



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

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## Result Update @ Dalal & Broacha

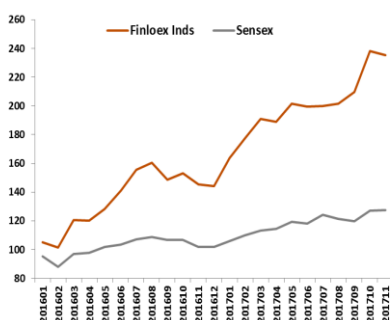
### BUY

Current Price	625
Target Price	731
Upside/Downside	17%
52 Week Range	Rs.752/530

### Key Share Data

Market Cap (Rs.bn)	78
Market Cap (US\$ mn)	1134
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

	Mar-18	Dec-17
Promoters	52.5	52.5
Institutions	8.8	8.80
Others	38.7	38.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### 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	21.9	15.3%	21.5%
FY18	27378	5.2%	4839	17.7%	3063	-16.1%	24.7	25.3	11.0%	15.5%
FY19E	31813	16.2%	5292	16.6%	3300	10.3%	26.6	23.5	11.1%	16.2%
FY20E	36574	15.0%	6323	17.3%	3944	20.1%	31.8	19.7	12.4%	18.1%

### Strong Pipe volume growth, momentum to continue:

Pipe volume growth: Pipe revenues for the quarter stood at Rs. 6.8bn, up 10% YoY. Volume growth at 12% YoY was marginally better than peers on gaining market share from unorganized players and its strategy of higher discount in agri pipes. Realization growth at -2% YoY which again was due to its strategy to give higher discount in Agri pipes. PVC resin revenue declined by 7% YoY at Rs. 5.2bn and came 6% with volume declining 6% YoY stood at 72KT for the quarter. Overall revenues for 4QFY18 at Rs 8.01bn was 9% down YoY. For full year FY18, pipe volume at 250KT grew 20.4% and was better than peers.

**Strong growth in PVC margins:** PVC EBIT at Rs 1.3bn grew 10% YoY despite 6% YoY decline in volumes due to strong inventory gains. PVC Pipe EBIT at Rs 618mn, grew 5% YoY. Pipe EBITM declined 50bps YoY at 9% while PVC margins at 24.5% grew ~400bps YoY. Reported EBITDA at Rs. 1.9bn grew 5% YoY with margins at 23.2% Vs 20.1% last year led by gross margins expansion from 33% last year to 41% this quarter due to better PVC-EDC spreads.

**PAT was largely flat YoY:** Strong EBITDA growth coupled with lower than expected interest costs and lower than expected other income led to PAT at Rs 1.2bn, -2% YoY.

**Focus on non-agri pipe segment:** CPVC volume increased 42% YoY in FY18 to 5,800 MT and revenue increased to Rs 1.5 bn (Rs 1.1 bn in FY17). Finloex intends to leverage on Lubrizol's CPVC resin capabilities and expand aggressively into CPVC segment by launching several new SKUs. It plans to augment its distribution reach for non-agri pipes by setting up parallel dealerships as well leveraging existing dealer relations. The company is aggressively focusing on CPVC market by extending credit to CPVC dealers. Over next 4-5 years, Finloex intends to derive ~50% of its pipes revenue from non-agri segment (currently 20% of pipes revenue)

**Outlook & Valuation:** Finloex being the market leader in Agri pipes and focus on improving market share. We believe with 1)government initiative & increased spending on irrigation, water supply, focus on doubling farmer income 2)affordable housing and 3) shift to organised players led by brand awareness, strong distribution network. We maintain Buy rating on the stock due to its market leading presence in PVC pipes segment, high margins profile, on par cash flow/balance sheet/return ratio profile. At CMP, stock trades at 24x FY19E and 20x FY20E EPS Vs 30x for peers. We value the stock at 23x FY20 EPS with a TP of Rs 731



