



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 | ✗ | ↔ | ✓ |

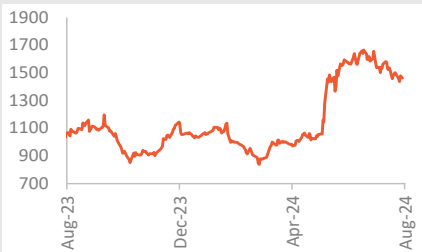
Company details

| | |
|-------------------------------|---------------|
| Market cap: | Rs. 22,176 cr |
| 52-week high/low: | Rs. 1,700/833 |
| NSE volume: (No of shares) | 1.6 lakh |
| BSE code: | 500144 |
| NSE code: | FINCABLES |
| Free float: (No of shares) | 9.8 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 35.9 |
| FII | 11.7 |
| DII | 16.8 |
| Others | 35.7 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-------|------|------|------|
| Absolute | -11.6 | 38.6 | 45.9 | 42.8 |
| Relative to Sensex | -11.3 | 29.8 | 34.8 | 20.0 |

Sharekhan Research, Bloomberg

Finolex Cables

Short-term headwinds. Long-term growth prospects intact

Capital Goods

Sharekhan code: FINCABLES

Reco/View: Buy



CMP: Rs. 1,450

Price Target: Rs. 1,650



Upgrade



Maintain



Downgrade

Summary

- Finolex Cables' (FNXC) performance was flat, with revenue growth of 2.2% and Operating profit decline by 13%. Q1 was a soft quarter impacted by a fall in copper prices and the elections period.
- Segment wise -Electric cables/communication cables/Copper rods/FMEG reported revenues of Rs. 1,032/119/403/68 crore with a growth of 2%/-13%/5%/45% on a y-o-y basis.
- Capex of Rs. 500 crore in next 2 years with significant capex of ~350-400 crore in FY25. The E-beam facility is awaiting regulatory permissions and is expected to be operational soon. The company has healthy cash, zero debt and a lean working capital cycle.
- Finolex has a leadership position and strong brand in the Cables and wires segment. In the long term, optic fiber cables should do well, as India remains underpenetrated in the segment. We assign a multiple of 27x on FY26 EPS and arrive at a revised PT of Rs. 1,650. At CMP, the company trades at a valuation of 24x on FY26 earnings.

For Q1FY2025, Finolex reported lower than estimated performance on all fronts. Revenue was flat with 2.2% growth y-o-y to Rs. 1,230 crore. Electric cable revenue grew 2% y-o-y led by flat volumes and declining copper prices. Communication cables were weak, with a revenue decline of 13% y-o-y and impacted by lower metal prices. Copper rods grew 5% y-o-y, and FMEG grew 45% y-o-y on a weak base. New launches of Fans, Water heaters, appliances and conduit pipes led the FMEG segment increase by 45%. Operating profit declined by 13% y-o-y to ~Rs. 127 crore, while OPM decreased 186bps y-o-y to 10.3%. Net profit came in at Rs. 244 crore, a growth of 52% y-o-y. There was a higher profit from JV of Rs 156 crore.

Key positives

- FMEG segment revenue rose 45% 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 expands its product portfolio and looks to enter railways and instrumentation cables.

Key negatives

- Wires and Cables segment volumes were flat, on, leading to revenue growth of 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 fell 13% y-o-y. OFC volumes were up 10%, but price erosion continues. The quarter was impacted by a delay in finalizing a large Government tender.

Management Commentary

- 5G Bharat net is expected to be a huge opportunity.
- In volume terms, electrical wires were flat y-o-y, impacted by the steep fall in copper prices and the elections period. Cables volume was lower by 8% y-o-y while OFC volumes grew by 10%.
- FMEG segment grew by 45% y-o-y supported by new launches in fans, water heaters, appliances etc. There is a strong volume in the lighting segment, but price erosion continues. Management guided to breakeven in FY25.
- The 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 retained our FY25-26 estimates.

Our Call

Retain Buy with a revised PT of Rs. 1,650: 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 assign a multiple of 27x on FY26 EPS and arrive at a revised PT of Rs. 1,650. At CMP, the company trades at a valuation of 26x on FY26 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 |
|---------------------------|--------|-------|-------|-------|
| Net sales (Rs. cr) | 4,481 | 5,014 | 5,824 | 6,702 |
| Growth (YoY, %) | 18.9 | 11.9 | 16.1 | 15.1 |
| Operating Profit (Rs. cr) | 509 | 588 | 697 | 866 |
| OPM (%) | 11.4 | 11.7 | 12.0 | 12.9 |
| Net profit (Rs. cr) | 505 | 652 | 784 | 903 |
| Adjusted EPS (Rs.) | 33.0 | 42.6 | 51.3 | 59.1 |
| Growth (YoY, %) | (15.8) | 29.2 | 20.3 | 15.2 |
| PER (x) | 43.5 | 33.7 | 28.0 | 24.3 |
| P/B (x) | 5.0 | 4.4 | 3.9 | 3.5 |
| EV/EBIDTA (x) | 34.8 | 28.5 | 22.8 | 19.4 |
| RoCE (%) | 13.9 | 15.4 | 16.9 | 17.6 |
| RoE (%) | 25.1 | 44.0 | 36.4 | 30.8 |

Source: Company; Sharekhan estimates

Finolex's Q1FY2025 conference call and investor update highlights

- ♦ **Wires & cables:** Revenue was flat, impacted by flat volume and a steep fall in commodity prices. Healthy volume growth of 20% was seen in the power cables segment. The EHV cables order book is around Rs 350 crore, of which 250 crores are expected to be booked in FY25. The company will expand its product portfolio and enter Railway and Instrumentation cables.
- ♦ **Communication cables:** Revenues were down 13%, impacted by an 8% volume decline. Bharat's net opportunity will be huge.
- ♦ **FMEG:** The segment reported a good 45% growth y-o-y but the lighting segment continues to be affected by price erosion. Overall, segment sales stood at Rs. 68 and segment is just at breakeven.
- ♦ **Capex:** Company 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 3 major expansion items- 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.
- ♦ **Capacity utilization:** In wires, capacity utilization is 60%, in cables, less than half, and in optic fiber cables, also 70%.

