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 healthy growth outlook.
- 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 FY24E.

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 180bps 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.
### Quarterly Financials

#### Profit & Loss

<table>
<thead>
<tr>
<th>Rs.cr</th>
<th>Q2FY24</th>
<th>Q2FY23</th>
<th>YoY Growth (%)</th>
<th>Q1FY24</th>
<th>QoQ Growth (%)</th>
<th>H1FY24</th>
<th>H1FY23</th>
<th>YoY Growth (%)</th>
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<tr>
<td>Sales</td>
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<td>1,091</td>
<td>8.9</td>
<td>1,204</td>
<td>-1.4</td>
<td>2,392</td>
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<tr>
<td>EBITDA</td>
<td>144</td>
<td>93</td>
<td>55.2</td>
<td>144</td>
<td>0.1</td>
<td>289</td>
<td>207</td>
<td>39.7</td>
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<tr>
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<td>18.3</td>
<td>17.3</td>
<td>166bps</td>
<td>14.3</td>
<td>400bps</td>
<td>12.1</td>
<td>9.8</td>
<td>226bps</td>
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<td>11</td>
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<td>21</td>
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<td>52</td>
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<td>40</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>Reported PAT</td>
<td>165</td>
<td>137</td>
<td>21.0</td>
<td>132</td>
<td>25.1</td>
<td>298</td>
<td>232</td>
<td>28.1</td>
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<tr>
<td>Adjusted PAT</td>
<td>165</td>
<td>137</td>
<td>21.0</td>
<td>132</td>
<td>25.1</td>
<td>298</td>
<td>232</td>
<td>28.1</td>
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<td>EPS (Rs)</td>
<td>10.8</td>
<td>8.9</td>
<td>21.0</td>
<td>8.6</td>
<td>25.1</td>
<td>19.5</td>
<td>15.2</td>
<td>28.1</td>
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### SOTP Valuation

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<tr>
<th>Particulars</th>
<th>Segments</th>
<th>FY25E EPS</th>
<th>Valued at P/E</th>
<th>Holding discount</th>
<th>Value/Share (Rs)</th>
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<tbody>
<tr>
<td>FCL Standalone</td>
<td>Core Business</td>
<td>46.7</td>
<td>21.0</td>
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<td>982</td>
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<td>Finoles Industries</td>
<td>FCL holds 32.4%</td>
<td>10.0</td>
<td>20% holding discount</td>
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<td>Total Value per share</td>
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### Change in Estimates

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<th>Year / Rs cr</th>
<th>Old estimates</th>
<th>New estimates</th>
<th>Change (%)</th>
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<tr>
<td>Revenue</td>
<td>5,107</td>
<td>5,933</td>
<td>5,107</td>
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<td>EBITDA</td>
<td>627</td>
<td>739</td>
<td>631</td>
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<td>Margins (%)</td>
<td>12.3</td>
<td>12.5</td>
<td>12.3</td>
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<tr>
<td>Adj. PAT</td>
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<td>712</td>
<td>618</td>
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<tr>
<td>EPS</td>
<td>40.2</td>
<td>46.5</td>
<td>40.4</td>
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## Standalone Financials

### PROFIT & LOSS

<table>
<thead>
<tr>
<th>V.E March (Rs cr)</th>
<th>FY21A</th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
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<tbody>
<tr>
<td>Sales</td>
<td>2,768</td>
<td>3,768</td>
<td>4,481</td>
<td>5,107</td>
<td>5,933</td>
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<td>% change</td>
<td>-3.8</td>
<td>36.1</td>
<td>18.9</td>
<td>14.0</td>
<td>16.2</td>
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<td>EBITDA</td>
<td>355</td>
<td>415</td>
<td>496</td>
<td>631</td>
<td>742</td>
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<tr>
<td>% change</td>
<td>(4.1)</td>
<td>17.0</td>
<td>19.4</td>
<td>27.2</td>
<td>17.7</td>
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<tr>
<td>Depreciation</td>
<td>39</td>
<td>39</td>
<td>46</td>
<td>57</td>
<td>68</td>
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<td>EBIT</td>
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<td>376</td>
<td>449</td>
<td>574</td>
<td>674</td>
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<td>1</td>
<td>1</td>
<td>2</td>
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<td>Other Income</td>
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<td>646</td>
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<tr>
<td>% change</td>
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<td>23</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td>Tax</td>
<td>109</td>
<td>122</td>
<td>144</td>
<td>195</td>
<td>226</td>
</tr>
<tr>
<td>Tax Rate (%)</td>
<td>27.9%</td>
<td>23.2%</td>
<td>22.3%</td>
<td>24.0%</td>
<td>24.0%</td>
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<tr>
<td>Reported PAT</td>
<td>283</td>
<td>405</td>
<td>502</td>
<td>618</td>
<td>715</td>
</tr>
<tr>
<td>Adj.*</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adj. PAT</td>
<td>283</td>
<td>405</td>
<td>502</td>
<td>618</td>
<td>715</td>
</tr>
<tr>
<td>% change</td>
<td>(29.7)</td>
<td>43.0</td>
<td>24.0</td>
<td>23.2</td>
<td>15.7</td>
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<td>No. of shares (cr)</td>
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<td>15</td>
<td>15</td>
<td>15</td>
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<td>Adj EPS (Rs)</td>
<td>18.5</td>
<td>26.5</td>
<td>32.8</td>
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<td>46.7</td>
</tr>
<tr>
<td>% change</td>
<td>-29.7</td>
<td>43.0</td>
<td>24.0</td>
<td>23.2</td>
<td>15.7</td>
</tr>
<tr>
<td>DPS (Rs)</td>
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<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
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<tr>
<td>CEPS (Rs)</td>
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<td>29.0</td>
<td>35.8</td>
<td>44.1</td>
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### CASH FLOW

