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The Trick Is To **Spot Them** At The **Larval Stage**

Birla Cable Ltd. **Capitalising On The Telecom Revolution**

Our Tiny Treasure for the month of October is Birla Cable Limited, which was formerly known as Birla Ericsson Optical Limited. It is engaged in the manufacture and sale of primarily telecommunication cables, consisting of both copper and optical fibre, and other types of specialty wires and cables. By acquiring the shares of Ericsson recently, Birla Cable Limited has become a truly global Indian company that has a reach of more than 60 countries and having the capability to cater to all the needs of communication cables across the segments. The company generates 76.23% revenue from optical fibre cable (OFC) segment and 22.35% revenue from copper cable segment. Also, one-third of the revenue is generated through exports by the company.

Capacity expansion plan

In order to align the company's manufacturing capacity to keep pace with the expected growth in demand, Birla Cable has proposed a capacity expansion plan. The company's existing capacity of manufacturing OFCs of all types and specifications is 81,848 cable kilometres and the utilisation level is 74.8%. The company plans to expand this capacity to 96,848 cable kilometres. The proposed capacity is expected to be added by January 2019. The capex planned for the expansion is Rs 17 crore and would be funded through internal accruals and term loans.

Growing demand for OFC

Optical Fibre Cable (OFC) continues to be the backbone of the increasingly digital world. It has a tremendous future because of its unlimited bandwidth carrying capacity and highest speed carrying capability. From education and health to disaster management; from financial inclusion to e-commerce; from public safety and security to entertainment, OFC network will help in transforming the country into digitally empowered society. With the introduction of 4G networks, the usage of OFCs in the increasingly data-driven networks has become an important component in the entire network design. 5G, the next evolution, is set to open up lot of new use cases for mobile data, thereby opening many new business opportunities. Large scale government-driven Infrastructure projects like "Bharatnet", the basic backbone of 'Digital India', plans to connect 250,000 Gram Panchayats with OFCs. After covering 100,000 villages in the phase- I of the project, the aggressive roll-out of network has begun under phase-II. Recently, the government also announced a subsidy of Rs 3,600

crore to private telecom players to set-up Wi-Fi in rural areas.

Outlook of telecom infra industry

In the wake of growing awareness around Internet of Things (IoT) and the usages it presents to Indian businesses and consumers, 5G will open a new era of opportunities for telecom operators and ecosystem partners in India. Analysts are optimistic that India will hold around 15% of the world's smartphone market share by that period – Indian consumers are ready for 5G, which will spur the next round of telecom infrastructure investments across the globe. With fibre playing a pivotal role in improving broadband connectivity and building robust 4G/5G capabilities, operators will find the opportunity worth grabbing. The next 3-4 years in India will witness a huge multiplication in opportunities in telecom and OFC industry. ICRA has stated that the industry will witness positive changes in FY19 and FY20 due to improvement in pricing levels. Reliance Jio has changed the face of the industry and with merger of Idea and Vodafone, telecom industry would stabilise going forward.

Raw material prices

The company's revenue from jelly-filled telephone cables (JFTC) weakened as the telecom operators are focusing on replacing the copper-based networks to optical fibre-based ones to reap the benefit of unlimited bandwidth capacity. But the structured cable business is on a very good growth trajectory for the company as it has reached out to the larger customer base of Internet Service Providers (ISPs). The major raw materials used by the company are copper and fibre optic. The copper prices had escalated during April to June 2018 but then corrected later and the current prices are at the 2015 levels. Yet, Birla Cable's Q1FY19 quarter was the strongest with high margins. Some volatility in such commodity prices may put pressure on margins, but the company is optimistic of overcoming this with robust growth in volumes.

Financial performance

FY18 has been an exceptional year after weak numbers delivered by the company during FY15-17. In FY18, the revenue generated was the highest so far with YoY growth of 53.9% to Rs 325.05 cr from Rs 211.09 cr in FY17. Its EBITDA in FY18 jumped by 155.02% from Rs 13.5 cr to Rs 34.5 cr., while EBITDA margin improved from 6.4% to 10.6% on YoY basis. The PAT for the year escalated

Continued On PG 2...

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by 385% from Rs 3.3 cr to Rs 16.13 cr and the PAT margin for the year improved from 1.4% to 4.9% on a YoY basis. The receivable and payable days have improved to 95.7 days and 86.8 days, respectively, in FY18 from 110.8 days and 108.9 days in FY15. The debt-equity ratio for the year stood at 0.37x.

