

India

REDUCE (no change)

Consensus ratings*: Buy 6 Hold 2 Sell 1

Current price:	Rs1,025
Target price:	Rs841
Previous target:	Rs621
Up/downside:	-18.0%
InCred Research / Consensus:	-8.2%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$1,890m
	Rs156,786m
Average daily turnover:	US\$7.2m
	Rs599.5m
Current shares o/s:	152.9m
Free float:	64.1%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue raised by 3.1%/4.7%.
- FY24F/25F EBITDA raised by 7.1%/10.3%.
- FY24F/25F PAT raised by 6%/9.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	18.5	13.4	119.4
Relative (%)	20.4	6.5	101.7

Major shareholders	% held
Promoters	35.9
Finolex Industries Limited	14.5
Nippon India MF	3.7

Analyst(s)



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Finolex Cables

C&W demand upcycle fuels growth in 1Q

- 1Q revenue/EBITDA beat estimates by 7-9.5% led by higher electrical cable revenue growth. Electrical wire revenue/sales volume grew 22%/29% yoy.
- Automotive and industrial cables, optical fibre drawing/cablings and fibre preform capacities to be set up/expanded over FY24F-25F at a cost of Rs5bn.
- Focus is on higher revenue/margins via new capacity, premium products & backward integration. Promoter dispute is yet to be resolved. Retain REDUCE.

Electrical cable & wire segment's growth drives overall performance

Finolex Cables' (FCL) 1QFY24 consolidated revenue/EBITDA/PAT stood at Rs12bn/Rs1.5bn/Rs1.6bn, +19%/23%/34% yoy, respectively, beating our/Bloomberg consensus estimates by 7-27%. Electrical cable revenue beat our estimate by 10% while communication cable and FMEG revenues were lower by 10-15% vs. our estimates. Consol. gross/EBITDA margins were at 21.1%/12.2%, +11bp/44bp yoy, respectively. Electrical cable revenue was at Rs10.1bn, +22% yoy, with the EBIT margin at 13.1%, +30bp yoy. Peers like Polycab/Havells/KEI cable/wire segment revenue grew 47%/25%/14% yoy, respectively. Electrical wire (including automotive/agricultural cables) sales volume grew 29% yoy while power cable volume grew 3% yoy. Communication cable revenue was at Rs1.4bn, flat yoy, with the EBIT margin at 2%, down 50bp yoy. Sales volume growth of metal-based communication cables grew 17% yoy while optical fibre volume rose 50% yoy. The FMEG segment's revenue was at Rs465m, down 8% yoy, with the EBIT margin at 1.5%, flat yoy, due to unseasonal rains & muted demand. Other income stood at Rs388m, up 2.3x yoy. Standalone net working capital was at 41 days of TTM sales while net cash (including liquid investments) stood at ~Rs24bn at the end of Jun 2023.

Capacity being expanded in anticipation of healthy order inflow

FCL has budgeted a capex of ~Rs5bn for automotive and industrial cables (solar cables), optical fibre drawing (4m to 8m fkm), cabling capacity (8m to 10m fkm) and backward integration into fibre preforms (8m fkm) over FY24F-25F. FCL expects electrical cable revenue growth rate (15-20% yoy) to sustain led by healthy housing demand and a meaningful pick-up in communication cable orders for 5G rollout by private telcos and from the Indian government's Bharat Net program. This capex has a peak revenue potential of Rs20bn and will improve the communication cable EBIT margin by 200-300bp.

Change in our estimates, valuation and risks

We increase our revenue/EBITDA/PAT estimates by 3-5%/7-10%/6-9% over FY24F-25F. Higher optic fibre salience increases business cyclicality and the stock could structurally trade at a meaningful discount to its electrical C&W peers, in our view. We retain REDUCE rating on it with a higher target price of Rs841 {Rs639 based on a higher P/E of 14x (25% discount to five-year mean+1SD of 18x) core FY25F EPS + Rs202/share for a 32.4% stake in Finolex Industries at a 25% discount to CMP} vs. Rs621 earlier. Upside risks: Faster and amicable settlement of promoter family legal dispute, & a sudden rise in optic fibre prices.

