

## Finolex Cables Ltd

Recommendation	Buy
CMP (19/11/2012)	Rs. 50
Target Price	Rs. 75
Sector	Electrical Equipment

## Stock Details

BSE Code	500144
NSE Code	FINCABLES
Bloomberg Code	FNXC IN
Market Cap (Rs cr)	775
Free Float (%)	64
52- wk HI/Lo (Rs)	54/21
Avg. volume BSE (Quarterly)	113778
Face Value (Rs)	10
Dividend (FY 12)	40%
Shares o/s (Cr)	15.3

Relative Performance	1Mth	3Mth	1Yr
FCL	14.0%	26.3%	46.0%
Sensex	-1.4%	3.7%	9.1%



Shareholding Pattern	30 <sup>th</sup> Sep 12
Promoters Holding	35.65%
Institutional (Incl. FII)	13.2%
Corporate Bodies	16.99%
Public & others	34.16%

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## Revenue growth and margin expansion helps boost the bottomline

Finolex Cables Ltd (FCL) reported better than expected numbers with the topline growing by 17.4%, YoY. The company witnessed strong growth coming from its Electrical Cables, Communication Cables and Other segments which helped the topline grow. The Copper division however continues to remain under pressure and witnessed a de-growth on YoY and QoQ basis. Execution of a large BSNL order during the quarter leads to higher utilizations & margin expansion. With strong growth from its main business segments we are positive on the long term growth prospects of the company. At CMP the stock trades at 5.6x & 4.7x its FY13E & FY14E EPS and we maintain our Buy rating on the stock with a revised target price of Rs 75.

Net Revenues for the quarter grew by 17%, YoY to Rs. 586 cr. Electrical Cables contributed 66% to the gross sales, Communication Cables contributed 6%, Copper business 22% and the rest was from Others.

EBITDA for the quarter was Rs. 70 cr, up 76% on a YoY basis. EBITDA margins improved by 398 bps on a YoY basis to 12%. Margins expansion was helped by significant margin improvement from the Communications Cables business. This was due to the execution of a large BSNL order which lead to higher utilization levels.

PAT for the quarter was Rs. 58 cr, up by 191%, YoY. PAT margin saw a improvement of 574 bps, YoY to 9.6%.

Electrical Cables business continued with its strong growth of 24.7%, YoY. Communications Cables business witnessed a significant improvement with revenues growing by 33.6%, YoY. Copper business continues to remain under pressure and registered a degrowth of 33%, YoY. Others registered a 21.8% growth YoY.

Electrical cables division continued with its sustained margin performance while Communication Cables business witnessed a significant improvement in its PBIT margins which clocked 19.2% for the quarter as compared to sub 8% margins in the previous quarters. These margins are not sustainable and will come down to 10-11% in the coming quarters. Significant improvement witnessed by Communication Cables business was on account of a large BSNL order coming through and digitization of cable TV (set top boxes) which led to higher utilization in both fiber optic and copper cable plants.

With the JVs helping improve the growth momentum, improvement in the Communication Cables business and winding down of the loss making derivative contracts, we are positive on the growth prospects of the company.

Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	EBITDA Margin (%)	PAT (Rs cr)	PAT Margin (%)	EPS	P/E (x)	EV/EBITDA (x)	RoE (%)
FY11A	2036	26	173	8.5	87	4.2	5.7	8.8	5.8	12.1
FY12A	2064	1	175	8.5	98	4.7	6.4	7.8	5.3	12.3
FY13E	2374	15	221	9.3	137	5.7	8.9	5.6	4.1	14.8
FY14E	2706	14	254	9.4	162	5.9	10.6	4.7	3.3	15.2

