow on the earnings - EBIT of this segment has trudged at quarterly average of some Rs 18 crs so far this fiscal as against some Rs 180 crs at peak in FY22. If it were not for the improved product mix of PVC pipes & fittings and strong volumes, overall margins would have taken a brutal knock.
- Much of the eye-popping expansion in margins so far this fiscal (OPM: 12.2% Vs 2.2%) has stemmed from PVC pipes & fittings segment; it has seen EBIT per ton zoomed to over Rs 11 per kg from a shade under Rs 3 per kg in the same period a year ago. Though weakening material prices finds no small mention in this turnaround, yet enriched product mix (swayed towards non- agri pipes) too has made a striking dent.
- The stock currently trades at 40.1x FY24e EPS of Rs 6.35 and 30.1x FY25e EPS of Rs 8.47. Observing patterns forming over the horizon, the company plans to "surf" the big wave of construction of Indian water and housing infrastructure which would be supported by its backward integrated capacities of PVC resins. Yet the business faces scourge of vagaries of monsoons and intense competition from both organized and unorganized players. Earnings estimates for current fiscal have been trimmed by some 10% on lower revenues. Weighing odds, we retain our reduce rating on the stock with revised target of Rs 212 (previous target: Rs 150) based on 25x FY25e earnings for a period of 9-12 months.

(Figures in Rs crs)	FY21	FY22	FY23	FY24e	FY25e
Income from operations	3462.27	4647.42	4397.05	4195.01	4849.93
Other Income	72.48	459.22	121.38	167.71	171.46
EBITDA (other income included)	1061.79	1482.96	413.92	681.33	858.76
Profit after EO	728.47	753.32	236.57	392.81	523.99
EPS (Rs)	11.74	12.14	3.83	6.35	8.47
EPS growth (%)	124.3	3.4	-68.5	66.0	33.4

Investment Thesis

PVC Industry

Much of the expected growth in global PVC industry over the next few years - 4% CAGR during 2024-29 periods - would stem from increasing infrastructure construction activities in Asia-Pacific, the Middle East, and North America, according to a report by Modor Intelligence. Asia Pacific, the reports posits, will continue to lead the growth fomented by several macro-economic factors in India and China.

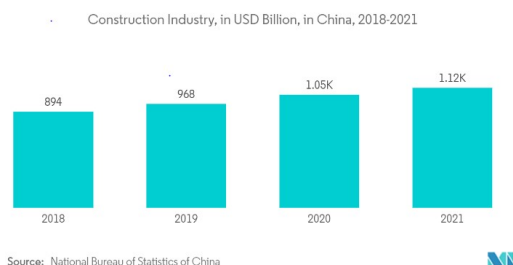


Source: Modor Intelligence

Source: Modor Intelligence

From robust growth in electronics output in India and China to increasing budgetary allocations to India's healthcare sector to increasing usage of medical devices in public hospitals in China (where private hospitals are fewer) to substantial growth witnessed in China's medical device market thanks to growing number of hospitals and increasing demand for medical assistance.

Straits Research expects that Middle East & Africa is anticipated to be the fastest-growing market because of the increasing need for building activities in countries such as UAE, Saudi Arabia, and Qatar. Sector expansion will also be fueled by expanding consumer market in Africa. In addition to driving the expansion of the electrical & electronics and consumer industries, rising disposable incomes in countries such as Mexico and Brazil are anticipated to bolster the industry's growth over the next years.



Source: National Bureau of Statistics of China

South Eastern nations will also be opportunistic markets for PVC resins as these nations benefit from increasing trading activities, significant manufacturing investment and a weak currency. Countries such as Vietnam and Indonesia have become centers for food production, necessitating the creation of manufacturing facilities, which would gobble a considerable quantity of PVC products, creating an excellent potential for resin makers in the region (Source: Straits Research). For supply of PVC, US has been one of the largest exporters of the material because of the abundance of shale gas by which ethylene is obtained, a major requirement of Polyvinyl Chloride.

