

India

**REDUCE** (no change)

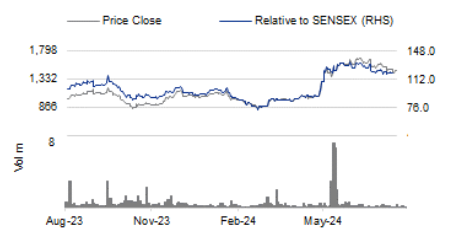
Consensus ratings\*: Buy 6 Hold 2 Sell 1

Current price:	Rs1,478
Target price:	Rs1,232 ▲
Previous target:	Rs809
Up/downside:	-16.6%
InCred Research / Consensus:	-26.7%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$2,692m Rs226,021m
Average daily turnover:	US\$6.6m Rs554.2m
Current shares o/s:	152.9m
Free float:	64.1%

\*Source: Bloomberg

**Key changes in this note**

- For FY25F/26F, we cut our revenue estimates by 8%/6% and PAT estimates by 17%/7%.

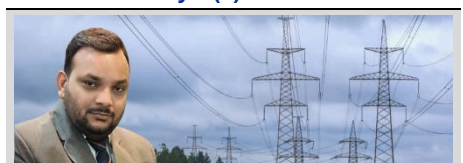


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.8)	41.2	45.4
Relative (%)	(6.0)	30.3	20.2

Major shareholders	% held
Promoters	35.9
Nippon India MF	3.2
HSBC AMC	2.8

**Research Analyst(s)**



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# Finolex Cables

## Multiple headwinds impact earnings

- 1Q EBITDA was down 13% YoY at Rs1.3bn, missing our/consensus estimates by 29%/ 17%, respectively. The EBITDA margin dipped 186bp YoY to 10.3%.
- Management gave guidance on the EBITDA margin stabilizing at ~13-13.5% in the medium- to long-term. It has given capex guidance of Rs5bn for FY25F.
- For FY25F/26F, we cut our revenue estimates by 8%/6% and PAT by 17%/7%. Retain REDUCE rating with a higher TP of Rs1,232 or 15x Sep 2026F EPS.

### Muted revenue growth in cable business

Finolex Cables reported a muted set of numbers for 1QFY25 with revenue at Rs12.3bn, up 2% YoY (-12% QoQ), 14% below our estimate and 9% below the Bloomberg or BB consensus estimate. The revenue of the copper rod segment was up 5% YoY at Rs4bn while the electrical cable segment was up 2% YoY at Rs10.3bn. The communication cable segment declined by 12.7%. Others segment's (FMEG) revenue jumped by 45% YoY to Rs3.9bn. In volume terms, the electrical wire segment was flat while the power cable segment grew 20%. Within the communication cable segment, the volume of metal-based products was lower by 8%, and the optic fibre cable volume grew 10%. EBITDA was down 13% YoY at Rs1.3bn, missing our/BB consensus estimates by 29% and 17%, respectively. The EBITDA margin fell 186bp YoY to 10.3%. Adj. PAT was at Rs1.22bn, down 7% YoY, and 39% & 29% below our/BB consensus estimates, respectively. Reported PAT grew 52% on the sale of land of associate companies and JV.

### Volatility in commodity prices remains a challenge

The steep fall in copper prices from May 2024-end, the extreme heat wave as well as the general elections in India hit the business sentiment and consequently, sales of electrical wires. The company cut its prices by ~10% in Jun 2024. The company faced challenges specifically due to volatility in copper prices. However, its management remains optimistic and expects the cable and wire or C&W segment to witness demand pick-up once copper prices stabilize. Moreover, the company's capex plans are on track, which includes the installation of E-beam equipment that will likely contribute to revenue soon. Additionally, for the BharatNet project, Finolex Cables has submitted a bid of which the results are expected by Sep 2024F.

