

Finolex Cables Ltd. (FCL) – AGM few points (28-06-13)

Valuation:

a) FCL's, CMP – Rs 49.45, number of shares, 15.3 crs – has a market capitalization of Rs 756 crs.

b) In FY'13 reported Net Sales of Rs 2,271 crs, PBT before exceptionals of Rs 200 crs & Net Profit of Rs 145 crs.

c) Discounts, Sales, PBT & Net Profit by 0.33 times, 3.8 times & 5 times respectively.

d) March 2013 year end debt was Rs 181 crs & investment in liquid units of Rs 107 crs.

e) EV/EBIT = 4 times.

f) Dividend declared in FY'13 was Rs 1.20 per share (Rs 2 face value).

g) Book Value per share end March 2013 was Rs 60 – CMP, 49.45.

h) Holds 4.02 crs shares of Finolex Industries – at its CMP of Rs 124.05, has value of Rs 499 crs. Finolex Industries Ltd. declared a dividend of Rs 5.50 per share for FY'13, FCL will receive a dividend of Rs 22 crs i.e. Rs 1.44 per FCL equity share.

i) Free Cash generated in FY'13 was Rs 110 crs. From Cash flow statement, cumulative of last five years, was Cash Profit, Rs 764 crs, Operational Cash Flow (*adj. for Working Capital*), Rs 712 crs & Free Cash, Rs 447 crs – Current Market Cap. is Rs 756 crs.

j) FY'13 ROCE was 20% & RONW, 17%. As the share is quoting less than book, return on market capitalization is 19%.

AGM Points:

- Current Capacity utilization is 100% at Roorkee plant, 100% at the Goa plant and 72% at the Urse plant.
- Capacity would be doubled at the Roorkee plant. The Goa plant would also be expanded. Capacity at the Pimpri plant is being shifted to its Urse plant. Manufacturing Operations at Pimpri will be limited due to disadvantageous tax environment – earlier Octroi, now LBT. Admin office is situated there. Land at Pimpri is 15 acres (?). Ongoing Capex is for Rs 190 crs, includes Rs 100 crs for Electrical cables, Rs 40 crs for Solar plant at URSE (for internal power requirement, will reduce power cost at Urse), balance for optic fibre cables.
- Block Turn in Electrical Cables is Rs 4 of Sales for every Re 1 invested.
- FCL, subject to demand estimates playing out, has estimated Sales of Rs 3,500 crs in current year (FY'13 Gross Sales, Rs 2423 crs & Net Sales, Rs 2,271 crs, EBDIT margin in FY13 was 11%). Growth would be driven by increased demand for Optic Fibre cables & good demand seen for electrical cables from 'B' cities/towns – Sholaphur, Kolaphur etc.. These cities are seeing construction of better quality housing. FCL, going forward, plans to add more than 25,000 channel partners in B class cities. Sales would also get a fillip from expanded capacities expected to be all in place by year-end.
- Demand in Optic Fibre Cable in the country, over next 2-3 years, would be so high that no single player would be able to handle the demand alone, capacity shortage. Huge demand now from Government, Defence & Reliance Industries for 4G – last mile connectivity etc.. Defence volume requirement lower, however, more complex cables, hence total value is near similar to BSNL.
- In Optic Fibre Cables, FCL is at an advantage on account of its JV with Corning USA – the world's largest fibre manufacturer. Because of the JV faces no shortage of fibre. Will also benefit from expanded capacity at the Urse plant.
- Optic fibre cables, is, at present, a Seller's market. Getting good prices, even from Reliance Ind (4G). Credit period offered is 30 days, not very different from its electrical cables business. Margins in this business expected better in current year.

- FCL's move into switchgears, motors, transformers will be in Gujarat. Looking for around 40-50 acres of land there. Will be taken up next year. Entire project to cost Rs 100 crs. To be funded through internal accruals.
- FCL would use same distributor channel for the new products that it wishes to enter in near future - transformers, circuit breakers, switches etc. States Finolex Cables will limit itself to products which can be pushed through existing distributor/marketing channels.
- Decline/increase in copper prices is passed on. Limits exposure to fluctuation in copper prices through ensuring efficient turnover of raw material.
- J-Power Systems a Joint Venture, with a Japanese Company. It is currently running only one of its three lines - generates approximately Rs 600 crs of revenues. On full utilization can generate sales of Rs 1,800 crs. The JV's product is ahead of its time for the Indian market. Hence largely exported (80%). Company positioning itself for the future when instead of overhead, power cables would be routed through underground pipes.
- Corning JV will also sell Optic Fibre in the Indian market after meeting the needs of FCL.
- Margins are likely to be sustained/improved on in FY14.
- The Company intends to fund Capex. for FY14 from internal accruals and does not want to take on additional debt. As per management, Debt free status would be an ideal situation, however, would take some more time getting there. It appeared management would work towards controlling debt at the current level or lowering it.
- In the Electrical cable industry acknowledged that Polycab had large capacities but stated their cable was of lower quality & addressed a lower price and value segment.
- All FX derivative contracts have expired in FY13, No additional charge to P&L expected. Has already provisioned for FY14 losses (Rs 25-30 crs) in FY'13 balance sheet.
- Tax to PBT will increase in FY14 with Roorkee plant tax concessions running through.
- Company intends to increase dividends. Stated with the higher profits expected in FY14, should see a further increase in dividends. A lot of questions at the meeting were from shareholders stressing on the need to increase payouts. Management appeared to be favourably inclined to this (?)
- Area of concern, though expected not in the short to medium future, could be capital allocation. What will FCL do with all its increasing Free Cash? MD stated focus would be

on businesses which can mesh into existing marketing channels. However, also did say, in case of projects outside this, could look at taking stakes in Companies where such businesses could be started. Mentioned has no such projects as on date with them.
