



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update @ Dalal & Broacha

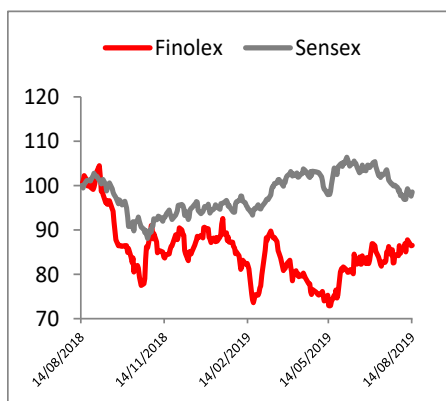
BUY

Current Price	513
Target Price	560
Upside/Downside	10%
52 Week Range	Rs.643/440

Key Share Data

Market Cap (Rs.bn)	64
Market Cap (US\$ mn)	914
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

	Jun-19	Mar-19
Promoters	52.5	52.5
Institutions	9.6	9.6
Others	37.9	37.9
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	18.2	15.3%	21.5%
FY18	27378	5.2%	4839	17.7%	3063	-16.1%	24.7	21.1	11.0%	15.5%
FY19	30913	12.9%	6043	19.5%	3493	26.7%	28.2	18.5	11.6%	18.8%
FY20E	32068	3.7%	6336	19.8%	3952	4.8%	31.8	15.6	12.3%	17.9%
FY21E	36207	17.1%	7325	20.2%	4586	9.7%	37.0	14.1	12.4%	18.4%

Finolex Industries Q1FY20 Result Update

Revenues marginally below expectations due to lower PVC/EDC spread:

Revenue increased 14% yoy at Rs9.4bn. PVC Pipe & fitting (58% of sales) revenues for the quarter stood at Rs8.5bn grew 18% YoY. Volume during the quarter up 18% yoy for pipes and 14% for fittings. Demand from agriculture and plumbing remained strong during quarter. PVC resin revenue (43% of sales) up 6% yoy. Volumes improved 15% yoy and realisation down 7%.

Decline in PVC-EDC spread impacted margin: Operating margin has gone down 1030bps yoy to 13.1%. PVC segment EBIT margin reduced from 25% to 8% yoy. PVC-EDC spread has gone down from \$689 to \$490/t yoy. This impacted overall profitability. Current spread is at \$550/t. PVC pipe & fitting EBIT margin stood at 8.5% vs 9.2% yoy.

PAT down 30%yoy: Other income increased by 58% yoy. Tax rate stood at 34% for the quarter. PAT down 30% yoy to Rs725mn.

CPVC reported growth: The CPVC and Column pipes has delivered strong growth of 36% & 78% in sales in Q1FY20, which accounts for ~8%/2% of FIL' pipe & fittings business. Management guided both divisions to post 30-40% volume growth in FY20E driven by low base.

Volume guidance maintained at 12-15%: The company has increased its pipes and fittings capacity in FY19 to 370,000 tonne per annum (tpa) and is expected to add another 30000-40000 tonnes. The company is likely to incur capex of Rs130cr during the year. During the quarter volume growth is driven by agriculture segment. Plant operating at full capacity. Management guided for volume growth of 12-15% for FY20E.

Outlook & Valuation: Management not seeing increased competitive intensity as competitors like HSIL and HIL entering into market as unorganized to organised shift is absorbing part of supply. The company is giving 30days credit for non-agri-segment. In pipes segment Finolex has 1500 SKUs awhile on CPVC segment it has 200SKUs. We expect Finolex to post volume growth of 11%. Assuming PVC-EDC delta stabilises margin for the company is likely to be around 19%. We expect earnings of the company to grow at 15% CAGR over FY19-21E. Finolex holds cash of Rs13.2bn in balancesheet and generates ROE of 15%. At CMP, stock trades at 15.6x FY20E and 14x FY21E earnings. We maintain Buy rating on the stock. We value stock at 15x FY21E earnings and arrive at target price of **Rs560** per share.