### Outlook & valuation

While the management has given guidance of ~13% margin in the medium-to long-term, volatility in copper prices continues to be a major risk. The C&W segment could see demand uptick in the coming quarters, especially during the festive season. For FY25F/26F, we cut revenue estimates by 8%/6% & PAT estimates by 17%/7%, respectively, and introduce FY27F estimates. We retain REDUCE rating on the stock with a higher target price of Rs1,232 (Rs809 earlier) as we roll forward our valuation to Sep 2026F, valuing it at 15x. Upside risks: Strong demand for cables and wires, and a sudden increase in optic fibre prices.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	44,811	50,144	54,429	62,972	71,258
Operating EBITDA (Rsm)	5,094	5,882	6,913	8,438	9,905
Net Profit (Rsm)	5,043	6,517	8,656	8,785	10,079
Core EPS (Rs)	33.0	42.0	49.0	57.4	65.9
Core EPS Growth	(0.4%)	27.4%	16.6%	17.3%	14.7%
FD Core P/E (x)	44.82	34.68	26.11	25.73	22.43
DPS (Rs)	7.0	7.0	7.0	8.6	9.9
Dividend Yield	0.47%	0.47%	0.47%	0.58%	0.67%
EV/EBITDA (x)	39.68	34.19	28.82	23.38	19.74
P/FCFE (x)	106.95	168.57	114.65	98.15	98.63
Net Gearing	(54.8%)	(50.4%)	(47.0%)	(44.6%)	(41.7%)
P/BV (x)	5.17	4.57	3.96	3.50	3.09
ROE	12.2%	13.8%	14.1%	14.5%	14.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 1QFY25 conference-call highlights

- **Overview:** Finolex Cables reported a modest 2% YoY growth in revenue in 1QFY25, mainly due to the challenges posed by market volatility and external factors such as general elections in India and extreme weather conditions.
- **Guidance:** Management has given guidance that the company's EBITDA margin is likely to stabilize around 13-13.5% in the medium- to long-term. The company expects a recovery in core operating margin in the coming quarters, assuming commodity prices stabilize, and demand improves.
- **Impact of commodity prices:** Copper prices fluctuated significantly, and this impacted on the overall margin. The average price per tonnee was around US\$8,800, down from a high of US\$10,857, leading to the pressure on pricing strategy. The company had to reduce its prices by ~10% in Jun 2024, which hit the revenue and profitability.
- **Segments:**
  - **Electrical cables:** This segment, which is the company's largest revenue driver, reported muted growth of 2%. The margin of this segment was significantly impacted, leading to a compressed overall EBIT margin of ~11% from 13% in the previous year.
  - **Communication cables:** In this segment, Finolex Cables witnessed a 10% growth in optical fibre volume. However, this growth was negated by declining global prices, resulting in subdued realization. Despite these challenges, the company remains positive, supported by its participation in the BharatNet project, which could drive significant volume in the coming quarters.
  - **Copper rods:** The sharp 20% decline in copper prices during the quarter led to a reduction in the segment's contribution to overall revenue. Management stated that the volatility in copper prices created a challenging environment for the copper rods segment.
  - **FMEG:** The fast-moving electrical goods or FMEG segment showed strong growth during the quarter, with its revenue up 45% YoY. Management stated that the segment is nearing its breakeven point and is expected to garner annual revenue of ~Rs2.5bn.
- **Capex:** Management has given capex guidance of Rs5bn for FY25F, with several key projects underway. This includes the installation of E-beam equipment, which is expected to start contributing to revenue, and the expansion of automotive cable production at the Roorkee facility.
- **BharatNet Project:** Finolex Cables has submitted a bid for the BharatNet project, which is expected to create a substantial business opportunity. The project requires around 15-17m km of cabling, and the company awaits the results of the tender by Sep 2024F. This project could significantly boost the communication cable segment.
- **Demand outlook:** The C&W segment is expected to witness a pick-up in demand once copper prices stabilize. The agricultural sector, which performed well earlier in the quarter, is expected to enter a lean period until the pre-sowing activity commences in Nov 2024F. The automotive sector is also likely to witness increased demand during the upcoming festive season.

