

HOLD

TP: Rs 265 | ▼ 2%

FINOLEX INDUSTRIES

Building Materials

13 May 2024

Broadly in-line Q4FY24; positive outlook

- Strong pipe performance in Q4FY24, driven by healthy volume growth of 23% YoY as well as sharp margin improvement
- Company maintains positive outlook for pipe segment on healthy demand environment and improving product mix
- Maintain HOLD on weak return ratios and expensive valuations; raise TP by 15% to Rs 265 on earnings upgrade and valuation roll forward

Utkarsh Nopany

research@bobcaps.in

In-line quarter: FNXP slightly beats our estimate for Q4FY24 (Revenue: +3.5%; EBITDA: +3.7%) as better-than-expected pipe sales volume (+23% YoY vs +15% estimate) and improved pipe EBITDA per unit (+16.8% YoY to Rs14.3/kg vs Rs12.0/kg estimate) more than offset the impact of lower-than-expected PVC resin segment EBITDA per unit (+24.3% QoQ to Rs9.4/kg vs Rs12.3/kg estimate). However, FNXP APAT came in line with our estimate due to higher-than-expected tax rate (+27.9% vs 25.2% estimate). Overall, FNXP revenue grew by 8.3% YoY, but EBITDA/APAT fell by 3.9%/1.4% YoY in Q4FY24.

Key result highlights: FNXP's pipe volumes grew by 23% YoY in Q4FY24 driven by strong recovery in agri-pipe demand in Q4FY24. Despite rising competitive pressure in the sector and inferior product-mix (non-agri pipe share down 300 bps QoQ to 29%), FNXP pipe EBITDA per unit improved sharply by 34.5% QoQ to Rs14.3/kg in Q4FY24. PVC resin segment EBITDA per unit remained under pressure at Rs9.4/kg in Q4FY24 vs the historical average run rate of Rs15/kg due to weak global resin spread and dumping of Chinese PVC resin at a cheap rate.

Positive outlook: The company targets to grow its pipe volume at 10-15% rate over the next five years to be driven by high single-digit growth in agri pipe and high-teen growth in non-agri pipe. The company has maintained its pipe EBIT per unit guidance of Rs 10-12/kg for the near future and expects it to improve to >Rs 14/kg over the next 2-3 years on rising contribution of high margin non-agri pipe sales.

Maintain HOLD; raise TP 15% to Rs 265: We expect FNXP's EPS to grow at 28% CAGR over FY24-FY26 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 24.1x on 1Y forward P/E vs 5Y average of 19.0). We raise our TP to Rs 265 (from Rs230) due to earnings upgrade (+8.5%/+11.2% for FY25/FY26 based on strong Q4FY24 result) and roll forward our valuation from Sep'25 to Mar'26. Our target P/E remains unchanged at 22x on Mar'26E EPS.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 271
Market cap	US\$ 2.0bn
Free float	47%
3M ADV	US\$ 3.9mn
52wk high/low	Rs 288/Rs 163
Promoter/FPI/DII	52%/7%/12%

