

## Company Update

# Finolex Cables Ltd

Bloomberg Code: FNXC IN

India Research - Stock Broking

**BUY**

## Strong Performance Amid Tepid Market

Finolex came out with strong set of Q1FY18 numbers growing across all products and segments amid a very tepid market due to disruption and de-stocking caused by GST roll out. Net sales for the quarter ended June 2017 were Rs. 7435 Mn as against Rs. 5966 Mn in Q1FY17 representing 24.6% YoY growth in value terms. The value growth is due to increase in raw material prices which Finolex managed to pass on to customers. There was a significant volume growth in communication cables business. Profit before tax for the quarter has reached Rs.1295 Mn as compared to Rs. 913 Mn in Q1FY17 showing a YoY growth of 41.9%. At PAT level, the company has shown a YoY growth of 51.7% on the back of growth in sales.

**De-stocking due to GST:** The company has experienced de-stocking at dealer level due to lack of clarity on rates, returns and Input tax credit under GST especially in the month of June. The de-stocking was seen in the electric cables which have just grown by 14.8% and consumer durables segment. The company expects the re-stocking in coming months.

**Expansion on product range:** During the last quarter, the company has expanded the product offerings of fans, switchgears and water heaters. Additionally, the company also launched its Miniature Circuit Breakers (MCBs) and distribution boxes as part of its switchgear offerings from Sept 2016. The company expects business from these segments to add significantly to its revenues in the coming periods.

## Valuation and Outlook

At CMP of Rs.514, Finolex cables is trading at 16.3x to FY19E EPS. We expect incremental sales from the new products launched to aid 10.5% CAGR sales growth over FY17-19E. We assign a multiple of 19.8x to FY19E EPS, to reiterate the target price of Rs.595 representing an upside potential of 21%.

## Key Risks

- Competition from unorganized sector.
- Fluctuation in copper prices which constitute 80% of the total raw material cost.

### Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	24491	24610	26707	28999	32633
EBITDA	2598	3390	3714	4495	5384
EBITDA Margin (%)	10.6	13.8	13.9	15.5	16.5
Adj. Net Profit	1987	2488	3159	3776	4606
EPS (Rs.)	13.0	16.3	20.7	24.7	30.1
RoE (%)	15.7	17.0	16.8	18.2	18.5
PE (x)	20.7	20.7	25.0	19.9	16.3

Source: Company, Karvy Research; \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

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### Recommendation (Rs.)

CMP (as on Aug 10, 2017)	490
Target Price	595
Previous Target Price	595
Upside (%)	21

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	74940 / 1172
52-wk High/Low (Rs.)	573 / 355
3M Avg. daily volume (mn)	0.1
Beta (x)	0.8
Sensex/Nifty	31610 / 9820
O/S Shares(mn)	152.9
Face Value (Rs.)	2.0

### Shareholding Pattern (%)

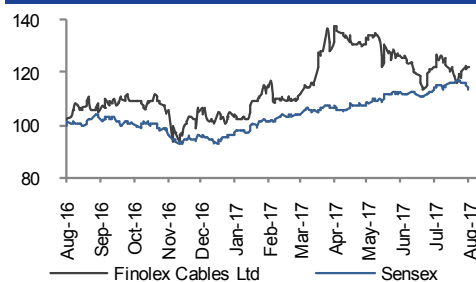
Promoters	35.9
FII's	6.2
DII's	19.0
Others	38.9

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(0)	(9)	6	21
Relative to Sensex	(0)	(12)	(5)	6

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analyst Contact

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**Exhibit 2: Q1FY18 Results**

YE Mar (Rs. Mn)	Q1FY18	Q4FY17	QoQ (%)	Q1FY17	YoY (%)
Turnover	7435	7846	(5.2)	5966	24.6
Op. Expenditure	6335	6835	(7.3)	5062	25.2
EBITDA	1100	1011	8.8	904	21.7
Depreciation	118	125	(5.5)	118	0.3
Interest	0	6	(100.0)	12	(100.0)
Other Income	313	142	120.5	139	125.7
PBT	1295	1023	26.7	913	41.9
Tax (net)	276	268	3.1	241	14.6
PAT	1019	755	35.0	672	51.7
EBITDA Margin (%)	14.8	12.9	191 bps	15.2	(36) bps
EBIT Margin (%)	13.2	11.3	192 bps	13.2	3 bps
Net Profit Margin (%)	13.7	9.6	409 bps	11.3	245 bps

Source: Company, Karvy Research

**Exhibit 3: Segmental Financials**

(Rs. Mn)	Q1FY18	Q4FY17	QoQ (%)	Q1FY17	YoY (%)
<b>Segment-wise revenues</b>					
Electrical cables	5717	6039	(5.3)	4978	14.8
Communication cables	1392	1521	(8.5)	877	58.7
Copper Rods	1930	1731	11.5	718	168.9
<b>Segment-wise EBIT</b>					
Electrical cables	1134	1628	(30.4)	895	26.6
Communication cables	133	154	(13.3)	117	14.1
Copper Rods	49	(31)	NM	(1)	NM
<b>Segment-wise EBIT Margins (%)</b>					
Electrical cables	19.8	27.0	(713) bps	18.0	184 bps
Communication cables	9.6	10.1	(54) bps	13.3	(374) bps
Copper Rods	2.5	(1.8)	432 bps	(0.2)	267 bps

