

BUY

TP: Rs 180 | ▲ 22%

FINOLEX INDUSTRIES

| Plastic Products

| 19 May 2022

Higher volumes drive topline but PVC price volatility persists

- Q4 revenue increased 28% YoY as volumes/realisations rose 4%/9% in PVC pipes & fittings and 32%/8% in PVC resin
- Operating margin contracted 1,620bps YoY to 16.6% on higher RM cost (+1815bps) and other expenses (+80bps)
- We retain our TP of Rs 180 while raising our rating from HOLD to BUY post the recent stock correction

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Higher realisations and volumes bolster topline: FNXP reported a 28% YoY increase in Q4FY22 revenue to Rs 15.9bn due to higher volumes in PVC pipes & fittings (+4%) and PVC resin (+32%). In addition, realisations in both segments increased 9% and 8% YoY respectively.

EBITDA margin contracts 16ppt: An increase in raw material cost (+1815bps) and other expenses (+80bps) resulted in a substantial fall in EBITDA margin by 1,620bps YoY to 16.6%. EBITDA declined 36% YoY to Rs 2.6bn. The average PVC-EDC delta for the quarter decreased 17% YoY and 9% QoQ to US\$ 727/t.

PVC prices have begun to correct: PVC prices stood at US\$ 1,563/t in Q4FY22 vs. US\$ 1,753/t in Q3 (US\$ 1,483/t in Q4FY21). Since Apr'22, prices have cumulatively reduced by Rs 16/t. As domestic consumption in China has slowed due to the lockdown, India is witnessing higher PVC dumping (anti-dumping duty removed in Feb'22), which poses the risk of a further correction in prices. EDC prices stood at US\$ 835/t (US\$ 959/t in Q3) vs. US\$ 605/t in Q4FY21. The average PVC-EDC delta was at US\$ 727/t vs. US\$ 877/t in Q4FY21.

Near-term pain: We like FNXP for its pipe business and robust balance sheet but expect earnings to be lower over FY22-FY24 due to a high base and correcting PVC/EDC spreads. Demand was lukewarm in the month of April due to pressure on PVC prices. However, management has guided for double-digit volume growth in FY23. Further, the gradual shift in sales mix from agricultural to non-agricultural pipes could bring in better margins and valuations.

Valuations reasonable post correction; raise to BUY: The stock has corrected ~17% since 12 May 22' and is currently trading at 15x FY24E EPS compared to its 5Y median of 19x. We find valuations reasonable on the back of FNXP's strong brand, focus on high-margin non-agri business and net debt-free balance sheet, leading us to upgrade our rating from HOLD to BUY. Our TP remains unchanged at Rs 180, set at 18x FY24E EPS.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	FNXP IN/Rs 148
Market cap	US\$ 1.2bn
Free float	48%
3M ADV	US\$ 1.0mn
52wk high/low	Rs 245/Rs 125
Promoter/FPI/DII	52%/6%/42%

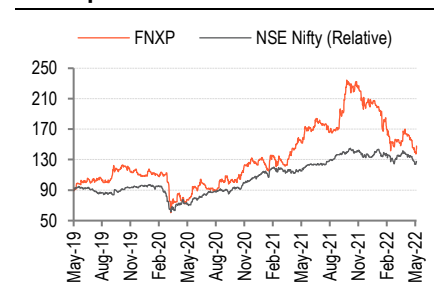
Source: NSE | Price as of 18 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	46,473	49,553	51,379
EBITDA (Rs mn)	10,237	8,682	8,972
Adj. net profit (Rs mn)	10,453	6,125	6,226
Adj. EPS (Rs)	16.8	9.9	10.0
Consensus EPS (Rs)	16.8	10.1	10.8
Adj. ROAE (%)	29.6	15.0	14.0
Adj. P/E (x)	8.8	15.0	14.7
EV/EBITDA (x)	8.7	9.4	8.6
Adj. EPS growth (%)	41.7	(41.4)	1.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Earnings call highlights

