

BUY

TP: Rs 250 | ▲ 28%

FINOLEX INDUSTRIES

| Building Materials

| 10 February 2025

Weak quarter on sharp margin contraction

- Gained market share in pipe segment in a difficult environment by offering heavy discounts to its dealers
- Target pipe volume to grow at 5-10% and margins to improve due to discontinuation of heavy discounts in Q4FY25
- Upgrade to BUY as valuation has now become reasonable post steep correction in its stock price; TP cut by 17% to Rs 250

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Weak Q3: FNXP pipe sales volume came broadly in line with our estimate (+5.5% YoY vs +5.0% estimated), but there was a sharp miss at the EBITDA level by 44.0% due to weak pipe segment margin (-429bps YoY to 4.5% vs 9.7% estimated). Overall, FNXP revenue/EBITDA/APAT de-grew by 2%/30%/2% YoY in Q3FY25.

Key highlights: FNXP gained market share in the plastic pipe segment as it posted healthy volume growth in Q3FY25 (FNXP: +5.5% YoY; SI: +3.7%; ASTRA: +0.2% YoY). However, pipe segment EBITDA was down 49% YoY in Q3FY25 due to sharp margin contraction on account of high discounts offered to its dealers. PVC resin segment: EBITDA grew by 19% YoY in Q3FY25 as higher volumes (+30%) more than offset the impact of margin contraction (-80bps YoY to 9.3%).

Guidance downgrade: FNXP lowered its volume growth guidance to single digit (10-12% earlier) for FY25 and expects growth of 5-10% for Q4FY25. The company expects to clock double-digit volume growth in FY26. FNXP expects plastic pipe demand to pick up in the near future due to low channel inventory, expectation of imposition of anti-dumping duty on PVC resin in Feb'25 and favourable government budget. The company has discontinued heavy discounting schemes in Q4FY25 due to reduction in competitive intensity in the sector. The company plans to increase its pipes capacity by 50ktpa to 520ktpa by Q1FY26 (25ktpa by Q4FY25 and another 25ktpa by Q4FY26) at a cost of ~Rs 1bn in FY25 and Rs 1bn-1.5bn in FY26.

Upgrade to BUY; TP cut by 17% to Rs 250: We upgrade our rating on the stock from HOLD to BUY as we expect (a) healthy earnings growth prospects (EPS to grow at 16.2% CAGR over FY24-FY27E), (b) structural improvement in business risk profile due to falling B2B PVC resin segment revenue share and improving profitability of plastic pipe segment due to rising share of non-agri pipe; and (c) valuation has now become reasonable post the steep correction in its stock price over the past three months. We have cut our TP to Rs 250 (vs Rs 300) due to earnings downgrade (-17.3%/-12.1%/-5.2% for FY25E/FY26E/FY27E) as well as cut our target P/E multiple from 25x to 22x on Dec'26E (Sep'26 earlier).

Key changes

Target	Rating
▼	▲

Ticker/Price	FNXP IN/Rs 195
Market cap	US\$ 1.4bn
Free float	48%
3M ADV	US\$ 3.8mn
52wk high/low	Rs 356/Rs 195
Promoter/FPI/DII	52%/7%/12%

