

**HOLD**

TP: Rs 300 | ▲ 6%

**FINOLEX INDUSTRIES**

Building Materials

26 October 2024

### Dismal performance on sharp margin contraction

- Gained market share in pipe segment in a difficult environment, but still missed our EBITDA estimates by 90% due to sharp margin contraction
- Revised pipe volume growth guidance for FY25 to 10-12% YoY (10-15% earlier) based on weak H1FY25 performance
- Maintain HOLD on weak return ratios and expensive valuations; TP cut by 8% to Rs 300 on earnings downgrade

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**Weak quarter:** FNXP reported healthy pipe volume growth (+10.2% YoY vs 7.0% estimate), but EBITDA was 90% lower than our estimate due to sharp margin contraction (-1,038 bps YoY to 1.3%) on account of weak resin prices. Overall, FNXP revenue/EBITDA/APAT de-grew by 6%/90%/59% YoY in Q2FY25.

**Key highlights:** FNXP gained market share in the plastic pipe segment as it posted healthy volume growth in Q2FY25 (FNXP: 10.2% YoY; SI: -0.7%; APOLP standalone: -17.0% YoY). Pipe segment reported operating loss of Rs 261mn in Q2FY25 vs profit of Rs 811mn in Q2FY24 due to the steep decline in PVC resin prices. PVC resin segment EBITDA per unit also remained weak at Rs 9.1/kg (vs historical average run rate of Rs 15/kg) in Q2FY25 due to weak resin spread.

**Guidance downgrade:** FNXP lowered its volume growth guidance to 10-12% YoY (10-15% earlier) for FY25, which implies an asking growth run rate of 16-20% YoY for H2FY25. Pipe segment margin is expected to return to the normal level in Q3FY25 as resin prices are likely to remain stable in the near future. Management expects a favourable outcome on ongoing anti-dumping duty (ADD) investigation on PVC resin by Dec'24, which would boost the PVC resin segment margin in future. Pipes & fittings capacity to increase by 50ktpa to 520ktpa by Q4FY25 at a cost of Rs 1.5bn (vs Rs 0.54bn spent in H1FY25). The company is also exploring options to put up a greenfield pipe facility.

**Maintain HOLD; TP cut by 8% to Rs 300:** We believe FNXP's business risk profile will improve structurally over the medium term due to falling B2B PVC resin segment revenue share (as it operates at almost full capacity) and improving profitability of plastic pipe segment due to rising share of non-agri pipe. We expect FNXP's EPS to grow at a healthy 18.3% CAGR over FY24-FY27E due to a low base. However, we maintain our HOLD rating on the stock due to (a) weak returns profile amidst poor capital allocation, and (b) expensive valuations (trades at 27.8x on 1Y forward P/E vs 5Y average of 21.4x). We have cut our TP to Rs 300 (vs Rs 325) due to earnings downgrade (-24.3%/-7.8%/-12.6% for FY25E/FY26E/FY27E) based on lower resin prices. Our target P/E remains unchanged at 25x on Sep'26E (Jun'26 earlier).

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	FNXP IN/Rs 284
Market cap	US\$ 2.1bn
Free float	48%
3M ADV	US\$ 4.9mn
52wk high/low	Rs 356/Rs 186
Promoter/FPI/DII	52%/6%/12%

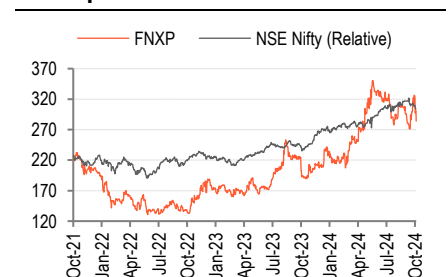
Source: NSE | Price as of 25 Oct 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	43,174	45,521	49,388
EBITDA (Rs mn)	5,882	5,918	8,457
Adj. net profit (Rs mn)	4,757	5,377	6,997
Adj. EPS (Rs)	7.7	8.7	11.3
Consensus EPS (Rs)	7.7	11.9	11.5
Adj. ROAE (%)	9.0	9.1	10.8
Adj. P/E (x)	36.9	32.7	25.1
EV/EBITDA (x)	32.5	32.6	23.1
Adj. EPS growth (%)	83.0	13.0	30.1