Financial Summary

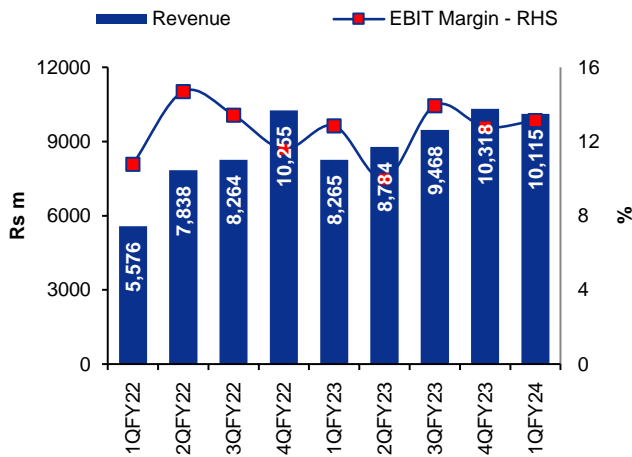
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	27,681	37,681	44,811	52,546	59,898
Operating EBITDA (Rsm)	3,702	4,285	5,094	6,805	8,056
Net Profit (Rsm)	4,615	5,991	5,043	7,814	8,685
Core EPS (Rs)	30.2	33.1	33.0	45.1	56.8
Core EPS Growth	18.0%	9.7%	(0.4%)	36.9%	25.8%
FD Core P/E (x)	33.98	26.17	31.09	20.06	18.05
DPS (Rs)	5.5	6.0	7.0	8.0	9.0
Dividend Yield	0.54%	0.59%	0.68%	0.78%	0.88%
EV/EBITDA (x)	38.22	32.03	26.08	19.12	15.53
P/FCFE (x)	(20.99)	170.07	0.00	53.14	29.00
Net Gearing	(44.8%)	(49.9%)	(54.8%)	(53.0%)	(55.0%)
P/BV (x)	4.59	4.00	3.59	3.12	2.72
ROE	14.4%	13.8%	12.2%	14.7%	16.1%
% Change In Core EPS Estimates				6.21%	9.19%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call highlights

