



**SUBLIME FINANCIAL ADVISORY**  
NO COMPROMISE IN EXCELLENCE

**Cords Cable Industries Ltd**

**-Metro Capex & reducing power sector contribution to drive growth**

**Recommendation** : **Buy**

**CMP** : **Rs 77**

**Target** : **NA**

**% Allocation** : **5%**

**Sector** : **Cables**

**Sensex** : **35633**

**NSE code** : **CORDSCABLE**

**BSE Code** : **532941**

#### AT A GLANCE

**52 Week High Low** : **:153.95/65.80**

**Mkt. Cap (Rs. in Crs)** : **98**

**Major Shareholders**

**Promoters (%)** : **:51.42%**

**Free Float (%)** : **:48.58%**

**Background:** Cords Cable Industries is one of the largest manufacturers of Control and Instrumentation Cables (C&I) in India, supplying to various end users industries like Metros, Refineries, Capital Goods and Real Estate sectors, Power, Airports, Railways etc. The company's 90% of the revenues comes from C&I Cables, while balance is from Power Cables, which is manufactured for the requirements of its C&I cable customers.

#### Diversified Product basket

Cords Cable Industries is one of the most diversified players, with presence across all the sub-segments of the C&I Cables in the domestic market. Though other companies like KEI Industries are present in the C&I Cables, Cords Cable has advantage of being a specialized player in the C&I Cables. Further, Cords Cable has large number of products that are pre-approved by the clients. This immensely helps the company in getting repeat orders.

#### Metro Projects - Growth driver

Cords Cable is an associated and approved vendor with all the Metros in India and has been supplying to the Metro projects in Lucknow, Chennai, Delhi, Hyderabad, Kochi, Bangalore, Mumbai, Jaipur etc. Due to the large opportunities in the signaling cables, special cables being sold to the Metro, Cords Cable will benefit from Governments' increased thrust on the Metro projects in various cities.

#### Diversified client mix

Cords Cable Industries has highly diversified business model, both in terms of client concentration as well as the sectors it services. No client accounts for more than 20-22% of the revenues. Further, it caters to a diverse set of industries ranging from Metros, Capital Goods to Refineries as well as end user companies like Berger Paints, Asian Paints, Biocon etc. Also, government and PSUs account for 40% of the revenues, while the balance comes from Private companies.

#### Outlook & Valuation

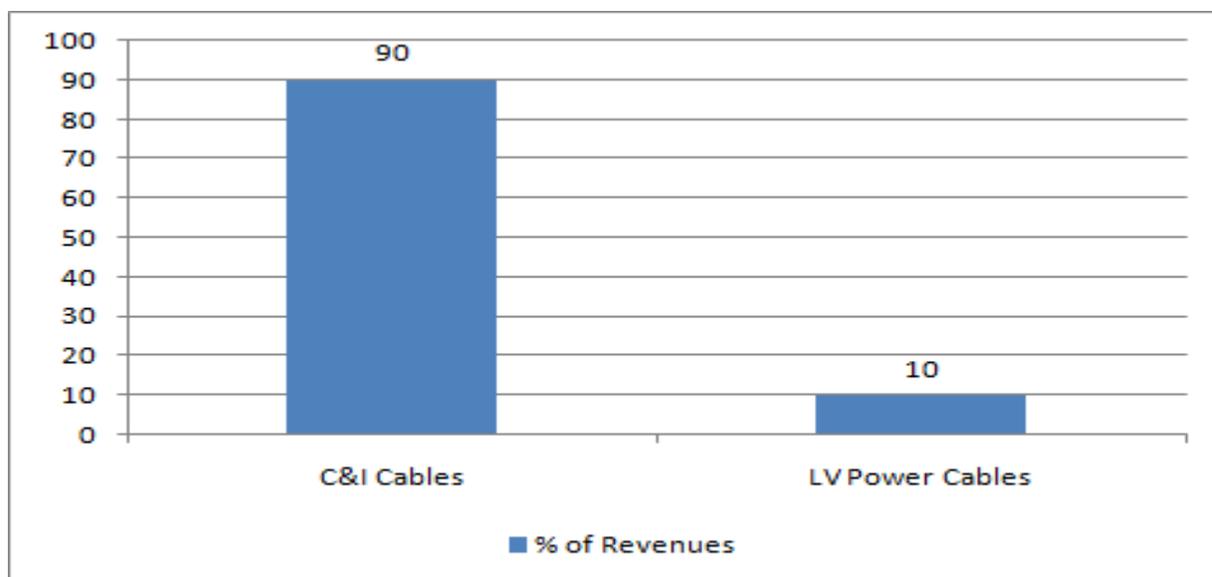
We Initiate coverage of Cords Cable with a **BUY** rating. Given the Increasing demand , Increasing capacity expansion, Diversified product basket ,Increasing metro projects and diversified clientele are key positives for the stock. We expect Cords Cable to report an EPS growth of 20% for the next 3 years. At the CMP of INR 78, the stock trades at 6.16x EPS of FY19E. **Key Risks** to our recommendation include any steep increase in raw material cost and competition from peer companies.

