

Recommend: "SUBSCRIBE" Company Highlights:

Issue Snapshot		
Issue Period:	Jan 21 - Jan 24, 2008	
Price Band	Rs.125 - Rs.135	
Issue Size	Rs.385.6 - Rs.416.5 mn	
Market Cap	Rs.1,428.5 - Rs.1,542.75 mn	
Issue Size	3,085,000 shares	
Employees:	70,000 shares	
QIB:	1,507,500 shares	
Non-Institutional:	452,250 shares	
Retail:	1,055,250 shares	
Face Value:	Rs.10	
Book Value:	Rs.35.21 as on Sept 30,2007	
Capital Structure:		
Pre Issue Equity	Rs.83 mn	
Post Issue Equity	Rs.114 mn	
Shareholding Pattern	Preissue (%)	Post issue (%)
Promoters & PAC	79.10	57.75
Employees	-	0.61
Corporate Bodies	1.30	0.95
Others	19.60	14.31
Public	-	26.38
Total	100.00	100.00
Total no. of shares	8,342,780	11,427,780

- CCIL manufactures cables upto 1.1 KV for various applications covering most segments of users including industrial, utility and buildings. The company caters to a wide spectrum of cable users in various industries like power, steel, cement, fertilizers and chemicals, refinery / petroleum and many others. CCIL's clientele includes blue chip companies like BHEL, L&T, NTPC, Reliance Energy Ltd. to name a few.
- CCIL has shown a CAGR of 67% in the topline; 128% in EBITDA and 332% in the bottomline in the last three fiscals.
- Investment Rationale: Diversified clientele across various sectors; Diversified product portfolio; Consistent growth in margins; Established track record and prequalification with many customers; More emphasis is being laid on export business; Entry barrier of prequalification for new players; Good order book; Experienced and professional management; Product expansion.
- Concerns are: Heavy reliability on power sector for revenues; Top ten clients contributed more than 50% of the revenues; One of the promoter group company is in same line of business; Rise in petrol price will increase the cost of PVC (on of the raw material used);
- CARE has assigned an IPO Grade "3/5" to this issue.
- Cables are the necessity of every basic infrastructure. Be it housing, telecom or information technology, cables form the background of all the core industries. The industry has a derived demand and caters to the high growth sector of the economy. Demand for cables comes from the following sectors: Industrial Capex (on construction of new plants and factories); Power generation, transmission and distribution; Housing and construction of IT / ITES complexes, malls, multiplexes, etc.; Steel; Cement; Others (Petrochemical / Refinery, Railway).

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Valuation: The stock is currently available at a P/E of 11x to 12x on the lower & upper price bands respectively of its FY 08E EPS of Rs.11.72. The margins shown by CCIL is one on the higher side while comparing it to its peer group with OPM being at 15% & NPM at 8%. The company has shown excellent growth rate in the last few years & with the upward trend in its user industries, we expect the growth to continue. One of the key concerns is that currently the user industry is on uptrend. A slowdown can hit CCIL's fortunes. The industry is currently trading at a P/E of 22x, which leaves enough room for upside potential. The company has plans of introducing new products in the product line which will boost the revenues. Hence, we recommend a "Subscribe" to the issue.

