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Torrent Cables Ltd

Quick Report

Torrent Cables Ltd makes power distribution cables and has the potential to greatly benefit from the replacement of overhead conductors with underground cables. TCL is the sole Indian company in this business that is making profits, all its competitors are bleeding. The company is contemplating capacity expansion to tap the growing market. We estimate the potential replacement opportunity at Rs.100,000 crores in India.

Price Rs.60

FY04 EPS Rs 16.20

Trailing P/E 3.7

Torrent Cables Ltd, a group company of the Ahmedabad-based Torrent group, has seen significant improvement in its fortunes over the last year. It not only came out of BIFR net, but also reported 154% jump in net profit to Rs.121mn in FY04. The growth came on the back of 78% increase in sales and improvement in operating margins.

The company made rapid strides out of BSE's Z group to B2 group and then to B1 group – all within the last few months.

Turnaround

In early 1990's, with the impetus on setting up power generation plants, power cable manufacturers raised capacities and new players entered the industry. Addition to power generation capacity woefully fell short of target leading to overcapacity in the power cable industry. This coupled with the fact that SEBs were the key customers led many cable manufacturers go into the red. In this backdrop, Torrent Cables became a sick company. The rehabilitation scheme for the company was sanctioned in April-02 and it came into effect from Jan-00.

While TCL has come into profits, its competitors (Universal Cables, Uniflex Cables, RPG Cables, Nicco Corporation, Fort Gloster, CCI, and Industrial Cables are still making losses or meagre profits. Internal restructuring, promoters' support, and technical superiority of its products led to its eventual turnaround.

Huge potential market for power cables, which are replacing overhead conductors

Till recently, power cable manufacturers were dependent on state electricity boards for business. SEBs are notorious for their inability to make large investments and delay in making payments to vendors. With privatization of power transmission and distribution, private players have entered these areas. These private players have not only the capability to make large investments but also huge incentive to invest.

Policy focus has now shifted from generation to distribution reforms. An amount of Rs.35bn was budgeted for the Accelerated Power Development and Reforms Programme (APDRP). These reforms are aimed at improving the financial health of SEBs, who are key customers, and upgradation of power transmission and distribution network.

In India, Transmission and Distribution losses are huge mainly due to theft and lack of maintenance. Estimates of T&D losses vary from 25% to 50%. Replacement of overhead conductors by underground cables can bring down T&D losses to technical minimum of 7-11%. This can mean tremendous savings for distribution companies. For Example, Reliance Energy took over Delhi Distribution, where T&D losses are estimated at over 50%, i.e. If 100 units of power are evacuated for distribution, much lesser number of units is invoiced and ultimately money is realized on only 50 units.



Profit can jump 4 times if T&D losses are curtailed to technical minimum. Thus power distribution companies have huge incentive to replace conductors with cables. Apart from this incentive, the central government under APDRP provides 50% subsidy on capital investment meant to reduce T&D losses, and provides 50% soft loan. There are other benefits of replacement like safety and improved city skyline.

We estimate that if all overhead conductors in India are to be replaced with underground cables, we will need Rs.100,000 crores worth of cables at current prices. Given that TCL's FY04 sales was only Rs.118 crores, there is a mind blowing growth opportunity here.

Privatization of Distribution circles augurs well

At present Ahmedabad, Surat, Mumbai, and parts of Delhi have privatized distribution. More and more distribution circles are going to be privatized going forward. As private players enter, replacement of conductors with cables is going to be the most lucrative investment for them.

High value addition and De-bottlenecking to drive growth in short term

The company is currently operating at full capacity and is augmenting capacity via de-bottlenecking. Moreover, the existing capacity will be used for higher value added products and production of low value added products will be curtailed.

Capacity addition to drive long term growth

Torrent Cables is currently operating at full capacity. In order to tap the market potential, it is contemplating a capacity expansion. The company is debt-free and cash-rich. Therefore capacity expansion can be resorted to without dilution of equity.

Inter-Firm Comparison

Company Name	Rs.mn			
	Debtors Days	Latest Quarter	Adjusted Trailing Annual PAT	Trailing annual Net sales
Torrent Cables Ltd.	66	200403	123	965
Industrial Cables (India) Ltd.	121	200401	(14)	491
Diamond Cables Ltd.	215	200312	(34)	687
Universal Cables Ltd.	58	200312	(56)	1,306
Fort Gloster Inds. Ltd.	107	200312	(158)	287
Uniflex Cables Ltd.	129	200312	(226)	860
R P G Cables Ltd.	157	200312	(299)	1,340
Cable Corpn. Of India Ltd.	297	200312	(343)	611
Nicco Corpn. Ltd.	147	200312	(378)	2,242

These are top players in HT XLPE Cables using Dry Cure technology. There are other players who make HT XLPE Cables using Steam Cure technology like Havells, Hindustan Vidyut Products, and Central Cables. However, Dry Cure is a much better technology than Steam Cure.

TCL is only in XLPE Cables. HT Cables contribute 85% to sales and LT 15%. In case of other firms, there are other kinds of cables as well. For power distribution, XLPE cables are the best. TCL has the highest sales of HT XLPE cables among all these firms.

It can be observed from the table above that TCL is the only profit making company. Given that SEBs and other public utilities are major users of these cables, debtors' days become very important. It can be seen that TCL has only 66 days of sales outstanding as debtors as compared to much higher days for its competitors. TCL is increasingly tapping private sector players like Reliance Energy and L&T rather than SEBs. A quarter of its sales are to the Torrent group companies – Ahmedabad Electricity Co Ltd and Surat Electricity Co Ltd. These companies are into power distribution in the cities of Ahmedabad and Surat.



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