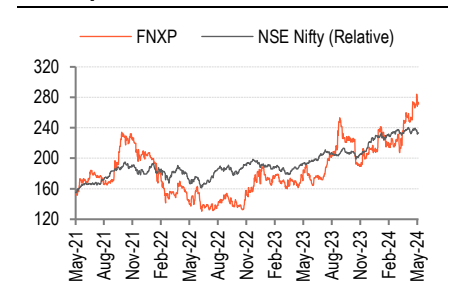
Source: NSE | Price as of 13 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	43,174	47,008	54,074
EBITDA (Rs mn)	5,849	8,201	9,280
Adj. net profit (Rs mn)	4,733	6,808	7,758
Adj. EPS (Rs)	7.7	11.0	12.5
Consensus EPS (Rs)	7.7	9.4	10.9
Adj. ROAE (%)	9.0	11.3	11.6
Adj. P/E (x)	35.4	24.6	21.6
EV/EBITDA (x)	31.3	22.3	20.0
Adj. EPS growth (%)	81.7	43.8	14.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	12,354	11,411	8.3	10,197	21.2	43,174	43,968	(1.8)
RM	7,739	6,592	17.4	6,522	18.7	27,372	30,721	(10.9)
Gross Profit	4,615	4,819	(4.2)	3,675	25.6	15,803	13,247	19.3
Employee	567	480	18.2	526	7.8	2,114	1,897	11.5
Others	1,959	2,165	(9.5)	1,950	0.5	7,846	8,425	(6.9)
EBITDA	2,089	2,174	(3.9)	1,199	74.3	5,843	2,925	99.7
D&A	267	238	12.1	276	(3.2)	1,160	892	30.1
EBIT	1,823	1,936	(5.9)	923	97.4	4,683	2,033	130.3
Interest cost	73	65	13.2	77	(4.6)	365	272	33.9
Int. & other income	539	427	26.3	468	15.0	2,187	1,452	50.7
PBT	2,288	2,298	(0.4)	1,315	74.0	6,506	3,213	102.5
Tax	639	633	0.9	361	77.0	1,770	714	147.8
PAT	1,649	1,665	(1.0)	954	72.9	4,736	2,499	89.5
Adj. PAT	1,649	1,672	(1.4)	948	74.0	4,730	2,337	102.4
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	37.4	42.2	(487)	36.0	132	36.6	30.1	647
Employee	4.6	4.2	38	5.2	(57)	4.9	4.3	58
Others	15.9	19.0	(311)	19.1	(326)	18.2	19.2	(99)
EBITDA margin	16.9	19.1	(214)	11.8	515	13.5	6.7	688
Tax rate	27.9	27.6	38	27.5	48	27.2	22.2	498
APAT margin	13.3	14.7	(131)	9.3	405	11.0	5.3	564

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

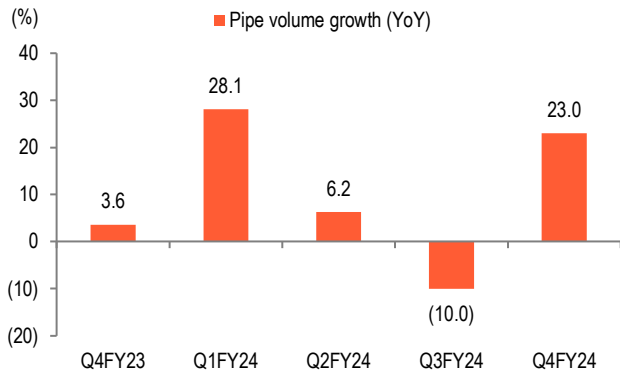
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (Rs mn)								
External PVC Resin	532	390	36.7	281	89.6	1323	2,838	(53.4)
Pipes & Fittings	11,822	11,021	7.3	9,916	19.2	41,852	41,130	1.8
Sales Volume (KT)								
External PVC Resin	6	3	91.8	3	130.9	14	27	(47.4)
Pipes & Fittings	100	81	23.0	81	23.2	337	303	11.1
Average Realization (Rs/kg)								
External PVC Resin	84	117	(28.7)	102	(17.9)	93	105	(11.4)
Pipes & Fittings	118	135	(12.8)	122	(3.2)	124	136	(8.4)
Adjusted EBITDA (Rs mn)								
PVC resin	653	1,175	(44.4)	332	96.7	1,271	956	32.9
Pipes & Fittings	1,436	999	43.7	867	65.6	4,572	1,969	132.2
Adjusted EBITDA (Rs/kg)								
PVC resin	9.4	20.2	(53.3)	7.6	24.3	6.5	4.0	62.1
Pipes & Fittings	14.3	12.3	16.8	10.7	34.5	13.6	6.5	109.0