Company Background

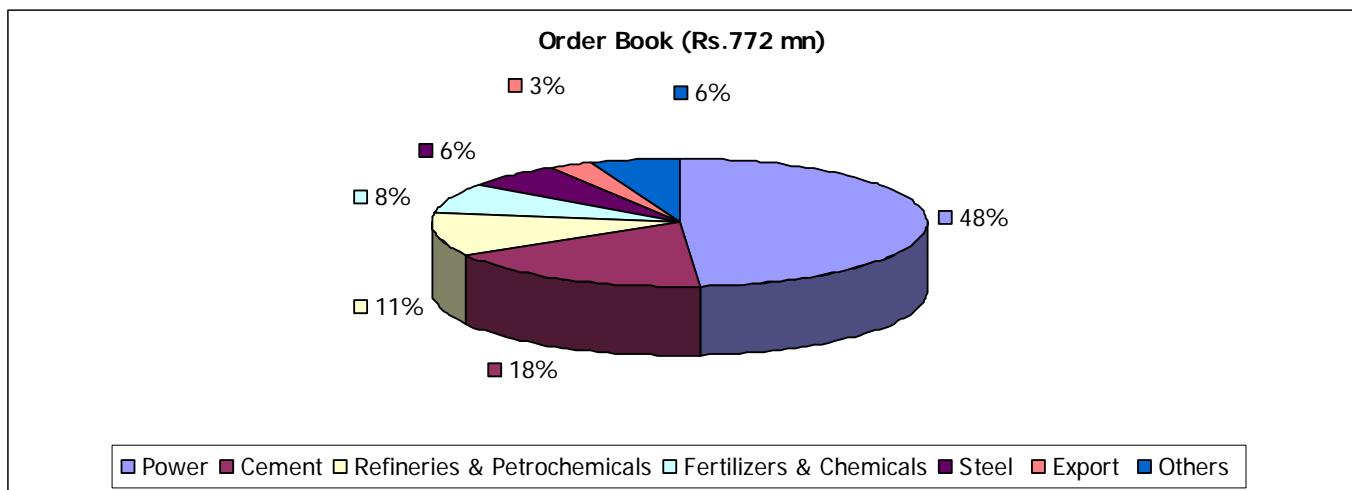
The company was incorporated on October 21, 1981. CCIL started their operations by manufacturing co-axial cables and instrumentation cables at their production unit at Okhla Industrial Area, New Delhi. Soon, CCIL took over the business of the partnership concern "M/s Cords Cable Industries" as a going concern with effect from May 1, 1992. Later, CCIL added control cables and customized instrumentation cables to their product portfolio. To increase the production capacity, CCIL set up a manufacturing facility at Chopanki, Dist. Alwar, Rajasthan in 2003-04 of approx 45,000 sq.ft. This enabled them to diversify their product range so as to cater to the cable requirements of the energy and infrastructure sectors. In November 2006, CCIL increased the capacities for existing products and expanded their factory from 45,000 to 92,000 sq. ft. At present CCIL is focusing on LT cables, control & instrumentation cables and specialty cables. Currently, CCIL manufactures cables upto 1.1 KV for various applications covering most segments of users including industrial, utility and buildings. The company caters to a wide spectrum of cable users in various industries like power, steel, cement, fertilizers and chemicals, refinery / petroleum and many others. CCIL's clientele includes blue chip companies like BHEL, L&T, NTPC, Reliance Energy Ltd. to name a few. The promoters of the company are: Mr. Naveen Sawhney, Mr. D K Prashar & Mr. Rakesh Malhotra.

Company Snapshot

- CCIL has shown a CAGR of 67% in the topline; 128% in EBITDA and 332% in the bottomline in the last three fiscals. In comparison of FY 2007 to FY 2006, the company has shown a growth of 75% in the topline; 126% in EBITDA & 139% in the bottomline.
- **Investment Rationale:**
 1. The company has a strong list of clientele with some of them including BHEL, Reliance Energy, NTPC Ltd, Tata Power Co. Ltd, Power Grid Corpn, Jaypee Hydro Power, Gujarat Ambuja, Grasim Industries Ltd, IOCL, Cairns Energy, HPCL, Tata Steel, SAIL, Jindal Steel, Rashtriya Chemicals & Fertilizers, Tata Fertilizers Ltd, Larsen & Toubro, Siemens, NALCO, Areva Transmission, Thermax Ltd and Hindalco Industries.
 2. The company has a diversified portfolio consisting of the following:

Product Portfolio	Applications
LT (Low Tension) Control Cables (Upto 1.1 KV)	Used in interconnection of process control, communication and panel control systems.
LT (Low Tension) Power Cables (Upto 1.1 KV)	Used in connection of power supply to residential, commercial and industrial units.
Instrumentation, Signal and Data Cables	Used in data acquisition systems, computer networking, PA systems, digital control / measuring and communication systems. It is specially designed to transmit signals without any external interference.
Thermocouple Extension / Compensating Cables	Used to extend thermocouple circuits from the sensor to reference unit.
Panel Wires / House Hold Wires / Flexible Cables	Used in machine tools, appliances, control panels, machinery, industries, buildings, house wiring & submersible pumps. Suitable for use under outdoor or low temperature conditions.
Speciality Cables	These cables are tailor made for each application as per the specifications of the customers.

