

India

ADD (no change)

Consensus ratings*: Buy 7 Hold 0 Sell 0

Current price:	Rs551
Target price:	Rs678
Previous target:	Rs584
Up/downside:	23.0%
InCred Research / Consensus:	9.1%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$1,131m
	Rs84,262m
Average daily turnover:	US\$3.3m
	Rs245.1m
Current shares o/s:	153.0m
Free float:	64.1%

*Source: Bloomberg

Key changes in this note

- FY22F/23F revenues up ~6%/5%.
- FY22FEBITDA down 7%, up 4% for FY23F.
- FY22F/23F APAT up ~9-10%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.3	12.5	99.3
Relative (%)	13.4	2.7	43.3

Major shareholders	% held
Promoters	35.9
Finolex Industries Limited	14.5
Dsp Small Cap Fund	4.8

Analyst(s)



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Finolex Cables

Volume growth despite sharp price hikes

- Price hikes lag input cost inflation, thereby impacting margins adversely.
- Management gave guidance of robust demand for its products from real estate and automobile sectors.
- We reiterate ADD rating and increase our TP to Rs678 (from Rs584 earlier).

2QFY22 performance far exceeds expectations

Finolex Cables' (FNXC) results came above expectations, beating our and Bloomberg consensus revenue/EBITDA estimates by 26%/28% and 18%/32%, respectively. 2QFY22 revenues rose 46% yoy/38% qoq to Rs9.3bn, led by price hikes. Volumes recovered as economic activity improved (electrical cables up 5%, communication cables ex-OFC 4%). Gross margin contracted 400bps yoy to 23.4% due to support to trade channels via higher schemes/incentives, steep rise in input commodity prices (copper, steel, aluminum, PVC) and supply chain constraints on a few imported materials. However, operating leverage benefits restricted EBITDA margin (at 12.8%) contraction to ~150bp yoy. Adjusted PAT growth at 42% yoy beat our and Bloomberg consensus estimates by ~51%, largely driven by a higher share of associate's profit. (Finolex Industries: ~Rs700m, up 120% yoy).

Robust demand outlook from construction and automobile sectors

Management sees electrical cable segment demand improvement led by a recovery in economic activity, as most markets opened completely by the second week of Jul 2021. Further, a sustained recovery in real estate and automobile sectors lent confidence to sustainable future demand. FNXC is in the process of increasing its wires capacity at Gujarat and Urse plants (thereby increasing its capacity by a third). FNXC continued its journey of distribution expansion and new product additions (forayed into room heater category) during 2Q. New products in FMEG segment grew volumes by 6-15% yoy in 2QFY22. FNXC incurred a capex of Rs250m during the quarter. Core working capital improved to 52 days in Sep 2021 from 96 days in Jun 2021, led by a fall in inventory days.

Price hike drives up revenue estimates, margin pressure to ease

We increase FY22F/FY23F revenue estimates by ~6%/5% due to input cost-led price hikes. FY22F EBITDA seen falling 7% to account for the lag in passing on the steep cost inflation, but we expect margin pressure to ease in 2HFY22F. FY22F/23F APAT increased 9-10%, mostly led by an increase in associate company's income. We introduce FY24F estimates. We expect revenue/EBITDA/PAT CAGR of 10.5%/20.9%/13% over FY22-24F.

Valuation and risks

We find the risk-reward favourable and raise our SOTP-based TP to Rs678/share divided into a) Rs459 (P/E of 14x core FY23F EPS – 10% premium to past 10-year mean P/E) and Rs219 (25% discount to CMP) for the 32.4% stake in Finolex Pipes. The premium is justified, given the recovery in housing demand and better FMEG performance, in our view. Downside risks: Prolonged promoter inheritance settlement and Covid-19 resurgence.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	28,773	27,681	33,617	37,405	41,050
Operating EBITDA (Rsm)	3,835	3,702	4,286	5,667	6,260
Net Profit (Rsm)	3,911	4,615	5,317	6,289	6,788
Core EPS (Rs)	25.6	30.2	34.8	41.1	44.4
Core EPS Growth	(4.0%)	18.0%	15.2%	18.3%	7.9%
FD Core P/E (x)	21.54	18.26	15.85	13.40	12.41
DPS (Rs)	4.5	5.5	6.0	6.5	7.0
Dividend Yield	0.98%	1.00%	1.09%	1.18%	1.27%
EV/EBITDA (x)	18.20	18.63	15.06	10.69	8.88
P/FCFE (x)	9.43	(11.28)	17.35	18.84	15.20
Net Gearing	(48.1%)	(44.8%)	(51.2%)	(54.0%)	(57.8%)
P/BV (x)	2.81	2.47	2.19	1.92	1.70
ROE	13.6%	14.4%	14.6%	15.3%	14.5%
% Change In Core EPS Estimates			9.53%	10.26%	
InCred Research/Consensus EPS (x)			1.45	1.29	1.20

