

Finolex Industries

HOLD

Healthy volume growth supported earnings

Summary

Finolex Industries' (FIL) Q4FY24 result was in-line with our estimate on net sales front, while margins were beat to our forecast. The company reported healthy volume growth in Q4, which off-set decline in blended realisation. The management expects the agro segment demand to be in higher single digit and high double digit in non-agro segment. Net sales was up by 8.3% YoY to Rs12.3bn, while EBITDA came in at Rs2bn, lower by 3.9% YoY. The company reported adjusted net profit of Rs1.6bn, marginally down by 1% over Q4FY23. The company's focus on increasing share on non-agri products to 50% by FY27E bodes well for overall earnings growth in long term. We have increased our net sales/PAT estimates by 2.8%/0.8% and 18%/13% over FY25E/FY26E respectively. Maintain HOLD with a TP of Rs282 (earlier Rs219) assigning 25x PER on FY26E.

Key Highlights and Investment Rationale

- Lower ASP led to higher sales volume:** FIL's blended sales volume was up 21% YoY to 169,386MT. Pipes volume grew by 23% YoY to 100,171MT, while PVC volume was up by 19% YoY to 69,215MT. Blended ASP was down by 13% YoY to Rs99.7/Kg. PVC/EDC delta stood at \$427MT & PVC/VCM delta stood at \$135MT in Q4FY24. The management has given the cautious view on the PVC prices going further due to increase in economic instability in Middle East region. We anticipate early double digit volume growth in FY25E/FY26E aided by healthy demand traction for pipes, particularly in non-agri segment.
- Consistent volume growth to drive earnings, HOLD with a TP of Rs282:** Though FIL's volume growth in Q4FY24 was majorly driven by softening of raw material prices, the management's focus on increasing share of high margin non-agri products would be another lever of growth in future. Further, capacity addition would strengthen sales volume, thus driving improved earnings over a long term horizon. HOLD with a TP of Rs282.

TP	Rs282
CMP	Rs271
Potential upside/downside	4%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	9.3	27.4	49.9
Rel to Sensex	11.2	25.0	32.5

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	9.6	11.3
Consensus	9.5	10.9
% difference	1.6	3.3

Key Stock Data

Bloomberg / Reuters	FNXP IN / FINX.BO
Sector	Plastic Building Material
Shares o/s (mn)	620
Market cap. (Rs mn)	168,397
3-m daily avg Trd value (Rs mn)	42.2
52-week high / low	Rs288 / 163
Sensex / Nifty	72,776 / 22,104

Shareholding Pattern (%)

Promoters	52.5
FII	6.4
DII	10.9
Public	30.2

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	46,473	43,971	43,174	48,726	54,186
Change (yoy, %)	34	(5)	(2)	13	11
EBITDA	10,237	2,925	5,849	7,189	8,341
Change (yoy, %)	3	(71)	100	23	16
EBITDA Margin(%)	22.0	6.7	13.5	14.8	15.4
Adj.PAT	6,738	2,389	4,548	5,949	6,976
EPS (Rs)	10.9	3.9	7.4	9.6	11.3
Change (yoy, %)	(6.9)	(64.4)	90.3	30.8	17.3
PE(x)	25.0	70.2	36.9	28.2	24.0
Dividend Yield (%)	1.1	1.3	0.9	1.8	2.2
EV/EBITDA (x)	16.6	58.9	29.3	23.5	19.8
RoE (%)	19.3	5.4	8.6	10.4	11.7
RoCE (%)	23.8	4.0	7.8	9.7	10.8

Source: IDBI Capital Research

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Concall Highlights:

Pipes and Fitting Segment:

- In Q4FY24, Pipes and Fitting Volumes increased by 23% YoY to 1,00,171 MT. In FY24, the volumes increase by 11% to 3,36,577 MT.
- In Q4FY24, revenue grew by 8%YoY to Rs12.3 bn. However EBITDA de-grew by 4% to Rs2 bn.
- In Q4FY24, the agricultural segment and non-agricultural segment contributed 70%:30%.
- In FY24, the agricultural segment and non-agricultural segment contributed 64%:36%. The company expects the contribution to be 50:50 by the end of FY27.

