

FINOLEX INDUSTRIES

RESULT UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	224
12 month price target (INR)	179
52 Week High/Low	356/144
Market cap (INR bn/USD bn)	139/1.6
Free float (%)	53.5
Avg. daily value traded (INR mn)	340.6

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	52.5%	52.5%	52.5%
FII	6.5%	6.6%	6.4%
DII	11.7%	12%	12%
Pledge	0%	0%	0%

FINANCIALS

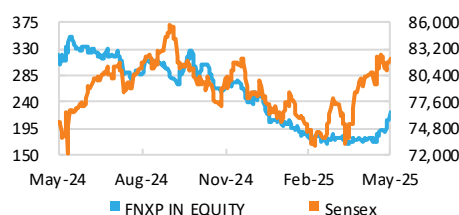
(INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	41,420	45,465	49,200	53,118
EBITDA	4,758	6,822	7,150	7,463
Adjusted profit	3,830	6,430	6,911	7,611
Diluted EPS (INR)	6.2	10.4	11.1	12.3
EPS growth (%)	(22.4)	67.8	7.5	10.1
RoAE (%)	6.5	10.0	9.8	9.9
P/E (x)	28.3	16.9	15.7	14.3
EV/EBITDA (x)	18.5	12.7	10.8	9.9
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	45,465	49,200	-2%	-2%
EBITDA	6,822	7,150	10%	10%
Adjusted profit	6,430	6,911	14%	11%
Diluted EPS (INR)	10.4	11.1	14%	11%

PRICE PERFORMANCE



Volumes in line; margins surprise positively

Finolex Industries (FIL) reported a mixed Q4FY25 performance. While pipes volumes inched up 2.1% YoY (our estimate: 6%), margins improved for resins/PVC pipes division by 370bp/600bp QoQ to 13%/9%. Consequently, revenue slipped 5% YoY to INR11.7bn, whereas EBIT/kg soared to INR10.5 on the back of cost-saving measures and better pricing. The company continues to hold free cash to the tune of INR25.4bn, with cash flow of INR3.8bn in FY25. Lower interest expense and higher other income ensured flat PAT YoY.

Given the beat on numbers and strong margin expansion, we are raising FY26E/27E EPS by 14%/11%. Maintain 'REDUCE' on the stock with a TP of INR179 (earlier INR162) based on 16x FY27E EPS.

Subdued demand hurts volume growth; focus on non-agri

Demand continued to be subdued as piping volumes inched up 2.1% YoY, whereas PVC resin volumes fell 19% YoY. While the channel inventory has been low, FIL said April/May 2025 have reported good demand (before the rains commence). While the company stayed away from guidance, the internal target is double-digit volume growth in FY26. FIL is working on improving its non-agri mix (currently 33% of sales) to 50% in the next three–four years by focusing on branding and distribution along with an increased focus on project sales (10–15% of non-agri sales).

Favourable spreads aid margins; realisations to improve

Given sharp control on its employee cost and other expenses, the company has been able to enhance EBITDA margins by 628bp QoQ (down 229bp YoY) to 14.6%. Given a favourable PVC-EDC and VCM-PVC spread, FIL has been able to expand resin EBIT by 63% for FY25. PVC resin segment reported 22.6bp YoY growth in margins, PVC-EDC spread for the quarter expanded 15% YoY (down 5% QoQ). Consequently, overall EBITDA fell 18%YoY to INR1.7bn. Furthermore, the company indicated that PVC prices could move higher only if the ADD on PVC resins comes in. BIS is also likely to help the industry and reduce Chinese imports. Moreover, FIL anticipates the recent hike in PVC prices to be on the back of strong demand recently.

Capacity announcement key; cash continues to pile up

The company has set its sights on capacity expansions, which shall be announced in the near future. Given its focus on brand spend and distribution, FIL is aiming at margin expansion by improving its non-agri share (Q4FY25: agri: non-agri – 67: 33). The company is yet to decide how to utilise the cash lying on the books.

