

Rating Rationale

December 12, 2023 | Mumbai

Finolex Cables Limited

Ratings reaffirmed at 'CRISIL AA+/Stable/CRISIL A1+'

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Rating Action

Total Bank Loan Facilities Rated	Rs.450 Crore
Long Term Rating	CRISIL AA+/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

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Rs.150 Crore Non Convertible Debentures	CRISIL AA+/Stable (Reaffirmed)
Rs.50 Crore Short Term Debt	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and debt programmes of Finolex Cables Ltd (FCL).

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The reaffirmation factors in healthy revenue growth, by over 19% y-o-y to Rs 4,491 crore in fiscal 2023 and by 14% y-o-y to Rs 2392 crore in H1 fiscal 2024, driven by healthy growth in volumes across segments i.e., Electric Cables and Communication Cables. The operating margin remained stable at 11.6% in fiscal 2023, amidst an increase in raw material prices. Operating margins improved to 12.2% in H1 fiscal 2024 and are expected to sustain above 12% over the medium term.

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FCL has maintained a healthy capital structure and strong debt protection metrics. Networth was Rs 4,599 crore as on September 30, 2023. The company had cash and equivalents (including investments) of over Rs 2,000 crore as on September 30, 2023, against nil long-term debt.

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CRISIL Ratings has taken note of the ongoing dispute among members of the Chhabria family (Mr Deepak Chhabria, and Mr Prakash Chhabria, over management control of FCL. The matter, which is currently sub judice, has not impacted the business operations of FCL as per the management articulation. CRISIL Ratings will continue to monitor developments and any impact of a change in ownership and management on business operations and liquidity will be key monitoring.

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The ratings continue to reflect the stable business risk profile of FCL, driven by its strong position in the electrical cables segment, established brand and integrated operations, and sound financial risk profile, backed by healthy cash accrual. The strengths are partially offset by susceptibility to intense competition, volatility in raw material prices and consequent impact on profitability as well as any economic downturn.

Analytical Approach

CRISIL Ratings combines the business and financial risk profiles of FCL and its subsidiaries and associate companies.

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Stable business risk profile, driven by strong position in the electrical cables segment, established brand, and integrated operations:** FCL is a leading manufacturer of electrical cables in India. Its strong market position is backed by an established brand and robust distribution network. FCL has mapped nearly 3 lakh retailers and appointed 680 distributors to increase its reach to 3 lakh retailers from 90,000. The strong distribution network will drive volume growth over the next two fiscals and give the company an edge over its competitors in a highly fragmented market.

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Backward integration with in-house availability of copper rods ensures timely supply of quality raw material, and offers an added benefit against small, unorganised players. To diversify its product portfolio, the company has entered into the fast-moving electric goods (FMEG) segment and is expected to reach Rs 500 crore over the next three years. Overall growth will be driven by the established position in the electrical cables segment, increased distribution network and new launches in the FMEG segment.

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- **Steady growth prospects in core businesses:** FCL mainly operates in the electrical cables and telecommunication (telecom) cables segments. Improved geographic reach in northern and eastern India, following the expansion of the Roorkee plant, should support the electrical cables business. The communication cables segment, after facing some pressure in the recent past, is likely to grow in the near to medium term, backed by healthy demand for the rollout of 5G services in the country.

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- **Strong financial risk profile:** The financial risk profile should remain healthy, supported by adequate networth of Rs 4,599 crore and nil gearing as on September 30, 2023. Debt protection metrics will be comfortable, with healthy adjusted interest coverage and net cash accrual to total debt ratio in fiscal 2024. Networth is expected to grow, backed by steady cash accrual, while gearing may remain low, as capital expenditure (capex) for new capacity or investments will be funded internally. Net cash accrual of Rs 400-550 crore expected per annum should suffice to cover the capex requirements for the next two fiscals and thus, limit external borrowing.

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Weaknesses:

- **Susceptibility to fluctuations in copper prices:** Copper, the primary raw material used to manufacture cables, forms

over 75% of raw material cost. Though FCL revises cable prices based on fluctuations in raw material prices, inability, or delay in passing on the hike to customers hits profitability, as reflected in the last few quarters.

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- **Vulnerability to economic downturn and intense competition:** FCL will remain vulnerable to any slowdown in the domestic economy. Electrical cables, which contribute around 80% of revenue, are used in the construction (real estate), agriculture, and automobile industries. Growth in these sectors is linked to the overall economy. Low gross domestic product growth and its impact on the real estate sector may cause moderation in demand for electrical cables.

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Further, presence of several established players and unorganised entities in the electrical cables segment constrains the pricing power of organised players. Though the domestic market is becoming more quality conscious, intense competition may impact operating profitability.

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- **Small scale of operations in the electrical appliances segment:** In recent years, FCL has forayed into the electrical appliances segment, with product offerings such as fans, switches, switch gears, LED lamps, water heaters, conduit pipes and fittings, iron etc. However, revenue contribution of this segment remains modest at Rs 195 crore in fiscal 2023, and the product line is expected to breakeven around Rs 200 crore.

Liquidity: Strong

Cash and liquid investment were over Rs 2000 crore as on September 30, 2023. Fund Based Bank limit of Rs 200 crore remained unutilised in the 12 months through August 2023. Cash accrual of Rs 400-550 crore is expected over the medium term against nil debt.

