

India

REDUCE (no change)

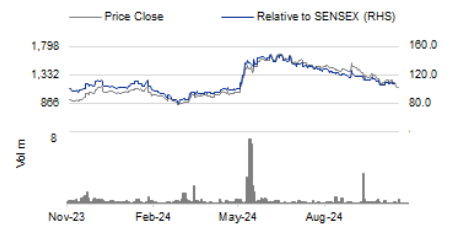
Consensus ratings*: Buy 6 Hold 2 Sell 1

Current price:	Rs1,137
Target price:	Rs1,090
Previous target:	Rs1,252
Up/downside:	-4.1%
InCred Research / Consensus:	-29.9%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$2,061m Rs173,946m
Average daily turnover:	US\$6.8m Rs575.9m
Current shares o/s:	152.9m
Free float:	64.1%

*Source: Bloomberg

Key changes in this note

- For FY25F-27F, we cut revenue by 1%-4% and PAT 3%-12%
- We retain REDUCE rating on the stock with a lower target price of Rs1,090.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(13.0)	(23.0)	23.3
Relative (%)	(8.3)	(21.5)	4.4

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

Research Analyst(s)



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Finolex Cables

High-cost inventory impacts earnings

- 2Q EBITDA was down 28% YoY at Rs1.05bn, 35% below our estimate & 28% below BB consensus estimate. The EBITDA margin fell 423bp YoY to 8.1%.
- Lower copper prices in 2QFY25, high-cost inventory of the previous quarter and destocking at the trade level impacted business sentiment.
- For FY25F-27F, we cut revenue estimates by 1%-4% and PAT by 3%-12%. We retain REDUCE rating with a lower target price of Rs1,090 (Rs1,252 earlier).

Double-digit revenue growth

Finolex Cables reported a disappointing set of numbers for 2QFY25 with revenue at Rs13.1bn, up 11% YoY (6% QoQ), 2% below our estimate & 1% below the Bloomberg or BB consensus estimate. Revenue of copper rods segment was down 22% YoY at Rs3.5bn, while the electrical cable segment was up 12% YoY at Rs11bn. The communication cable segment remained flat YoY. In volume terms, the electrical wire segment showed a 2% growth, while within the communication cable segment, the volume of metal-based products was lower by 9% during the quarter and optic fibre cable volume grew by 53%. Volume growth in all new product categories was significant and it was reflected in the overall turnover of this segment. EBITDA was down 28% YoY at Rs1.05bn, missing our /BB consensus estimates by 35% and 28%, respectively. EBITDA margin dipped 423bp YoY to 8.1%. Adjusted PAT came in at Rs1.18bn, down 17% YoY, 32% and 31% below our/BB consensus estimates, respectively.

Volatility in commodity prices remains a challenge

Lower copper prices in 2Q, high-cost inventory left over from the previous quarter and destocking at the trade level hit business sentiment. The company faced challenges specifically due to volatility in copper prices and muted volume growth of just 2% YoY in the electrical wire segment in 2Q, attributed to destocking, due to copper price volatility. After a significant drop in prices from US\$11,000/t to US\$8,200/t, copper prices stabilized at ~\$9,000/t by the end of Sep 2024, prompting re-stocking. However, management remains optimistic and expects the cable and wire or C&W segment to witness demand pick-up once copper prices stabilize. Moreover, the expansion plans are on track, and the E-Beam facility is ready for operation. The preform facility is at an advanced stage of completion and is expected to be commissioned in 2HFY25F.