PVC Segment:

- In Q4FY24, PVC sales volume grew by 19% YoY to 69,215MT. Nevertheless, realizations de-grew by 13% YoY.
- In FY4, PVC sales volume de-grew by 18% to 196,542MT.
- During the quarter there was an inventory build-up in the PVC segment.

CAPEX:

- The company will incur the capex of Rs1.5 bn towards incremental capacity and plant maintenance.
- The management believes that the total capacity of 470,000MT in pipes and 48,000MT for Fitting is sufficient enough to cater demand for the short term. However for the long term (2-3 years) the company needs to add capacity in Pipes and fitting segment.

Spreads:

- PVC (\$):785in 4Q; 800 currently
- EDC(\$):358 in 4Q; 320 currently
- Lithium(\$): 650 in 4Q; 660 currently
- PVC-EDC spread (\$/t): 427; 480 currently

- PVC-VCM spread (\$/t): 135; 140 currently
- Management has given the cautious view on the PVC prices going further due to increase in economic instability in Middle East region.

Others:

- The company has currently 900 dealers and 24,000 retailers connect. The company is adding new dealers and removing non-performing dealers.
- During April,24 the company has given the leasehold right of 25.27 acres of land and gained the profit of Rs4.2 bn. (The gain is not included in current financial year).

Guidance:

- The company has guided 10-12% of volume growth for FY25.
- Management expects the agro segment demand to be in higher single digit and high double digit in non-agro segment.

Exhibit 1: Quarterly Financial Snapshot

Particulars (Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Total revenues	12,354	10,197	21.2	11,411	8.3
Total expenditure	10,265	8,998	14.1	9,236	11.1
EBIDTA	2,089	1,199	74.3	2,174	(3.9)
<i>EBIDTA margin (%)</i>	16.9	11.8	515bps	19.1	-214bps
Depreciation	267	276	(3.2)	238	12.1
Interest cost	73	77	(4.6)	65	13.2
Other income	438	351	24.7	292	50.0
PBT	2,187	1,198	82.6	2,164	1.1
Tax	639	361	77.0	633	0.9
Adj. net profit	1,548	837	85.0	1,531	1.2
share of profit of JV, associate and exceptional items	101	117	(13.9)	135	(25.1)
consolidated profit	1,649	954	72.9	1,665	(1.0)
EPS (Rs)	2.67	1.54	72.9	2.69	(1.0)

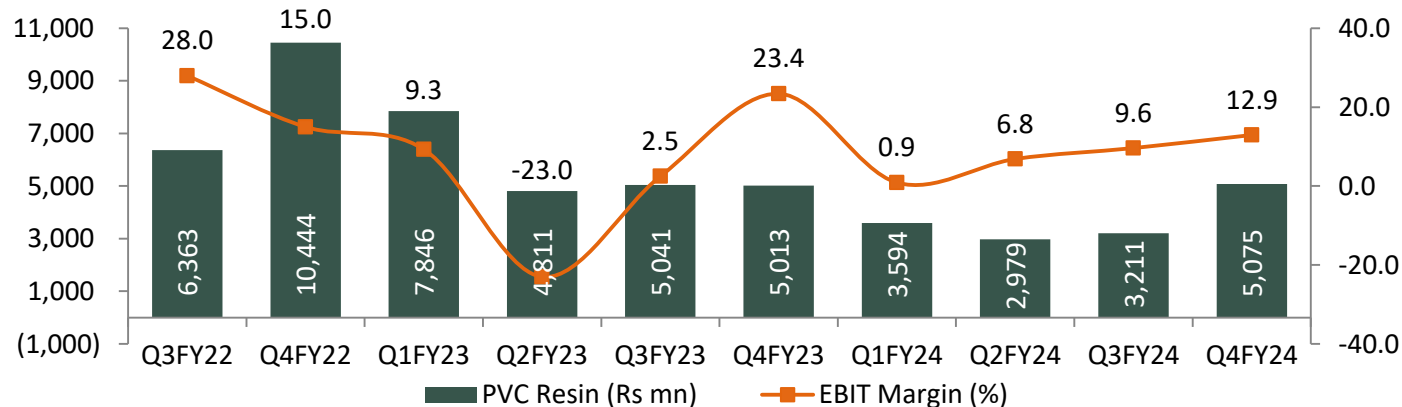
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q4FY24A	Q4FY24E	Variance (%)
Net Sales	12,354	11,811	4.6
EBITDA	2,089	1,591	31.3
<i>EBITDA Margin (%)</i>	16.9	13.5	344bps
Net Profit	1,649	1,291	27.8
EPS (Rs)	2.7	2.1	27.8

