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FIRST LIGHT

27 October 2022

RESEARCH

Finolex Industries | Target: Rs 130 | –3% | HOLD

Revival slipped to Q4

SUMMARY

Finolex Industries

- Q2 revenue decreased 13% YoY as realisations in PVC resin/PVC pipes & fittings dropped 29%/17%
- PVC price drop (-32% QoQ), high-cost inventory and agricultural demand deferral drove EBITDA loss of Rs 1.4bn
- We cut FY23/FY24 PAT by 7%/8% and revise our TP to Rs 130 (vs. Rs 140); maintain HOLD

Click here for the full report.

Daily macro indicators

Indicator	21-Oct	24-Oct	Chg (%)
US 10Y yield (%)	4.22	4.24	3bps
India 10Y yield (%)	7.48	7.51	3bps
USD/INR	82.76	82.69	0.1
Brent Crude (US$/bbl)	93.5	93.3	(0.3)
Dow	31,083	31,500	1.3
Hang Seng	16,211	15,181	(6.4)
Sensex	59,307	59,832	0.9
India FII (US$ mn)	**19-Oct**	**20-Oct**	**Chg ($ mn)**
FII-D	16.1	(44.9)	(61.0)
FII-E	(46.2)	202.8	249.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

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HOLD
TP: Rs 130 | ⩔ 3%

FINOLEX INDUSTRIES | Plastic Products | 25 October 2022

Revival slipped to Q4

- **Q2 revenue decreased 13% YoY as realisations in PVC resin/PVC pipes & fittings dropped 29%/17%**
- **PVC price drop (-32% QoQ), high-cost inventory and agricultural demand deferral drove EBITDA loss of Rs 1.4bn**
- **We cut FY23/FY24 PAT by 7%/8% and revise our TP to Rs 130 (vs. Rs 140); maintain HOLD**

Ruchitaa Maheshwari
research@bobcaps.in

Subdued realisations dampen topline: FNXP reported a 13% YoY (-21% QoQ) decline in Q2FY23 revenue to Rs 9.4bn due to a significant fall in realisations for PVC pipes & fittings (-17% YoY, -14% QoQ) and PVC resin (-29% YoY, -29% QoQ). Volumes did move up in both segments by 7% YoY (-18% QoQ) and 4% YoY (-14% QoQ) respectively.

EBITDA loss due to high-cost inventory: A steep drop in PVC prices (~32% QoQ) to Rs 80-81/kg and inventory losses resulted in an EBITDA loss of Rs 1.4bn in Q2 against positive EBITDA of Rs 3bn in the year-ago quarter. At normal price levels, the company typically earns an EBIT/kg of Rs 8-10 in pipes and Rs 15 in PVC resin.

PVC continues to correct: PVC prices stood at US$ 900/t in Q2FY23 vs. US$ 1,450/t in Q1FY23 (US$ 830/t currently). EDC more than halved to US$ 300/t in Q2 (US$ 320/t currently) vs. US$ 670/t in Q1. The average PVC-EDC delta fell to US$ 600/t in Q2FY23 (US$ 510/t currently) vs. US$ 780/t in Q1 and US$ 790/t in Q2FY22. VCM prices stood at US$ 1,175/t in Q2 (US$ 880 currently), taking the PVC-VCM spread to US$ 235/t (US$ 170/t currently) vs. US$ 275/t in Q1 and US$ 391/t in Q2FY22. Ethylene was at US$ 975/t in Q2 (US$ 900/t currently) vs. US$ 1,175/t in Q1.

Spillover of high-cost inventory to hurt Q3 margins: We like FNXP for its pipes 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 H1FY23 owing to pressure on PVC prices, channel destocking and demand deferment from the agricultural sector. Per management, PVC prices are expected to decline further over the next two weeks. We thus expect Q3 to witness inventory losses and demand deferral from agri, putting added pressure on margins.

Maintain HOLD: We cut our FY23/FY24 PAT estimates by 7%/8% to incorporate the Q2 numbers as well as margin pressure anticipated in Q3 led by PVC price volatility and a tepid demand outlook. Our TP thus reduces to Rs 130 from Rs 140, based on an unchanged 16x FY24E P/E multiple vs. the stock's 5Y median of 17.3x – we maintain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	FNXP IN/Rs 134
Market cap	US$ 1.0bn
Free float	48%
3M ADV	US$ 1.1mn
52wk high/low	Rs 234/Rs 122
Promoter/FPI/DII	52%/6%/42%

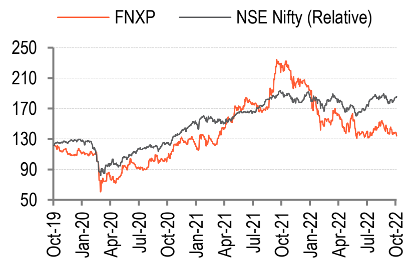
Source: NSE | Price as of 25 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	46,473	46,683	48,191
EBITDA (Rs mn)	10,237	6,217	7,248
Adj. net profit (Rs mn)	10,453	4,328	5,009
Adj. EPS (Rs)	16.8	7.0	8.1
Consensus EPS (Rs)	16.8	10.1	10.8
Adj. ROAE (%)	29.6	10.7	11.6
Adj. P/E (x)	8.0	19.2	16.6
EV/EBITDA (x)	7.8	11.7	9.4
Adj. EPS growth (%)	41.7	(58.6)	15.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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