

Finolex Cables

Performance Highlights

Y/E March (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)
Total operating income	681	658	3.4	587	16.0
EBITDA	112	61	82.1	78	42.3
EBITDA Margin (%)	16.4	9.3	708bp	13.4	303bp
Adj. PAT	83	47	77.5	53	57.7

Source: Company, Angel Research

Finolex Cables (FCL) has posted an impressive set of numbers for 4QFY2016 on the margin and the bottom-line front. The standalone top-line for the quarter grew by 3.4% yoy to ₹681 cr. Electrical cables volumes grew by 12% yoy while that of Communications cables grew by more than 20% yoy, during the quarter. The raw material cost declined by 933bp yoy to 65.4% of sales while employee and other expenses increased by 59bp yoy and 166bp yoy to 4.4% and 13.9% of sales, respectively. On account of the better operational performance, the EBITDA margin expanded by 708bp yoy to 16.4%. Further, a significantly higher other income and better than expected margins lifted the bottom-line.

Revival in capex cycle to drive growth: The growth of the company is closely linked to the revival in the capex cycle of the industries it caters to. The company has evolved into an electrical equipment company from a wire and cables company by enhancing its product portfolio with entry into new product segments like switch gears and fans which should start contributing meaningfully to the top-line in FY2018E. This is expected to drive earnings of the company in the coming years. With the government's increased focus on industrial and infrastructure sectors, FCL is well placed to reap benefits of the same.

Outlook and Valuations: We expect the top-line to post a CAGR of 12.5% while the bottom line is expected to grow at 6.9% CAGR over FY2016-18E. The company has consolidated the earnings of its associate Finolex Industries (in which it holds 32.4%) and other joint ventures. We have valued the company on its standalone business at 17.0x its FY2018E earnings (valuing it at ₹298/share) and have assigned a discount of 50.0% to market value of its holdings in Finolex Industries (₹53/share). **We believe that the current price captures the fair value of the stock and hence we have a Neutral view on the stock.**

Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net Sales	2,359	2,449	2,461	2,813	3,115
% chg	3.9	3.8	0.5	14.3	10.7
Net Profit	208	199	249	268	284
% chg	43.0	(4.0)	24.8	7.8	6.0
EBITDA Margin (%)	10.5	10.6	13.8	12.7	12.1
FDEPS (₹)	13.6	13.0	16.3	17.5	18.6
P/E (x)	25.3	26.3	21.1	19.6	18.5
P/BV (x)	4.8	4.2	3.6	3.1	2.7
RoE (%)	18.8	15.8	17.0	15.8	14.6
RoCE (%)	15.5	13.7	18.0	16.8	15.5
EV/Sales (x)	2.1	1.9	1.8	1.5	1.4
EV/EBITDA (x)	19.9	18.3	13.2	12.2	11.1

Source: Company, Angel Research; Note: CMP as of May 30, 2016

NEUTRAL

CMP	₹344
Target Price	-

Investment Period	-
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Stock Info	
Sector	Cables-Power
Market Cap (₹ cr)	5,253
Net Debt	(771.8)
Beta	0.7
52 Week High / Low	306 / 215
Avg. Daily Volume	18,778
Face Value (₹)	2
BSE Sensex	26,726
Nifty	8,179
Reuters Code	FNXC.BO
Bloomberg Code	FNXC.IN

Shareholding Pattern (%)	
Promoters	34.5
MF / Banks / Indian Fls	18.3
FII / NRIs / OCBs	12.2
Indian Public / Others	34.9

