

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	✓	↔	✓

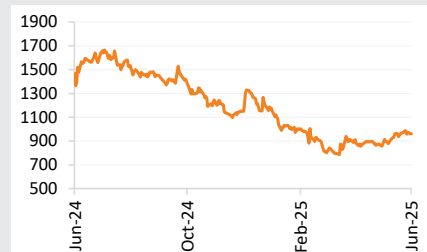
Company details

Market cap:	Rs. 14,850 cr
52-week high/low:	Rs. 1,700/720
NSE volume: (No of shares)	3.5 lakh
BSE code:	500144
NSE code:	FINCABLES
Free float: (No of shares)	9.8 cr

Shareholding (%)

Promoters	35.9
FII	10.6
DII	16.1
Others	37.5

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	12.5	20.0	-16.3	-32.9
Relative to Sensex	12.5	9.4	-16.9	-42.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Finolex Cables Ltd

Healthy outlook; Maintain Buy

Capital Goods	Sharekhan code: FINCABLES		
Reco/View: Buy	↔	CMP: Rs. 963	Price Target: Rs. 1,250
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q4 numbers were a mixed bag with revenues rising 13.8%, but OPM declining to 10.7% from 11.6%. Margins were impacted by volatility in commodity prices and a change in product mix.
- Segment wise - Electric cables/communication cables/copper rods/FMEG reported revenues of Rs. 1,391/123/482/65 crore, with a growth of 16%/-4.0%/0%/2% y-o-y.
- Finolex has spent Rs 236 crore in FY25 and looks to further incur ~Rs 150 crore in FY26. The e-beam facility is commissioned in FY25 and two new products for the solar and real estate have been introduced.
- Finolex has a leadership position and is a strong brand in the cables & wires (C&W) segment. In the long term, optic fiber cables should do well, as India remains underpenetrated in the segment. We maintain a Buy rating for a revised PT of Rs 1,250. At CMP, the company trades at a valuation of 19x on FY27 earnings.

For Q4FY2025, Finolex reported lower-than-estimated performance on the revenue front. Revenue grew by 13.8% y-o-y to Rs. 1,595 crore. Electric cables' revenues grew 16% y-o-y with volume growth of 15% y-o-y. volatile copper prices, high-cost inventory, change in product mix led to downward pressure on realisations and margins. There was a shift to project-based sales, which carried some higher discounts. Segmental margins were down by 100 bps to 11%. Communication cables were weak, with a revenue decline of 4% y-o-y and hit by lower metal prices. For FY25, OFC volumes were high by 30% but price erosion of Fiber led to a slight decline in revenues over FY24. New launches of fans, water heaters, appliances and conduit pipes led the FMEG segment increase by 2%. For FY25, the segment grew by 14% over FY24 led by network additions. Operating profit was higher by 5% to Rs 171 crore although margins fell by 84 bps to 10.7% vs 11.6% in Q4FY24. Net profit came in at Rs. 192 crore, higher by 3% majorly led by an increase in revenues.

Key positives

- Electrical wires grew by 16% led by strong volume growth.
- The E-beam facility is commissioned in FY25 and two new products for solar and real estate have been introduced. Finolex expects to fetch Rs 500 crore of revenue at full capacity of these facilities.
- 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

- Communication cables revenues were down by 4%. For full-year OFC volumes were up 30% but slightly declined due to a price erosion in commodity prices.

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.
- Pricing was revised 12 times for wires depending on volatility to commodity prices. On a net basis, there would increase of 12-13% in prices of the product.
- Management expects the EHV market to reach \$2 billion from the current size of \$400 million. However, the projects carry a long lead time of 18-20 months.
- Management expects demand for the wires to revive from H2FY26.
- Fiber prices are expected to stabilise on the back of revival of demand from US and other European countries.

Revision in earnings 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. 1,250: 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. 1,250. At CMP, the company trades at a valuation of 19x on FY27 earnings.

Key Risks

- Any sharp rise 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	FY25	FY26E	Rs cr FY27E
Net sales (Rs. cr)	4,481	5,014	5,319	5,796	6,420
Growth (YoY, %)	18.9	11.9	6.1	9.0	10.8
Operating Profit (Rs. cr)	509	588	541	623	651
OPM (%)	11.4	11.7	10.2	10.7	10.1
Net profit (Rs. cr)	505	652	701	739	770
Adjusted EPS (Rs.)	33.0	42.6	45.8	48.3	50.4
Growth (YoY, %)	(15.8)	29.2	7.5	5.4	4.3
PER (x)	29.3	22.6	21.1	20.0	19.2
P/B (x)	3.4	3.0	2.7	2.4	2.2
EV/EBIDTA (x)	23.3	19.1	19.7	17.6	16.5
RoCE (%)	13.9	15.4	13.2	13.2	13.5
RoE (%)	12.2	14.0	13.4	12.8	12.9

