

I India
ADD (no change)

Consensus ratings*: Buy 8 Hold 0 Sell 0

Current price:	Rs401
Target price:	Rs526
Previous target:	Rs678
Up/downside:	31.2%
InCred Research / Consensus:	-12.0%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$844m
	Rs61,260m
Average daily turnover:	US\$1.3m
	Rs92.2m
Current shares o/s:	153.0m
Free float:	64.1%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue estimates up ~10%.
- FY23F/24F EBITDA down 11%/2%.
- Cut core business P/E multiple to 11x from 14x earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.5	(2.0)	(13.3)
Relative (%)	3.6	(3.3)	(18.9)

Major shareholders	% held
Promoters	35.9
Finolex Industries Limited	14.5
DSP Small Cap Fund	4.5

Analyst(s)

Rahul AGARWAL

T (91) 22 4161 1553
E rahul.agarwal@incredcapital.com

Shubham AGGARWAL

T (91) 22 4161 1000
E shubham.aggarwal@incredcapital.com

Finolex Cables

Core growth and cash - both need to work

- 4QFY22 revenue beat of 11% was led by partial price hikes due to higher copper prices. EBITDA missed our estimate by 11% due to margin pressure.
- We expect a slower-than expected margin recovery for electrical wire and optic fibre segments. M&A hunt continues to deploy large cash surplus (~Rs20bn).
- Valuation is attractive below mean P/E. However, wire market share loss and capital allocation are large risks, in our view. Retain Add rating on the stock.

Input cost inflation hits 4QFY22 margins

Finolex Cables' (FNXC) 4QFY22 results were a mixed bag. Revenue grew 29% yoy to Rs11.9bn led by 37%/31% yoy growth in electrical cable/FMEG revenue segments, respectively. Electrical cable (EC) sales volume grew 22% yoy. Communication cable (CC) revenue fell 19% yoy due to lower government/private capex on telecom. Surge in commodity prices led to lower margins across EC (-180bp qoq) and FMEG segments (190bp qoq). CC margins were hit (-570bp qoq) due to provisions recognized for delayed government receivables (FY22: ~Rs260m). EBITDA fell 11% yoy to Rs1.2bn. PAT declined 39% yoy, adjusted for one-time income (Rs1.2bn) and a 62% drop yoy in associate firm's share of profits. FY22 revenue/EBITDA/APAT grew 36%/16%/3% yoy respectively.

Margins set to recover in FY23F; M&A hunt continues

Management gave guidance of a recovery in cable/wire margins, but we estimate EBIT margin to be muted (~14% vs. 15.5% pre-Covid level) by FY24F as higher trade incentives (~2%) to support during the Covid-19 pandemic continue into FY23F. Optic fibre capacity remains underutilized due to lower demand. Optic fibre cable prices dropped, leading to pressure on EBIT margin as well. Management expects global demand-supply balance to improve and optic fibre cable prices to climb back up to US\$5-5.5/km (US\$3-3.5 currently) leading to better margins going ahead. FMEG revenue target is set at ~Rs5bn (~40% CAGR) over the next three years. Finolex Cables will add SKUs, new categories and leverage its distribution reach (700 distributors/1,50,000 retail touchpoints) over the next 6-12 months to achieve the target. Management continues to evaluate inorganic growth opportunities to deploy surplus cash of ~Rs20bn. Net working capital cycle (ex-cash) improved to 62 days in Mar 2022 from 103 days yoy due to inventory normalization.

Change in estimates and valuation

We revise overall revenue growth and margin assumptions based on current pricing outlook, volume growth estimates and a slower recovery in wire/optic fibre cable margins. We are concerned over the wire market share loss and lack of clarity on capital allocation and hence, cut our target P/E multiple for core business to 11x (30% discount to 5-year mean P/E) from 14x earlier. Valuation is cheap at a P/E of 9.6x FY23F EPS. We retain Add rating on FNXC with a lower SOTP-based TP of Rs526- a) Rs367 (11x core FY24F EPS), and b) Rs159 (25% discount to CMP) for the 32.4% equity stake in Finolex Industries (Add rating). Downside risks: Promoter inheritance settlement problems and input cost inflation.