SOURCES: INCRED RESEARCH, COMPANY REPORTS

2QFY22 earnings call takeaways

- **Demand:** Management took cues from real estate sector activity and demand from automotive segment while sharing the expectation of high demand for the company's products continuing over 2HFY22F.
- **Margins:** Lag in passing on the steep input cost inflation pressurized gross and EBITDA margins for the quarter. Further price hikes would be taken based on incremental price movement of key raw materials like copper and steel.
- **Segment-wise review:**
 - *Electrical cables:* Revenues were up 45.5% yoy and 41% qoq. Volumes were up 5% driven by an improvement in economic activity. Construction and auto wires led the growth in this segment. EBIT margin was at 14.7% (vs. 14.8% yoy).
 - *Communication cables:* Revenue were up 36.6% yoy. Volumes in metal-based products rose 4% yoy and optic fibre volumes increased 80% yoy. EBIT margin stood at -4.2% vs. 4% yoy. One-time major provision (Rs80m) for delay in collection from a government customer impacted margins negatively. Management expects to recover the complete amount, although the timing is uncertain.
 - *Others (PVC conduits, fans and lights are the main contributors to revenues):* Revenues rose 97% yoy. FMEG new products witnessed volumes grow in the range of 6% to 15% yoy. The company entered the room heater category. EBIT margin (3.5%) is expected to decline as ASP increases in FMEG. Management targets to reach a Rs5bn turnover in the next two-to-three years. Management highlighted that at normal levels of marketing spending, annual FMEG sales of ~Rs1.5bn-1.6bn would lead to EBIT breakeven.
- **Optic fibre JV:** FNXC's joint venture, Corning Finolex Optical Fiber Pvt Ltd, will cease operations post shareholders' approval. Subsequently, customers of the JV, including the company, will be serviced by Corning Technologies India Pvt Ltd or Corning's other affiliates. Management said the company will have contracts that will enable FNXC to procure the fibre required in excess of available production from Corning.
- **Distribution:** The company is on track to achieve 1,50,000 retail reach (through 500 distributors * 300 retailer strategy). 2QFY22 had 520 active distributors and 49,000 unique retailer billings (vs. 28,000 in 1QFY22 and 90,000 in FY21). The count of registered retailers crossed 1,10,000. 40% of the retailers sell only wires and cables while the balance 60% are common to cables/wires and FMEG.
- **Working capital:** Reduction in inventory days to 75 days in Sep 2021 (from 106 days in Jun 2021) enabled core working capital to reduce to 52 days from 96 days of sales.
- **Capex:** 2QFY22 capex stood at Rs248m. FNXC is on track to complete the guided capex of Rs2bn by Dec 2022F. FNXC is also looking to expand new PVC conduit lines at its Goa plant and exploring new plants to serve North and East geographies. Solar cable capex continues to face a delay due to the restrictions on travel by Chinese people to India.
- **Net cash utilisation:** The company is exploring acquisitions in FMEG and the segment of C&W where it is not present currently. Net cash is ~Rs15bn at the end of Sep 2021.

Figure 1: 2QFY22 results snapshot

YE Mar (Rs m)	2QFY22	2QFY21	yoy (%)	1QFY22	qoq (%)	H1FY22	H1FY21	yoy (%)
Revenues	9,330	6,394	45.9	6,754	38.1	16,083	10,165	58.2
EBITDA	1,196	914	30.9	703	70.1	1,899	1,259	(22.3)
EBITDA margin (%)	12.8	14.3	-147 bp	10.4	241 bp	11.8	12.4	-58 bp
Adj. PAT	1,448	1,022	41.7	869	66.6	2,317	1,467	57.9
Diluted EPS (Rs)	9.5	6.7		5.7		15.1	9.6	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 2QFY22 segmental results snapshot

