

India

HOLD (no change)

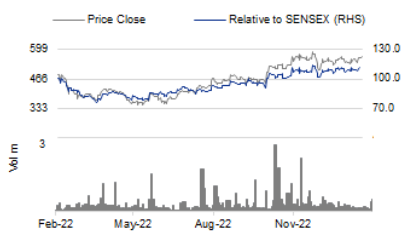
Consensus ratings*: Buy 7 Hold 2 Sell 0

Current price:	Rs565
Target price:	Rs612 ▲
Previous target:	Rs526
Up/downside:	8.3%
InCred Research / Consensus:	-6.5%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$1,045m Rs86,457m
Average daily turnover:	US\$2.1m Rs173.4m
Current shares o/s:	152.9m
Free float:	64.1%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue raised by 4.4%/6.1%.
- FY23F/24F EBITDA raised by 5.1%/3.1%.
- FY23F/24F PAT raised/cut by 19.6%/3.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.3	9.9	16.6
Relative (%)	2.0	12.0	8.9

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

Analyst(s)



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Finolex Cables

Better future, but to remain undervalued

- FCL's 3QFY23 revenue and EBITDA beat our estimates. Wire sales volume grew 24% yoy. Better sales mix and cheaper input cost drove margins up yoy.
- Durables are seeing a falling demand trend while cable/wire demand is holding up well. Management expects all cable sales to grow 13-15% yoy in FY24F.
- Stock price range-bound (7%+ since our Nov 2022 update). Clarity on promoter family row settlement needed for a higher valuation. Retain HOLD rating.

Strong sales volume and cheaper input prices led to good 3QFY23

Finolex Cables or FCL posted 3QFY23 consolidated revenue/EBITDA/PAT of Rs11.5bn/Rs1.4bn/Rs1.5bn, +18%/+23%/+8% yoy, respectively. Revenue and EBITDA marginally beat our estimates by 3-5%. PAT was above our estimate due to high other income (Rs330m, +77% yoy) and a low tax rate (18% vs. 20% yoy). Consolidated gross/EBITDA margin stood at 22.4%/12.7%, +90bp/50bp yoy, respectively, due to a better sales mix and cheaper input prices. Within segments, electrical and communication cable revenue stood at Rs9.5bn and Rs1.5bn, +15% and +60% yoy, respectively. FMEG revenue stood at Rs515m, +4% yoy, owing to weak demand. Electrical/communication sales volume grew 24%/50%+ yoy, respectively. Electrical and automotive cable sales did well vs. industrial and agriculture cables. Overall capacity utilization touched 70% in 3Q.

Revenue visibility relatively better for cables/wires vs. durables

Healthy B2B demand and channel restocking drove sales volume higher for electrical and communication cables during 3QFY23. B2C demand softened qoq, impacting sales of durables. Management indicated a similar trend for 4QFY23F and expects to sustain revenue growth of 13-15% yoy and steady margins assuming no rise in input prices in FY24F. The order book for optical fibre cables and extra high voltage power cables improved substantially, improving revenue and cash flow visibility. Assuming no major delay on the gov't's telecom infrastructure spending, FCL expects to clock ~Rs2bn/quarter of communication cable revenue run-rate going ahead. Capacity expansion at Urse and Goa cable plants is almost complete while the optical fibre cable capacity expansion is underway. FCL has budgeted ~Rs2bn of capex to be incurred over Sep 22-Mar 2024F.

Change in our estimates

We incorporate 3QFY23 actuals. We raise revenue/EBITDA estimates by 4%/6%/7% and by 5%/3%/2% for FY24F/25F, respectively. EPS changes are at +20%/-3%/+3% for FY23F/24F/25F, respectively.

Better future going ahead, but stock to trade at sub-par valuation

Clarity on promoter family row settlement needed for a higher valuation. Retain HOLD rating on FCL with a new TP of Rs612 (P/E of 11x core FY24F EPS of Rs41.5 +Rs176/share for a 32.4% stake in Finolex Industries at a 25% discount to CMP) vs. Rs526 earlier. Upside risk: Promoter family row settlement. Downside risk: Intense competition.

