



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result Update Q1FY18@ Dalal & Broacha

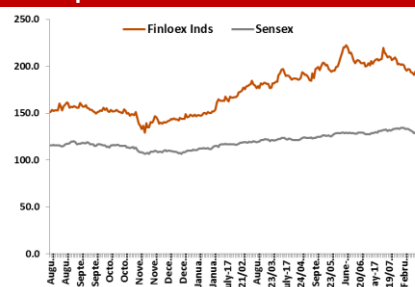
### BUY

Current Price	588
Target Price	800
Upside/Downside	36%
52 Week Range	Rs.673/385

### Key Share Data

Market Cap (Rs.bn)	73.1
Market Cap (US\$ mn)	1136
No of o/s shares (mn)	124.1
Face Value	10
Monthly	80,224
Avg.vol(BSE+NSE) Nos	
BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP IN

### Price performance



### Volume pick up in tepid market ramp up sales growth; Outlook remains strong

Overall, PVC resin volume grew 20% to 74,998MT while PVC pipes & fittings increased 8.2% YoY to 71,518MT. Overall, PVC resin revenue increased 22% while PVC pipes & fitting grew 5%. Net Sales (excl excise) for Q1FY18 stood at Rs 7307 mn vs Rs 6279 mn (+9% YoY). To counter the slowdown caused by GST, Finolex reduced prices which resulted in 8% YoY volume growth in pipe division but dented margin. Demand was subdued in the month but it picked up in the mid of July for both Agri & Non agri business resulting in overall volume pick up.

EBITDA for Q1FY18 stood at Rs 1306 mn vs Rs 1592 mn, down 18% YoY. Margins at 18% vs 23.7% YoY came down sharply due to lower PVC spreads and PVC pipe margins on account of inventory losses, despite better pipe volume growth than peers. PVC prices fell by ~Rs 6 during the quarter, leading to inventory losses. This coupled with price cuts led to a 3%/12 YoY/QoQ decline in pipe realizations.

PAT down 19% YoY: Reported PAT at Rs 798mn declined 19% YoY driven by lower realizations. Interest expenses slid 40% YoY to Rs 30mn on payment of long-term debt in earlier quarters, while other income increased 21% YoY. Tax rate declined 16bps YoY and stood at 32% for the quarter.

### Other Highlights:

- The company maintained its double digit volume growth guidance for FY18 and FY19 as sales has started picking up from end of Jul'17. Further, contribution from fittings is expected to rise from 5% to 15% over the next few years.
- PVC-EDC delta remains higher at US\$634/MT vs US\$586/MT.
- Currently Finolex has 1500 SKUs, 800 dealers and 18,000 sub-dealers and would be increasing gradually.

### Outlook & Valuation

We remain positive on the business majorly due to 1) good back to back monsoons resulting in better demand 2) Mgmt focus on increasing share in high margin non-agri business 3) Govt. initiative in irrigation, sanitation & housing 4) Unorganised player shifting to organise after the GST.

At current CMP of Rs 589 the stock trades at 14x FY19 EPS of Rs 40. We have a buy recommendation on the stock and value the stock at 20x FY19 EPS of Rs 40

### % Shareholding

	Jun-17	Mar-17
Promoters	52.47	52.47
Institutions	13.02	13.02
Others	34.51	34.51
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Key Financials

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY16	24819	1.0%	4045	8.6%	2578	-51.7%	20.8	28.4	16.2%	21.3%
FY17	26024	4.9%	5630	21.6%	3549	171.2%	28.6	20.6	15.3%	21.5%
FY18E	35975	38.2%	7023	19.5%	4511	27.6%	36.3	16.2	17.4%	24.9%
FY19E	40135	11.6%	7679	19.1%	4987	10.7%	40.2	14.7	17.3%	25.1%



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Result Highlights					
1QFY18 Result snapshot	INRm				
Particulars	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
<b>Total Op. Income</b>	<b>7,307</b>	<b>6,729</b>	<b>8.6</b>	<b>8,876</b>	<b>(17.7)</b>
<b>Expenditure</b>	<b>6,000</b>	<b>5,136</b>	<b>16.8</b>	<b>7,091</b>	<b>(15.4)</b>
Raw Materials	4,883	4,102	19.0	5,924	(17.6)
Staff Cost	285	272	4.9	268	6.3
Other Expenditure	832	762	9.2	899	(7.4)
<b>Operating Profit</b>	<b>1,306</b>	<b>1,592</b>	<b>(18.0)</b>	<b>1,785</b>	<b>(26.8)</b>
<i>OPM (%)</i>	<i>17.9</i>	<i>23.7</i>	<i>(578.7)</i>	<i>20.1</i>	
Depreciation	145	133	9.4	139	4.5
Other Income	38	32	21.1	94	(59.0)
Interest	30	50	(40.4)	11	160.9
Exceptional Items	0	0		0	
<b>PBT</b>	<b>1,170</b>	<b>1,441</b>	<b>(18.8)</b>	<b>1,729</b>	<b>(32.3)</b>
Tax	372	461	(19.3)	496	(25.0)
Share of Associate Profit					
<b>Reported PAT</b>	<b>798</b>	<b>980</b>	<b>(18.6)</b>	<b>1,233</b>	<b>(35.3)</b>
<b>Adjusted PAT</b>	<b>798</b>	<b>980</b>	<b>(18.6)</b>	<b>1,233</b>	<b>(35.3)</b>
<i>NPM (%)</i>	<i>10.9</i>	<i>14.6</i>		<i>13.9</i>	
Key ratios (%)					
Raw material cost/Sales	66.8	61.0		66.7	
Employee expenses/Sales	3.9	4.0		3.0	
Other operating exp./Sales	11.4	11.3		10.1	
EBITDA margin	17.9	23.7		20.1	
PBT Margin	16.0	21.4		19.5	
Tax rate	31.8	32.0		28.7	
PAT Margin	10.9	14.6		13.9	
EPS (Rs)	6.4	7.9		9.9	