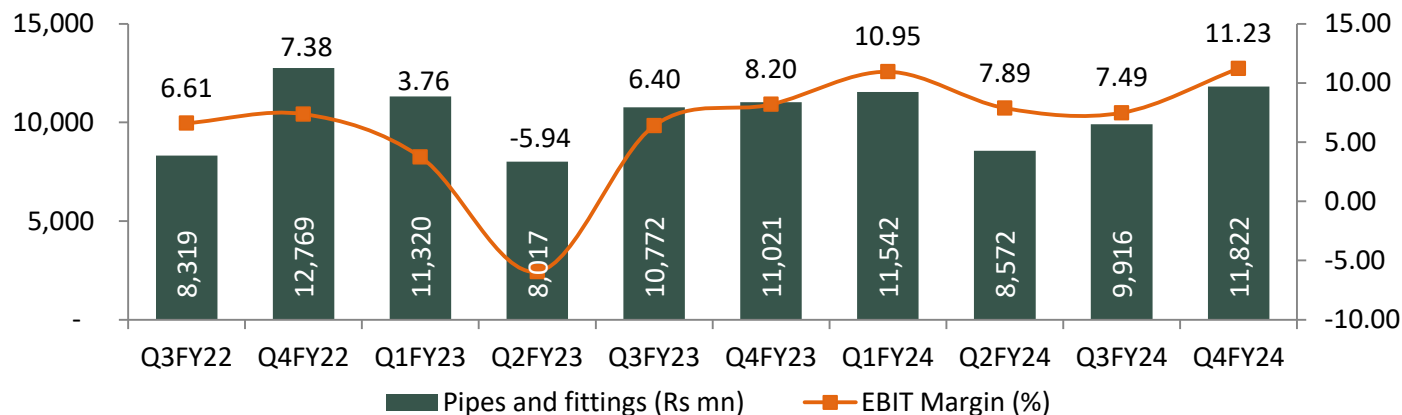
Source: Company; IDBI Capital Research

Exhibit 3: PVC Resins



Source: Company; IDBI Capital Research

Exhibit 4: Pipes and Fittings



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	34,628	46,473	43,971	43,174	48,726	54,186
<i>Change (yoy, %)</i>	16.0	34	(5)	(2)	13	11
Operating expenses	(24,735)	(36,236)	(41,045)	(37,326)	(41,537)	(45,845)
EBITDA	9,893	10,237	2,925	5,849	7,189	8,341
<i>Change (yoy, %)</i>	121.1	3	(71)	100	23	16
<i>Margin (%)</i>	28.6	22.0	6.7	13.5	14.8	15.4
Depreciation	(777)	(834)	(892)	(1,160)	(990)	(1,162)
EBIT	9,116	9,403	2,033	4,688	6,198	7,179
Interest paid	(73)	(141)	(272)	(365)	(138)	(125)
Other income	716	822	1,209	1,800	1,889	2,267
Pre-tax profit	9,759	13,845	2,970	6,123	7,949	9,322
Tax	(2,524)	(3,346)	(581)	(1,576)	(2,001)	(2,346)
<i>Effective tax rate (%)</i>	25.9	24.2	19.6	25.7	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	7,234	10,499	2,389	4,548	5,949	6,976
Exceptional items	-	3,761	-	-	-	-
Adjusted net profit	7,234	6,738	2,389	4,548	5,949	6,976
<i>Change (yoy, %)</i>	158	(7)	(65)	90	31	17
EPS	11.7	10.9	3.9	7.4	9.6	11.3
Dividend per sh	4	3	4	3	5	6
<i>Dividend Payout (%)</i>	41	33	109	41	62	64

