

Retail Equity Research

Finolex Cables Ltd.

Electrical Equipment

BSE CODE : 500144 NSE CODE: FINCABLES
 BLOOMBERG CODE: FNXC:IN SENSEX : 66,988

Accumulate

12 Months Investment Period Rating as per Small Cap

CMP Rs. 968 TARGET Rs.1,108 RETURN 15% ↑
 (Closing: 30-11-2023)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Margins improves...optimistic growth outlook

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.

- H1FY24 revenue grew by 13.5% YoY, while PAT grew by 28% YoY, largely led by healthy volume and higher other income.
- EBITDA grew by 40% YoY, led by better scale and 230bps YoY expansion in margins on account of a fall in input costs.
- Healthy construction activities are driving the volumes in wires and cables segment while higher government capex is driving power cables, which is expected to continue going forward.
- As input costs have largely stabilized, EBITDA margins will gradually improve going forward, supported by higher volumes.
- Given a healthy balance sheet, strong cash flows, and a healthy earnings outlook of 19% CAGR over FY23-25E, we reiterate our positive stance on FCL.
- We value FCL's core business at a P/E multiple of 21x on FY25E and value FCL's investments in Finolex Industries at Rs.126 to arrive at a SOTP price target of Rs.1,108 and maintain Accumulate rating.

Revenue growth healthy...

Revenue increased by 13.5% YoY in H1FY24, driven by healthy 17.3% YoY growth in the electric wire business. Electric wire volume grew by healthy double-digit growth. Further retail penetration and continued demand from real estate and infra led to strong growth in electric volumes. Communication cable segment growth declined by 7% YoY due to a sharp drop in fiber prices and product dumping from China, Indonesia, and Vietnam. Further optic fiber volumes were impacted by the delay in government tenders for BharatNet phase 3. Within the communication cables segment, metal-based product line volumes were stable. However, we anticipate volumes from this segment to pick up in H2FY24, given the government's ambitious target of Rs1.4 lakh cr. Further, with the imposition of countervailing duties, we expect a gradual price recovery in the upcoming quarters. Volume growth in the appliances sector was impacted by inflationary pressures as well as subdued consumer sentiment. We expect revenue to grow by a 15% CAGR over FY23-FY24E.

EBITDA margins expands...

In H1FY24, gross margins improved by 180ps YoY to 22%, led by a fall in input prices and healthy volumes. EBITDA grew by 55.3% YoY, and margins expanded by 230bps to 12.1%. Supported by a sharp increase in other income, PAT grew by 28% YoY to Rs.298cr. Going ahead, capacity utilization, led by stable demand from infra & construction, will drive earnings. We expect the EBITDA margin for FY24-FY25E to be in the range of 12.4%. We expect PAT to grow by 19% YoY over FY23-25E.

Valuations

We expect healthy volume in real estate and construction to drive growth. While RM prices have largely stabilized, we anticipate margins to normalise from hereon. We remain constructive on FCL's prospects given its expanding presence, brand recall, clean balance sheet, and strong cash flow generation. We value FCL at a P/E of 21x on FY25E, value FCL's investment in Finolex Industries at Rs.126 with a target price of Rs.1,108, and maintain Accumulate rating.

Company Data

Market Cap (cr)	Rs.14,799
Enterprise Value (cr)	Rs.14,745
Outstanding Shares (cr)	15.3
Free Float	64.1%
Dividend Yield	0.72%
52 week high	Rs.1,219
52 week low	Rs.491
6m average volume (cr)	0.01
Beta	0.93
Face value	Rs.2

