

# TORRENT CABLES

## WIRED TO GAIN

09 April 2012

Rating	Buy
CMP (₹)	95
Target Price (₹)	125
Upside (%)	32

**Key Data**

BSE Code	523856
NSE Code	TORRENGUJ
Reuters code	TORG.BO
Bloomberg Code	TORL IN
Sensex	17222
Face Value (₹)	10
Mcap (₹ Cr.)	82
52 week H/L (₹)	110/65
2 Wk Avg Qty	3368

**Share holding, December '11**

	Holding %
Promoters	61.0
Corporates	3.7
Public	35.3

**Performance (%)**

	3M	6M	12M
Stock (TCL)	35.7	2.1	17.3
BSE 200	13.3	7.1	-10.7
BSE 500	12.8	7.4	-10.7

**Company Description:**

Torrent Cables (TCL) formerly Mahendra Electricals was promoted by Shri J C Patel in collaboration with Johnson & Phillips of U.K. (now known as Delta Crompton Cables Ltd U.K.) was incorporated on 26th November 1960.

After the takeover of the same by the Torrent Group in July 1989, the Company with active support of John Royle of USA started commercial production of XLPE cables from September 1991 and successfully turned it around.

During 2007-08, as per the reverse merger plan, TCL was amalgamated with a loss making Torrent Gujarat Biotech, a group company of the Torrent Group effectively July 1, 2006. The equity was reduced and consolidated to ₹8.6 crore. The name was later changed/restored to Torrent Cables on 11<sup>th</sup> October 2008.

**Plant & Products:**

TCL's manufacturing facilities are located at Nadiad near Ahmedabad. Its **products range includes**, HT (high tension) cables (3.3 kv to 33 kv); LT (low tension) XLPE cables/LT PVC power as well as control cables; Rubber insulated cables and Specialty Cables like Railway-signaling cables mining & trailing cables. TCL also manufactures customized cables to meet client's specific needs.

**Promoters:**

TCL is promoted by the \$1 billion Torrent Group headed by Rohit C Mehta. Torrent Group is a multifaceted and dynamic group dedicated to transforming life by serving two of its most critical needs - pharma and power.

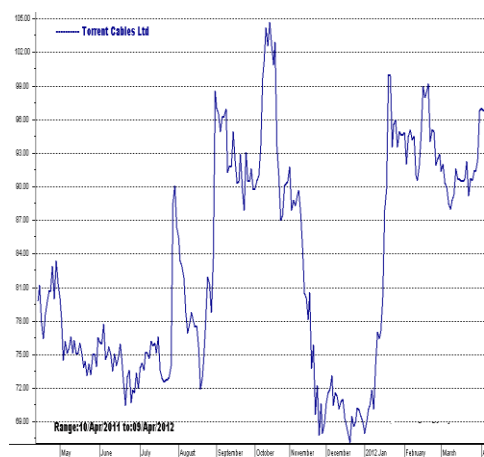
Torrent Pharmaceuticals, the flagship company of the Torrent Group, has operations spread in more than 50 countries with over 1000 product registrations globally. In the power sector, Torrent Power remains the most experienced private sector player in the state of Gujarat (India).

**User Industries:**

TCL supplies its products to the industries like petrochemicals, metal, fertilizers & chemicals, FMCG industry, railways & ports, IT and engineering industries, cement & construction, aerospace, defence and energy sector.

**Key Financial:**

Year-March	9MFY12A	9MFY11A	FY11A	FY12E
Sales	218.1	178.2	245.3	300.0
PBIDT	25.0	13.7	17.0	33.6
Interest	1.3	0.5	0.9	2.5
PBDT	23.7	13.2	16.1	31.1
Depreciation	5.9	5.8	7.7	9.0
PBT	17.8	7.4	8.4	22.1
Tax	3.8	1.3	1.5	4.7
PAT	14.0	6.1	6.9	17.4
Equity			8.6	8.6
Reserves			126.8	144.2
Book Value (₹)			157.4	177.7
EPS (₹)	16.3	7.1	8.0	20.2
OP Margin (%)	11.4	7.7	6.9	11.2
NP Margin (%)	6.4	3.4	2.8	5.8
P/E				4.7

**Price Chart: (One-Year)**

<http://www.torrentcables.com>

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### Q3FY12 & FY11 Results

During FY11, sales advanced by 45.4% to ₹245.3 crore but net profit fell by 34.5% to ₹6.9 crore due to 235% higher provision for depreciation. OP and NP margin stood at 6.9% and 2.8% against 7.0% and 6.3% respectively in the corresponding period last year.

