

India

HOLD (previously ADD)

Consensus ratings*: Buy 7 Hold 2 Sell 0

Current price:	Rs515
Target price:	Rs526
Previous target:	Rs526
Up/downside:	2.1%
InCred Research / Consensus:	-11.6%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$1,084m
	Rs78,703m
Average daily turnover:	US\$2.0m
	Rs143.9m
Current shares o/s:	153.0m
Free float:	64.1%

*Source: Bloomberg

Key changes in this note

- Revenue increased by 6%/8% for FY23F/24F.
- EBITDA increased by 5% for FY24F.
- PAT cut by 22% for FY23F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.4	18.0	1.9
Relative (%)	5.4	13.5	0.1

Major shareholders	% held
Promoters	35.9
Finolex Industries Limited	14.5
Nippon Life India Trustee	4.4

Analyst(s)



Rahul AGARWAL

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

Harshit SARAWAGI

T (91) 22 4161 0000
E harshit.sarawagi@incredcapital.com

Finolex Cables

Better days ahead, but stock fairly priced

- 2QFY23 was weak due to lower realization, higher input cost, high competition in optic fibre and adverse forex. EBITDA margin was at a multi-year low of 9%.
- Higher housing wire sales will lead to better margins in 2HFY23F. Pick-up in B2B optic fibre orders is good but at a very low margin. Net cash at Rs21.6bn.
- Stock up 30%+ since our Jun 2022 update. No clarity on family row settlement yet. Capital allocation is a big risk. Retain TP of Rs526. Downgrade to HOLD.

Weak 2QFY23 due to lower selling prices and higher input cost

Finolex Cables (FCL) posted dismal 2QFY23 results with consolidated revenue/EBITDA/PAT at Rs10.9bn/Rs987m/Rs554m, +17%/-18%/-62% yoy, respectively. Revenue beat estimates by 10-20% while EBITDA miss was at 7-20% vs. our/Bloomberg consensus estimates. Revenue/sales volume from electrical cables grew by 12%/10% yoy. In communication cables, metal-based cable sales volume grew 27% yoy while optic fibre grew 100% yoy. FMEG revenue was at Rs483m, flat yoy. Adverse sales mix, low selling prices (pass-through of cheaper copper/aluminium prices) and old high-cost raw material stock led consolidated gross/EBITDA margin decline to 18.8%/9%, down 460bp/380bp yoy. Within segments, EBIT margin of electrical cable was at 10% (down 470bp yoy/290bp qoq), communication cable at 1.9% (up 600bp yoy/down 60bp qoq) and FMEG at 1% (down 245bp yoy/ 45bp qoq). The share of loss from Finolex Industries was at Rs342m.

Sales volume and margins to recover in 2HFY23F

Sharp fall in input prices led to demand deferment and channel destocking for housing wires. Copper, aluminium and PVC prices fell 20-40% in 2QFY23. We expect housing wire sales and margins to recover in 2HFY23F vs. 1H. Optic fibre sales rose sharply led by new orders from Bharti Airtel relating to its 5G rollout. Management gave guidance of sustained demand (Bharti/Reliance JIO/BSNL) for optic fibre over the next two-three years while segment margins to remain low due to high competition. FMEG demand was soft due to repeated price hikes and channel destocking in fans. FMEG to gradually grow in 2HFY23F.

Change in our estimates; sharp cut to FY23F EPS, FY24F unchanged

We incorporate 1H actuals and roll out FY25F estimates. We raise revenue by 6%/8% led by higher electrical and communication cables growth in FY23F-24F. We cut EBITDA margin to 11.6%/13.3% from 12.3%/13.6% for FY23F/24F. Significant decline in Finolex Industries' share of profit leads to PAT cut of 22% for FY23F. No change in FY24F EPS.

Valuation and risks

The stock is near our target price (up 30%+ from our last update in Jun 2022). At CMP, the risk-reward ratio is unfavourable and so we downgrade our rating to HOLD (from ADD earlier). We retain target price of Rs526 (P/E of 11x core FY24F EPS of Rs34.7 + Rs150/share for the 32.4% stake in Finolex Industries at a 25% discount to CMP). Upside risk: Family inheritance dispute settlement. Downside risk: Intense competition.