3. There has been a consistent growth in the margins of CCIL. The OPM has rose from 6% in FY 2004 to 15% in H1 FY 2008. Even the NPM has shown a rise from a mere half a percent in FY 2004 to 8% in H1 FY 2008. As per the company, the margins are likely to be sustainable. These margins are one on the higher side in comparison to its peers.
4. The major entry barriers for new players are getting pre qualifications on technical grounds as well as proven track record. This is a long drawn out process and needs substantial investment in terms of both time and money.
5. Due to their established track record, CCIL has prequalification with some of the top consultants of Indian and International markets such as Kvaerner Powergas India Ltd., Det Norske Veritas As, Toyo Engineering India Ltd., Jacob H&G Ltd., Engineers India Ltd., Mecon Ltd., Rites Ltd., M.N. Dastur & Co. Ltd., Tata Consulting Engineers, PDIL, Nuclear Power Corporation, etc. and also with direct clients like BHEL, NTPC, HPCL, MRPL, L&T, etc. This enables CCIL to bid for all major supply contracts for cables.
6. To continue focus on enhancing the capacity to meet growing customer requirements, CCIL plans to add HT cables and rubber cables to their existing product portfolio.
7. The company has started concentrated in enhancing its export business. This is seen with the revenue contribution from export business. The export business contributed around 1% till FY 2007 & grew to more than 7% in H1 FY 2008. The company has also tied up with foreign customers like Petroleum Development of Oman, International Cable Management – UK, Traffic Tech – Japan, Saudi Electric Supply Co. – Kuwait & Bahrain and many others for enhancing its export business.
8. CCIL has a good order book, the details of which is given below:

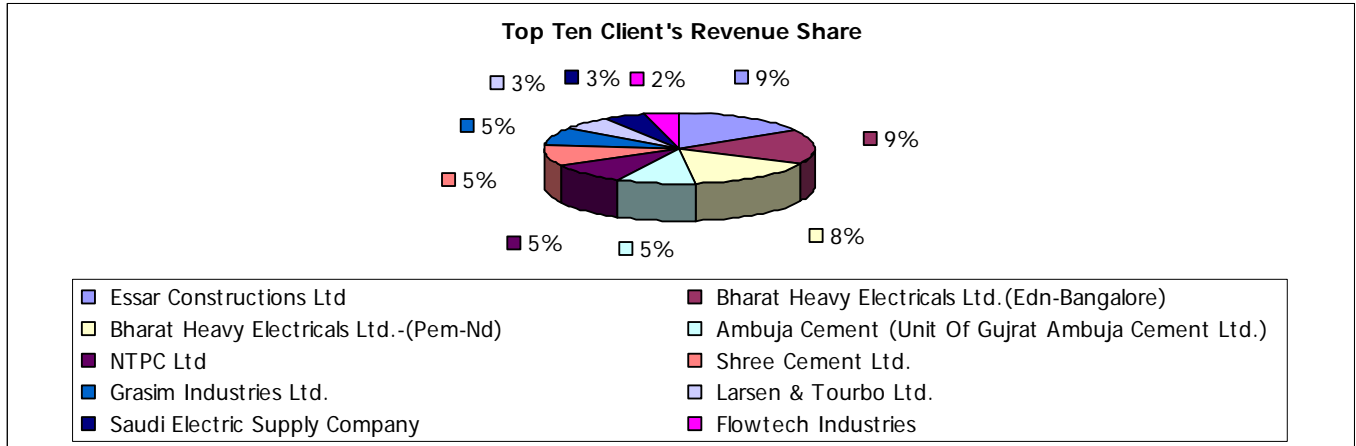


9. CCIL is being managed by three promoters who have over 30 years of experience in the cable industry. All the three promoters are qualified engineers and have worked in different capacities within the cable industry.