Financials

Year to March	Q4FY25	Q4FY24	% Change	Q3FY25	% Change
Net Revenue	11,718	12,354	(5.1)	10,012	17
EBITDA	1,713	2,089	(18.0)	834	105.3
Adjusted Profit	1,646	1,649	(0.2)	940	75.0
Diluted EPS (INR)	2.7	2.7	(0.2)	1.5	75.0

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	41,420	45,465	49,200	53,118
Gross profit	14,659	15,913	17,220	18,591
Employee costs	2,223	2,273	2,460	2,656
Other expenses	7,678	6,818	7,610	8,473
EBITDA	4,758	6,822	7,150	7,463
Depreciation	1,067	1,103	1,142	1,181
Less: Interest expense	296	134	134	113
Add: Other income	2,466	2,453	2,806	3,444
Profit before tax	6,263	8,439	9,081	10,015
Prov for tax	2,432	2,009	2,170	2,403
Less: Other adj	0	0	0	0
Reported profit	3,830	6,430	6,911	7,611
Less: Excp.item (net)	0	0	0	0
Adjusted profit	3,830	6,430	6,911	7,611
Diluted shares o/s	620	620	620	620
Adjusted diluted EPS	6.2	10.4	11.1	12.3
DPS (INR)	0	0	0	0
Tax rate (%)	38.8	23.8	23.9	24.0

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Pipes vol growth %	3.4	9.0	7.0	7.0
Pipes realisation growth %	(5.2)	1.0	1.0	1.0
Resin value growth %	(71.3)	(25.2)	31.3	(6.1)
EBITDA margin (%)	11.5	15.0	14.5	14.0
Net profit margin (%)	9.2	14.1	14.0	14.3
Revenue growth (% YoY)	(4.1)	9.8	8.2	8.0
EBITDA growth (% YoY)	(18.6)	43.4	4.8	4.4
Adj. profit growth (%)	(22.4)	67.9	7.5	10.1

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.0	7.0	7.0
Repo rate (%)	6.5	5.8	5.0	5.0
USD/INR (average)	84.4	86.5	85.0	85.0
EBITDA margin (%)	11.5	15.0	14.5	14.0
Pipes EBIT per tonne	6,771.3	10,000.0	10,000.0	10,000.0
Resin EBIT per tonne	8,300.0	11,000.0	11,000.0	11,000.0
Net profit margin (%)	9.2	14.1	14.0	14.3

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	28.3	16.9	15.7	14.3
Price/BV (x)	1.8	1.6	1.5	1.3
EV/EBITDA (x)	18.5	12.7	10.8	9.9
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	1,237	1,237	1,237	1,237
Reserves	59,732	65,760	72,270	79,480
Shareholders funds	60,969	66,997	73,507	80,716
Minority interest	0	0	0	0
Borrowings	2,211	1,911	1,611	1,311
Trade payables	4,442	416	4,841	835
Other liabs & prov	2,491	2,491	2,491	2,491
Total liabilities	73,819	75,522	86,156	89,060
Net block	9,871	9,768	9,626	9,445
Intangible assets	0	0	0	0
Capital WIP	0	0	0	0
Total fixed assets	9,871	9,768	9,626	9,445
Non current inv	25,994	25,994	25,994	25,994
Cash/cash equivalent	22,694	24,067	33,332	35,888
Sundry debtors	3,793	3,681	4,406	4,325
Loans & advances	0	0	0	0
Other assets	9,933	10,478	11,264	11,873
Total assets	73,819	75,522	86,156	89,060

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	3,830	6,430	6,911	7,611
Add: Depreciation	1,067	1,103	1,142	1,181
Interest (net of tax)	199	90	90	76
Others	598	(11,728)	2,664	(12,877)
Less: Changes in WC	1,867	(4,459)	2,914	(4,534)
Operating cash flow	3,826	354	7,893	525
Less: Capex	(1,151)	(1,000)	(1,000)	(1,000)
Free cash flow	2,675	(646)	6,893	(475)

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	6.5	10.0	9.8	9.9
RoCE (%)	9.8	12.4	12.2	12.4
Inventory days	102	100	100	100
Receivable days	31	30	30	30
Payable days	45	30	30	30
Working cap (% sales)	22.4	30.2	22.0	28.9
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.3)	(0.4)	(0.4)
Interest coverage (x)	12.5	42.8	44.9	55.7

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	(22.4)	67.8	7.5	10.1
RoE (%)	6.5	10.0	9.8	9.9
EBITDA growth (%)	(18.6)	43.4	4.8	4.4
Payout ratio (%)	0	0	0	0

Q4FY25 conference call: Key highlights

Outlook

- Finolex expects a **muted industry environment**, with volume growth unlikely to be spectacular.
- Internal targets suggest **double-digit growth**, but no formal guidance has been issued.
- Key focus will be on **margin recovery** through:
 - Better pricing strategy.
 - Improved product mix.
 - Cost-cutting initiatives.
 - Reduced scrap and better procurement.

