

Retail Equity Research  
**Finolex Cables Ltd**  
Electrical Equipment

BSE CODE : 500144 NSE CODE: FINCABLES  
BLOOMBERG CODE: FNXC:IN SENSEX : 58,664

**ACCUMULATE**

12 Months Investment Period Rating as per Small Cap

**CMP Rs. 581 TARGET Rs. 663 RETURN 14%** ↑  
(Closing: 23-11-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

**EBITDA margins steady...growth outlook positive...**

Finolex Cables Ltd (FCL) is India's largest manufacturer of electrical (80% of revenue) and telecommunication cables (16%). FCL has a wide distribution network with a high brand recall.

- Q2FY22 revenue & PAT grew by 45% & 117% YoY, supported by healthy growth across all segments.
- Gross margin declined by 400bps YoY, but fall in EBITDA margins was limited to 10bps YoY to 12.8%, owing to cost rationalization.
- Overall, demand scenario improved largely due to pent-up demand, revival in construction activities and improvement in consumer sentiments.
- H2FY22E performance is expected to better given better vaccination drive and sharp rebound in economic activities.
- We continue to maintain positive stance on FCL, given its clean balance sheet, strong cash flows and healthy earnings outlook of 28% CAGR over FY21-23E.
- We value FCL's core business at P/E multiple of 17x on FY23E and value FCL's investments in Finolex Industries at Rs.149 to arrive at SOTP price target of Rs.663 and recommend to "Accumulate".

**Revenue growth picks-up**

Q2FY22 revenue grew by 46% YoY led by strong growth in electrical wires by 46% on account of pent-up demand and revival in construction demand. Revenue from new products within the FMEG sector grew by 98% led by better traction and improvement in distribution foot print. All the products in the Fans, water heaters, Lamps & switchgears witnessed strong traction. Revenue from communication cables grew by 37% YoY, while volume growth in Optic Fiber Cables was 80% on lower base. Overall, revenue growth was supported by higher realisation due to increase in input cost. Going ahead, with increase in vaccination coverage, lower risk in spread of Covid-19 and strong demand from construction activities, we expect H2FY22E revenue growth will better, despite high base. FCL entry into the room heater segment with a new range of high-performance room heaters with six variations ranging from 400W to 2500W. The communication cables segment continues to be impacted by delays in big orders from both the Government & private Telecom Companies. On the other hand, on a medium to long term basis, launch of 5G will lead businesses to ramp-up their IT infra leading to higher spending in digitization and OFC cables, which is expected drive FCL's communication cables business. We expect revenue to grow by 13% over FY21-23E.

**EBITDA margins steady...**

Gross margins declined by 400bps YoY to 23.4% on account of delay in pass through of higher input cost. However, fall in EBITDA margin was limited to 10bps YoY to 12.8% on account better cost control. EBITDA grew by 45% YoY to Rs.120cr. The interest expenses declined by 17% YoY and other income increased by 395% YoY. Consequently, PAT grew by 117% YoY to Rs.150cr. We expect PAT to grow by 28% over FY21-23E.

**Valuations**

Given strong vaccine coverage, lower risk to spread and sharp rebound in economic activities, we expect revenue growth to pick-up. FCL's strong brand recall, expanding product portfolio, clean balance sheet and strong cash flow generation, gives confidence. We value FCL at P/E of 17x on FY23E and value FCL's investment in Finolex Industries at Rs.149 with a target price of Rs.663 and recommend to "Accumulate".

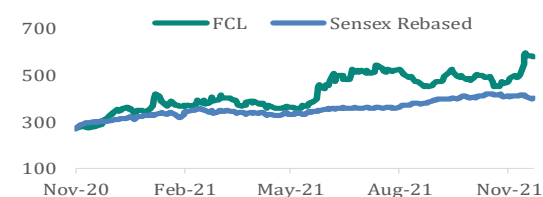
**Company Data**

Market Cap (cr)	Rs.8,893
Enterprise Value (cr)	Rs.8,875
Outstanding Shares (cr)	15.3
Free Float	64.1%
Dividend Yield	0.95%
52 week high	Rs.609
52 week low	Rs.285
6m average volume (cr)	0.01
Beta	0.8
Face value	Rs.2

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	35.9	35.9	35.9
FII's	8.4	9.3	9.1
MFs/Institutions	18.1	16.6	16.2
Public	16.9	17.1	17.2
Others	20.7	21.1	21.6
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	28.6%	45.7%	101.3%
Absolute Sensex	5.6%	15.8%	33.1%
Relative Return*	23.0%	29.9%	68.2%

over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	2,768	3,540	3,915
Growth (%)	(3.8)	28.0	10.6
EBITDA	355	430	476
EBITDA Margin(%)	12.8	12.1	12.2
PAT Adj.	283	412	462
Growth (%)	(30.0)	45.6	12.2
Adjusted EPS	18.5	26.9	30.2
Growth (%)	(30.0)	45.6	12.2
P/E	31.4	21.6	19.2
P/B	3.0	2.7	2.4
EV/EBITDA	25.0	20.5	18.2
ROE (%)	10.0	13.2	13.3
D/E	0.0	0.0	0.0