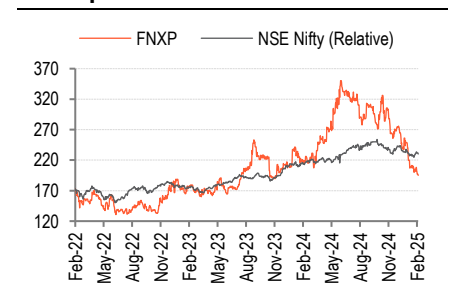
Source: NSE | Price as of 10 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	43,174	42,479	47,454
EBITDA (Rs mn)	5,882	4,522	6,926
Adj. net profit (Rs mn)	4,757	4,448	6,151
Adj. EPS (Rs)	7.7	7.2	9.9
Consensus EPS (Rs)	7.7	9.5	10.6
Adj. ROAE (%)	9.0	7.5	9.7
Adj. P/E (x)	25.3	27.1	19.6
EV/EBITDA (x)	23.2	30.4	20.3
Adj. EPS growth (%)	83.0	(6.5)	38.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	BOBCAPS Q3FY25E	Variance (%)
Revenue	10,012	10,197	(1.8)	8,284	20.9	29,702	30,820	(3.6)	10,367	(3.4)
Raw materials	6,585	6,522	1.0	5,811	13.3	19,082	19,633	(2.8)		
Gross Profit	3,428	3,675	(6.7)	2,473	38.6	10,620	11,187	(5.1)		
Employee	570	526	8.4	565	1.0	1,710	1,547	10.5		
Others	2,023	1,950	3.8	1,803	12.2	5,903	5,887	0.3		
EBITDA	834	1,199	(30.4)	106	689.3	3,007	3,754	(19.9)	1,491	(44.0)
D&A	273	276	(0.9)	264	3.3	798	893	(10.7)		
EBIT	561	923	(39.2)	(159)	(453.8)	2,208	2,860	(22.8)		
Interest cost	100	77	30.7	68	47.2	235	291	(19.5)		
Int. & other income	657	468	40.3	846	(22.3)	2,057	1,649	24.8		
PBT	1,118	1,315	(15.0)	619	80.5	4,031	4,217	(4.4)		
Tax	178	361	(50.7)	213	(16.4)	1,846	1,131	63.3		
PAT	940	954	(1.4)	407	131.2	2,184	3,087	(29.2)		
Adj. PAT	931	948	(1.8)	407	128.9	3,009	3,081	(2.3)	1,278	(27.2)
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	34.2	36.0	(180)	29.9	438	35.8	36.3	(54)		
Employee	5.7	5.2	54	6.8	(112)	5.8	5.0	74		
Others	20.2	19.1	108	21.8	(156)	19.9	19.1	77		
EBITDA margin	8.3	11.8	(343)	1.3	706	10.1	12.2	(206)		
Tax rate	15.9	27.5	(1,155)	34.3	(1,843)	45.8	26.8	1,900		
APAT margin	9.3	9.3	0	4.9	439	10.1	10.0	14		

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

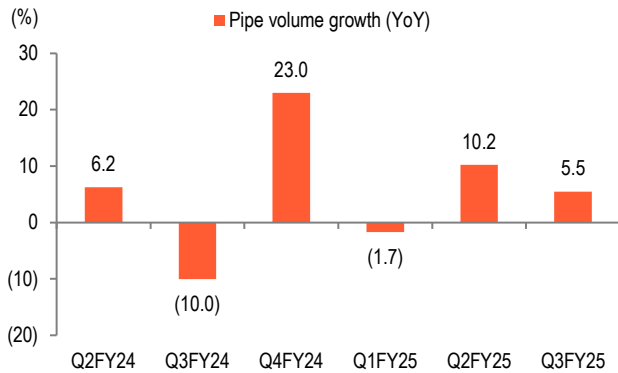
	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Revenue (Rs mn)								
External PVC Resin	86	281	(69.4)	88	(2.8)	345	790	(56.3)
Pipes & Fittings	9,927	9,916	0.1	8,196	21.1	29,357	30,030	(2.2)
Sales Volume (KT)								
External PVC Resin	0.9	2.8	(66.7)	1	(0.9)	4	8	(53.8)
Pipes & Fittings	86	81	5.5	69	23.7	246	236	3.9
Average Realisation (Rs/kg)								
External PVC Resin	93	102	(8.3)	95	(2.0)	96	102	(5.6)
Pipes & Fittings	116	122	(5.1)	118	(2.1)	119	127	(5.9)
Adjusted EBITDA (Rs mn)								
PVC resin	386	326	18.6	367	5.3	1391	598	132.6
Pipes & Fittings	448	873	(48.7)	(261)	(271.7)	1,616	3,156	(48.8)
Adjusted EBITDA (Rs/kg)								
PVC resin	6.8	7.4	(8.7)	9	(25.5)	8.3	4.7	77.6
Pipes & Fittings	5.2	10.7	(51.3)	(4)	(238.8)	6.6	13.3	(50.7)