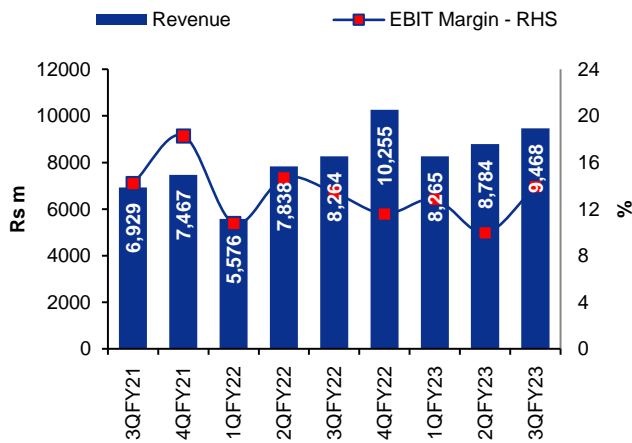
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	27,681	37,681	45,788	51,801	57,225
Operating EBITDA (Rsm)	3,702	4,285	5,325	6,672	7,485
Net Profit (Rsm)	4,615	5,991	4,788	7,528	7,727
Core EPS (Rs)	30.2	33.1	31.3	43.3	50.5
Core EPS Growth	18.0%	9.7%	(5.4%)	38.3%	16.7%
FD Core P/E (x)	18.74	14.43	18.06	11.48	11.19
DPS (Rs)	5.5	6.0	6.5	7.0	7.5
Dividend Yield	0.97%	1.06%	1.15%	1.24%	1.33%
EV/EBITDA (x)	19.22	15.61	12.40	9.06	7.34
P/FCFE (x)	(11.58)	93.78	63.82	14.04	13.92
Net Gearing	(44.8%)	(49.9%)	(47.4%)	(52.5%)	(56.2%)
P/BV (x)	2.53	2.20	2.01	1.75	1.54
ROE	14.4%	13.8%	11.6%	14.3%	14.6%
% Change In Core EPS Estimates			11.09%	1.45%	2.87%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY23 earnings-call takeaways

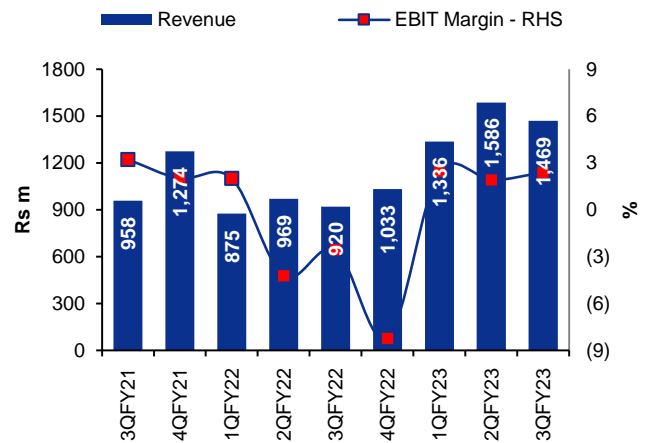
- **Industry trend and growth outlook:** Management stated that the cable and wire industry should continue to grow at 2x of the economic growth rate over the next three-to-five years. FCL targets revenue growth rate of 13-15% over the same period. Pre-GST and post-GST implementation, the unorganized revenue share for the industry has declined from 50% to almost 20% currently, as per management. FCL indicated its market share at ~22% in the organized cable and wires category in India.
- **Price hike and competition:** FCL took price hike of around 3-4% for electrical cables in 3QFY23. Since Jan 2023, the company has taken two price hikes of 5-6% cumulatively across electrical and metal-based communication cables because of rising copper prices. FCL indicated intense competition in its core markets of West and South India but expects to retain its market share at the current levels.
- **Channel mix and distribution network:** South and West India accounts for 60% of the channel partners while the remaining 40% channel partners are based in East and North India. FCL had a total of 688 distributors across India at the end of Dec 2022. Electrical cable sales through distributors stood at Rs11bn vs. Rs9bn yoy in 9MFY23. FCL continues to expand its distribution reach and aims to reach 200k retailers by Mar 2024F.
- **Communication cables:** Optical fibre cables constitute two-thirds of communication cables revenue. The company is witnessing healthy order inflow from private telcos in India, given the 5G network rollouts, whereas government telco orders remained soft over the past six months. Most private telco orders are annual contracts with no input price variation pass-through. FCL expects a single-digit operating margin for these orders, much lower than the previous peak of 10-13% during FY17-19.
- **Extra high voltage (EHV) cables:** The unexecuted order book stood at Rs3.5bn across 110-400kV cables at the end of Jan 2023. FCL intends to execute these orders over the next 9-12 months, provided there are no major right-of-way (ROW) issues. The EHV business is a part of the Finolex-J Power joint venture and only the share of profit/loss from this joint venture is consolidated into FCL's P&L as per the equity method of accounting. The JV has been incurring losses for the past several years but given a significant recovery in the order book, FCL expects PAT breakeven for the JV in FY24F.
- **FMEG:** Lights and fan business constitutes 50% of the segment's sales while the remaining is largely spread between switches, switchgear and geysers. The annualized revenue run-rate has touched Rs2bn and the company targets revenue of ~Rs5bn (organic + inorganic) by Mar 2025F. FCL has introduced electric irons in Jan 2023.
- **Cash conversion cycle:** Net working capital days stood at 41 days of TTM sales as compared to 43 days yoy. Net cash (including equivalents) stood at Rs23bn+ at the end of Dec 2022 (vs. Rs21.5bn at the end of Sep 2022).