YE Mar (Rs m)	2QFY22	2QFY21	yoy (%)	1QFY22	qoq (%)
Revenues					
Electrical Cables	7,838	5,387	45.5	5,576	40.6
Communication Cables	969	710	36.6	875	10.8
Copper rods	47	57	(17.0)	28	68.6
Others(FMEG)	475	241	97.7	275	72.7
Inter-segment revenues	1,540	1,560	(1.3)	361	326.3
Total	9,330	6,394	45.9	6,754	38.1
EBIT					
Electrical Cables	1,151	795	44.7	601	91.5
Communication Cables	-41	28	(244.4)	18	(334.3)
Copper rods	8	3	120.6	1	971.4
Others(FMEG)	17	14	17.9	9	91.9
Total	1,134	841	34.8	628	80.6
EBIT margin (%)					
Electrical Cables	14.7	14.8	-8 bp	10.8	390 bp
Communication Cables	-4.2	4.0	-823 bp	2.0	-623 bp
Copper rods	15.9	6.0	991 bp	2.5	1339 bp
Others(FMEG)	3.5	5.8	-235 bp	3.1	35 bp
Total	10.4	10.6	-14 bp	8.8	161 bp

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. our estimates

Rs m	2QFY22A	2QFY22F	Var (%)
Revenues	9,330	7,380	26.4
EBITDA	1,196	936	27.8
EBITDA margin (%)	12.8	12.7	14 bps
Adj. PAT	1,448	955	51.6

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Actuals vs. Bloomberg consensus

Rs m	2QFY22A	2QFY22C	Var (%)
Revenues	9,330	7,856	18.8
EBITDA	1,196	905	32.1
EBITDA margin (%)	12.8	11.5	130 bps
Adj. PAT	1,448	958	51.1

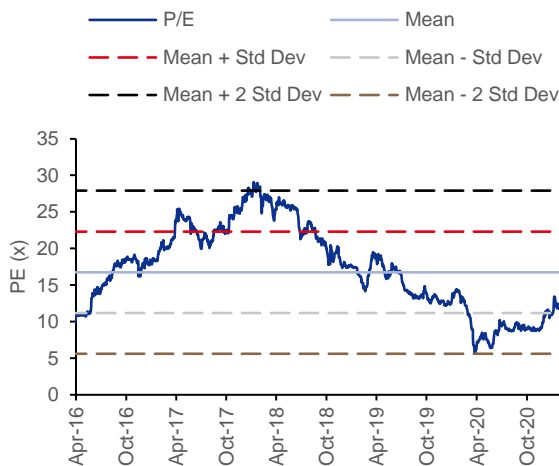
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Revision in our estimates

	New estimates			Old estimates			Change (%)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenues	33,617	37,405	41,050	31,714	35,731	NA	6.0	4.7	NA
EBITDA	4,286	5,667	6,260	4,598	5,449	NA	-6.8	4.0	NA
EBITDA margin (%)	12.8	15.2	15.3	14.5	15.3	NA	-175 bp	-10 bp	NA
Adjusted consol. PAT	5,317	6,289	6,788	4,855	5,704	NA	9.5	10.3	NA
EPS	34.8	41.1	44.4	31.7	37.3	NA	9.5	10.3	NA

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: P/E SD chart (five-year mean PE)

