



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update Q2FY18@ Dalal & Broacha

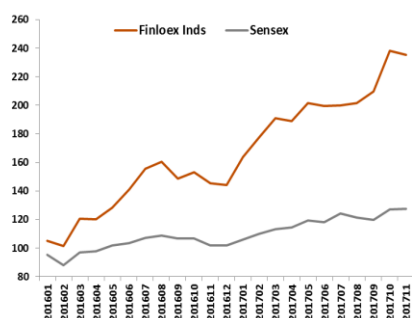
BUY

Current Price	695
Target Price	804
Upside/Downside	15%
52 Week Range	Rs.752/385

Key Share Data

Market Cap (Rs.bn)	73.1
Market Cap (US\$ mn)	1318
No of o/s shares (mn)	124.1
Face Value	10
Monthly	52,896
Avg.vol(BSE+NSE) Nos	
BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP IN

Price performance



% Shareholding

	Jun-17	Sept-17
Promoters	52.5	52.5
Institutions	13.9	14.1
Others	33.6	33.4
Total	100.0	100.0

Revenue in line with healthy volume growth; Outlook remains positive

Finolex has shown healthy volume growth of 24% in Pipe & fittings segment in Q2FY18, however, realization down by more than 16% y-o-y due to moderation in pricing to gain market share (fitting contribution inched up to 9% from 5-6% in past couple of quarters), resulted ~4% y-o-y growth in pipe & fittings revenue. We expect sequentially the demand to pick up in second half through traction from agriculture/irrigation side and realization to improve with season.

Sales at Rs 475cr grew ~4% y-o-y, was in line with our estimates. The company reported lower realization. Finolex inability to realize the benefit of higher PVC/EDC spreads as the company was carrying older EDC inventory (stock pre-monsoons before the jetty closed). We believe with the seasonality in business, realization to improve with expansion in PVC/EDC spread and also with pick up in volume in H2FY18. Sales at INR 475cr grew ~4% y-o-y, was in line with our estimates.

Gross margin were reported at ~34% (down 760bps y-o-y). The power & PVC resin plant shut down for 21 days, which happen once in three years & increase in coal prices and EDC/VCM impacted power cost and RM cost. EBITDA at Rs ~50cr down 43% y-o-y and below our estimate mainly due to contraction in gross margin and higher overhead expenses. EBITDA margins were reported at 10.4% contracted 860bps y-o-y. Reported PAT of INR ~28cr (down ~45% y-o-y) below our estimate.

PVC resin segment flat y-o-y at sales of INR 274cr – volume up ~2% y-o-y and realization down 2% y-o-y. The realization was down due to increase in uses of VCM conversion route and procurement of raw materials at higher price before monsoon season. The volume was impacted due to plant shut down for 21 days which occurs once in three years (shut down happen in Q2 being lean season).

Outlook & Valuation

We remain positive on the business majorly due to 1) focus on higher margin non agri business 2) capex outlay of Rs 2.5 bn over FY17-19 to increase pipe capacity from 290 k mt to 370 mt by FY20 3) Unorganised player shifting to organise after the GST. At current CMP of Rs 695 the stock trades at 17x FY19 EPS of Rs 40. We have a buy recommendation on the stock and value the stock at 20x FY19 EPS of Rs 40

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	33.5	16.2%	21.3%
FY17	26024	4.9%	5630	21.6%	3549	171.2%	28.6	24.3	15.3%	21.5%
FY18E	35975	38.2%	7023	19.5%	4511	27.6%	36.3	19.1	17.4%	24.9%
FY19E	40135	11.6%	7679	19.1%	4987	10.7%	40.2	17.3	17.3%	25.1%



