



COMPANY NAME : **Finolex Cables**

BSE Code : **500144**

Time Duration : **1 year**

CMP : **₹438 (as on 16 Feb., 2017)**

Target Price : **₹575**

Our Mid Bridge for the month of February, 17 is Finolex Cables Ltd (FCL). FCL is a leading manufacturer of electrical and communication cables. Its wire and cable products have applications in automobile, lighting, TV, telephone, mobile data services through optical fibre and other industrial applications. It also added new range of products like electrical switches, CFL, LED Lamps, fans, switchgear and water heaters. The company has grown at CAGR of 4% over the last five years, majorly led by volume growth in electrical cable (85% of revenue) and communication cable (13% of revenue) segments. The company is continuously improving operating margin and PAT margin over the last five years. The company has also diversified its portfolio by launching new products which will add ~Rs 150 cr to the topline over the year. The government's thrust towards digitisation and infrastructure development; will fuel the growth of the company. We expect FCL's topline to grow at CAGR of 12.5% over FY16-18E. We see ~30% upside in the scrip from the current level.

Key Growth Drivers

Revival in User Industry: The government gave massive push to infrastructure in Budget-17. India will invest Rs 3,96,135 cr in creating and upgrading infrastructure (in railways, transportation and industrial corridors). FCL's electrical cable segment which accounts for 85% in revenue has varied application in construction, industrial, automotive, power and agriculture. We expect growth in these industry segments, led by higher outlay of government's push on infrastructure up-gradation. FCL's communication cable segment accounts for 13% in revenue and witnessed highest growth of ~40% over the year and quarters as well. We see FCL is well-positioned to get its share of the pie from the government's mission of 'Digital India' and 'Smart Cities' projects.

Diversified product portfolio to fuel future growth : The company expanded its product portfolio from electrical and communication cables to fans, switchgears and instant water heaters of all ranges. Over the next quarters, the company is also planning to add storage water heater in its portfolio to make it completely diversified. The company has been evolving to electrical products company through capacity additions in various product lines. We believe that company will grow these product segments as well, benefiting from the brand image and already established network. We expect new products will add ~ Rs 150 cr in topline over

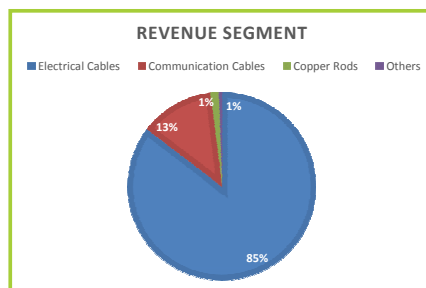
the coming years.

Impressive margins and bottomline : We see continuous improvement in EBITDA margin of the company since last five years. It has improved to 15% in FY16 from 8% in FY12 which shows expansion of 700bps. The company could achieve it on account of lower commodity prices like copper as compared to the historical trend.

The company has been continuously reducing its finance cost which gives interest coverage ratio of 36.4x in FY16 from 5.18x in FY12. It reflects in PAT margin. We see PAT margin steadily growing to 9% in FY16 from 4% in FY12 led by higher other income and lower finance cost outgo. We believe that the company would maintain the same momentum going forward.

JVs breaking even raise future expectations : Further, FCL expect the JV with J Power which manufactures high voltage cable to reach break even in a couple of years. It has participated in Rs700 crore of tenders till now and expects these to be finalised in FY2018. It also expects the EHV market in India to expand from \$300-400 million to \$1 billion, which provides ample growth opportunities for this JV. Also, JV with Finolex Optical Fibre is currently at break even and will benefit from rising consumer demand for mobile data services and e-commerce. The government's initiatives like Bharat Net/ Digital India are expected to add buoyancy to demand.

Segmental Performance : The company witnessed volume growth in all product lines in FY16 as compared to FY15. Its electrical wires volume grew by 12%, flexible wires grew by 20%, power cable grew by 19% and communication cables witnessed robust growth of 37.75% which is highest amongst all. We believe the volumes would grow further, led by governments infrastructure push and digital India mission.



Financial Performance

Q3FY17 (Standalone)- Total revenue of the company grew by 10.25% YoY and 9.95% QoQ to Rs 675 cr led by uptick in volume of electrical cables (8% YoY) and communication cables (44% YoY). Its EBITDA grew by 6.80% to Rs 80 cr YoY and EBITDA margin stood at 11.86% in Q3FY17 vs 12.24% in Q3FY16 impacted by rising raw material prices of copper. The PAT margin expanded by 203bps to 10.12% in Q3FY17 as compared to Q3FY16, while PAT grew by 37.90% YoY to Rs 68.4 cr.

Going forward, we expect the topline to grow at CAGR of 12.5% over FY16-18E and bottomline to advance at CAGR of 6.9% on account of expected uptick in demand led by industry tailwinds

and higher interest coverage ratio, respectively.

Valuation

The company delivered standalone ROE and ROCE of 18.21%/23.77% in FY16. We expect return ratio to improve further on addition of new products based on asset light model. FCL's sales/working capital cycle ratio at 3.04x shows financial strength of the company. Currently, the scrip is trading at standalone TTM P/E of 20.69x with TTM EPS of Rs 21.16. Considering industry tailwinds and expected growth from new products, we recommend a BUY on this scrip in the range of Rs 400-450 (CMP-438) with target price of Rs 575. We recommend investing in the scrip on a piecemeal basis by buying on dips.

Yearly Standalone Financial Performance (Rs Cr)

Particulars	FY12	FY13	FY14	FY15	FY16
Gross Revenue	2218.8	2447.7	2558.3	2633.3	2676.5
Total Expenses	2109.5	2276.9	2314.3	2370.1	2340.2
EBITDA	174.9	230.8	306.9	340.8	403
Finance Cost	26.1	13.4	14.5	13.6	9.5
EBIT	135.4	184.2	258.5	276.8	345.8
Tax	11.1	25.5	36.3	64.5	87.6
PAT	98.2	145.3	207.7	198.7	248.8
EPS	6.4	9.5	13.6	13	16.3
EBITDAM	8%	9%	12%	13%	15%
PATM	4%	6%	8%	8%	9%

Quarterly Standalone Financial Performance (Rs Cr)

Particulars	Q3FY17	Q2FY17	QoQ (%)	Q3FY16	YoY (%)
Total Revenue	675.30	614.20	9.95	612.50	10.25
EBITDA	80.10	99.70	-19.66	75.00	6.80
Other Income	16.90	55.20	-69.38	9.80	72.45
PAT	68.40	104.80	-34.73	49.60	37.90
EBITDAM %	11.86	16.23	-26.93	12.24	-3.13
PATM %	10.13	17.06	-40.64	8.10	25.08
EPS	4.50	6.90	-34.78	3.20	40.63

