



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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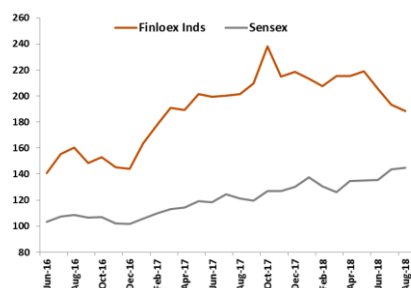
BUY

Current Price	609
Target Price	731
Upside/Downside	20%
52 Week Range	Rs.752/530

Key Share Data

Market Cap (Rs.bn)	78
Market Cap (US\$ mn)	1124
No of o/s shares (mn)	124.1
Face Value	10
Monthly	1,51,940
Avg.vol(BSE+NSE) Nos	
BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP IN

Price performance



% Shareholding

	June-18	Mar-18
Promoters	52.5	52.5
Institutions	9.6	8.8
Others	37.9	38.7
Total	100.0	100.0

Key Financials

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY17	26024	4.9%	5630	21.6%	3549	171.2%	28.6	22.0	15.3%	21.5%
FY18	27378	5.2%	4317	15.8%	2541	-16.1%	20.5	30.7	9.1%	13.7%
FY19E	31813	16.2%	5292	16.6%	3300	10.3%	26.6	23.7	11.1%	16.2%
FY20E	36574	15.0%	6323	17.3%	3944	20.1%	31.8	19.8	12.4%	18.1%

Revenues inline & strong performance in PVC lead to higher margins:

Pipe revenues for the quarter stood at Rs. 7.2bn (highest in recent quarters) grew 18% YoY. Volume growth of 8.6% YoY at 77.6KTPA was in line with peers on gaining market share from unorganized players and its strategy of higher discount in agri pipes. Realization are -3% YoY which again was due to its strategy to give higher discount in Agri pipes during demonetization and gradually the company will be coming to normalized level with the price increase as when necessary. PVC resin revenue declined by 4.6% YoY at Rs.5bn with volume declining 8% YoY at 68.5KTPA for the quarter. Overall revenues for 1QFY19 at Rs 8.3bn grew 13.3% YoY.

Strong growth both in PVC pipes & fittings and resins margins: PVC resin EBIT at Rs 1.2bn with margins of 25.5%, implying margin expansions of 670bps YoY. PVC pipe & fitting EBIT at Rs 627mn with margin of 9.2%. Margin expanded 450bps YoY. Reported EBITDA at Rs. 1.9bn grew 48% YoY. Gross Margins expanded 644bps YoY due to decline in RM cost and better spread of PVC-EDC. EBITDA margins at 23.4% expanded 554bps on strong sales growth and gross margin expansion

PAT was largely flat YoY: Strong EBITDA growth led by strong volume growth in both segments coupled with rise in other income (~2.6x YoY; due to higher interest income) and decline in tax rate (down 230bps YoY to 29.5%) led to 64% rise in recurring PAT to Rs 1.3bn. Adjusting for settlement of derivative claim of Rs 279mn, reported PAT at Rs 1bn, grew 30% YoY.

Focus on non-agri pipe segment: CPVC volume increased 70% YoY in Q1FY19 to 1700 Tn and revenue increased to Rs 430mn vs Rs 230mn. Finlolex intends to leverage on Lubrizol's CPVC resin capabilities and expand aggressively into CPVC segment by launching several new SKUs. It plans to augment its distribution reach for non-agri pipes by setting up parallel dealerships as well leveraging existing dealer relations. The company is aggressively focusing on CPVC market by extending credit to CPVC dealers. Over next 4-5 years, Finlolex intends to derive ~50% of its pipes revenue from non-agri segment.

Outlook & Valuation: Finlolex being the market leader in Agri pipes and focus on improving market share. We believe with 1)government initiative & increased spending on irrigation, water supply, focus on doubling farmer income 2)affordable housing and 3) shift to organised players led by brand awareness, strong distribution network. We maintain Buy rating on the stock due to its market leading presence in PVC pipes segment, high margins profile, on par cash flow/balance sheet/return ratio profile. At CMP, stock trades at 20x FY20E. We value the stock at 23x FY20 EPS with a TP of Rs 731


Result Highlights

Particulars	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Total Op. Income	8,278	7,307	13.3	8,091	2.3
Expenditure	6,340	6,000	5.7	6,212	2.1
Raw Materials	4,999	4,883	2.4	4,771	4.8
Staff Cost	325	285	14.2	298	9.4
Other Expenditure	1,016	832	22.0	1,143	(11.2)
Operating Profit	1,939	1,306	48.4	1,879	3.2
OPM (%)	23.4	17.9	554.1	23.2	
Depreciation	162	145	11.6	156	3.8
Other Income	137	38	257.3	28	397.9
Interest	52	30	75.7	34	56.3
Exceptional Items	(279)	0		0	
PBT	1,583	1,170	35.3	1,717	(7.8)
Tax	550	372	47.7	508	8.3
Share of Associate Profit					
Reported PAT	1,033	798	29.5	1,209	(14.6)
Key ratios (%)					
Raw Materials/ sales	60.4	66.8		59.0	
Employee expenses/Sales	3.9	3.9		3.7	
Other operating exp./Sales	12.3	11.4		14.1	
EBITDA margin	23.4	17.9		23.2	
PBT Margin	19.1	16.0		21.2	
Tax rate	34.7	31.8		29.6	
PAT Margin	0.0	0.0		0.0	
EPS (Rs)	8.3	6.4		9.9	