Figure 1: Electrical cable revenue and margin trend



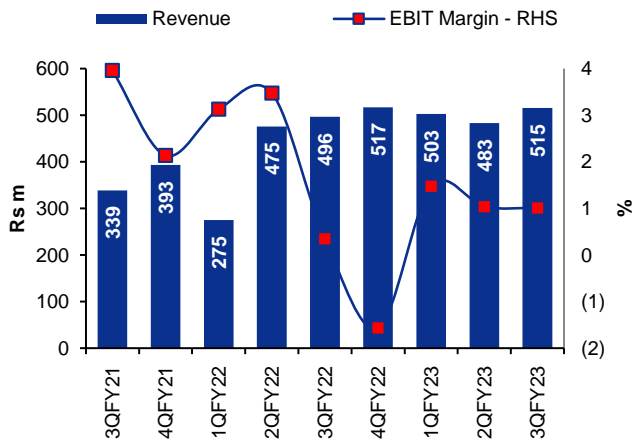
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Communication cable revenue and margin trend



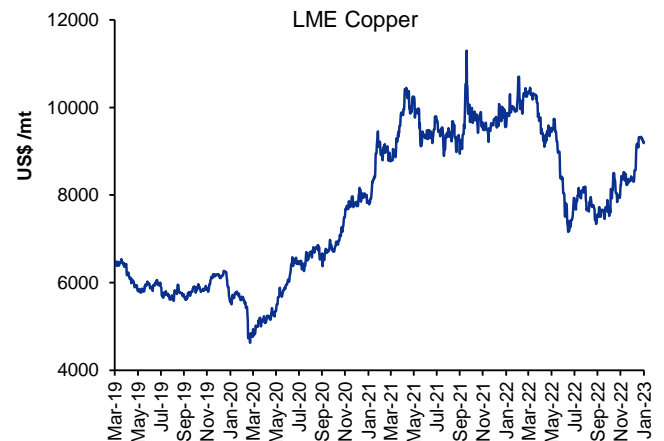
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Others (FMEG)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Copper price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	11,503	9,730	18.2	10,908	5.5	32,568	25,813	26.2
EBITDA	1,459	1,185	23.1	987	47.9	3,637	3,084	17.9
EBITDA margin (%)	12.7	12.2	50 bp	9.0	364 bp	11.2	11.9	-78 bp
Adj. PAT	1,543	1,430	7.9	554	178.7	3,293	3,747	(12.1)
Diluted EPS (Rs)	10.1	9.3		3.6		21.5	24.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY23 segmental results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue								
Electrical cables	9,468	8,264	14.6	8,784	7.8	26,517	21,677	22.3
Communication cables	1,469	920	59.7	1,586	(7.4)	4,391	2,764	58.9
Copper rods	51	49	2.6	55	(8.5)	159	125	27.8
Others (FMEG)	515	496	3.9	483	6.8	1,500	1,247	20.3
Inter-segment revenue	3,157	1,777	77.6	2,561	23.3	8,657	3,679	135.3
Total	11,503	9,730	18.2	10,908	5.5	32,568	25,813	26.2
EBIT								
Electrical cables	1,320	1,109	19.0	876	50.7	3,257	2,862	13.8
Communication cables	35	-24	(248.9)	30	15.9	98	-47	(308.9)
Copper rods	5	8	(40.8)	5	(15.1)	25	16	57.0
Others (FMEG)	5	2	205.9	5	4.0	18	27	(34.3)
Total	1,364	1,095	24.6	916	48.9	3,398	2,857	18.9
EBIT margin (%)								
Electrical cables	13.9	13.4	51 bp	10.0	397 bp	12.3	13.2	-92 bp
Communication cables	2.4	-2.6	494 bp	1.9	48 bp	2.2	-1.7	394 bp
Copper rods	8.9	15.4	-651 bp	9.6	-69 bp	15.6	12.7	289 bp
Others (FMEG)	1.0	0.3	67 bp	1.0	-3 bp	1.2	2.1	-98 bp
Total	9.3	9.5	-21 bp	6.8	250 bp	10.4	11.1	-64 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var (%)
Revenue	11,503	11,124	3.4
EBITDA	1,459	1,390	5.0
EBITDA margin (%)	12.7	12.5	19 bp
Adj. PAT	1,543	1,331	16.0