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	35.9	35.9	35.9
FII's	10.8	11.3	11.8
MFs/Institutions	17.0	15.6	15.6
Public	35.3	36.2	35.7
Others	1.0	16.9	1.0
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-12.8%	19.7%	65.3%
Absolute Sensex	-3.2%	6.8%	6.7%
Relative Return*	-16.0%	12.9%	58.6%

over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	4,481	5,107	5,933
Growth (%)	18.9	14.0	16.2
EBITDA	496	631	742
EBITDA Margin(%)	11.1	12.3	12.5
PAT Adj.	502	618	715
Growth (%)	24.0	23.2	15.7
Adjusted EPS	32.8	40.4	46.7
Growth (%)	24.0	23.2	15.7
P/E	29.5	23.9	20.7
P/B	4.0	3.5	3.0
EV/EBITDA	29.8	23.4	19.8
ROE (%)	14.4	15.5	15.7
D/E	0.0	0.0	0.0

ANIL R
 Research Analyst

SOTP Valuation

Particulars	Segments	FY25E EPS	Valued at P/E	Holding discount	Value/Share (Rs)
FCL Standalone	Core Business	Rs.46.7	21.0x	-	982
Finolex Industries	FCL holds 32.4%	Rs.10.0	12.0x	20% holding discount	126
Total Value per share					1,108

Quarterly Financials

Profit & Loss

Rs.cr	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
Sales	1,187	1,091	8.9	1,204	-1.4	2,392	2,106	13.5
EBITDA	144	93	55.3	144	-0.1	289	207	39.7
EBITDA margin	18.3	17.3	106bps	14.3	400bps	12.1	9.8	226bps
Depreciation	11	11	1.4	11	3.2	21	20	6.4
EBIT	133	82	62.3	134	-0.4	267	186	43.3
Interest	0	0	238.5	0	51.7	1	0	180.8
Other Income	85	106	-20.4	39	117.8	123	123	0.0
Exceptional Items	-	-	-	-	-	-	-	-
PBT	217	188	15.5	172	26.1	390	310	25.9
Tax	52	52	1.1	40	29.6	92	77	19.4
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	165	137	21.0	132	25.1	298	232	28.1
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	165	137	21.0	132	25.1	298	232	28.1
No. of Shares	0	0	-	62.5	-	0	0	-
EPS (Rs)	10.8	8.9	21.0	8.6	25.1	19.5	15.2	28.1

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	5,107	5,933	5,107	5,933	-	-
EBITDA	627	739	631	742	0.6	0.4
Margins (%)	12.3	12.5	12.3	12.5	-	-
Adj. PAT	615	712	618	715	0.5	0.4
EPS	40.2	46.5	40.4	46.7	0.5	0.5

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Sales	2,768	3,768	4,481	5,107	5,933
% change	-3.8	36.1	18.9	14.0	16.2
EBITDA	355	415	496	631	742
% change	(4.1)	17.0	19.4	27.2	17.7
Depreciation	39	39	46	57	68
EBIT	316	376	449	574	674
Interest	1	2	1	1	2
Other Income	77	152	198	240	268
PBT	392	527	646	813	941
% change	-22	34	23	26	16
Tax	109	122	144	195	226
Tax Rate (%)	27.9%	23.2%	22.3%	24.0%	24.0%
Reported PAT	283	405	502	618	715
Adj.*	0	0	0	0	0
Adj. PAT	283	405	502	618	715
% change	(29.7)	43.0	24.0	23.2	15.7
No. of shares (cr)	15	15	15	15	15
Adj EPS (Rs)	18.5	26.5	32.8	40.4	46.7
% change	-29.7	43.0	24.0	23.2	15.7
DPS (Rs)	5.5	5.5	5.5	5.5	5.5
CEPS (Rs)	21.0	29.0	35.8	44.1	51.2