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Financials

Profit & Loss (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	24,819	26,024	27,378	31,813	36,574
Raw Materials	(16,477)	(16,096)	(18,167)	(21,633)	(24,870)
Employee Cost	(925)	(1,049)	(1,161)	(1,432)	(1,646)
Other Expenses	(3,373)	(3,249)	(3,733)	(3,457)	(3,734)
Cost of Sales	(20,775)	(20,393)	(23,061)	(26,521)	(30,251)
Operating Profit	4,045	5,630	4,317	5,292	6,323
Depreciation	(506)	(550)	(606)	(670)	(745)
PBIT	3,539	5,080	3,711	4,622	5,578
Other Income	387	232	244	250	250
Interest	(447)	(153)	(98)	(96)	(91)
Prior period items	0	0	0	0	0
Profit Before Tax	3,479	5,158	3,856	4,776	5,737
Provision for Tax	(1,251)	(1,703)	(1,479)	(1,576)	(1,893)
PAT	2,228	3,455	2,377	3,200	3,844
Extra ordinary Items	245	0	0	0	0
Share of JV/ Associate	105	93	163	100	100
Adj. PAT	2,578	3,549	2,541	3,300	3,944

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Pre tax Profit	3724	5158	4379	4776	5737
Add: Dep. & Amortization	506	550	606	670	745
Total tax paid	(1251)	(1703)	(1479)	(1576)	(1893)
Other Adjustments	447	153	331	(137)	91
Cash Profit	3426	4159	3837	3733	4680
(Inc) / Dec in					
Sundry Debtors	311	(349)	94	83	(52)
Inventories	1114	(1102)	(542)	14	(913)
Loans & Advances	328	(224)	106	(207)	(500)
Current liabilities & Trade payables	2040	(9)	843	447	654
Change in Working Capital	3793	(1683)	501	337	(812)
CF from Operating Activities	7219	2476	4338	4070	3869
CF from Investing Activities	(1814)	(4902)	(5081)	(1836)	(1836)
CF from Financing Activities	(5424)	2486	729	(1698)	(1949)
Cash Generated (Utilised)	(19)	59	(15)	535	83
Cash at the start of year	123	104	163	234	769
Cash at the end of year	104	164	149	770	852

Balance Sheet (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	1,241	1,241	1,241	1,241	1,241
Reserves	14,664	21,907	26,710	28,413	30,469
Net Worth	15,905	23,148	27,951	29,654	31,710
Long term borrowings	4	3	7	500	500
Short term borrowings	2,559	1,498	1,000	0	0
Total Debt	2,563	1,501	1,007	500	500
Capital Employed	18,468	24,649	28,958	30,154	32,210
Gross Block	19,264	19,869	20,766	22,603	24,439
Accumulated Depreciation	10,767	11,318	11,924	12,594	13,339
Net Block	8,496	8,551	8,842	10,009	11,100
Capital WIP	66	217	903	903	903
Total Fixed Assets	8,563	8,769	9,746	10,912	12,003
Goodwill & Intangible	0	0	0	0	0
Investments	9,063	13,209	16,707	16,707	16,707
Long term liabilities	528	613	644	709	780
Inventories	4,472	5,574	6,116	6,101	7,014
Sundry debtors	176	525	431	349	401
Cash & bank	104	163	234	769	852
Loans & advances and Oth	1,475	1,699	1,826	1,800	2,300
Trade Payables	(2,432)	(2,275)	(2,505)	(2,789)	(3,206)
Current Liabilities	(1,921)	(2,009)	(2,196)	(2,347)	(2,581)
Provisions	(123)	(124)	(149)	(161)	(162)
Working Capital	1,751	3,554	3,758	3,723	4,617
Deffered Tax Liabilities	-1,436	-1,496	-1,897	-1,897	-1,897
Capital Deployed	18,468	24,649	28,958	30,154	32,210

Ratios	FY16	FY17	FY18	FY19E	FY20E
OPM	16.3	21.6	15.8	16.6	17.3
NPM	9.0	13.3	8.7	10.1	10.5
Tax Rate %	(35.9)	(33.0)	(38.4)	(33.0)	(33.0)
Growth Ratio (%)					
Net Sales	1.2	4.9	5.2	16.2	15.0
Operating Profit	89.6	39.2	(14.0)	9.3	19.5
PAT	171.2	55.1	(16.1)	10.3	20.1
Per Share					
Earning Per Share (EPS)	20.8	28.6	20.5	26.6	31.8
Cash Earnings (CPS)	22.0	32.3	24.0	31.2	37.0
Dividend	10.0	11.5	10.0	11.0	13.0
Book Value	128.2	186.5	225.2	239.0	255.5
Free Cash flow	55.9	16.9	30.7	30.3	28.7
Valuation Ratios					
P/E (x)	30.3	22.0	30.7	23.7	19.8
P/B (x)	4.9	3.4	2.8	2.6	2.5
EV / Sales	3.2	3.1	2.9	2.4	2.1
EV / EBITDA	19.9	14.1	18.3	14.7	12.3
Div. Yield (%)	1.6	1.8	1.6	1.7	2.1
FCF Yield (%)	8.9	2.7	4.9	4.8	4.6
Return Ratios (%)					
ROE	16.2	15.3	9.1	11.1	12.4
ROCE*	21.3	21.5	13.7	16.2	18.1

* includes other income



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