Source: Company, BOBCAPS Research

Earnings call highlights

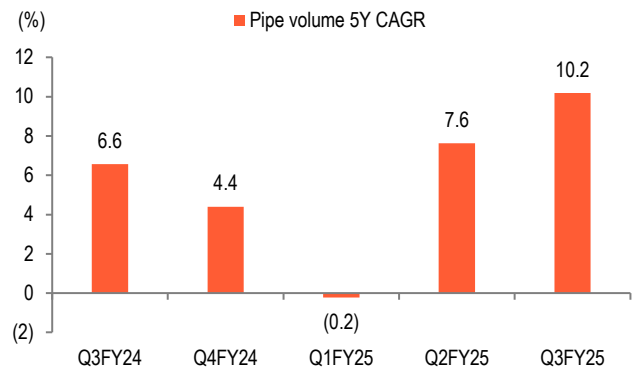
- **Demand scenario:** The company said that the demand environment was weak in Q3FY25, but it is expected to improve in the near future due to (a) anticipation of a favourable outcome on the ongoing anti-dumping duty investigation on PVC resin (decision expected by Feb'25 end) and BIS norms (decision expected by Jun'25); and (b) higher government budgetary allocation towards Jal Jeevan Mission, SWAMIH and PMAY scheme for FY26. The company observed pick-up in agri pipe demand in Feb'25.
- **PVC resin price outlook:** PVC resin prices were down by Rs 3/kg in the first week of Feb'25. Management believes PVC resin prices are at the bottom level and expected to remain stable in the near term.
- **Volume guidance:** FNXF revised down its volume growth guidance to single-digit (10-12% earlier) for FY25 and expects growth of 5-10% for Q4FY25. The company expects to clock double-digit volume growth in FY26.
- **Pipe segment:** EBITDA de-grew by 49% YoY in Q3FY25 on sharp margin contraction (-429bps YoY to 4.5%) mainly due to aggressive pricing strategy in the form of discounting schemes. Management said those discounting schemes are discontinued and realisations are expected to recover in Q4FY25 as they believe the competitive intensity has reduced in terms of pricing. However, the company's realisation could dip further due to fall in PVC resin prices by Rs 3/kg in Feb'25.
- **PVC resin segment:** EBITDA grew by 19% YoY in Q3FY25 as higher volumes (+30%) more than offset the impact of margin contraction (-80bps YoY to 9.3%).
- **Pipe volume mix:** The non-agri pipe volume share was at 33% in Q3FY25 vs 32% in Q2FY25. Agri pipe volume grew by 4% YoY and non-agri by 9% in Q3FY25. Going ahead, the company expects the non-agri pipe share to improve to 50% over the next three to four years. Out of the total non-agri share, project segment accounts for 10-15% and the retail for the remaining.
- **Inventory loss:** The company did not book any mark-to-market (MTM) inventory loss in Q3FY25. No inventory loss is expected for Q4FY25.
- **Channel inventory** is very low at present due to fear among dealers/distributors regarding unstable PVC resin prices.
- **Working capital:** The company continues to have a cash & carry model for its agri pipe dealers and non-agri retail dealers get a credit period of 45 days.
- **Capex:** The company plans to increase its pipes & fittings capacity by 50ktpa to 520ktpa by Q1FY26 (25ktpa by Q4FY25 and another 25ktpa by Q4FY26). The company's plan to put up a greenfield pipe facility is currently on hold and a decision on it is expected in the next six months. The company expects a total capex outlay of slightly above Rs 1bn in FY25 and between Rs 1bn-1.5bn in FY26.
- **Net cash** has gone down slightly from Rs 23.8bn in Sep'24 to Rs 23.0bn in Dec'24.

Fig 3 – FNXP pipe volume grew by 5.5% YoY, and...



