



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update @ Dalal & Broacha

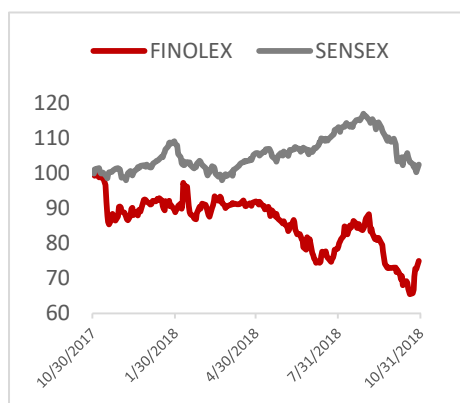
BUY

Current Price	498
Target Price	636
Upside/Downside	27%
52 Week Range	Rs.712/463

Key Share Data

Market Cap (Rs.bn)	62
Market Cap (US\$ mn)	908
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

	Dec-18	Sep-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	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%

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

Revenue increased 5% yoy at Rs7.6bn (Exp: Rs8bn). PVC Pipe & fitting (53% of sales) revenues for the quarter stood at Rs. 5.9bn grew 11% YoY. Volume during the quarter declined 3.8% yoy impacted by slow pick-up in volumes in its core markets like AP and Telangana. The company has taken price increase reversing discounts given in the previous quarters. This led to realisation increase of 15% yoy. PVC resin revenue (43% of sales) improved 5.3% yoy. Volumes declined 6% yoy and realisation improved 12% yoy.

Decline in PVC-EDC spread impacted margin: Gross margin improved by 280bps to 35.6%. EBITDA increased 10% vov to Rs1.25bn. Margin up from 15.7% to 16.5% vov. PVC segment EBIT margin reduced 120bps vov to 16.2%. PVC-EDC spread has gone down from \$700 to \$550/t on qoq basis. Management expects spread to be maintained at current level. PVC pipe & fitting EBIT margin improved by 230bps to 7.9%.

PAT up 171% yoy: Other income increased by 68% yoy to Rs172mn. Tax rate stood at 35% for the quarter as against 36% for Q3FY18. PAT improved 10% yoy to Rs1.2bn.

Focus on non-agri pipe segment: CPVC volumes at 2300t as against 1500t yoy. Revenue for the quarter at Rs61cr vs Rs38cr yoy. 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: Volumes to pick up once farmers are released sugar cane arrears. Maintained volume growth guidance of 10-15% yoy. Current pipes capacity is 330000t which is likely to increase to 370000t by FY19E. The company is likely to incur capex of Rs150cr for the year. As EDC-PVC spreads is likely to remain stable 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 18.7x FY19E and 15.5x FY20E earnings. EV/EBITDA is at 11.6x FY19E and 9x 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 20x FY20E earnings and arrive at target price of Rs636 per share.



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Result Highlights

Particulars	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Total Op. Income	7,566	7,227	4.7	5,426	39.4
Expenditure	6,316	6,094	3.6	4,177	51.2
Raw Materials	4,875	4,856	0.4	2,892	68.6
Staff Cost	328	294	11.6	309	6.3
Other Expenditure	1,113	944	18.0	977	14.0
Operating Profit	1,250	1,133	10.3	1,249	0.1
<i>OPM (%)</i>	<i>16.5</i>	<i>15.7</i>	<i>83.6</i>	<i>23.0</i>	
Depreciation	196	154	27.7	166	18.4
Other Income	173	103	68.4	123	40.7
Interest	17	(4)	(576.2)	29	(40.6)
Exceptional Items	0	0		0	
PBT	1,209	1,086	11.4	1,177	2.7
Tax	422	390	8.1	413	2.2
Share of Associate Profit					
Reported PAT	787	695	13.2	764	3.0

Key ratios (%)					
Raw Materials/ sales	64.4	67.2		53.3	
Employee expenses/Sales	4.3	4.1		5.7	
Other operating exp./Sales	14.7	13.1		18.0	
EBITDA margin	16.5	15.7		23.0	
PBT Margin	16.0	15.0		21.7	
Tax rate	34.9	35.9		35.1	
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 payable	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

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)	24.0	17.4	24.3	18.7	15.7
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 / EBIDTA	15.2	10.9	14.3	11.6	9.7
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

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



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