



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old	↔	New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Company details

Market cap:	Rs. 16,808 cr
52-week high/low:	Rs. 1,700/833
NSE volume: (No of shares)	0.9 lakh
BSE code:	500144
NSE code:	FINCABLES
Free float: (No of shares)	9.8 cr

Shareholding (%)

Promoters	35.9
FII	11.3
DII	16.7
Others	36.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-14.8	-24.6	-5.4	18.5
Relative to Sensex	-11.0	-19.7	-9.3	1.5

Sharekhan Research, Bloomberg

Finolex Cables Ltd
Commodity prices impacted Q2

Capital Goods	Sharekhan code: FINCABLES		
Reco/View: Buy	↔	CMP: Rs. 1,099	Price Target: Rs. 1,300 ↓
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q2 numbers were a mixed bag with revenues rising 10.5%, but OPM declining to 8.1% from 12.3%. The margins were impacted by lower and volatile copper prices, high-cost inventory and channel destocking.
- Segment wise –Electric cables/communication cables/copper rods/FMEG reported revenues of Rs. 1,104/135/349/60 crore with a growth of 12%/0.8%/-22%/10% on a y-o-y basis.
- Capex of Rs. 500 crore in the next two years with a significant capex of Rs. 350-400 crore in FY25. The E-beam facility is awaiting regulatory permissions and is expected to be operational soon.
- Finolex has a leadership position and is a strong brand in the C&W segment. In the long term, optic fiber cables should do well, as India remains underpenetrated in the segment. We maintain our Buy rating for a revised PT of Rs 1,300. At CMP, the company trades at a valuation of 18x on FY27 earnings.

For Q2FY2025, Finolex reported lower-than-estimated performance on the margin front. Revenue grew by 10.5% y-o-y to Rs. 1,312 crore. Electric cable revenue grew 12% y-o-y with volume growth of barely 2% y-o-y. Lower and volatile copper prices, high-cost inventory and channel destocking put downward pressure on realisations and margins. Segment margins were down by 587bps to 8.3%. Communication cables were weak, with a revenue decline of 20% y-o-y and impacted by lower metal prices. New launches of Fans, Water heaters, appliances and conduit pipes led the FMEG segment increase by 10%. The management aims a Rs 300 crore revenue in FMEG segment for FY2025. Operating profit declined by 28% y-o-y to ~Rs. 106 crore, while OPM decreased 423 bps y-o-y to 8.1%. Net profit came in at Rs. 118 crore, falling 24% y-o-y.

Key positives

- FMEG segment revenue rose 10% y-o-y.
- The E-beam facility is awaiting approvals and is expected to be operational in the coming months. The plant has a revenue potential of Rs 500 crore.
- The company is expanding its product portfolio and looks to enter railways and instrumentation cables.
- Government has started tendering for Bharat Net projects (big opportunity). Orders from business partners will start flowing to FNXC in the coming quarters.

Key negatives

- The C&W segment's volumes grew by just 2%. This was due to a steep fall in copper prices, extreme heat, and election season. A price correction was taken on June 24, impacting margins and channel destocking.
- Communication cables revenues were flat y-o-y. OFC volumes were up 53% but declined 9% for metal based products.

Management Commentary

- Government has started tendering for Bharat Net projects (big opportunity). Orders from business partners will start flowing to FNXC in the coming quarters.
- In volume terms, electrical wires were flat y-o-y, impacted by fall in copper prices. Cables volume grew by 2% y-o-y while OFC volumes grew by 10%. The company took multiple price cuts during 2Q with a small price hike only at the end of September.
- FMEG segment grew by 10% y-o-y supported by new launches in fans, water heaters, appliances etc. Management guided for a revenue of Rs 300 crore with a small profit for FY2025.
- Company will carry out a capex of ~Rs. 500 crore over 2 years, of which a major portion of Rs 300-400 will be spent in FY25.

Revision in estimates – We have revisited our FY25-26 estimates based on H1FY2025 performance and introduced FY2027 estimates.

Our Call

Retain Buy with a revised PT of Rs. 1,300: We expect the company's long-term growth momentum to continue, backed by strong growth triggers in OFC cables. Finolex's debt-free balance sheet and strong cash position provide us comfort. With good growth, we expect Finolex's valuation multiple to narrow compared to its peers. We retain our BUY rating for a revised PT of Rs. 1,300. At CMP, the company trades at a valuation of 18x on FY27 earnings.

