

**HOLD**

TP: Rs 325 | ▼ 1%

**FINOLEX INDUSTRIES**

Building Materials

29 July 2024

**Mixed Q1FY25; market share loss on capacity constraints**

- **Topline miss driven by market share loss in pipe segment on capacity constraints; EBITDA beat on improved pipe margin**
- **Maintained volume growth guidance of 10-15% YoY for FY25 – which appears to be an optimistic target based on poor show in Q1**
- **Maintain HOLD on weak return ratios and expensive valuations; raise TP by 23% to Rs 325 on higher P/E (from 22x to 25x)**

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**Mixed quarter:** FNXP missed our topline estimate for Q1FY25 by 9.5% due to weak pipe volumes (-1.7% YoY vs +15.0% estimate), but it still managed to beat our EBITDA estimate by 3.4% due to a sharp improvement in pipe segment EBITDA per unit (+9.5% QoQ to Rs 15.7/kg vs Rs 12.5/kg estimate). FNXP booked a one-time gain of Rs 4.17bn related to the sale of non-core land bank in Pune in Q1FY25. Overall, FNXP revenue de-grew by 3.3% YoY, but EBITDA/APAT grew by 35.5%/44.9% YoY in Q1FY25 on a low base.

**Key highlights:** FNXP continued to lose market share in the plastic pipe segment as it posted inferior volume growth in Q1FY25 (FNXP: -1.7% YoY/5Y CAGR: -0.2% vs SI: +19.5%; 5Y CAGR: +10.5%) due to capacity constraints in the first two months of Q1FY25. Despite Q1 being an agri-dominated quarter and negative operating leverage, FNXP pipe EBITDA per unit improved by 9.5% QoQ in Q1FY25 due to lower discounts offered to dealers. Despite sharp improvement in PVC-EDC spread (from US\$ 427/t in Q4FY24 to US\$ 533/t in Q1FY25), the PVC resin segment EBITDA per unit was down 2.0% QoQ to Rs 9.3/kg in Q1FY25.

**Optimistic guidance:** FNXP maintained its volume growth guidance of 10-15% YoY for FY25, which implies an asking growth run rate of 16% YoY for the remaining 9MFY25. This appears to be an optimistic target based on poor Q1 result. The company expects pipe EBIT per unit to be in the range of Rs 14-15/kg in the near future and expects it to improve further over the long term on the rising contribution of high margin non-agri pipe sales. The company is evaluating plans of putting up a greenfield pipe plant – details of which would be shared in a quarter’s timeframe.

**Maintain HOLD; raise TP 23% to Rs 325:** We expect FNXP’s EPS to grow at a healthy 24% CAGR over FY24-FY27E due to a low base. However, we maintain our HOLD rating on the stock due to a weak returns profile amid poor capital allocation and expensive valuation (trades at 27.7x on 1Y forward P/E vs 5Y average of 19.4x). We have tweaked our EPS estimates (+4.3%/-2.2% for FY25E/FY26E) and introduced FY27 estimates. We raise our TP to Rs 325 (from Rs 265) due to the increase in our target P/E from 22x to 25x on Jun’26E EPS.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 328
Market cap	US\$ 2.4bn
Free float	47%
3M ADV	US\$ 5.6mn
52wk high/low	Rs 356/Rs 186
Promoter/FPI/DII	52%/7%/12%