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### Result Highlights

4QFY18 Result snapshot	INRm				
	4QFY18	4QFY17	YoY (%)	3QFY17	QoQ (%)
<b>Particulars</b>					
<b>Total Op. Income</b>	<b>8,091</b>	<b>8,876</b>	<b>(8.8)</b>	<b>7,227</b>	<b>12.0</b>
<b>Expenditure</b>	<b>6,212</b>	<b>7,091</b>	<b>(12.4)</b>	<b>6,094</b>	<b>1.9</b>
Raw Materials	4,771	5,924	(19.5)	4,856	(1.7)
Staff Cost	298	268	11.0	294	1.3
Other Expenditure	1,143	899	27.2	944	21.1
<b>Operating Profit</b>	<b>1,879</b>	<b>1,785</b>	<b>5.2</b>	<b>1,133</b>	<b>65.8</b>
<i>OPM (%)</i>	<i>23.2</i>	<i>20.1</i>	<i>311.0</i>	<i>15.7</i>	
Depreciation	156	139	12.4	154	1.5
Other Income	28	94	(70.6)	103	(73.1)
Interest	34	11	193.2	(4)	(1,035.2)
Exceptional Items	0	0		0	
<b>PBT</b>	<b>1,717</b>	<b>1,729</b>	<b>(0.7)</b>	<b>1,086</b>	<b>58.1</b>
Tax	508	496	2.3	390	30.1
Share of Associate Profit					
<b>Reported PAT</b>	<b>1,209</b>	<b>1,233</b>	<b>(1.9)</b>	<b>695</b>	<b>73.9</b>
<b>Adjusted PAT</b>	<b>1,209</b>	<b>1,233</b>	<b>(1.9)</b>	<b>695</b>	<b>73.9</b>
<i>NPM (%)</i>	<i>14.9</i>	<i>13.9</i>		<i>9.6</i>	
Key ratios (%)					
	59.0	66.7		67.2	
Employee expenses/Sales	3.7	3.0		4.1	
Other operating exp./Sales	14.1	10.1		13.1	
EBITDA margin	23.2	20.1		15.7	
PBT Margin	21.2	19.5		15.0	
Tax rate	29.6	28.7		35.9	
PAT Margin	14.9	13.9		9.6	
EPS (Rs)	9.7	9.9		9.9	