Source: Company; Mirae Asset Sharekhan estimates

Finolex's Q4FY2025 conference call and investor update highlights

- ♦ **Wires & cables:** Annual sales rose 6% to Rs 5318 crore. Finolex has maintained decent volumes amid the challenging market conditions. The company has undertaken price revisions 12 times following the volatility in commodity prices. Net to net the cost of product has increased by 12-13%. The company will expand its product portfolio and enter Railway and Instrumentation cables.
- ♦ **Communication cables:** For 2024-25 OFC volumes were higher by 30% but price erosion in fiber segment have led to minor shortfall in revenues. Govt. has started tendering for Bharat Net projects (big opportunity). Orders from business partners will start flowing to FNXC in the coming quarters.
- ♦ **FMEG:** For FY25 revenue grew by 14% majorly due to expansion of supply chain system and addition of new products.
- ♦ **Capex:** Finolex has spent Rs 236 crore in FY25 and looks to further incur a capex of ~Rs 150 crore in FY26. The E beam facility is commissioned in FY25 and two new products for solar and real estate have been introduced.
- ♦ There are three major expansions - 1) Pre-form facility is at an advanced stage and expected to be commissioned soon. 2) Expansion of auto wires capacity by a third in Uttarakhand.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Net Sales	1,595	1,401	13.8	1,182	34.9
Operating Profit	171	162	5.5	129	32.4
Other Income	55	50	10.2	45	22.4
Interest	0.5	0.88	(43.2)	0.39	28.2
Depreciation	12	12	6.6	12	5.9
Share of profit of associate/JV	49	51	(3.4)	22	119.7
PBT	261	250	4.8	184	42.2
Adj PAT	192	186	3.0	146	31.2
Adj. EPS (Rs.)	12.5	12.2	3.0	9.6	31.2
Margin (%)			BPS		BPS
OPM(%)	10.7	11.6	(84)	10.9	(20)
NPM (%)	12.0	13.3	(126)	12.4	(34)
Tax rate (%)	26.7	25.4	125	20.5	617

Source: Company; Mirae Asset 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.

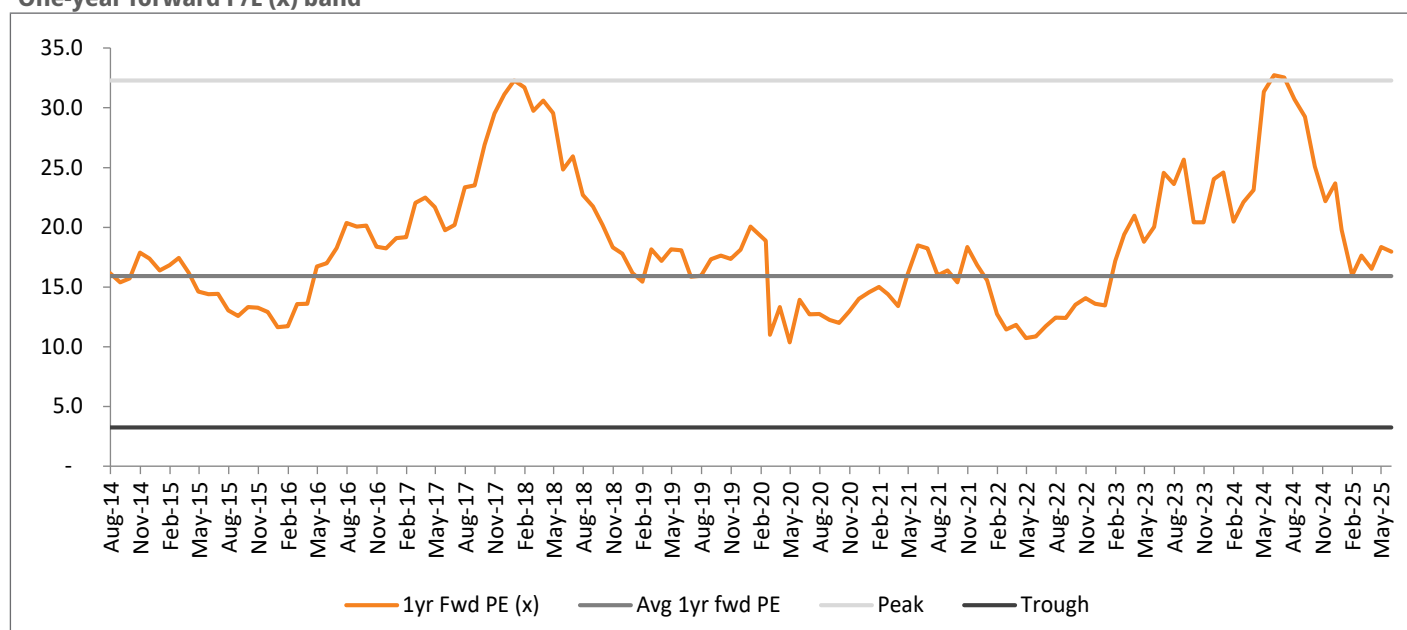
■ Company Outlook – On a strong growth trajectory

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 fiber 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. 1,250

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. 1,250. At CMP, the company trades at a valuation of 19x on FY27 earnings.

One-year forward P/E (x) band



Source: Company; Mirae Asset 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

Name	Designation
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	3.24
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 Mirae Asset 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: Mirae Asset Sharekhan Research

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