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

Rs mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Revenue	8,284	8,832	(6.2)	11,405	(27.4)	19,689	20,623	(4.5)	8,677	(393)
Raw Materials	5,811	5,306	9.5	6,686	(13.1)	12,497	13,111	(4.7)		
Gross Profit	2,473	3,526	(29.9)	4,719	(47.6)	7,192	7,513	(4.3)		
Employee	565	503	12.3	576	(2.0)	1,140	1,022	11.6		
Others	1,803	1,993	(9.5)	2,077	(13.2)	3,880	3,937	(1.4)		
EBITDA	106	1,030	(89.7)	2,067	(94.9)	2,172	2,555	(15.0)	1,095	(989)
D&A	264	274	(3.5)	261	1.3	525	618	(15.0)		
EBIT	(159)	756	(121.0)	1,806	(108.8)	1,647	1,937	(15.0)		
Interest cost	68	125	(45.4)	67	2.3	135	215	(37.4)		
Int. & other income	846	702	20.5	4,724	(82.1)	1,400	1,180	18.6		
PBT	619	1,334	(53.6)	6,463	(90.4)	2,913	2,902	0.3		
Tax	213	354	(39.9)	1,456	(85.4)	1,668	770	116.8		
PAT	407	980	(58.5)	5,007	(91.9)	1,244	2,133	(41.7)		
Adj. PAT	407	980	(58.5)	1,671	(75.7)	2,078	2,133	(2.6)	989	(582)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>		
Gross margin	29.9	39.9	(1,007)	41.4	(1,152)	36.5	36.4	10		
Employee	6.8	5.7	112	5.0	177	5.8	5.0	84		
Others	21.8	22.6	(81)	18.2	356	19.7	19.1	62		
EBITDA margin	1.3	11.7	(1,038)	18.1	(1,684)	11.0	12.4	(135)		
Tax rate	34.3	26.5	779	22.5	1,180	57.3	26.5	3,077		
APAT margin	4.9	11.1	(618)	14.7	(975)	10.6	10.3	21		

Source: Company, BOBCAPS Research

**Fig 2 – Segment Financials**

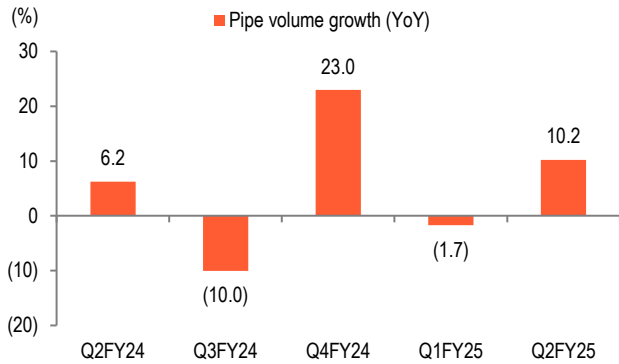
	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
<b>Revenue (Rs mn)</b>								
External PVC Resin	88	260	(66.0)	171	(48.4)	171	510	(66.4)
Pipes & Fittings	8196	8572	(4.4)	11234	(27.0)	11234	20114	(44.1)
<b>Sales Volume (KT)</b>								
External PVC Resin	0.9	2.5	(63.6)	2	(47.1)	3	5	(46.7)
Pipes & Fittings	69	63	10.2	91	(23.5)	160	155	3.1
<b>Average Realization (Rs/kg)</b>								
External PVC Resin	95	102	(6.7)	98	(2.4)	64	101	(37.1)
Pipes & Fittings	118	136	(13.2)	124	(4.7)	70	130	(45.8)
<b>Adjusted EBITDA (Rs mn)</b>								
PVC resin	367	219	67.3	638	(42.5)	1005	272	268.8
Pipes & Fittings	(261)	811	(132.2)	1429	(118.3)	1168	2282	(48.8)
<b>Adjusted EBITDA (Rs/kg)</b>								
PVC resin	9.1	5.8	56.0	9.2	(0.5)	9.1	3.3	180.6
Pipes & Fittings	(3.8)	12.9	(129.2)	15.8	(123.9)	7.3	14.7	(50.4)