## Investment Arguments

**Company Profile:** Cords Cable Industries is one of the largest manufacturers of Control and Instrumentation Cables (C&I) in India, supplying to various end users industries like Metros, Refineries, Capital Goods and Real Estate sectors, Power, Airports, Railways etc. The company manufacturing capacity of ~65,000 KM per annum at Bhiwadi and Bhiwadi Ext. (Kaharani). The company also provides comprehensive customized solution in the field of C&I Cables to various industries. The company's 90% of the revenues comes from C&I Cables, while balance is from Power Cables, which is manufactured for the requirements of its C&I cable customers.

### Diversified product basket

Cords Cable Industries is one of the most diversified players, with presence across all the sub-segments of the C&I Cables in the domestic market. Though other companies like KEI Industries are present in the C&I Cables, Cords Cable has advantage of being a specialized player in the C&I Cables. Further, Cords Cable has large number of products that are pre-approved by the clients. This immensely helps the company in getting repeat orders. The company caters to a wide range of institutional clients across various industries, catering to both the private and public sector clients.



### Metro Projects

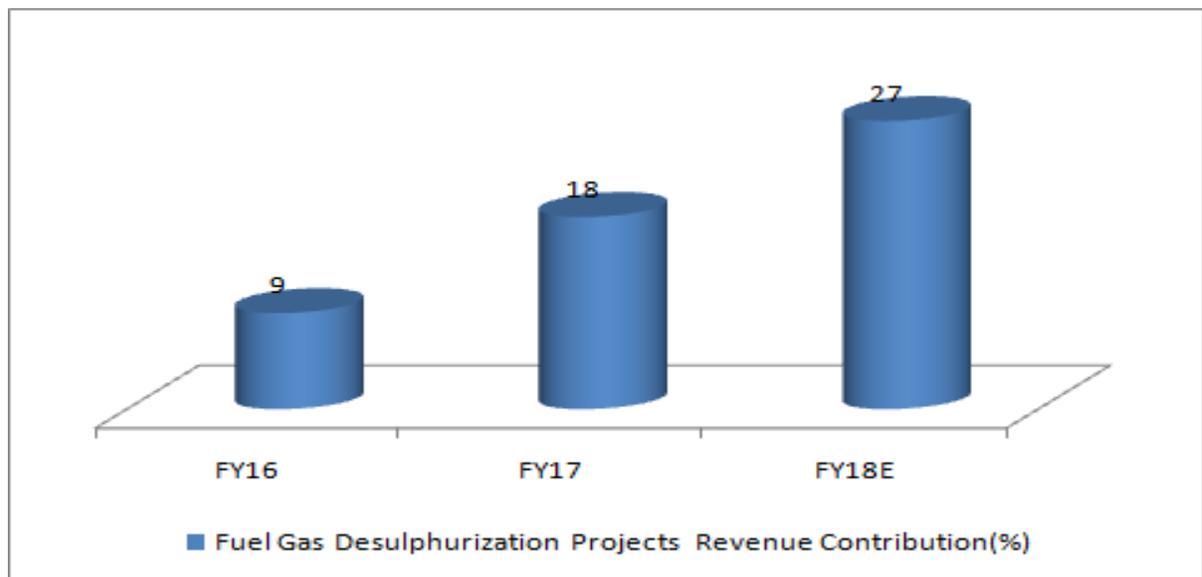
Cords Cable is an associated and approved vendor with all the Metros in India and has been supplying to the Metro projects in Lucknow, Chennai, Delhi, Hyderabad, Kochi, Bangalore, Mumbai, Jaipur etc. Due to the large opportunities in the signaling cables, special cables being sold to the Metro, Cords Cable will benefit from Governments' increased thrust on the Metro projects in various cities.