- **Guidance:** Management expects double-digit volume growth in FY23.
- **Pricing:** PVC prices are highly volatile and have cumulatively reduced by Rs 16/t since Apr'22.
- **Spreads:** During Q4FY22, the average PVC-EDC delta stood at US\$ 727/t (US\$ 877/t in Q4FY21 and US\$ 795/t in Q3FY22).
- **Volumes:** Volumes in PVC pipes and fittings stood at 78,629t for the quarter vs. 75,281t in Q4FY21 and 43,464t in Q3FY22. Volumes in CPVC were flattish YoY (+6% QoQ) at 3,600t with revenue at ~Rs 1.5bn in Q4.
- **Channel inventory:** As per management, due to volatility in PVC prices, dealers are keeping inventory light at not more than 8 days.
- **Agri/non-agri breakup:** In FY22, the agri/non-agri contribution was at 59%/41% vs. 57%/43% in FY21.
- **Dealers:** FNXP currently has 9,000 dealers and 22,000 retail touch points.
- **Capex:** Capex for the next 1-1.5 years is planned at Rs 2bn-2.5bn.
- **Cash on books:** Net cash flow currently totals Rs 9.6bn, the usage of which is yet to be decided. The company has sold half its MIDC land for Rs 3.7bn, which has been shown as an exceptional gain in the P&L.

Fig 1 – Standalone quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net sales	15,946	12,493	27.6	10,053	58.6	46,473	34,628	34.2
COGS	11,083	6,417	72.7	5,592	98.2	28,491	19,288	47.7
Employee expenses	583	593	(1.8)	449	29.8	1,908	1,668	14.4
Other expenses	1,634	1,382	18.2	1,593	2.6	5,837	3,780	54.4
EBITDA	2,647	4,101	(35.5)	2,419	9.4	10,237	9,893	3.5
EBITDA margin (%)	16.6	32.8	(1,622bps)	24.1	(747bps)	22.0	28.6	(654bps)
Depreciation & amortization	216	197	9.4	212	1.7	834	777	7.3
EBIT	2,431	3,904	(37.7)	2,207	10.1	9,403	9,116	3.2
EBIT margin (%)	15.2	31.2	(1,600bps)	22.0	(671bps)	20.2	26.3	(609bps)
Other income	248	135	82.9	194	27.8	832	725	14.7
Finance costs	81	18	338.0	9	848.2	141	73	93.8
Exceptional items	3,761	-	-	-	-	3,761	-	-
Profit before tax	6,359	4,021	58.2	2,392	165.8	13,855	9,768	41.8
Tax expenses	1,421	1,047	35.7	615	131.2	3,320	2,488	33.5
Reported Net Profit	4,938	2,973	66.1	1,778	177.8	10,535	7,280	44.7
Adjusted Net Profit	2,018	2,973	(32.1)	1,778	13.5	7,675	7,280	5.4

Source: Company, BOBCAPS Research

Fig 2 – Standalone segmental performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue								
PVC pipes & fittings	12,769	9,017	41.6	8,319	53.5	38,527	26,353	46.2
PVC resin	10,444	9,202	13.5	6,363	64.1	29,621	22,733	30.3
Total	23,213	18,219	27.4	14,681	58.1	68,148	49,086	38.8
Inter-segment revenues	7,268	5,726	26.9	4,629	57.0	21,675	14,458	49.9
Net sales (inc. other op. inc.)	15,946	12,493	27.6	10,053	58.6	46,473	34,628	34.2
EBIT								
PVC pipes & fittings	942	695	35.6	550	71.4	2,502	2,512	(0.4)
PVC resin	1,565	3,285	(52.4)	1,779	(12.0)	7,228	6,964	3.8
Total	2,507	3,980	(37.0)	2,328	7.7	9,730	9,476	2.7
EBIT Margins (%)								
PVC pipes & fittings	7.4	7.7	(33bps)	6.6	77bps	6.5	9.5	(215bps)
PVC resin	15.0	35.7	(2071bps)	28.0	(1298bps)	24.4	30.6	(1565bps)
Total	15.7	31.9	(1613bps)	23.2	(744bps)	20.9	27.4	(1165bps)