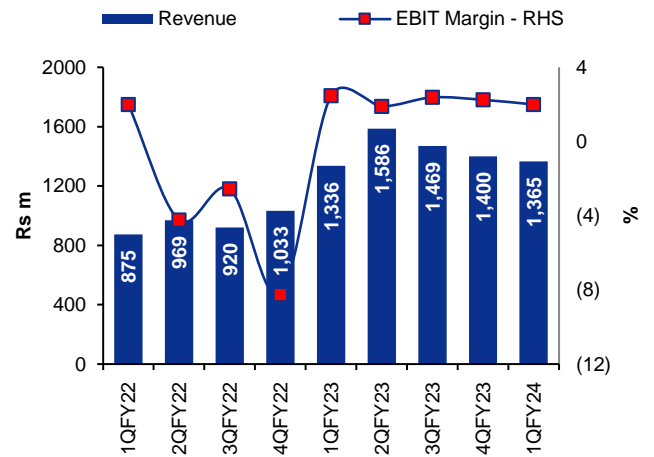
- **Promoter family's legal dispute update:** Mr. Deepak Chhabria, executive chairman and promoter, confirmed that the legal disputes between the promoter family relating to ownership of group companies are at status quo and there has been no meaningful progress on the same.
- **Growth and margin guidance:** Management indicated that the electrical cable and wire segment's revenue growth could sustain at 15-20% yoy, as the housing and infrastructure-related demand should sustain led by continuous new project launches and public/private capex. However, owing to the electrical cable/wire sales channel rejig and the appointment of new dealers and distributors, there has been an EBIT margin reset for the segment at 13-14% vs. 15-16% (FY17-20) due to dealer/distributor margins being paid, which were absent earlier. Based on the existing order book and optic fibre prices sustaining at the current levels, the company expects communication cable revenue growth of 15-20% yoy. As the fibre preform manufacturing rolls out next fiscal, management expects the EBIT margin to be higher by 200-300bp vs. the existing level of 2-3%.
- **Sales mix and volume growth:** Construction wire sales accounted for two-thirds of the total electrical cable and wire segment's sales in 1QFY24 while the remaining (ex-power cables: 5% of sales) was equally divided between automotive, industrial and agricultural cables. Construction wire and automotive cable sales volume grew 30% yoy, industrial cables grew 20% yoy, agricultural cables grew 100% yoy (albeit on a low base) and power cables grew 3% yoy in 1QFY24. Metal-based communication cable sales volume grew 17% yoy while optic fibre volume rose 50% yoy.
- **Capacity utilization:** Management indicated electrical wire capacity utilization of 70% and overall capacity utilization of 65-68% in 1QFY24.
- **ADD levied on optic fibre:** Anti-Dumping Duty (ADD) has been levied by India w.e.f. 5 Aug 2023 at the rate of 5-15% on optic fibre imports from China and Indonesia. Global prices have collapsed to US\$3.2/fkm now vs. US\$4.5-5 in Jan/Feb 2023 due to oversupply in the international market. Levy of ADD could lead to a revival in the domestic prices of optic fibre which, in turn, lead to higher revenue growth and better margins for the communication cable segment.
- **Electrical C&W pricing:** Copper prices declined by 11% yoy and FCL passed the benefit of cheaper raw material prices through two price cuts in May 2023. Bounce-back of prices led to one price hike in Jun 2023, leading to a net reduction of 2.5% in the selling prices of electrical cables in 1QFY24.
- **Will bid for Bharat Net turnkey orders:** FCL is expanding its optic fibre cable manufacturing capacity to bid for the Indian government's Bharat Net project orders. The company did a pilot project in Gujarat and expects Phase-III tenders to be rolled out soon that has a total project capex outlay of Rs1.4tr, which includes the supply of all related equipment and service capex that got approved recently by the Indian government.
- **Electron beam plant update:** FCL expects its two manufacturing lines to be operational in Dec 2023F and 1QFY25F. The smaller line will start trial production soon and manufacture premium wires treated with electron-beam radiation that will enhance the properties of wire insulation to withstand higher temperature, higher voltage and will have higher abrasive properties. The second line is expected to start trial production between Apr-Jun 2024F which will focus on solar cables and instrumentation cables to be used for high-speed rail, etc. The total project capex is estimated at Rs850-880m.
- **Capex plan:** FCL has a capex plan of Rs5bn over the next 18-24 months, with Rs2.5bn to be spent in FY24F.
- **Cash conversion cycle:** Standalone net working capital cycle stood at 37 days vs. 38 days qoq. Net cash, including liquid investments, was ~Rs24bn at the end of Jun 2023.

Figure 1: Electrical cable revenue and margin trend



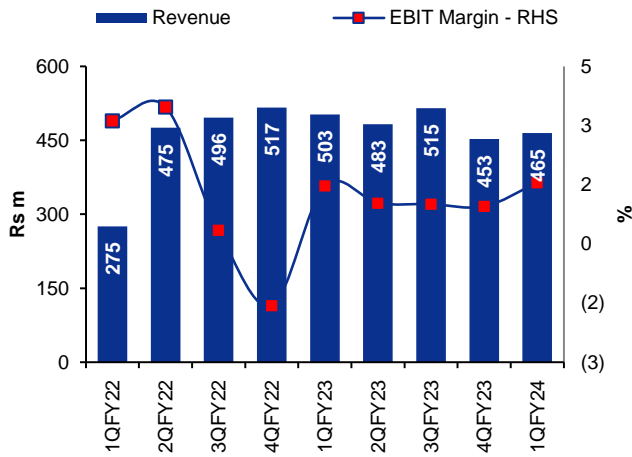
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Communication cable revenue and margin trend