Financials & Valuation

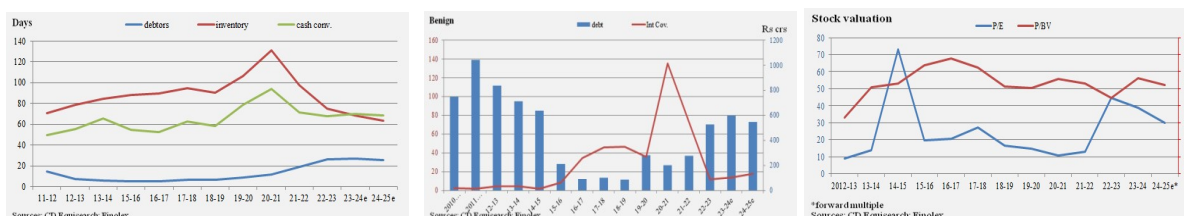
Government of India intervention in shoring up fledgling state of water infrastructure in India has prompted Indian PVC manufacturers to put on skates for hiking capacities and expanding distribution network. Manufacturers are agog seeing emerging opportunities presented by India's low penetration of pipes and have thus decided to "surf" along government schemes such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission, and Pradhan Mantri Krishi Sinchai Yojana. Of late weakening PVC resin prices has increased product affordability and thus has demand amplifying potential.

Despite ingrained competitive advantage in PVC manufacturing, Finolex Industries has failed to scale its PVC pipes & fittings business largely due to sclerosis in its agri-pipes business. Expansion of distribution network and enhancement of product range - foray in CPVC pipes included - has barely galvanized throughput - volumes would grow by 4.5% CAGR during five years ended FY24. Swaying mix of non-agri pipes has helped matters prompting it to channelize more resources in its marketing over the last few quarters.



After commissioning PVC fittings facility at Talegaon near Pune sometime in FY23, much of the capex would be routed to maintenance of existing plant and infrastructure. Base effect would amplify much of the earnings surge projected in the current fiscal where expansion of PVC pipes & fittings market - also aided by agri pipes business - helped propel OPMs by some 200 bps to 14.2%. Yet "drudgery" of slow recovery in PVC prices (margins included) would restrain ROE which has been languishing under 10% for some time now.

The stock currently trades at 40.1x FY24e EPS of Rs 6.35 and 30.1x FY25e EPS of Rs 8.47. Post tax earnings are estimated to advance by a third this fiscal backed by over 15% growth in revenues. ROE would be stymied by multitude of factors including great pile of liquid assets; capex for maintenance of assets; and low utilization of PVC resin assets. Subdued PVC resin prices could help prop up demand for PVC pipes & fittings but would severely hurt throughput of PVC resin assets. Balancing odds, we retain our reduce rating on the stock with revised target of Rs 212 (previous target: Rs 150) based on 25x FY25e earnings for a period of 9-12 months. For more info refer to our June report.



Cross Sectional Analysis

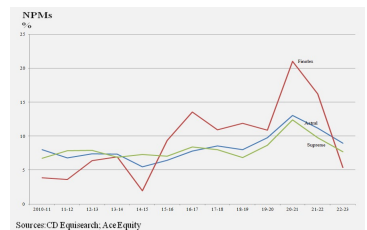
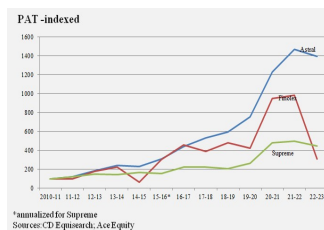
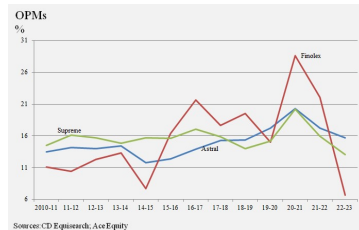
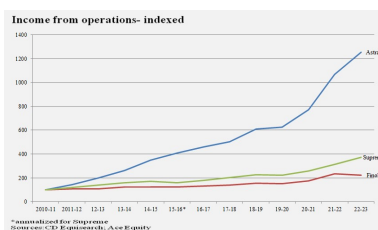
Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int. Cov.	ROE (%)	DER	Mcap / sales	P/BV	P/E
Astral Ltd	27	1959	52613	5523	572	17.0	10.3	31.9	23.3	0.0	9.5	19.7	91.9
Finolex Ind.	124	255	15768	4223	452	14.1	10.7	18.2	9.4	0.1	3.7	2.9	34.9
Supreme Ind	25	4186	53171	9725	1073	15.8	9.8	104.6	24.4	0.0	5.5	11.2	49.6