• **Concerns are:**

1. Power sector has been forming a significant source of revenues for CCIL. Any downfall in the sector might lead to a decrease in the revenues of the company too.
2. One of the promoter group company, Cords India Private Ltd, is in same line of business as of CCIL. It's a sick unit & has incurred losses in its three previous financials.
3. Raw material has been forming a significant portion of the operating expenses. Rise in petrol prices will lead to a rise in one of the raw material PVC. Recently, crude oil price has touched the \$100 mark. Increase in petrol price will thus hamper the good margins shown by the company at present.

4. The top ten clients of CCIL contributed 52.75% of the revenues. This is shown below:



- CARE has assigned an IPO Grade "3/5" to this issue. This indicates average fundamentals of the company.

Peer group comparison:

Company*	EV/EBITDA (x)	P/E (x)	MCAP/SALES (x)	P/BV (x)	EPS (Rs.)	Share Price (Rs.)	Dividend/Share (Rs.)
CCIL at Lower Band	6.55	10.67	0.85	1.72	11.72	125.00	-
CCIL at Upper Band	7.00	11.52	0.92	1.85	11.72	135.00	-
KEI Industries Ltd	7.98	12.41	0.76	4.81	9.96	123.60	2.50
Delton Cables Ltd	5.70	11.86	0.36	2.60	14.76	175.00	-
Universal Cables Ltd	7.67	18.45	0.44	1.59	5.93	109.50	2.40
Torrent Cables Ltd	4.24	6.45	0.92	3.83	52.74	340.45	3.50

*Source: Figures based on FY 2008E. SPA Research

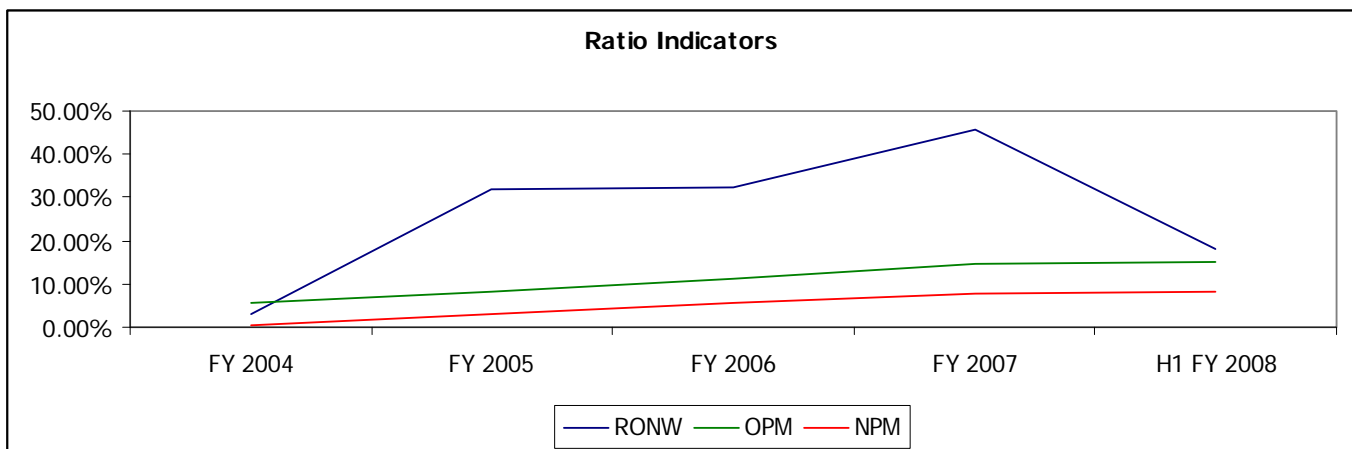
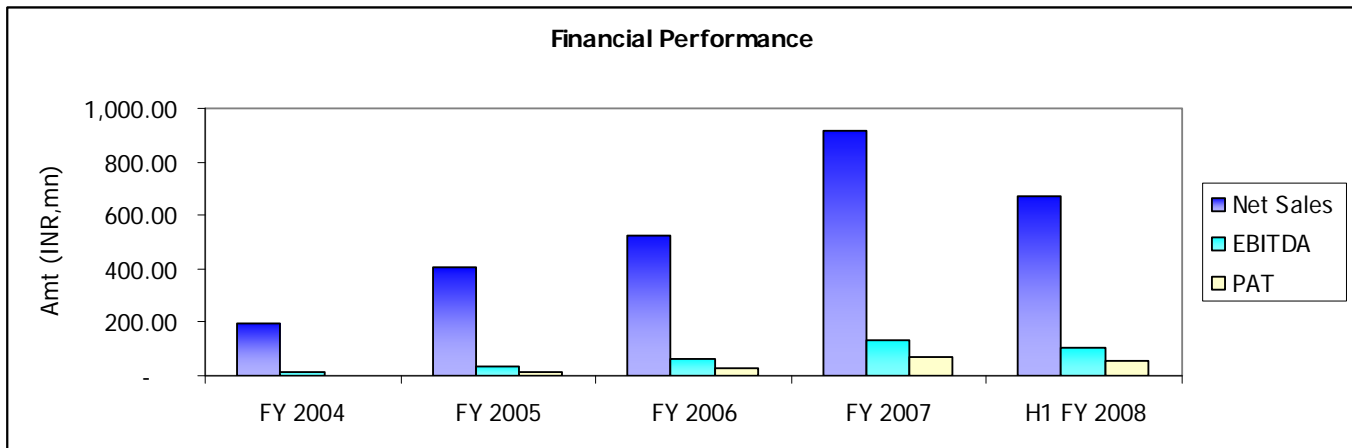
Industry Scenario