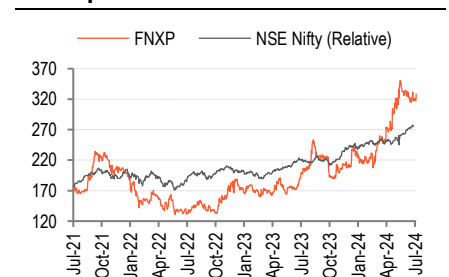
Source: NSE | Price as of 29 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	43,174	46,342	51,775
EBITDA (Rs mn)	5,849	8,566	9,696
Adj. net profit (Rs mn)	4,733	7,100	7,587
Adj. EPS (Rs)	7.7	11.5	12.3
Consensus EPS (Rs)	7.7	9.6	11.3
Adj. ROAE (%)	9.0	11.8	11.4
Adj. P/E (x)	42.9	28.6	26.8
EV/EBITDA (x)	37.4	25.5	22.8
Adj. EPS growth (%)	81.7	50.0	6.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	11,405	11,792	(3.3)	12,354	(7.7)
Raw Materials	6,686	7,805	(14.3)	7,739	(13.6)
Gross Profit	4,719	3,987	18.4	4,615	2.3
Employee	576	519	11.0	567	1.6
Others	2,077	1,943	6.9	1,959	6.0
EBITDA	2,067	1,525	35.5	2,089	(1.1)
D&A	261	344	(24.2)	267	(2.2)
EBIT	1,806	1,181	52.9	1,823	(0.9)
Interest cost	67	90	(26.3)	73	(9.0)
Int. & other income	4,724	478	887.6	539	776.9
PBT	6,463	1,569	312.0	2,288	182.5
Tax	1,456	416	250.3	639	127.8
PAT	5,007	1,153	334.2	1,649	203.7
Adj. PAT	1,671	1,153	44.9	1,649	1.4
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>
Gross margin	41.4	33.8	757	37.4	402
Employee	5.0	4.4	65	4.6	46
Others	18.2	16.5	173	15.9	235
EBITDA margin	18.1	12.9	519	16.9	121
Tax rate	22.5	26.5	(397)	27.9	(541)
APAT margin	14.7	9.8	487	13.3	131

Source: Company, BOBCAPS Research

**Fig 2 – Segment financials**

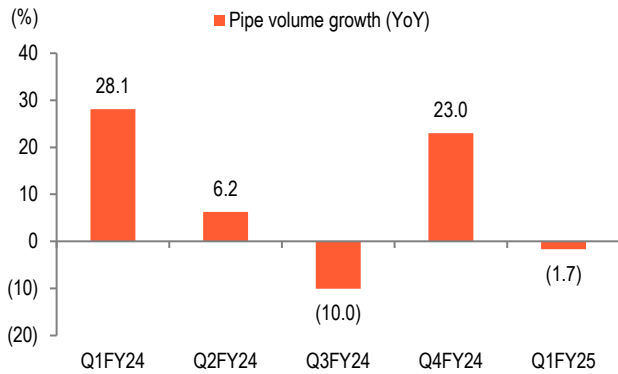
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Revenue (Rs mn)</b>					
External PVC Resin	171	250	(31.5)	532	(67.9)
Pipes & Fittings	11,234	11,542	(2.7)	11,822	(5.0)
<b>Sales Volume (KT)</b>					
External PVC Resin	1.8	2.5	(29.3)	6	(72.5)
Pipes & Fittings	91	92	(1.7)	100	(9.5)
<b>Average Realisation (Rs/kg)</b>					
External PVC Resin	98	101	(3.1)	84	16.7
Pipes & Fittings	124.0	125.2	(1.0)	118.0	5.0
<b>Adjusted EBITDA (Rs mn)</b>					
PVC resin	644	60	977.0	653	(1.4)
Pipes & Fittings	1,422	1,465	(2.9)	1,436	(1.0)
<b>Adjusted EBITDA (Rs/kg)</b>					
PVC resin	9.3	1.3	612.7	9.4	(2.0)
Pipes & Fittings	15.7	15.9	(1.3)	14.3	9.5

Source: Company, BOBCAPS Research

## Earnings call highlights

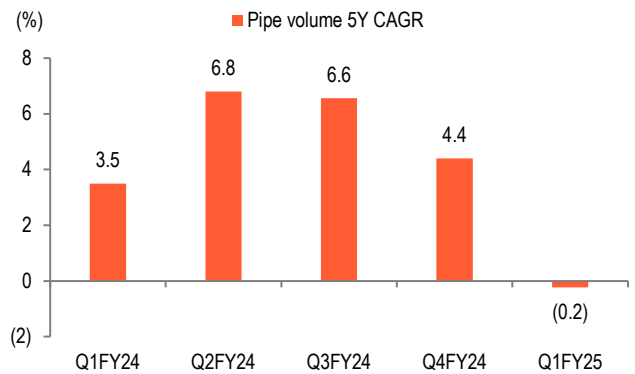
- **Market share:** FNXP lost market share in Q1FY25 due to capacity constraints in the first two months of Q1FY25.
- **Pipe volume outlook:** The company maintained its volume growth guidance of 10-15% for FY25.
- **Pipe volume mix:** The non-agri pipe volume share remained stable on YoY basis at 30% in Q1FY25. The company expects it to improve to 50% over the long term.
- **Inventory gain:** The company has not booked any mark-to-market (MTM) inventory gains in Q1FY25.
- **PVC resin price outlook:** PVC resin prices corrected from US\$ 855/t to US\$ 820/t in the recent past and may correct further in the near future. Management expects resin prices to remain volatile in the near future.
- **Margin outlook:** FNXP expects pipe EBIT per unit to be in the range of Rs14-15/kg in the near future and expects it to improve further over the long term due to the rising share of non-agri pipe sales.
- **Channel inventory** is at the normal level at present.
- **Capex:** FNXP plans to spend Rs 1.5bn to increase pipe & fittings capacity and for maintenance capex in FY25. Also, management is evaluating options to set up a new pipe manufacturing facility over the next two years to cater to future growth requirements. The company is evaluating plans of putting up a greenfield pipe plant – details of which would be shared in a quarter's timeframe.
- **Net cash** balance rose from Rs 18.2bn in Mar'24 to Rs 24.0bn in Jun'24.