Financial Summary

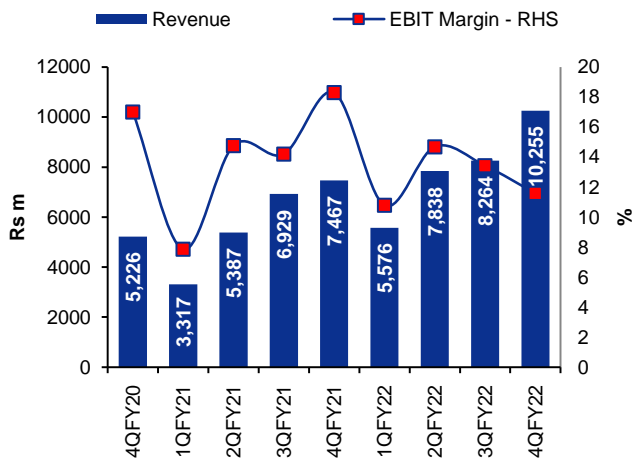
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	28,773	27,681	37,681	41,349	45,266
Operating EBITDA (Rsm)	3,835	3,702	4,285	5,065	6,156
Net Profit (Rsm)	3,911	4,615	5,991	6,336	6,499
Core EPS (Rs)	25.6	30.2	33.1	35.5	42.5
Core EPS Growth	(4.0%)	18.0%	9.7%	7.2%	19.7%
FD Core P/E (x)	15.66	13.28	10.23	9.67	9.43
DPS (Rs)	4.5	5.5	6.0	6.5	7.0
Dividend Yield	1.35%	1.37%	1.50%	1.62%	1.75%
EV/EBITDA (x)	12.20	12.42	9.73	7.59	5.49
P/FCFE (x)	6.85	(8.20)	66.45	16.24	11.65
Net Gearing	(48.1%)	(44.8%)	(49.9%)	(51.2%)	(55.0%)
P/BV (x)	2.04	1.79	1.56	1.37	1.23
ROE	13.6%	14.4%	13.8%	13.0%	13.7%
% Change In Core EPS Estimates			(4.77%)	(13.70%)	(4.26%)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