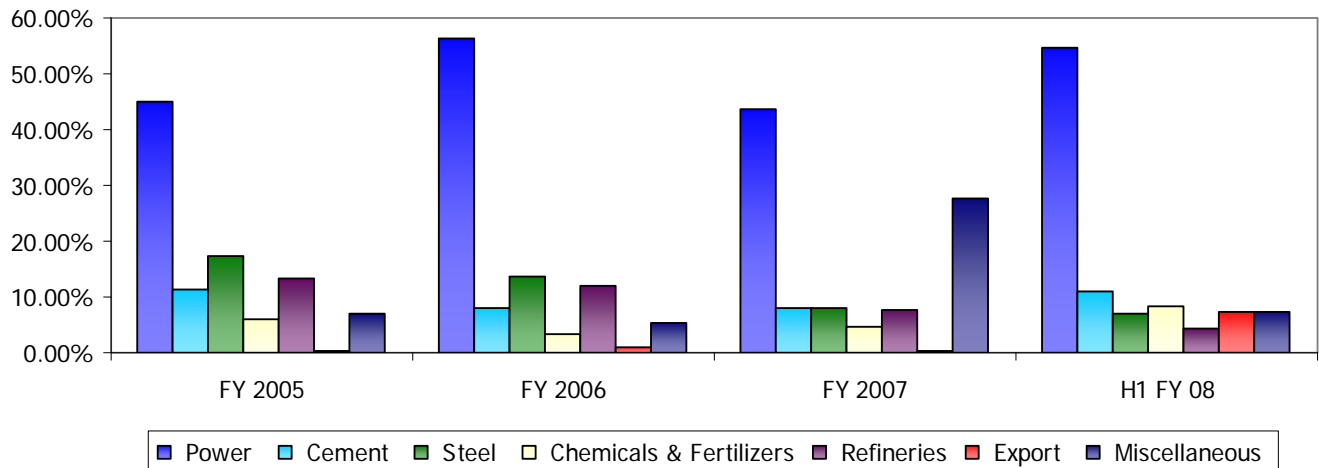
- The Indian cable industry is highly fragmented with large number of cable producers. Many of these companies are small-scale cable producers, the smallest of which are family-run operations which use the most basic production equipments. There has been very limited consolidation amongst the major players in the industry. The tendency of cable companies to grow organically, rather than by acquisition of competitors, means that no dominant groups have emerged in the industry.
- Historically, the demand in the cable industry has been characterized by its cyclical pattern. The sector witnessed sustained market depression during the period 1998-2003 and since then the industry is on the upswing. Annual average growth of the wire and cable industry during 2002-05 was approximately 5.6%. In 2003-04, the non-SSI sector has reported production of 8.33 lakh core kms, which was 7% higher than previous year. In 2004-05 the non-SSI sector has reported production of 7.40 lakh core kms; which was 11% lower than the previous year. In 2005-06 the non-SSI sector have reported production of 8.86 lakh core kms, showing healthy growth of 19.65%.
- This growth pattern is likely to go on for next few years due to various favorable factors, such as power sector reforms, growth in other infrastructure sectors, high growth rate of Indian economy etc. The wire and cable industry is de-licensed and eligible for automatic approval for Foreign Direct Investment up to 100 per cent. India exported wires and cables of value around Rs.7.25. bn in 2005-06 against import of around Rs.15.51 bn in the same period.
- Cable market is largely divided into two types of users: Industrial and Domestic. The Industrial users mainly comprise of Power, Communication, Cement, Steel, Railways & Petro-Chemicals sectors. Most of their demand is addressed by the organized sector. At present the demand for household cables is largely being met by un-organized sector. However, domestic consumers' are also becoming quality conscious and there is a steady shift towards high end cables thereby benefiting the organized sector.
- Cables are the necessity of every basic infrastructure. Be it housing, telecom or information technology, cables form the background of all the core industries. The industry has a derived demand and caters to the high growth sector of the economy. Demand for cables comes from the following sectors: Industrial capex (on construction of new plants and factories); Power generation, Transmission and distribution; Housing and construction of IT / ITES complexes, malls, multiplexes, etc.; Steel; Cement and Others (Petrochemical / Refinery, Railway).

