



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

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## Result Update @ Dalal & Broacha

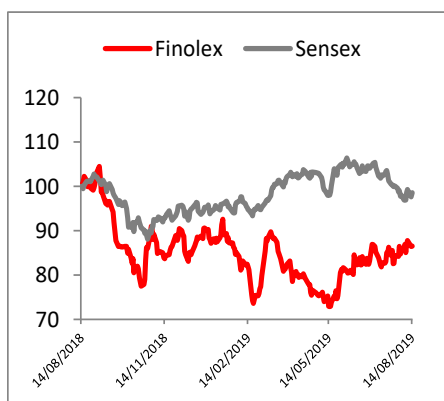
### BUY

Current Price	573
Target Price	648
Upside/Downside	12%
52 Week Range	Rs.643/440

### Key Share Data

Market Cap (Rs.bn)	70
Market Cap (US\$ mn)	99
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	Sep-19	Jun-19
Promoters	52.5	52.5
Institutions	9.6	9.6
Others	37.9	37.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Finolex Industries Q2FY20 Result Update

### Result below expectations due to lower PVC/EDC spread:

Revenue increased 6.3% yoy at Rs5.8bn. PVC Pipe & fitting (63% of sales) revenues for the quarter stood at Rs5.2bn grew 10% YoY. Volume during the quarter up 6% yoy at 48024t and realisation up 3.6% yoy. Floods impacted demand from agriculture industry. PVC resin revenue (37% of sales) down 7% yoy. Volumes down 4.7% yoy and realisation down 2.8%.

**Decline in PVC-EDC spread impacted margin:** Operating margin has gone down from 23% to 14% yoy due to reduced PVC-EDC spread. PVC segment EBIT margin reduced from 30% to 15% yoy. PVC-EDC spread has gone down from \$583 to \$458/t yoy. This impacted overall profitability. PVC pipe & fitting EBIT margin stood at 4.6% vs 5.1% yoy.

**PAT up 30%yoy:** Other income increased by 42% yoy. PBT is down 32% yoy. PAT reported 34% increase due to tax write-back.

**CPVC reported growth:** The CPVC pipes has delivered growth of 10% yoy while column pipes revenue remained flat. Management guided both divisions to post better volume growth over medium term driven by low base. Anti-dumping duty on CPVC pipes imports from China and Korea to reduce supply by 30000-40000t in domestic industry benefiting CPVC players. Finolex sources raw material for CPVC pipes from Lubrizole who is likely to revise price in December 2020E.

**Volume guidance maintained at 12-14%:** Management expects demand for agri pipes to pick-up from Q3 therefore, maintained volume guidance at 12-14% yoy. During H1FY20 the company reported volume growth of 13% yoy. The company has increased its pipes and fittings capacity in FY19 to 370,000 tonne per annum (tpa) and current utilisation is at 65%. The company is likely to incur capex of Rs100cr during the year to be utilised for adding SKUs in fittings and CPVC pipes.

**Outlook & Valuation:** We expect Finolex to post volume growth of 11%. Assuming PVC-EDC delta stabilises margin for the company is likely to be around 16%. We expect earnings of the company to grow at 13% CAGR over FY19-21E. Finolex generates ROE of 12%. At CMP, stock trades at 20x FY20E and 16xFY21E earnings. We maintain Buy rating on the stock. We value stock at 18xFY21E earnings and arrive at target price of **Rs648** 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	20.0	15.3%	21.5%
FY18	27378	5.2%	4839	17.7%	3063	-16.1%	24.7	23.2	11.0%	15.5%
FY19	30913	12.9%	6043	19.5%	3493	26.7%	28.2	20.4	11.6%	18.8%
FY20E	32085	3.8%	5114	15.9%	3571	2.2%	28.8	19.9	11.2%	14.6%
FY21E	35623	11.0%	6328	17.8%	4448	24.6%	35.8	16.0	13.0%	17.2%



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#### Result Highlights (Rs Mn)