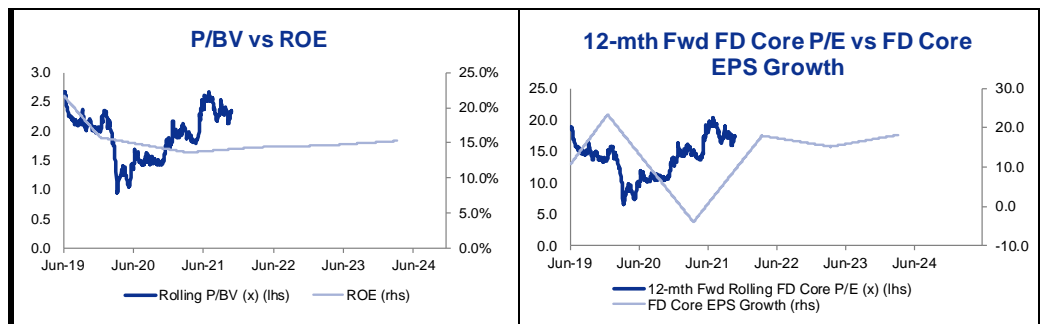


SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 7: P/E band chart



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	28,773	27,681	33,617	37,405	41,050
Gross Profit	7,940	7,167	8,152	10,193	11,227
Operating EBITDA	3,835	3,702	4,286	5,667	6,260
Depreciation And Amortisation	(389)	(390)	(404)	(453)	(495)
Operating EBIT	3,446	3,312	3,882	5,214	5,765
Financial Income/(Expense)	817	725	673	836	1,010
Pretax Income/(Loss) from Assoc.	776	2,234	2,634	2,463	2,417
Non-Operating Income/(Expense)	82	38	75	79	83
Profit Before Tax (pre-EI)	5,121	6,309	7,264	8,592	9,274
Exceptional Items					
Pre-tax Profit	5,121	6,309	7,264	8,592	9,274
Taxation	(1,211)	(1,694)	(1,947)	(2,303)	(2,485)
Exceptional Income - post-tax					
Profit After Tax	3,911	4,615	5,317	6,289	6,788
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,911	4,615	5,317	6,289	6,788
Recurring Net Profit	3,911	4,615	5,317	6,289	6,788
Fully Diluted Recurring Net Profit	3,911	4,615	5,317	6,289	6,788

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	3,835	3,702	4,286	5,667	6,260
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(135)	(1,559)	878	(780)	(750)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	68	896	3,382	3,378	3,509
Net Interest (Paid)/Received	(81)	(725)	(673)	(836)	(1,010)
Tax Paid	(1,097)	(1,171)	(1,947)	(2,303)	(2,485)
Cashflow From Operations	2,590	1,144	5,926	5,126	5,524
Capex	(323)	(549)	(1,250)	(1,000)	(500)
Disposals Of FAs/subsidiaries	6				
Acq. Of Subsidiaries/investments	5,843	(8,341)	(500)	(500)	(500)
Other Investing Cashflow	845	296	683	847	1,021
Cash Flow From Investing	6,370	(8,595)	(1,067)	(653)	21
Debt Raised/(repaid)	(23)	(17)	(3)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(825)	(838)	(918)	(994)	(1,071)
Preferred Dividends					
Other Financing Cashflow	(16)	(8)	(10)	(11)	(11)
Cash Flow From Financing	(864)	(863)	(931)	(1,005)	(1,082)
Total Cash Generated	8,096	(8,314)	3,929	3,468	4,463
Free Cashflow To Equity	8,937	(7,468)	4,856	4,473	5,545
Free Cashflow To Firm	8,945	(7,459)	4,849	4,462	5,534

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	14,458	15,296	19,724	23,692	28,655
Total Debtors	1,870	1,766	2,303	2,562	2,812
Inventories	5,931	7,554	6,908	7,686	8,435
Total Other Current Assets	1,087	987	921	1,025	1,125
Total Current Assets	23,346	25,602	29,855	34,965	41,026
Fixed Assets	3,768	3,859	3,984	5,259	5,264
Total Investments	6,089	8,453	8,453	8,453	8,453
Intangible Assets	5	2	2	2	2
Total Other Non-Current Assets	861	940	1,661	933	933
Total Non-current Assets	10,722	13,254	14,100	14,647	14,652
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,587	1,760	2,303	2,562	2,812
Other Current Liabilities	802	747	907	1,010	1,108
Total Current Liabilities	2,389	2,507	3,210	3,572	3,920
Total Long-term Debt	3	3			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	178	159	159	159	159
Total Non-current Liabilities	182	162	159	159	159
Total Provisions	1,460	2,042	2,042	2,042	2,042
Total Liabilities	4,030	4,712	5,411	5,773	6,121
Shareholders Equity	30,037	34,145	38,545	43,840	49,557
Minority Interests					
Total Equity	30,037	34,145	38,545	43,840	49,557

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	(6.5%)	(3.8%)	21.4%	11.3%	9.7%
Operating EBITDA Growth	(18.3%)	(3.5%)	15.8%	32.2%	10.5%
Operating EBITDA Margin	13.3%	13.4%	12.7%	15.2%	15.3%
Net Cash Per Share (Rs)	94.52	99.99	128.96	154.90	187.35
BVPS (Rs)	196.41	223.26	252.01	286.63	324.01
Gross Interest Cover	222.32	435.82	388.19	496.59	522.87
Effective Tax Rate	23.6%	26.9%	26.8%	26.8%	26.8%
Net Dividend Payout Ratio	16.2%	13.3%	12.6%	11.6%	11.5%
Accounts Receivables Days	25.24	23.97	22.08	23.73	23.89
Inventory Days	103.39	119.96	103.64	97.87	98.65
Accounts Payables Days	32.15	29.78	29.12	32.62	32.88
ROIC (%)	32.0%	29.8%	30.8%	41.5%	41.5%
ROCE (%)	14.2%	11.9%	11.9%	14.0%	13.9%
Return On Average Assets	13.1%	15.3%	15.9%	16.6%	15.7%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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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.