## SOTP Valuation

Particulars	Segments	FY23 EPS	Valued at P/E	Holding discount	Value/Share (Rs)
FCL Standalone	Core Business	Rs30.2	17x	-	514
Finolex Industries	FCL holds 32.4%	Rs10.8	13.1x	20% holding discount	149
<b>Total Value per share</b>					<b>663</b>

## Quarterly Financials

### Profit & Loss

	Q2FY22	Q2FY21	YoY growth %	H1FY22	H1FY21	YoY growth %
<b>Sales</b>	<b>933</b>	<b>639</b>	<i>46.0</i>	<b>1,680</b>	<b>1,017</b>	<i>58.2</i>
<b>EBITDA</b>	<b>120</b>	<b>82</b>	<i>45.2</i>	<b>190</b>	<b>117</b>	<i>62.4</i>
EBITDA margins	<b>12.8</b>	<b>12.9</b>	<i>(10bps)</i>	<b>11.8</b>	<b>11.5</b>	<i>+30bps</i>
Depreciation	10	10	<i>1.4</i>	20	<b>20</b>	-
<b>EBIT</b>	<b>110</b>	<b>78</b>	<i>51.1</i>	<b>170</b>	<b>97</b>	<i>75.2</i>
Interest	-	-	-	-	-	-
Other Income	98	20	<i>395.0</i>	113	42	<i>168.2</i>
Exceptional Items	-	-	-	-	-	-
<b>PBT</b>	<b>207</b>	<b>92</b>	<i>207.0</i>	<b>283</b>	<b>139</b>	<i>103.7</i>
Tax	58	23	<i>149.2</i>	78	<b>35</b>	<i>124.1</i>
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
<b>Reported PAT</b>	<b>150</b>	<b>69</b>	<i>116.7</i>	<b>205</b>	<b>104</b>	<i>97.0</i>
Adjustments	-	-	-	-	-	-
<b>Adj PAT</b>	<b>150</b>	<b>60</b>	<i>116.7</i>	<b>205</b>	<b>104</b>	<i>97.0</i>
No. of Shares	<b>15.3</b>	<b>15.3</b>	-	<b>15.3</b>	<b>15.3</b>	-
<b>EPS (Rs)</b>	<b>9.8</b>	<b>4.5</b>	<i>116.7</i>	<b>13.4</b>	<b>6.8</b>	<i>97.0</i>

## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	2,978	-	3,540	3,915	<i>19.0</i>	-
EBITDA	357	-	430	476	<i>20.4</i>	-
Margins (%)	12.0	-	12.1	12.2	<i>+10bps</i>	-
Adj. PAT	312	-	412	462	<i>32.0</i>	-
EPS	20.4	-	26.9	30.2	<i>32.0</i>	-

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Sales</b>	<b>3,078</b>	<b>2,877</b>	<b>2,768</b>	<b>3,540</b>	<b>3,915</b>
% change	9.3	-6.5	-3.8	27.9	10.6
<b>EBITDA</b>	<b>452</b>	<b>370</b>	<b>355</b>	<b>430</b>	<b>476</b>
% change	6.9	(18.1)	(4.1)	21.1	10.8
Depreciation	41	39	39	43	49
<b>EBIT</b>	<b>411</b>	<b>331</b>	<b>316</b>	<b>387</b>	<b>427</b>
Interest	1	2	1	1	1
Other Income	122	172	77	163	190
<b>PBT</b>	<b>532</b>	<b>501</b>	<b>392</b>	<b>549</b>	<b>616</b>
% change	5	-6	-22	40	12
Tax	188	99	109	137	154
Tax Rate (%)	35.3%	19.7%	27.9%	25.0%	25.0%
<b>Reported PAT</b>	<b>344</b>	<b>402</b>	<b>283</b>	<b>412</b>	<b>462</b>
Adj.*	0	0	0	0	0
<b>Adj. PAT</b>	<b>344</b>	<b>402</b>	<b>283</b>	<b>412</b>	<b>462</b>
% change	(3.9)	17.0	(29.7)	45.6	12.2
No. of shares (cr)	15	15	15	15	15
<b>Adj EPS (Rs)</b>	<b>22.5</b>	<b>26.3</b>	<b>18.5</b>	<b>26.9</b>	<b>30.2</b>
% change	-3.9	17.0	-29.7	45.6	12.2
DPS (Rs)	4.8	5.5	5.5	5.5	5.5
CEPS (Rs)	25.1	28.9	21.0	29.7	33.4

### CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	385	441	322	455	511
Non-cash adj.	(59)	(132)	(52)	(5)	(5)
Changes in W.C	(149)	(50)	(156)	(46)	(77)
<b>C.F. Operation</b>	<b>154</b>	<b>259</b>	<b>114</b>	<b>403</b>	<b>429</b>
Capital exp.	(44)	(32)	(55)	(104)	(95)
Change in inv.	(113)	584	(834)	(174)	(87)
Other invest.CF	47	84	30	9	9
<b>C.F - Investment</b>	<b>(110)</b>	<b>637</b>	<b>(859)</b>	<b>(270)</b>	<b>(174)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(0)	(0)	(0)	-	-
Dividends paid	(73)	(83)	(84)	(84)	(84)
Other finance.CF	(1)	(1)	(0)	(1)	(1)
<b>C.F - Finance</b>	<b>(75)</b>	<b>(86)</b>	<b>(86)</b>	<b>(85)</b>	<b>(85)</b>
Chg. in cash	(30)	81	(83)	5	17
Closing cash	46	856	25	73	243

### BALANCE SHEET

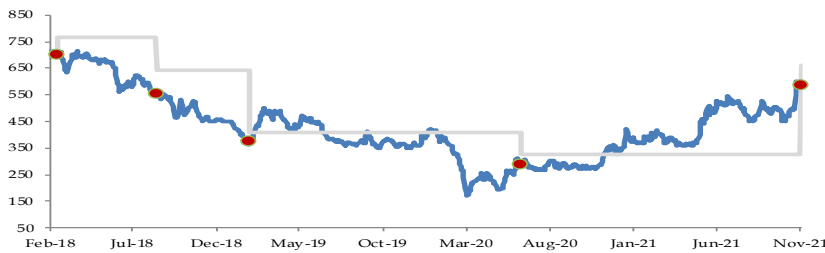
Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	46	856	25	73	243
Accounts Receivable	211	187	177	233	257
Inventories	587	593	755	819	900
Other Cur. Assets	896	483	1,447	1,602	1,665
Investments	614	479	428	458	488
Gross Fixed Assets	581	601	648	748	848
Net Fixed Assets	404	386	394	452	503
CWIP	10	27	26	30	25
Intangible Assets	1	0	0	0	0
Def. Tax (Net)	(58)	(36)	(34)	(37)	(39)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>2,711</b>	<b>2,976</b>	<b>3,218</b>	<b>3,630</b>	<b>4,043</b>
Current Liabilities	255	230	242	320	352
Provisions	15	19	19	25	28
Debt Funds	0	8	7	7	7
Other Liabilities	-	-	-	-	-
Equity Capital	31	31	31	31	31
Reserves & Surplus	2,409	2,688	2,920	3,248	3,626
Shareholder's Fund	2,440	2,719	2,951	3,278	3,656
<b>Total Liabilities</b>	<b>2,711</b>	<b>2,976</b>	<b>3,218</b>	<b>3,630</b>	<b>4,043</b>
BVPS	<b>160</b>	<b>178</b>	<b>193</b>	<b>214</b>	<b>239</b>

### RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	14.7	12.9	12.8	12.1	12.2
EBIT margin (%)	13.4	11.5	11.4	10.9	10.9
Net profit mgn.(%)	11.2	14.0	10.2	11.6	11.8
ROE (%)	14.9	15.6	10.0	13.2	13.3
ROCE (%)	17.7	12.8	11.1	12.2	11.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	22.9	25.2	24.0	21.1	22.8
Inventory (days)	87.5	103.4	120.0	105.7	105.1
Payables (days)	31.1	32.1	29.8	26.6	26.9
Current ratio (x)	6.4	8.5	9.2	7.9	8.1
Quick ratio (x)	1.0	4.5	0.8	0.7	0.7
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	5.5	4.9	4.4	5.1	4.9
Total asset T.O (x)	1.2	1.0	0.9	1.0	1.0
Int. covge. ratio (x)	446.7	213.5	415.6	645.2	534.3
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	2.9	2.8	3.2	2.5	2.2
EV/EBITDA (x)	19.6	21.7	25.0	20.5	18.2
P/E (x)	25.8	22.1	31.4	21.6	19.2
P/BV (x)	3.6	3.3	3.0	2.7	2.4

## Recommendation Summary (last 3 Years)

Dates	Rating	Target
06-March-2018	ACCUMULATE	769
03-September-2018	BUY	644
21-February-2019	ACCUMULATE	410
01-July-2020	ACCUMULATE	327
24-November-2021	ACCUMULATE	663



Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	Upside is above 10%	Upside is above 15%	Upside is above 20%
<b>Accumulate</b>	-	Upside is between 10%-15%	Upside is between 10%-20%
<b>Hold</b>	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
<b>Reduce/sell</b>	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
<b>Not rated</b>			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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