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	30,729	39,278	49,031	56,343	58,581	61,105
Share capital	1,241	1,241	1,237	1,237	1,237	1,237
Reserves & surplus	29,488	38,037	47,794	55,106	57,344	59,868
Total Debt	2,039	2,780	5,285	3,844	3,460	3,114
Other liabilities	2,092	2,207	2,282	2,968	3,119	3,293
Curr Liab & prov	7,210	9,188	6,253	7,424	7,739	8,141
Current liabilities	7,037	8,991	6,027	7,146	7,446	7,833
Provisions	173	197	226	278	294	309
Total liabilities	11,340	14,176	13,820	14,236	14,319	14,549
Total equity & liabilities	42,069	53,454	62,851	70,579	72,900	75,654
Net fixed assets	10,094	10,018	10,814	10,600	10,619	10,218
Investments	5,069	15,525	17,671	19,052	18,099	17,194
Other non-curr assets	12,075	12,832	23,105	27,985	28,536	29,134
Current assets	14,830	15,078	11,261	12,942	15,646	19,107
Inventories	9,188	10,155	6,732	7,280	7,790	8,102
Sundry Debtors	1,480	3,345	2,975	4,576	4,714	4,855
Cash and Bank	3,363	810	606	317	2,285	5,258
Loans and advances	800	769	948	769	858	893
Total assets	42,069	53,454	62,851	70,579	72,900	75,654

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	9,759	13,845	2,970	6,123	7,949	9,322
Depreciation	777	834	892	1,160	990	1,162
Tax paid	(2,696)	(3,171)	(449)	(734)	(1,881)	(2,206)
Chg in working capital	1,782	(1,069)	852	(911)	(361)	(61)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	9,622	10,439	4,265	5,638	6,698	8,217
Capital expenditure	(646)	(758)	(1,688)	(946)	(1,009)	(762)
Chg in investments	(3,824)	(10,456)	(2,146)	(1,381)	953	905
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(4,470)	(11,213)	(3,834)	(2,327)	(57)	143
Equity raised/(repaid)	0	0	(4)	0	0	0
Debt raised/(repaid)	(790)	742	2,505	(1,441)	(384)	(346)
Dividend (incl. tax)	(2,978)	(2,234)	(2,606)	(1,855)	(3,710)	(4,452)
Chg in minorities	-	-	-	-	-	-
Other financing activities	1,046	(286)	(531)	(305)	(578)	(590)
Cash flow from financing (c)	(2,722)	(1,778)	(636)	(3,601)	(4,673)	(5,388)
Net chg in cash (a+b+c)	2,430	(2,552)	(205)	(289)	1,969	2,972

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	49	63	79	91	94	98
Adj EPS (Rs)	11.7	10.9	3.9	7.4	9.6	11.3
Adj EPS growth (%)	158	-7	-64	90	31	17
EBITDA margin (%)	28.6	22.0	6.7	13.5	14.8	15.4
Pre-tax margin (%)	28.2	29.8	6.8	14.2	16.3	17.2
Net Debt/Equity (x)	0.0	0.1	0.1	0.1	0.0	0.0
ROCE (%)	31	24	4	8	10	11
ROE (%)	28.6	19	5	9	10	12

DuPont Analysis

Asset turnover (x)	1.0	1.0	0.8	0.6	0.7	0.7
Leverage factor (x)	1.4	1.4	1.3	1.3	1.2	1.2
Net margin (%)	20.9	14.5	5.4	10.5	12.2	12.9

Working Capital & Liquidity ratio

Inventory days	97	80	56	62	58	55
Receivable days	16	26	25	39	35	33
Payable days	64	47	26	28	26	25

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	23.3	25.0	70.2	36.9	28.2	24.0
Price/Book value (x)	5.5	4.3	3.4	3.0	2.9	2.8
EV/Net sales (x)	4.8	3.7	3.9	4.0	3.5	3.1
EV/EBITDA (x)	16.9	16.6	58.9	29.3	23.5	19.8
Dividend Yield (%)	1.5	1.1	1.3	0.9	1.8	2.2

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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