

Retail Equity Research
Finolex Cables Ltd.
Electrical Equipment

BUY

12 Months Investment Period Rating as per Small Cap

CMP Rs. 842 TARGET Rs.1,019 RETURN 21% ↑
(Closing: 14-03-2024)

BSE CODE : 500144 NSE CODE: FINCABLES
BLOOMBERG CODE: FNXC:IN SENSEX : 73,097

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.

- 9MFY24 revenue grew by 11% YoY, led by 14% YoY increase in wires. While communication cables segment de-grew by 8% YoY.
- EBITDA grew by 21% YoY, and EBITDA margins was up by 99bps YoY to 11.7%.
- Going ahead, robust construction activities will drive wires and cable volumes, while higher government capex will drive power cable demand. Further, the conclusion of the optic fibre tender in Q4FY24 will spur communication cable growth in FY25.
- As input costs have largely stabilized, EBITDA margins will gradually improve going forward, supported by higher volumes and an improved mix.
- Given a healthy balance sheet, strong cash flows, and a healthy earnings outlook of 18% CAGR over FY24E-26E, we maintain our positive stance on FCL.
- We value FCL's core business at a P/E multiple of 18x as we roll forward to FY26E and value FCL's investments in Finolex Industries at Rs.103 to arrive at a SOTP price target of Rs.1,019 and recommend to BUY.

Revenue growth to pick-up in FY25

9MFY24 saw a 11% YoY increase in revenue, driven by 14% YoY growth in the electric wire business, supported healthy volumes. However, the FCL volume mix favoured Auto B2B and agri sectors, while reduced contributions from construction wires and project-related discounts dampened growth. Management anticipates a return to normalized growth, buoyed by ongoing robust construction activity. Additionally, enhanced retail penetration and government infrastructure initiatives are poised to bolster electric volumes in the future. Conversely, the communication cable segment faced an 8% YoY decline due to Bharat-Net tendering delays. Meanwhile, volumes from private players remained subdued, compounded by a drop in fibre prices and heightened competition. The tendering process is expected to conclude in Q4FY24, with anticipated revenue realization starting from Q1 or Q2FY25 onwards. The FMEG segment grew by 16.2% YoY on account of an improvement in volumes. We anticipate FCL's revenue to grow by a 15% CAGR over FY24E-FY26E.

Margins to improve

9MFY24, gross margins improved by 70bps YoY to 21.4%, despite 2.7% YoY increase in RM cost. EBITDA grew by 21% YoY on account of improved volumes. EBITDA margins improved by 99bps YoY to 11.7% led by lower cost, but lower than our estimates. Reported Net profit grew by 16% YoY to Rs.425cr. Going ahead, capacity utilization, led by stable demand from infra & construction, will drive earnings. We've revised down our EBITDA margin estimates by 60bps and 50bps for FY24E and FY25E respectively, to account for the EBITDA miss, resulting in a 9% reduction in our EPS estimates for the same period. We expect the EBITDA margin for FY24E-26E to be in the range of 12-12.5%. We expect PAT to grow by 18% YoY over FY24-26E.

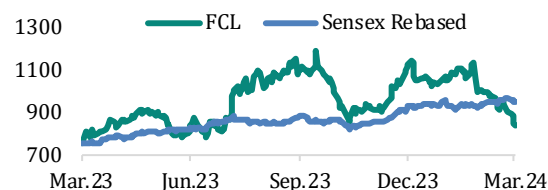
Valuations

We remain constructive on FCL's prospects given its strong brand recall, balance sheet, and strong cash flow generation. We value FCL at a P/E of 18x as we roll forward to FY26E, value FCL's investment in Finolex Industries at Rs.103 with a target price of Rs.1,019 and recommend to BUY.