Source: Company, BOBCAPS Research

Fig 3 – Volumes and Realisations

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Volumes								
PVC pipes & fittings (MT)	78,629	75,281	4.4	43,464	80.9	2,36,895	2,36,087	0.3
PVC resin (MT)	79,182	60,232	31.5	46,994	68.5	2,24,924	2,12,060	6.1
Realisations								
PVC pipes & fittings (Rs/t)	1,32,826	1,22,241	8.7	1,46,386	(9.3)	1,25,039	96,291	29.9
PVC resin (Rs/t)	1,61,264	1,49,704	7.7	1,77,020	(8.9)	1,71,288	1,24,271	37.8
EBIT/t								
PVC pipes & fittings (Rs/t)	19,899	43,631	(54.4)	40,924	(51.4)	30,511	29,498	3.4
PVC resin (Rs/t)	11,897	11,537	3.1	11,695	1.7	11,126	11,845	(6.1)

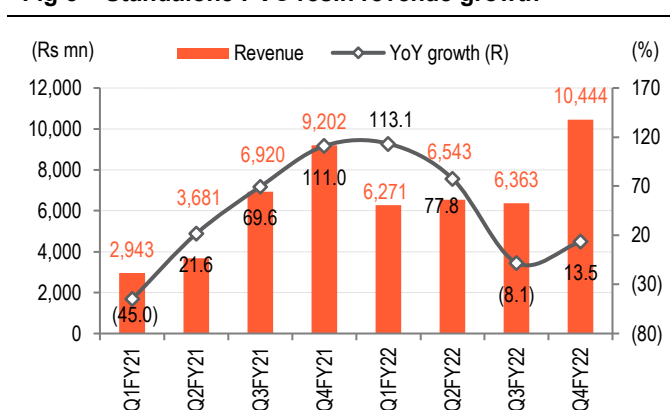
Source: Company, BOBCAPS Research

Fig 4 – Consolidated quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net sales	15,946	12,493	27.6	10,053	58.6	46,473	34,628	34.2
COGS	11,083	6,417	72.7	5,592	98.2	28,491	19,288	47.7
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EBIT margin (%)	15.2	31.2	(1,600bps)	22.0	(671bps)	20.2	26.3	(609bps)
Other income	248	135	82.9	194	27.8	822	716	14.9
Finance costs	81	18	338.0	9	848.2	141	73	93.8
Exceptional items	3,761	-	-	-	-	3,761	-	-
Profit before tax	6,359	4,021	58.2	2,392	165.8	13,845	9,759	41.9
Tax expenses	1,429	1,062	34.5	611	133.9	3,317	2,543	30.5
Share of profit from associates	22	30	(27.8)	(7)	(411.4)	(15)	162	(109.1)
Reported Net Profit	4,951	2,988	65.7	1,774	179.1	10,513	7,378	42.5
Adjusted Net Profit	2,036	2,988	(31.9)	1,774	14.7	7,654	7,378	3.7