## Finolex Cables Ltd

## Q2FY13 – Result Update

	Q2FY13	Q1FY13	Q-o-Q	Q2FY12	Y-o-Y
<b>Net Revenue</b>	<b>586</b>	<b>518</b>	<b>13%</b>	<b>499</b>	<b>17%</b>
Operating Exp.	516	469	10%	459	12%
<b>EBITDA</b>	<b>70</b>	<b>49</b>	<b>44%</b>	<b>40</b>	<b>76%</b>
<b>EBITDA (%)</b>	<b>12.0%</b>	<b>9.4%</b>	<b>254 bps</b>	<b>8.0%</b>	<b>398 bps</b>
Depreciation	11	11	1%	10	10%
EBIT	59	38	55%	30	97%
<b>EBIT (%)</b>	<b>10.1%</b>	<b>7.4%</b>	<b>276 bps</b>	<b>6.0%</b>	<b>411 bps</b>
Interest	2	3	-38%	5	-59%
Other Income	14.75	1.76	738%	17	-11%
Exceptional Items	-6	-6	-4%	-16	-62%
PBT	66	30	119%	25	162%
Tax Provision	8	5	67%	5	55%
<b>Tax Rate (%)</b>	<b>12.6%</b>	<b>16.5%</b>	<b>-390 bps</b>	<b>12.9%</b>	<b>-31 bps</b>
<b>Reported PAT</b>	<b>58</b>	<b>25</b>	<b>129%</b>	<b>20</b>	<b>191%</b>
<b>PAT (%)</b>	<b>9.6%</b>	<b>4.8%</b>	<b>475 bps</b>	<b>3.8%</b>	<b>574 bps</b>
EPS	3.8	1.6	129%	1.29	191%

Source: Company, Nirmal Bang Research

Segment	Q2FY13	Q1FY13	Q-o-Q	Q2FY12	YoY
Electrical Cables	514	456	12.7%	412	25%
Communication Cables	48	38	27.4%	36	34%
Copper Rods	175	192	-8.9%	263	-33%
Others	44	40	8.5%	36	22%
Less: Intersegment Sales	194	208	-6.5%	248	-21%
<b>Total</b>	<b>586</b>	<b>518</b>	<b>13.1%</b>	<b>499</b>	<b>17%</b>
<b>PBIT</b>					
Electrical Cables	62.7	55.24	13.4%	48.5	29%
<i>% margin</i>	<i>12.2%</i>	<i>12.1%</i>		<i>11.8%</i>	
Communication Cables	9.2	2.92	213.7%	2.65	246%
<i>% margin</i>	<i>19.1%</i>	<i>7.8%</i>		<i>7.4%</i>	
Copper Rods	1.0	0.16	512.5%	0.91	8%
<i>% margin</i>	<i>0.6%</i>	<i>0.1%</i>		<i>0.3%</i>	
Others	-0.7	-1	-33.0%	-2.6	-74%
<i>% margin</i>	<i>-1.5%</i>	<i>-2.5%</i>		<i>-7.3%</i>	
<b>Total</b>	<b>72.13</b>	<b>57.32</b>	<b>25.8%</b>	<b>49.46</b>	<b>46%</b>

Source: Company, Nirmal Bang Research

## Finolex Cables Ltd

### Financials

Profitability (Rs. Cr)	FY11A	FY12A	FY13E	FY14E	Financial Health (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
<b>Y/E - March</b>					<b>Y / E - March</b>				
<b>Revenues - Net</b>	<b>2035.8</b>	<b>2063.9</b>	<b>2373.5</b>	<b>2705.8</b>	Share Capital	30.6	30.6	30.6	30.6
% change	26%	1%	15%	14%	Reserves & Surplus	686.9	769.8	892.5	1037.0
<b>EBITDA</b>	<b>173.4</b>	<b>174.7</b>	<b>220.7</b>	<b>254.3</b>	<b>Net Worth</b>	<b>717.47</b>	<b>800.42</b>	<b>923.04</b>	<b>1067.57</b>
Depreciation	38.8	39.5	44.5	47.9	Total Loans	260.0	206.8	200.0	180.0
Other Income	26.1	36.4	25.0	30.0	Deferred Tax	31.0	32.6	32.6	32.6
EBIT	160.7	171.7	201.2	236.4	<b>Total Liabilities</b>	<b>1008.6</b>	<b>1039.9</b>	<b>1155.7</b>	<b>1280.2</b>
Exceptional Item	-34.4	-36.4	-16.0	0.0	<b>Net Fixed Assets</b>	<b>434.0</b>	<b>441.3</b>	<b>446.7</b>	<b>448.8</b>
Interest	19.1	26.1	18.3	17.1	<b>Investments</b>	<b>245.2</b>	<b>237.2</b>	<b>237.2</b>	<b>237.2</b>
<b>PBT</b>	<b>107.2</b>	<b>109.2</b>	<b>166.9</b>	<b>219.3</b>	Inventories	280.8	281.1	344.2	392.3
Tax	20.5	11.1	30.0	57.0	Sundry Debtors	129.3	114.1	142.4	162.3
<b>PAT</b>	<b>86.7</b>	<b>98.2</b>	<b>136.8</b>	<b>162.3</b>	Cash	21.3	49.0	68.3	104.4
Shares o/s ( No.in Cr.)	15.3	15.3	15.3	15.3	Loans & Advances	104.6	93.6	118.7	148.8
<b>EPS</b>	<b>5.7</b>	<b>6.4</b>	<b>8.9</b>	<b>10.6</b>	Current Liab & Prov	206.6	176.4	201.7	213.8
Dividend	10.7	12.2	12.2	15.3	<b>Total Assets</b>	<b>1008.6</b>	<b>1039.9</b>	<b>1155.7</b>	<b>1280.2</b>
DPS	0.7	0.8	0.8	1.0					