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus

Rs m	3QFY23A	3QFY23C	Var (%)
Revenue	11,503	11,010	4.5
EBITDA	1,459	1,175	24.1
EBITDA margin (%)	12.7	10.7	201 bp
Adj. PAT	1,543	1,031	49.7

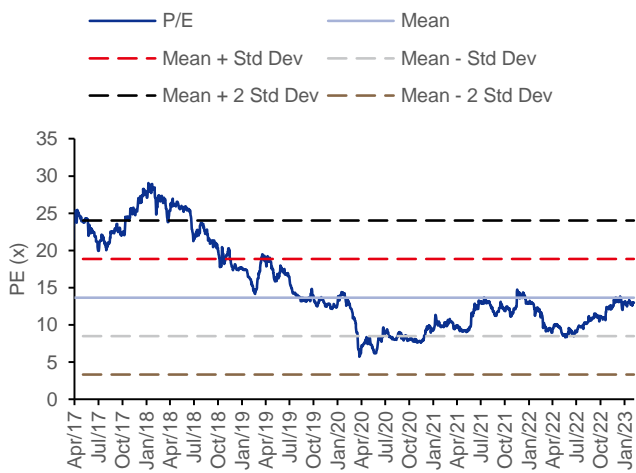
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Our revised estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	45,788	51,801	57,225	43,856	48,832	53,463	4.4	6.1	7.0
EBITDA	5,325	6,672	7,485	5,065	6,470	7,324	5.1	3.1	2.2
EBITDA margin (%)	11.6	12.9	13.1	11.6	13.3	13.7	8 bp	-37 bp	-62 bp
Adjusted consol. PAT	4,788	6,314	7,727	4,004	6,525	7,513	19.6	-3.2	2.9
EPS	31.3	41.3	50.5	26.2	42.7	49.1	19.6	-3.2	2.9