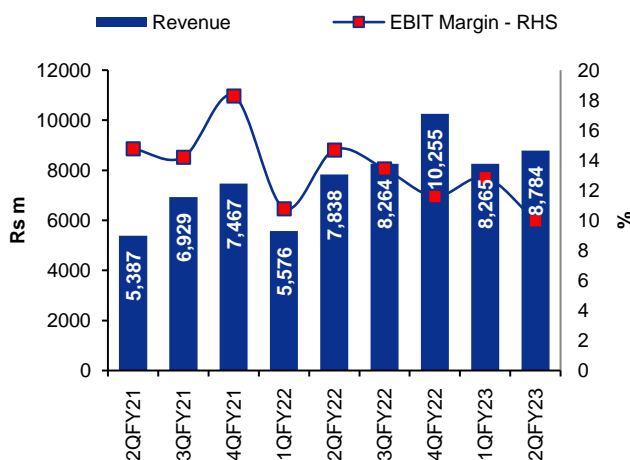
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	27,681	37,681	43,856	48,832	53,463
Operating EBITDA (Rsm)	3,702	4,285	5,065	6,470	7,324
Net Profit (Rsm)	4,615	5,991	5,219	6,525	7,513
Core EPS (Rs)	30.2	33.1	28.2	42.7	49.1
Core EPS Growth	18.0%	9.7%	(14.9%)	51.4%	15.1%
FD Core P/E (x)	17.06	13.14	15.08	12.06	10.48
DPS (Rs)	5.5	6.0	6.5	7.0	7.5
Dividend Yield	1.07%	1.17%	1.26%	1.36%	1.46%
EV/EBITDA (x)	17.13	13.80	11.35	8.20	6.50
P/FCFE (x)	(10.54)	85.37	36.74	15.59	12.89
Net Gearing	(44.8%)	(49.9%)	(48.8%)	(52.5%)	(56.3%)
P/BV (x)	2.30	2.01	1.81	1.61	1.42
ROE	14.4%	13.8%	10.4%	14.1%	14.4%
% Change In Core EPS Estimates			(20.59%)	0.40%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY23 earnings-call takeaways

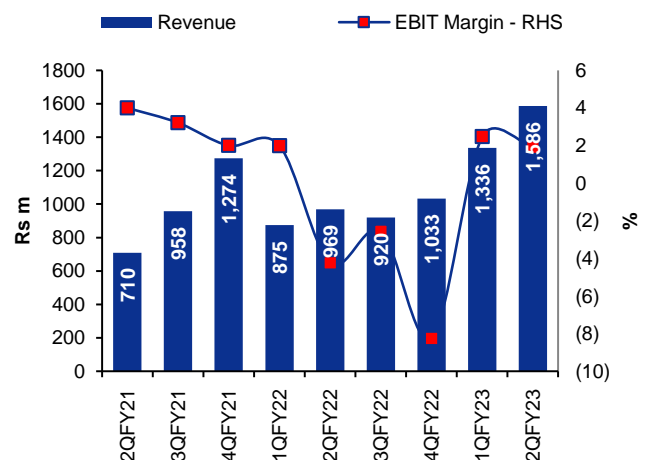
- **Price cut:** Management stated that the company implemented price cut of almost 10% (1Q: 6-7%; 2Q: 3%) in 1HFY23, passing on the fall in raw material prices to customers. Hence, inventory losses led to a multi-year low EBITDA margin of 9% in 2QFY23.
- **Sales mix:** The quarter saw higher revenue growth in automotive and industrial cables (better B2B demand) versus house wires (low B2C demand) impacting blended segment margins. Higher revenue share of communication cables (12% vs. 9% yoy) also impacted consolidated margin negatively.
- **Electrical cable sales mix:** House wires account for 60% of sales, automotive 10-12%, industrial 10-12%, agriculture-related 10% (seasonal) and the remaining comes from power cables.
- **Channel incentives:** Company indicated that Covid-support incentives given to the trade channel (~2% of sales) have been reduced marginally. However, it expects this to continue for some more time at the current levels.
- **Extra high voltage (EHV) cables:** The outstanding order book stands at Rs3bn or 1x of sales. The company indicated a market share of 15-20% in recent EHV tender awards.
- **Optic fibre:** Demand outlook for optic fibre in India improved as telecom utilities – Bharti Airtel, Reliance JIO and BSNL initiated their 4G/5G rollouts across India. Management expects higher revenue traction from this segment going ahead, but indicated low margin prospects due to fixed-price contracts and the impact of adverse forex movement (glass preforms are 100% imported).
- **Ad spends:** Company plans to spend 1.5% of total sales on advertising and sales promotion in the next financial year.
- **Capex:** Management gave capex guidance of Rs1-1.1bn for FY23F. Capacity utilization in electrical and communication cables was 70-75% in 2QFY23.
- **Cash conversion cycle:** Net working capital was at 53 days as at end-Sep 2022 vs. 62 days of TTM sales as at end-Mar 2022.
- **Cash flow:** OCF/FCF stood at Rs1.3bn/Rs1.2bn, respectively, in 1HFY23. Net cash and equivalents stood at Rs21.6bn as at end-Sep 2022. No decision has been taken yet on utilization of surplus cash.