Key Risks

- Any sharp increase or decrease in key raw-material (copper) prices would lead to company margins volatility.
- Weak demand in the FMEG segment and inflationary pressures could affect earnings.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net sales (Rs. cr)	4,481	5,014	5,655	6,509	7,410
Growth (YoY, %)	18.9	11.9	12.8	15.1	13.8
Operating Profit (Rs. cr)	509	588	564	762	896
OPM (%)	11.4	11.7	10.0	11.7	12.1
Net profit (Rs. cr)	505	652	684	825	920
Adjusted EPS (Rs.)	33.0	42.6	44.7	53.9	60.2
Growth (YoY, %)	(15.8)	29.2	4.9	20.6	11.6
PER (x)	43.5	33.7	32.1	26.6	23.9
P/B (x)	5.0	4.4	4.0	3.6	3.2
EV/EBIDTA (x)	34.8	28.5	26.5	21.3	18.8
RoCE (%)	13.9	15.4	14.5	16.2	16.4
RoE (%)	25.1	44.0	33.1	29.9	25.9

Source: Company; Sharekhan estimates

Finolex's Q2FY2025 conference call and investor update highlights

Wires & cables: Volume growth in electrical wires stood at 2% y-o-y. Lower and volatile copper prices, high-cost inventory and channel destocking put downward pressure on realisations and margins. The company took multiple price cuts during Q2 with a small price hike only at the end of September. The EHV cables order book is around Rs 300 crore, of which Rs. 250 crore is expected to be booked in FY25. The company will expand its product portfolio and enter Railway and Instrumentation cables.

Communication cables: Revenues were flat y-o-y, impacted by an 9% volume decline in metal-based products. Govt. has started tendering for Bharat Net projects (big opportunity). Orders from business partners will start flowing to FNXC in the coming quarters.

FMEG: The segment reported a growth of 10% y-o-y, supported by recent launches. Management targets a revenue of Rs 300 crore with a marginal profits in FY2025.

Capex: Finolex had planned a capex of Rs. 500 crore over a period of 2 years. Most of the capex ~Rs 300-400 crore will be spent in FY25.

There are three major expansions - 1) The E-beam plant is waiting for approvals and is expected to be operational in the coming months 2) The pre-form facility is at an advanced stage and expected to be commissioned by Jan'25. 3) Expansion of auto wires capacity by a third in Uttarakhand.

Results (Consolidated)					Rs cr	
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	
Net Sales	1,312	1,187	10.5	1,230	6.6	
Operating Profit	106	146	(27.5)	127	(16.5)	
Other Income	52	42	23.3	46	11.4	
Interest	0.4	0.44	(13.6)	0.40	(5.0)	
Depreciation	12	11	8.4	11	9.7	
Share of profit of associate/JV	5	30	(82.1)	156	(96.6)	
PBT	151	206	(27.0)	318	(52.6)	
Adj PAT	123	154	(20.2)	123	-	
Adj. EPS (Rs.)	7.7	10.1	(23.5)	8.0	(4.2)	
Margin (%)			BPS		BPS	
OPM(%)	8.1	12.3	(423)	10.3	(223)	
NPM (%)	9.4	13.0	(361)	10.0	(62)	
Tax rate (%)	21.8	25.3	(356)	23.2	(147)	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Ample levers for long-term growth

The cables & wires (C&W) industry contributes 40-45% of India's electrical equipment industry. In terms of volumes, the Indian C&W industry (including exports) is estimated to have grown in low teens in FY2023 to Rs. 68,000-73,000 crore in size. The Indian C&W market is projected to grow to Rs. 90,000-95,000 crore by FY2026. Sectors such as power, Railways, infrastructure, oil and gas, telecom, real estate, renewables, defence, and automobiles are the largest demand drivers for the industry. Organised players command a lion's share of the market, at roughly 70%, while unorganised players largely dominate the rural geographies. The government has envisaged Rs. 111 lakh crore capital expenditure in infrastructure sectors in India from FY2020 to FY2025. The government's continued thrust on infrastructure investment is expected to improve the demand environment for the W&C industry. The Indian FMEG industry has many growth opportunities, led by macro drivers such as evolving consumer aspirations, rising awareness, rising income, rural electrification, urbanisation, and digital connectivity. Further, ongoing government programmes (Bharat Net Phase III) are expected to improve broadband connectivity, and related technologies will continue to drive growth for communication cables.