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



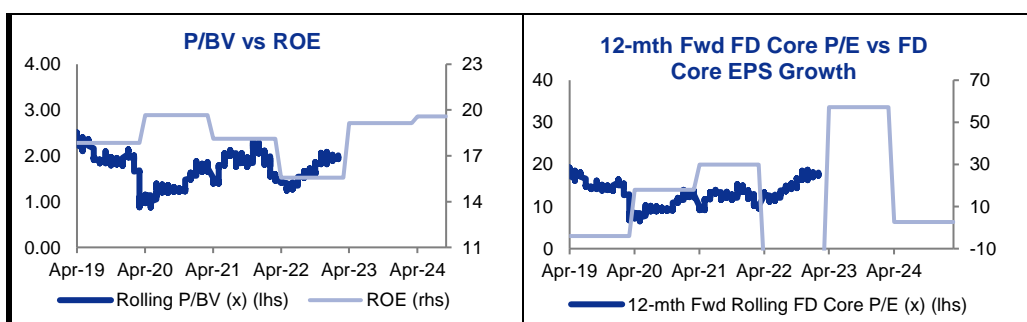
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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	45,788	51,801	57,225
Gross Profit	7,167	8,019	9,661	11,526	12,790
Operating EBITDA	3,702	4,285	5,325	6,672	7,485
Depreciation And Amortisation	(390)	(389)	(429)	(481)	(497)
Operating EBIT	3,312	3,897	4,896	6,191	6,988
Financial Income/(Expense)	725	659	810	966	1,200
Pretax Income/(Loss) from Assoc.	2,234	2,053	595	1,588	2,032
Non-Operating Income/(Expense)	38	40	100	105	110
Profit Before Tax (pre-EI)	6,309	6,648	6,401	8,850	10,331
Exceptional Items		1,218		1,215	
Pre-tax Profit	6,309	7,866	6,401	10,064	10,331
Taxation	(1,694)	(1,875)	(1,613)	(2,536)	(2,603)
Exceptional Income - post-tax					
Profit After Tax	4,615	5,991	4,788	7,528	7,727
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,615	5,991	4,788	7,528	7,727
Recurring Net Profit	4,615	5,064	4,788	6,620	7,727
Fully Diluted Recurring Net Profit	4,615	5,064	4,788	6,620	7,727

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	3,702	4,285	5,325	6,672	7,485
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,559)	1,495	(2,380)	(870)	(1,011)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	896	929	1,505	3,874	3,343
Net Interest (Paid)/Received	(725)	(659)	(810)	(966)	(1,200)
Tax Paid	(1,171)	(1,320)	(1,613)	(2,536)	(2,603)
Cashflow From Operations	1,144	4,731	2,027	6,173	6,013
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	828	986	1,222
Cash Flow From Investing	(8,595)	(3,783)	(672)	(14)	197
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)	(18)	(20)	(22)
Cash Flow From Financing	(863)	(869)	(1,012)	(1,090)	(1,169)
Total Cash Generated	(8,314)	78	343	5,069	5,041
Free Cashflow To Equity	(7,468)	922	1,355	6,159	6,210
Free Cashflow To Firm	(7,459)	932	1,337	6,139	6,188

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	20,411	25,980	31,521
Total Debtors	1,766	1,772	2,509	2,838	3,136
Inventories	7,554	6,531	8,781	9,651	10,661
Total Other Current Assets	987	1,020	1,240	1,402	1,549
Total Current Assets	25,602	28,891	32,941	39,871	46,867
Fixed Assets	3,859	3,697	4,985	5,004	5,032
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	16,620	16,639	16,667
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,760	1,901	2,509	2,838	3,136
Other Current Liabilities	747	1,015	1,233	1,395	1,541
Total Current Liabilities	2,507	2,915	3,742	4,233	4,676
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	6,547	7,038	7,481
Shareholders Equity	34,145	39,221	43,015	49,472	56,052
Minority Interests					
Total Equity	34,145	39,221	43,015	49,472	56,052

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(3.8%)	36.1%	21.5%	13.1%	10.5%
Operating EBITDA Growth	(3.5%)	15.8%	24.3%	25.3%	12.2%
Operating EBITDA Margin	13.4%	11.4%	11.6%	12.9%	13.1%
Net Cash Per Share (Rs)	99.99	127.92	133.44	169.85	206.08
BVPS (Rs)	223.26	256.43	281.24	323.47	366.50
Gross Interest Cover	435.82	256.35	272.01	312.66	320.85
Effective Tax Rate	26.9%	23.8%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	13.3%	13.8%	15.5%	12.1%	11.1%
Accounts Receivables Days	23.97	17.13	17.06	18.84	19.05
Inventory Days	119.96	86.66	77.35	83.52	83.42
Accounts Payables Days	29.78	22.52	22.27	24.23	24.54
ROIC (%)	29.8%	30.9%	42.6%	42.8%	45.5%
ROCE (%)	11.9%	11.7%	13.1%	14.7%	14.8%
Return On Average Assets	15.3%	14.3%	11.8%	14.9%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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