Source: Company, BOBCAPS Research

Earning call highlights

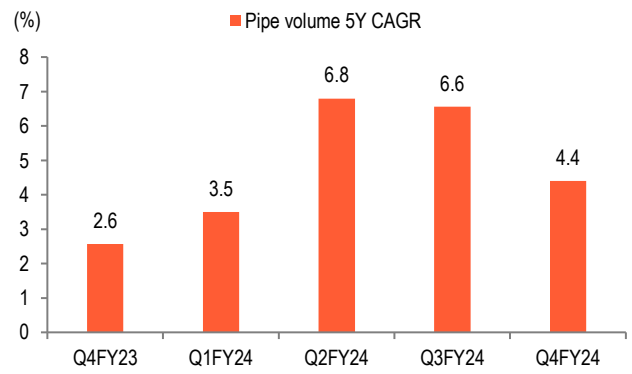
- **Pipe industry demand:** FNXP saw good recovery in agri pipe demand in Q4FY24 over Q3FY24 and the demand momentum remains positive in Q1FY25 (YTD) due to low and stable PVC resin prices.
- **Channel inventory** is normal due to stable PVC resin prices.
- **Pipe volume outlook:** The company aims to grow its volume at 10-15% over the next five years to be driven by both agri pipe (high single-digit) as well as non-agri pipe (at 20% CAGR).
- **Pipe volume mix:** Non-agri pipe volume share fell 200bps YoY to 29% in Q4FY24 due to good growth registered in agri pipe (+26.5% YoY). However, non-agri pipe volume also grew at a healthy rate of 15% YoY in Q4FY24. Non-agri pipe volume share has gone up 200 bps YoY to 32% in FY24 and the company expects it to improve to 50% over the medium term.
- **Margin outlook:** FNXP maintains its guidance of pipe EBIT per unit at Rs 10-12/kg in the near term and expects it to improve further to >Rs14/kg over the next 2-3 years due to rising contribution of high margin non-agri pipe sales.
- **Divestment of non-core asset:** The company sold part of its non-core land parcel of 25.27 acres in Pune for Rs 4.2bn in Apr'24. The company is still left with a 10-acre land parcel in Pune.
- **Capex:** FNXP plans to spend Rs 1.5bn for increasing pipe & fittings capacity and for maintenance capex purpose in FY25. Management is also evaluating options to put up a new pipe manufacturing facility over the next two years to cater to future growth requirements.
- **Working capital:** Gross working capital cycle went up from 81 days in FY23 to 100 days in FY24 due to increases in debtor days (from 25 days to 39 days) and inventory (from 56 days in FY23 to 62 days in FY24). Management believes the debtor period is likely to be maintained at the current level in future due to higher credit period offered to dealers whereas the increase in inventory is due to the build up of resin stocks (which is likely to come down to normal levels in the near future).
- **Net cash** balance improved from Rs 15.7bn in Dec'23 to Rs 18.2bn in Mar'24.

Fig 3 – FNXP’s pipe volumes grew by 23% YoY in Q4FY24 on good demand for both agri and non-agri pipe



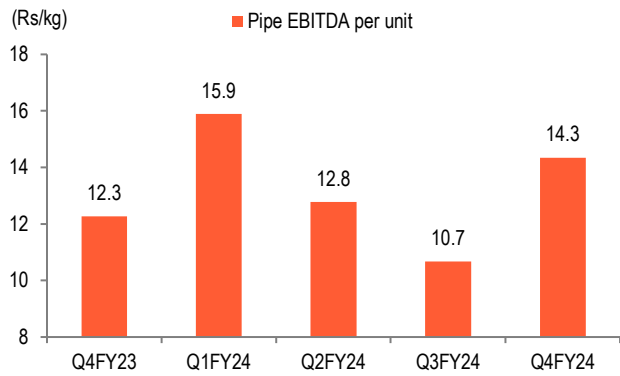
Source: Company, BOBCAPS Research

Fig 4 – FNXP pipe volume grew at 4.4% rate on a 5Y CAGR basis in Q4FY24



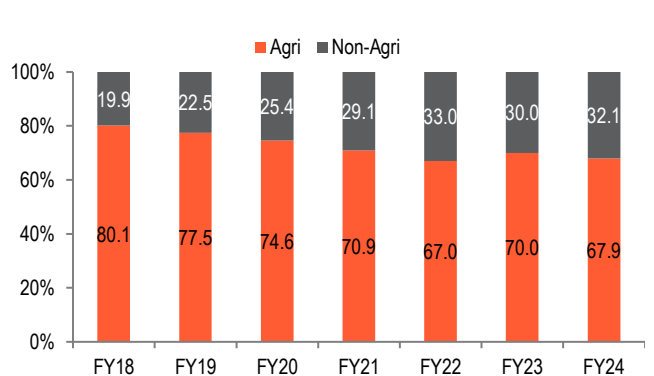
Source: Company, BOBCAPS Research

Fig 5 – Pipe EBITDA per unit improved by 17% YoY to Rs14.3/kg...