Abs.(%)	3m	1yr	3yr
Sensex	16.2	(4.0)	35.2
Finolex	44.5	37.1	556.2

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 performance highlights

Y/E March (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)	1HFY16	1HFY15	% chg
Total operating income	681	658	3.4	587	16.0	1,194	1,209	(1.3)
Net raw material	445	492	(9.5)	417	6.7	860	899	(4.4)
(% of Sales)	65.4	74.7	(933)bp	71.1	(572)bp	72.0	74.4	(238)bp
Employee cost	30	25	19.4	26	13.4	51	46	10.8
(% of Sales)	4.4	3.8	59bp	4.5	(10)bp	4.3	3.8	47bp
Other Expenses	94	80	17.5	65	45.4	134	127	5.7
(% of Sales)	13.9	12.2	166bp	11.1	280bp	11.3	10.5	74bp
Total expenditure	569	597	(4.7)	508	12.0	1,045	1,073	(2.6)
EBITDA	112	61	82.1	78	42.3	148	136	9.0
EBITDA Margin (%)	16.4	9.3	708bp	13.4	303bp	12.4	11.3	10bp
Interest	1	3	(58.0)	2	(32.8)	6	7	(12.4)
Depreciation	18	22	(18.5)	13	31.5	26	28	(6.1)
Other income	18	9	95.4	10	84.7	37	45	(18.0)
Extra-ordinary Items	0	(23)		0				
PBT	111	68	61.9	73	51.9	153	146	4.6
(% of Sales)	16.2	10.4		12.4		12.8	12.1	
Tax	27	21	27.7	20	36.5	40	33	22.9
(% of PBT)	24.8	31.4		27.6		26.2	22.3	
Reported PAT	83	47	77.5	53	57.7	113	114	(0.6)
Exceptional items	0	16		0		0	0	
Adjusted PAT	83	31	167.5	53	57.7	113	114	(0.6)
PATM (%)	12.2	4.7		9.0		9.5	9.4	

Source: Company, Angel Research

Exhibit 2: Actual vs Angel's Estimates for 4QFY2016

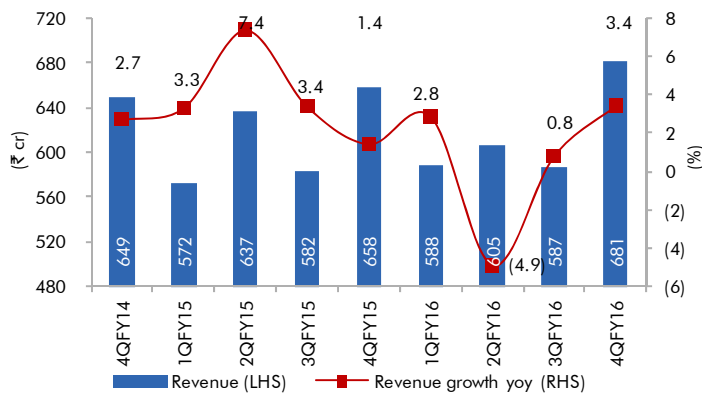
Particulars	Actual (₹ cr)	Estimate (₹ cr)	% variation
Total Income (₹ cr)	681	699	(2.6)
EBITDA (₹cr)	112	88	27.3
EBITDA Margin (%)	16.4	12.5	385bp
Adjusted PAT (₹ cr)	83	52	61.3

Source: Company, Angel Research

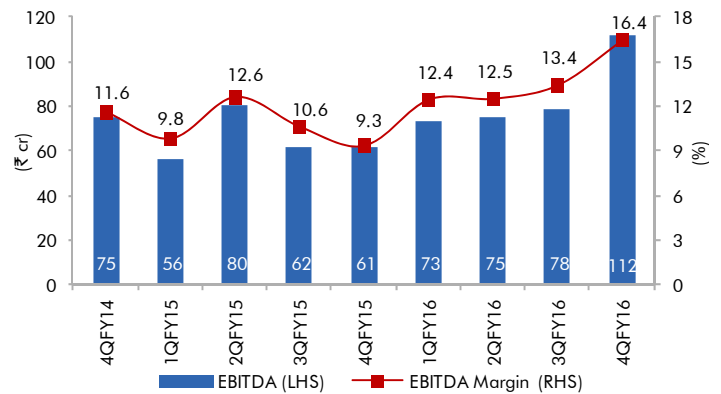
Revenue in-line, margin and bottom-line impress

For 4QFY2016, FCL has posted an impressive set of numbers on the margin and bottom-line front. The standalone top-line for the quarter grew by 3.4% yoy to ₹681cr which is in-line with our estimate of ₹699cr. We had expected the top-line to post a flattish growth on account of lower realizations. Volumes of Electrical cables grew by 12% yoy while that of Communications cables grew by more than 20% during the quarter.