Company Data			
Market Cap (cr)	Rs.12,874		
Enterprise Value (cr)	Rs.12,821		
Outstanding Shares (cr)	15.3		
Free Float	64.1%		
Dividend Yield	0.76%		
52 week high	Rs.1,219		
52 week low	Rs.761		
6m average volume (cr)	0.01		
Beta	0.93		
Face value	Rs.2		
Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	35.9	35.9	35.9
FII's	11.3	11.8	11.1
MFs/Institutions	15.6	15.6	15.9
Public	36.2	35.7	36.1
Others	1.0	1.0	1.0
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11.6%	-18.8%	17.7%
Absolute Sensex	6.9%	12.6%	23.0%
Relative Return*	-18.5%	-31.4%	-5.4%

over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Sales	4,865	5,570	6,435
Growth (%)	8.6	14.5	15.5
EBITDA	572	668	801
EBITDA Margin(%)	11.8	12.0	12.5
PAT Adj.	562	650	778
Growth (%)	12.0	15.7	19.6
Adjusted EPS	36.8	42.5	50.8
Growth (%)	12.0	15.7	19.6
P/E	22.9	19.8	16.6
P/B	3.1	2.7	2.4
EV/EBITDA	22.3	19.1	15.8
ROE (%)	14.3	14.6	15.3
D/E	0.0	0.0	0.0



SOTP Valuation

Particulars	Segments	FY26E EPS	Valued at P/E	Holding discount	Value/Share (Rs)
FCL Standalone	Core Business	Rs.50.8	18.0x	-	916
Finolex Industries	FCL holds 32.4%	Rs.10.9	12.0x	35% holding discount	103
Total Value per share					1,019

Quarterly Financials

Profit & Loss

Rs.cr	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Sales	1,222	1,150	6.2	1,187	2.9	3,613	3,257	10.9
EBITDA	133	141	-5.8	144	-7.7	422	348	21.2
EBITDA margin	10.9	12.3	-139bps	12.1	-125bps	11.7	10.7	99bps
Depreciation	11	11	-3.0	11	0.2	32	31	3.0
EBIT	122	130	-6.0	133	-8.3	390	317	23.0
Interest	0	0	223.1	0	-4.5	1	0	342.3
Other Income	45	33	36.5	85	-46.7	168	156	7.7
Exceptional Items	-	-	-	-	-	-	-	-
PBT	167	163	2.4	217	-23.3	557	473	17.8
Tax	39	28	39.3	52	-24.9	131	105	24.7
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	128	135	-5.3	165	-22.8	425	367	15.9
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	128	135	-5.3	165	-22.8	425	367	15.9
No. of Shares	0	0	-	62.5	-	0	0	-
EPS (Rs)	8.4	8.8	-5.3	10.8	-22.8	27.8	24.0	15.9

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	5,107	5,933	4,865	5,570	(4.7)	(6.1)
EBITDA	631	742	572	668	(8.8)	(9.7)
Margins (%)	12.3	12.5	11.8	12.0	(50bps)	(50bps)
Adj. PAT	618	715	562	650	(8.6)	(8.7)
EPS	40.4	46.7	36.8	42.5	(8.6)	(8.7)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	2,768	3,768	4,481	4,865	5,570	6,435
% change	-3.8	36.1	18.9	8.6	14.5	15.5
EBITDA	355	415	496	572	668	801
% change	(4.1)	17.0	19.4	15.4	16.8	20.0
Depreciation	39	39	46	44	64	70
EBIT	316	376	449	527	604	731
Interest	1	2	1	1	2	2
Other Income	77	152	198	214	253	294
PBT	392	527	646	740	856	1023
% change	-22	34	23	15	16	20
Tax	109	122	144	178	205	246
Tax Rate (%)	27.9%	23.2%	22.3%	24.0%	24.0%	24.0%
Reported PAT	283	405	502	562	650	778
Adj.*	0	0	0	0	0	0
Adj. PAT	283	405	502	562	650	778
% change	(29.7)	43.0	24.0	12.0	15.7	19.6
No. of shares (cr)	15	15	15	15	15	15
Adj EPS (Rs)	18.5	26.5	32.8	36.8	42.5	50.8
% change	-29.7	43.0	24.0	12.0	15.7	19.6
DPS (Rs)	5.5	5.5	6.0	6.0	6.0	6.0
CEPS (Rs)	21.0	29.0	35.8	39.6	46.7	55.4