Source: Company, BOBCAPS Research

## Earnings call highlights

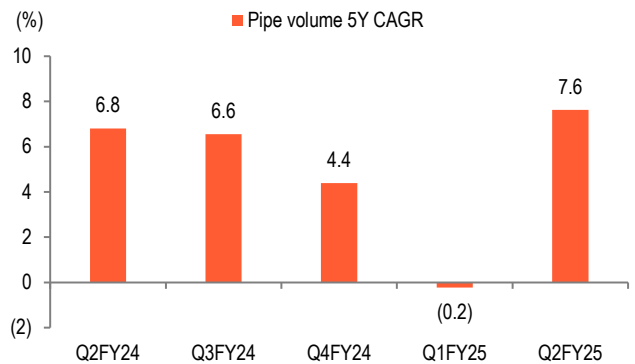
- **PVC resin price outlook:** PVC resin prices were very volatile (US\$ 880/t to US\$ 805/t in Jul-Aug) in Q2FY25, but it is expected to remain stable (at US\$ 780-800) in the near future as management believes PVC resin prices are near the bottom level. The company expects a favourable outcome on the ongoing anti-dumping duty investigation on PVC resin by the end of Dec'24.
- **Volume guidance:** FNXF revised its volume growth guidance to 10-12% (earlier 10-15%) for FY25 based on weak H1FY25 performance. Agri segment demand is expected to pick up in H2FY25 due to a good monsoon across the states.
- **Margin outlook:** FNXF expects pipe EBIT per unit to be ~Rs 12/kg in the near future if PVC resin prices remain stable.
- **Pipe volume mix:** The non-agri pipe volume share remained stable on a YoY basis at 40% in Q2FY25. Agri pipe volume grew by ~12% YoY and non-agri by 9-10% in Q2FY25. Going ahead, the company expects the non-agri pipe share to improve to 50% over the next three to four years.
- **Inventory loss:** The company did not book any mark-to-market (MTM) inventory loss in Q2FY25.
- **Channel inventory** is at the normal level at present.
- **Capex:** The company plans to increase its pipes & fittings capacity by 50ktpa to 520ktpa by Q4FY25 at a cost of Rs 1.5bn (vs Rs 0.54bn spent in H1FY25). The company is exploring options to put up a greenfield pipe facility and is currently in the process of finalising the plant location.
- **Net cash** has slightly gone down from Rs 24bn in Jun'24 to Rs 23.8bn in Sep'24.