**Fig 3 – Despite strong demand environment, FNX lost market share as its pipe volumes fell by 1.7% YoY and...**



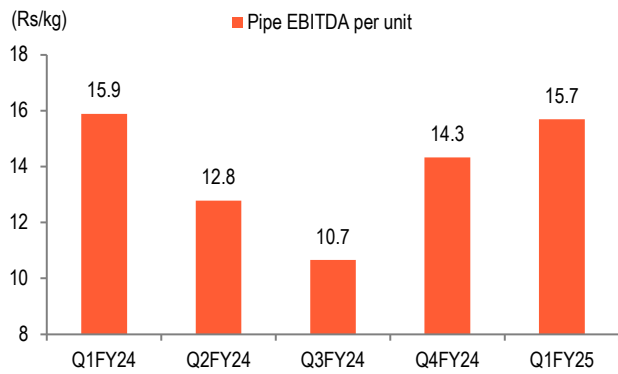
Source: Company, BOBCAPS Research

**Fig 4 – ... 0.2% on a 5Y CAGR basis in Q1FY25 due to capacity constraints**



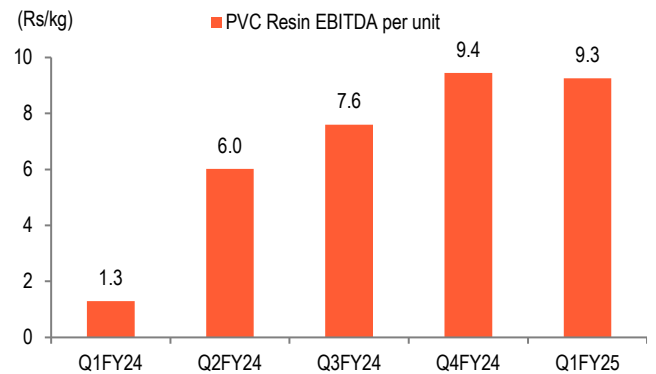
Source: Company, BOBCAPS Research

**Fig 5 – Pipe EBITDA per unit rose 9.5% QoQ in Q1FY25 due to lower discounts offered to dealers**



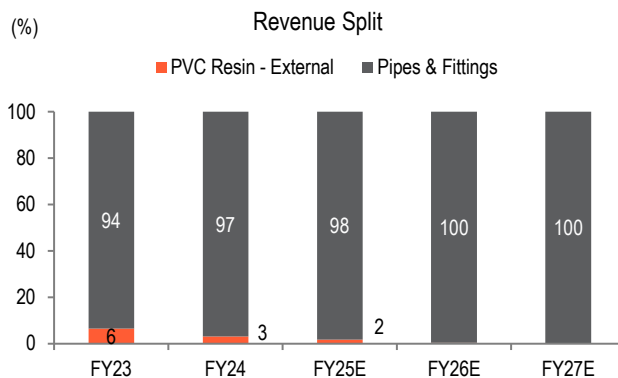
Source: Company, BOBCAPS Research

**Fig 6 – PVC resin EBITDA per unit was down 1.3% QoQ in Q1FY25, despite improvement in PVC-EDC spread**



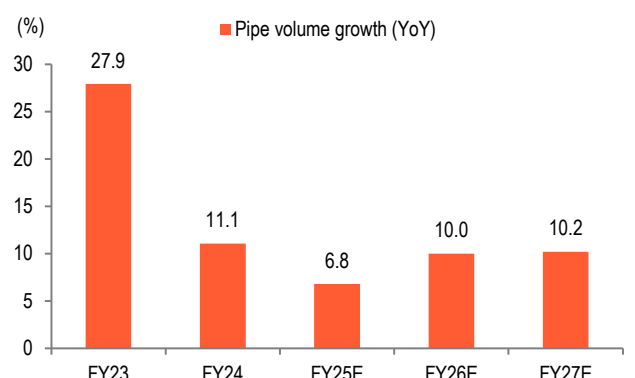
Source: Company, BOBCAPS Research

**Fig 7 – Business risk profile to improve as no major capex plan for B2B PVC resin segment**



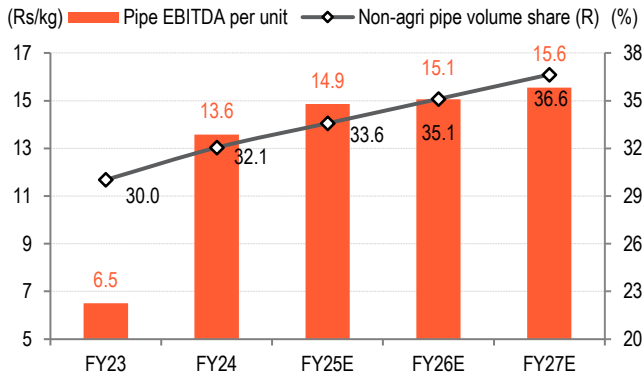
Source: Company, BOBCAPS Research

**Fig 8 – Pipe volumes forecast to grow at 9.0% CAGR over FY24-FY27E**



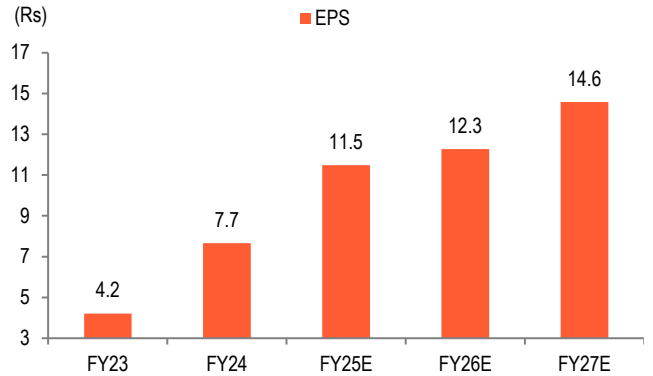
Source: Company, BOBCAPS Research

**Fig 9 – Pipe EBITDA per unit trending up on rising share of higher margin non-agri pipes**



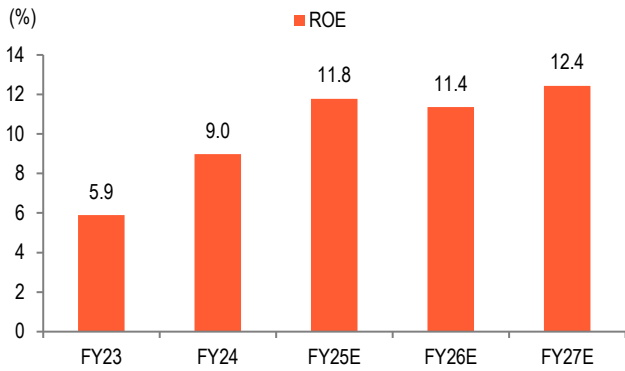
