

Finolex Cables Ltd.

"Buy"
19th Aug' 13

"Reasonable prospects, attractive valuations...."

Result update	Buy
CMP	55
Target Price	73
Previous	73%
Upside	34%
Change from	0%

Market Data

BSE Code	500144
NSE Symbol	FINCABLES
52wk Range	32/66
Mkt Capital	835
Average Daily	94,300
Nifty	5,508

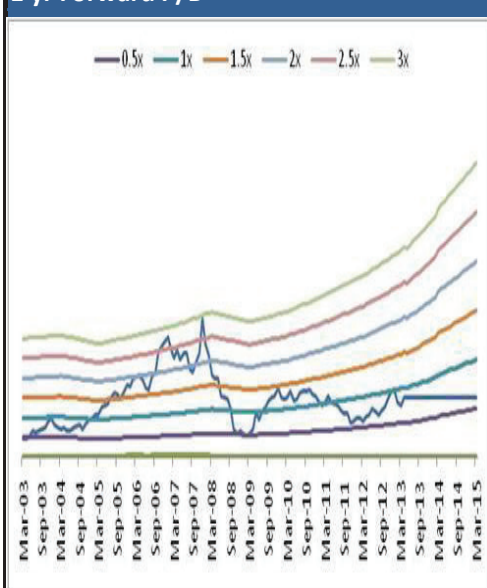
Stock Performance-%

	1M	1yr	YTD
Absolute	(4.5)	39.8	20.0
Rel. to Nifty	4.1	36.3	23.1

Share Holding Pattern-%

	1QFY14	4QFY13	3QFY13
Promoters	35.8	35.8	35.8
FII	1.0	1.0	1.0
DII	10.5	11.3	11.3
Others	52.8	52.0	52.0

1 yr Forward P/B



Finolex Cable's reported mixed set of numbers in the quarter ended June'13 with its topline and operating profit growing inline with estimates, however net profit surpassed estimates largely due to higher other income. Topline for the quarter grew by 6.9% to Rs. 553.8 crore driven by 3.9% growth in electrical cable segment and 26.0% growth in communication cable segment. Revival in users industries will drive the profitability of Finolex Cables's going forward. Further, derivative losses coupled with bleak performance by communication cable segment were the major reasons for de-rating of the stock in past which in our view seems to have been overdone. We retain our BUY rating and target of Rs. 73 on the stock.

The copper rods segment was initially set up as backward integration for the cables segment. The excess production after captive consumption is sold off to third parties at market price. However, owing to thin and declining margins from third party transactions, FCL is gradually reducing its exposure to the segment. The contribution of the segment to the top-line has decreased from 21% in FY2010 to ~5% currently. This trend is expected to continue, thereby improving the overall EBIT margin of the company.

Outlook :

FCL being one of the leading players in the cable industry seems well placed to capture huge opportunities considering the strengths & the industry in which the Company is operating. Derivative losses coupled with bleak performance by communication cable segment were the major reasons for de-rating of the stock in past which in our view seems to have been overdone. The company's LT division is doing very well, they have recently entered into HT and Extra High Voltage (EHV) cable verticals. The company has market share of around 15-16 percent in both electrical and telecommunication verticals. Further the company has approved setting up a captive 5 MW solar power plant at its manufacturing facilities at Urse, Pune at an estimated cost of Rs 40 crore.

Valuation :

We advised our readers to hold the stock and even one can also make a fresh buy at current market price. Looking at the current environment, operating performance and growth prospectus for the company the stock may post the EPS of Rs. 11.8 (Revised from Rs. 10.6) & Rs. 13.8 in FY14E & FY15 and RoE of 16.7% (Revised from 15.3%) & 15.9% in FY14E & FY15E . Even on valuation parameters it is trading at near four times its FY14 earnings & even less than four at FY15 earnings, which we believe is highly undervalued. **Readers are advised to hold/buy the stock at current market price with a target price of Rs. 73.**

Financials

	Rs, Crore				
	1QFY14	4QFY13	(QoQ)-%	1QFY13	(YoY)-%
Revenue	553.8	632.1	-12.4%	518.0	6.9%
EBITDA	51.4	66.5	-22.7%	48.8	5.3%
PAT	33.9	38.8	-12.5%	24.9	36.5%
EBITDA Margin	9.3%	10.5%	(120) bps	9.4%	(10) bps
PAT Margin	6.0%	6.1%	(10) bps	4.8%	120 bps

(Source: Company/ Eastwind Research)

(Standalone)

Finolex Cables Ltd.

Key financials :

PARTICULAR	2009A	2010A	2011A	2012A	2013A	2014E	2015E
Performance							
Revenue	1342	1619	2036	2064	2271	2498	2748
Other Income	51	24	26	36	24	51	51
Total Income	1392	1643	2062	2100	2295	2549	2798
EBITDA	100	195	174	175	229	225	247
EBIT	61	157	135	135	182	175	195
Depreciation	39	37	39	39	47	50	52
Interest Cost	32	19	19	26	12	14	14
PBT	-30	89	107	109	171	212	232
TAX	5	32	22	11	26	32	32
Derivative Loss	-109	-74	-34	-36	-23	0	0
Reported PAT	-35	58	85	98	145	180	201
Dividend	3	9	11	12	18	23	23
EPS	-2.3	3.8	5.6	6.4	9.5	11.8	13.1
DPS	0.2	0.6	0.7	0.8	1.2	1.5	1.5
Yield %							
EBITDA %	7.4%	12.0%	8.5%	8.5%	10.1%	9.0%	9.0%
NPM %	-2.5%	3.5%	4.1%	4.7%	6.3%	7.1%	7.2%
Earning Yield %	-12.0%	7.4%	11.7%	20.6%	20.9%	22.2%	24.7%
Dividend Yield %	1.0%	1.2%	1.5%	2.6%	2.6%	3.1%	3.1%
ROE %	-6.0%	9.0%	11.9%	12.3%	15.7%	16.7%	15.9%
ROCE%	-4.0%	6.3%	8.7%	10.1%	13.1%	14.2%	13.9%
Position							
Net Worth	596	643	717	800	924	1081	1259
Total Debt	296	275	260	172	184	184	184
Capital Employed	892	918	978	972	1109	1265	1443
No of Share	15	15	15	15	15	15	15
CMP	19	51	47	31	46	53	53
Valuation							
Book Value	39.0	42.0	46.9	52.3	60.4	71.0	82.0
P/B	0.5	1.2	1.0	0.6	0.8	0.8	0.6
Int/Coverage	1.9	8.4	7.0	5.2	14.6	12.5	13.9
P/E	-8	13	9	5	5	5	4

(Source: Company/ Eastwind Research)