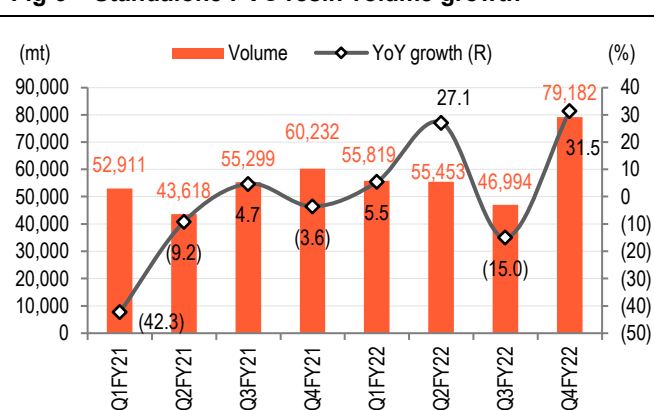
Source: Company, BOBCAPS Research

Fig 5 – Standalone PVC resin revenue growth



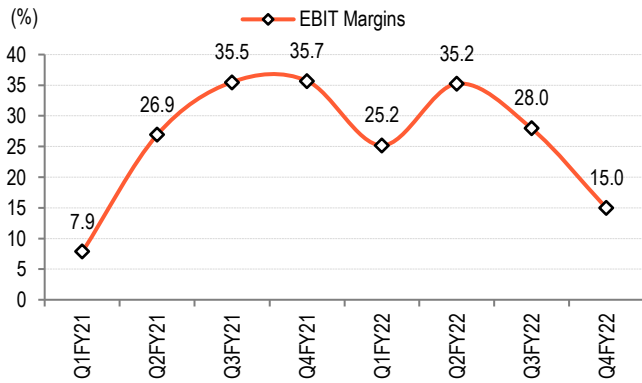
Source: Company, BOBCAPS Research

Fig 6 – Standalone PVC resin volume growth



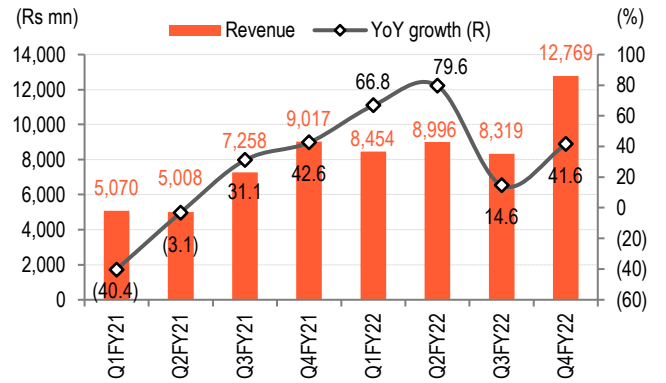
Source: Company, BOBCAPS Research

Fig 7 – Standalone PVC resin EBIT margin



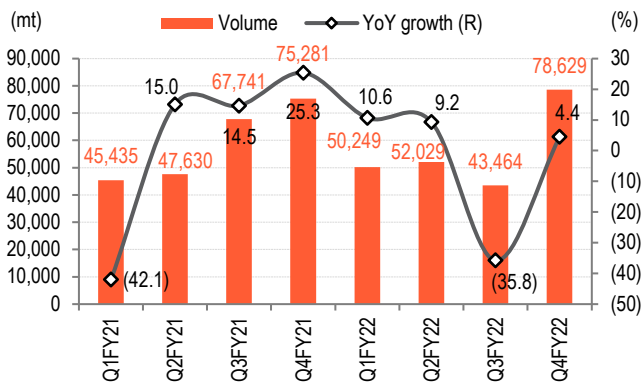
Source: Company, BOBCAPS Research

Fig 8 – Standalone PVC pipes & fittings revenue growth



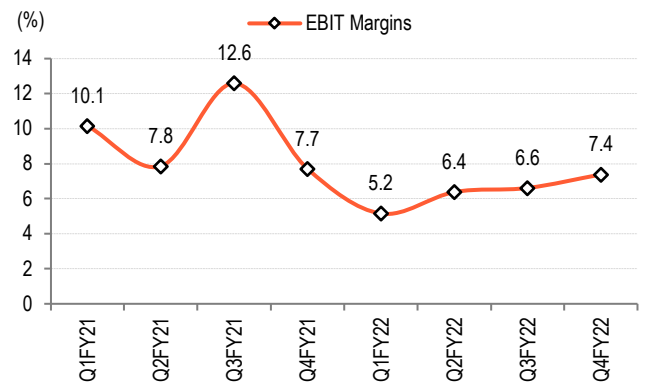
Source: Company, BOBCAPS Research

Fig 9 – Standalone PVC pipes & fittings volume growth



Source: Company, BOBCAPS Research

Fig 10 – Standalone PVC pipes & fittings EBIT margin



Source: Company, BOBCAPS Research

Valuation methodology

We like FNXP for its pipe business and robust balance sheet but expect earnings to be lower over FY22-FY24 due to a high base and correcting PVC/EDC spreads. Demand was lukewarm in the month of April due to pressure on PVC prices. However, management has guided for double-digit volume growth in FY23. Further, the gradual shift in sales mix from agricultural to non-agricultural pipes could bring in better margins and valuations.