Figure 1: Electrical cable revenue and margin trend



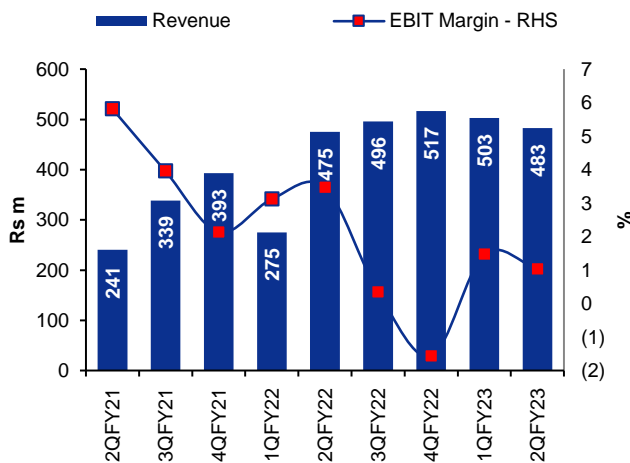
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Communication cable revenue and margin trend



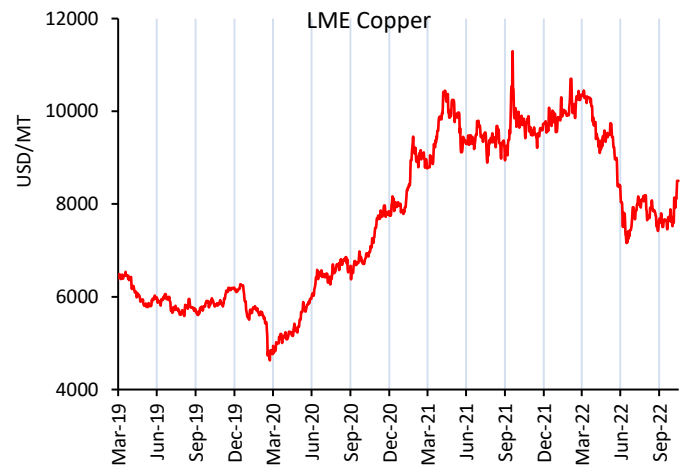
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Others (FMEG)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Copper price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 2QFY23 results snapshot

Rs m	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)	1HFY23	1HFY22	yoy (%)
Revenue	10,908	9,330	16.9	10,157	7.4	21,064.8	16,083	31.0
EBITDA	987	1,196	(17.5)	1,191	(17.2)	2,177.8	1,899	14.7
EBITDA margin (%)	9.0	12.8	-377 bp	11.7	-269 bp	10.3	11.8	-147 bp
Adj. PAT	554	1,448	(61.8)	1,196	(53.7)	1,749.7	2,317	(24.5)
Diluted EPS (Rs)	3.6	9.5		7.8		11.4	15.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 2QFY23 segmental results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
Revenue					
Electrical cables	8,784	7,838	12.1	8,265	6.3
Communication cables	1,586	969	63.7	1,336	18.8
Copper rods	55	47	17.4	53	4.1
Others (FMEG)	483	475	1.5	503	(4.0)
Inter-segment revenue	2,561	1,540	66.2	2,939	(12.9)
Total	10,908	9,330	16.9	10,157	7.4
EBIT					
Electrical cables	876	1,151	(23.9)	1,061	(17.5)
Communication cables	30	-41	(173.7)	33	(8.5)
Copper rods	5	8	(29.3)	15	(64.7)
Others (FMEG)	5	17	(69.7)	7	(32.4)
Total	916	1,134	(19.2)	1,117	(18.0)
EBIT margin (%)					
Electrical cables	10.0	14.7	-472 bp	12.8	-287 bp
Communication cables	1.9	-4.2	613 bp	2.5	-57 bp
Copper rods	9.6	15.9	-632 bp	28.2	-1,863 bp
Others (FMEG)	1.0	3.5	-243 bp	1.5	-44 bp
Total	6.8	10.4	-363 bp	8.5	-172 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	2QFY23A	2QFY23F	Var(%)
Revenue	10,908	9,080	20.1
EBITDA	987	1,063	(7.2)
EBITDA margin (%)	9.0	11.7	-267 bp
Adj. PAT	554	1,074	(48.4)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus

Rs m	2QFY23A	2QFY23C	Var(%)
Revenue	10,908	9,953	9.6
EBITDA	987	1,207	(18.2)
EBITDA margin (%)	9.0	12.1	-308 bp
Adj. PAT	554	1,299	(57.4)

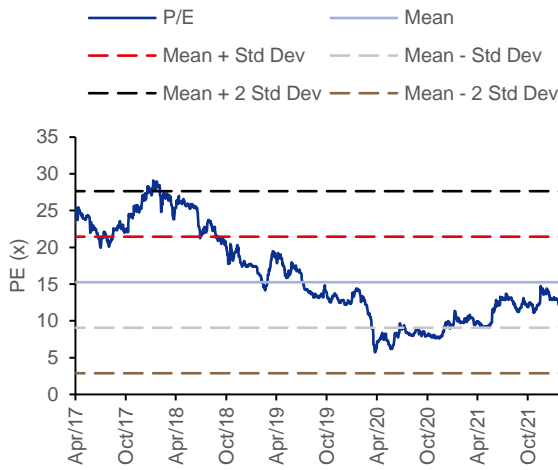
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Revision in our estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	43,856	48,832	53,463	41,349	45,266	NA	6.1	7.9	NA
EBITDA	5,065	6,470	7,324	5,065	6,156	NA	0.0	5.1	NA
Adjusted consol. PAT	11.6	13.3	13.7	12.3	13.6	NA	-70 bp	-35 bp	NA
EPS (Rs/share)	4,004	6,525	7,513	5,123	6,501	NA	-21.8	0.4	NA
EBITDA margin (%)	26.2	42.7	49.1	33.5	42.5	NA	-21.8	0.4	NA

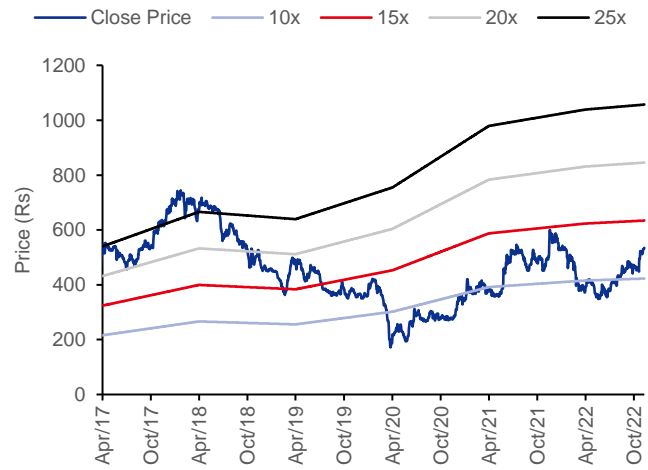
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



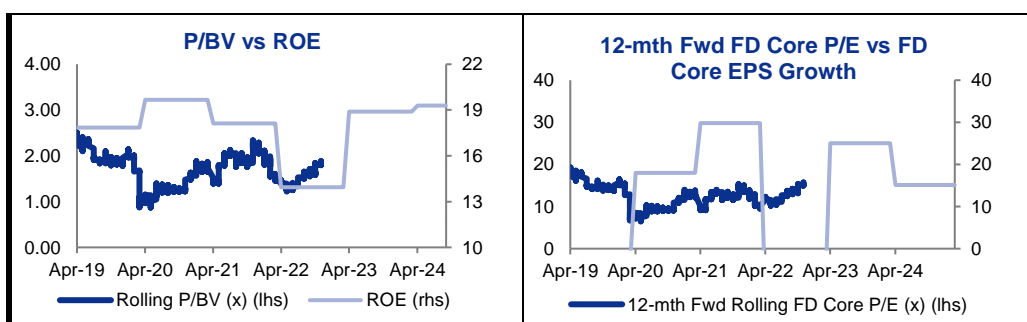
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	27,681	37,681	43,856	48,832	53,463
Gross Profit	7,167	8,019	9,210	11,036	12,270
Operating EBITDA	3,702	4,285	5,065	6,470	7,324
Depreciation And Amortisation	(390)	(389)	(422)	(464)	(493)
Operating EBIT	3,312	3,897	4,644	6,006	6,832
Financial Income/(Expense)	725	659	752	984	1,193
Pretax Income/(Loss) from Assoc.	2,234	2,053	267	1,629	1,908
Non-Operating Income/(Expense)	38	40	100	105	110
Profit Before Tax (pre-EI)	6,309	6,648	5,762	8,724	10,044
Exceptional Items		1,218	1,215		
Pre-tax Profit	6,309	7,866	6,977	8,724	10,044
Taxation	(1,694)	(1,875)	(1,758)	(2,198)	(2,531)
Exceptional Income - post-tax					
Profit After Tax	4,615	5,991	5,219	6,525	7,513
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,615	5,991	5,219	6,525	7,513
Recurring Net Profit	4,615	5,064	4,310	6,525	7,513
Fully Diluted Recurring Net Profit	4,615	5,064	4,310	6,525	7,513