Further, Cords Cable sees a very large opportunity in the ongoing investments in the Freight Corridor projects. Out of the 3600km of the projects to be undertaken, only orders worth 600km have been placed so far. On account of orders placed so far, the revenue opportunity for Cords Cable is ~Rs 2bn, spread over a period of 4-5 years.

## Indian refinery sector - Big Opportunity

Indian refineries have been asked by the government to comply with BS-VI by April 2020, leading to huge spending by the downstream companies on IT infrastructure. The company has already started supplying C&I Cables to these companies. Opportunity from this compliance is expected to be ~Rs 2bn for Cords Cable, spread over a period of 2-3 years.

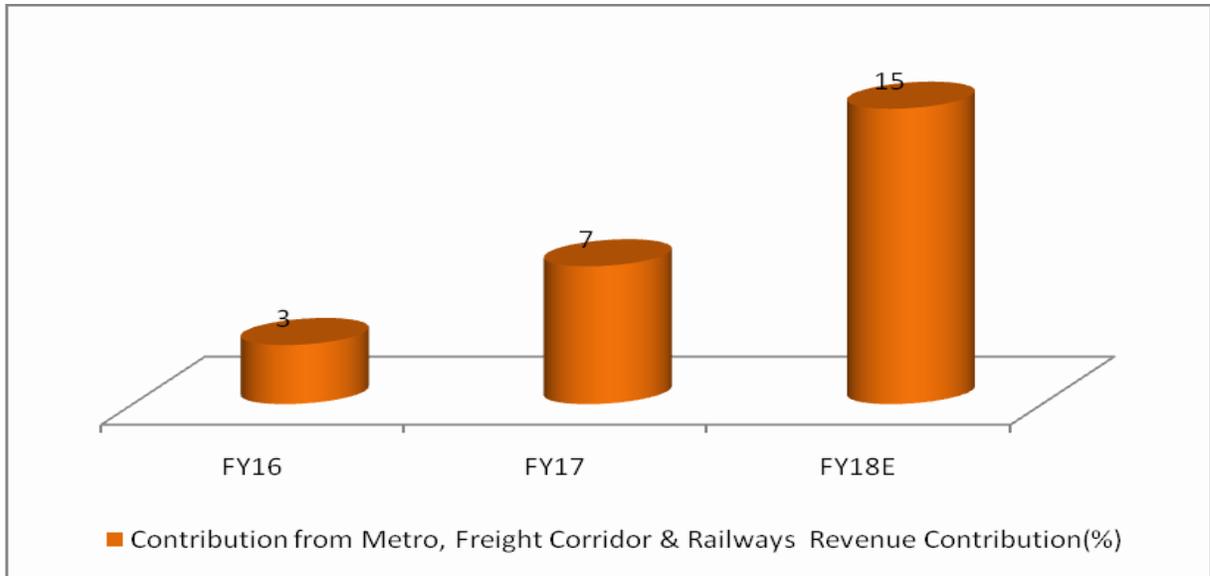
In the 12th Five year plan period, 50 million tonnes will be added to the total refining capacity of India, through capacity expansion projects of existing units. While new refinery units, which are expected to come up in the near future, will add up to 90.5 million tonnes to India's total refining capacity. This coupled with fresh impetus on IT infrastructure development to comply with BS- VI, presents a new opportunity for C&I Cable manufacturers. Cords Cable has started supplying to Indian downstream companies from FY17, which will gradually ramp in the coming years.