2QFY20 Result snapshot	INRm				
	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
<b>Particulars</b>					
<b>Total Op. Income</b>	5,767	5,426	6.3	9,438	(38.9)
<b>Expenditure</b>	4,947	4,177	18.4	6,248	(20.8)
Raw Materials	3,497	2,892	20.9	4,714	(25.8)
Staff Cost	338	309	9.6	344	(1.6)
Other Expenditure	1,112	977	13.8	1,190	(6.6)
<b>Operating Profit</b>	820	1,249	(34.3)	3,190	(74.3)
<i>OPM (%)</i>	14.2	23.0	(879.8)	33.8	
Depreciation	194	166	17.0	168	15.7
Other Income	174	123	42.0	57	205.6
Interest	2	29	(92.0)	9	(73.6)
Exceptional Items	0	0		19	
<b>PBT</b>	798	1,177	(32.2)	3,089	(74.2)
Tax	(229)	413	(155.4)	403	(156.8)
Share of Associate Profit					
<b>Reported PAT</b>	1,027	764	34.4	2,686	(61.8)
<b>Key ratios (%)</b>					
Raw Materials/ sales	60.6	53.3		49.9	
Employee expenses/Sales	5.9	5.7		3.6	
Other operating exp./Sales	19.3	18.0		12.6	
EBITDA margin	14.2	23.0		33.8	
PBT Margin	13.8	21.7		32.7	
Tax rate	(28.7)	35.1		13.0	
PAT Margin	17.8	14.1		28.5	
EPS (Rs)	8.3	6.2		5.7	