Source: Company, BOBCAPS Research

**Fig 10 – EPS to grow at a healthy rate of 24% CAGR over FY24-FY27E**



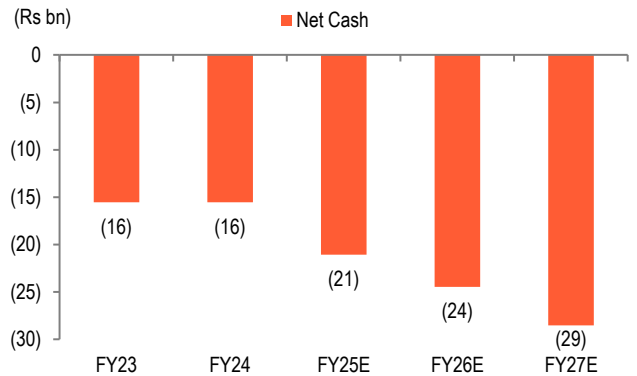
Source: Company, BOBCAPS Research

**Fig 11 – However, FNXP return ratio profile is likely to remain weak in FY25E-FY27E...**



Source: Company, BOBCAPS Research

**Fig 12 – ... due to poor capital allocation as there is no concrete plan of usage of surplus cash for growth**



Source: Company, BOBCAPS Research

## Valuation methodology

We expect FNX's EPS to grow at a healthy 24% CAGR over FY24-FY27E due to a low base. While we believe FNX's business risk profile will improve on a structural basis due to a rising share of B2C pipe revenue, we maintain our HOLD rating on the stock due to its weak returns profile amid poor capital allocation and expensive valuation (trades at 27.7x on 1Y forward P/E vs 5Y average of 19.4x). FNX's ROE is projected to decline from 15.4% in FY20 to 11.3%-12.4% in FY25E-FY27E in the absence of a concrete plan for better utilisation of a rising cash balance for growth purposes.