The stock has corrected ~17% since 12 May'22 and is currently trading at 15x FY24E EPS compared to its five-year median of 19x. We find valuations reasonable on the back of FNXP's strong brand, focus on high-margin non-agri business and net debt-free balance sheet, leading us to upgrade our rating from HOLD to BUY. Our TP remains unchanged at Rs 180, set at 18x FY24E EPS.

Key risks

Key downside risks to our estimates are:

- volatility in PVC-EDC spreads,
- slowdown in agricultural/housing markets, and
- increased competition from unorganised players, leading to lower profitability.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Astral	ASTRA IN	4.5	1,749	2,205	HOLD
Finolex Industries	FNXP IN	1.2	148	180	BUY
Supreme Industries	SI IN	3.1	1,877	2,400	BUY

Source: BOBCAPS Research, NSE | Price as of 18 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	29,860	34,628	46,473	49,553	51,379
EBITDA	4,481	9,893	10,237	8,682	8,972
Depreciation	(738)	(777)	(834)	(1,239)	(1,284)
EBIT	3,743	9,116	9,403	7,443	7,687
Net interest inc./(exp.)	(119)	(73)	(141)	(167)	(226)
Other inc./(exp.)	299	716	822	863	812
Exceptional items	0	0	0	0	0
EBT	3,923	9,759	10,085	8,139	8,273
Income taxes	(852)	(2,543)	(3,377)	(2,064)	(2,097)
Extraordinary items	0	0	3,761	0	0
Min. int./Inc. from assoc.	256	162	(15)	50	50
Reported net profit	3,327	7,378	10,453	6,125	6,226
Adjustments	0	0	0	0	0
Adjusted net profit	3,327	7,378	10,453	6,125	6,226

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	2,334	3,952	4,631	3,839	3,976
Other current liabilities	1,723	3,085	4,429	3,123	3,238
Provisions	297	420	197	679	704
Debt funds	2,827	2,039	2,780	1,980	1,780
Other liabilities	1,873	2,053	2,138	2,028	1,918
Equity capital	1,241	1,241	1,241	1,241	1,241
Reserves & surplus	18,619	30,149	38,037	41,406	44,830
Shareholders' fund	19,860	31,390	39,278	42,647	46,071
Total liab. and equities	28,913	42,939	53,454	54,296	57,687
Cash and cash eq.	932	3,363	810	(908)	1,274
Accounts receivables	732	1,480	3,345	1,358	1,408
Inventories	8,578	9,188	10,155	12,115	12,369
Other current assets	710	779	222	1,493	1,408
Investments	6,607	16,792	27,177	27,877	28,577
Net fixed assets	10,153	10,013	9,922	10,264	10,480
CWIP	73	82	95	50	50
Intangible assets	16	11	11	11	11
Deferred tax assets, net	0	0	0	0	0
Other assets	1,113	1,233	1,719	2,036	2,111
Total assets	28,913	42,939	53,454	54,296	57,687

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	1,057	9,209	9,917	2,957	6,832
Capital expenditures	(603)	(647)	(837)	(1,455)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	942	(5,859)	(10,384)	(700)	(700)
Cash flow from investing	340	(6,507)	(11,222)	(2,155)	(2,200)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,921	(788)	742	(800)	(200)
Interest expenses	(119)	(73)	(141)	(167)	(226)
Dividends paid	(2,873)	(42)	(4,704)	(2,756)	(2,802)
Other financing cash flows	315	632	2,855	1,203	777
Cash flow from financing	(756)	(271)	(1,248)	(2,520)	(2,450)
Chg in cash & cash eq.	641	2,431	(2,552)	(1,719)	2,182
Closing cash & cash eq.	932	3,363	810	(908)	1,274