Outlook: Stable

CRISIL Ratings believes FCL will maintain its stable business risk profile over the medium term, driven by its dominant position in the electrical cables segment. Financial risk profile should also remain healthy, supported by the comfortable capital structure and sufficient cash accrual.

Rating Sensitivity factors

Upward factors

- Significant growth in revenue to over Rs 10,000 crore, led by strong market leadership of FCL in 2 or 3 business segments, along with a steady operating margin.
- Sustenance of strong financial risk profile and cash surplus.

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Downward factors

- Material impact on business because of the family dispute and any change in ownership.
- Large, debt-funded acquisition or capex, weakening the capital structure.
- Decline in revenue and continued pressure on operating margin (remaining below 11-12%).

About the Company

FCL was set up in 1956, as the flagship company of the Finolex group, and a leading electrical cable manufacturer in India. It has a large product portfolio of electrical, communication, and power distribution cables. The company is also present in the electrical switches, LED based lighting products, fans, miniature circuit breakers and water heater segments, conduit pipes, irons. Its products are used in the residential, commercial, infrastructure and industrial sectors. Manufacturing facilities are in Maharashtra, Goa and Uttarakhand.

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In January 2008, FCL and JPS entered into a JV to form FJPS, to manufacture high-voltage (up to 500 kilovolt) and cross-linked, polyethylene-insulated power cables, used in power distribution. FJPS also offers turnkey solutions in extra-high-voltage cable systems.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	4491	3771
Profit after tax (PAT)	Rs crore	502	405
PAT margin	%	11.2	10.7
Adjusted debt / adjusted networth	Times	0.0	0.0
Adjusted interest coverage	Times	516.27	365.8

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -À Details of Instrument'À in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -À including those that are yet to be placed -À based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Short-term debt	NA	NA	7-365 days	50	Simple	CRISIL A1+
NA	Cash credit*	NA	NA	NA	200	NA	CRISIL AA+/Stable
NA	Letter of credit and bank guarantee	NA	NA	NA	250	NA	CRISIL A1+
NA	Non-convertible debentures#	NA	NA	NA	150	Simple	CRISIL AA+/Stable

*Interchangeable with overdraft facility, bill discounting, cheque discounting, packing credit, and short-term loan

#Proposed instrument, yet to be issued

Annexure à€“ List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Finolex J-Power Systems Ltd	Moderate	Joint venture

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Fund Based Facilities	LT	200.0	CRISIL AA+/Stable	31-10-23	CRISIL AA+/Stable	22-12-22	CRISIL AA+/Stable	03-03-21	CRISIL AA+/Stable	23-03-20	CRISIL AA+/Stable	CRISIL AA+/Stable
^	^	^	--	^	--	15-12-22	CRISIL AA+/Stable	^	--	^	--	Withdrawn
^	^	^	--	^	--	31-01-22	CRISIL AA+/Stable	^	--	^	--	--
Non-Fund Based Facilities	ST	250.0	CRISIL A1+	31-10-23	CRISIL A1+	22-12-22	CRISIL A1+	03-03-21	CRISIL A1+	23-03-20	CRISIL A1+	CRISIL A1+
^	^	^	--	^	--	15-12-22	CRISIL A1+	^	--	^	--	--
^	^	^	--	^	--	31-01-22	CRISIL A1+	^	--	^	--	--
Non Convertible Debentures	LT	150.0	CRISIL AA+/Stable	31-10-23	CRISIL AA+/Stable	22-12-22	CRISIL AA+/Stable	03-03-21	CRISIL AA+/Stable	23-03-20	CRISIL AA+/Stable	CRISIL AA+/Stable
^	^	^	--	^	--	15-12-22	CRISIL AA+/Stable	^	--	^	--	--
^	^	^	--	^	--	31-01-22	CRISIL AA+/Stable	^	--	^	--	--
Short Term Debt	ST	50.0	CRISIL A1+	31-10-23	CRISIL A1+	22-12-22	CRISIL A1+	03-03-21	CRISIL A1+	23-03-20	CRISIL A1+	CRISIL A1+
^	^	^	--	^	--	15-12-22	CRISIL A1+	^	--	^	--	--
^	^	^	--	^	--	31-01-22	CRISIL A1+	^	--	^	--	--

All amounts are in Rs. Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit*	7.5	State Bank of India	CRISIL AA+/Stable
Cash Credit*	25	Central Bank Of India	CRISIL AA+/Stable
Cash Credit*	22.5	Union Bank of India	CRISIL AA+/Stable
Cash Credit*	67.5	ICICI Bank Limited	CRISIL AA+/Stable
Cash Credit*	30	Axis Bank Limited	CRISIL AA+/Stable
Cash Credit*	47.5	HDFC Bank Limited	CRISIL AA+/Stable
Letter of credit & Bank Guarantee	27.5	Union Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee	15	State Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee	20	Axis Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	65	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	25	Central Bank Of India	CRISIL A1+
Letter of credit & Bank Guarantee	97.5	ICICI Bank Limited	CRISIL A1+

*- Interchangeable with overdraft facility, bill discounting, cheque discounting, packing credit, and short-term loan

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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