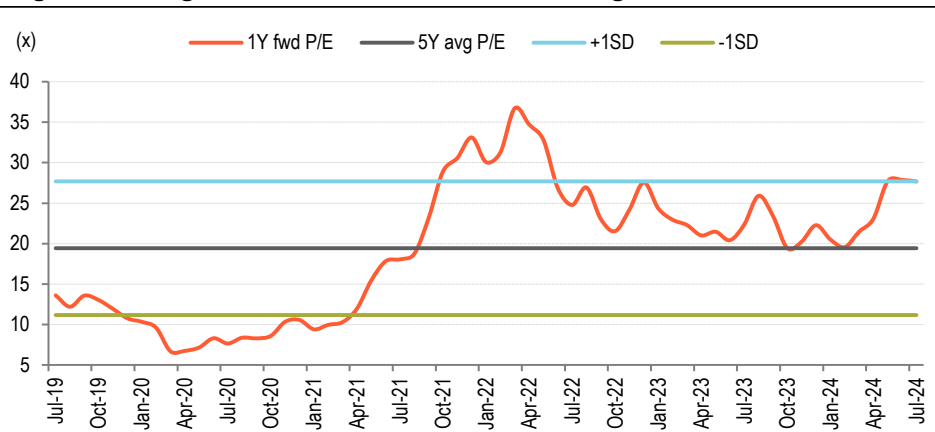
We have tweaked our EPS estimates (+4.3%/-2.2% for FY25E/FY26E) and introduced FY27 estimates. We raise our TP to Rs 325 (from Rs 265) due to the increase in our target P/E from 22x to 25x on Jun'26E EPS.

**Fig 13 – Revised estimates**

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	46.3	51.8	47.0	54.1	(1.4)	(4.3)
EBITDA	8.6	9.7	8.2	9.3	4.5	4.5
EBITDA margin	18.5	18.7	17.4	17.2	104bps	157bps
Adjusted EPS	11.5	12.3	11.0	12.5	4.3	(2.2)

Source: BOBCAPS Research

**Fig 14 – Trading at 27.7x 1Y forward P/E vs. 5Y average of 19.4x**



Source: Bloomberg, BOBCAPS Research

**Fig 15 – Key assumptions**

Parameter (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue mix</b>						
PVC resin	17.1	6.5	3.1	1.7	0.3	0.1
Pipes & Fittings	82.9	93.5	96.9	98.3	99.7	99.9
<b>Sales volume growth</b>						
Pipes & Fittings	11.7	27.9	11.1	6.8	10.0	10.2
<b>Realisation growth</b>						
Pipes & Fittings	30.9	(16.5)	(8.4)	1.9	3.0	3.0
<b>EBITDA unit (Rs/kg)</b>						
PVC resin	32.4	4.0	6.5	9.3	13.4	14.2
Pipes & Fittings	12.7	6.5	13.6	14.9	15.1	15.6