*figures in crores; calculations on ttm basis

Book value adjusted for goodwill and revaluation reserves where applicable

Much in line with recovery in volumes in plastic piping industry in India, Astral posted 15% growth in volumes of its plumbing business in Q3FY24 (24% growth in 9MFY24), which helped EBITDA of its plumbing business to grow by 15%. EBITDA during the quarter, however, was affected by inventory loss triggered by low raw material prices. Consolidated post tax earnings grew by some 21.5% to Rs 113.5 crs as against Rs 93 crs in the same period a year ago. In January, it started commercial production of pipe facility at Guwahati.

Plastic piping business has accounted much of the buoyancy to Supreme's earnings so far this fiscal for its EBIT has zoomed to Rs 608 crs from 350 crs in 9MFY23. Dreadful showing of all other business segments - bar packaging products - has all but increased its reliance on the government investments in water and housing infrastructure in the country. With piping business forming over 70% of the overall EBIT, doubts have resurfaced about the efficacy of its other business segments which have seen little scaling over the year but have made the business structure utterly complex and tough to decipher. Overall plastic goods volumes grew by 14% in Q3 and 24% in 9MFY24



Financials

Quarterly Results

Figures in Rs crs

	Q3FY24	Q3FY23	% chg.	9MFY24	9MFY23	% chg.
Income from operations	1019.69	1124.76	-9.3	3082.01	3255.99	-5.3
Other Income	35.12	27.82	26.2	137.32	92.18	49.0
Total Income	1054.81	1152.58	-8.5	3219.33	3348.17	-3.8
Total Expenditure	899.79	1032.89	-12.9	2706.09	3180.89	-14.9
EBIDTA (other income incl.)	155.02	119.69	29.5	513.24	167.28	206.8
Interest	7.66	5.13	49.3	29.14	20.77	40.3
Depreciation	27.57	22.50	22.5	89.34	65.40	36.6
PBT	119.79	92.06	30.1	394.76	81.11	386.7
Tax	30.58	19.99	53.0	100.89	2.88	3403.1
Net Profit	89.21	72.07	23.8	293.87	78.23	275.6
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	89.21	72.07	23.8	293.87	78.23	275.6
EPS	1.44	1.17	23.8	4.75	1.26	278.6

Segment results

Figures in Rs crs

	Q3FY24	Q3FY23	% chg.	9MFY24	9MFY23	% chg.
Segment Revenue						
PVC	321.07	504.09	-36.3	978.33	1769.74	-44.7
PVC Pipes & Fittings	991.61	1077.15	-7.9	3002.97	3011.18	-0.3
Total	1312.68	1581.24	-17.0	3981.30	4780.92	-16.7
Less: Inter-segment revenue	292.99	456.48	-35.8	899.29	1524.93	-41.0
Income from operations	1019.69	1124.76	-9.3	3082.01	3255.99	-5.3
Segment EBIT						
PVC	30.88	12.43	148.4	54.40	-25.35	-314.6
PVC Pipes & Fittings	74.24	68.90	7.8	268.28	63.85	320.2
Total	105.12	81.33	29.3	322.68	38.50	738.1
Interest	7.66	5.13	49.3	29.14	20.77	40.3
Unallocable exp.(net of income)	-22.33	-15.86	40.8	-101.22	-63.39	59.7
PBT	119.79	92.06	30.1	394.76	81.11	386.7

Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income from operations	3462.27	4647.32	4397.05	4195.01	4849.93
<i>Growth (%)</i>	16.0	34.2	-5.4	-4.6	15.6
Other Income	72.48	459.22	121.38	167.71	171.46
Total Income	3534.75	5106.54	4518.43	4362.72	5021.39
Total Expenditure	2472.96	3623.58	4104.51	3681.39	4162.63
EBIDTA (other income incl.)	1061.79	1482.96	413.92	681.33	858.76
Interest	7.27	14.09	27.23	39.69	40.75
EBDT	1054.52	1468.87	386.69	641.63	818.01
Depreciation	77.72	83.40	89.20	117.88	119.36
Tax	248.78	332.00	60.90	130.94	174.66
Net Profit	728.02	1053.47	236.59	392.81	523.99
EO	-0.45	300.15	0.02	-	-
Adjusted Net Profit	728.47	753.32	236.57	392.81	523.99
EPS (Rs)	11.74	12.14	3.83	6.35	8.47