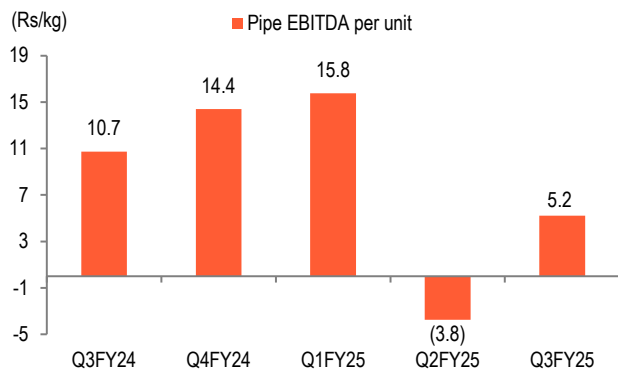
Source: Company, BOBCAPS Research

Fig 4 – ... 10.2% on a 5Y CAGR basis in Q3FY25



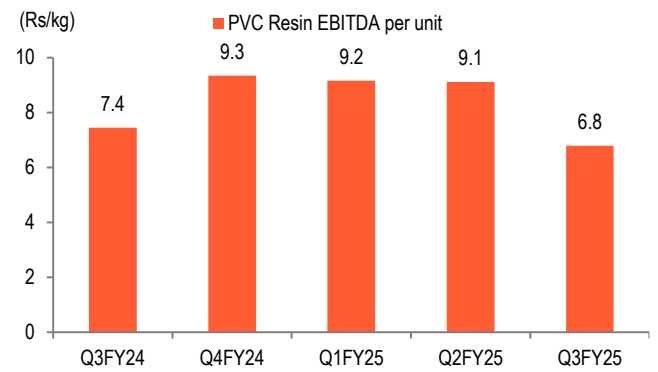
Source: Company, BOBCAPS Research

Fig 5 – FNXP pipe EBITDA per unit fell sharply in Q3FY25 due to high discounts offered to its dealers



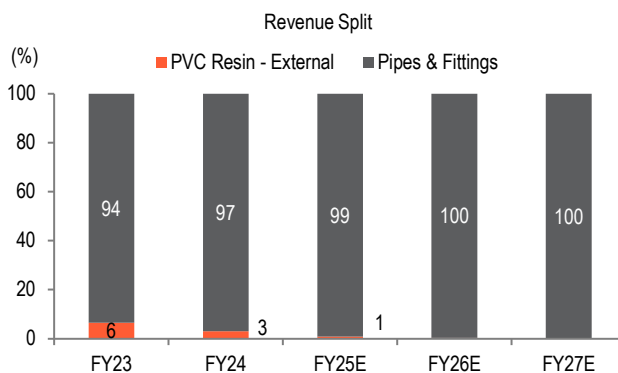
Source: Company, BOBCAPS Research

Fig 6 – FNXP PVC resin EBITDA per unit was also down in Q3FY25 due to cheap imports from China



