

Stock Update

Subdued outlook; Maintain Hold

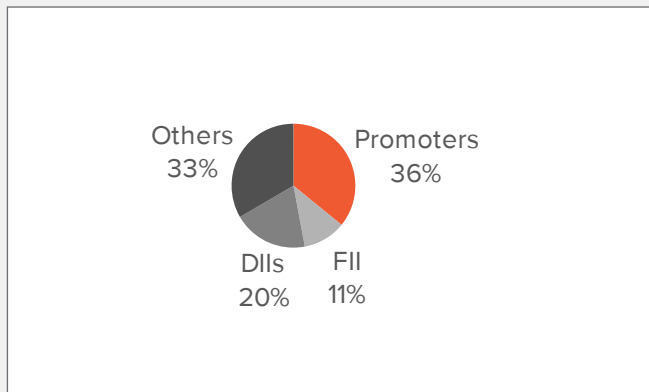
Finolex Cables

Reco: Hold | CMP: Rs468

Company details

Price target:	Rs515
Market cap:	Rs7,158 cr
52-week high/low:	Rs696/356
NSE volume: (No of shares)	90,627
BSE code:	500144
NSE code:	FINCABLES
Sharekhan code:	FINCABLES
Free float: (No of shares)	9.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	14.2	0.7	-31.7
Relative to Sensex	0.7	3.5	-8.1	-40.3

Key points

- ♦ **Muted revenue growth, higher tax outgo lower net earnings growth:** Finolex Cables Limited (FCL) reported muted revenue growth (up 3.4% y-o-y), led by a marginal growth in electrical cable segment (up 6% y-o-y, over 80% of revenue) and new products (up 10.4% y-o-y with less than 5% share) and decline in communication cable segment's revenue (down 15.4% y-o-y). Volumes in the electrical cables business grew by 18% y-o-y, while power cable volumes fell marginally. The communication cable segment was affected by lower volumes for optic fibre (owing to delays in orders from government sector as well as sluggishness from private telecom companies), although other communication products sold through dealers network witnessed volume growth. New products grew more than 10% y-o-y each. Operating margins expanded by 85 bps y-o-y, driven by lower employee costs (down 21% y-o-y and 10% q-o-q) and lower other expenses (down 16% y-o-y) leading to a 9.5% y-o-y growth in operating profit. A higher effective tax rate (39.3 v/s 36% in Q4FY18) as tax exemptions for the Roorkee plant expired in FY2018 resulted in lower growth of 3.8% y-o-y in net profit to Rs 85 crore.
- ♦ **Wires & cables outlook remains positive as new government takes charge, scaling of new products a challenge:** A stable central government and revival of infrastructure spending is likely to give a fillip to demand for cables and wires. Further, the ongoing government programs (Bharat Net Phase II) to improve broadband connectivity and related technologies will continue to drive growth for communication cables, in which growth was muted during the elections and tendering activity is expected to revive. Scaling up of new products still remains slow and the management's sales target of Rs. 100 crore for consumer durable for FY2019 wasn't achieved. However, the management expects that the new products business would pick up gradually with more launches with an upward bias in operating margins. The ramp-up in the segment as expected remains a challenge in view of the intense competition, which would continue to affect the company's growth trajectory.

- ♦ **Reiterate Hold with a revised PT of Rs. 515:** We believe slower order finalisation in communication cable business segment along with a delay in scaling-up of the consumer durables business would continue to limit revenue growth during FY2020-FY2021. Given

the intense competitive environment in electrical cables segment and a slower-than-anticipated expansion in the consumer durables segment, we reiterate our Hold rating on the stock with a revised price target of Rs. 515.

Results

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	Rs cr QoQ (%)
Revenue	823	796	3.4%	750	9.8%
Operating profit	126	115	9.5%	110	15.2%
Other Income	24	24	1.5%	19	23.9%
Interest	0	1		0	
Depreciation	10	10	1.8%	10	3.3%
PBT	140	128	9.6%	119	17.4%
Tax	55	46	19.9%	43	27.3%
EO	-	-		-	
Reported PAT	85	82	3.8%	76	11.8%
Adj. PAT	85	82	3.8%	76	11.8%
Adj.EPS (Rs)	5.6	5.3	3.8%	5.0	11.8%
Margin			BPS		BPS
OPM (%)	15.3	14.5	85	14.6	72
NPM (%)	10.3	10.3	4	10.1	18
Tax rate	39.3	36.0	337	36.3	306

Source: Sharekhan

Valuation

Particulars	FY18	FY19	FY20E	Rs cr FY21E
Net sales (Rs cr)	2,815	3,078	3,399	3,788
Growth (YoY) %	15.1	9.3	10.4	11.5
Operating Profit (Rs cr)	422	452	503	566
OPM (%)	15.0	14.7	14.8	14.9
Net profit (Rs cr)	358	344	383	424
Adjusted EPS (Rs)	23.4	22.5	25.0	27.7
Growth (YoY) %	13.4	(3.9)	11.2	10.8
PER (x)	20.0	20.8	18.7	16.9
P/B (x)	3.3	2.9	2.6	2.3
EV/EBIDTA (x)	12.9	12.4	11.0	9.9
Div Yield (%)	0.9	1.0	0.8	0.9
RoCE (%)	24.8	23.0	22.9	22.5
Core RoE (%)	33.7	30.4	30.9	30.4
RoIC (%)	61.0	56.5	59.0	63.4

Source: Sharekhan

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