4QFY22 earnings-call takeaways

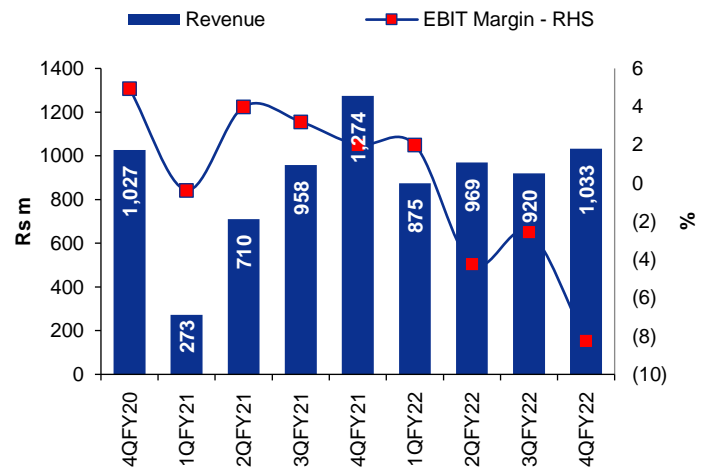
- **Revenue:** Management stated that FY22 volume growth yoy was muted due to repeated price hikes (prices were hiked 5-6 times in FY22) and shrinking customer budgets. Wire volume was up 7% yoy and optic fibre volume rose 32% yoy. However, management expects volume growth to recover further as selling prices stabilize in FY23F.
- **Margins:** Time lag for price hikes on the back of ever-increasing input cost, continuation of Covid-support incentives to trade channel (~2% of sales) and one-time provisions (old inventory adjustments – 1.5% margin impact and expected credit loss or ECL provisions relating to the delay in government receivables) impacted FY22 margins.
- **Distribution:** Finolex Cables expanded its distribution reach to 700 distributors and 1,50,000 retail counters. The company restructured its distribution channel over the past three years and is now migrating to a distributor-led model mapping all dealers/retailers to regional distributors versus the only dealer model earlier. Management stated that channel inventory is low currently in anticipation of a downward trend continuing for copper prices.
- **B2C vs. B2B sales:** FY22 cable and wire revenue of Rs32bn included B2B sales of ~Rs3.8bn (Rs1.8bn of power cable and Rs2bn of auto cable segments) though these were also routed through channel partners without any direct customer credit risk to the company. The balance Rs28bn of electrical cable/wire sales are B2C sales through the dealer/distributor network. 50% of the Rs2bn power cable sales are through distributors.
- **Communication cables:** Management stated that volume declined across most CC product lines due to a slowdown in optic fibre cable demand because of lower government/private capex on telecom infrastructure development. Optic fibre cable or OFC prices declined from US\$6-6.5/km to US\$3.5-4/km over FY22. However, management stated that OFC demand-supply balance will deteriorate globally, and prices will climb back to US\$5-5.5/km over the next one-to-two years. Management gave guidance of 7-10% EBIT margin in the short term and 11-11.5% EBIT margin over the long run.
- **Corning JV:** Finolex Cables expects liquidation of the Corning joint venture or JV to be completed in CY22F, leading to ~Rs140m cash inflow on divestment.
- **FMEG:** Fans, lighting, and conduit pipes accounted for a major portion of the FMEG segment's revenue, clocking sales of ~Rs120m/month. FNXC will be adding new variants to its existing offerings of water heater, switches, and switchgear portfolio.
- **Capex:** Management gave capex guidance of Rs1.1bn for FY23F. Capacity utilization in the EC segment has reached pre-Covid level (>70%).

Figure 1: Electrical cable revenue and margin trend



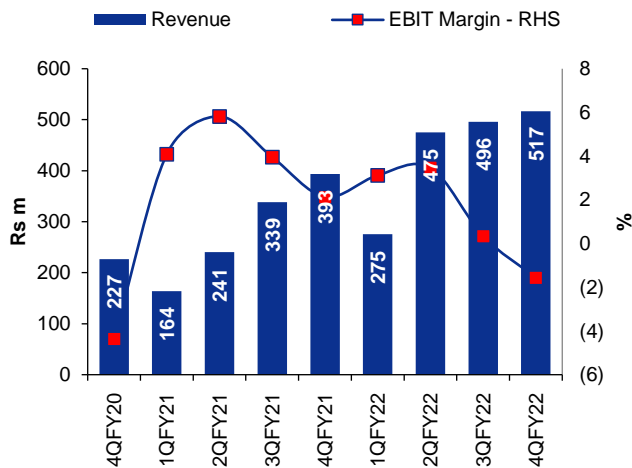
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Communication cable revenue and margin trend



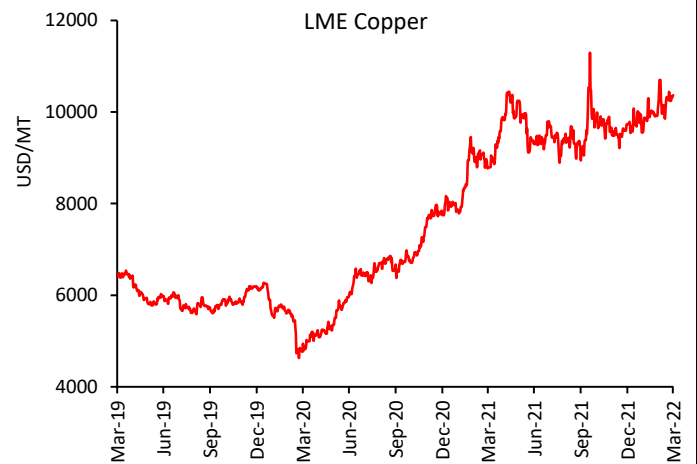
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Others (FMEG) revenue and margin trend