The raw material cost declined by 933bp yoy to 65.4% of sales while employee and other expenses increased by 59bp yoy and 166bp yoy to 4.4% and 13.9% of sales, respectively. On account of a better operational performance, the EBITDA margin expanded by 708bp yoy to 16.4%. We had estimated an EBITDA margin of 12.5%; the sharp decline in raw material cost led to the divergence in the actual margin numbers from our estimates. We expected raw material cost to be at 71.9% of sales. Further, on account of higher other income and a better operational performance, the reported net profit grew by 77.5% yoy to ₹83cr.

Exhibit 3: Revenue growth continues to disappoint


Source: Company, Angel Research

Exhibit 4: EBITDA margin surges aided by lower RM costs


Source: Company, Angel Research

Segment-wise performance

For 4QFY2016, revenue from the Electrical cables (EC) segment declined by 1.2% yoy to ₹545cr on account of lower realizations. The EBIT for the segment grew by 17.1% yoy and came in at ₹98cr, while the EBIT margin expanded by 281bp yoy to 18.0%.

The Communications cables (CC) segment's revenue grew by 61.2% yoy to ₹119cr. The EBIT increased by 177.5% yoy to ₹17cr, resulting in margin expanding by 607bp yoy to 14.5%. The revenue from Continuous Copper Rods (CCR) segment declined by 46.6% yoy to ₹16cr during the quarter. The segment's EBIT margin came in at 3.2% vs 3.4% in 4QFY2015.

Exhibit 5: Segment-wise performance

Y/E March (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)
Total Revenue					
A) Electrical Cables	545	552	(1.2)	521	4.7
B) Communications Cables	119	74	61.2	62	91.4
C) Copper Rods	16	31	(46.8)	3	370.0
D) Others	26	49	(46.6)	6	302.9
Total Net sales	681	656	3.7	587	16.0
EBIT					
A) Electrical Cables	98	84	17.1	82	19.2
B) Communications Cables	17	6	177.5	5	264.3
C) Copper Rods	1	1	(49.5)	1	(24.6)
D) Others	(5)	(13)	(64.6)	(1)	626.6
Total EBIT	111	78	42.8	87	27.7
EBIT Margin (%)					
A) Electrical Cables	18.0	15.2	281bp	15.8	219bp
B) Communications Cables	14.5	8.4	607bp	7.6	687bp
C) Copper Rods	3.2	3.4	(17)bp	19.9	(1670)bp
D) Others	(17.9)	(27.0)	910bp	(9.9)	(797)bp

Source: Company, Angel Research

Investment arguments

Sufficient capacity to complement revival in user industry

The Electrical Cables segment which accounts for ~84% of the company's revenues serves varied user industries like construction, industrial, automotive, power and agriculture. FCL is a recognized name in the electrical cable industry and it will stand to benefit from the anticipated growth in its end-user industries. We estimate growth in these industries to be mainly led by higher outlay by the government on Infrastructure. The Communications cables segment has been reporting strong growth on the back of pipeline of government orders as well as investments by private service providers. Going forward, we expect the segment to perform well given the opportunity present in the Digital India program which will involve laying a fiber network of ~1mn cable kilometers.

