



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update @ Dalal & Broacha

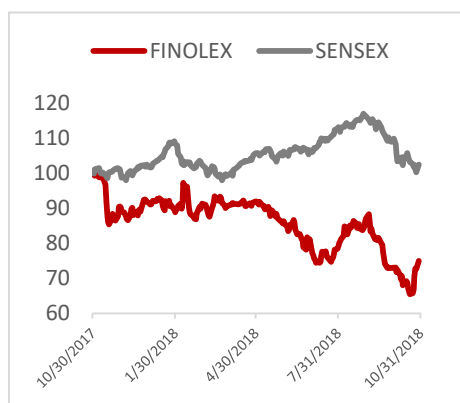
BUY

Current Price	553
Target Price	690
Upside/Downside	24%
52 Week Range	Rs.752/530

Key Share Data

Market Cap (Rs.bn)	68
Market Cap (US\$ mn)	984
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

Revenues inline driven by improved PVC volume and realisation:

Revenue increased 14% yoy at Rs5.4bn. PVC Pipe & fitting (56% of sales) revenues for the quarter stood at Rs. 4.7bn grew 11% YoY. Volume growth of for the quarter was -4.5% while 16% cumulative increase in realisation improved topline. The company has taken price increase reversing discounts given in the previous quarters. PVC resin revenue (40% of sales) improved 19% yoy driven by 7% volume and 14% realisation growth.

Improvement in EDC-PVC spread led to margin improvement: Gross margin for the quarter up from 34% to 46% yoy. EBITDA increased 151% yoy to Rs1.25bn. Margin up from 10.4% to 23% yoy. Margin improvement is led by improved spread of EDC-PVC. PVC segment margin improved from 13.5% to 29.5% yoy. EDC prices corrected during the quarter while PVC prices remained stable. Management expects spread to correct in H2FY19 and margin to be maintained at normalise level. PVC pipe & fitting EBIT at Rs 240mn with margin of 5%. Margin expanded 190bps YoY.

PAT up 171% yoy: Other income increased by 12% yoy to Rs122mn while interest has gone down from Rs38mn to Rs29mn yoy. Tax rate stood at 35% for the quarter as against 31% for Q2FY18. PAT improved 171% yoy to Rs1.2bn.

Focus on non-agri pipe segment: CPVC volume increased 43% YoY in Q2FY19 to 2000 Tn and revenue increased to Rs 530mn vs Rs 360mn. Finolex expects CPVC quarterly volume run rate to be maintained at 2000t. CPVC capacity is 20000t and volume for FY19E expected at 8000t. Management expects full capacity to get utilised by FY20E. Finolex focusing on non-agri segment for PVC pipes. Over next 4-5 years, Finolex intends to derive ~50% of its pipes revenue from non-agri segment. As non-agri and CPVC pipes better margin overall margin for the segment is likely to increase.

Outlook & Valuation: Management expects volume for pipes & fitting to increase at double digit. Current pipes capacity is 330000t which is likely to increase to 370000t by FY19E. The company is likely to incur capex of Rs80-100cr for the year. As EDC-PVC spreads decline in Q3FY19 and margin improves for pipes & fittings division on improved operating leverage overall margin for the company is likely to be maintained at 17-18%. We expect Finolex to post 16% CAGR sales growth over FY18-20E and bottomline to grow at a CAGR of 27% over FY18-20E.. At CMP, stock trades at 20x FY19E and 17x FY20E earnings. EV/EBITDA is at 12.6x FY19E and 10.5x FY20E EV/EBITDA. We maintain Buy rating on the stock due to its market leading presence in PVC pipes segment, on par cash flow/balance sheet/return ratio profile. We value stock at 22x FY20E earnings and arrive at target price of Rs690 per share.

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	18.8	15.3%	21.5%
FY18	27378	5.2%	4317	15.8%	2541	-16.1%	20.5	26.3	9.1%	13.7%
FY19E	31813	16.2%	5292	16.6%	3300	10.3%	26.6	20.3	11.1%	16.2%
FY20E	36574	15.0%	6323	17.3%	3944	20.1%	31.8	17.0	12.4%	18.1%



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Result Highlights

Particulars	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
Total Op. Income	5,426	4,753	14.2	8,278	(34.5)
Expenditure	4,177	4,257	(1.9)	6,340	(34.1)
Raw Materials	2,892	3,134	(7.7)	4,999	(42.1)
Staff Cost	309	285	8.3	325	(5.1)
Other Expenditure	977	838	16.5	1,016	(3.8)
Operating Profit	1,249	496	151.8	1,939	(35.6)
<i>OPM (%)</i>	<i>23.0</i>	<i>10.4</i>	<i>1,258.3</i>	<i>23.4</i>	
Depreciation	166	151	9.6	162	2.4
Other Income	123	109	12.3	137	(10.6)
Interest	29	38	(24.8)	52	(45.1)
Exceptional Items	0	0		(279)	
PBT	1,177	416	183.2	1,583	(25.6)
Tax	413	133	211.1	550	(24.9)
Share of Associate Profit					
Reported PAT	764	283	170.2	1,033	(26.0)
Key ratios (%)					
Raw Materials/ sales	53.3	65.9		60.4	
Employee expenses/Sales	5.7	6.0		3.9	
Other operating exp./Sales	18.0	17.6		12.3	
EBITDA margin	23.0	10.4		23.4	
PBT Margin	21.7	8.7		19.1	
Tax rate	35.1	31.9		34.7	
PAT Margin	0.0	0.0		0.0	
EPS (Rs)	6.2	2.3		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 Other	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)	25.9	18.8	26.3	20.3	17.0
P/B (x)	4.2	2.9	2.4	2.3	2.1
EV / Sales	2.8	2.6	2.5	2.1	1.8
EV / EBITDA	17.1	12.1	15.7	12.6	10.5
Div. Yield (%)	1.9	2.1	1.9	2.0	2.4
FCF Yield (%)	10.4	3.1	5.7	5.6	5.3

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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