**Figure 1: Quarterly results snapshot**

Y/E Mar (Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Net sales	12,305	12,043	2.2%	14,010	-12.2%
Net raw material costs	9,927	9,500	4.5%	11,096	-10.5%
Staff costs	457	427	7.1%	469	-2.7%
Other expenditure	653	651	0.3%	826	-21.0%
Total expenditure	11,037	10,578	4.3%	12,391	-10.9%
<b>EBITDA</b>	<b>1,268</b>	<b>1,465</b>	<b>-13.4%</b>	<b>1,619</b>	<b>-21.7%</b>
<b>EBITDA margin (%)</b>	<b>10.3%</b>	<b>12.2%</b>	<b>-186 bp</b>	<b>11.6%</b>	<b>-125 bp</b>
Depreciation	107	105	2.0%	117	-8.1%
EBIT	1,161	1,360	-14.6%	1,503	-22.7%
Interest expenses	4	3	37.9%	9	-54.5%
Other income	463	388	19.4%	497	-6.7%
Extraordinary income/(expenses)	1,557	355	338.7%	505	208.3%
PBT	3,178	2,100	51.3%	2,496	27.3%
Tax – current	313	394	-20.5%	424	-26.1%
Tax – deferred	425	102	317.6%	211	101.9%
Reported PAT	2,439	1,604	52.0%	1,861	31.1%
<b>Adjusted PAT</b>	<b>1,225</b>	<b>1,323</b>	<b>-7.4%</b>	<b>1,861</b>	<b>-34.2%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Margins and cost analysis**

Margins	1QFY25	1QFY24	YoY	4QFY24	QoQ (%)
Gross margin	19.3%	21.1%	-179 bp	20.8%	-148 bp
EBITDA	10.3%	12.2%	-186 bp	11.6%	-125 bp
Adjusted PAT	10.0%	11.0%	-103 bp	13.3%	-333 bp

Costs	1QFY25	1QFY24	YoY	4QFY24	QoQ (%)
Net RM	80.7%	78.9%	179 bp	79.2%	148 bp
Staff costs	3.7%	3.5%	17 bp	3.4%	36 bp
Other expenditure	5.3%	5.4%	-10 bp	5.9%	-59 bp
Total	89.7%	87.8%	186 bp	88.4%	125 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Segment revenue and EBIT performance**

(Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
<b>Revenue</b>					
Electrical cables	10,318	10,115	2.0%	12,007	-14.1%
Communication cables	1,192	1,365	-12.7%	1,280	-6.9%
Copper rods	4,028	3,831	5.1%	4,805	-16.2%
Others (FMEG)	676	465	45.4%	639	5.7%
Inter-segment revenue	3,907	3,733	4.7%	4,721	-17.2%
<b>Total</b>	<b>12,305</b>	<b>12,043</b>	<b>2.2%</b>	<b>14,010</b>	<b>-12.2%</b>
<b>EBIT</b>					
Electrical cables	1,158	1,328	-12.8%	1,450	-20.1%
Communication cables	30	27	8.1%	31	-4.8%
Copper rods	13	8	62.3%	15	-18.8%
Others (FMEG)	8	7	11.1%	8	-2.4%
<b>Total</b>	<b>1,208</b>	<b>1,370</b>	<b>-11.8%</b>	<b>1,505</b>	<b>-19.7%</b>
<b>EBIT margin (%)</b>					
Electrical cables	11.2%	13.1%	-190 bp	12.1%	-85 bp
Communication cables	2.5%	2.0%	48 bp	2.4%	5 bp
Copper rods	0.3%	0.2%	11 bp	0.3%	-1 bp
Others (FMEG)	1.2%	1.5%	-36 bp	1.3%	-10 bp

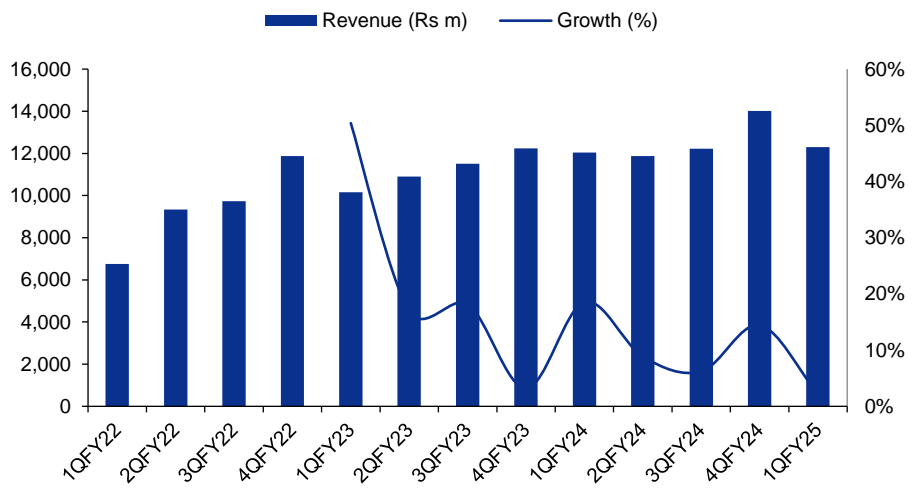
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Actuals vs. estimates**