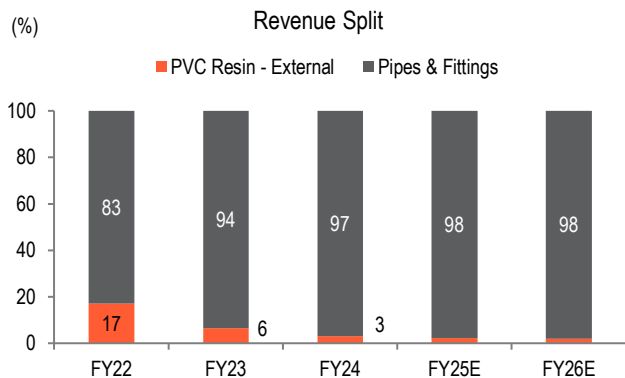
Source: Company, BOBCAPS Research

Fig 6 – ... due to rising share of non-agri pipes in total volumes and operating leverage benefit



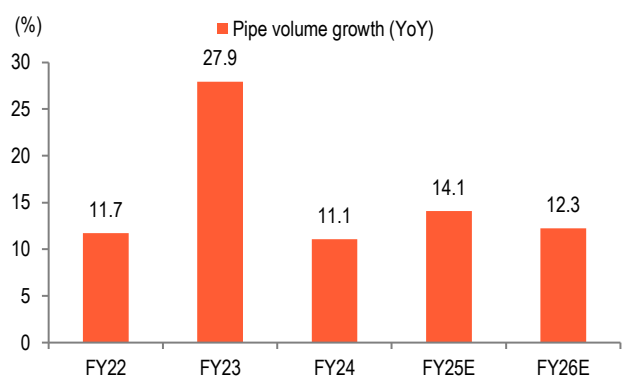
Source: Company, BOBCAPS Research

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



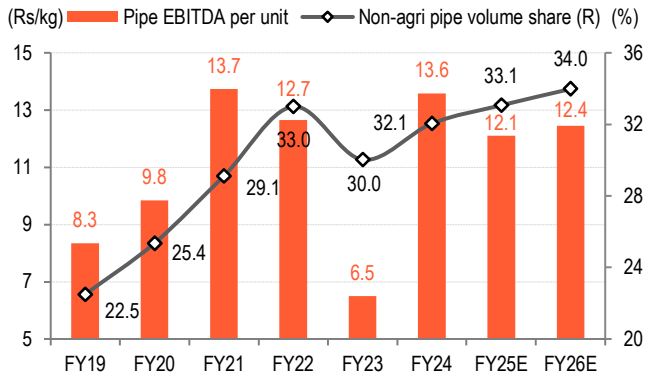
Source: Company, BOBCAPS Research

Fig 8 – Pipe volumes forecast to grow in double digits over the medium term



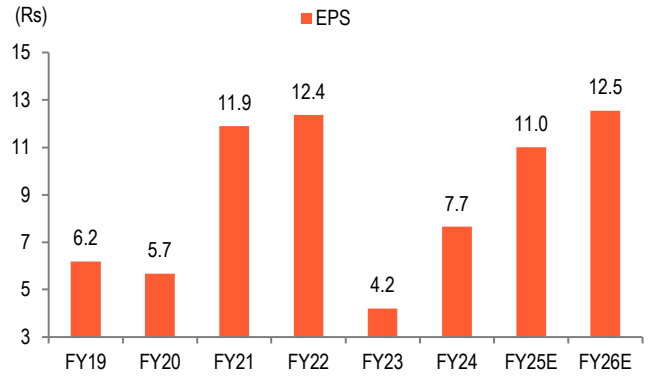
Source: Company, BOBCAPS Research

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



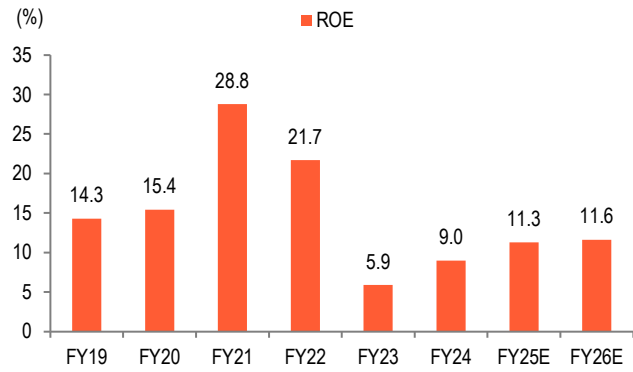
Source: Company, BOBCAPS Research

Fig 10 – EPS to grow at 28% CAGR over FY24-FY26 on improved performance for both pipe and resin segment