Non-agricultural versus agricultural mix

- FY25 volume split: Agri 67%/Non-Agri 33%.
- Volume growth: Agri ~2%; Non-Agri ~9%
- Strategic goal: reach 50:50 agri to non-agri mix
- Initiatives to boost non-agri:
 - Separate project sales team.
 - Direct engagement with developers and retailers.
 - Digitisation and incentive schemes for plumbers and retailers.

PVC resins

- PVC resin volume up **13% YoY** to **222,708MT**.
- Resin EBIT margin improved due to **favourable PVC-EDC and PVC-VCM spreads**.
- **EDC accounts for ~55%** of PVC resin production; rest is via VCM.

PVC pipes

- Pipes and fittings volume: **3,47,982MT** (+4% YoY).
- Focus remains on:
 - Expanding CPVC offerings.
 - Improving SKU base (over 1,500 SKUs).
 - Boosting presence in project segment (now ~10% of retail sales).

PVC-EDC and PVC-VCM pricing/Delta

Spread Type	Q3FY25	Q4FY25	Current (May 2025)
PVC-EDC	USD517	USD491	~USD490
PVC-VCM	USD174	USD160	USD160

Price uptick of **INR2.5/kg** in recent days attributed to **demand-supply dynamics**, not ADD.

- **Anti-dumping duty (ADD)** likely in **June–July**; could raise resin prices by **INR3–6/kg**.
- BIS implementation would **block Chinese imports**, a major future margin lever.

Capex

- FY26 capex estimated at **INR1.25–1.5bn**.
- Pipe capacity to increase from **420,000MT to 470,000MT** (Q4 completed 25,000MT, 25,000 more soon).
- Fittings capacity stable at **50,000MT**, with ~80% from dedicated contract manufacturers.
- No major backward integration or new product category (e.g. OPVC) announcements yet.
- Focus remains on **brownfield expansion**.

Miscellaneous

- **CPVC volumes** expanded **17% YoY**, ~5% of total sales; expected to continue double-digit growth.
- CPVC is becoming **commoditised**; margins are likely to normalise, growth will be **volume-driven**.
- Strong balance sheet: **INR25.35bn net cash**.
- Management reiterated the potential for **cash return to shareholders**, pending a board decision.
- **No major property sales or exceptional gains** likely similar to FY25.

Exhibit 1: Financial snapshot (INR mn)

Year to Date	Mar-25	Mar-24	% change	Dec-24	% change
Revenues	11,718	12,354	(5.1)	10,012	17.0
Raw material	7,679	7,739	(0.8)	6,585	16.6
Staff costs	513	567	(9.6)	570	(10.1)
Others	1,814	1,959	(7.4)	2,023	(10.3)
Total expenditure	10,005	10,265	(2.5)	9,178	9.0
EBITDA	1,713	2,089	(18)	834	105.3
Depreciation	269	267	0.8	273	(1.5)
EBIT	1,444	1,823	(20.8)	561	157.3
Less: Interest Expense	62	73	(15.5)	100	(38.3)
Add: Other income	646	438	47.5	484	33.4
Profit Before Tax	2,028	2,187	(7.3)	945	114.5
Less: Provision for Tax	586	639	(8.3)	178	229.7
Add: Exceptional items	0	0		0	
Less: Minority Interest	0	0		0	
Add: Share of profit from associates	204	101		173	
Reported Profit	1,646	1,649	(0.2)	940	
Adjusted net profit	1,646	1,649	(0.2)	940	75.0
No. of Diluted shares outstanding (mn)	620	620		620	
Adjusted Diluted EPS	2.7	2.7	(0.2)	1.5	75.0
As % of net revenues					
Raw material	65.5	62.6		65.8	
Staff expenses	4.4	4.6		5.7	
Other expenses	15.5	15.9		20.2	
EBITDA	14.6	16.9	(229.6)	8.3	628.3
Net profit	14.0	13.3		9.4	