<b>vs. InCred estimates</b>			
Rs m	1QFY25	1QFY25	Var (%)
Revenue	12,305	14,282	-13.8%
EBITDA	1,268	1,787	-29.0%
EBITDA margin (%)	10.3%	12.5%	-220 bp
Adj. PAT	1,225	2,011	-39.1%
<b>vs. Consensus</b>			
Rs m	1QFY25	1QFY25C	Var (%)
Revenue	12,305	13,561	-9.3%
EBITDA	1,268	1,529	-17.1%
EBITDA margin (%)	10.3%	11.3%	-97 bp
<b>Adj. PAT</b>	<b>1,225</b>	<b>1,723</b>	<b>-28.9%</b>

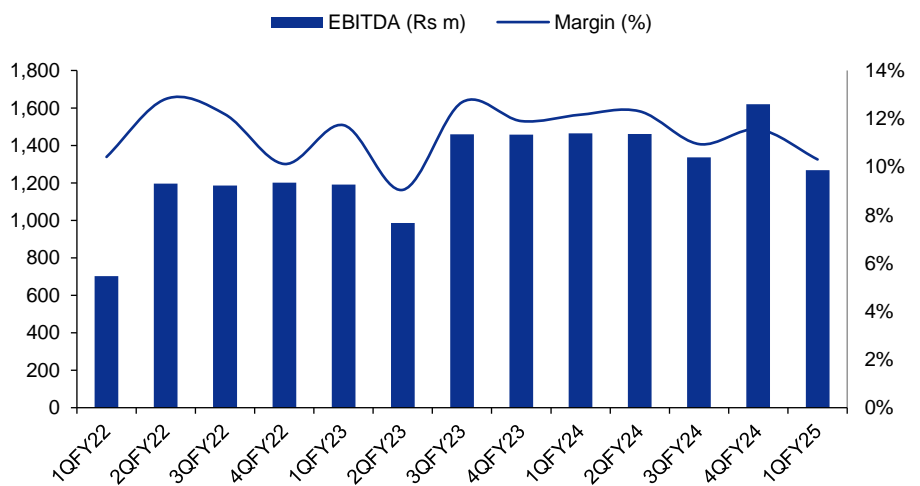
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



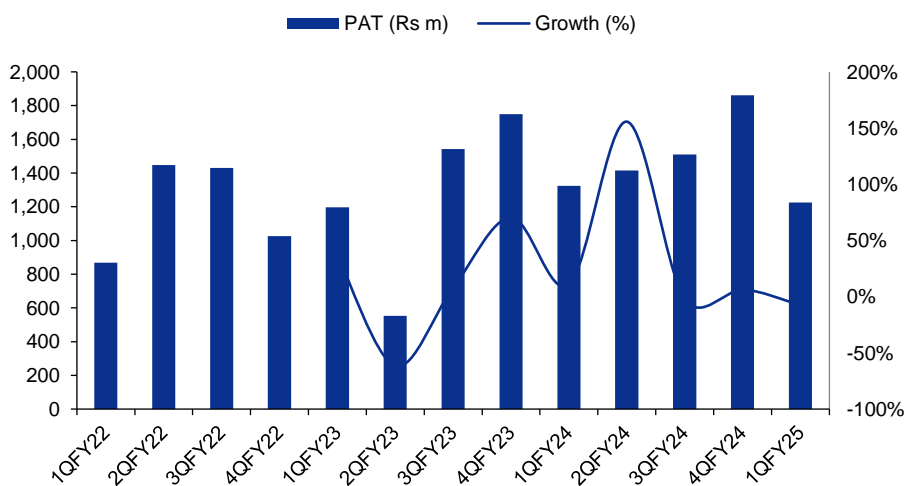
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