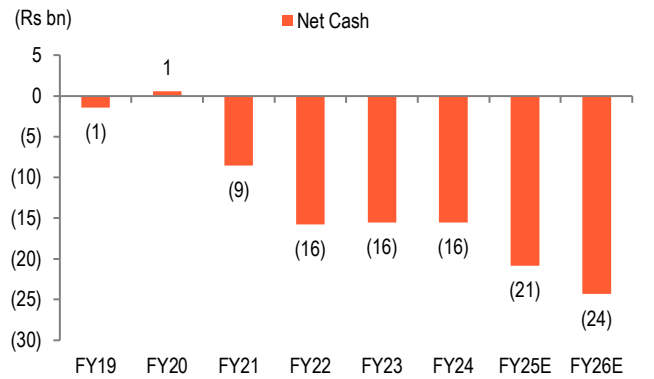
Source: Company, BOBCAPS Research

Fig 11 – However, FNXP return ratio profile is likely to remain weak in FY25-FY26...



Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

Valuation methodology

We expect FNX's EPS to grow at 28% CAGR over FY24-FY26 due to 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 weak return profile amidst poor capital allocation and expensive valuation (trades at 24.1x on 1Y forward P/E vs 5Y average of 19.0). FNX's ROE is projected to decline from 15.4% in FY20 to 11.3%-11.6% in FY25-FY26 in the absence of a concrete plan for better utilisation of rising cash balance for growth purpose.

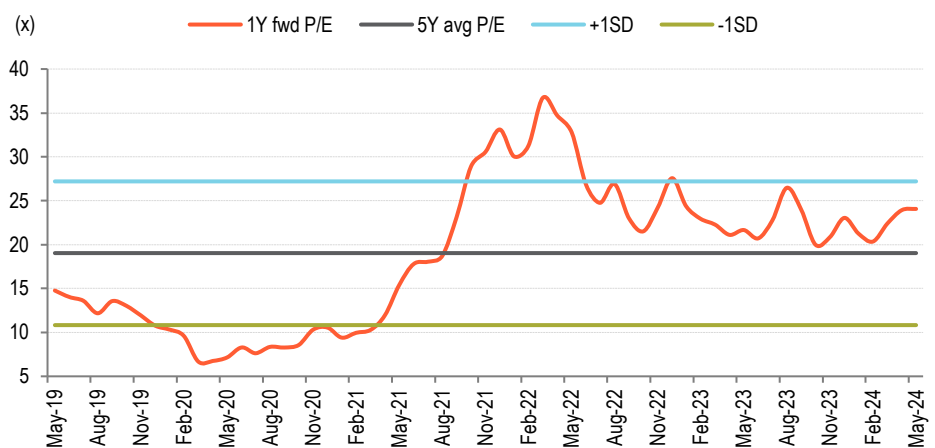
We raise our TP to Rs 265 (Rs 230 earlier) due to earnings upgrades (+8.5%/+11.2% for FY25/FY26) based on the strong Q4FY24 result and roll forward our valuation from Sep'25E to Mar'26E. Our target P/E remains unchanged at 22x on Mar'26E EPS.

Fig 13 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	47.0	54.1	45.2	51.3	3.9	5.4
EBITDA	8.2	9.3	8.2	9.2	0.0	0.7
EBITDA margin	17.4	17.2	18.1	18.0	(68bps)	(80bps)
Adjusted PAT	6.8	7.8	6.3	7.0	8.5	11.2
Adjusted EPS	11.0	12.5	10.1	11.3	8.5	11.2