## Freight Corridor & railway upgradation projects – Emerging opportunity

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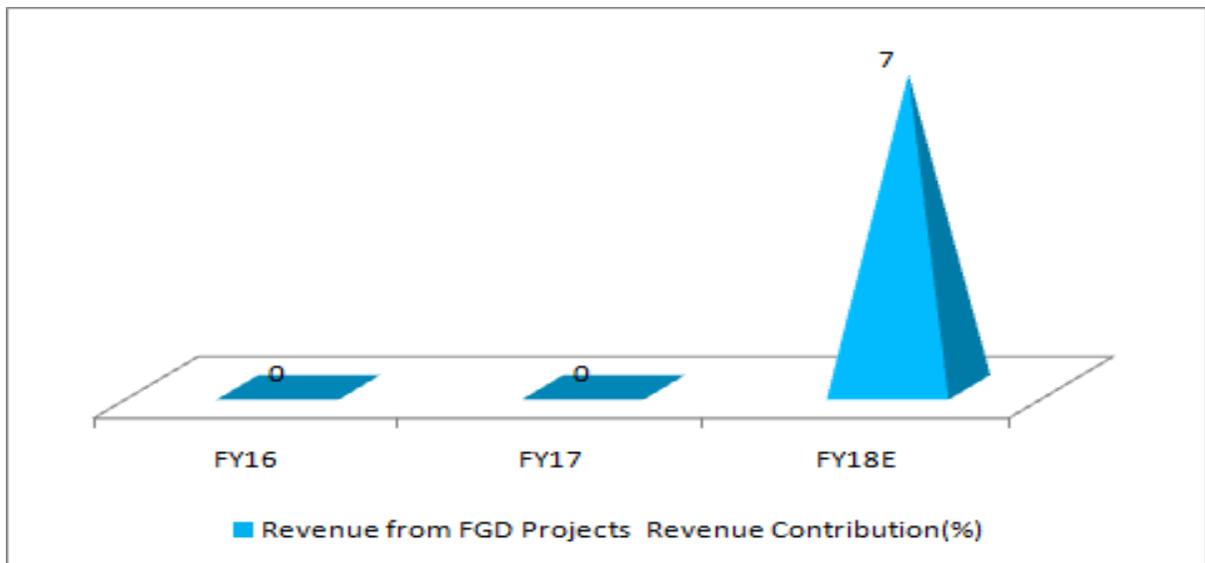
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### Fuel Gas Desulphurization (FGD) - Thermal Power Plant

Government of India has identified around 180,000MW of Thermal Power, where the emissions of various toxic gasses are to be reduced under the Fuel Gas Desulphurization (FGD) project. As per the government directive, the FGD is time bound and has to be completed by 2018. However, implementation has been slow and it has just started picking up.

Cords Cables is already an approved supplier. With requirements of instrumentation cable to be catered to in the FGD projects owing to the huge automation, the company is in advance stages of tying up for a substantial chunk of this business.