Diversification in portfolio to drive earnings

The company has been evolving from being a total cable solutions company to an electrical products company. It has expanded into product portfolio to include CFLs, LED lamps and electrical switches and is awaiting BIS certification for its switchgears. The company has launched electric fans (traded) in the domestic market on 2nd May, 2016 and has made investment in a facility to manufacture 2 lakh electric fan units per month. We believe that the company enjoys good brand recall and should be able to leverage on its existing distribution network to grow its businesses.

Healthy balance sheet

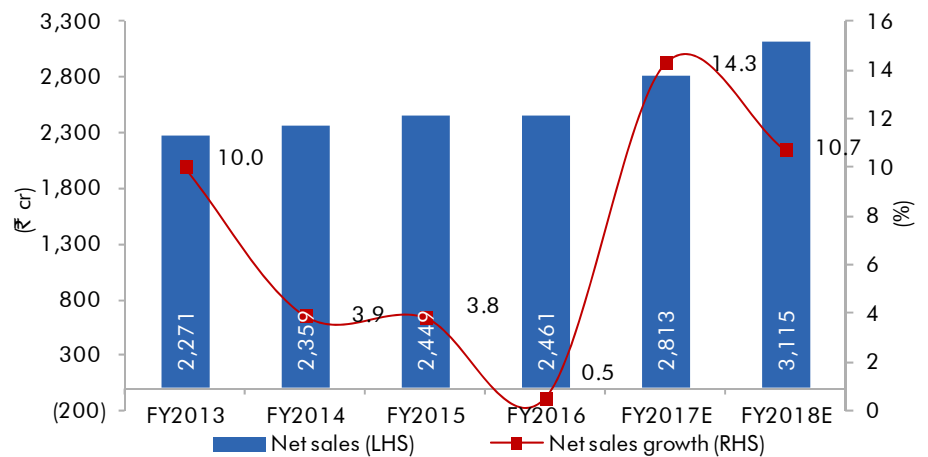
The company has been successful in its debt reduction plans and has been utilizing internal accruals to reduce debt. This has lead to significant interest cost savings. The cash generation from operating activities continues to be strong as working capital days have come down from 45 days in FY2015 to ~43days in FY2016.

Financials

Net sales to grow at CAGR of 12.5% over FY2016-18E

On account of strong performance by Communications cables and growing contribution from fans and switchgear segments, we expect net sales to grow at a CAGR of 12.5% over FY2016-18E to ₹3,115cr.

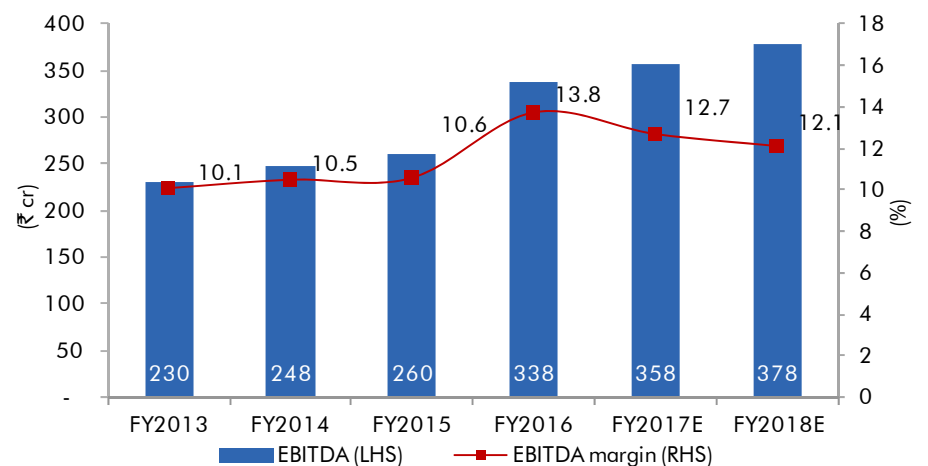
Exhibit 6: Net Sales growth trend



Source: Company, Angel Research

FCL's EBITDA margins have improved significantly in FY2016 on account of raw material cost savings. We believe that commodity prices have bottomed out and expect raw material costs to increase from here on. We expect the company to post EBITDA CAGR of 5.7% over FY2016-18E to ₹378cr and EBITDA margin of 12.1% in FY2018E