Source: Company, BOBCAPS Research

## Key risks

- Better utilisation of surplus cash, strong agricultural pipe demand and settlement of a long-pending family dispute related to the control of Finolex Cables (FNXC) would be key upside risks.
- A steep decline in PVC resin prices and market share loss in the plumbing pipe portfolio would represent key downside risks.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	617	650	HOLD
Astral	ASTRA IN	7.1	2,203	2,200	HOLD
Century Plyboards	CPBI IN	1.9	700	700	HOLD
Cera Sanitaryware	CRS IN	1.4	9,027	7,700	HOLD
Finolex Industries	FNXP IN	2.4	328	325	HOLD
Greenlam Industries	GRLM IN	0.9	562	560	HOLD
Greenpanel Industries	GREENP IN	0.5	334	340	HOLD
Greenply Industries	MTLM IN	0.5	317	320	BUY
Hindware Home Innovation	HINDWARE IN	0.4	451	600	BUY
Kajaria Ceramics	KJC IN	2.8	1,458	1,450	HOLD
Prince Pipes & Fittings	PRINCPIN IN	0.9	670	750	HOLD
Somany Ceramics	SOMC IN	0.4	767	900	BUY
Supreme Industries	SI IN	8.1	5,352	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 29 Jul 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>43,971</b>	<b>43,174</b>	<b>46,342</b>	<b>51,775</b>	<b>58,642</b>
EBITDA	3,258	5,849	8,566	9,696	11,114
Depreciation	892	1,160	1,082	1,140	1,199
EBIT	2,366	4,688	7,485	8,555	9,915
Net interest inc./(exp.)	(272)	(365)	(266)	(266)	(266)
Other inc./(exp.)	1,209	1,800	1,517	1,468	2,018
Exceptional items	332	0	0	0	0
EBT	2,970	6,123	8,735	9,757	11,667
Income taxes	706	1,770	2,941	2,552	3,033
Extraordinary items	0	0	(4,170)	0	0
Min. int./Inc. from assoc.	243	382	382	382	382
<b>Reported net profit</b>	<b>2,507</b>	<b>4,736</b>	<b>10,347</b>	<b>7,587</b>	<b>9,017</b>
Adjustments	97	(3)	(3,247)	0	0
<b>Adjusted net profit</b>	<b>2,604</b>	<b>4,733</b>	<b>7,100</b>	<b>7,587</b>	<b>9,017</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,893	2,886	3,098	3,461	3,920
Other current liabilities	3,158	4,285	4,285	4,285	4,285
Provisions	45	45	48	54	61
Debt funds	5,264	3,820	3,820	3,820	3,820
Other liabilities	2,460	3,201	3,201	3,201	3,201
Equity capital	1,237	1,237	1,237	1,237	1,237
Reserves & surplus	47,794	55,106	62,980	68,093	74,327
Shareholders' fund	49,031	56,343	64,216	69,330	75,564
<b>Total liab. and equities</b>	<b>62,851</b>	<b>70,579</b>	<b>78,667</b>	<b>84,150</b>	<b>90,850</b>
Cash and cash eq.	20,812	19,368	24,896	28,289	32,352
Accounts receivables	2,975	4,576	4,912	5,488	6,216
Inventories	6,732	7,280	9,029	10,083	11,564
Other current assets	940	798	857	957	1,084
Investments	19,262	26,808	26,808	26,808	26,808
Net fixed assets	10,376	10,411	10,829	11,189	11,490
CWIP	438	189	189	189	189
Intangible assets	176	143	143	143	143
Deferred tax assets, net	245	215	215	215	215
Other assets	894	791	791	791	791
<b>Total assets</b>	<b>62,851</b>	<b>70,579</b>	<b>78,667</b>	<b>84,150</b>	<b>90,850</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>3,622</b>	<b>4,448</b>	<b>4,080</b>	<b>6,164</b>	<b>6,594</b>
Capital expenditures	(1,868)	(913)	(1,500)	(1,500)	(1,500)
Change in investments	(9,848)	(7,546)	0	0	0
Other investing cash flows	877	1,800	5,687	1,468	2,018
<b>Cash flow from investing</b>	<b>(10,839)</b>	<b>(6,659)</b>	<b>4,187</b>	<b>(32)</b>	<b>518</b>
Equities issued/Others	(4)	0	0	0	0
Debt raised/repaid	2,484	(1,445)	0	0	0
Interest expenses	(928)	(1,546)	(2,473)	(2,473)	(2,783)
Dividends paid	(272)	(365)	(266)	(266)	(266)
Other financing cash flows	8,177	4,122	0	0	0
<b>Cash flow from financing</b>	<b>9,457</b>	<b>767</b>	<b>(2,739)</b>	<b>(2,739)</b>	<b>(3,049)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,240</b>	<b>(1,444)</b>	<b>5,528</b>	<b>3,393</b>	<b>4,063</b>
<b>Closing cash &amp; cash eq.</b>	<b>20,812</b>	<b>19,368</b>	<b>24,896</b>	<b>28,289</b>	<b>32,352</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.1	7.7	16.7	12.3	14.6
Adjusted EPS	4.2	7.7	11.5	12.3	14.6
Dividend per share	1.5	2.5	4.0	4.0	4.5
Book value per share	79.3	91.1	103.9	112.1	122.2