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Result Highlights (Rs Mn)

1QFY20 Result snapshot	INRm				
	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Particulars					
Total Op. Income	9,438	8,278	14.0	9,642	(2.1)
Expenditure	8,203	6,340	29.4	8,177	0.3
Raw Materials	6,668	4,999	33.4	6,419	3.9
Staff Cost	344	325	5.7	382	(10.0)
Other Expenditure	1,190	1,016	17.2	1,376	(13.5)
Operating Profit	1,236	1,939	(36.3)	1,465	(15.7)
<i>OPM (%)</i>	<i>13.1</i>	<i>23.4</i>	<i>(1,033.0)</i>	<i>15.2</i>	
Depreciation	168	162	3.6	177	(5.1)
Other Income	57	137	(58.5)	122	(53.5)
Interest	9	52	(83.4)	24	(63.1)
Exceptional Items	19	(279)		0	
PBT	1,135	1,583	(28.3)	1,387	(18.2)
Tax	403	480	(16.0)	473	(14.9)
Share of Associate Profit					
Reported PAT	732	1,103	(33.7)	914	(19.9)
Key ratios (%)					
Raw Materials/ sales	70.7	60.4		66.6	
Employee expenses/Sales	3.6	3.9		4.0	
Other operating exp./Sales	12.6	12.3		14.3	
EBITDA margin	13.1	23.4		15.2	
PBT Margin	12.0	19.1		14.4	
Tax rate	35.5	30.3		34.1	
PAT Margin	0.0	0.0		0.0	
EPS (Rs)	6.2	8.9		7.4	



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Financials

Profit & Loss (Rs Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	24,819	26,024	27,378	30,913	32,085	36,207
Raw Materials	(16,477)	(16,096)	(17,644)	(19,209)	(21,818)	(24,621)
Employee Cost	(925)	(1,049)	(1,161)	(1,344)	(1,444)	(1,444)
Other Expenses	(3,373)	(3,249)	(3,733)	(4,317)	(2,219)	(2,818)
Cost of Sales	(20,775)	(20,393)	(22,539)	(24,870)	(25,480)	(28,883)
Operating Profit	4,045	5,630	4,839	6,043	6,605	7,325
Depreciation	(506)	(550)	(606)	(701)	(745)	(788)
PBIT	3,539	5,080	4,233	5,342	5,859	6,536
Other Income	387	232	244	404	250	251
Interest	(447)	(153)	(98)	(123)	(91)	(92)
Prior period items	0	0	0	419	2	3
Profit Before Tax	3,479	5,158	4,379	5,484	6,018	6,695
Provision for Tax	(1,251)	(1,703)	(1,479)	(1,810)	(1,986)	(2,209)
PAT	2,228	3,455	2,900	3,675	4,032	4,486
Extra ordinary Items	245	0	0	0	0	0
Share of JV/ Associate	105	93	163	140	100	100
Adj. PAT	2,578	3,549	3,063	3,493	4,132	4,586