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Concall highlights

- While the industry witnessed interim hiccups during the transition to GST, demand started picking up from mid-July. As per management, post GST implementation, the product price differential between organised and unorganised players has narrowed to ~15% from ~40%. On the other hand, the price differential between Finolex products and organised peers is 5-7%.
- Agriculture accounts for ~70% of Finolex topline, with the balance 30% coming from plumbing and construction, among other segments.
- Volumes in the fittings segment stood at 4,214mt in Q2FY18 (4,000mt in Q2FY17), with net realisation per tonne at Rs 6,900/mt (Rs 5,200/mt). Net realisation in pipes was at Rs 82,200/mt in Q2 (Rs 81,500/mt in Q1).
- The average PVC/EDC spread stood at US\$ 737/mt in Q2FY18 and currently stands at ~US\$ 700/mt.
- CPVC segment has ramped up to ~150 SKUs of the overall ~1,500 SKUs. CPVC pipe volumes grew to 1,200mt in Q2 from 900mt in Q1, while CPVC fittings grew to 247mt from 126mt in Q1.
- Internal consumption of resin stood at 34,054mt (~84% of PVC sales).
- Finolex distribution reach comprises ~850 dealers and ~18,000 sub-dealers

Result Highlights

2QFY18 Result snapshot	INRm				
	2QFY18	2QFY17	YoY (%)	1QFY17	QoQ (%)
Particulars					
Total Op. Income	4,753	4,568	4.0	7,307	(35.0)
Expenditure	4,257	3,698	15.1	6,000	(29.1)
Raw Materials	3,134	2,662	17.7	4,883	(35.8)
Staff Cost	285	254	12.2	285	0.0
Other Expenditure	838	782	7.2	832	0.7
Operating Profit	496	870	(43.0)	1,306	(62.0)
<i>OPM (%)</i>	<i>10.4</i>	<i>19.0</i>	<i>(860.9)</i>	<i>17.9</i>	
Depreciation	151	139	9.0	145	4.3
Other Income	109	89	22.2	38	184.2
Interest	38	33	17.2	30	28.2
Exceptional Items	0	0		0	
PBT	416	788	(47.3)	1,170	(64.5)
Tax	133	275	(51.7)	372	(64.3)
Share of Associate Profit					
Reported PAT	283	513	(44.9)	798	(64.5)
Adjusted PAT	283	513	(44.9)	798	(64.5)
<i>NPM (%)</i>	<i>6.0</i>	<i>11.2</i>		<i>10.9</i>	
Key ratios (%)					
Raw material cost/Sales	65.9	58.3		66.8	
Employee expenses/Sales	6.0	5.6		3.9	
Other operating exp./Sales	17.6	17.1		11.4	
EBITDA margin	10.4	19.0		17.9	
PBT Margin	8.7	17.2		16.0	
Tax rate	31.9	34.9		31.8	
PAT Margin	6.0	11.2		10.9	
EPS (Rs)	6.4	7.9		9.9	



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Financials

Profit & Loss (Rs Mn)						Cash Flow Statement (Rs Mn)						
	FY15	FY16	FY17	FY18E	FY19E		FY14	FY15	FY16	FY17	FY18E	FY19E
Net Sales	24,761	24,819	26,024	35,975	40,135	Pre tax Profit	2419	808	3724	5158	6583	7286
Raw Materials	(18,329)	(16,477)	(16,096)	(24,463)	(27,292)	Add: Dep. & Amortization	623	587	506	550	610	643
Employee Cost	(740)	(925)	(1,049)	(1,619)	(1,886)	Total tax paid	(523)	(392)	(1251)	(1703)	(2172)	(2404)
Other Expenses	(3,559)	(3,373)	(3,249)	(2,870)	(3,278)	Other Adjustments	921	663	447	153	130	100
Cost of Sales	(22,628)	(20,775)	(20,393)	(28,952)	(32,456)	Cash Profit	3439	1666	3426	4159	5150	5625
Operating Profit	2,134	4,045	5,630	7,023	7,679	(Inc) / Dec in						
Depreciation	(587)	(506)	(550)	(610)	(643)	Sundry Debtors	(372)	359	311	(349)	131	(46)
PBIT	1,547	3,539	5,080	6,413	7,036	Inventories	(232)	(527)	1114	(1102)	(1325)	(798)
Other Income	202	387	232	300	350	Loans & Advances	0	0	328	(224)	(101)	(200)
Interest	(598)	(447)	(153)	(130)	(100)	Current liabilities & Trade payables	(381)	646	2040	(9)	1040	596
Prior period items	0	0	0	0	0	Change in Working Capital	(985)	478	3793	(1683)	(255)	(447)
Profit Before Tax	1,152	3,479	5,158	6,583	7,286	CF from Operating Activities	2455	2144	7219	2476	4895	5177
Provision for Tax	(330)	(1,251)	(1,703)	(2,172)	(2,404)	CF from Investing Activities	1103	221	(1814)	(4902)	(1150)	(1150)
PAT	822	2,228	3,455	4,411	4,882	CF from Financing Activities	(3439)	(2452)	(5424)	2486	(2335)	(2595)
Extra ordinary Items	(344)	245	0	0	0	Cash Generated (Utilised)	119	(86)	(19)	59	1410	1432
Share of JV/ Associate	0	105	93	100	105	Cash at the start of year	90	209	123	104	163	1573
Adj. PAT	478	2,578	3,549	4,511	4,987	Cash at the end of year	209	123	104	164	1573	3005