In Q1FY19, the revenue was up by 127.8% YoY from Rs 51.5 cr to Rs 117.48 cr due to robust demand. Its EBITDA for the quarter jumped by 877% from Rs 1.8 cr to Rs 17.6 cr and the EBITDA margin was up from 3.5% to 15.03% on a YoY basis. The PAT in Q1FY19 stood at Rs 11.06 cr as against the net loss of Rs 0.33 cr

in Q1FY18. PAT margin for the quarter stood at 9.4%.

Valuation

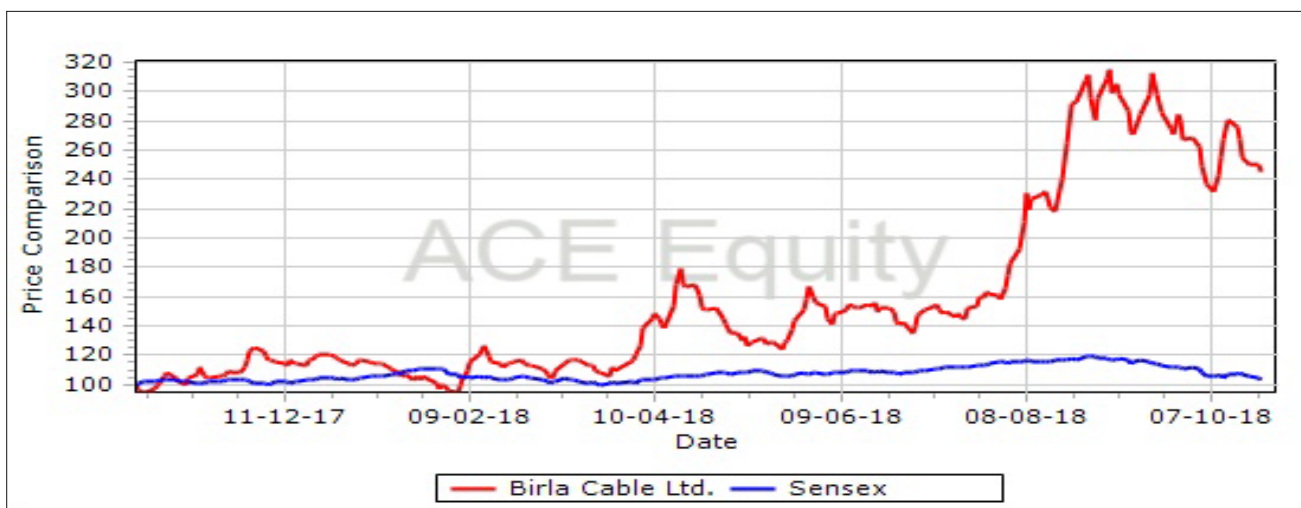
The company is trading at TTM P/E of 14.8x with TTM EPS of Rs 9.17. For FY18, it delivered ROE and ROCE of 14.8% and 18.4% respectively. We see potential upside of 32% with target price of Rs 181 over a period of one year. Comparatively, the cable industry has been stable so far and major correction in the stock prices was not seen. However, considering the volatility in the raw material prices, we urge investors to make investment in tranches and buy on dips over the next six months.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	325.05	211.09	249.78	263.90	290.59
Total Income	326.35	214.26	252.45	267.62	292.79
Total Expenditure	290.52	197.56	223.39	234.88	255.81
PBIDT	35.84	16.70	29.05	32.75	36.98
PAT	16.13	3.33	8.48	12.50	19.24
Dividend %	10.00		10.00	10.00	10.00
Adj. EPS(Rs)	5.38	1.11	2.83	4.17	6.41

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	117.48	114.26	2.82	51.57	127.83
Total Expenditure	99.83	98.90	0.95	49.76	100.63
PBIDT (Excl OI)	17.65	15.37	14.85	1.81	876.87
PAT	11.06	8.91	24.02	-0.33	3460.18
PBIDTM% (Excl OI)	15.03	13.45	11.75	3.51	328.21
PBIDTM%	15.81	13.70	15.40	4.26	271.13
PATM%	9.41	7.80	20.64	-0.64	1570.31
Adj. EPS(Rs)	3.69	2.97	24.24	0.00	0.00



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