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### Segment Revenues

Segment Revenue	Q1FY17	Q4FY17	Q1FY18
PVC	4,336.5	6,068.6	5,285.4
PVC Pipe & Fittings	6,581.4	6,980.6	6,891.7
Power	388.2	361.2	382.2
Others			0
<b>Total Segment Revenue</b>	<b>11,306.0</b>	<b>13,410.4</b>	<b>12,559.3</b>
Less: Inter segment revenue	3,536.9	3,246.9	4,316.6
<b>Gross Sales</b>	<b>7,769.1</b>	<b>10,163.5</b>	<b>8,242.7</b>

	0.3	0.2	0.3
<b>EBIT</b>			
PVC	890.0	1,146.9	950.8
PVC Pipe & Fittings	567.8	590.3	290.1
Power	129.2	55.9	49.9
Others			
<b>Total</b>	<b>1,586.9</b>	<b>1,793.1</b>	<b>1,290.8</b>
Less: finance costs	50.0	11.4	29.8
Other unallocable exp	95.4	52.8	91.1
<b>PBT</b>	<b>1,441.5</b>	<b>1,728.8</b>	<b>1,169.9</b>

Volumes			
PVC	62,435.0	76,541.0	74,998.0
Q-o-Q	0.0%	36.1%	-2.0%
Y-o-Y	50.4%	-7.9%	20.1%
PVC Pipes	62,255.0	59,865.0	68,171.0
Q-o-Q	0.0%	59.0%	13.9%
Y-o-Y	67.4%	-5.6%	9.5%
PVC Fittings	3,870.0	4,117.0	3,347.0
Q-o-Q	0.0%	24.2%	-18.7%
Y-o-Y	10.8%	-4.4%	-13.5%
<b>PVC pipes + fittings</b>	<b>66,125.0</b>	<b>63,982.0</b>	<b>71,518.0</b>
Q-o-Q	0.0%	56.2%	11.8%
Y-o-Y	62.5%	-5.5%	8.2%