Quarterly (Rs. Cr)	Dec-12	Mar-12	Jun-12	Sep-12	Cash Flow (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
<b>Revenue</b>	<b>499.5</b>	<b>604.8</b>	<b>518.0</b>	<b>586.0</b>	<b>Operating</b>				
<b>EBITDA</b>	<b>41.3</b>	<b>58.2</b>	<b>48.8</b>	<b>70.1</b>	Operating Income	173.4	174.7	220.7	254.3
Interest	8.1	7.5	3.5	2.2	Change in WC	-123.1	-4.3	-91.1	-86.3
Dep	12.8	7.1	10.5	10.7	Taxes Paid	-20.5	-11.1	-30.0	-57.0
Other Inc.	4.0	9.4	1.8	14.8	Other Adj	-1.0	1.6	0.0	0.0
Exceptional	-7.9	-10.1	-6.5	-6.2	<b>CF from Operation</b>	<b>28.9</b>	<b>161.0</b>	<b>99.6</b>	<b>111.1</b>
<b>PBT</b>	<b>16.5</b>	<b>42.9</b>	<b>30.1</b>	<b>65.9</b>	<b>Investment</b>				
Tax	2.8	-1.7	5.0	8.3	Capex	-25.0	-46.8	-50.0	-50.0
<b>PAT</b>	<b>13.7</b>	<b>44.6</b>	<b>25.1</b>	<b>57.5</b>	Other Investment	35.1	7.9	0.0	0.0
EPS (Rs.)	0.9	2.9	1.6	3.8	<b>Total Investment</b>	<b>10.1</b>	<b>-38.8</b>	<b>-50.0</b>	<b>-50.0</b>

Operational Ratio	FY11A	FY12A	FY13E	FY14E	Financing	FY11A	FY12A	FY13E	FY14E
EBITDA margin (%)	8.5%	8.5%	9.3%	9.4%	Dividend Paid	-12.5	-14.2	-14.2	-17.8
PAT margin (%)	4.2%	4.7%	5.7%	5.9%	Share Capital	0.0	0.0	0.0	0.0
Price Earnings (x)	8.8	7.8	5.6	4.7	Premium / Reserve	0.1	-1.0	0.0	0.0
Book Value (Rs.)	46.9	52.3	60.4	69.8	Borrowing	-15.1	-53.2	-6.8	-20.0
ROE (%)	12.1%	12.3%	14.8%	15.2%	Interest	-19.1	-26.1	-18.3	-17.1
ROCE (%)	15.9%	16.5%	17.4%	18.5%	Other Income	26.1	36.4	25.0	30.0
Debt Equity Ratio (x)	0.4	0.3	0.2	0.2	Exceptional	-34.4	-36.4	-16.0	0.0
Price / Book Value (x)	1.1	1.0	0.8	0.7	<b>Total Financing</b>	<b>-54.9</b>	<b>-94.5</b>	<b>-30.4</b>	<b>-24.9</b>
EV / EBITDA (x)	5.8	5.3	4.1	3.3	Net Chg. in Cash	-15.9	27.7	19.3	36.2
					Cash at beginning	37.2	21.3	49.0	68.3
					Cash at end	21.3	49.0	68.3	104.4

Source: Company, Nirmal Bang Research

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