**Fig 3 – FNXP pipe volume grew by 10.2% YoY and...**



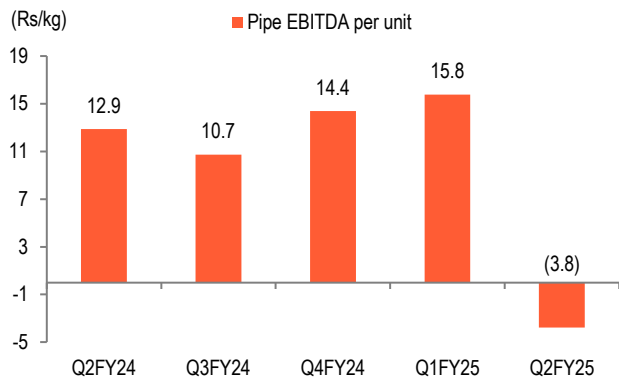
Source: Company, BOBCAPS Research

**Fig 4 – ... 7.6% on a 5Y CAGR basis in Q2FY25**



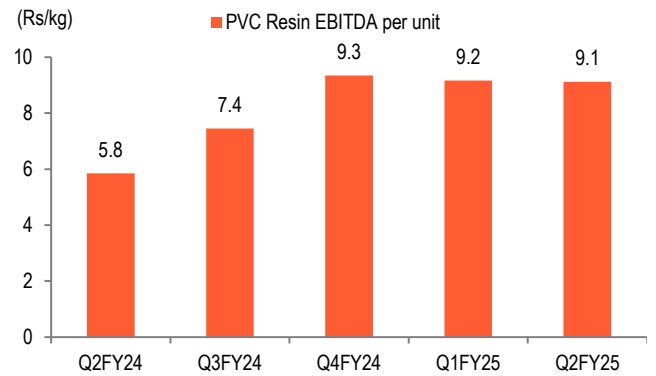
Source: Company, BOBCAPS Research

**Fig 5 – FNXP reported negative pipe EBITDA per unit in Q2FY25 due to volatile PVC resin price**



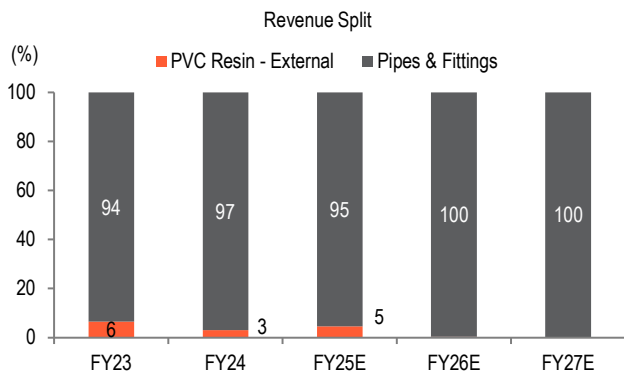
Source: Company, BOBCAPS Research

**Fig 6 – FNXP PVC resin EBITDA per unit was slightly down in Q2FY25, but it was well below historical average**



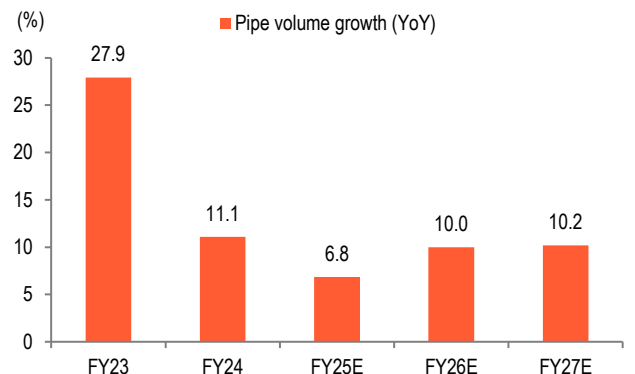
Source: Company, BOBCAPS Research

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



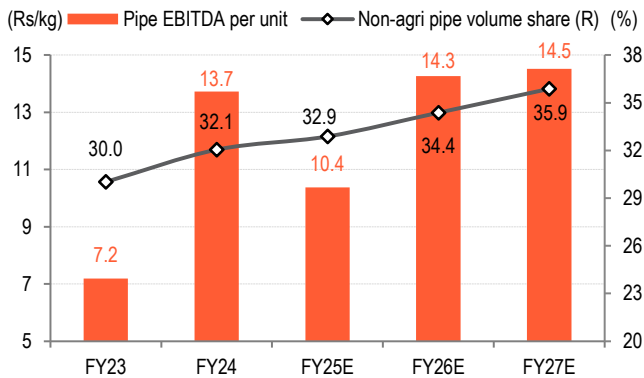
Source: Company, BOBCAPS Research

**Fig 8 – We forecast FNXP pipe volume to grow at 9.0% CAGR over FY24-FY27E**



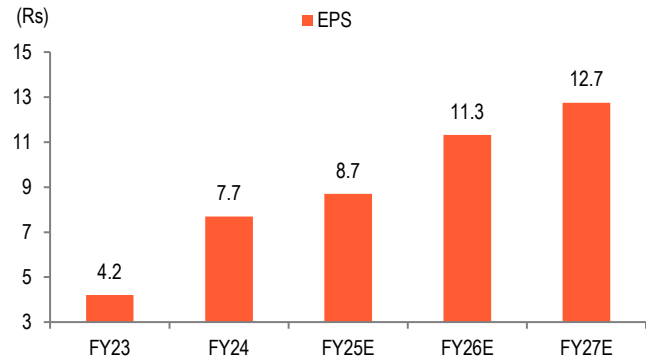
Source: Company, BOBCAPS Research

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



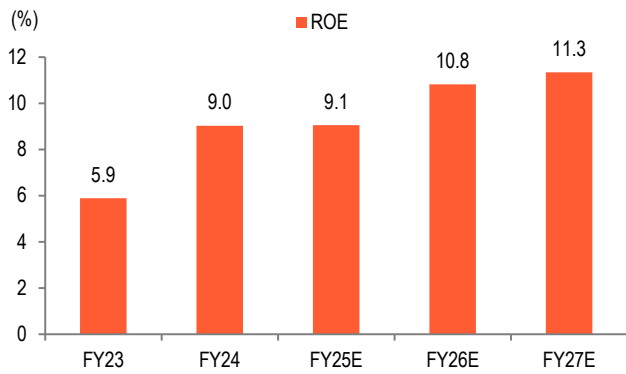
Source: Company, BOBCAPS Research