Segment results

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Segment Revenue					
PVC	827.52	794.65	283.77	104.54	126.00
PVC Pipes & Fittings	2634.75	3852.67	4113.28	4090.47	4723.93
Total sales	3462.27	4647.32	4397.05	4195.01	4849.93
Segment EBIT					
PVC	696.40	722.78	91.90	86.60	198.56
PVC Pipes & Fittings	251.19	250.24	154.18	355.28	417.89
Total	947.59	973.02	246.08	441.88	616.44
Interest	7.27	14.09	27.23	39.69	40.75
Unallocable exp.(net of income)	-36.48	-426.54	-78.64	-121.57	-122.96
PBT	976.80	1385.47	297.49	523.75	698.66

Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
SOURCES OF FUNDS					
Share Capital	124.10	124.10	123.67	123.67	123.67
Reserves	2948.78	3739.66	4701.23	5419.28	6039.26
Total Shareholders Funds	3072.87	3863.75	4824.90	5542.95	6162.93
Long term debt	-	-	-	-	-
Total Liabilities	3072.88	3863.75	4824.90	5542.95	6162.93
APPLICATION OF FUNDS					
Gross Block	2,390.72	2451.40	2,600.09	2,750.09	2900.09
Less: Accumulated Depreciation	1,388.37	1458.17	1,547.37	1,665.25	1784.61
Net Block	1002.35	993.23	1055.17	1084.84	1115.48
Capital Work in Progress	8.15	9.46	43.82	10.00	10.00
Investments	1592.20	2633.29	3844.05	4465.19	4884.87
Current Assets, Loans & Advances					
Inventory	918.82	1015.47	673.15	706.81	742.15
Sundry Debtors	147.98	334.46	297.54	327.29	360.02
Cash and Bank	336.26	81.04	60.60	107.98	196.91
Loans and Advances	78.85	62.47	94.01	114.95	116.95
Total CA & LA	1481.91	1493.44	1125.30	1257.03	1416.03
Current Liabilities	932.33	1194.64	1131.53	1163.53	1148.53
Provisions	3.83	4.21	4.46	4.00	4.00
Total Current Liabilities	936.16	1198.85	1135.99	1167.53	1152.53
Net Current Assets	545.75	294.59	-10.69	89.50	263.50
Net Deferred Tax	-118.51	-115.70	-124.66	-129.68	-134.68
Other Assets (Net Of Liabilities)	42.94	48.89	17.21	23.11	23.76
Total Assets	3072.88	3863.76	4824.90	5542.95	6162.93

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Revenue	16.0	34.2	-5.4	-4.6	15.6
EBIDTA (other income included)	121.8	4.3	-62.6	64.6	26.0
Net Profit	124.3	3.4	-68.6	66.0	33.4
EPS	124.3	3.4	-68.5	66.0	33.4
Margins (%)					
Operating Profit Margin	28.6	22.0	6.7	12.2	14.2
Gross Profit Margin	30.5	23.5	8.8	15.3	16.9
Net Profit Margin	21.0	16.2	5.4	9.4	10.8
Return (%)					
ROCE	28.0	22.5	5.3	7.5	8.8
ROE	30.6	23.4	5.7	7.7	9.1
Valuations					
Market Cap / Sales	2.3	2.1	2.4	3.6	3.3
EV/EBIDTA	6.6	7.2	21.8	19.9	16.4
P/E	10.8	12.7	44.6	38.8	30.1
P/BV	2.8	2.7	2.2	2.8	2.6
Other Ratios					
Interest Coverage	135.4	72.7	11.9	14.2	18.1
Debt-Equity Ratio	0.1	0.1	0.1	0.1	0.1
Current Ratio	1.7	2.1	2.4	2.5	2.7
Turnover Ratios					
Fixed Asset Turnover	3.4	4.7	4.3	3.9	4.4
Total Asset Turnover	1.5	1.4	1.1	0.8	0.8
Debtors Turnover	31.3	19.3	13.9	13.4	14.1
Inventory Turnover	2.8	3.7	4.9	5.3	5.7
Creditors Turnover	7.4	8.1	10.9	14.3	17.5
WC Ratios					
Debtor days	11.7	18.9	26.2	27.2	25.9
Inventory days	131.1	97.4	75.1	68.4	63.5
Creditor days	49.0	45.3	33.5	25.5	20.8
Cash conversion cycle	93.8	71.1	67.9	70.1	68.6