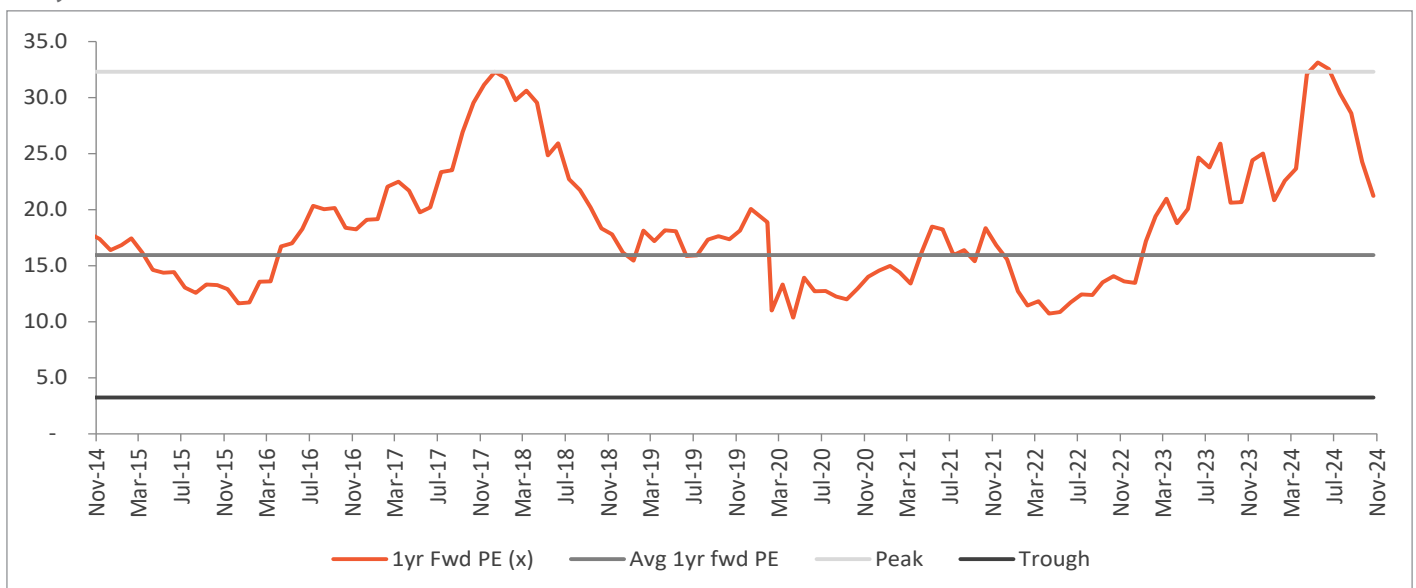
■ Company outlook - On a strong growth trajectory

Demand for electric cables and wires is on a strong footing due a thriving construction sector and bodes well for company's growth. The communication cables segment is soft currently due to a lack of tenders, but India as a country remains underpenetrated in the optic fibre cables segment, and there is a huge runway for growth. Healthy operating cash flow generation, tight working capital management (policy of advance payments from dealers), and capex to expand capacity to meet rising demand are expected to further build upon its cash reserves. The company also has the opportunity to increase its market share organically by penetrating into markets in certain product categories.

■ Valuation - Retain Buy with a revised PT of Rs. 1,300

We expect the company's long-term growth momentum to continue, backed by strong growth triggers in OFC cables. Finolex's debt-free balance sheet and strong cash position provide us comfort. With good growth, we expect Finolex's valuation multiple to narrow compared to its peers. We retain a Buy rating for a revised PT of Rs. 1,300. At CMP, the company trades at a valuation of 18x on FY27 earnings.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Finolex is India's largest and leading manufacturer of electrical and communication cables. The company offers a wide range of products. Its wire and cable products are used in applications such as automobiles, lighting, cable TV, telephones, and computers for industrial applications. Finolex has added electrical switches, LED-based lamps, fans, low-voltage MCBs, and water heaters to its product range..

Investment theme

A pick-up in capex in the real estate, construction, and industrial sectors is likely to lead to robust demand for housing wires and cables. Further, ongoing government programmes (Bharat Net Phase III) are expected to improve broadband connectivity, and related technologies will continue to drive growth for communication cables. Moreover, FMEG products would aid revenue growth once they reach a sizeable revenue. The company also plans to pursue inorganic opportunities to expand its product portfolio..

Key Risks

- ◆ Any sharp increase or decrease in key raw-material (copper) prices would lead to volatility in the company's margins for the short term.
- ◆ Weak demand in some segments and inflationary pressures could affect earnings

Additional Data

Key management personnel

D.K. Chhabria	Executive Chairperson
Mahesh Vishwanathan	Deputy MD and CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	3.24
2	Tata AIA Life Insurance Co Ltd	2.65
3	L&T Mutual Fund Trustee Ltd/India	2.53
4	Vanguard Group Inc/The	1.96
5	HDFC Asset Management Co Ltd	1.95
6	LGOF GLOBAL OPPORTUNITIES	1.88
7	HDFC Life Insurance Co Ltd	1.42
8	Blackrock Inc	0.88
9	Dimensional Fund Advisors LP	0.83
10	Jupiter Fund Management PLC	0.80

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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