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	1.1	11.9	16.8	9.9	10.0
Adjusted EPS	1.1	11.9	16.8	9.9	10.0
Dividend per share	2.0	4.0	6.3	3.7	3.8
Book value per share	6.4	50.6	63.3	68.7	74.3

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	3.0	2.6	1.9	1.6	1.5
EV/EBITDA	20.3	9.2	8.7	9.4	8.6
Adjusted P/E	137.8	12.4	8.8	15.0	14.7
P/BV	23.1	2.9	2.3	2.1	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	84.8	75.6	103.7	75.3	75.3
Interest burden (PBT/EBIT)	104.8	107.1	107.2	109.4	107.6
EBIT margin (EBIT/Revenue)	12.5	26.3	20.2	15.0	15.0
Asset turnover (Rev./Avg TA)	95.9	96.4	96.4	92.0	91.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	14.6	28.8	29.6	15.0	14.0

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	(3.4)	16.0	34.2	6.6	3.7
EBITDA	(25.9)	120.8	3.5	(15.2)	3.3
Adjusted EPS	(13.8)	1009.0	41.7	(41.4)	1.6
Profitability & Return ratios (%)					
EBITDA margin	15.0	28.6	22.0	17.5	17.5
EBIT margin	12.5	26.3	20.2	15.0	15.0
Adjusted profit margin	11.1	21.3	22.5	12.4	12.1
Adjusted ROAE	14.6	28.8	29.6	15.0	14.0
ROCE	15.2	32.5	24.9	17.2	16.6
Working capital days (days)					
Receivables	9	12	19	17	10
Inventory	139	168	124	131	139
Payables	37	46	43	38	34
Ratios (x)					
Gross asset turnover	1.3	1.5	1.9	1.9	1.9
Current ratio	1.5	1.6	1.2	1.5	1.7
Net interest coverage ratio	31.4	125.4	66.7	44.7	34.1
Adjusted debt/equity	0.1	0.0	0.1	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

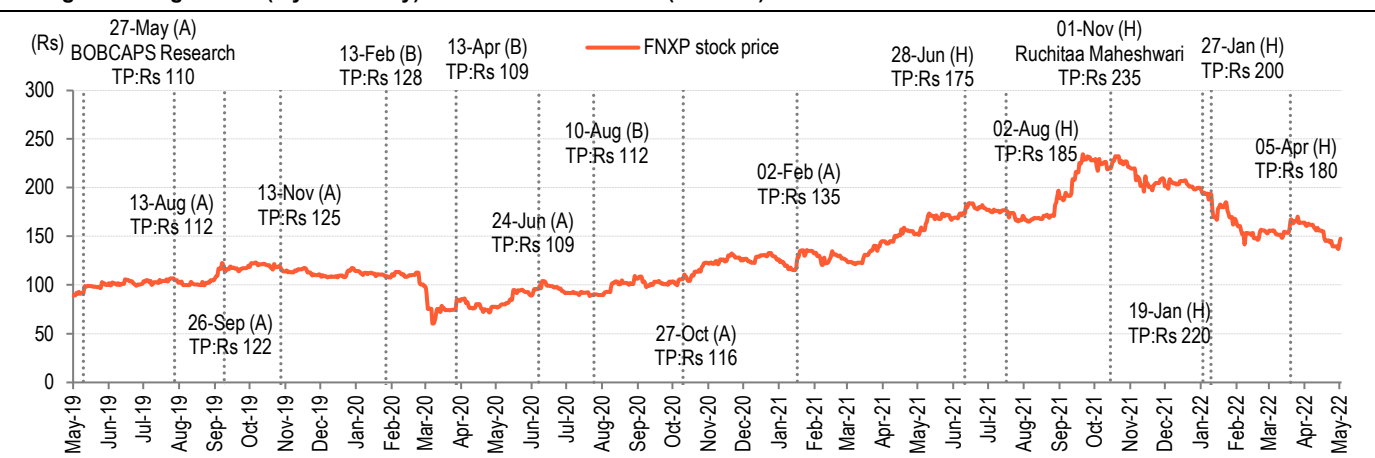
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): FINOLEX INDUSTRIES (FNXP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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