Source: Company, Nuvama Research

Exhibit 2: Quarterly segmental snapshot

Year to Date	Mar-25	Mar-24	% change	Dec-24	% change
Segment Revenues (INR mn)					
PVC	3900	5075	(23.1)	4133	(5.6)
PVC Pipes & Fittings	11684	11822	(1.2)	9927	17.7
Less: Intersegmental	-3866	-4542	(14.9)	-4047	(4.5)
Total revenues	11718	12354	(5.1)	10012	17.0
Segment EBIT (INR mn)					
PVC	513	656	(21.8)	392	31.0
PVC Pipes & Fittings	1,076	1,328	(19.0)	321	235.0
Segment Margins (%)					
PVC	13.2	12.9	22.6	9.5	
PVC Pipes & Fittings	9.2	11.2	-202.2	3.2	597.6

Source: Company, Nuvama Research

Exhibit 3: Quarterly operational details

Year to Date	Mar-25	Mar-24	% change	Dec-24	% change
Volumes (MT)					
Pipes & Fittings	1,02,253	1,00,171	2.1	85,767	19
PVC Resins	56,018	69,216	(19.1)	56,830	(1)
Realisations					
Pipes & Fittings	1,14,266	1,18,016	(3.2)	1,15,739	(1.3)
PVC Resins	69,620	73,318	(5.0)	72,724	(4.3)

Source: Company, Nuvama Research

Exhibit 4: Prices and spreads

USD/tonne	Mar-25	Mar-24	% change	Dec-24	% change
PVC Price	745	785	(5.1)	783	(4.9)
EDC Price	254	358	(29.1)	266	(4.5)
VCM Price	571	650	(12.2)	616	(7.3)
PVC EDC Spread	491	427	15.0	517	(5.0)
EDC VCM spread	491	292	68.2	350	40.3
PVC VCM spread	174	135	28.9	167	4.2

Source: Company, Nuvama Research

Company Description

Incorporated in 1981, Finolex Industries Limited (FIL) had a modest beginning as a rigid polyvinyl chloride (PVC) pipes manufacturer based out of Pune. The company has since become India's leading manufacturer of PVC-U and the third-largest manufacturer of PVC resin. FIL is the only PVC pipe manufacturing company in India with backward integration, that is, it has a captive PVC resins manufacturing unit. FIL commands a market share of more than 8% in the overall plastic pipes segment. The company has three plants—Ratnagiri and Pune (Maharashtra) and Masar (Gujarat)—with combined PVC pipes and fittings capacity of 470ktpa. FIL also has the capacity to manufacture 272ktpa of PVC resin. Furthermore, it has expanded its product portfolio to include CPVC products. FIL has a network of over 30,000 retail outlets across India and is supported by more than 900 dealers as of Mar-24.

Investment rationale

FIL is one of the most prominent players in agri pipes and continues to enjoy a leading position among top five brands in India. However, the company intends to shift to more plumbing pipes. Unfortunately, FIL has been unable to achieve this due to higher competitive intensity stemming from very high-capacity addition and wider geographical footprint of peers. Furthermore, the company has shied away from expanding from conventional PVC/CPVC pipes to other value-added products. Once touted to benefit from backward integration, FIL continues to be plagued by issues in the resin business. Primary reasons are: i) lack of capacity addition; and ii) higher imports hurting margins. The segment continues to be exposed to the volatility of PVC-EDC spread. FIL continues to have high cash on its books. Owing to the dispute between the promoters, there is a lack of clarity on cash utilisation. This uncertainty is pressurising return ratios as the cash has grown to more than ~20% of the market cap. Currently, FIL continues to own 10 acres of land. This should further improve its cash position. While FIL has been able to scale up its pipes and fitting business, the dearth of any capex plans, shall hurt growth compared with industry peers. The company has also lost market share in the recent past. Without further capacity enhancement, FIL's volumes shall continue to moderate thereby ceding further market share. Given the aggressive approach in a highly competitive environment in the plastic pipe segment, we do not anticipate a major uptick in FIL's margins. Furthermore, the slow shift of the company towards value-added products is hurting the potential for margin expansion. FIL expects to clock a revenue CAGR of 5% over FY24–27 (9% over FY25–27E). Without further enhancement of capacity, its volumes shall continue to moderate thereby ceding further market share. FIL has not improved its PVC resin capacity and does not plan to do so either. Going ahead, we do not anticipate high growth in the resin segment, considering lower availability for external sales and maximum utilisation of PVC resin capacity. FIL's EBITDA/PAT are likely to grow 4%/8% over FY24–27E. While margins from the resin segment are exposed to the volatility of the PVC-VCM-EDC spread, pipes margins shall be affected by sectoral headwinds. Furthermore, the slow shift of the company towards value-added products is hurting the potential for margin expansion.