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Copper price trend



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 4QFY22 results snapshot

YE Mar (Rs m)	4QFY22	4QFY21	yoy (%)	3QFY22	qoq (%)	FY22F	FY21	yoy (%)
Revenue	11,869	9,214	28.8	9,730	22.0	37,681	27,681	36.1
EBITDA	1,201	1,351	(11.1)	1,185	1.3	4,285	3,702	15.8
EBITDA margin (%)	10.1	14.7	-455 bp	12.2	-206 bp	11.4	13.4	-200 bp
Adj. PAT	1,027	1,678	(38.8)	1,430	(28.2)	4,773	4,615	3.4
Diluted EPS (Rs)	6.7	11.0		9.3		31.2	30.2	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 4QFY22 segmental results snapshot

YE Mar (Rs m)	4QFY22	4QFY21	yoy (%)	3QFY22	qoq (%)
Revenue					
Electrical Cables	10,255	7,467	37.3	8,264	24.1
Communication Cables	1,033	1,274	(18.9)	920	12.3
Copper rods	64	79	(19.8)	49	28.7
Others (FMPEG)	517	393	31.4	496	4.2
Inter-segment revenues	2,958	1,507	96.2	1,777	66.4
Total	11,869	9,214	28.8	9,730	22.0
EBIT					
Electrical Cables	1,188	1,366	(13.0)	1,109	7.1
Communication Cables	-85	26	(434.1)	-24	262.6
Copper rods	10	4	185.7	8	31.6
Others (FMPEG)	-8	8	(196.4)	2	(576.5)
Total	1,105	1,403	(21.3)	1,095	0.9
EBIT margin (%)					
Electrical Cables	11.6	18.3	-671 bp	13.4	-184 bp
Communication Cables	-8.2	2.0	-1025 bp	-2.6	-569 bp
Copper rods	15.7	4.4	1131 bp	15.4	34 bp
Others (FMPEG)	-1.6	2.1	-370 bp	0.3	-191 bp
Total	7.5	13.1	-564 bp	9.5	-207 bp

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	4QFY22A	4QFY22F	Var (%)
Revenue	11,869	10,662	11.3
EBITDA	1,201	1,354	(11.3)
EBITDA margin (%)	10.1	12.7	-258 bp
Adj. PAT	1,027	1,721	(40.4)

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus

Rs m	4QFY22A	4QFY22C	Var (%)
Revenue	11,869	10,574	12.2
EBITDA	1,201	1,234	(2.7)
EBITDA margin (%)	10.1	11.7	-155 bp
Adj. PAT	1,027	971	5.7

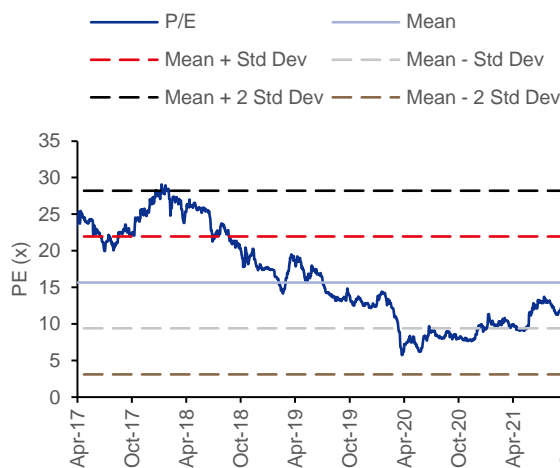
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Revision in our estimates