## Fertilizer Expansion

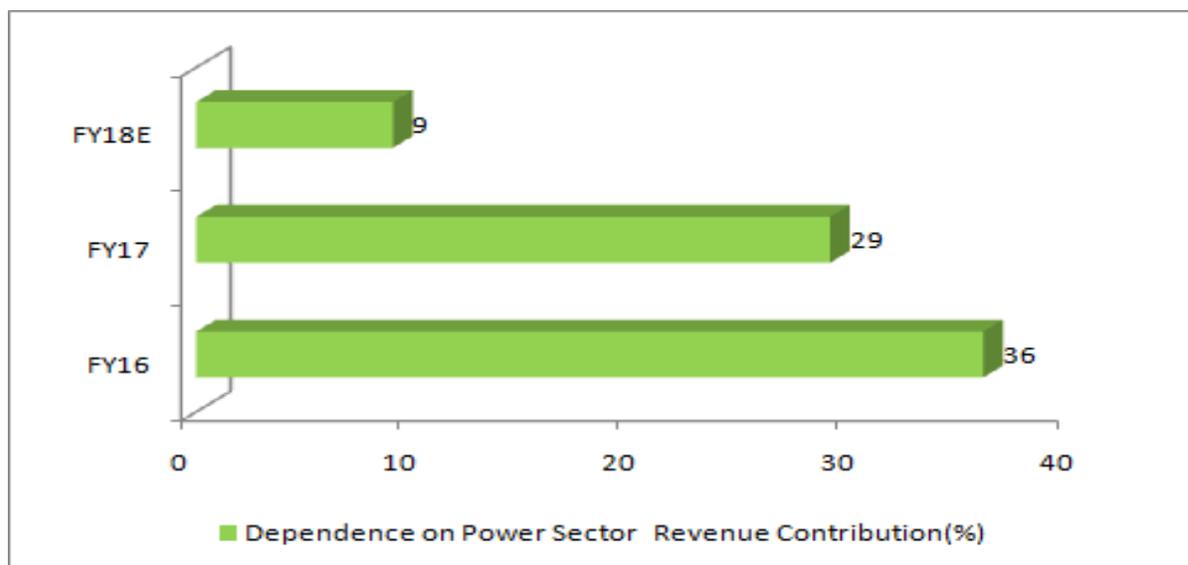
With the recent announcements of new Urea investment policy by the Government of India, several green field and brown field projects are taking off throughout the country. Cords Cable is an approved vendor for the supply of all types of cables and shall be supplying a major share to the fertilizer projects.

Cords Cable has already received orders for special category of cables (Fire Alarm & Communication and Field Bus cables) from Engineers India for the Ramagundam project. This project is expected to be commissioned by FY19. Apart from this Gorakhpur, Barauni, Sindri & Talchar Projects for which the estimated project capex is of ~Rs 300bn in likely to happen in 2019. Tender for selection of the contractor has been already floated for the project. Cords Cable is expecting cable enquiries in FY19 and expects all these projects are to be commissioned by FY20.

Cords Cable clients such as RCF, NFL, KRIBHCO are undergoing various expansion projects and increasing production capacities by revamping & setting up new plants. The contractors for all these projects shall be finalized by FY18. Cords Cable is an approved supplier for all fertilizer companies and is expecting cable enquiries by FY19.

## Reducing dependence on power sector

Cords Cable has been consciously reducing its exposure to the Power sector, a step that shall improve its Receivable's Cycle as well as over dependence on a single sector. Few years ago, over 55% of its total Sales used to come from the Power sector alone, making the company highly sensitive to investment in that sector. This has gradually & strategically been de-risked and contribution of power sector to its revenues has declined from 36% in FY16 to 29% of in FY17 and is expected to go down further to 9% in FY18, largely on account of pick-up in order inflows from Metros, Freight Corridor, Hydro Carbon, Fertilizers etc.



### **Diversified Client Mix**

Cords Cable Industries has highly diversified business model, both in terms of client concentration as well as the sectors it services. No client accounts for more than 20-22% of the revenues. Further, it caters to a diverse set of industries ranging from Metros, Capital Goods to Refineries as well as end user companies like Berger Paints, Asian Paints, Biocon etc. Also, government and PSUs account for 40% of the revenues, while the balance comes from Private companies.

Largest customer, L&T accounts for about 20-22% of the revenues. Also, supply to refineries that started in FY17, will further diversify its revenue mix going forward. The company expects better margin in the refineries and other end user businesses.

### **Capacity ramp up - Growth Driver**

The company has a manufacturing facility at Bhiwadi with an annual capacity of 65,000 KM per annum. However, operational capacity is ~42000 KM per annum as the company can optimally produce ~60-70% of the theoretical capacity, due to varied specifications of different clients. Currently, the company is operating at a capacity utilization of ~60% of the practical manufacturing capacity. With surge in demand from various sectors, the company management expects the sales volumes to grow at a CAGR ~20% over the next two years.

