

Finolex Cables

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Shareholding (%)

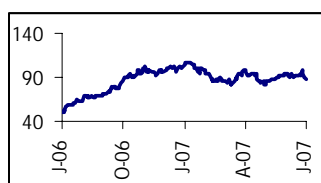
Promoters	32.2
FII's	6.0
MFs	7.8
FI's/Banks	10.9
Others	43.1

Share price performance

52-week high/low (Rs)	109/49		
	-1m	-3m	-12m
Abs (%)	-6.1	-6.8	76.5
Rel* (%)	-13.9	-18.1	21.7

*to Nifty

Stock chart



Back on track.....

Q1FY08 results of Finolex Cables were better on QoQ basis. On the YoY basis the topline growth was above our expectations whereas the increase in EBITDA and PAT growth was below our expectations. We believe that the company's margins are likely to improve, going forward. Moreover, as two new facilities are likely to come on stream in FY2009, we expect Finolex Cables to report better performance in the future. The stock is trading at a PE multiple of 12.4x FY08 and 9x FY09 earnings. We maintain a **BUY** on the stock.

The key results highlights of Q1-FY08 :

- ✓ Net sales increased by 43% to Rs 3024 mn
- ✓ EBITDA increased by 20% to Rs 291 mn
- ✓ PAT increased by 41% to Rs 318 mn
- ✓ EBITDA margins reduced by 180 bps to 9.6%
- ✓ PAT margins reduced by 13 bps to 10.5%

▲ **Sales Growth:** For Q1FY08, the sales of FCL grew by an impressive 43% to Rs 3024 mn YoY. Electrical cables, which constituted 63% of the revenues, grew by 21% YoY from Rs1574mn to Rs 1908 mn. Communication cables, which contributed 17% to the revenues, grew by 76% YoY from Rs292mn to Rs 512 mn. We understand that FY2008 is likely to be a high-performance year for FCL, as two of its new facilities are likely to become operational and contribute fully to the business.

▲ **Margins to improve:** For Q1FY08, Finolex Cables' margins decreased by 180 bps, from 11.8% to 9.6% YoY. This was due to volatility in copper prices and the inability of the company to pass on the same to its customers on an immediate basis. The company made two price hikes of 12% (cumulatively) during the quarter; the management is contemplating one more hike in Q2-FY2008). Going forward, we expect the margins to improve in the backdrop of higher utilisation of existing facilities, incremental contribution from newly launched switches and CFS, and contribution from new facilities.

Buy

Rs 88

24 July 2007

Market cap

Rs bn 13

US\$ mn 332

Avg 3m daily volume

91,334

Avg 3m daily value

Rs mn 8

Shares outstanding (mn)

153

Reuters

FNXC.BO/FINCABLES

Bloomberg

FNXC IN

Sensex

15,795

Nifty

4,621

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	YoY	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS	Div Yield
March	(Rs m)	(%)	(Rs m)	(%)	(Rs m)	(%)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
FY2006	7,478	31%	774	36%	504	64%	3	64%	26.6	20	1.8	2.5	9.27	6.34	1.2	2
FY2007	10,330	33%	1,187	53%	690	37%	5	37%	19.5	12	1.3	2.3	13.34	12.48	1.4	2
FY2008E	12,892	30%	1,775	50%	1,080	57%	7	57%	12.4	9	1.0	1.9	15.91	15.68	2.0	2
FY2009E	17,180	33%	2,450	38%	1,483	37%	9.7	37%	9.0	7	0.8	1.6	19.15	19.37	2.3	3

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- ▲ **New facilities:** Finolex Cables is setting up a new facility for power cables at Urse (Maharashtra) and for electrical cables at Uttaranchal. The Uttaranchal facility is likely to be fully operational by November 2007; the first stage of the Urse facility is likely to go stream by October 2007. These new facilities are likely to show full impact in FY2009.
- ▲ **Valuations:** Finolex Cables is India's largest branded player in the electrical cable space. We believe that the company is well poised to show strong growth, going forward, given its strong market position and the potential development in residential and commercial real estate, the key segments driving the demand for electrical cables. At CMP of Rs87.7, the stock is trading at a PE multiple of 12.4x FY08 and 9x FY09E earnings.