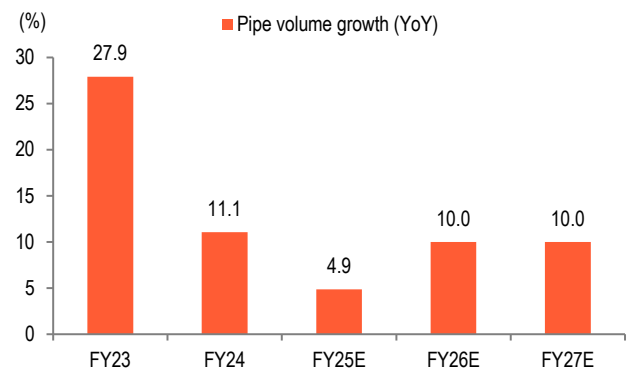
Source: Company, BOBCAPS Research

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



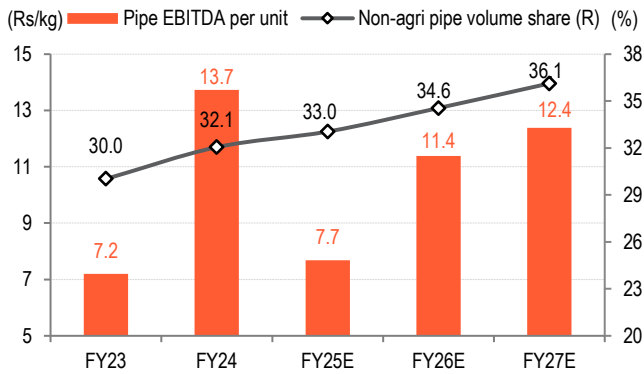
Source: Company, BOBCAPS Research

Fig 8 – We forecast FNXP pipe volume to grow at 8.3% CAGR over FY24-FY27E



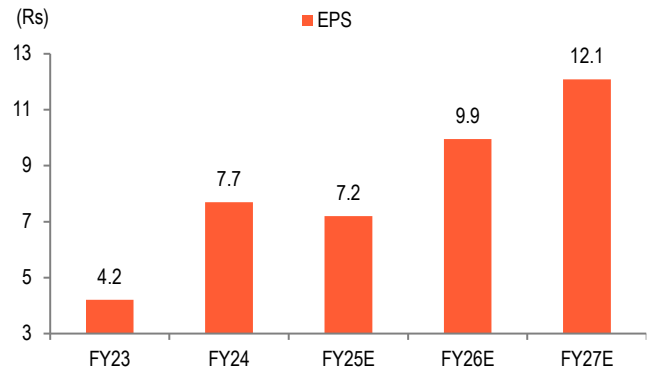
Source: Company, BOBCAPS Research

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



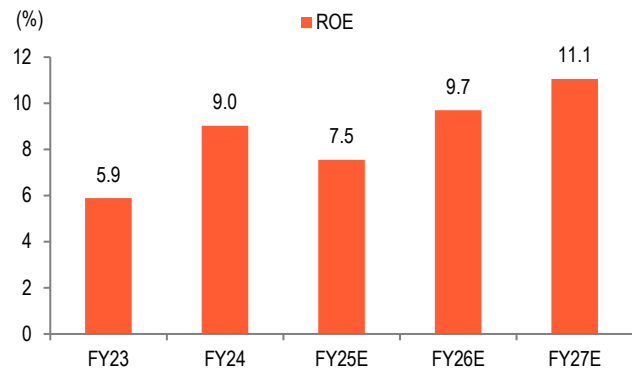
Source: Company, BOBCAPS Research

Fig 10 – EPS to grow at a healthy rate of 16.2% CAGR over FY24-FY27E



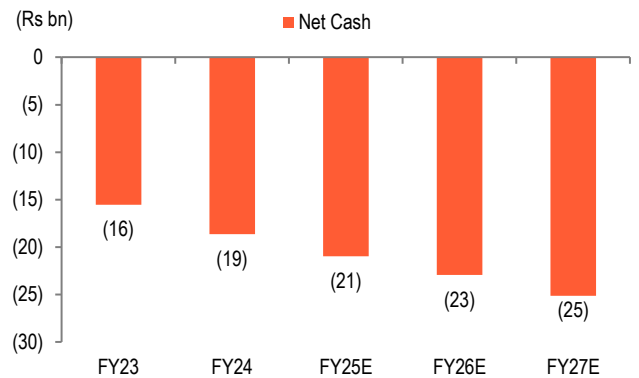
Source: Company, BOBCAPS Research

Fig 11 – However, FXP 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 upgrade our rating on the stock from HOLD to BUY as we expect (a) healthy earnings growth prospects (EPS to grow at 16.2% CAGR over FY24-FY27E), (b) structural improvement in business risk profile due to falling B2B PVC resin segment revenue share and improving profitability of plastic pipe segment due to rising share of non-agri pipe; and (c) valuation has now become reasonable post the steep correction in its stock price over the past three months.

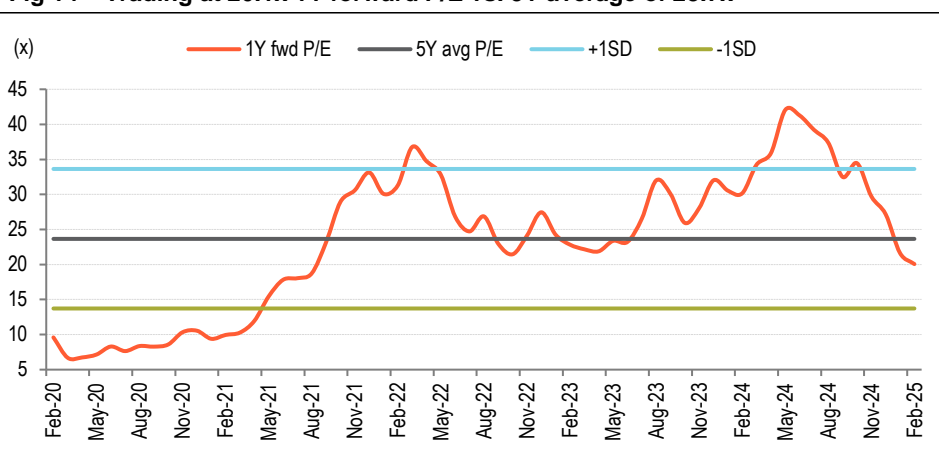
We have cut our TP to Rs 250 (vs Rs 300) due to earnings downgrade (-17.3%/-12.1%/-5.2% for FY25E/FY26E/FY27E) as well as cut in our target P/E multiple from 25x to 22x on Dec'26E (Sep'26 earlier).