Source: BOBCAPS Research

Fig 14 – Trading at 24.1x 1Y forward P/E vs. 5Y average of 19.0x



Source: Bloomberg, BOBCAPS Research

Fig 15 – Key assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue mix						
PVC resin	23.9	17.1	6.5	3.1	2.2	2.0
Pipes & Fittings	76.1	82.9	93.5	96.9	97.8	98.0
Sales volume growth						
Pipes & Fittings	(16.8)	11.7	27.9	11.1	14.1	12.3
Realisation growth						
Pipes & Fittings	24.1	30.9	(16.5)	(8.4)	(3.7)	2.7
EBITDA unit (Rs/kg)						
PVC resin	29.6	32.4	4.0	6.5	12.3	12.5
Pipes & Fittings	13.7	12.7	6.5	13.6	12.1	12.4

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	612	600	SELL
Astral	ASTRA IN	7.3	2,216	2,000	HOLD
Century Plyboards	CPBI IN	1.8	662	700	HOLD
Cera Sanitaryware	CRS IN	1.1	7,119	7,700	HOLD
Finolex Industries	FNXP IN	2.0	271	265	HOLD
Greenlam Industries	GRLM IN	0.8	537	500	HOLD
Greenpanel Industries	GREENP IN	0.4	295	340	HOLD
Greenply Industries	MTLM IN	0.4	235	300	BUY
Hindware Home Innovation	HINDWARE IN	0.3	346	600	BUY
Kajaria Ceramics	KJC IN	2.2	1,160	1,400	BUY
Prince Pipes & Fittings	PRINCP IN	0.9	642	650	HOLD
Somany Ceramics	SOMC IN	0.3	621	900	BUY
Supreme Industries	SI IN	8.2	5,295	4,650	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	46,473	43,971	43,174	47,008	54,074
EBITDA	10,276	3,258	5,849	8,201	9,280
Depreciation	834	892	1,160	1,076	1,123
EBIT	9,442	2,366	4,688	7,125	8,157
Net interest inc./(exp.)	(141)	(272)	(365)	(292)	(292)
Other inc./(exp.)	822	1,209	1,800	1,600	2,125
Exceptional items	39	332	0	0	0
EBT	10,085	2,970	6,123	8,432	9,990
Income taxes	3,317	706	1,770	2,956	2,614
Extraordinary items	(3,761)	0	0	(4,170)	0
Min. int./Inc. from assoc.	(15)	243	382	382	382
Reported net profit	10,513	2,507	4,736	10,028	7,758
Adjustments	(2,841)	97	(3)	(3,221)	0
Adjusted net profit	7,672	2,604	4,733	6,808	7,758

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	4,631	2,893	2,886	3,143	3,615
Other current liabilities	4,535	3,158	4,285	4,285	4,285
Provisions	42	45	45	49	56
Debt funds	2,780	5,264	3,820	3,820	3,820
Other liabilities	2,187	2,460	3,201	3,201	3,201
Equity capital	1,241	1,237	1,237	1,237	1,237
Reserves & surplus	38,037	47,794	55,106	62,970	68,254
Shareholders' fund	39,278	49,031	56,343	64,207	69,491
Total liab. and equities	53,454	62,851	70,579	78,703	84,467
Cash and cash eq.	18,573	20,812	19,368	24,663	28,150
Accounts receivables	3,345	2,975	4,576	4,983	5,732
Inventories	10,155	6,732	7,280	9,763	11,336
Other current assets	625	940	798	869	1,000
Investments	9,415	19,262	26,808	26,808	26,808
Net fixed assets	9,923	10,376	10,411	10,530	10,603
CWIP	95	438	189	(61)	(310)
Intangible assets	9	176	143	143	143
Deferred tax assets, net	256	245	215	215	215
Other assets	1,060	894	791	791	791
Total assets	53,454	62,851	70,579	78,703	84,467

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	6,113	3,622	4,448	2,927	5,074
Capital expenditures	(801)	(1,868)	(913)	(946)	(946)
Change in investments	160	(9,848)	(7,546)	0	0
Other investing cash flows	4,544	877	1,800	5,770	2,125
Cash flow from investing	3,904	(10,839)	(6,659)	4,824	1,179
Equities issued/Others	0	(4)	0	0	0
Debt raised/repaid	742	2,484	(1,445)	0	0
Interest expenses	(2,482)	(928)	(1,546)	(2,164)	(2,473)
Dividends paid	(141)	(272)	(365)	(292)	(292)
Other financing cash flows	(143)	8,177	4,122	0	0
Cash flow from financing	(2,024)	9,457	767	(2,457)	(2,766)
Chg in cash & cash eq.	7,993	2,240	(1,444)	5,295	3,488
Closing cash & cash eq.	18,573	20,812	19,368	24,663	28,150