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### Financials

Profit & Loss (Rs Mn)							Cash Flow Statement (Rs Mn)						
	FY16	FY17	FY18	FY19	FY20E	FY21E		FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	24,819	26,024	27,378	30,913	32,085	35,623	Pre tax Profit	3724	5158	4379	5484	4627	5797
Raw Materials	(16,477)	(16,096)	(17,644)	(19,209)	(21,818)	(24,224)	Add: Dep. & Amortization	506	550	606	701	745	788
Employee Cost	(925)	(1,049)	(1,161)	(1,344)	(1,444)	(1,444)	Total tax paid	(1251)	(1703)	(1479)	(1812)	(1157)	(1449)
Other Expenses	(3,373)	(3,249)	(3,733)	(4,317)	(3,709)	(3,628)	Other Adjustments	447	153	331	(110)	91	93
Cost of Sales	(20,775)	(20,393)	(22,539)	(24,870)	(26,971)	(29,296)	<b>Cash Profit</b>	<b>3426</b>	<b>4159</b>	<b>3837</b>	<b>4263</b>	<b>4307</b>	<b>5229</b>
<b>Operating Profit</b>	<b>4,045</b>	<b>5,630</b>	<b>4,839</b>	<b>6,043</b>	<b>5,114</b>	<b>6,328</b>	(Inc) / Dec in						
Depreciation	(506)	(550)	(606)	(701)	(745)	(788)	Sundry Debtors	311	(349)	94	93	(13)	(136)
PBIT	3,539	5,080	4,233	5,342	4,368	5,539	Inventories	1114	(1102)	(542)	187	(225)	(776)
Other Income	387	232	244	404	350	350	Loans & Advances	328	(224)	106	(207)	(500)	299
Interest	(447)	(153)	(98)	(123)	(91)	(92)	Current liabilities & Trade payable	2040	(9)	843	368	339	669
Prior period items	0	0	0	419	2	3	<b>Change in Working Capital</b>	<b>3793</b>	<b>(1683)</b>	<b>501</b>	<b>441</b>	<b>(399)</b>	<b>55</b>
Profit Before Tax	3,479	5,158	4,379	5,484	4,627	5,797	<b>CF from Operating Activities</b>	<b>7219</b>	<b>2476</b>	<b>-4338</b>	<b>4704</b>	<b>3908</b>	<b>5284</b>
Provision for Tax	(1,251)	(1,703)	(1,479)	(1,810)	(1,157)	(1,449)	<b>CF from Investing Activities</b>	<b>(1814)</b>	<b>(4902)</b>	<b>(5081)</b>	<b>(1836)</b>	<b>(1836)</b>	<b>(1836)</b>
<b>PAT</b>	<b>2,228</b>	<b>3,455</b>	<b>2,900</b>	<b>3,675</b>	<b>3,471</b>	<b>4,348</b>	<b>CF from Financing Activities</b>	<b>(5424)</b>	<b>2486</b>	<b>729</b>	<b>(1725)</b>	<b>(1949)</b>	<b>(2595)</b>
Extra ordinary items	245	0	0	0	0	0	Cash Generated (Utilised)	(19)	59	(15)	1142	123	853
Share of JV/ Associate	105	93	163	140	100	100	Cash at the start of year	123	104	163	234	1376	1499
<b>Adj. PAT</b>	<b>2,578</b>	<b>3,549</b>	<b>3,063</b>	<b>3,493</b>	<b>3,571</b>	<b>4,448</b>	Cash at the end of year	104	164	149	1377	1499	853
Balance Sheet (Rs Mn)							Ratios						
	FY16	FY17	FY18	FY19	FY20E	FY21E		FY16	FY17	FY18	FY19	FY20E	FY20E
Equity Capital	1,241	1,241	1,241	1,241	1,241	1,241	OPM	16.3	21.6	17.7	19.5	15.9	17.8
Reserves	14,664	21,907	26,710	28,886	30,569	32,984	NPM	9.0	13.3	10.6	11.9	10.8	12.2
<b>Net Worth</b>	<b>15,905</b>	<b>23,148</b>	<b>27,951</b>	<b>30,126</b>	<b>31,810</b>	<b>34,225</b>	Tax Rate %	(35.9)	(33.0)	(33.8)	(33.0)	(25.0)	(25.0)
Long term borrowings	4	3	7	500	500	0	<b>Growth Ratio (%)</b>						
Short term borrowings	2,559	1,498	1,000	0	0	0	Net Sales	1.2	4.9	5.2	12.9	3.8	11.0
Total Debt	2,563	1,501	1,007	500	500	0	Operating Profit	89.6	39.2	(14.0)	24.9	(15.4)	23.7
<b>Capital Employed</b>	<b>18,468</b>	<b>24,649</b>	<b>28,958</b>	<b>30,626</b>	<b>32,310</b>	<b>34,225</b>	PAT	171.2	55.1	(16.1)	26.7	(5.6)	25.3
Gross Block	19,264	19,869	20,766	22,603	24,439	26,276	<b>Per Share</b>						
Accumulated Depreciation	10,767	11,318	11,924	12,625	13,370	14,158	Earning Per Share (EPS)	20.8	28.6	24.7	28.2	28.8	35.8
Net Block	8,496	8,551	8,842	9,978	11,069	12,117	Cash Earnings (CPS)	22.0	32.3	28.3	35.3	34.0	41.4
Capital WIP	66	217	903	903	903	903	Dividend	10.0	11.5	10.0	11.0	13.0	14.0
<b>Total Fixed Assets</b>	<b>8,563</b>	<b>8,769</b>	<b>9,746</b>	<b>10,881</b>	<b>11,972</b>	<b>13,021</b>	Book Value	128.2	186.5	225.2	242.8	256.3	275.8
Goodwill & intangible	0	0	0	0	0	0	Free Cash flow	55.9	16.9	30.7	35.4	29.0	35.0
Investments	9,063	13,209	16,707	16,707	16,707	16,707	<b>Valuation Ratios</b>						
Long term liabilities	528	613	644	709	780	858	P/E (x)	27.6	20.0	23.2	20.4	19.9	16.0
Inventories	4,472	5,574	6,116	5,929	6,153	6,929	P/B (x)	4.2	2.9	2.4	2.2	2.1	2.0
Sundry debtors	176	525	431	339	352	488	EV / Sales	2.8	2.6	2.5	2.1	2.1	1.8
Cash & bank	104	163	234	1,376	1,499	2,343	EV / EBITDA	17.5	12.6	14.7	11.7	13.9	11.2
Loans & advances and Oth	1,475	1,699	1,826	1,800	2,300	2,001	Div. Yield (%)	1.9	2.1	1.9	2.0	2.4	2.6
Trade Payables	(2,432)	(2,275)	(2,505)	(2,710)	(2,813)	(3,221)	FCF Yield (%)	10.4	3.1	5.7	6.6	5.4	6.5
Current Liabilities	(1,921)	(2,009)	(2,196)	(2,347)	(2,581)	(2,840)	<b>Return Ratios (%)</b>						
Provisions	(123)	(124)	(149)	(161)	(162)	(165)	ROE	16.2	15.3	11.0	11.6	11.2	13.0
Working Capital	1,751	3,554	3,758	4,226	4,747	5,536	ROCE*	21.3	21.5	15.5	18.8	14.6	17.2
Deferred Tax Liabilities	-1,436	-1,496	-1,897	-1,897	-1,897	-1,897	* Includes other income						
<b>Capital Deployed</b>	<b>18,468</b>	<b>24,649</b>	<b>28,958</b>	<b>30,626</b>	<b>32,310</b>	<b>34,225</b>							



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