Key Financials

Financial Snapshot (Rs. In Million)					
Particulars	H1 FY 08	FY 2007	FY 2006	FY 2005	FY 2004
Sales	669.90	915.93	523.77	408.01	195.19
Total Income	672.08	919.90	526.88	408.77	196.74
Operating Profit	102.02	134.83	59.73	33.67	11.35
Net Profit	53.56	70.07	29.33	12.88	0.87
EPS* (Rs./share)	6.42	6.13	2.57	1.13	0.08
Share capital	79.28	65.99	51.45	14.52	14.52
Reserves & Surplus	214.50	87.87	39.01	25.87	14.65
Net worth	293.78	153.87	90.46	40.40	29.17
Total Debt	333.17	241.48	86.25	67.62	55.71
Book Value* (Rs./share)	35.21	13.46	7.92	3.53	2.55

**The no. of shares are of the post issue equity i.e. 11.43 mn shares.*



Sector Wise Revenue Break-Up

Income Statement

Rs, mn	H1 FY 08	FY 2007	FY 2006	FY 2005	FY 2004
Net Sales	669.90	915.93	523.77	408.01	195.19
Operating Expenses	526.07	730.64	431.78	349.32	165.47
Administrative & General Expenses	14.64	22.18	12.19	9.22	8.75
Employee Expenses	27.17	28.27	20.07	15.80	9.62
Operating Expenditure	567.88	781.10	464.04	374.34	183.84
Operating Income	102.02	134.83	59.73	33.67	11.35
Other Income	2.17	3.97	3.11	0.76	1.55
Gross Profits	104.20	138.80	62.84	34.43	12.90
Finance & Interest charges	18.88	27.89	14.62	11.71	6.97
Depreciation	3.45	4.41	2.89	2.70	1.70
Profit Before Tax	81.87	106.51	45.34	20.02	4.24
Tax	28.31	36.44	16.01	7.14	3.37
Profit After Tax	53.56	70.07	29.33	12.88	0.87
Extraordinary Items	-	-	-	-	-
Net Profit	53.56	70.07	29.33	12.88	0.87