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	16.9	4.1	7.7	16.2	12.5
Adjusted EPS	12.4	4.2	7.7	11.0	12.5
Dividend per share	4.0	1.5	2.5	3.5	4.0
Book value per share	63.3	79.3	91.1	103.8	112.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	3.7	4.1	4.2	3.9	3.4
EV/EBITDA	16.7	55.2	31.3	22.3	20.0
Adjusted P/E	21.9	64.4	35.4	24.6	21.6
P/BV	4.3	3.4	3.0	2.6	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.1	87.7	77.3	80.7	77.7
Interest burden (PBT/EBIT)	106.8	125.6	130.6	118.4	122.5
EBIT margin (EBIT/Revenue)	20.3	5.4	10.9	15.2	15.1
Asset turnover (Rev./Avg TA)	86.9	70.0	61.2	59.7	64.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.3
Adjusted ROAE	21.7	5.9	9.0	11.3	11.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	34.2	(5.4)	(1.8)	8.9	15.0
EBITDA	3.8	(68.3)	79.5	40.2	13.2
Adjusted EPS	3.9	(65.9)	81.7	43.8	14.0
Profitability & Return ratios (%)					
EBITDA margin	22.1	7.4	13.5	17.4	17.2
EBIT margin	20.3	5.4	10.9	15.2	15.1
Adjusted profit margin	16.5	5.9	11.0	14.5	14.3
Adjusted ROAE	21.7	5.9	9.0	11.3	11.6
ROCE	24.4	6.6	10.8	12.8	14.0
Working capital days (days)					
Receivables	26	25	39	39	39
Inventory	80	56	62	76	77
Payables	36	24	24	24	24
Ratios (x)					
Gross asset turnover	1.9	1.8	1.6	1.7	1.9
Current ratio	2.7	2.8	2.9	3.6	3.9
Net interest coverage ratio	67.0	8.7	12.9	24.4	27.9
Adjusted debt/equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)

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

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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**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

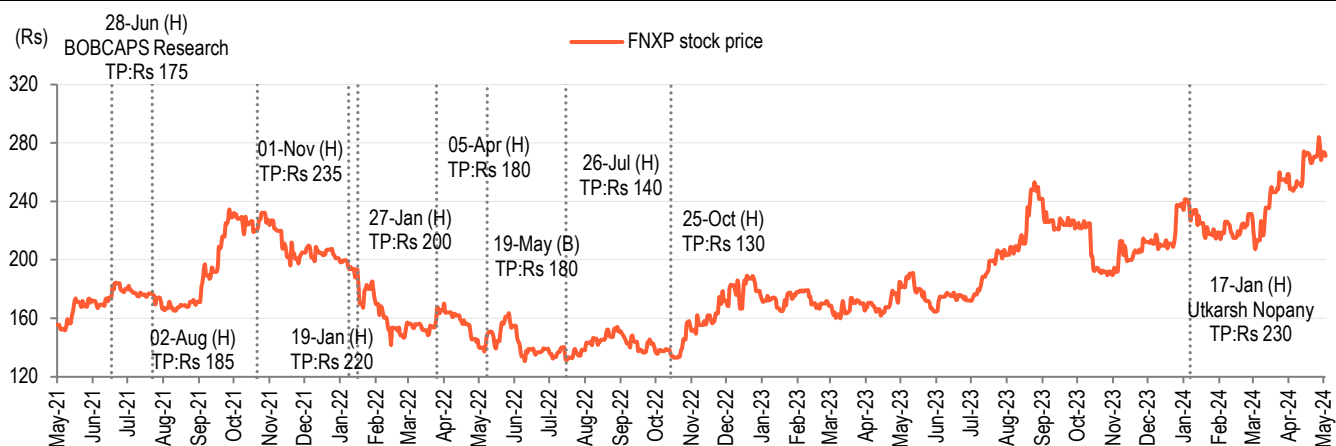
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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 (FNPX IN)



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

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