Fig 13 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	42.5	47.5	53.7	45.5	49.4	55.9	(6.7)	(3.9)	(4.1)
EBITDA	4.5	6.9	8.6	5.9	8.5	9.4	(23.6)	(18.1)	(8.6)
EBITDA margin	10.6	14.6	16.0	13.0	17.1	16.8	(235)	(253)	(80)
Adjusted PAT	4.4	6.2	7.5	5.4	7.0	7.9	(17.3)	(12.1)	(5.2)
Adjusted EPS (Rs)	7.2	9.9	12.1	8.7	11.3	12.7	(17.3)	(12.1)	(5.2)

Source: BOBCAPS Research

Fig 14 – Trading at 20.1x 1Y forward P/E vs. 5Y average of 23.7x



Source: Bloomberg, BOBCAPS Research

Fig 15 – Key assumptions

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix						
PVC resin	17.1	6.5	3.1	0.8	0.3	0.1
Pipes & Fittings	82.9	93.5	96.9	99.2	99.7	99.9
Sales Volume growth						
Pipes & Fittings	11.7	27.9	11.1	4.9	10.0	10.0
Realisation growth						
Pipes & Fittings	30.9	(16.5)	(8.4)	(4.0)	2.1	3.0
EBITDA unit (Rs/kg)						
PVC resin	32.4	4.5	6.4	8.0	10.7	14.1
Pipes & Fittings	12.7	7.2	13.7	7.7	11.4	12.4

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Steep decline in PVC resin prices
- Weak demand for agricultural pipe
- Market share loss in the plumbing pipe

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	43,971	43,174	42,479	47,454	53,652
EBITDA	3,251	5,882	4,522	6,926	8,600
Depreciation	892	1,160	1,058	1,134	1,210
EBIT	2,359	4,721	3,464	5,792	7,389
Net interest inc./(exp.)	(272)	(365)	(305)	(280)	(280)
Other inc./(exp.)	1,209	1,800	2,344	2,409	2,576
Exceptional items	326	33	0	0	0
EBT	2,970	6,123	5,503	7,921	9,686
Income taxes	706	1,770	2,285	2,069	2,513
Extraordinary items	0	0	(4,170)	0	0
Min. int./Inc. from assoc.	243	382	272	298	298
Reported net profit	2,507	4,736	7,660	6,151	7,471
Adjustments	92	21	(3,212)	0	0
Adjusted net profit	2,599	4,757	4,448	6,151	7,471

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,893	2,886	2,869	3,205	3,623
Other current liabilities	3,158	4,285	4,285	4,285	4,285
Provisions	45	45	44	50	56
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	60,292	63,970	68,658
Shareholders' fund	49,031	56,343	61,529	65,206	69,895
Total liab. and equities	62,851	70,579	75,747	79,765	84,879
Cash and cash eq.	20,818	22,465	24,800	26,772	28,964
Accounts receivables	2,975	4,576	4,503	5,030	5,687
Inventories	6,732	7,280	9,250	9,811	11,170
Other current assets	940	798	793	886	1,002
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
Total assets	62,851	70,579	75,747	79,765	84,879

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	3,615	4,385	599	4,316	4,678
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	6,514	2,409	2,576
Cash flow from investing	(10,827)	(3,505)	4,514	409	576
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)	(305)	(280)	(280)
Other financing cash flows	8,177	4,122	0	0	0
Cash flow from financing	9,457	767	(2,778)	(2,753)	(3,063)
Chg in cash & cash eq.	2,245	1,647	2,335	1,972	2,192
Closing cash & cash eq.	20,818	22,465	24,800	26,772	28,964