Outlook & valuation

The management has guided for 11-12% margin in the medium- to long-term, volatility in copper prices continues to be a major risk. For FY25F-27F, we cut revenue estimates by 1%-4% and PAT estimates by 3%-12% due to poor lower volume and volatility in copper prices. Finolex Cables is involved in pending litigation concerning ownership and control issues. We retain REDUCE rating on the stock with a lower target price of Rs1,090 (Rs1,252 earlier) valuing it at 20x Sep 2026F EPS. Upside risks: Strong demand for cables and wires, and improvement in pricing and margins.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	44,811	50,144	53,845	61,061	68,409
Operating EBITDA (Rsm)	5,094	5,882	6,182	6,939	7,979
Net Profit (Rsm)	5,043	6,517	6,875	7,826	8,865
Core EPS (Rs)	33.0	42.0	45.0	51.2	58.0
Core EPS Growth	(0.4%)	27.4%	7.1%	13.8%	13.3%
FD Core P/E (x)	34.50	26.69	25.30	22.23	19.62
DPS (Rs)	6.0	7.0	7.5	8.6	9.7
Dividend Yield	0.53%	0.62%	0.66%	0.75%	0.85%
EV/EBITDA (x)	29.45	25.33	23.80	20.92	17.98
P/FCFE (x)	82.31	129.73	633.15	107.25	126.45
Net Gearing	(54.8%)	(50.4%)	(48.6%)	(46.6%)	(44.2%)
P/BV (x)	3.98	3.52	3.15	2.82	2.52
ROE	12.2%	13.8%	13.1%	13.4%	13.6%
% Change In Core EPS Estimates			(16.45%)	(17.20%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 conference-call highlights

- **Overview:** Finolex Cables reported double-digit revenue growth of 10% YoY, with a lower margin led by copper price volatility, which affected sales and margin stability. Going ahead, BSNL's orders are expected to boost demand, with Finolex Cables winning L1 bids on three projects. The revenue from these projects is expected by Feb–Mar 2025F, with further opportunities in 5G rollouts and data centres.
- **Margin and profitability:** Management expects a return to steady-state margin of around 11–12%, contingent on reduced copper price volatility. However, the journey back to stable profitability may take time, particularly if price fluctuations persist. The company has been affected by its sales mix shift towards project-based channels, which yields finer pricing compared to retail sales.
- **Segments:**
 - **Electrical cable:** The company witnessed muted volume growth of 2% YoY in the electrical wire segment in 2Q, attributed to speculative buying and subsequent destocking, influenced by copper price volatility. After a significant drop in prices from US\$11,000/t to US\$8,200/t, copper prices stabilized around US\$9,000/t by the end of Sep 2024, prompting restocking. Finolex Cables expects demand normalization in this segment, but notes that ongoing copper price fluctuations could continue to impact volume and margin. Currently, Finolex Cables produces approximately 23–24 lakh standard 90-metre coils monthly, operating at 65–70% of its capacity.
 - **Communication cables:** The realization in communication cables was lower due to a drop in both copper-based cable prices and fiber optic cable rates. Fiber optic cable prices fell from US\$4/km two years ago to US\$2.6–2.7/km currently. Although fibre optic volume grew by 50% sequentially, lower pricing affected revenue growth. Management remains optimistic, with the expectation that fibre optic demand will rise globally, stabilizing its prices in six-to-eight months.
 - **Copper rods:** The volatility in copper prices was a major challenge throughout the quarter. Finolex Cables adjusted selling prices several times to manage inventory liquidation. Average copper price decreased from US\$10,130 in May 2024 to US\$8,963 in Aug 2024, impacting both sales and margins. Despite these fluctuations, Finolex' Cables' inventory level is back to a more stable level. Price cut of around 11% was implemented in 2Q, with a minor price hike of 2% at the end of Sep 2024.
 - **FMEG** - The segment, although smaller in contribution to revenue, demonstrated steady performance. Finolex Cables expects to reach Rs 3,000m in revenue for the year, up from Rs2,300m last year, marking a profitable milestone for the segment, as breakeven typically requires Rs2,500–2,600m in revenue.
- **Capex and other initiatives:** Major capex-driven projects are nearing completion. An E-Beam facility is operational, pending final certifications which are expected shortly. Finolex Cables is enhancing its fibre drawing capacity from 4m to 6m units, with the equipment expected by mid-2025F. The company also expanded its automotive cable production capacity at the Roorkee facility, which is expected to be fully commissioned by Dec 2024F. Further capacity expansion in the electrical cable segment remains aligned with current demand, with the company's utilization rate stable at 65–70% across products.
- **Market position:** Finolex Cable's market share in the electrical wire segment is approximately 18–20%, with annual revenue of ~ Rs42bn in FY24 out of a total market size of Rs250bn. Competitors have shown stronger volume growth, notably in wires, due to various strategies in copper sourcing and price stabilization. Management stated that its sourcing relies on monthly average

copper prices, unlike some competitors who may adopt alternative hedging strategies.