Source: Company, Karvy Research

## Financials

### Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	24491	24610	26707	28999	32633
Growth (%)	3.8	0.5	8.5	8.6	12.5
Operating Expenses	21893	21220	22993	24504	27249
EBITDA	2598	3390	3714	4495	5384
Growth (%)	4.7	30.5	9.6	21.0	19.8
Depreciation & Amortization	640	572	480	631	663
Other Income	585	641	1002	1202	1443
EBIT	1958	2818	3234	3864	4722
Interest Expenses	137	95	43	32	24
PBT	2631	3363	4193	5034	6141
Tax	645	786	1034	1259	1535
Adjusted PAT	1987	2488	3159	3776	4606
Growth (%)	(4.3)	25.2	27.0	19.5	22.0

Source: Company, Karvy Research

### Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Cash & Equivalents	1384	2188	2009	5243	8578
Sundry Debtors	1187	1259	1244	1351	1430
Inventory	3186	3368	4620	4037	4728
Loans & Advances	742	922	594	608	622
Investments	4942	6165	8959	8920	9718
Net Block	4638	4248	4149	3747	3294
CWIP	67	31	82	82	82
Miscellaneous	194	1	0	1	1
<b>Total Assets</b>	<b>16339</b>	<b>18183</b>	<b>21656</b>	<b>23988</b>	<b>28454</b>
Current Liabilities & Provisions	2823	2966	2624	3000	3313
Debt	512	258	4	3	2
Other Liabilities	354	283	251	295	303
<b>Total Liabilities</b>	<b>3690</b>	<b>3506</b>	<b>2879</b>	<b>3298</b>	<b>3618</b>
Shareholders Equity	306	306	306	306	306
Reserves & Surplus	12343	14370	18469	20384	24530
<b>Total Networth</b>	<b>12648</b>	<b>14676</b>	<b>18775</b>	<b>20690</b>	<b>24836</b>
<b>Total Networth &amp; Liabilities</b>	<b>16339</b>	<b>18183</b>	<b>21656</b>	<b>23988</b>	<b>28454</b>

Source: Company, Karvy Research

**Exhibit 6: Cash Flow Statement**

YE Mar (Rs. Mn)	FY15	FY16	FY17P	FY18E	FY19E
PBT	2631	3363	4193	5034	6141
Depreciation	640	572	480	631	663
Interest	129	90	43	32	24
Inc/dec in Net WC	(958)	(648)	(2316)	(377)	(2000)
Other Income	(745)	(536)	(1002)	(1132)	(1411)
Other non cash items	127	198	0	0	0
<b>Cash flow from operating activities</b>	<b>1824</b>	<b>3040</b>	<b>1399</b>	<b>4188</b>	<b>3416</b>
Inc/dec in capital expenditure	(321)	(148)	(100)	(402)	(453)
Inc/dec in investments	(1878)	(1950)	(2794)	39	(798)
Others	336	291	1002	1202	1443
<b>Cash flow from investing activities</b>	<b>(1863)</b>	<b>(1807)</b>	<b>(1891)</b>	<b>839</b>	<b>192</b>
Inc/dec in borrowings	22	(755)	(254)	(1)	(1)
Dividend paid	(286)	(331)	(460)	(460)	(460)
Interest paid	(129)	(90)	(43)	(32)	(24)
<b>Cash flow from financing activities</b>	<b>(393)</b>	<b>(1176)</b>	<b>(757)</b>	<b>(493)</b>	<b>(485)</b>
Net change in cash	(433)	57	(1249)	4534	3123

Source: Company, Karvy Research

**Exhibit 7: Key Ratios**

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	10.6	13.8	13.9	15.5	16.5
EBIT Margin (%)	8.0	11.5	12.1	13.3	14.5
Net Profit Margin (%)	8.1	10.1	11.8	13.0	14.1
Dividend Payout Ratio (%)	13.8	11.1	8.7	7.3	6.0
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.3)	(0.3)
RoE (%)	15.7	17.0	16.8	18.2	18.5
RoCE (%)	15.1	16.7	16.8	18.2	18.5

Source: Company, Karvy Research

**Exhibit 8: Valuation Parameters**

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	13.0	16.3	20.7	24.7	30.1
DPS (Rs.)	1.8	1.8	1.8	1.8	1.8
BVPS (Rs.)	77.4	89.3	109.4	129.0	148.8
PE (x)*	20.7	20.7	25.0	19.9	16.3
P/BV (x)*	3.5	3.8	4.7	3.8	3.3
EV/EBITDA (x)*	15.5	14.6	20.7	15.5	12.3
EV/Sales (x)*	1.6	2.0	2.9	2.4	2.0

Source: Company, Karvy Research, \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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