**Fig 10 – EPS to grow at a healthy rate of 18.3% CAGR over FY24-FY27E**



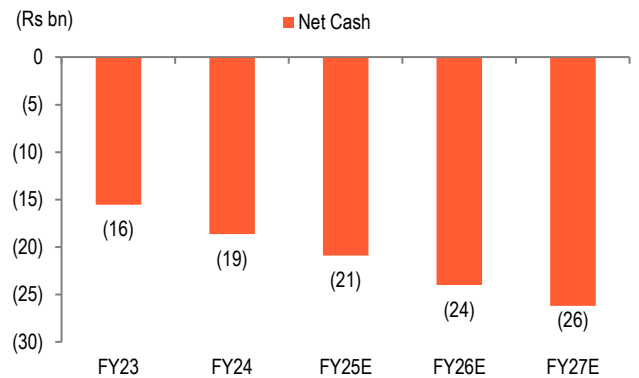
Source: Company, BOBCAPS Research

**Fig 11 – However, FNX 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 capex**



Source: Company, BOBCAPS Research

### Valuation methodology

We believe FNXP’s business risk profile will improve structurally over the medium term due to falling B2B PVC resin segment revenue share (as it operates at almost full capacity) and improving profitability of plastic pipe segment due to rising share of non-agri pipe. We expect FNXP’s EPS to grow at a healthy 18.3% CAGR over FY24-FY27E due to a low base. However, we maintain our HOLD rating on the stock due to (a) weak returns profile amidst poor capital allocation, and (b) expensive valuations (trades at 27.8x on 1Y forward P/E vs 5Y average of 21.4x).

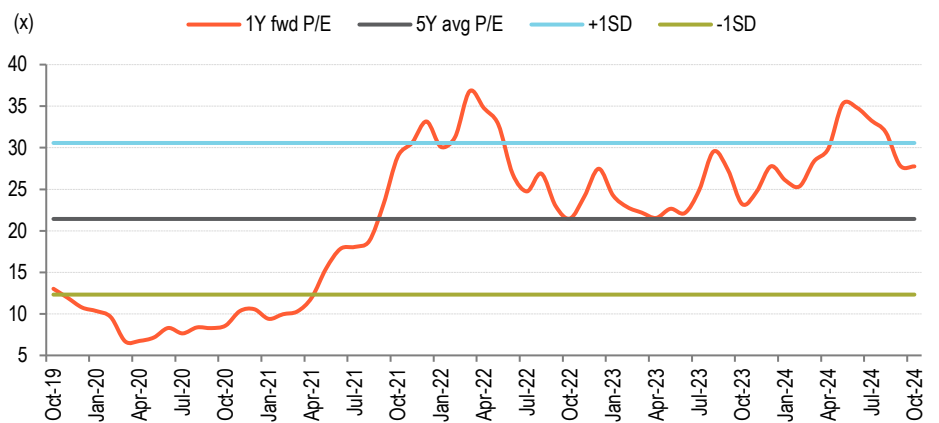
We have cut our TP to Rs 300 (from Rs 325) due to earnings downgrade (-24.3%/-7.8%/-12.6% for FY25E/FY26E/FY27E) based on lower resin prices. Our target P/E remains unchanged at 25x on Sep’26E (Jun’26 earlier).