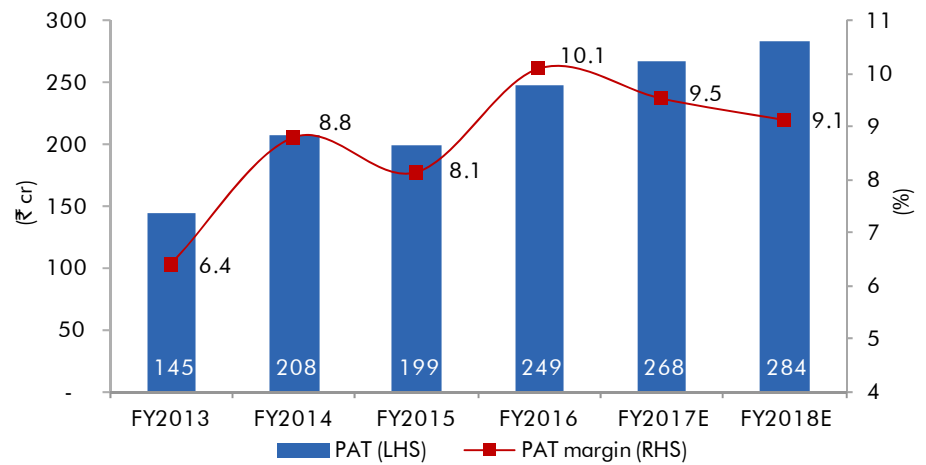
Exhibit 7: EBITDA and EBITDA margin trend



Source: Company, Angel Research

On account of lower interest outgo and healthy other income, the net profit is expected to improve to ₹284cr in FY2018E

Exhibit 8: PAT and PAT margins trend

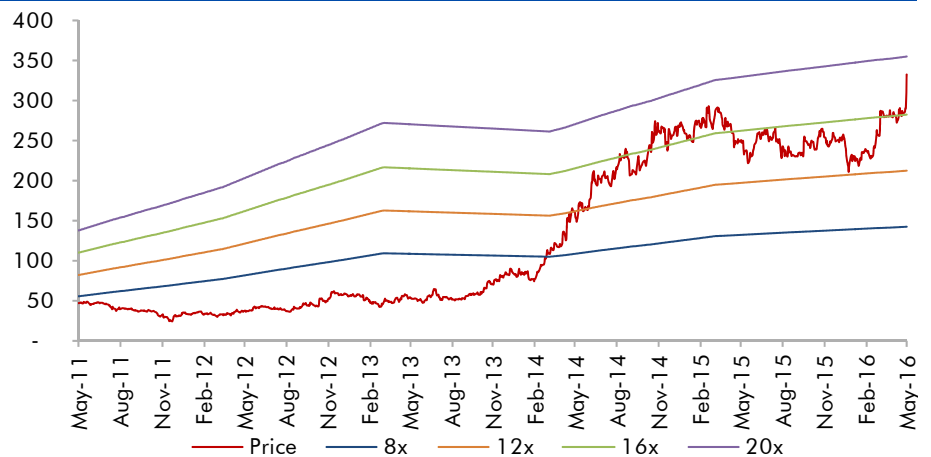


Source: Company, Angel Research

Outlook and Valuation

We expect the top-line to post a CAGR of 12.5% while the bottom line is expected to grow at 6.9% CAGR over FY2016-18E. The company has consolidated the earnings of its associate Finolex Industries (in which it holds 32.4%) and other joint ventures. We have valued the company on its standalone business at 17.0x its FY2018E earnings (valuing it at ₹298/share) and have assigned a discount of 50.0% to market value of its holdings in Finolex Industries (₹53/share). **We believe that the current price captures the fair value of the stock and hence we have a Neutral view on the stock.**

Exhibit 9: One-year forward PE



Source: Company, Angel Research

Concerns

- Competition from the un-organized sector is a concern since their products are relatively cheaper and they thus cannibalize into market volumes.
- Fluctuation in the price of copper, which is an essential raw material (~80% of total raw material), is a key concern as it would directly impact operational efficiency. Although prices have fallen recently, volatility in commodity markets persists.
- Slowdown in the user industry could hurt the company's volumes.