Balance Sheet (Rs Mn)					
	FY15	FY16	FY17	FY18E	FY19E
Equity Capital	1,241	1,241	1,241	1,241	1,241
Reserves	12,511	14,664	21,907	24,675	27,629
Net Worth	13,752	15,905	23,148	25,916	28,870
Long term borrowings	1,837	4	3	1,000	500
Short term borrowings	4,856	2,559	1,498	0	0
Total Debt	6,693	2,563	1,501	1,000	500
Capital Employed	20,444	18,468	24,649	26,916	29,370
Gross Block	18,939	19,264	19,869	21,020	22,170
Accumulated Depreciation	10,262	10,767	11,318	11,927	12,570
Net Block	8,678	8,496	8,551	9,092	9,599
Capital WIP	104	66	217	217	217
Total Fixed Assets	8,782	8,563	8,769	9,309	9,816
Goodwill & Intangible	0	0	0	0	0
Investments	7,536	9,063	13,209	13,209	13,209
Long term liabilities	0	528	613	675	742
Inventories	5,587	4,472	5,574	6,899	7,697
Sundry debtors	487	176	525	394	440
Cash & bank	123	104	163	1,573	3,005
Loans & advances and Oth	1,803	1,475	1,699	1,800	2,000
Trade Payables	(2,000)	(2,432)	(2,275)	(3,154)	(3,519)
Current Liabilities	(569)	(1,921)	(2,009)	(2,150)	(2,365)
Provisions	(46)	(123)	(124)	(144)	(160)
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
Capital Deployed	20,444	18,468	24,649	26,916	29,370

Ratios						
	FY14	FY15	FY16	FY17	FY18E	FY19E
OPM	16.2	8.6	16.3	21.6	19.5	19.1
NPM	6.9	3.3	9.0	13.3	12.3	12.2
Tax Rate %	(29.7)	(28.7)	(35.9)	(33.0)	(33.0)	(33.0)
Growth Ratio (%)						
Net Sales	14.4	1.0	1.2	4.9	38.2	11.6
Operating Profit	51.0	(34.7)	89.6	39.2	24.7	9.3
PAT	76.2	(51.7)	171.2	55.1	27.6	10.7
Per Share						
Earning Per Share (EPS)	19.3	3.9	20.8	28.6	36.3	40.2
Cash Earnings (CPS)	18.7	11.3	22.0	32.3	40.5	44.5
Dividend	6.8	6.8	10.0	11.5	12.0	14.0
Book Value	63.6	110.8	128.2	186.5	208.8	232.6
Free Cash flow	13.4	13.7	55.9	16.9	35.2	39.3
Valuation Ratios						
P/E (x)	35.9	180.5	33.5	24.3	19.1	17.3
P/B (x)	10.9	6.3	5.4	3.7	3.3	3.0
EV / Sales	3.8	3.7	3.6	3.4	2.4	2.1
EV / EBITDA	23.3	43.5	21.9	15.6	12.2	10.9
Div. Yield (%)	1.0	1.0	1.4	1.7	1.7	2.0
FCF Yield (%)	1.9	2.0	8.0	2.4	5.1	5.6
Return Ratios (%)						
ROE	30.4	3.5	16.2	15.3	17.4	17.3
ROCE*	26.1	8.6	21.3	21.5	24.9	25.1

* includes other income



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