

Finolex Cables

Reco: Buy

Stock Update

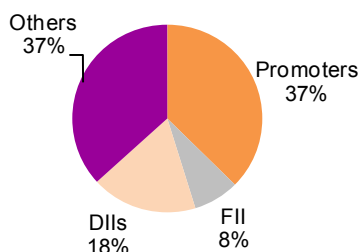
New product launches on track; reiterate Buy

CMP: Rs445

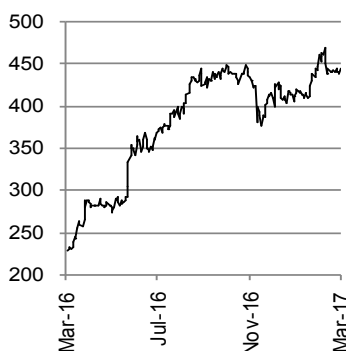
Company details

Price target:	Rs525
Market cap:	Rs6,745 cr
52-week high/low:	Rs472/225
NSE volume: (No of shares)	63,588
BSE code:	500144
NSE code:	FINCABLES
Sharekhan code:	FINCABLES
Free float: (No of shares)	9.59 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.6	6.4	3.9	88.3
Relative to Sensex	-2.7	-3.3	2.4	55.9

We recently met the management of Finolex Cables Ltd (FCL) to understand its various business strategies on the launch of new products and the way going forward. The key takeaways from the meeting are presented below.

Key points

- New product launches to be growth drivers:** The FCL management reiterated that the new products like switchgears, water heaters and fans to be the growth drivers for the company. The management stated that the company has a strong presence in the cable segment in the southern markets and intends to use the same channels for the launch of the switchgears as the customer profile is similar. It also aims to have 900 distributors by the end of March 2017. The management expects the real estate demand to pick up in the country after the demonetisation and the passage of the real estate bill in the parliament, and expects the overall market to expand. FCL is expected to earn a top line of Rs60-70 crore in the first year of operations and revenues of Rs100 crore by the third year of commercial launch of switchgears. FCL intends to grab a 10% market share in the first five years of operations. On the fan and water heater segments, the management reiterated that the company plans to adopt an asset light model in the initial years of operations and expects to garner Rs60-70 crore of revenues from these launches. FCL is expected to come up with a greenfield capacity for switchgears and fans in the future. Currently, it is scouting for land for the facility.
- Margin profile and return ratio expected to increase going forward:** The management of FCL expects the overall margin profile of the company to improve due to the launch of higher-margin products like switchgears (better than electrical cables). Also, the new switchgear facility enjoys tax incentives due to its locations. The management guided that the fan and water heater segments have a lower margin compared to cables initially but increase after the commissioning of the fan facility by January 2018. Hence, due to an asset light model for these products (except switchgears), we expect the return ratios to improve going forward.
- Opportunities in J Power:** The FCL management expects tenders for EHV to be floated in the market soon but the finalisation is expected to be delayed. FCL has participated in Rs700 crore of tenders till now and expects these to finalise in FY2018. It expects the EHV market in India to increase from \$300-400mn to \$1bn which provides ample opportunities for this joint venture.
- Reiterate Buy with unchanged price target of Rs525:** FCL is expected to continue to generate healthy free cash flows over time despite the capex for new switchgear and fan facilities. Further, the implementation of the Goods and Services Tax (GST) would be helpful to raise volumes and gain market share from the unorganised (~50%) and low-cost players in the cable segment. The communication cable business is also expected to ramp up given the change in network generations. Hence, in view of the lean balance sheet, steady cash flows and higher return ratios we reiterate our Buy rating on the stock with an unchanged price target of Rs525 per share.

Valuation

Particulars	FY15	FY16	FY17E	FY18E	FY19E	Rs cr
Net sales (Rs cr)	2,449	2,461	2,653	2,891	3,168	
Growth (YoY) %	3.8	0.5	7.8	9.0	9.6	
Operating profit (Rs cr)	259	339	367	401	443	
OPM (%)	10.6	13.8	13.8	13.9	14.0	
Net profit (Rs cr)	176	249	300	324	358	
Adjusted EPS (Rs)	11.5	16.3	19.6	21.2	23.4	
Growth (YoY) %	(7.4)	41.6	20.3	8.0	10.5	
PER (x)	38.4	27.1	22.5	20.8	18.9	
P/B (x)	5.3	4.6	3.9	3.4	3.0	
EV/EBIDTA (x)	20.3	15.3	12.7	11.5	10.2	
Div yield (%)	0.4	0.6	0.7	0.7	0.8	
RoCE (%)	19.2	23.8	25.1	23.5	22.7	
Core RoE (%)	20.1	28.5	26.8	24.2	23.1	
RoIC (%)	32.9	48.0	58.6	57.9	57.4	

SOTP valuation

	Rs cr
CMP	441
Price target	525
Upside potential	19%
Value of core business (Rs/share)	388
Target multiple (x)	19.7
Core EPS avg. of FY18 & FY19*	19.7
Net cash and lid investments	571
Net cash & liq. Inst. / share	37
Mkt. value of investment in Finolex Industries	2,186
Holding discount	30.0%
Value of investment in Fin. Ind. (Rs/share)	100.1

* excluding dividend income from investment in Finolex Industries

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