	New estimates		Old estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	41,349	45,266	37,405	41,050	10.5	10.3
EBITDA	5,065	6,156	5,667	6,260	-10.6	-1.7
EBITDA margin (%)	12.3	13.6	15.2	15.3	-290 bp	-165 bp
Adjusted consol. PAT	5,122	6,499	6,289	6,788	-18.6	-4.3
EPS	33.5	42.5	41.1	44.4	-18.6	-4.3

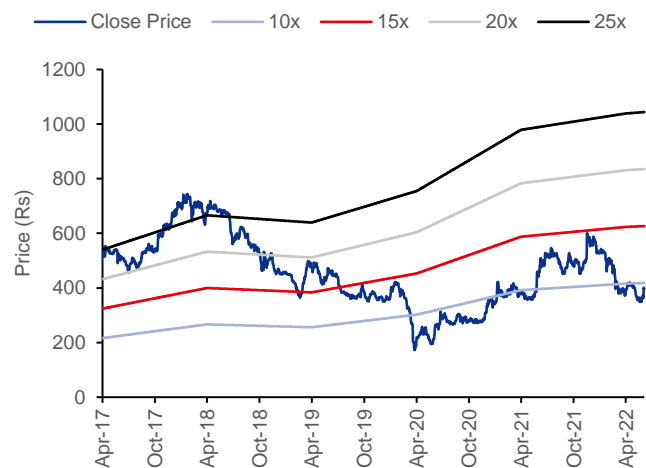
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: P/E SD (five-year mean P/E)

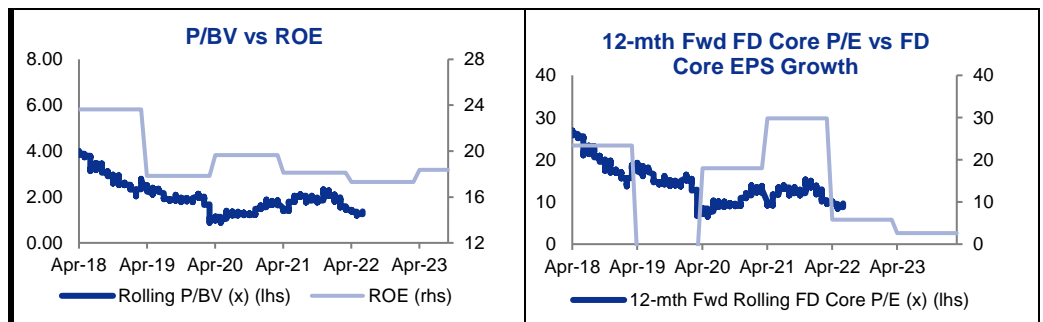


SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: P/E band



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Net Revenues	28,773	27,681	37,681	41,349	45,266
Gross Profit	7,940	7,167	8,019	9,200	10,728
Operating EBITDA	3,835	3,702	4,285	5,065	6,156
Depreciation And Amortisation	(389)	(390)	(389)	(448)	(493)
Operating EBIT	3,446	3,312	3,897	4,617	5,663
Financial Income/(Expense)	817	725	654	935	1,114
Pretax Income/(Loss) from Assoc.	776	2,234	2,053	1,657	1,861
Non-Operating Income/(Expense)	82	38	45	48	50
Profit Before Tax (pre-EI)	5,121	6,309	6,648	7,256	8,689
Exceptional Items			1,218	1,215	
Pre-tax Profit	5,121	6,309	7,866	8,471	8,689
Taxation	(1,211)	(1,694)	(1,875)	(2,135)	(2,190)
Exceptional Income - post-tax					
Profit After Tax	3,911	4,615	5,991	6,336	6,499
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,911	4,615	5,991	6,336	6,499
Recurring Net Profit	3,911	4,615	5,064	5,428	6,499
Fully Diluted Recurring Net Profit	3,911	4,615	5,064	5,428	6,499