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

<table>
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<tr>
<th>V.E March (Rs cr)</th>
<th>FY21A</th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
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<td>67</td>
<td>41</td>
<td>94</td>
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<td>Accounts Receivable</td>
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<td>177</td>
<td>218</td>
<td>336</td>
<td>390</td>
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<td>653</td>
<td>675</td>
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<td>1,977</td>
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<td>397</td>
<td>427</td>
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<td>Gross Fixed Assets</td>
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<td>672</td>
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<td>659</td>
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<td>CHN</td>
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<td>87</td>
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<td>25</td>
<td>25</td>
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<td>1</td>
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<td>(38)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total Assets</td>
<td>3,218</td>
<td>3,574</td>
<td>4,050</td>
<td>4,763</td>
<td>5,476</td>
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<td>469</td>
<td>545</td>
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<td>31</td>
<td>31</td>
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<td>3,679</td>
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<td>3,574</td>
<td>4,050</td>
<td>4,763</td>
<td>5,476</td>
</tr>
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<td>277</td>
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### RATIOS

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<tr>
<th>V.E March</th>
<th>FY21A</th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit &amp; Returns</td>
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<td></td>
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<td>EBITDA margin (%)</td>
<td>12.8</td>
<td>11.0</td>
<td>11.1</td>
<td>12.3</td>
<td>12.5</td>
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<tr>
<td>EBIT margin (%)</td>
<td>11.4</td>
<td>10.0</td>
<td>10.0</td>
<td>11.2</td>
<td>11.4</td>
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<td>Net profit margin (%)</td>
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<td>10.7</td>
<td>11.2</td>
<td>12.1</td>
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<td>15.7</td>
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<td>13.9</td>
<td>13.9</td>
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<td>16.1</td>
<td>19.8</td>
<td>22.3</td>
</tr>
<tr>
<td>Inventory (days)</td>
<td>120.0</td>
<td>86.7</td>
<td>68.4</td>
<td>85.9</td>
<td>102.3</td>
</tr>
<tr>
<td>Payables (days)</td>
<td>29.8</td>
<td>22.5</td>
<td>20.5</td>
<td>19.6</td>
<td>17.4</td>
</tr>
<tr>
<td>Current ratio (%)</td>
<td>37.2</td>
<td>8.9</td>
<td>10.0</td>
<td>7.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Quick ratio (%)</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Turnover &amp; Leverage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross asset T.O (x)</td>
<td>4.4</td>
<td>5.7</td>
<td>6.2</td>
<td>5.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Total asset T.O (x)</td>
<td>0.9</td>
<td>1.1</td>
<td>1.2</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Int. coverage ratio (%)</td>
<td>415.6</td>
<td>247.6</td>
<td>362.2</td>
<td>441.6</td>
<td>449.7</td>
</tr>
<tr>
<td>Adj. debt/equity (%)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Valuation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EV/Sales (x)</td>
<td>5.3</td>
<td>3.9</td>
<td>3.3</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>41.7</td>
<td>35.6</td>
<td>29.8</td>
<td>23.4</td>
<td>19.8</td>
</tr>
<tr>
<td>P/E(x)</td>
<td>52.3</td>
<td>36.6</td>
<td>29.5</td>
<td>23.9</td>
<td>20.7</td>
</tr>
<tr>
<td>P/BV (x)</td>
<td>5.0</td>
<td>4.5</td>
<td>4.0</td>
<td>3.5</td>
<td>3.0</td>
</tr>
</tbody>
</table>
**Recommendation Summary**  (last 3 Years)

![Graph](Source:Bloomberg,Geojit Research)

**Investment Criteria**

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Large caps</th>
<th>Midcaps</th>
<th>Small Caps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buy</strong></td>
<td>Upside is above 10%</td>
<td>Upside is above 15%</td>
<td>Upside is above 20%</td>
</tr>
<tr>
<td><strong>Accumulate</strong></td>
<td>-</td>
<td>Upside is between 10%-15%</td>
<td>Upside is between 10%-20%</td>
</tr>
<tr>
<td><strong>Hold</strong></td>
<td>Upside is between 0%-10%</td>
<td>Upside is between 0%-10%</td>
<td>Upside is between 0%-10%</td>
</tr>
<tr>
<td><strong>Reduce/sell</strong></td>
<td>Downside is more than 0%</td>
<td>Downside is more than 0%</td>
<td>Downside is more than 0%</td>
</tr>
</tbody>
</table>

**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.

**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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