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FinOlex INDUSTRIES

FIL/SEC/SEs/2023-24/060

26th September, 2023

The Manager – Listing Department
National Stock Exchange of India Limited
5, Exchange Plaza
Bandra-Kurla Complex
Bandra (East),
Mumbai 400051
Scrip Code: FINPIPE

The Manager – Listing Department
BSE Limited
Registered Office: Floor 25
P.J.Towers
Dalal Street
Mumbai 400 001
Scrip Code: 500940

Sub: Disclosure on reaffirmation of Credit Rating

Ref: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit rating

Dear Sir / Madam,

Pursuant to Regulation 30 read with Schedule III of the Listing Regulations, we hereby inform you that India Ratings & Research have reaffirmed the assigned the credit ratings to the Company.

Instrument/Facility	**Credit Ratings**
Long-term rating	IND AA+/Stable
Short-term rating	IND A1+

Thanking you,

For **Finolex Industries Limited**

ASHUTOSH BHALCHANDRA KULKARNI
Digitally signed by ASHUTOSH BHALCHANDRA KULKARNI
Date: 2023.09.26 15:03:28 +05'30'

Ashutosh Kulkarni
Company Secretary & Head Legal
M. No.: A18549

Encl.: As above

India Ratings Affirms Finolex Industries' Bank Facilities at 'IND AA+'; Outlook Stable

Sep 25, 2023 | Commodity Chemicals

India Ratings and Research (Ind-Ra) has affirmed Finolex Industries Limited's (FIL) bank facilities as below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limit	-	-	-	INR1,253	IND AA+/Stable	Affirmed
Non-fund-based working capital limit	-	-	-	INR17,910	IND A1+	Affirmed
Proposed fund based working capital	-	-	-	INR247	IND AA+/Stable	Affirmed
Proposed non-fund-based working capital limit	-	-	-	INR2,647.5	IND A1+	Affirmed

The affirmation reflects FIL's leading market position in both polyvinyl chloride (PVC) resin, and pipes & fittings (P&F) segments. The business profile is likely to strengthen further on the back of a continued volume growth in business-to-consumer (B2C) pipes and fittings segment, and improved diversification resulting from volume growth in high-margin products. Furthermore, a sustained net cash position since FY21 provides cushion from the volatility in PVC prices.

Key Rating Drivers

Leadership Position: FIL has a leadership position, an established track record of over 40 years and an integrated business model in India's PVC P&F and PVC resin industries. The company is the third-largest PVC player in the country and accounts for almost 17% of market share by capacity and is also one of the top players in plastic pipes with a 11% revenue share in FY23.

Shift from PVC Resin to PVC Pipes: FIL is shifting its focus to PVC pipes from PVC resin sales by increasing its captive PVC resin consumption. FIL's share of captive consumption increased to 89% in FY23 (FY20: 75%, FY12: 39%) with a recovery in pipe volumes. With increased demand from the pipe segment, management intends to ramp up utilisation of

P&F capacity (FY23: 75%, FY22: 65%) over the medium term and focus on the captive consumption of resin. With the rising volumes of P&F sales, the overall margin volatility is likely to reduce in the near-to-medium term.

Focus on High-Margin Products: The company's focus on a gradual shift to non-agri from agri in its piping segment has resulted in an improved segment mix in the P&F segment to agri (FY22: 59%, FY21: 63%) and non-agri mix (41%, 37%), except during FY23, when with the decline in PVC prices and pent-up demand from the agri segment resulted in an increase in the agri share in the overall mix to 65%. Furthermore, FIL is aiming at increasing the share of high-margin fittings volumes (FY23: 9%, FY20: 8.1%) over the next few years, along with raising the non-agri share to 50% from 30%. The company is strengthening its dealer/distributor network for the non-agri segment and increasing its visibility in urban cities with increased focus on brand building. As a result of these measures, Ind-Ra expects the P&F segment margins to improve over the medium term.

Fall in PVC Prices Hits Profitability in FY23; Recovery Likely in FY24: FIL's EBITDA grew 21% yoy to INR1.5 billion in 1QFY24 due to improved profitability of the P&F segment. However, the EBITDA declined 30% qoq in 1QFY24 on account of a decline in PVC-ethylene dichloride (EDC) delta. The PVC/EDC and PVC/vinyl chloride monomer (VCM) delta declined to 468 and 133, respectively, in 1QFY24 (4QFY23: 632 and 154, respectively). Management believes that the PVC-EDC delta is likely to have bottomed out and should stabilise over the next few months. During 1QFY24, the P&F segment grew 28% yoy; however, lower realisation led to a flat revenue. The decline in PVC volume during 1QFY24 was partly impacted on account of maintenance shutdown of one month during the quarter. Ind-Ra expects FIL's profitability to come in at around the normalised mid-cycle levels 2HFY24 onwards, driven by stabilisation in commodity prices and healthy demand from both agri and non-agri segments.

Higher volumes and improved realisation led to an above normal EBITDA of INR10.24 billion in FY22 (FY21: INR9.9 billion) compared to a five-year average of INR5 billion during FY16-FY20, and the healthy profitability observed from both PVC resin and P&F segments. The EBITDA declined on a year-on-year basis to INR2.9 billion during FY23 on account of a sharp decline in PVC prices and product spreads. While volumes improved during FY23, the profitability tumbled majorly on account of inventory loss, forex loss and an increase in coal prices. After a weak performance during 1HFY23, a recovery was observed during 2HFY23.