- **Pending legal matters:** Finolex Cables is involved in pending litigation concerning ownership and control issues. A recent ruling by NCLAT directed the NCLT to expedite its decision regarding the ownership of shares in Orbit Electricals, a key entity in the group structure.

Figure 1: Result snapshot

Y/E Mar (Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Net Sales	13,117	11,874	10.5%	12,305	6.6%	25,422	23,917	6.3%
Net Raw Material Costs	10,880	9,230	17.9%	9,927	9.6%	20,807	18,730	11.1%
Staff Costs	475	426	11.4%	457	3.9%	932	853	9.3%
Other Expenditure	704	758	-7.1%	653	7.8%	1,357	1,409	-3.7%
Total Expenditure	12,058	10,413	15.8%	11,037	9.3%	23,095	20,991	10.0%
EBITDA	1,059	1,461	-27.5%	1,268	-16.5%	2,327	2,926	-20.5%
EBITDA margin (%)	8.1%	12.3%	-423bp	10.3%	-223bp	9.2%	12.2%	-308bp
Depreciation	118	108	8.4%	107	9.7%	225	213	5.2%
EBIT	941	1,353	-30.4%	1,161	-18.9%	2,102	2,713	-22.5%
Interest Expenses	3.8	4.4	-13.6%	4	-5.0%	8	7	6.8%
Other Income	516	292	76.5%	463	11.4%	979	680	43.9%
Extraordinary Income	53	298	-82.1%	1,557	-96.6%	1,611	653	146.6%
PBT	1,507	2,065	-27.0%	3,178	-52.6%	4,684	4,165	12.5%
Tax - Current	344	456	-24.6%	313	9.8%	657	850	-22.7%
Tax - Deferred	-16	67	-124.0%	425	-103.8%	409	169	142.6%
Reported PAT	1,179	1,542	-23.5%	2,439	-51.7%	3,618	3,146	15.0%
Adjusted PAT	1,179	1,416	-16.7%	2,439	-51.7%	3,618	3,020	19.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

% of sales	2QFY25	2QFY24	YoY	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY
Gross margin	17.1%	22.3%	-522bp	19.3%	-227bp	18.2%	21.7%	-353bp
EBITDA	8.1%	12.3%	-423bp	10.3%	-223bp	9.2%	12.2%	-308bp
Adjusted PAT	9.0%	11.9%	-294bp	19.8%	-1,084bp	14.2%	12.6%	160bp
Cost Analysis	2QFY25	2QFY24	YoY	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY
Net RM	82.9%	77.7%	522bp	80.7%	227bp	81.8%	78.3%	353bp
Staff costs	3.6%	3.6%	3bp	3.7%	-10bp	3.7%	3.6%	10bp
Other expenditure	5.4%	6.4%	-102bp	5.3%	6bp	5.3%	5.9%	-55bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segmental revenue and EBIT

(Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Revenue								
Electrical Cables	11,041	9,885	11.7%	10,318	7.0%	21,359	20,000	6.8%
Communication Cables	1,354	1,365	-0.8%	1,192	13.6%	2,545	2,730	-6.8%
Copper Rods	3,489	4,473	-22.0%	4,028	-13.4%	7,516	8,303	-9.5%
Others (FMEG)	604	549	10.1%	676	-10.6%	1,280	1,013	26.3%
Inter-segment Revenue	3,370	4,397	-23.3%	3,907	-13.8%	7,278	8,130	-10.5%
Total	13,117	11,874	10.5%	12,305	6.6%	25,422	23,917	6.3%
EBIT								
Electrical Cables	914	1,399	-34.6%	1,158	-21.1%	2,072	2,727	-24.0%
Communication Cables	22	27	-19.9%	30	-26.4%	51.2	54.4	-5.9%
Copper Rods	5.7	9.0	-36.7%	13	-54.4%	18.2	16.7	9.0%
Others (FMEG)	5.5	8.6	-36.0%	8	-31.3%	13.5	15.8	-14.6%
Total	947	1,444	-34.4%	1,208	-21.6%	2,155	2,814	-23.4%
EBIT margin (%)								
Electrical Cables	8.3%	14.2%	-587bp	11.2%	-294bp	9.7%	13.6%	-393bp
Communication Cables	1.6%	2.0%	-38bp	2.5%	-87bp	2.0%	2.0%	2bp
Copper Rods	0.2%	0.2%	-4bp	0.3%	-15bp	0.2%	0.2%	4bp
Others (FMEG)	0.9%	1.6%	-66bp	1.2%	-27bp	1.1%	1.6%	-50bp

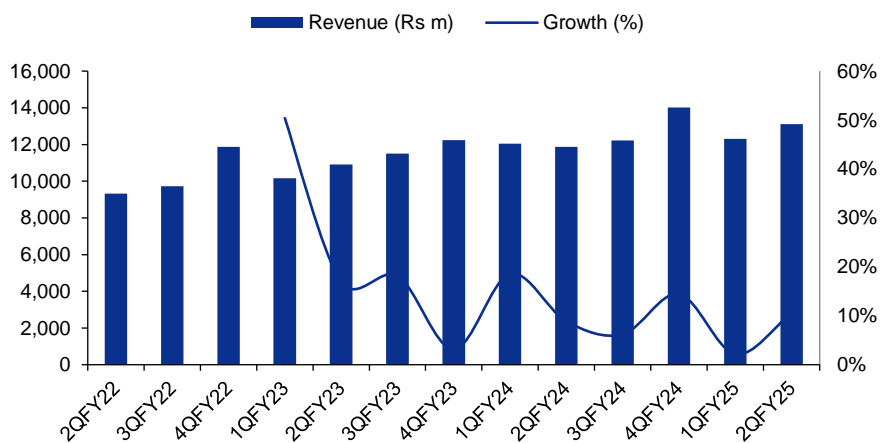
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs estimates

vs InCred			
Rs m	2QFY25	2QFY25F	Var (%)
Revenue	13,117	13,397	-2.1%
EBITDA	1,059	1,616	-34.5%
EBITDA margin (%)	8.1%	12.1%	-399bp
Adj. PAT	1,179	1,745	-32.4%
vs consensus			
Rs m	2QFY25	2QFY25C	Var (%)
Revenue	13,117	13,245	-1.0%
EBITDA	1,059	1,476	-28.3%
EBITDA margin (%)	8.1%	11.1%	-307bp
Adj. PAT	1,179	1,695	-30.5%

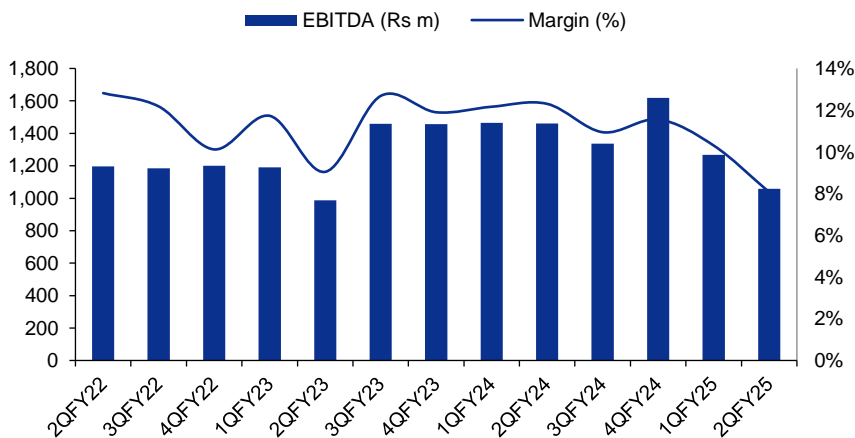
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