Company background

FCL is India's largest and leading manufacturer of electrical and communication cables. Its wire and cable products are used in applications such as automobile, lighting, cable TV, telephone and computers to industrial applications. The company mainly operates through 4 divisions; 1) Electrical cables, 2) Communications cables, 3) Continuous Cast Copper rods and 4) Others-comprising switches, compact fluorescent lamps manufactured and LED based lamps through its facilities at Roorkee, Goa, and Pune (at Pimpri, Urse).

Profit and Loss statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	2,510	2,575	2,607	2,983	3,303
Less: Excise duty	151	126	146	170	188
Net Sales	2,359	2,449	2,461	2,813	3,115
% chg	3.9	3.8	0.5	14.3	10.7
Net Raw Materials	1,766	1,824	1,721	1,990	2,231
% chg	4.5	3.3	(5.6)	15.6	12.1
Personnel	85	94	108	121	131
% chg	0.3	10.8	14.5	12.4	8.2
Other Mfg costs	116	101	139	159	169
% chg	(4.0)	12.7	(37.1)	(14.3)	(6.3)
Other	144	170	155	186	206
% chg	7.2	(18.0)	9.2	(20.0)	(10.7)
Total Expenditure	2,111	2,189	2,123	2,455	2,736
EBITDA	248	260	338	358	378
% chg	8.1	4.7	30.3	5.7	5.7
EBITDA Margin	10.5	10.6	13.8	12.7	12.1
Depreciation & Amort.	48	64	57	60	66
EBIT	200	196	281	297	312
% chg	9.1	(2.0)	43.6	5.7	4.8
(% of Net Sales)	8.5	8.0	11.4	10.6	10.0
Interest & other Charges	14	13	9	5	3
Other Income	48	58	64	70	76
(% of Net Sales)	2.0	2.4	2.6	2.5	2.5
Recurring PBT	185	183	272	292	308
% chg	9.2	(1.3)	48.9	7.4	5.4
Exceptional Expense/(Inc.)	(10)	(23)	-	-	-
PBT (reported)	244	264	336	363	385
Tax	36	64	88	94	100
(% of PBT)	14.9	24.4	26.0	26.0	26.0
PAT (reported)	208	199	249	268	284
ADJ. PAT	208	199	249	268	284
% chg	43.0	(4.0)	24.8	7.8	6.0
(% of Net Sales)	8.8	8.1	10.1	9.5	9.1
Basic EPS (₹)	13.6	13.0	16.3	17.5	18.6
Fully Diluted EPS (₹)	13.6	13.0	16.3	17.5	18.6
% chg	43.0	(4.0)	24.8	7.8	6.0

Balance sheet

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	31	31	31	31	31
Preference Capital	-	-	-	-	-
Reserves & Surplus	1,073	1,234	1,437	1,670	1,915
Shareholders' Funds	1,103	1,265	1,468	1,700	1,945
Total Loans	147	127	63	44	31
Other Long term liability	5	5	5	5	5
Net Deferred tax liability	30	30	23	23	23
Total Liabilities	1,285	1,427	1,559	1,772	2,004
APPLICATION OF FUNDS					
Gross Block	1,031	1,063	1,074	1,182	1,300
Less: Acc. Depreciation	535	599	656	717	783
Net Block	496	464	418	465	517
Capital Work-in-Progress	11	7	10	10	10
Goodwill	-	-	-	-	-
Long term Loans & Adv.	5	4	7	7	7
Investments	403	494	617	709	815
Other non-current assets	26	19	0	0	0
Current Assets	623	646	764	849	954
Cash	65	138	219	232	263
Loans & Advances	61	70	83	95	105
Inventory	352	319	337	383	431
Debtors	145	119	126	140	155
Other current assets	0	-	0	0	0
Current liabilities	279	207	256	268	298
Net Current Assets	344	439	508	582	655
Mis. Exp. not written off	-	-	-	-	-
Total Assets	1,285	1,427	1,559	1,772	2,004