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Cash Flow Statement					
Rs, mn	H1 FY 08	FY 2007	FY 2006	FY 2005	FY 2004
Cash flow from operations	103.15	137.91	62.52	34.55	13.07
Cash for working capital	(110.83)	(85.18)	(55.60)	(23.39)	(19.21)
Net Operating Cash Flow - A	(7.68)	52.73	6.92	11.16	(6.14)
(Purchase) / Sale of fixed assets	(242.84)	(53.65)	(29.28)	(8.89)	(25.02)
(Purchase) / Sale of investments	-	-	-	-	1.02
Interest received	1.68	1.53	0.66	0.67	0.70
Share issue & other expenses	2.40	(12.08)	-	-	-
Net Cash Flow From Investing - B	(238.76)	(64.21)	(28.62)	(8.23)	(23.29)
Proceeds from equity	83.85	2.50	20.40	0.10	10.60
Proceeds / (Repayment) from borrowings	91.70	154.51	18.63	11.91	27.80
Dividend & finance charges paid	(25.53)	(29.56)	(16.27)	(11.71)	(6.97)
Net Cash Flow From Financing - C	150.01	127.45	22.77	0.30	31.44
Net Cash Flow (A+B+C)	(96.43)	115.97	1.07	3.24	2.01
Opening Cash	130.03	14.06	13.00	9.76	7.75
Closing Cash	33.60	130.03	14.06	13.00	9.76

Balance Sheet					
Rs, mn	H1 FY 08	FY 2007	FY 2006	FY 2005	FY 2004
Sources of Funds					
Equity Share Capital	79.28	65.99	51.45	14.52	14.52
Reserves & Surplus	214.50	87.87	39.01	25.87	14.65
Miscellaneous expenditure (written off)	(10.41)	(12.81)	-	-	-
Networth	283.37	141.06	90.46	40.40	29.17
Secured Loan	332.24	219.91	77.19	48.18	45.63
Unsecured Loan	0.94	21.57	9.06	19.44	10.08
Loan Funds	333.17	241.48	86.25	67.62	55.71
Deferred Tax Liability, Net	10.64	7.91	5.00	4.18	3.04
Share Application Money	-	2.50	-	2.00	1.90
Retention Money*	6.00	6.00	6.00	6.00	6.00
Total Liability	633.19	398.95	187.71	120.19	95.81
Application of Funds					
Gross Block	350.06	144.88	83.21	63.21	54.91
Less: Depreciation	16.56	13.11	9.56	7.19	4.48
Net Block	333.50	131.76	73.65	56.02	50.43
Capital work in progress	37.13	-	9.32	0.60	-
Net Fixed Assets	370.63	131.76	82.97	56.62	50.43
Investments	-	-	-	-	-
Current Assets					
Inventories	172.05	133.04	55.61	28.94	23.82
Sundry Debtors	282.28	175.13	120.04	76.32	41.94
Cash & Bank	33.61	130.03	14.07	13.00	9.76
Loans & Advances	36.70	17.35	8.45	4.05	3.37
Less: Current Liabilities & Provisions	262.61	188.37	93.42	58.74	33.51
Net Current Assets	262.04	267.19	104.74	63.57	45.38
Total Assets	633.19	398.95	187.71	120.19	95.81

* Retention Money is the amount retained by the company of the suppliers towards the quality and performance of raw materials supplied.

Objects of the issue:

1. Enhancement of margin maintenance with stock exchange for the subsidiary ESL.
2. Establishment of additional offices & acquisition of office infrastructure.
3. Enhancement of existing technological capacity.
4. Prepayment of loan.
5. General corporate purpose.

The detailed cost of the above objects of the issue is given below:

(Amount, INR, mn)

SNo.	Particulars	Total Fund Requirement	Funds Deployed Upto Nov 30, 2007	Balance Fund Required
1.	Setting up production facilities.	574.00	51.87	522.13
2.	Working capital requirements.	63	---	63
3.	General corporate purpose.	•	•	•
4.	Issue expenses.	•	4.48	•
Total		•	56.35	•

Means of Finance

Sl. No.	Source of Funds	(Amount, INR, mn)
1.	Proceeds of the issue.	•
2.	Borrowings.	122.02
3.	Proceeds from pre-IPO placement.	41.92
4.	Internal accruals.	•
Total		•

The objects of the issue have not been appraised by any bank or any financial institution or an independent organization.



Cords Cable Industries Limited (CCIL)

Equity Research Desk

IPO-Analysis

17th January, 2008

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Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock – No
3. Broking relationship with company covered - No

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