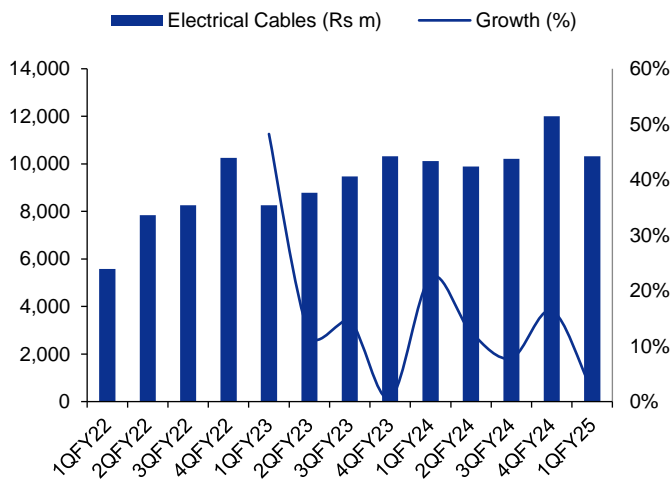
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



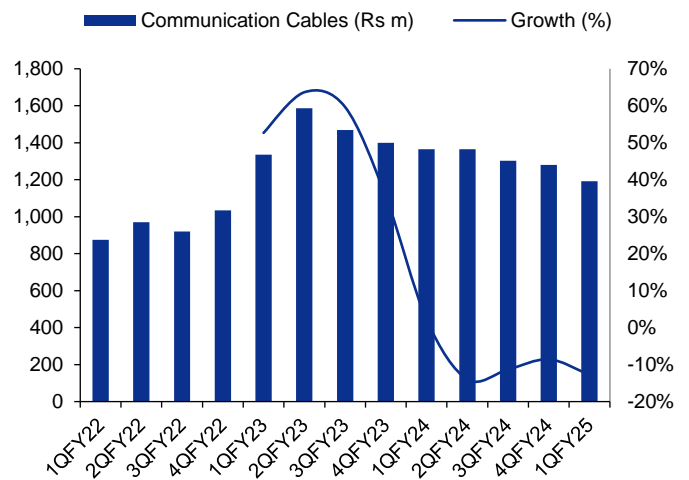
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Electrical cable segment's revenue trend



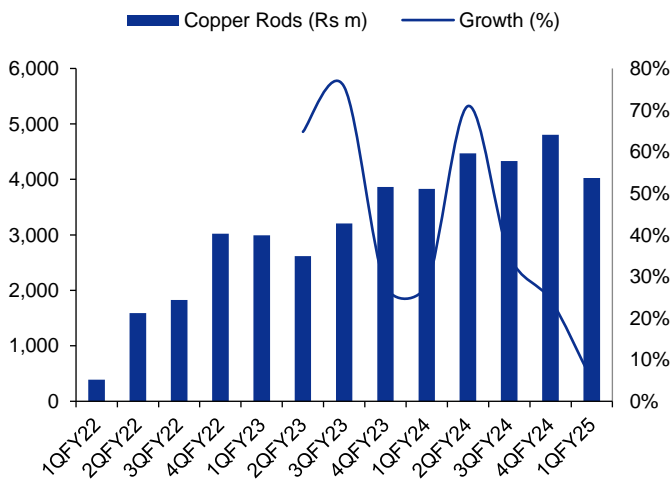
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Communication cable segment's revenue trend



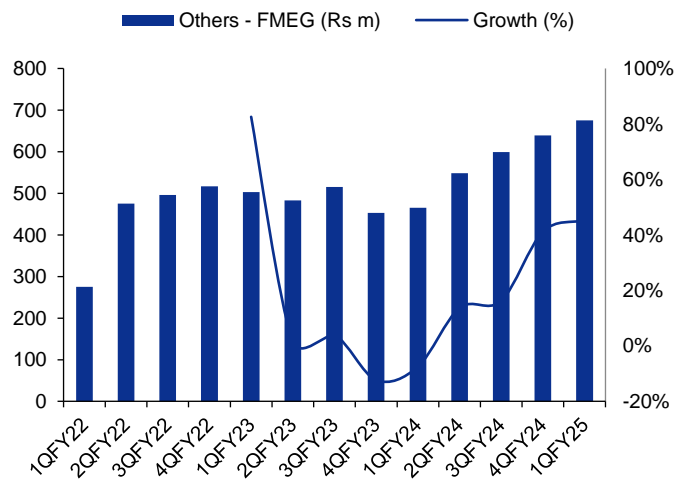
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Copper rod segment's revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: FMEG segment's revenue trend