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### Financials

Profit & Loss (Rs Mn)					Cash Flow Statement (Rs Mn)				
	FY17	FY18	FY19E	FY20E		FY17	FY18E	FY19E	FY20E
Net Sales	26,024	27,378	31,813	36,574	Pre tax Profit	5158	4379	4776	5737
Raw Materials	(16,096)	(17,644)	(21,633)	(24,870)	Add: Dep. & Amortization	550	606	670	745
Employee Cost	(1,049)	(1,161)	(1,432)	(1,646)	Total tax paid	(1703)	(1479)	(1576)	(1893)
Other Expenses	(3,249)	(3,733)	(3,457)	(3,734)	Other Adjustments	153	331	(137)	91
Cost of Sales	(20,393)	(22,539)	(26,521)	(30,251)	<b>Cash Profit</b>	<b>4159</b>	<b>3837</b>	<b>3733</b>	<b>4680</b>
<b>Operating Profit</b>	<b>5,630</b>	<b>4,839</b>	<b>5,292</b>	<b>6,323</b>	(Inc) / Dec in				
Depreciation	(550)	(606)	(670)	(745)	Sundry Debtors	(349)	94	83	(52)
PBIT	5,080	4,233	4,622	5,578	Inventories	(1102)	(542)	14	(913)
Other Income	232	244	250	250	Loans & Advances	(224)	106	(207)	(500)
Interest	(153)	(98)	(96)	(91)	Current liabilities & Trade payables	(9)	843	447	654
Prior period items	0	0	0	0	<b>Change in Working Capital</b>	<b>(1683)</b>	<b>501</b>	<b>337</b>	<b>(812)</b>
Profit Before Tax	5,158	4,379	4,776	5,737	<b>CF from Operating Activities</b>	<b>2476</b>	<b>4338</b>	<b>4070</b>	<b>3869</b>
Provision for Tax	(1,703)	(1,479)	(1,576)	(1,893)	<b>CF from Investing Activities</b>	<b>(4902)</b>	<b>(5081)</b>	<b>(1836)</b>	<b>(1836)</b>
<b>PAT</b>	<b>3,455</b>	<b>2,900</b>	<b>3,200</b>	<b>3,844</b>	<b>CF from Financing Activities</b>	<b>2486</b>	<b>729</b>	<b>(1698)</b>	<b>(1949)</b>
Extra ordinary Items	0	0	0	0	Cash Generated (Utilised)	59	(15)	535	83
Share of JV/ Associate	93	163	100	100	Cash at the start of year	104	163	234	769
<b>Adj. PAT</b>	<b>3,549</b>	<b>3,063</b>	<b>3,300</b>	<b>3,944</b>	Cash at the end of year	164	149	770	852
<b>Balance Sheet (Rs Mn)</b>					<b>Ratios</b>				
	FY17	FY18	FY19E	FY20E		FY17	FY18	FY19E	FY20E
Equity Capital	1,241	1,241	1,241	1,241	OPM	21.6	17.7	16.6	17.3
Reserves	21,907	26,710	28,413	30,469	NPM	13.3	10.6	10.1	10.5
<b>Net Worth</b>	<b>23,148</b>	<b>27,951</b>	<b>29,654</b>	<b>31,710</b>	Tax Rate %	(33.0)	(33.8)	(33.0)	(33.0)
Long term borrowings	3	7	500	500	<b>Growth Ratio (%)</b>				
Short term borrowings	1,498	1,000	0	0	Net Sales	4.9	5.2	16.2	15.0
Total Debt	1,501	1,007	500	500	Operating Profit	39.2	(14.0)	9.3	19.5
<b>Capital Employed</b>	<b>24,649</b>	<b>28,958</b>	<b>30,154</b>	<b>32,210</b>	PAT	55.1	(16.1)	10.3	20.1
Gross Block	19,869	20,766	22,603	24,439	<b>Per Share</b>				
Accumulated Depreciation	11,318	11,924	12,594	13,339	Earning Per Share (EPS)	28.6	24.7	26.6	31.8
Net Block	8,551	8,842	10,009	11,100	Cash Earnings (CPS)	32.3	28.3	31.2	37.0
Capital WIP	217	903	903	903	Dividend	11.5	10.0	11.0	13.0
<b>Total Fixed Assets</b>	<b>8,769</b>	<b>9,746</b>	<b>10,912</b>	<b>12,003</b>	Book Value	186.5	225.2	239.0	255.5
Goodwill & Intangible	0	0	0	0	Free Cash flow	16.9	30.7	30.3	28.7
Investments	13,209	16,707	16,707	16,707	<b>Valuation Ratios</b>				
Long term liabilities	613	644	709	780	P/E (x)	21.9	25.3	23.5	19.7
Inventories	5,574	6,116	6,101	7,014	P/B (x)	3.4	2.8	2.6	2.4
Sundry debtors	525	431	349	401	EV / Sales	3.0	2.9	2.4	2.1
Cash & bank	163	234	769	852	EV / EBIDTA	14.0	16.2	14.6	12.2
Loans & advances and Other	1,699	1,826	1,800	2,300	Div. Yield (%)	1.8	1.6	1.8	2.1
Trade Payables	(2,275)	(2,505)	(2,789)	(3,206)	FCF Yield (%)	2.7	4.9	4.9	4.6
Current Liabilities	(2,009)	(2,196)	(2,347)	(2,581)	<b>Return Ratios (%)</b>				
Provisions	(124)	(149)	(161)	(162)	ROE	15.3	11.0	11.1	12.4
Working Capital	3,554	3,758	3,723	4,617	ROCE*	21.5	15.5	16.2	18.1
Deferred Tax Liabilities	-1,496	-1,897	-1,897	-1,897					
<b>Capital Deployed</b>	<b>24,649</b>	<b>28,958</b>	<b>30,154</b>	<b>32,210</b>					

\* includes other income



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