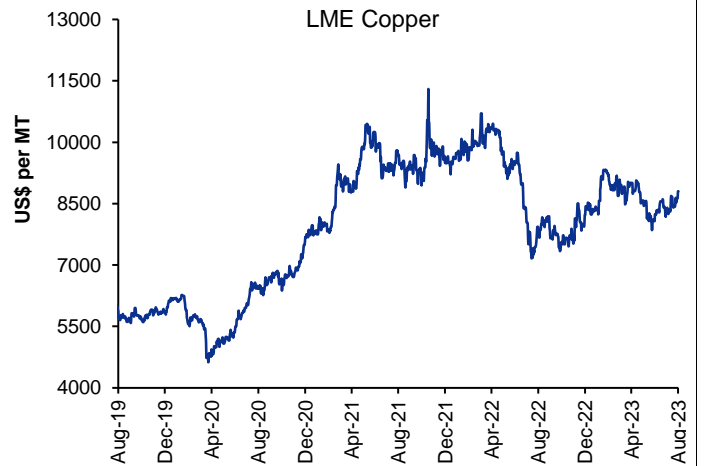
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Others (FMCG) revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Copper price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	12,043	10,157	18.6	12,243	(1.6)
EBITDA	1,465	1,191	23.0	1,457	0.6
EBITDA margin (%)	12.2	11.7	44 bp	11.9	27 bp
Adj. PAT	1,604	1,196	34.1	1,750	(8.3)
Diluted EPS (Rs)	10.5	7.8		11.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 1QFY24 segmental results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue					
Electrical cables	10,115	8,265	22.4	10,318	(2.0)
Communication cables	1,365	1,336	2.2	1,400	(2.5)
Copper rods	98	53	83.5	73	33.9
Others (FMEG)	465	503	(7.5)	453	2.6
Inter-segment revenue	3,733	2,939	27.0	3,789	(1.5)
Total	12,043	10,157	18.6	12,243	(1.6)
EBIT					
Electrical cables	1,328	1,061	25.1	1,318	0.7
Communication cables	27	33	(17.3)	32	(13.3)
Copper rods	8	15	(48.7)	4	92.5
Others (FMEG)	7	7	(2.7)	4	67.4
Total	1,370	1,117	22.7	1,358	0.9
EBIT margin (%)					
Electrical cables	13.1	12.8	29 bp	12.8	35 bp
Communication cables	2.0	2.5	-47 bp	2.3	-25 bp
Copper rods	7.9	28.2	-2,031 bp	5.5	240 bp
Others (FMEG)	1.5	1.5	8 bp	0.9	60 bp
Total	8.7	8.5	16 bp	8.5	21 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	12,043	11,238	7.2
EBITDA	1,465	1,371	6.9
EBITDA margin (%)	12.2	12.2	-3 bps
Adj. PAT	1,604	1,399	14.7

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	12,043	11,120	8.3
EBITDA	1,465	1,338	9.5
EBITDA margin (%)	12.2	12.0	13 bps
Adj. PAT	1,604	1,264	26.9

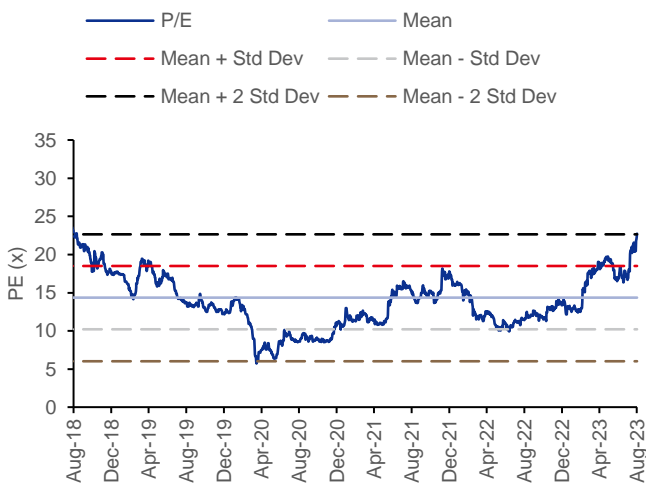
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	52,546	59,898	50,991	57,211	3.1	4.7
EBITDA	6,805	8,056	6,356	7,303	7.1	10.3
EBITDA margin (%)	13.0	13.5	12.5	12.8	48 bp	68 bp
Adjusted consol. PAT	6,600	8,685	6,227	7,954	6.0	9.2
EPS	43.2	56.8	40.7	52.0	6.0	9.2