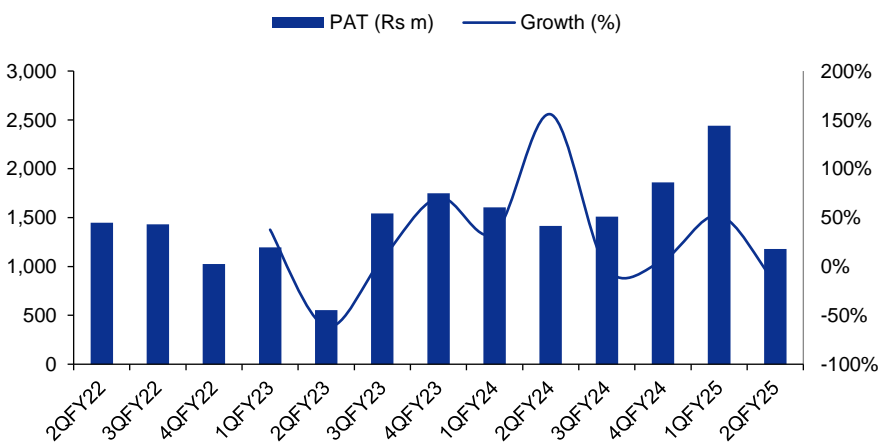
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



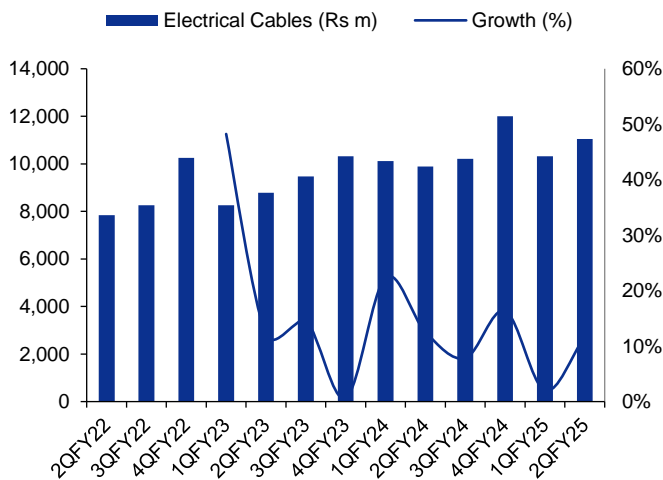
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



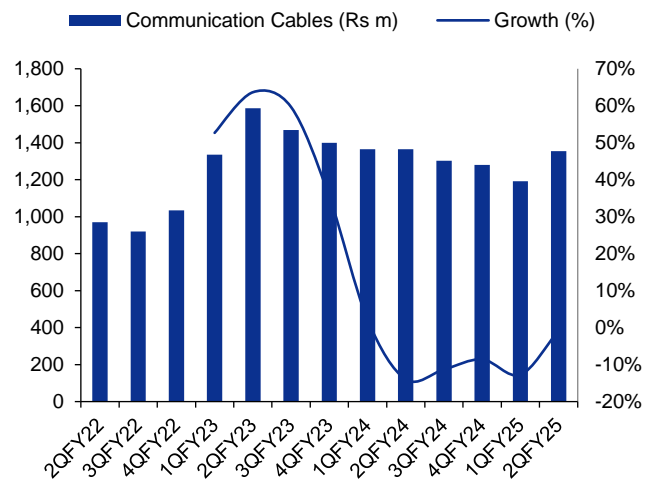
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Electrical cable segment's revenue