Balance Sheet (Rs Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Capital	1,241	1,241	1,241	1,241	1,241	1,241
Reserves	14,664	21,907	26,710	28,886	31,130	33,683
Net Worth	15,905	23,148	27,951	30,126	32,371	34,924
Long term borrowings	4	3	7	500	500	0
Short term borrowings	2,559	1,498	1,000	0	0	0
Total Debt	2,563	1,501	1,007	500	500	0
Capital Employed	18,468	24,649	28,958	30,626	32,871	34,924
Gross Block	19,264	19,869	20,766	22,603	24,439	26,276
Accumulated Depreciation	10,767	11,318	11,924	12,625	13,370	14,158
Net Block	8,496	8,551	8,842	9,978	11,069	12,117
Capital WIP	66	217	903	903	903	903
Total Fixed Assets	8,563	8,769	9,746	10,881	11,972	13,021
Goodwill & Intangible	0	0	0	0	0	1
Investments	9,063	13,209	16,707	16,707	16,707	16,707
Long term liabilities	528	613	644	709	780	858
Inventories	4,472	5,574	6,116	5,929	6,153	7,043
Sundry debtors	176	525	431	339	352	496
Cash & bank	104	163	234	1,376	2,060	2,974
Loans & advances and Other	1,475	1,699	1,826	1,800	2,300	2,001
Trade Payables	(2,432)	(2,275)	(2,505)	(2,710)	(2,813)	(3,274)
Current Liabilities	(1,921)	(2,009)	(2,196)	(2,347)	(2,581)	(2,840)
Provisions	(123)	(124)	(149)	(161)	(162)	(165)
Working Capital	1,751	3,554	3,758	4,226	5,309	6,236
Deffered Tax Liabilities	-1,436	-1,496	-1,897	-1,897	-1,897	-1,897
Capital Deployed	18,468	24,649	28,958	30,626	32,871	34,925

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Pre tax Profit	3724	5158	4379	5484	6018	6695
Add: Dep. & Amortization	506	550	606	701	745	788
Total tax paid	(1251)	(1703)	(1479)	(1812)	(1986)	(2209)
Other Adjustments	447	153	331	(110)	91	93
Cash Profit	3426	4159	3837	4263	4869	5367
(Inc) / Dec in						
Sundry Debtors	311	(349)	94	93	(13)	(144)
Inventories	1114	(1102)	(542)	187	(225)	(890)
Loans & Advances	328	(224)	106	(207)	(500)	299
Current liabilities & Trade payable:	2040	(9)	843	368	339	721
Change in Working Capital	3793	(1683)	501	441	(399)	(14)
CF from Operating Activities	7219	2476	4338	4704	4470	5354
CF from Investing Activities	(1814)	(4902)	(5081)	(1836)	(1836)	(1836)
CF from Financing Activities	(5424)	2486	729	(1725)	(1949)	(2595)
Cash Generated (Utilised)	(19)	59	(15)	1142	684	922
Cash at the start of year	123	104	163	234	1376	2060
Cash at the end of year	104	164	149	1377	2060	922

Ratios	FY16	FY17	FY18	FY19	FY20E	FY21E
OPM	16.3	21.6	17.7	19.5	20.6	20.2
NPM	9.0	13.3	10.6	11.9	12.6	12.4
Tax Rate %	(35.9)	(33.0)	(33.8)	(33.0)	(33.0)	(33.0)
Growth Ratio (%)						
Net Sales	1.2	4.9	5.2	12.9	3.8	12.8
Operating Profit	89.6	39.2	(14.0)	24.9	9.3	10.9
PAT	171.2	55.1	(16.1)	26.7	9.7	11.3
Per Share						
Earning Per Share (EPS)	20.8	28.6	24.7	28.2	33.3	37.0
Cash Earnings (CPS)	22.0	32.3	28.3	35.3	38.5	42.5
Dividend	10.0	11.5	10.0	11.0	13.0	14.0
Book Value	128.2	186.5	225.2	242.8	260.9	281.4
Free Cash flow	55.9	16.9	30.7	35.4	33.6	35.0
Valuation Ratios						
P/E (x)	25.0	18.2	21.1	18.5	15.6	14.1
P/B (x)	4.2	2.9	2.4	2.2	2.1	1.9
EV / Sales	2.8	2.6	2.5	2.1	2.0	1.8
EV / EBITDA	15.9	11.4	13.3	10.7	9.7	8.8
Div. Yield (%)	1.9	2.1	1.9	2.0	2.4	2.6
FCF Yield (%)	10.4	3.1	5.7	6.6	6.2	6.5
Return Ratios (%)						
ROE	16.2	15.3	11.0	11.6	12.8	13.1
ROCE*	21.3	21.5	15.5	18.8	18.6	19.4

* includes other income



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