EPS for FY11 stood at ₹8.0. The DER as at FY11 stood at 0.08:1 whereas the value of the gross block at ₹112.0 crore.

During Q3FY12, sales rose 13.2% to ₹64.7 crore and net profit by 621.8% to ₹6.5 crore. (YoY). OPM and NPM stood at 16.3% and 10.0% compared to 5.8% and 1.5% respectively in Q3FY11. EPS for Q3FY12 stands at ₹7.6.

### Clients

TCL's clients include Alfa Laval India, Bajaj Auto, Alstom, BHEL, Bharat Forge, Cummins India, Engineers India, Infosys Technologies, Idea Cellular, IVRCL, Jyoti Structures, L & T, Mecon, NCCL, Shapporji & Pallonji, Tata Motors, Thermax, Siemens, Suzlon Energy and Uhde India. It also supplies its products to almost all SEBs.

### Expansion & Modernisation

In order to capitalize on the growing HT/EHV cable demand, TCL had embarked on a ₹64 crore expansion program in the HT cable segment with product capability ranging upto 132 KV cables. The new line was partially commissioned in FY09-10.

Currently, TCL has arranged for Suppliers' Line of Credit to the extent of ₹20 crore for the imported equipment in respect of expansion undertaken at Nadiad plant.

Along with expansion, TCL continues to replace major plant & machinery with the latest equipment.

### Prospects

HT power cable segment has witnessed a lot of capacity addition, due to a major emphasis on the electrification programs and 'Power on demand by 2012' program. Based on the predicted growth of HT power cables, capacity additions are being planned.

As the Indian economy prepares for sustained growth of 7 - 9%, the importance of power sector should continue to increase. The power sector demand is expected to grow at 7.5% - 8% CAGR till 2017. The Government's focus on attaining "power for all" has accelerated capacity addition in the country. For the next few years there is the possibility for huge investment in the power sector. The above suggests that power related business will have good prospects.

The power cable industry is expected to grow steadily over the coming years. Several market segments are expected to generate this demand. Industries will play a vital role in the surge in demand for cables. Since industries have planned substantial investments, either to add capacities or to setup green-field projects, their power requirement is expected to increase. A significant rise in the number of captive power plants and substations will also add to the demand.

Investment in infrastructure is positive and is expected in various segments ranging from manufacturing to service industry. The service industry is one of the fastest growing sectors in India. Demand for cables will be originating from the development of new industrial parks and office complexes. Power sector is expected to become the second largest consumer of power cables.

### Outlook

The new HT XLPE line was fully operational during FY11. The major refurbishing and renovating the old HT XLPE line in FY11-12 should help to maintain the production level. TCL planned investments in the range of ₹5 to 8 crore to overcome the imbalances and thereby increase the output of the new HT XLPE line by nearly 15%.

This was expected to be operational in Q4FY12. TCL will continue to focus on operational efficiency in all facets of manufacturing.



## Valuation & Recommendation

The power sector has undergone a lot of changes since the introduction of new Electricity Act 2003. With APDRP (Accelerated Power Development Reforms Programme) in place and privatization of SEBs likely, the distribution sector will undergo rapid changes, thereby initiating the need to curb T&D losses and hence increasing the demand for insulated power cables in the country.

The Power Ministry has set a target for adding 76,000 MW of electricity capacity in the 12th Plan (2012-17) and 93,000 MW in the 13th Five-Year Plan (2017-2022). According to a report by KPMG and CII, India's energy sector will require an investment of around US\$ 120 billion-150 billion over the next five years.

Investment in 12th plan in infrastructure will go up to ₹50-lakh crore; half of this is expected from private sector proposed to allow External Commercial Borrowings (ECB) to partly finance Rupee debt of existing power projects.

The proposals to provide low cost funds to some stressed infrastructure sectors, withholding tax on interest payments on external borrowings (ECBs) is being reduced from 20% to 5% for 3 years, customs relief to power, coal and railways sectors etc are industry positives and would enhance the demand of cables going forward.

Again, bulk of the planned spend is directed towards roads, ports, power and urban infrastructure segments. This would create bright prospects for the cable industry.

TCL expects its expansion to be completed by Q4FY12, which would take its turn over to ₹300 crore in FY12. Net profit is expected to be ₹17.4 crore, which would give an EPS of ₹20.2.

At the CMP of ₹95, the share is trading at a P/E of 4.7x on FY12E. We recommend BUY with a target price of ₹125 at which the share will trade at a P/E of 6.2.

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