

CMP: INR 389
Outlook : Positive

Stock Info

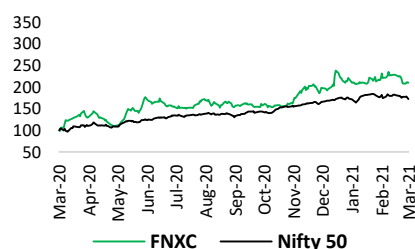
BSE	500144
NSE	FINCABLES
Bloomberg	FNXC:IN
Reuters	FNXC.BO
Sector	FMEG
Face Value (INR)	2
Equity Capital (INR cr)	31
Mkt Cap (INR cr)	5676
52w H/L (INR)	426 / 174
Avg Yearly Volume (in 000')	4.44

Shareholding Pattern %

(As on December, 2020)

Promoters	35.86
FII	7.54
DII	18.46
Others	38.14

FNXC Vs Nifty



Peer Comparison TTM basis (Dec 20)

INR in cr	Finolex	Havells	Polycab
Revenue	2498	9335	8018
EBITDA	315	1308	1046
EBITDAM (%)	12.6	14.0	13
PAT	358	918	8142
PATM (%)	14.3	9.8	10.2
EPS (Rs)	23.4	14.7	54.7
PE(x)	16.6	71.5	25.3
ROE(%)*	13%	17%	19.8%
D/E(x)*	0.0	0.0	0.0

Source: ACE Equity

*as on FY20

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Finolex Cables is India's largest & leading manufacturer of Electrical & Telecommunication Cables. Company has recently diversified into Fast Moving Electrical Goods (FMEG) comprising of Fans, Water Heaters, Lamps & switches to become complete electrical product company and also planning to add few more products in the pipeline.

Management Meet Highlights:

- Company has 4 modern state of art plants at Pimpri, Urse (Pune), Goa & Roorkee (Uttarakhand). Roorkee plant gave company access to Northern and Eastern markets. Company has also done backward integration.
- Electrical Cables which form approximately 83% of revenue, grew 29% QoQ in Q3FY21. Widespread investments in Infrastructure, housing & renewable energy will give impetus to growth in this segment.
- Communication Cables which form 10/11% of revenue, got impacted due to COVID. However, in Q3 FY 21 revenue improved 35% QoQ. In the wires & Cables segment Company's market share is close to 20% plus in the organised wire segment, which is INR 12500 crores currently. Post demonetisation, there has been a shift from unorganised to organised segment.
- FMEG currently forms ~4% of revenue. Company is aiming to take this to 15% in the next 5 years' time. (Revenue for last 3 quarters stood at 84 cr). The company can reach INR 500 cr top-line in FMEG in next few years. As per management, they would require INR 1.4 bn capex.
- At present only 30% of Towers are connected by Fibre in India. This is a big opportunity for the industry for next 2-3 years. 5G Capex has not started as telcos are currently upgrading 4G networks.
- The company has capacity of 3mn km optical fibres and currently working at 100 pc capacity.
- Company has tight inventory management & generally does not have inventory for more than one month.
- Any increase in Raw Material is generally passed through to the end user.

Outlook : The company trades at a FY23E PE of 11.4x (on FY23E EPS of INR 33 (Bloomberg)) & has a high valuation discount to its peers like Havells & Polycab due to market concern about FMEG segment. We believe company has substantial triggers for rerating with pick up in FMEG segment, steady growth in Wires & cables segment, revival in auto segment and strong balance sheet. Market is also looking for clarity on the ongoing promoter's issue. On the downside slowdown in construction, higher raw material prices and delay in payment from clients are risks for the company.

Consolidated Financials

INR in crs	FY20	9MFY21	FY21E	FY22E	FY23E
Revenue	2877	1847	2675	3134	3488
EBITDA	383	235	334	449	506
EBITDAM (%)	13.3%	12.7%	12.4%	14.3%	14.5%
PAT	391	294	407	481	531
PATM (%)	13.5%	15.9%	15.2%	15.3%	15.2%
EPS	26	19	24	30	33
PE(x)	15.1	20.2	16.2	12.9	11.4

Source: Arihant Research, Company Filings

Management Meet Highlights Continued:

- In Cables business Company has some exposure to Government as Govt. is the largest spender in optic Fibre (~ 50% of overall market consumption is by Govt). Company supplies to BSNL, BBNL. Payments have started coming now after some delays. The company would continue to engage in a relationship with BSNL despite some delays in payment.
- There has been a steep decline in realization of the lamp segment (Close to 25 pc of FMEG business) despite higher volumes and value sales.
- Next 18 months capex is expected to be INR 2bn.
- Advertisement expenses remain same as pre covid (~1.5% of Sales).
- During COVID times, the Company had introduced incentives to dealers, that has reduced margins by ~200 bps however this has been one off.
- Margins are expected to be 15-16% on a steady state basis.
- As on Dec 20, the company has cash of INR 14.8bn (INR 96 per share).
- The Company is having close to 530 distributors and close to 142k touch points (84k billing points this year) with strong presence in Southern & Western markets. Through the new plant in Roorkee, they are targeting northern and eastern markets.
- The company is competing with Polycab, Havells, V guard etc in the cable segment.
- Promoter legal issues should not have any impact on operations of business.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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