



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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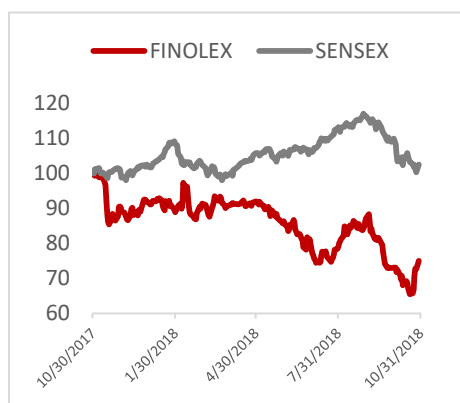
BUY

Current Price	442
Target Price	560
Upside/Downside	27%
52 Week Range	Rs.712/463

Key Share Data

Market Cap (Rs.bn)	61
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

	Mar-19	Dec-18
Promoters	52.5	52.5
Institutions	9.6	9.6
Others	37.9	37.9
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	17.4	15.3%	21.5%
FY18	27378	5.2%	4839	17.7%	3063	-16.1%	24.7	20.2	11.0%	15.5%
FY19	30913	12.9%	6043	19.5%	3493	26.7%	28.2	17.7	11.6%	18.8%
FY20E	32068	3.7%	6336	19.8%	3952	4.8%	31.8	15.6	12.3%	17.9%
FY21E	36169	17.0%	6858	19.0%	4273	4.8%	34.4	14.5	12.4%	18.4%

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

Revenue increased 19% yoy at Rs9.6bn (Exp: Rs9.9bn). PVC Pipe & fitting (58% of sales) revenues for the quarter stood at Rs7.9bn grew 16% YoY. Volume during the quarter up 12.5% yoy. Volume growth picked-up in the month of April. Realisation increased 3%. PVC resin revenue (43% of sales) down 8% yoy. Volumes improved 6% yoy and realisation improved 2% yoy.

Decline in PVC-EDC spread impacted margin: Gross margin down 350bps vov at 36.5%. Employee expenses increased 12% vov. Operating margin has gone down 760bps vov to 15.6%. PVC segment EBIT margin reduced 120bps vov to 16.2%. PVC-EDC spread has gone down from \$700 to \$523/t in H2FY19. This impacted overall profitability. PVC pipe & fitting EBIT margin down by 150 230bps to 7.7%.

PAT up 171% yoy: Other income increased up from Rs28mn to Rs122mn. Tax rate stood at 34% for the quarter. PAT down 24% yoy to Rs914mn.

Focus on non-agri pipe segment: CPVC volumes grew by 49% yoy in FY19 at 8800t reporting sales of Rs232cr. Column pipes volumes improved 72% yoy to 3200 reporting sales of Rs38cr. Management guided both divisions to post 30-40% volume growth in FY20E driven by low base.

Volume guidance maintained at 12-15%: PVC pipe demand picked up in Feb-March and has continued in April. Management seeing volume growth to continue in Q1. Plant operating at full capacity. Management guided for volume growth of 12-15% for 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: The company has incurred of Rs150cr for the year and has guided for Rs130cr capex in FY20E. 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 volume growth of 11% while weak PVC prices to keep revenue growth at 16% CAGR sales growth over FY18-20E and bottomline to growth at 7%. Assuming PVC-EDC delta stabilises margin for the company is likely to be around 19%. We expect earnings of the company to grow at 15% CAGR over FY19-21E. Finolex holds cash of Rs13.2bn in balancesheet and generates ROE of 14%. At CMP, stock trades at 14x FY20E and 12x FY21E earnings. 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 15x FY21E earnings and arrive at target price of **Rs560** per share.



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Result Highlights (Rs Mn)

Particulars	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Total Op. Income	9,642	8,091	19.2	7,566	27.4
Expenditure	8,177	6,212	31.6	6,316	29.5
Raw Materials	6,419	4,771	34.5	4,875	31.7
Staff Cost	382	298	28.5	328	16.6
Other Expenditure	1,376	1,143	20.3	1,113	23.6
Operating Profit	1,465	1,879	(22.0)	1,250	17.2
<i>OPM (%)</i>	<i>15.2</i>	<i>23.2</i>	<i>(803.0)</i>	<i>16.5</i>	
Depreciation	177	156	13.3	196	(10.0)
Other Income	122	28	344.3	173	(29.1)
Interest	24	34	(29.8)	17	37.9
Exceptional Items	0	0		0	
PBT	1,387	1,717	(19.2)	1,209	14.7
Tax	473	508	(6.8)	422	12.1
Share of Associate Profit					
Reported PAT	914	1,209	(24.4)	787	16.1
Key ratios (%)					
Raw Materials/ sales	66.6	59.0		64.4	
Employee expenses/Sales	4.0	3.7		4.3	
Other operating exp./Sales	14.3	14.1		14.7	
EBITDA margin	15.2	23.2		16.5	
PBT Margin	14.4	21.2		16.0	
Tax rate	34.1	29.6		34.9	
PAT Margin	0.0	0.0		0.0	
EPS (Rs)	6.2	8.3		6.3	