**Fig 13 – Revised estimates**

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	45.5	49.4	55.9	46.3	51.8	58.6	(1.8)	(4.6)	(4.6)
EBITDA	5.9	8.5	9.4	8.6	9.7	11.1	(30.9)	(12.8)	(15.3)
EBITDA margin (%)	13.0	17.1	16.8	18.5	18.7	19.0	(549bps)	(160bps)	(213bps)
Adjusted PAT	5.4	7.0	7.9	7.1	7.6	9.0	(24.3)	(7.8)	(12.6)
Adjusted EPS (Rs)	8.7	11.3	12.7	11.5	12.3	14.6	(24.3)	(7.8)	(12.6)

Source: BOBCAPS Research

**Fig 14 – Trading at 27.8x 1Y forward P/E vs. 5Y average of 21.4x**



Source: Bloomberg, BOBCAPS Research

**Fig 15 – Key assumptions**

%	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue mix</b>					
PVC resin	6.5	3.1	4.6	0.3	0.1
Pipes & Fittings	93.5	96.9	95.4	99.7	99.9
<b>Sales Volume growth</b>					
Pipes & Fittings	27.9	11.1	6.8	10.0	10.2
<b>Realisation growth</b>					
Pipes & Fittings	(16.5)	(8.4)	(2.9)	3.1	3.0
<b>EBITDA unit (Rs/kg)</b>					
PVC resin	4.5	6.4	9.2	11.8	12.8
Pipes & Fittings	7.2	13.7	10.4	14.3	14.5

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	0.2	508	650	HOLD
Astral	ASTRA IN	5.8	1,799	2,200	HOLD
Century Plyboards	CPBI IN	2.2	843	725	HOLD
Finolex Industries	FNXP IN	2.1	284	300	HOLD
Greenlam Industries	GRLM IN	0.8	505	560	HOLD
Greenpanel Industries	GREENP IN	0.5	370	365	HOLD
Greenply Industries	MTLM IN	0.6	378	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.2	289	500	BUY
Kajaria Ceramics	KJC IN	2.3	1,231	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.7	501	750	BUY
Somany Ceramics	SOMC IN	0.3	660	900	BUY
Supreme Industries	SI IN	6.5	4,290	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Oct 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>45,521</b>	<b>49,388</b>	<b>55,936</b>
EBITDA	3,251	5,882	5,918	8,457	9,412
Depreciation	892	1,160	1,058	1,134	1,210
EBIT	2,359	4,721	4,860	7,323	8,202
Net interest inc./(exp.)	(272)	(365)	(271)	(272)	(272)
Other inc./(exp.)	1,209	1,800	2,375	2,100	2,400
Exceptional items	326	33	0	0	0
EBT	2,970	6,123	6,964	9,151	10,330
Income taxes	706	1,770	2,720	2,354	2,650
Extraordinary items	0	0	(4,170)	0	0
Min. int./Inc. from assoc.	243	382	125	200	200
<b>Reported net profit</b>	<b>2,507</b>	<b>4,736</b>	<b>8,539</b>	<b>6,997</b>	<b>7,880</b>
Adjustments	92	21	(3,163)	0	0
<b>Adjusted net profit</b>	<b>2,599</b>	<b>4,757</b>	<b>5,377</b>	<b>6,997</b>	<b>7,880</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,893	2,886	3,074	3,335	3,777
Other current liabilities	3,158	4,285	4,285	4,285	4,285
Provisions	45	45	48	52	58
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	61,172	65,696	70,793
Shareholders' fund	49,031	56,343	62,409	66,933	72,030
<b>Total liab. and equities</b>	<b>62,851</b>	<b>70,579</b>	<b>76,835</b>	<b>81,624</b>	<b>87,171</b>
Cash and cash eq.	20,818	22,465	24,741	27,810	30,024
Accounts receivables	2,975	4,576	4,825	5,235	5,929
Inventories	6,732	7,280	10,019	10,391	12,117
Other current assets	940	798	850	922	1,044
Investments	19,256	23,711	23,711	23,711	23,711
Net fixed assets	10,376	10,411	11,353	12,218	13,008
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>76,835</b>	<b>81,624</b>	<b>87,171</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>3,615</b>	<b>4,385</b>	<b>475</b>	<b>5,714</b>	<b>4,868</b>
Capital expenditures	(1,868)	(817)	(2,000)	(2,000)	(2,000)
Change in investments	(9,842)	(4,454)	0	0	0
Other investing cash flows	883	1,767	6,545	2,100	2,400
<b>Cash flow from investing</b>	<b>(10,827)</b>	<b>(3,505)</b>	<b>4,545</b>	<b>100</b>	<b>400</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)	(271)	(272)	(272)
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>(2,744)</b>	<b>(2,745)</b>	<b>(3,055)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,245</b>	<b>1,647</b>	<b>2,276</b>	<b>3,069</b>	<b>2,214</b>
<b>Closing cash &amp; cash eq.</b>	<b>20,818</b>	<b>22,465</b>	<b>24,741</b>	<b>27,810</b>	<b>30,024</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.1	7.7	13.8	11.3	12.7
Adjusted EPS	4.2	7.7	8.7	11.3	12.7
Dividend per share	1.5	2.5	4.0	4.0	4.5
Book value per share	79.3	91.1	100.9	108.2	116.5