Cumulative Financial Data

Figures in Rs crs	FY17-19	FY20-22	FY23-25e
Income from operations	8431	11094	13442
Operating profit	1652	2463	1493
EBIT	1557	2414	1628
PBT	1520	2382	1520
PAT	1019	1807	1153
Dividends	471	646	340
PVC pipe sales (lakh tons)	7.2	7.0	9.9
PVC resin production (lakh tons)	7.7	6.9	6.5
PVC resin sales (lakh tons)	2.2	1.9	0.5
OPM (%)	19.6	22.2	11.1
NPM (%)	12.1	16.3	8.6
Interest coverage	41.6	74.0	15.1
ROE (%)	17.9	20.1	8.0
ROCE (%)	17.0	19.0	7.8
Fixed asset turnover	3.1	3.8	4.2
Debtors turnover	61.1	18.1	12.9
Inventory turnover	4.2	3.5	4.5
Creditors turnover	8.6	7.7	11.2
Debtors days	6.0	20.2	28.3
Inventory days	86.2	103.8	80.5
Creditor days	42.6	47.4	32.7
Cash conversion cycle	49.6	76.6	76.1
Dividend payout ratio (%)	47.1	30.7	29.5

FY17-19 implies three years ending fiscal 19; *as on terminal year

Combination of barely weak dispatches of non-agri pipes and resulting margin gains in PVC pipes & fittings business account for much of the expected recovery in earnings this fiscal, though not enough pull the company out of the chasm of severe shrinkage in PVC resin prices - as a testimony of that, cumulative EBIT of PVC resin is estimated (depressingly though) to drop to Rs 377 crs in FY23-25e from Rs 1619 crs in FY20-22 period. OPMs would expectedly dangle from 22.2% in FY20-22 to 11.1% in FY23-25, thus would precipitate all but 40% drop in cumulative operating profits (see table). Increases in other income would help save blushes for cumulative post tax earnings would fail to show vigor in the projected period.

Higher dispatches of PVC pipes & fittings would keep afloat asset turnover ratios - fixed asset turnover estimated to rise to 4.2 from 3.8. Yet Finolex would be scarcely protected from dismal fall in its ROE - 8% vs 20.1% - not least due to gut-wrenching drop in earnings. Cash conversion cycle though would flat line to some 76 days in the projected period (see table).

Financial Summary – US dollar denominated

million \$	FY21	FY22	FY23	FY24e	FY25e
Equity capital	16.9	16.4	15.0	14.8	14.8
Equity shareholders' funds	384.3	476.9	575.6	650.0	724.3
Total debt	27.7	36.7	64.0	72.0	66.0
Net fixed assets (incl CWIP)	137.5	132.3	133.7	131.3	135.0
Investments	216.6	347.4	467.5	535.6	585.9
Net current assets	40.5	6.1	-12.6	-4.1	16.8
Total assets	384.3	476.9	575.6	650.0	724.3
Revenues	466.6	623.7	546.9	506.7	581.7
EBITDA	143.2	148.7	51.5	82.3	103.0
EBDT	142.2	146.8	48.1	77.5	98.1
PBT	131.7	135.6	37.0	63.3	83.8
PAT	98.2	101.1	29.4	47.4	62.8
EPS(\$)	0.16	0.16	0.05	0.08	0.1
Book value (\$)	0.62	0.77	0.93	1.05	1.17

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate (\$83.38/\$)

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY20	FY21	FY22	FY23	FY24
Average	70.88	74.20	74.51	80.39	82.79
Year end	75.39	73.50	75.81	82.22	83.37

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.