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### Financials

Profit & Loss (Rs Mn)						Cash Flow Statement (Rs Mn)					
	FY15	FY16	FY17	FY18E	FY19E		FY15	FY16	FY17	FY18E	FY19E
Net Sales	24,761	24,819	26,024	35,975	40,135	Pre tax Profit	808	3724	5158	6583	7286
Raw Materials	(18,329)	(16,477)	(16,096)	(24,463)	(27,292)	Add: Dep. & Amortization	587	506	550	610	643
Employee Cost	(740)	(925)	(1,049)	(1,619)	(1,886)	Total tax paid	(392)	(1251)	(1703)	(2172)	(2404)
Other Expenses	(3,559)	(3,373)	(3,249)	(2,870)	(3,278)	Other Adjustments	663	447	153	130	100
Cost of Sales	(22,628)	(20,775)	(20,393)	(28,952)	(32,456)	<b>Cash Profit</b>	<b>1666</b>	<b>3426</b>	<b>4159</b>	<b>5150</b>	<b>5625</b>
<b>Operating Profit</b>	<b>2,134</b>	<b>4,045</b>	<b>5,630</b>	<b>7,023</b>	<b>7,679</b>	(Inc) / Dec in					
Depreciation	(587)	(506)	(550)	(610)	(643)	Sundry Debtors	359	311	(349)	131	(46)
PBIT	1,547	3,539	5,080	6,413	7,036	Inventories	(527)	1114	(1102)	(1325)	(798)
Other Income	202	387	232	300	350	Loans & Advances	0	328	(224)	(101)	(200)
Interest	(598)	(447)	(153)	(130)	(100)	Current liabilities & Trade payables	646	2040	(9)	1040	596
Prior period items	0	0	0	0	0	<b>Change in Working Capital</b>	<b>478</b>	<b>3793</b>	<b>(1683)</b>	<b>(255)</b>	<b>(447)</b>
Profit Before Tax	1,152	3,479	5,158	6,583	7,286	<b>CF from Operating Activities</b>	<b>2144</b>	<b>7219</b>	<b>2476</b>	<b>4895</b>	<b>5177</b>
Provision for Tax	(330)	(1,251)	(1,703)	(2,172)	(2,404)	<b>CF from Investing Activities</b>	<b>221</b>	<b>(1814)</b>	<b>(4902)</b>	<b>(1150)</b>	<b>(1150)</b>
<b>PAT</b>	<b>822</b>	<b>2,228</b>	<b>3,455</b>	<b>4,411</b>	<b>4,882</b>	<b>CF from Financing Activities</b>	<b>(2452)</b>	<b>(5424)</b>	<b>2486</b>	<b>(2335)</b>	<b>(2595)</b>
Extra ordinary Items	(344)	245	0	0	0	Cash Generated (Utilised)	(86)	(19)	59	1410	1432
Share of JV/ Associate	0	105	93	100	105	Cash at the start of year	209	123	104	163	1573
<b>Adj. PAT</b>	<b>478</b>	<b>2,578</b>	<b>3,549</b>	<b>4,511</b>	<b>4,987</b>	Cash at the end of year	123	104	164	1573	3005
						<b>Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Balance Sheet (Rs Mn)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	OPM	8.6	16.3	21.6	19.5	19.1
Equity Capital	1,241	1,241	1,241	1,241	1,241	NPM	3.3	9.0	13.3	12.3	12.2
Reserves	12,511	14,664	21,907	24,675	27,629	Tax Rate %	(28.7)	(35.9)	(33.0)	(33.0)	(33.0)
<b>Net Worth</b>	<b>13,752</b>	<b>15,905</b>	<b>23,148</b>	<b>25,916</b>	<b>28,870</b>	<b>Growth Ratio (%)</b>					
Long term borrowings	1,837	4	3	1,000	500	Net Sales	1.0	1.2	4.9	38.2	11.6
Short term borrowings	4,856	2,559	1,498	0	0	Operating Profit	(34.7)	89.6	39.2	24.7	9.3
Total Debt	6,693	2,563	1,501	1,000	500	PAT	(51.7)	171.2	55.1	27.6	10.7
<b>Capital Employed</b>	<b>20,444</b>	<b>18,468</b>	<b>24,649</b>	<b>26,916</b>	<b>29,370</b>	<b>Per Share</b>					
Gross Block	18,939	19,264	19,869	21,020	22,170	Earning Per Share (EPS)	3.9	20.8	28.6	36.3	40.2
Accumulated Depreciation	10,262	10,767	11,318	11,927	12,570	Cash Earnings (CPS)	11.3	22.0	32.3	40.5	44.5
Net Block	8,678	8,496	8,551	9,092	9,599	Dividend	6.8	10.0	11.5	12.0	14.0
Capital WIP	104	66	217	217	217	Book Value	110.8	128.2	186.5	208.8	232.6
<b>Total Fixed Assets</b>	<b>8,782</b>	<b>8,563</b>	<b>8,769</b>	<b>9,309</b>	<b>9,816</b>	Free Cash flow	13.7	55.9	16.9	35.2	39.3
Goodwill & Intangible	0	0	0	0	0	<b>Valuation Ratios</b>					
Investments	7,536	9,063	13,209	13,209	13,209	P/E (x)	153.0	28.4	20.6	16.2	14.7
Long term liabilities	0	528	613	675	742	P/B (x)	5.3	4.6	3.2	2.8	2.5
Inventories	5,587	4,472	5,574	6,899	7,697	EV / Sales	3.2	3.0	2.9	2.0	1.8
Sundry debtors	487	176	525	394	440	EV / EBITDA	37.3	18.7	13.2	10.3	9.2
Cash & bank	123	104	163	1,573	3,005	Div. Yield (%)	1.2	1.7	2.0	2.0	2.4
Loans & advances and Oth	1,803	1,475	1,699	1,800	2,000	FCF Yield (%)	2.3	9.5	2.9	6.0	6.7
Trade Payables	(2,000)	(2,432)	(2,275)	(3,154)	(3,519)	<b>Return Ratios (%)</b>					
Current Liabilities	(569)	(1,921)	(2,009)	(2,150)	(2,365)	ROE	3.5	16.2	15.3	17.4	17.3
Provisions	(46)	(123)	(124)	(144)	(160)	ROCE*	8.6	21.3	21.5	24.9	25.1
Working Capital	5,384	1,751	3,554	5,220	7,099						
Deffered Tax Liabilities	-1,258	-1,436	-1,496	-1,496	-1,496						
<b>Capital Deployed</b>	<b>20,444</b>	<b>18,468</b>	<b>24,649</b>	<b>26,916</b>	<b>29,370</b>						

\* includes other income



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