Results (Consolidated)

| Particulars | Rs cr | | | | |
|---------------------------------|--------|--------|------------|--------|------------|
| | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) |
| Net Sales | 1,230 | 1,204 | 2.2 | 1,401 | (12.2) |
| Operating Profit | 127 | 147 | (13.4) | 162 | (21.7) |
| Other Income | 46 | 39 | 19.4 | 50 | (6.7) |
| Interest | 0.4 | 0.29 | 37.9 | 0.88 | (54.5) |
| Depreciation | 11 | 11 | 2.0 | 12 | (8.1) |
| Share of profit of associate/JV | 156 | 35 | 338.7 | 51 | 208.3 |
| PBT | 318 | 210 | 51.3 | 250 | 27.3 |
| Adj PAT | 123 | 160 | (23.3) | 186 | (33.9) |
| Adj. EPS (Rs.) | 8.0 | 10.5 | (23.3) | 12.2 | (33.9) |
| Margin (%) | | | BPS | | BPS |
| OPM(%) | 10.3 | 12.2 | (186) | 11.6 | (125) |
| NPM (%) | 10.0 | 13.3 | (333) | 13.3 | (329) |
| Tax rate (%) | 23.2 | 23.6 | (37) | 25.4 | (219) |

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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.

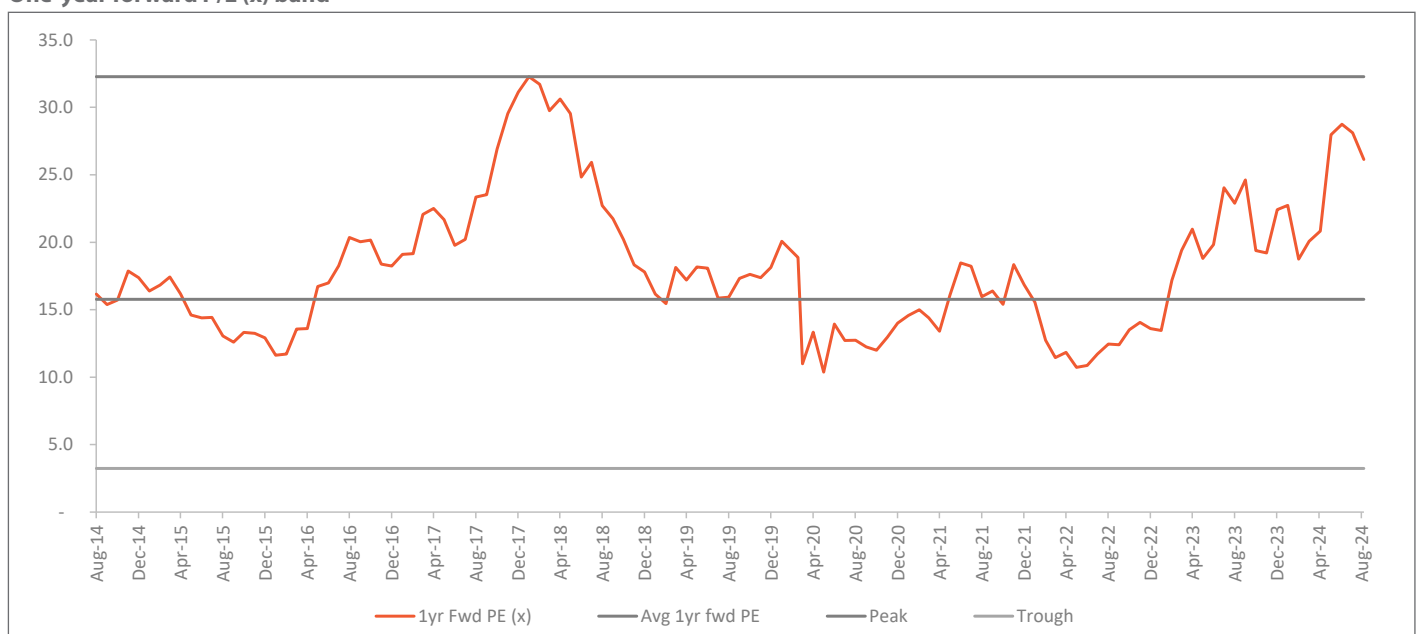
■ Company Outlook – On a strong growth trajectory

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. 1,650

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 assign a multiple of 27x on FY26 EPS and arrive at a revised PT of Rs. 1,650. At CMP, the company trades at a valuation of 26x on FY26 earnings.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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 Website

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|------------------------------------|-------------|
| 1 | Nippon Life India Asset Management | 3.23 |
| 2 | Tata AIA Life Insurance Co Ltd | 2.69 |
| 3 | L&T Mutual Fund Trustee Ltd/India | 2.53 |
| 4 | Vanguard Group Inc/The | 1.95 |
| 5 | HDFC Asset Management Co Ltd | 1.93 |
| 6 | LGOB GLOBAL OPPORTUNITIES | 1.88 |
| 7 | HDFC Life Insurance Co Ltd | 1.42 |
| 8 | Norges Bank | 1.19 |
| 9 | BlackRock Inc | 0.92 |
| 10 | Franklin Resources Inc | 0.91 |

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

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