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	25	32	67	41	94
Accounts Receivable	177	177	218	336	390
Inventories	755	653	675	1,200	1,395
Other Cur. Assets	1,447	1,977	2,301	2,171	2,523
Investments	428	293	367	397	427
Gross Fixed Assets	648	672	772	1,022	1,122
Net Fixed Assets	394	380	434	627	659
CWIP	26	87	21	25	25
Intangible Assets	0	0	1	1	1
Def. Tax (Net)	(34)	(26)	(33)	(36)	(38)
Other Assets	-	-	-	-	-
Total Assets	3,218	3,574	4,050	4,763	5,476
Current Liabilities	242	286	309	469	545
Provisions	19	15	18	36	42
Debt Funds	7	9	14	14	14
Other Liabilities	-	-	-	-	-
Equity Capital	31	31	31	31	31
Reserves & Surplus	2,920	3,233	3,679	4,213	4,844
Shareholder's Fund	2,951	3,264	3,710	4,244	4,875
Total Liabilities	3,218	3,574	4,050	4,763	5,476
BVPS	193	213	243	277	319

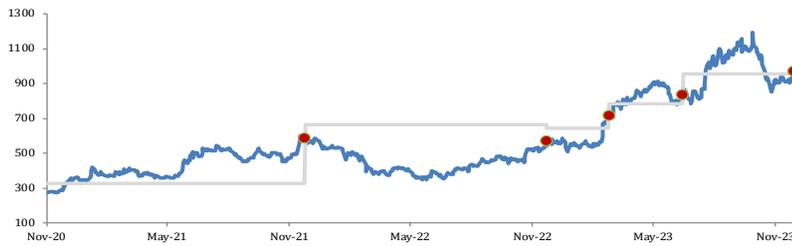
CASH FLOW

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	322	443	548	675	782
Non-cash adj.	(52)	(120)	(159)	(5)	(5)
Changes in W.C	(156)	149	(33)	(510)	(179)
C.F. Operation	114	473	356	160	599
Capital exp.	(55)	(67)	(31)	(254)	(100)
Change in inv.	(834)	(430)	(324)	144	(370)
Other invest.CF	30	119	131	9	9
C.F - Investment	(859)	(378)	(225)	(101)	(461)
Issue of equity	-	-	-	-	-
Issue/repay debt	(0)	(0)	(0)	-	-
Dividends paid	(84)	(84)	(92)	(84)	(84)
Other finance.CF	(0)	(1)	(0)	(1)	(2)
C.F - Finance	(86)	(87)	(97)	(85)	(85)
Chg. in cash	(83)	1	4	(3)	5
Closing cash	25	32	67	41	94

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab & Return					
EBITDA margin (%)	12.8	11.0	11.1	12.3	12.5
EBIT margin (%)	11.4	10.0	10.0	11.2	11.4
Net profit mgn.(%)	10.2	10.7	11.2	12.1	12.0
ROE (%)	10.0	13.0	14.4	15.5	15.7
ROCE (%)	11.1	12.1	12.8	13.9	13.9
W.C & Liquidity					
Receivables (days)	24.0	17.1	16.1	19.8	22.3
Inventory (days)	120.0	86.7	68.4	85.9	102.3
Payables (days)	29.8	22.5	20.5	19.6	17.4
Current ratio (x)	9.2	9.4	10.0	7.4	7.5
Quick ratio (x)	0.8	0.7	0.9	0.7	0.7
Turnover & Leverage					
Gross asset T.O (x)	4.4	5.7	6.2	5.7	5.5
Total asset T.O (x)	0.9	1.1	1.2	1.2	1.2
Int. covge. ratio (x)	415.6	247.6	362.2	441.6	449.7
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	5.3	3.9	3.3	2.9	2.5
EV/EBITDA (x)	41.7	35.6	29.8	23.4	19.8
P/E (x)	52.3	36.6	29.5	23.9	20.7
P/BV (x)	5.0	4.5	4.0	3.5	3.0

Recommendation Summary (last 3 Years)



Dates	Rating	Target
21-February-2019	ACCUMULATE	410
01-July-2020	ACCUMULATE	327
24-November-2021	ACCUMULATE	663
22-November-2022	ACCUMULATE	643
24-February-2023	HOLD	784
15-June-2023	ACCUMULATE	953
30-November- 2023	ACCUMULATE	1,108

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

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/Neutral: 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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