Key Risks

- Contraction in PVC/EDC spread.
- Increasing competitive intensity.
- Poor monsoons.

Additional Data

Management

Chairman and MD	Mr. Saurabh Dhanorkar
Executive chairman	Prakash Chhabria
Non executive director	Ritu Chhabria
Non executive director	Saurabh Dhanorkar
Auditor	Walker Chandio & Co., LLP

Holdings – Top 10*

	% Holding		% Holding
SBI Funds	6.56	L&T Mutual Fund	0.96
Vanguard Group	1.86	Franklin Resour	0.90
Investor educat	1.53	Dimensional fun	0.77
HDFC AMC	1.26	Canara Robeco A	0.54
BlackRock	1.10	Norges Bank	0.49

*Latest public data

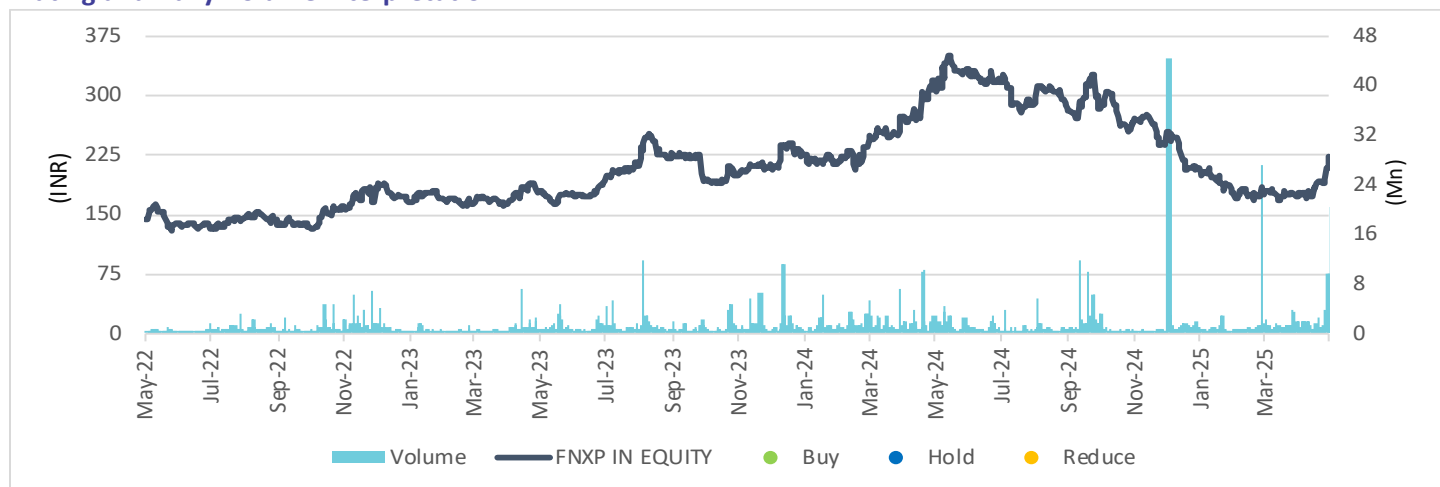
Recent Company Research

Date	Title	Price	Reco

Recent Sector Research

Date	Name of Co./Sector	Title
23-May-25	Astral Ltd	Margins and volumes steady; <i>Result Update</i>
22-May-25	Greenpanel	Optical illusion — MDF margins decline; <i>Result Update</i>
22-May-25	Prince Pipes	Volumes dip; margins improve; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	204
Hold	<15% and >-5%	63
Reduce	<-5%	34

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