

Rating Rationale

November 10, 2023 | Mumbai

Finolex Industries Limited

Ratings reaffirmed at 'CRISIL AA+/Stable/CRISIL A1+'
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Rating Action

Total Bank Loan Facilities Rated	Rs.1916.25 Crore
Long Term Rating	CRISIL AA+/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its CRISIL AA+/Stable/CRISIL A1+ ratings on the bank loan facilities of Finolex Industries Ltd (FIL).

The company's revenue declined 6% on-year in fiscal 2023 due to significant decline in realisation driven by a sharp correction in polyvinyl chloride (PVC) resins prices, though this was partially offset by healthy volume growth of ~22% in the pipes and fittings segment. The operating margin plunged to 6.4% in fiscal 2023 from 22% in fiscal 2022 mainly due to inventory losses in the second and third quarters of fiscal 2023. The operating margin recovered to 12.4% in the first half of fiscal 2024. Revenue declined by 3% in the first half of fiscal 2024 due to lower realisations. Revenue growth is expected to remain muted for the full fiscal, despite healthy volume growth, impacted by lower commodity prices. However, the operating margin is expected to improve to 14-16% over the medium term, driven by the pipes and fittings segment with an increasing revenue share of the non-agri segment.

The financial risk profile of the company remains strong, as reflected in healthy debt coverage and capitalisation. With no major capital expenditure (capex) plan and liquidity of over Rs 1,800 crore, the financial risk profile should remain strong over the medium term.

The ratings continue to reflect the established market position of FIL in the PVC resin and pipe segments, its robust operating efficiency driven by an integrated production process, and strong financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of FIL. CRISIL Ratings has adjusted the network of FIL for the circular investments between FIL and Finolex Cables Ltd (CRISIL AA+/Stable/CRISIL A1+).

Key Rating Drivers & Detailed Description

Strengths:

- Established market position in the domestic PVC resin and pipes segments:** FIL is amongst the largest players in the domestic PVC resin and pipe segments. The company has the second largest capacity in the domestic PVC pipes industry.

- High operating efficiency, driven by in-house PVC resin capacity:** FIL is the only large vertically integrated player in the domestic market with in-house production for the majority of its requirement of PVC resin, the major raw material used in pipe manufacturing. Intergroup transfer of raw material accounted for around 90% of revenue from the PVC resin segment in fiscal 2023, vis-à-vis 11% in fiscal 2008.

- Strong financial risk profile:** The financial risk profile is supported by low gearing of 0.2 time as on September 30, 2023, in the absence of long-term debt or major capex plan. Debt protection metrics were strong, with interest coverage of 22.21 times in the first half of fiscal 2024. Liquidity has improved, as reflected in cash and equivalent of above Rs 1,800 crore as on September 30, 2023.

Weakness:

- Susceptibility to volatility in raw material prices:** The company's operating performance was adversely impacted in fiscal 2023 due to significant correction in PVC resin prices impacted by slowdown in the global housing market. Profitability remains volatile to movement in international prices of PVC and its raw materials: ethylene dichloride (EDC), ethylene and vinyl chloride monomer (VCM). Furthermore, as most of the raw material required for manufacturing PVC resin is imported, inventory risk is also high.

Liquidity: Strong

Expected cash accrual of over Rs 250 crore per annum will continue to support liquidity in the absence of debt. Cash and equivalent stood around Rs 1,800 crore as on September 30, 2023. Moderate capex of around Rs 200 crore per annum is likely to be funded through internal accrual. Bank limit has adequate cushion to cover incremental working capital expenses.

Outlook: Stable

CRISIL Ratings believes FIL will continue to benefit from its strong market position and operating efficiency, while maintaining its healthy financial risk profile over the medium term.

Rating Sensitivity factors

Upward factors:

- Improvement in business risk profile, driven by increased geographical reach as well as product diversification

- Sustenance of a healthy double-digit revenue growth and operating margin of over 20% along with a healthy financial risk profile

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Downward factors:

- Steep decline in revenue, with operating margin falling below 16% on sustained basis
- Significant weakening of the capital structure or debt protection metrics
- Sizeable reduction in cash surpluses due to higher-than-expected shareholder payouts or large debt funded capex

About the Company

FIL is the third-largest player in the PVC resin market and second largest manufacturer of PVC pipes in India. The company has four manufacturing facilities, one each in Pune, Talegaon and Ratnagiri in Maharashtra, and one in Masar, near Vadodara in Gujarat. The company is the only backward integrated player, with in-house PVC resin capacity and 43 MW captive power, aiding cost control.

Key Financial Indicators (CRISIL Ratings-adjusted numbers)

As on / for the period ended March 31	^	2023	2022
Revenue	Rs crore	4,386	4,643
Profit after tax (PAT)	Rs crore	224	1,043
PAT margin	%	5.1	22.5
Adjusted debt / adjusted networth	Times	0.17	0.10
Interest coverage	Times	13.38	78.6

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Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	125.25	NA	CRISIL AA+/Stable
NA	Letter of credit & bank guarantee*	NA	NA	NA	1,791.00	NA	CRISIL A1+

*Letter of credit and bank guarantee are interchangeable with buyer's credit

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	125.25	CRISIL AA+/Stable	^	--	16-09-22	CRISIL AA+/Stable	29-10-21	CRISIL AA/Positive / CRISIL A1+	18-12-20	CRISIL A1+ / CRISIL AA/Stable	CRISIL A1+ / CRISIL AA/Stable
^	^	^	--	^	--	25-05-22	CRISIL AA+/Stable	^	--	^	--	--
Non-Fund Based Facilities	ST	1791.0	CRISIL A1+	^	--	16-09-22	CRISIL A1+	29-10-21	CRISIL A1+	18-12-20	CRISIL A1+	CRISIL A1+
^	^	^	--	^	--	25-05-22	CRISIL A1+	^	--	^	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	5	Kotak Mahindra Bank Limited	CRISIL AA+/Stable
Cash Credit	10	HDFC Bank Limited	CRISIL AA+/Stable
Cash Credit	50	Axis Bank Limited	CRISIL AA+/Stable
Cash Credit	6.25	Citibank N. A.	CRISIL AA+/Stable
Cash Credit	50	ICICI Bank Limited	CRISIL AA+/Stable
Cash Credit	4	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA+/Stable
Letter of credit & Bank Guarantee*	200	Citibank N. A.	CRISIL A1+
Letter of credit & Bank Guarantee*	500	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee*	96	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+

Letter of credit & Bank Guarantee*	300	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee*	95	Kotak Mahindra Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee*	600	Axis Bank Limited	CRISIL A1+

*Letter of credit and bank guarantee are interchangeable with buyer's credit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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