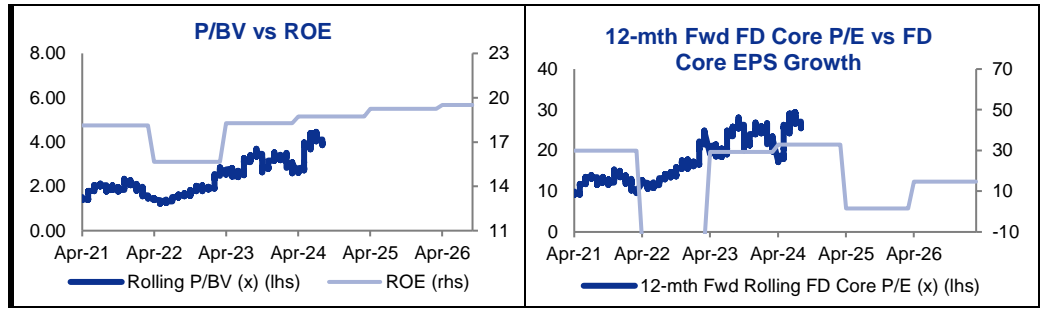
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

	New estimates		Old estimates		Change (%)		
	FY25F	FY26F	FY24F	FY25F	FY25F	FY25F	FY27F
Revenue	54,429	62,972	59,005	66,915	-7.8%	-5.9%	71,258
EBITDA	6,913	8,438	7,671	8,833	-9.9%	-4.5%	9,905
Adjusted PAT	7,099	8,785	8,533	9,451	-16.8%	-7.0%	10,079

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>44,811</b>	<b>50,144</b>	<b>54,429</b>	<b>62,972</b>	<b>71,258</b>
<b>Gross Profit</b>	<b>9,366</b>	<b>10,661</b>	<b>12,239</b>	<b>14,538</b>	<b>16,736</b>
<b>Operating EBITDA</b>	<b>5,094</b>	<b>5,882</b>	<b>6,913</b>	<b>8,438</b>	<b>9,905</b>
Depreciation And Amortisation	(464)	(439)	(551)	(728)	(895)
<b>Operating EBIT</b>	<b>4,630</b>	<b>5,444</b>	<b>6,361</b>	<b>7,710</b>	<b>9,010</b>
Financial Income/(Expense)	473	412	766	833	903
Pretax Income/(Loss) from Assoc.	700	1,461	1,590	1,840	2,127
Non-Operating Income/(Expense)	692	1,195	1,255	1,317	1,383
<b>Profit Before Tax (pre-EI)</b>	<b>6,495</b>	<b>8,512</b>	<b>9,972</b>	<b>11,701</b>	<b>13,424</b>
Exceptional Items		126	1,557		
<b>Pre-tax Profit</b>	<b>6,495</b>	<b>8,638</b>	<b>11,529</b>	<b>11,701</b>	<b>13,424</b>
Taxation	(1,452)	(2,121)	(2,873)	(2,916)	(3,345)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>5,043</b>	<b>6,517</b>	<b>8,656</b>	<b>8,785</b>	<b>10,079</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>5,043</b>	<b>6,517</b>	<b>8,656</b>	<b>8,785</b>	<b>10,079</b>
Recurring Net Profit	5,043	6,422	7,487	8,785	10,079
<b>Fully Diluted Recurring Net Profit</b>	<b>5,043</b>	<b>6,422</b>	<b>7,487</b>	<b>8,785</b>	<b>10,079</b>