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	25	32	67	114	166	255
Accounts Receivable	177	177	218	320	366	423
Inventories	755	653	675	1,148	1,314	1,513
Other Cur. Assets	1,447	1,977	2,301	2,068	2,368	2,736
Investments	428	293	367	397	427	457
Gross Fixed Assets	648	661	759	1,009	1,109	1,209
Net Fixed Assets	394	380	434	639	676	706
CWIP	26	87	21	25	25	25
Intangible Assets	0	0	1	1	1	1
Def. Tax (Net)	(34)	(26)	(33)	(36)	(38)	(41)
Other Assets	-	-	-	-	-	-
Total Assets	3,218	3,574	4,050	4,677	5,306	6,076
Current Liabilities	242	286	309	449	514	591
Provisions	19	15	18	35	40	46
Debt Funds	7	9	14	14	14	14
Other Liabilities	-	-	-	-	-	-
Equity Capital	31	31	31	31	31	31
Reserves & Surplus	2,920	3,233	3,679	4,150	4,708	5,395
Shareholder's Fund	2,951	3,264	3,710	4,180	4,739	5,425
Total Liabilities	3,218	3,574	4,050	4,677	5,306	6,076
BVPS	193	213	243	273	310	355

CASH FLOW

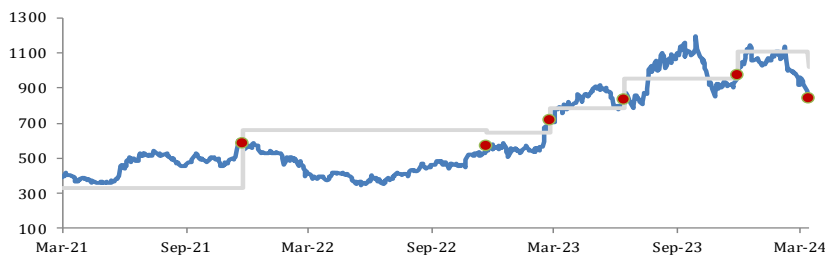
Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	322	443	548	606	714	848
Non-cash adj.	(52)	(120)	(159)	(5)	(5)	(5)
Changes in W.C	(156)	149	(33)	(460)	(153)	(184)
C.F. Operation	114	473	356	141	556	659
Capital exp.	(55)	(67)	(31)	(254)	(100)	(100)
Change in inv.	(834)	(430)	(324)	243	(320)	(385)
Other invest.CF	30	119	131	9	9	9
C.F - Investment	(859)	(378)	(225)	(2)	(411)	(477)
Issue of equity	-	-	-	-	-	-
Issue/repay debt	(0)	(0)	(0)	-	-	-
Dividends paid	(84)	(84)	(92)	(92)	(92)	(92)
Other finance.CF	(0)	(1)	(0)	(1)	(2)	(2)
C.F - Finance	(86)	(87)	(97)	(93)	(93)	(93)
Chg. in cash	(83)	1	4	5	5	9
Closing cash	25	32	67	114	166	255

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab & Return						
EBITDA margin (%)	12.8	11.0	11.1	11.8	12.0	12.5
EBIT margin (%)	11.4	10.0	10.0	10.8	10.8	11.4
Net profit mgn.(%)	10.2	10.7	11.2	11.6	11.7	12.1
ROE (%)	10.0	13.0	14.4	14.3	14.6	15.3
ROCE (%)	11.1	12.1	12.8	13.0	12.8	13.5
W.C & Liquidity						
Receivables (days)	24.0	17.1	16.1	20.2	22.5	22.4
Inventory (days)	120.0	86.7	68.4	87.3	103.0	102.8
Payables (days)	29.8	22.5	20.5	20.5	18.4	16.0
Current ratio (x)	9.2	9.4	10.0	7.6	7.6	7.7
Quick ratio (x)	0.8	0.7	0.9	0.7	0.7	0.7
Turnover & Leverage						
Gross asset T.O (x)	4.4	5.8	6.3	5.5	5.3	5.6
Total asset T.O (x)	0.9	1.1	1.2	1.1	1.1	1.1
Int. covge. ratio (x)	415.6	247.6	362.2	405.7	402.7	487.5
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation						
EV/Sales (x)	4.6	3.4	2.9	2.6	2.3	2.0
EV/EBITDA (x)	36.2	31.0	25.9	22.3	19.1	15.8
P/E (x)	45.5	31.8	25.7	22.9	19.8	16.6
P/BV (x)	4.4	3.9	3.5	3.1	2.7	2.4

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
15-March-2024	BUY	1,019



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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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