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## Financials

### P&L

Standalone Profit & Loss account (Rs.Cr)	Mar '13	Mar '14	Mar '15	Mar '16	Mar '17
<b>Income</b>					
Sales Turnover	424.02	286.88	286.23	310.21	354.96
Excise Duty	38.58	23.89	21.2	26.89	31.55
Net Sales	385.44	262.99	265.03	283.32	323.41
Other Income	1.71	1.86	1.91	1.89	2.11
Stock Adjustments	4.26	-7.35	5.65	1.28	-3.09
Total Income	391.41	257.5	272.59	286.49	322.43
<b>Expenditure</b>					
Raw Materials	322.04	203.62	216.15	227.72	259.49
Power & Fuel Cost	4.01	3.44	3.53	0.63	0.53
Employee Cost	16.29	14.23	14.74	14.8	13.74
Other Manufacturing Expenses	2.35	1.92	1.95	4.64	4.82
Selling and Admin Expenses	0	0	0	0.1	0.07
Miscellaneous Expenses	6.67	6.61	7.03	7.45	8.69
Total Expenses	351.36	229.82	243.4	255.34	287.34
Operating Profit	38.34	25.82	27.28	29.26	32.98
PBDIT	40.05	27.68	29.19	31.15	35.09
Interest	22.64	19.66	19.99	20.87	21.94
PBDT	17.41	8.02	9.2	10.28	13.15
Depreciation	8.4	4.99	5.41	5.42	5.45
Profit Before Tax	9.01	3.03	3.79	4.86	7.7
PBT (Post Extra-ord Items)	9.01	3.03	3.79	4.86	7.7
Tax	2.92	0.98	1.1	1.77	2.65
<b>Reported Net Profit</b>	<b>6.08</b>	<b>2.03</b>	<b>2.7</b>	<b>3.11</b>	<b>5.03</b>
<b>Earning Per Share (Rs)</b>	<b>5.18</b>	<b>1.64</b>	<b>2.22</b>	<b>2.28</b>	<b>3.78</b>

## Balance Sheet

Standalone Balance Sheet(Rs.Cr)	Mar '13	Mar '14	Mar '15	Mar '16	Mar '17
<b>Sources Of Funds</b>					
Total Share Capital	13.03	13.03	13.03	14.53	14.53
Equity Share Capital	11.43	11.43	11.43	12.93	12.93
Preference Share Capital	1.6	1.6	1.6	1.6	1.6
Reserves	91.7	93.55	95.65	103.51	108.37
Networth	104.73	106.58	108.68	118.04	122.9
Secured Loans	71.16	65.02	61.69	55.43	65.45
Total Debt	71.16	65.02	61.69	55.43	65.45
<b>Total Liabilities</b>	<b>175.89</b>	<b>171.60</b>	<b>170.37</b>	<b>173.47</b>	<b>188.35</b>
<b>Application Of Funds</b>					
Gross Block	136.58	137.04	138.03	138.09	138.54
Less: Accum. Depreciation	27.86	32.85	38.62	43.66	48.79
Net Block	108.72	104.19	99.41	94.43	89.75
Capital Work in Progress	0.64	0.7	0.74	0	0.48
Investments	0.01	0.05	0.19	0.21	0.42
Inventories	51.83	45.2	47.52	48.98	47.45
Sundry Debtors	82.82	83.86	86.63	94.54	95.02
Cash and Bank Balance	16.05	18.01	17.18	18.86	23.84
Total Current Assets	150.7	147.08	151.33	161.66	164.72
Loans and Advances	28.44	30.54	32.09	25.76	24.03
Total CA, Loans & Advances	179.14	177.62	183.42	187.42	188.75
Current Liabilities	110.73	109.43	111.92	107.66	89.78
Provisions	1.89	1.52	1.47	1.65	2.86
Total CL & Provisions	112.62	110.95	113.39	109.31	92.64
Net Current Assets	66.52	66.67	70.03	78.11	96.11
<b>Total Assets</b>	<b>175.89</b>	<b>171.60</b>	<b>170.37</b>	<b>173.47</b>	<b>188.35</b>

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