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>5,094</b>	<b>5,882</b>	<b>6,913</b>	<b>8,438</b>	<b>9,905</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(330)	1,402	(1,418)	(2,212)	(4,325)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	596	508	5,168	3,991	4,414
Net Interest (Paid)/Received	(479)	(422)	(766)	(833)	(903)
Tax Paid	(1,318)	(1,601)	(2,873)	(2,916)	(3,345)
<b>Cashflow From Operations</b>	<b>3,563</b>	<b>5,769</b>	<b>7,024</b>	<b>6,468</b>	<b>5,746</b>
Capex	(310)	(2,186)	(4,850)	(4,030)	(3,389)
Disposals Of FAs/subsidiaries	(3,245)				
Acq. Of Subsidiaries/investments	810	(3,073)	(1,000)	(1,000)	(1,000)
Other Investing Cashflow	1,308	863	797	865	935
<b>Cash Flow From Investing</b>	<b>(1,437)</b>	<b>(4,396)</b>	<b>(5,053)</b>	<b>(4,165)</b>	<b>(3,454)</b>
Debt Raised/(repaid)	(12)	(33)			
Proceeds From Issue Of Shares	(39)				
Shares Repurchased					
Dividends Paid		(1,070)	(1,065)	(1,318)	(1,512)
Preferred Dividends					
Other Financing Cashflow	(915)	(14)	(32)	(32)	(32)
<b>Cash Flow From Financing</b>	<b>(1,117)</b>	<b>(1,117)</b>	<b>(1,096)</b>	<b>(1,349)</b>	<b>(1,543)</b>
Total Cash Generated	257	875	875	953	748
<b>Free Cashflow To Equity</b>	<b>2,113</b>	<b>1,341</b>	<b>1,971</b>	<b>2,303</b>	<b>2,292</b>
<b>Free Cashflow To Firm</b>	<b>2,113</b>	<b>1,353</b>	<b>1,940</b>	<b>2,271</b>	<b>2,260</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	23,943	24,936	26,811	28,765	30,513
Total Debtors	2,178	1,775	2,088	2,588	3,514
Inventories	6,746	5,763	6,710	8,109	10,737
Total Other Current Assets	1,001	5,168	5,609	6,490	7,809
<b>Total Current Assets</b>	<b>33,868</b>	<b>37,642</b>	<b>41,219</b>	<b>45,951</b>	<b>52,573</b>
Fixed Assets	4,218	4,291	10,015	13,317	15,811
Total Investments	10,935	11,939	11,939	11,939	11,939
Intangible Assets	14	12	12	12	12
Total Other Non-Current Assets	770	2,480	1,055	1,055	1,055
<b>Total Non-current Assets</b>	<b>15,937</b>	<b>18,722</b>	<b>23,020</b>	<b>26,322</b>	<b>28,817</b>
Short-term Debt		1	1	1	1
Current Portion of Long-Term Debt					
Total Creditors	2,087	2,342	2,542	2,941	3,328
Other Current Liabilities	1,078	985	1,069	1,236	1,399
<b>Total Current Liabilities</b>	<b>3,165</b>	<b>3,327</b>	<b>3,612</b>	<b>4,178</b>	<b>4,728</b>
Total Long-term Debt	3	8	8	8	8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	238	290	290	290	290
<b>Total Non-current Liabilities</b>	<b>240</b>	<b>298</b>	<b>298</b>	<b>298</b>	<b>298</b>
Total Provisions	2,695	3,268	3,268	3,268	3,268
<b>Total Liabilities</b>	<b>6,101</b>	<b>6,893</b>	<b>7,177</b>	<b>7,744</b>	<b>8,294</b>
Shareholders Equity	43,704	49,459	57,050	64,517	73,084
Minority Interests					
<b>Total Equity</b>	<b>43,704</b>	<b>49,459</b>	<b>57,050</b>	<b>64,517</b>	<b>73,084</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	18.9%	11.9%	8.5%	15.7%	13.2%
Operating EBITDA Growth	18.9%	15.5%	17.5%	22.1%	17.4%
Operating EBITDA Margin	11.4%	11.7%	12.7%	13.4%	13.9%
Net Cash Per Share (Rs)	156.53	162.99	175.25	188.02	199.45
BVPS (Rs)	285.75	323.39	373.02	421.85	477.86
Gross Interest Cover	373.35	268.16	201.19	243.86	284.96
Effective Tax Rate	22.4%	24.6%	24.9%	24.9%	24.9%
Net Dividend Payout Ratio	16.5%	12.6%	10.7%	11.3%	11.3%
Accounts Receivables Days	16.08	14.38	12.95	13.55	15.63
Inventory Days	68.36	57.82	53.96	55.84	63.08
Accounts Payables Days	20.53	20.47	21.13	20.66	20.99
ROIC (%)	40.2%	46.3%	39.4%	35.2%	32.9%
ROCE (%)	11.6%	11.9%	12.7%	13.4%	13.8%
Return On Average Assets	12.7%	15.3%	15.3%	15.9%	16.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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