Cash flow statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	244	264	336	363	385
Depreciation	48	64	57	60	66
(Inc.)/ Dec. in Working Capital	71	(21)	11	(60)	(43)
Less: Other income	(48)	(58)	(64)	(70)	(76)
Direct taxes paid	(36)	(64)	(88)	(94)	(100)
Cash Flow from Operations	278	184	253	198	232
(Inc.)/ Dec. in Fixed Assets	(77)	(28)	(15)	(107)	(118)
(Inc.)/ Dec. in Investments	(67)	(91)	(105)	(92)	(106)
Other income	48	58	64	70	76
Cash Flow from Investing	(96)	(60)	(56)	(130)	(148)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(91)	(20)	(70)	(20)	(13)
Dividend Paid (Incl. Tax)	(29)	(32)	(46)	(36)	(39)
Others	(38)	2	-	-	-
Cash Flow from Financing	(158)	(50)	(116)	(56)	(53)
Inc./(Dec.) in Cash	25	74	80	13	31
Opening Cash balances	40	65	138	219	232
Closing Cash balances	65	138	219	232	263

Key ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	25.3	26.3	21.1	19.6	18.5
P/CEPS	20.5	19.9	17.2	16.0	15.0
P/BV	4.8	4.2	3.6	3.1	2.7
Dividend yield (%)	0.5	0.5	0.7	0.6	0.6
EV/Sales	2.1	1.9	1.8	1.5	1.4
EV/EBITDA	19.9	18.3	13.2	12.2	11.1
EV / Total Assets	3.8	3.3	2.9	2.5	2.1
Per Share Data (₹)					
EPS (Basic)	13.6	13.0	16.3	17.5	18.6
EPS (fully diluted)	13.6	13.0	16.3	17.5	18.6
Cash EPS	16.8	17.2	20.0	21.5	22.9
DPS	1.6	1.8	2.5	2.0	2.2
Book Value	72.2	82.7	96.0	111.2	127.2
Dupont Analysis					
EBIT margin	8.5	8.0	11.4	10.6	10.0
Tax retention ratio	0.9	0.8	0.7	0.7	0.7
Asset turnover (x)	2.9	3.1	3.4	3.4	3.4
ROIC (Post-tax)	21.1	18.8	29.1	26.8	25.2
Cost of Debt (Post Tax)	8.4	7.7	10.4	8.3	8.2
Leverage (x)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
Operating ROE	17.4	14.4	19.3	17.0	16.0
Returns (%)					
ROCE (Pre-tax)	15.5	13.7	18.0	16.8	15.5
Angel ROIC (Pre-tax)	24.8	24.9	39.4	36.2	34.0
ROE	18.8	15.8	17.0	15.8	14.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.3	2.3	2.3	2.4	2.4
Inventory / Sales (days)	53	50	49	47	48
Receivables (days)	23	20	18	18	18
Payables (days)	42	40	40	40	40
WC cycle (ex-cash) (days)	43	45	43	45	46
Solvency ratios (x)					
Net debt to equity	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
Net debt to EBITDA	(1.3)	(1.9)	(2.3)	(2.5)	(2.8)
Interest Coverage (EBIT/Int.)	13.8	15.2	31.5	60.6	91.7

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Disclosure of Interest Statement

Finolex Cables

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)