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.9	5.1	4.7	4.3	3.9
EV/EBITDA	66.1	37.4	25.5	22.8	20.3
Adjusted P/E	78.0	42.9	28.6	26.8	22.5
P/BV	4.1	3.6	3.2	2.9	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	87.7	77.3	81.3	77.8	77.3
Interest burden (PBT/EBIT)	125.6	130.6	116.7	114.0	117.7
EBIT margin (EBIT/Revenue)	5.4	10.9	16.2	16.5	16.9
Asset turnover (Rev./Avg TA)	70.0	61.2	58.9	61.5	64.5
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	5.9	9.0	11.8	11.4	12.4

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	(5.4)	(1.8)	7.3	11.7	13.3
EBITDA	(68.3)	79.5	46.5	13.2	14.6
Adjusted EPS	(65.9)	81.7	50.0	6.9	18.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.4	13.5	18.5	18.7	19.0
EBIT margin	5.4	10.9	16.2	16.5	16.9
Adjusted profit margin	5.9	11.0	15.3	14.7	15.4
Adjusted ROAE	5.9	9.0	11.8	11.4	12.4
ROCE	6.6	10.8	13.2	13.7	15.0
<b>Working capital days (days)</b>					
Receivables	25	39	39	39	39
Inventory	56	62	71	71	72
Payables	24	24	24	24	24
<b>Ratios (x)</b>					
Gross asset turnover	1.8	1.6	1.7	1.8	1.9
Current ratio	2.8	2.9	3.5	3.9	4.2
Net interest coverage ratio	8.7	12.9	28.1	32.2	37.3
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)

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



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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

**BUY** – Expected return >+15%

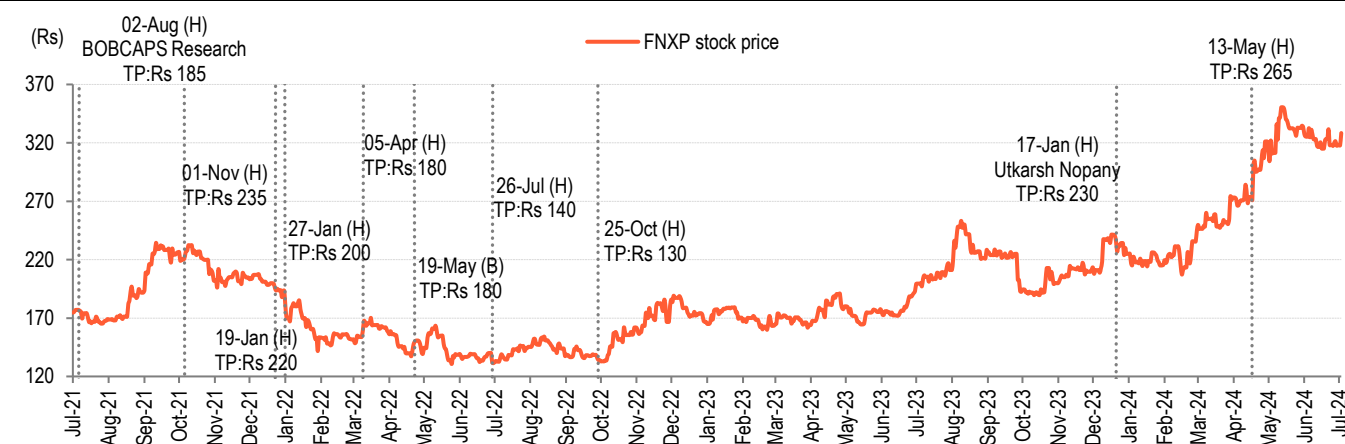
**HOLD** – Expected return from -6% to +15%

**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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