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	3,702	4,285	5,065	6,470	7,324
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,559)	1,495	(2,009)	(955)	(888)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	896	929	2,333	2,718	3,212
Net Interest (Paid)/Received	(725)	(659)	(752)	(984)	(1,193)
Tax Paid	(1,171)	(1,320)	(1,758)	(2,198)	(2,531)
Cashflow From Operations	1,144	4,731	2,879	5,051	5,923
Capex	(549)	(671)	(1,000)	(500)	(525)
Disposals Of FAs/subsidiaries		3			
Acq. Of Subsidiaries/investments	(8,341)	(4,302)	(500)	(500)	(500)
Other Investing Cashflow	296	1,187	763	996	1,207
Cash Flow From Investing	(8,595)	(3,783)	(737)	(4)	182
Debt Raised/(repaid)	(17)	(25)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(838)	(838)	(994)	(1,071)	(1,147)
Preferred Dividends					
Other Financing Cashflow	(8)	(6)	(11)	(12)	(13)
Cash Flow From Financing	(863)	(869)	(1,005)	(1,083)	(1,160)
Total Cash Generated	(8,314)	78	1,137	3,964	4,945
Free Cashflow To Equity	(7,468)	922	2,142	5,047	6,105
Free Cashflow To Firm	(7,459)	932	2,131	5,035	6,092

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	15,296	19,569	21,206	25,670	31,115
Total Debtors	1,766	1,772	2,403	2,676	2,929
Inventories	7,554	6,531	8,411	9,365	10,253
Total Other Current Assets	987	1,017	1,184	1,318	1,443
Total Current Assets	25,602	28,889	33,204	39,029	45,741
Fixed Assets	3,859	3,697	4,993	5,028	5,061
Total Investments	8,453	10,954	10,954	10,954	10,954
Intangible Assets	2				
Total Other Non-Current Assets	940	1,399	681	681	681
Total Non-current Assets	13,254	16,049	16,627	16,663	16,695
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,760	1,901	2,403	2,676	2,929
Other Current Liabilities	747	1,015	1,181	1,315	1,440
Total Current Liabilities	2,507	2,915	3,584	3,991	4,369
Total Long-term Debt	3	3	3	3	3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	159	185	185	185	185
Total Non-current Liabilities	162	187	187	187	187
Total Provisions	2,042	2,617	2,617	2,617	2,617
Total Liabilities	4,712	5,720	6,389	6,795	7,174
Shareholders Equity	34,145	39,221	43,445	48,900	55,265
Minority Interests					
Total Equity	34,145	39,221	43,445	48,900	55,265

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(3.8%)	36.1%	16.4%	11.3%	9.5%
Operating EBITDA Growth	(3.5%)	15.8%	18.2%	27.7%	13.2%
Operating EBITDA Margin	13.4%	11.4%	11.6%	13.2%	13.7%
Net Cash Per Share (Rs)	99.99	127.92	138.63	167.81	203.41
BVPS (Rs)	223.26	256.43	284.05	319.71	361.33
Gross Interest Cover	435.82	256.35	422.15	496.35	513.28
Effective Tax Rate	26.9%	23.8%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	13.3%	13.8%	17.3%	12.3%	11.4%
Accounts Receivables Days	23.97	17.13	17.37	18.98	19.13
Inventory Days	119.96	86.66	78.71	85.83	86.92
Accounts Payables Days	29.78	22.52	22.67	24.52	24.83
ROIC (%)	29.8%	30.9%	40.4%	42.6%	45.3%
ROCE (%)	11.9%	11.7%	12.3%	14.4%	14.7%
Return On Average Assets	15.3%	14.3%	10.6%	14.7%	15.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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