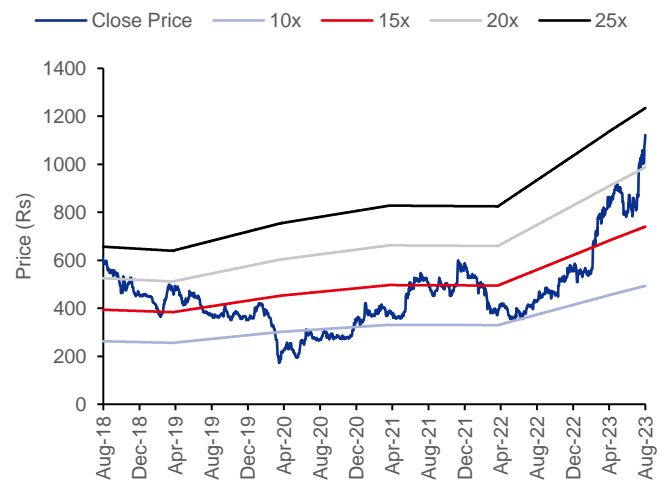
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



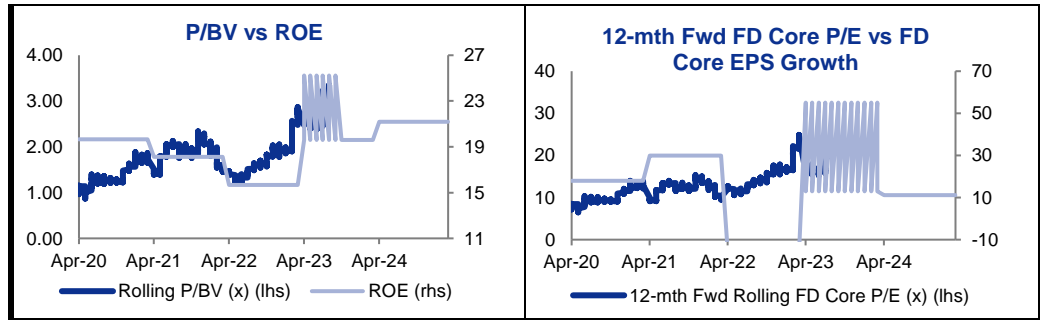
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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-23A	Mar-24F	Mar-25F
Total Net Revenues	27,681	37,681	44,811	52,546	59,898
Gross Profit	7,167	8,019	9,366	11,691	13,687
Operating EBITDA	3,702	4,285	5,094	6,805	8,056
Depreciation And Amortisation	(390)	(389)	(464)	(479)	(634)
Operating EBIT	3,312	3,897	4,630	6,326	7,423
Financial Income/(Expense)	725	659	1,295	1,293	1,949
Pretax Income/(Loss) from Assoc.	2,234	2,053	700	1,436	1,898
Non-Operating Income/(Expense)	38	40	(130)	150	158
Profit Before Tax (pre-EI)	6,309	6,648	6,495	9,205	11,427
Exceptional Items		1,218		1,215	
Pre-tax Profit	6,309	7,866	6,495	10,419	11,427
Taxation	(1,694)	(1,875)	(1,452)	(2,605)	(2,743)
Exceptional Income - post-tax					
Profit After Tax	4,615	5,991	5,043	7,814	8,685
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,615	5,991	5,043	7,814	8,685
Recurring Net Profit	4,615	5,064	5,043	6,903	8,685
Fully Diluted Recurring Net Profit	4,615	5,064	5,043	6,903	8,685