PVC Segment Spreads Likely to Stabilise in 2HFY24 After Sharp Correction in FY23: FIL's PVC segment EBIT margins moderated to 4% in FY23 (FY22: 17.9%; 10-year average: 16.3%). FIL can produce PVC resin through EDC and VCM routes, with the EDC route being more profitable. With a high volatility in crude prices, PVC-VCM and PVC-EDC spreads continue to significantly impact FIL's PVC segment's margins. Global product spreads remained higher during FY21-FY22 than the historical average on account of supply chain issues, however, it reverted to a historical average during FY23 on account of ease of supply chain issues, dumping from China given removal of anti-dumping duty on import from China and a reduction in import duty to 7.5% from 10%. The average PVC-EDC spread per tonne was around USD648 in FY23 (FY22: USD786, FY21: USD711), which fell to USD460 during 1QFY24, while the PVC-VCM was around USD214 (USD350, USD260) and fell to USD150. However, with the spreads reaching the historical average, more downside seems to be limited and Ind-Ra expects normalisation of profits from 2HFY24.

Stabilisation of PVC Prices and Gradual Increase in Non-agri Share to Improve P&F Profitability after a Weak FY23: The P&F segment's EBIT margins moderated to 3.7% in FY23 (FY22: 6.5%, FY21: 9.5%), on account of a decline in P&F realisation with the decline in PVC prices during FY23. Inventory losses due to falling prices led to a weak performance in FY23, but with a likely stabilisation in prices the segments profits could recover in 2HFY24. Further, the management's plan to increase the non-agri share, a recovery in agri business, along with a steady contribution from the high-margin chlorinated polyvinyl chloride and P&F segments should aid the profitability over the medium term.

Strong Credit Metrics with Continued Net Cash Position: FIL's credit metrics remained strong in FY23 with the company remaining net cash positive at INR12.49 billion at FYE23 (FYE22: INR12.9 billion) on account of strong cash flows. The gross leverage (gross debt/EBITDA) increased to 1.8x in FY23 (FY22: 0.27x, FY21: 0.21x) while interest coverage (EBITDA/interest expenses) declined to 10.7x (72.7x, 128x) owing to the lower EBITDA. Ind-Ra expects FIL to remain net cash positive over the medium term, amid the absence of any debt-led capex plans and healthy margins.

Liquidity Indicator - Adequate: The company's liquidity is supported by strong cash and cash equivalents of INR17.76 billion at FYE23 (FYE22: INR15.76 billion). FIL has been reporting positive cash flow from operations (CFO) since FY12. In FY23, the CFO decreased to INR2.4 billion (FY22: 6.4 billion, FY21: 9.7 billion, FY20: INR1 billion, FY19: INR4.1 billion) on account of the lower EBITDA. This, coupled with the dividend outflow of INR2.4 billion and capex of INR1.69 billion, caused the free cash flow to turn negative to INR0.985 billion (FY22: INR3.3 billion, FY21: INR9 billion). However, Ind-Ra expects the CFO to improve in FY24 on account of the likely improvement in EBITDA. FIL's utilisation of its fund-based limits was negligible and that of its non-fund-based working capital (including buyers' credit) was averaged at 30% during the 12 months ended June 2023 and Ind-Ra expects it to have remained at similar levels during the trailing 12 months ended August 2023.

FIL's net working capital cycle ranges between 80 days and 100 days, as it needs to stock inventory for five months. This is because the company sources its raw materials through a jetty, which remains closed during monsoons. The net working capital cycle improved to 79 days in FY23 (FY22: 110 days, FY21: 131 days) with FIL primarily using the cash and carry model, except for non-agri P&F sales, which keeps its debtor days at low levels. FIL does not have any term debt since FY16.

Raw Material Volatility: The company continues to face volatility in raw material prices. Additionally, a demand/supply balance in EDC and VCM markets, and its requirement to stock inventory for around five months during monsoons exposes to the company to price risks. FIL is also exposed to forex fluctuation risk as it imports 85%-90% of its raw material requirement. However, the risk is largely mitigated as it has an economic hedge as PVC's selling price is linked to the US dollar/Indian rupee movement and to its international price.

Rating Sensitivities

Positive: Higher diversification, a substantial increase in share of higher-margin products, along with market share gains, leading to stable operating margins, all on a sustained basis, while maintaining the credit profile could lead to a positive rating action.

Negative: Deterioration in the profitability and/or debt-led capex, leading to the gross financial leverage increasing above 1.0x on a sustained basis could lead to a negative rating action.

Company Profile

FIL was incorporated in 1981 as a PVC pipe manufacturer. It was backward integrated in 1994 and manufactures PVC resins at its plant in Ratnagiri. FIL had a total installed capacity of PVC P&F of 4,00,000 tonnes per annum (tpa) and PVC resins of 2,72,000 tonnes per annum.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR billion)	43.97	46.47
EBITDA (INR billion)	2.93	10.24
EBITDA margin (%)	6.7	22
Total debt (INR billion)	5.26	2.78
Gross interest coverage (x)	10.7	72.7
Net leverage (x)	-4.27	-1.17
Source: FIL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	22 September 2023	19 December 2022	13 October 2021	15 July 2020
Issuer rating	Long-term	-	-	WD	IND AA+/Stable	IND AA+/Stable	IND AA/Stable
Fund-based limit	Long-term	INR1,500	IND AA+/Stable	-	IND AA+/Stable	IND AA+/Stable	IND AA/Stable
Non-fund-based limits	Short-term	INR20,557.5	IND A1+	-	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator

Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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