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.3	4.4	4.2	4.0	3.5
EV/EBITDA	57.8	32.5	32.6	23.1	21.0
Adjusted P/E	67.6	36.9	32.7	25.1	22.3
P/BV	3.6	3.1	2.8	2.6	2.4

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	87.5	77.7	77.2	76.5	76.3
Interest burden (PBT/EBIT)	125.9	129.7	143.3	125.0	125.9
EBIT margin (EBIT/Revenue)	5.4	10.9	10.7	14.8	14.7
Asset turnover (Rev./Avg TA)	70.0	61.2	59.2	60.5	64.2
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	5.9	9.0	9.1	10.8	11.3

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	(5.4)	(1.8)	5.4	8.5	13.3
EBITDA	(68.4)	80.9	0.6	42.9	11.3
Adjusted EPS	(66.0)	83.0	13.0	30.1	12.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.4	13.6	13.0	17.1	16.8
EBIT margin	5.4	10.9	10.7	14.8	14.7
Adjusted profit margin	5.9	11.0	11.8	14.2	14.1
Adjusted ROAE	5.9	9.0	9.1	10.8	11.3
ROCE	6.6	10.8	10.9	13.3	14.0
<b>Working capital days (days)</b>					
Receivables	25	39	39	39	39
Inventory	56	62	80	77	79
Payables	24	24	25	25	25
<b>Ratios (x)</b>					
Gross asset turnover	1.8	1.6	1.6	1.7	1.8
Current ratio	2.8	3.2	3.6	3.9	4.1
Net interest coverage ratio	8.7	13.0	18.0	26.9	30.2
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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**BUY** – Expected return >+15%

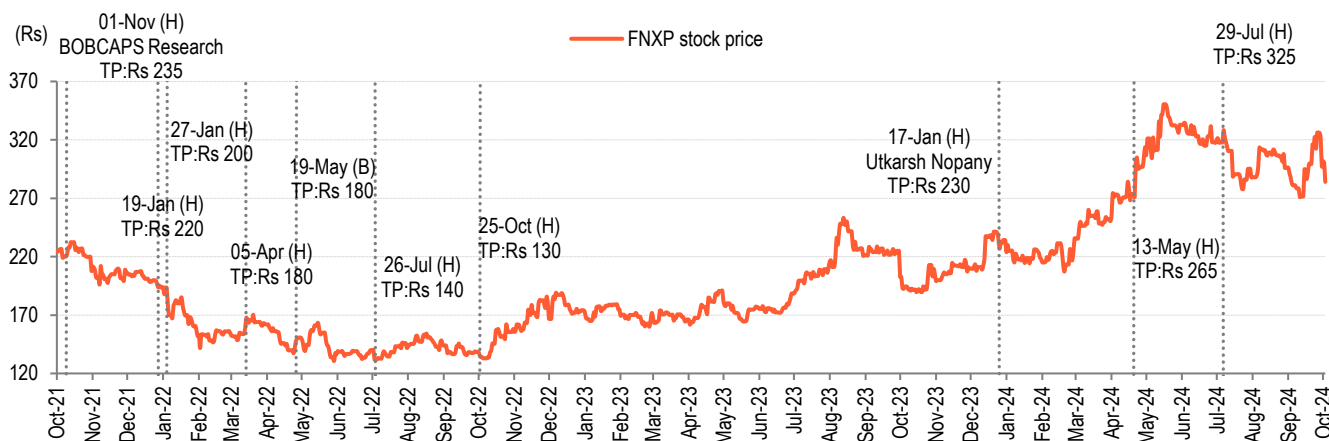
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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