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	3,702	4,285	5,094	6,805	8,056
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,559)	1,495	(330)	(1,612)	(1,171)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	896	929	596	4,093	4,005
Net Interest (Paid)/Received	(725)	(659)	(479)	(1,293)	(1,949)
Tax Paid	(1,171)	(1,320)	(1,318)	(2,605)	(2,743)
Cashflow From Operations	1,144	4,731	3,563	5,388	6,198
Capex	(549)	(671)	(310)	(2,750)	(1,763)
Disposals Of FAs/subsidiaries		3	(3,245)		
Acq. Of Subsidiaries/Investments	(8,341)	(4,302)	810	(1,000)	(1,000)
Other Investing Cashflow	296	1,187		1,313	1,970
Cash Flow From Investing	(8,595)	(3,783)		(2,437)	(793)
Debt Raised/(repaid)	(17)	(25)	(12)		
Proceeds From Issue Of Shares			(39)		
Shares Repurchased					
Dividends Paid	(838)	(838)		(1,224)	(1,377)
Preferred Dividends					
Other Financing Cashflow	(8)	(6)	(915)	(20)	(21)
Cash Flow From Financing	(863)	(869)		(1,244)	(1,398)
Total Cash Generated	(8,314)	78		1,707	4,008
Free Cashflow To Equity	(7,468)	922		2,951	5,406
Free Cashflow To Firm	(7,459)	932		2,931	5,385

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	15,296	19,569	23,943	26,650	31,658
Total Debtors	1,766	1,772	2,178	2,879	3,282
Inventories	7,554	6,531	6,746	8,638	9,846
Total Other Current Assets	987	1,020	1,001	1,174	1,338
Total Current Assets	25,602	28,891	33,868	39,341	46,125
Fixed Assets	3,859	3,697	4,218	4,949	7,578
Total Investments	8,453	10,954	10,935	10,935	10,935
Intangible Assets	2	3	14	14	14
Total Other Non-Current Assets	940	1,399	770	2,310	810
Total Non-current Assets	13,254	16,052	15,937	18,208	19,337
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,760	1,901	2,087	2,879	3,282
Other Current Liabilities	747	1,015	1,078	1,440	1,641
Total Current Liabilities	2,507	2,915	3,165	4,319	4,923
Total Long-term Debt	3	3	3	3	3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	159	185	238	238	238
Total Non-current Liabilities	162	187	240	240	240
Total Provisions	2,042	2,617	2,695	2,695	2,695
Total Liabilities	4,712	5,720	6,101	7,254	7,859
Shareholders Equity	34,145	39,221	43,704	50,294	57,603
Minority Interests					
Total Equity	34,145	39,221	43,704	50,294	57,603

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(3.8%)	36.1%	18.9%	17.3%	14.0%
Operating EBITDA Growth	(3.5%)	15.8%	18.9%	33.6%	18.4%
Operating EBITDA Margin	13.4%	11.4%	11.4%	13.0%	13.4%
Net Cash Per Share (Rs)	99.99	127.92	156.53	174.24	206.98
BVPS (Rs)	223.26	256.43	285.75	328.85	376.64
Gross Interest Cover	435.82	256.35	373.35	316.29	353.46
Effective Tax Rate	26.9%	23.8%	22.4%	25.0%	24.0%
Net Dividend Payout Ratio	13.3%	13.8%	16.5%	13.3%	12.0%
Accounts Receivables Days	23.97	17.13	16.08	17.56	18.77
Inventory Days	119.96	86.66	68.36	68.72	73.00
Accounts Payables Days	29.78	22.52	20.53	22.18	24.33
ROIC (%)	29.8%	30.9%	40.2%	53.8%	47.4%
ROCE (%)	11.9%	11.7%	13.5%	15.4%	16.6%
Return On Average Assets	15.3%	14.3%	11.0%	14.7%	15.4%

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
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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