We reiterate a **BUY** on the stock.

Table 1. Quarterly result table

Rs in Mn	1Q-FY08	1Q-FY07	YoY (%)	4QFY07	QoQ (%)
Net Sales	3,024	2,117	43%	2,922	3%
(Increase)/Decrease in Stock	-231	-597	-61%	888	-126%
Consumption of Raw Materials	2,642	2151.9	23%	1,514	75%
Staff Cost	112	89.1	25%	84	33%
Other Expenditure	210	231	-9%	247	-15%
Total Expenditure	2,733	1,875	46%	2,734	0%
EBITDA	291	242	20%	189	54%
Depreciation	64	63.8	0%	69	-7%
EBIT	227	179	27%	120	89%
Interest	46	33.4	37%	37	24%
Other Income	247	136	82%	36	585%
PBT	427	281	52%	119	259%
Tax	109	55	98%	31	257%
Current Tax	109	55	98%	40	173%
Deferred Tax				-11	-100%
Fringe Benefit Tax				2	-100%
Net Profit	318	226	41%	88.3	260%
Equity	306	306		306	
EPS	2.08	1.5	41%	0.6	260%
Margins	1Q-FY08	1Q-FY07	Change	4QFY07	Change
EBITDA	9.6%	11.4%	-1.8%	6%	3%
EBIT	7.5%	8.4%	-0.9%	4%	3%
PBT	14.1%	13.3%	0.9%	4%	10%
PAT	10.5%	10.7%	-0.13%	3%	7%
Tax Rate	25.5%	19.6%	6%	26%	0%
Segmental Revenue	1Q-FY08	1Q-FY07	YoY	4QFY07	QoQ
Electrical Cables	1908	1574	21%	1,988	-4%
Communication Cables	512	292	76%	484	6%
Copper Rods	1909	1688	13%	1,333	43%

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Others	69	46	51%	60	15%
Total	4398	3600	22%	3,865	14%
Less : Inter Segment Revenue	1374	1482	-7%	943	46%
Net sales/ Income from Operations	3024	2117	43%	2,922	3%

Segmental EBIT	1Q-FY08	1Q-FY07	YoY (%)	4QFY07	QoQ (%)
Electrical Cables	267	289	-8%	184	45%
Communication Cables	14	-2	NA	8	75%
Copper Rods	31	15	111%	13	143%
Others	-15	1	NA	17	-187%
Total	297.1	303	-2%	222	34%
Less: Interest	45.9	33.4	37%	37	24%
Other unallocable	-176	-11.1	NA	66	-365%

Total Profit Before tax	427.2	280.7	52%	119	259%
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Capital Employed	1Q-FY08	1Q-FY07	YoY	4QFY07	QoQ
Electrical Cables	2621.4	2,009	30%	2,163	21%
Communication Cables	2363.3	2,545	-7%	2,425	-3%
Copper Rods	456.2	466	-2%	121	277%
Others	474.8	248	91%	452	5%
UNALLOCATE	3660.7	2,922	25%	3,511	4%
Total	9,576	8,190	17%	8,672	10%

Segmental Margins	1Q-FY08	1Q-FY07	Change	4QFY07	Change
Electrical Cables	14.0%	18.4%	-4%	9.3%	4.7%
Communication Cables	2.7%	-0.7%	3%	1.7%	1.1%
Copper Rods	5.8%	7.1%	-1%	3.3%	2.5%
Others	-21.7%	2.9%	-25%	28.8%	-50.6%
Total	9.8%	14.3%	-4%	7.6%	2.2%

Source: IISL research, company

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