

TORRENT CABLES LTD.

BSECODE: 504096
EQUITY: 7.49CRS
Industry: Cables: Power/Others
CMP 178

NSE CODE: N/A
GROUP: TORRENT

TARGET: 300

We are initiating a coverage on TORRENT CABLES with a BUY recommendation on it.

BACKGROUND

The Company, formerly known as Mahendra Electricals Limited promoted by Shri J C Patel, Chartered Engineer, in collaboration with M/s Johnson & Phillips of UK (now known as Delta Crompton Cables Ltd UK) was incorporated on 26th November, 1960. The facilities for manufacturing XLPE Cables were installed in 1982 but could not be successfully commissioned because of the sad demise of Shri J C Patel and later on his son, Shri Mahendra Patel. After the takeover of the Company by the Torrent Group in July, 1989, the Company with active support of M/s John Royle of U S A started commercial production of XLPE Cables from September, 1991. Under the Technical Assistance and Training Agreement, John Royle has provided to Torrent Cables Ltd all processes, machine drawings, specifications and manufacturing skills as may be required for the manufacturing of XLPE cables. Presently TCL is the market leader in HT XLPE power cables and is one of the fastest growing cable companies in India. It has the most sophisticated and well equipped manufacturing plant in nadiad. With the sector looking up and several power companies coming with mega projects companies like Torrent are benefiting the most and thus increase in topline and bottomline.

INTRODUCTION

The passage of electricity bill with the ongoing Accelerated Power Development and Reforms Program (APDRP) have focused on improving the transmission and distribution system in the country and has given a new lease of life to the power ancillary sector. This has resulted in increase in demand for the Company's products. Torrent cable is the leading and by far the most financially sound in this sector.

INPUT COST ISSUE

The last few months have seen a run away increase in the prices of major raw materials like steel, copper, XLPE compound, PVC and aluminium. Major business in the industry is finalised through tendering process, which takes long time for the orders to be placed. This has brought margins under pressure for the company. But now with both steel and copper prices softening down and with the same trend likely to continue the margins of TCL r sure to increase considerably in the coming quarters.

CLIENTS & ORDER BOOK

TCL has an order book position of more than 150cr and it has a coveted clientele base with companies like Andrew Yule & Co Ltd, The Ahmedabad Elec. Co. Ltd, ABB, Punjab State Elec. Board, Project Development India Ltd, Neyveli Lignite Corpn Ltd, Nuclear Power Corpn. Ltd, New Delhi Municipal Corporation, Hindustan Aeronautics Ltd., Gherzi Eastern Ltd e.t.c. With most of them coming with mega power projects companies like TCL r benefiting the most.

PROSPECTS

The Torrent group itself is floating an SPV with 51 per cent equity holding of its two group companies — Surat Electricity Company (SEC) and Ahemdabad Electricity Company (AEC) — for setting up a 1,050 MW mega power project for an estimated cost of Rs 3,500 crore in the Gujarat state. With the Company continuing to follow the policy of cost consciousness, scrap reduction and tight control on thus improving the operational efficiency and working capital management. This has helped in reducing the manufacturing as well as financial costs. This with the group strategy to strengthen its network and efficiencies in the power sector is likely to augment well and do wonders for the company, which is likely to boost the prospects of the company.

OUTLOOK

The Indian economy is finally showing signs of coming out of economic slow down and the Government initiatives on power sector reform have started showing some results. The new Electricity Act has created an enabling environment for a slew of reforms in the power sector including privatization of electricity boards; decontrol of generation and power trading etc. This along with the accelerated power development and reforms program (APDRP) is likely to quicken the pace of modernization of power distribution network in the country. The industrial recovery and the resultant new projects along with the capacity addition in the core sectors augur well for the demand of power cables. TCL products demand is likely to remain very strong in the coming years.

FINANCIALS

TCL has been consistently performing well over the last 3years and the same trend is likely to continue going forward. The demand too is likely to continue for it.

KEY FINANCIALS (Rs. Cr)

Year End	2003	2004	2005	2006
Net Sales	66	96	126	170
OP	9.54	21.2	29.39	33.00
Net Profit	4.78	11.78	14.87	21.00
Equity Cap	7.49	7.49	7.49	7.49

CONCLUSION

Torrent cables is trading at a P.E of just 6.35 times its expected FY06 earnings. The company has recently rewarded its shareholders by announcing a dividend of 2rs. The reserves has also mounted to 27cr (looking at the investor friendly management and low equity of the company, a bonus may be in the offing). Considering the management's thrusts, growth strategy and the demand for the company's product, **we recommend a buy rating on it with a price target of 300 in 1 yr.**

VALUATIONS	FY2003	FY2004	FY2005	FY2006E
EPS	10.01	15.75	19.88	28.00
P/E	17.8	11.25	8.95	6.35
BV	9.93	28.88	46.40	56.50
CEPS	14.63	22.50	24.49	34.01
P/CEPS	12.16	7.91	7.26	5.24
P/B	17.9	6.16	3.83	3.23
M cap/Sales	2.12	1.46	1.11	0.82
Dividend/Share	0.00	0.00	2.00	4.50
RONW	60.67	56.37	42.7	49.4

Shareholding Pattern(%)

Indian Promoters	63.13%
Mutual Funds and UTI	0.58%
Banks, FII, Insurance comp.	0.01%
PCB	4.53%
Indian Public	30.78%
NRIs/OCBs	0.47%
HUF	0.49%
Trusts	0.01%

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