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.1	7.7	12.4	9.9	12.1
Adjusted EPS	4.2	7.7	7.2	9.9	12.1
Dividend per share	1.5	2.5	4.0	4.0	4.5
Book value per share	79.3	91.1	99.5	105.5	113.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.0	3.2	3.2	3.0	2.7
EV/EBITDA	40.8	23.2	30.4	20.3	16.6
Adjusted P/E	46.4	25.3	27.1	19.6	16.1
P/BV	2.5	2.1	2.0	1.8	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	87.5	77.7	80.8	77.6	77.1
Interest burden (PBT/EBIT)	125.9	129.7	158.9	136.8	131.1
EBIT margin (EBIT/Revenue)	5.4	10.9	8.2	12.2	13.8
Asset turnover (Rev./Avg TA)	70.0	61.2	56.1	59.5	63.2
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	5.9	9.0	7.5	9.7	11.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	(5.4)	(1.8)	(1.6)	11.7	13.1
EBITDA	(68.4)	80.9	(23.1)	53.2	24.2
Adjusted EPS	(66.0)	83.0	(6.5)	38.3	21.5

Profitability & Return ratios (%)

EBITDA margin	7.4	13.6	10.6	14.6	16.0
EBIT margin	5.4	10.9	8.2	12.2	13.8
Adjusted profit margin	5.9	11.0	10.5	13.0	13.9
Adjusted ROAE	5.9	9.0	7.5	9.7	11.1
ROCE	6.6	10.8	8.9	11.9	13.5

Working capital days (days)

Receivables	25	39	39	39	39
Inventory	56	62	79	75	76
Payables	24	24	25	25	25

Ratios (x)

Gross asset turnover	1.8	1.6	1.5	1.6	1.7
Current ratio	2.8	3.2	3.6	3.7	4.0
Net interest coverage ratio	8.7	13.0	11.4	20.7	26.4
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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Disclaimer

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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%

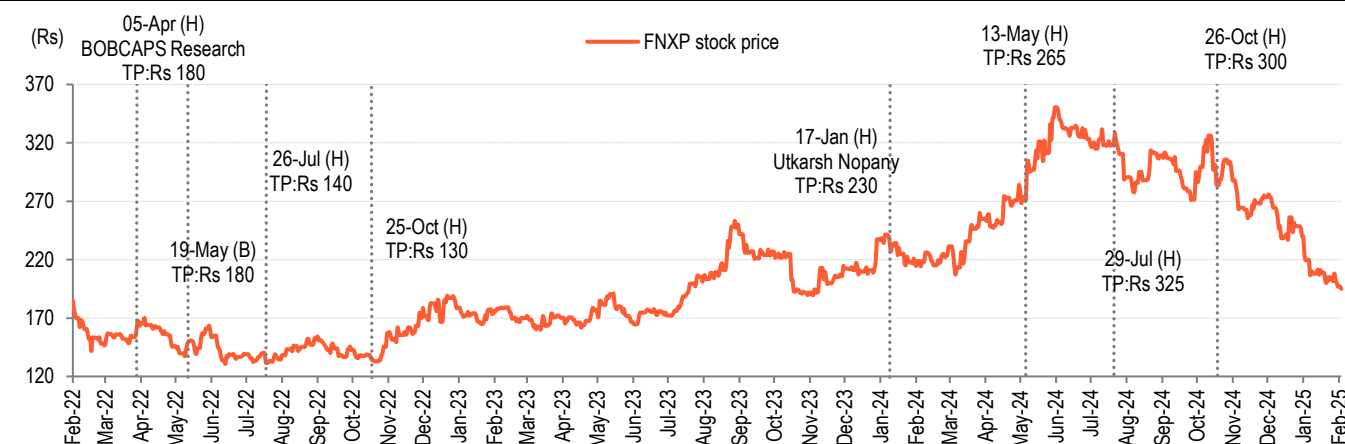
HOLD – Expected return from -6% to +15%

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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