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	3,835	3,702	4,285	5,065	6,156
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(135)	(1,559)	1,495	(1,528)	(751)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	68	896	929	3,853	3,026
Net Interest (Paid)/Received	(81)	(725)	(659)	(935)	(1,114)
Tax Paid	(1,097)	(1,171)	(1,320)	(2,135)	(2,190)
Cashflow From Operations	2,590	1,144	4,731	4,321	5,126
Capex	(323)	(549)	(671)	(1,000)	(500)
Disposals Of FAs/subsidiaries	6		3		
Acq. Of Subsidiaries/investments	5,843	(8,341)	(4,302)	(500)	(500)
Other Investing Cashflow	845	296	1,187	952	1,132
Cash Flow From Investing	6,370	(8,595)	(3,783)	(548)	132
Debt Raised/(repaid)	(23)	(17)	(25)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(825)	(838)	(838)	(994)	(1,071)
Preferred Dividends					
Other Financing Cashflow	(16)	(8)	(6)	(18)	(18)
Cash Flow From Financing	(864)	(863)	(869)	(1,012)	(1,089)
Total Cash Generated	8,096	(8,314)	78	2,762	4,170
Free Cashflow To Equity	8,937	(7,468)	922	3,773	5,259
Free Cashflow To Firm	8,945	(7,459)	932	3,756	5,241

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Cash And Equivalents	14,458	15,296	19,569	22,830	27,500
Total Debtors	1,870	1,766	1,772	2,266	2,480
Inventories	5,931	7,554	6,531	7,930	8,681
Total Other Current Assets	1,087	987	1,017	1,116	1,222
Total Current Assets	23,346	25,602	28,889	34,142	39,884
Fixed Assets	3,768	3,859	3,699	4,969	4,976
Total Investments	6,089	8,453	10,954	10,954	10,954
Intangible Assets	5	2			
Total Other Non-Current Assets	861	940	1,399	681	681
Total Non-current Assets	10,722	13,254	16,052	16,604	16,611
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,587	1,760	1,901	2,266	2,480
Other Current Liabilities	802	747	1,015	1,113	1,219
Total Current Liabilities	2,389	2,507	2,915	3,379	3,699
Total Long-term Debt	3	3	3	3	3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	178	159	185	185	185
Total Non-current Liabilities	182	162	187	187	187
Total Provisions	1,460	2,042	2,617	2,617	2,617
Total Liabilities	4,030	4,712	5,720	6,184	6,504
Shareholders Equity	30,037	34,145	39,221	44,563	49,991
Minority Interests					
Total Equity	30,037	34,145	39,221	44,563	49,991

Key Ratios					
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	(6.5%)	(3.8%)	36.1%	9.7%	9.5%
Operating EBITDA Growth	(18.3%)	(3.5%)	15.8%	18.2%	21.5%
Operating EBITDA Margin	13.3%	13.4%	11.4%	12.3%	13.6%
Net Cash Per Share (Rs)	94.52	99.99	127.92	149.25	179.78
BVPS (Rs)	196.41	223.26	256.43	291.35	326.85
Gross Interest Cover	222.32	435.82	256.35	263.86	314.19
Effective Tax Rate	23.6%	26.9%	23.8%	25.2%	25.2%
Net Dividend Payout Ratio	16.2%	13.3%	13.8%	13.7%	12.3%
Accounts Receivables Days	25.24	23.97	17.13	17.82	19.13
Inventory Days	103.39	119.96	86.66	82.09	87.77
Accounts Payables Days	32.15	29.78	22.52	23.65	25.08
ROIC (%)	32.0%	29.8%	30.9%	40.1%	41.7%
ROCE (%)	14.2%	11.9%	11.7%	12.5%	13.6%
Return On Average Assets	13.1%	15.3%	14.3%	13.2%	14.1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.