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Financials

Profit & Loss (Rs Mn)							Cash Flow Statement (Rs Mn)						
	FY16	FY17	FY18	FY19	FY20E	FY21E		FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	24,819	26,024	27,378	30,913	32,068	36,169	Pre tax Profit	3724	5158	4379	5484	5750	6229
Raw Materials	(16,477)	(16,096)	(17,644)	(19,209)	(21,807)	0	Add: Dep. & Amortization	506	550	606	701	745	788
Employee Cost	(925)	(1,049)	(1,161)	(1,344)	(1,443)	0	Total tax paid	(1251)	(1703)	(1479)	(1812)	(1897)	(2056)
Other Expenses	(3,373)	(3,249)	(3,733)	(4,317)	(2,483)	(29,311)	Other Adjustments	447	153	331	(110)	91	93
Cost of Sales	(20,775)	(20,393)	(22,539)	(24,870)	(25,732)	(29,311)	Cash Profit	3426	4159	3837	4263	4689	5055
							(Inc) / Dec in						
Operating Profit	4,045	5,630	4,839	6,043	6,336	6,858	Sundry Debtors	311	(349)	94	93	(13)	(144)
Depreciation	(506)	(550)	(606)	(701)	(745)	(788)	Inventories	1114	(1102)	(542)	187	(222)	(886)
P&IT	3,539	5,080	4,233	5,342	5,591	6,070	Loans & Advances	328	(224)	106	(207)	(500)	299
Other Income	387	232	244	404	250	251	Current liabilities & Trade payable	2040	(9)	843	368	338	720
Interest	(447)	(153)	(98)	(123)	(91)	(92)	Change in Working Capital	3793	(1683)	501	441	(397)	(11)
Prior period items	0	0	0	419	2	3	CF from Operating Activities	7219	2476	4338	4704	4292	5043
Profit Before Tax	3,479	5,158	4,379	5,484	5,750	6,229	CF from Investing Activities	(1814)	(4902)	(5081)	(1836)	(1836)	(1836)
Provision for Tax	(1,251)	(1,703)	(1,479)	(1,810)	(1,897)	(2,056)	CF from Financing Activities	(5424)	2486	729	(1725)	(1949)	(2595)
PAT	2,228	3,455	2,900	3,675	3,852	4,173	Cash Generated (Utilised)	(19)	59	(15)	1142	506	612
Extra ordinary items	245	0	0	0	0	0	Cash at the start of year	123	104	163	234	1376	1882
Share of JV/ Associate	105	93	163	140	100	100	Cash at the end of year	104	164	149	1377	1882	612
Adj. PAT	2,578	3,549	3,063	3,493	3,952	4,273							
Balance Sheet (Rs Mn)							Ratios						
	FY16	FY17	FY18	FY19E	FY20E	FY21E		FY16	FY17	FY18	FY19E	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	19.8	19.0
Reserves	14,664	21,907	26,710	28,886	30,950	33,191	NPM	9.0	13.3	10.6	11.9	12.0	11.5
Net Worth	15,905	23,148	27,951	30,126	32,191	34,432	Tax Rate %	(35.9)	(33.0)	(33.8)	(33.0)	(33.0)	(33.0)
Long term borrowings	4	3	7	500	500	0	Growth Ratio (%)						
Short term borrowings	2,559	1,498	1,000	0	0	0	Net Sales	1.2	4.9	5.2	12.9	3.7	12.8
Total Debt	2,563	1,501	1,007	500	500	0	Operating Profit	89.6	39.2	(14.0)	24.9	4.9	8.2
Capital Employed	18,468	24,649	28,958	30,626	32,691	34,432	PAT	171.2	55.1	(16.1)	26.7	4.8	8.3
Gross Block	19,264	19,869	20,766	22,603	24,439	26,276	Per Share						
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	31.8	34.4
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	37.0	40.0
Capital WIP	66	217	903	903	903	903	Dividend	10.0	11.5	10.0	11.0	13.0	14.0
Total Fixed Assets	8,563	8,769	9,746	10,881	11,972	13,021	Book Value	128.2	186.5	225.2	242.8	259.4	277.5
Goodwill & Intangible	0	0	0	0	0	1	Free Cash flow	55.9	16.9	30.7	35.4	32.1	35.0
Investments	9,063	13,209	16,707	16,707	16,707	16,707	Valuation Ratios						
Long term liabilities	528	613	644	709	780	858	P/E (x)	24.0	17.4	20.2	17.7	15.6	14.5
Inventories	4,472	5,574	6,116	5,929	6,150	7,036	P/B (x)	4.2	2.9	2.4	2.2	2.1	1.9
Sundry debtors	176	525	431	339	351	495	EV / Sales	2.8	2.6	2.5	2.1	2.0	1.8
Cash & bank	104	163	234	1,376	1,882	2,486	EV / EBITDA	15.2	10.9	12.7	10.2	9.7	9.0
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)	(2,811)	(3,270)	FCF Yield (%)	10.4	3.1	5.7	6.6	6.0	6.5
Current Liabilities	(1,921)	(2,009)	(2,196)	(2,347)	(2,581)	(2,840)	Return Ratios (%)						
Provisions	(123)	(124)	(149)	(161)	(162)	(165)	ROE	16.2	15.3	11.0	11.6	12.3	12.4
Working Capital	1,751	3,554	3,758	4,226	5,129	5,743	ROCE*	21.3	21.5	15.5	18.8	17.9	18.4
Deferred Tax Liabilities	-1,436	-1,496	-1,897	-1,897	-1,897	-1,897							
Capital Deployed	18,468	24,649	28,958	30,626	32,691	34,433							

* Includes other income



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