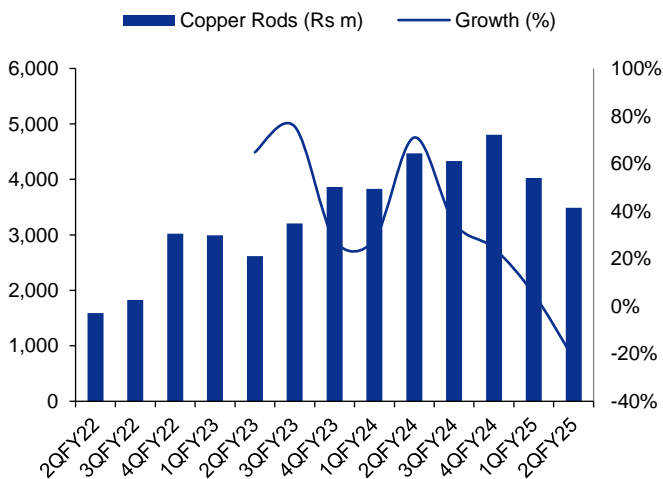
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Communication cable segment's revenue



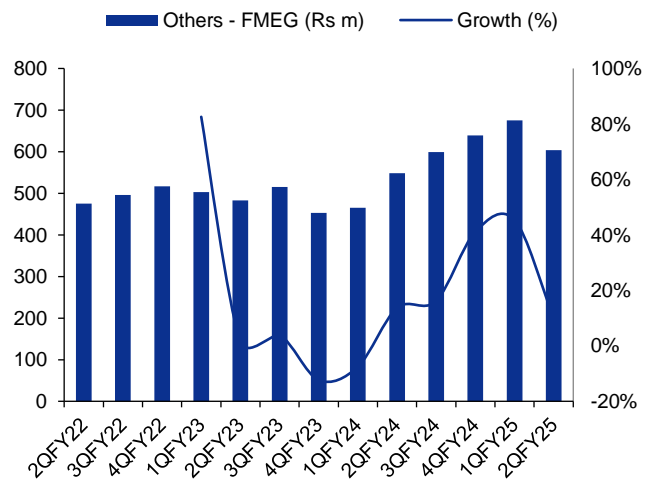
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Copper rod segment's revenue



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: FMEG segment's revenue



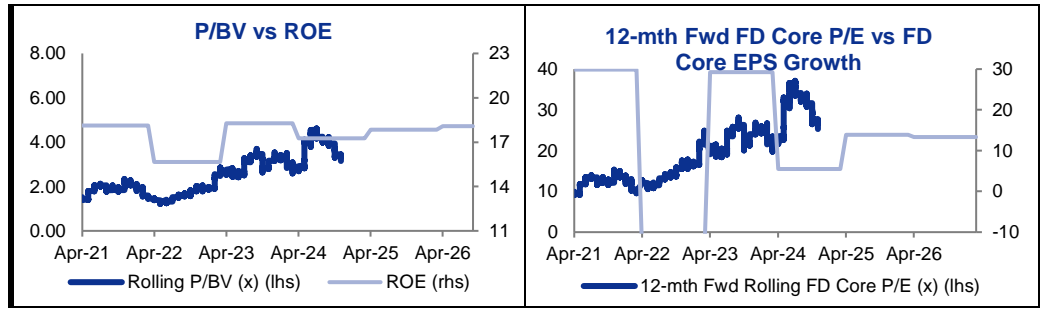
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Earnings revision summary

Rs m	New estimates			Old estimates			Change (%)		
	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue	53,845	61,061	68,409	54,429	62,972	71,258	-1.1%	-3.0%	-4.0%
EBITDA	6,182	6,939	7,979	6,913	8,438	9,905	-10.6%	-17.8%	-19.4%
Adjusted PAT	6,875	7,826	8,865	7,099	8,785	10,079	-3.2%	-10.9%	-12.0%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	44,811	50,144	53,845	61,061	68,409
Gross Profit	9,366	10,661	10,480	12,151	13,819
Operating EBITDA	5,094	5,882	6,182	6,939	7,979
Depreciation And Amortisation	(464)	(439)	(535)	(728)	(895)
Operating EBIT	4,630	5,444	5,647	6,211	7,084
Financial Income/(Expense)	473	412	(17)	833	903
Pretax Income/(Loss) from Assoc.	700	1,461	1,674	1,840	2,127
Non-Operating Income/(Expense)	692	1,195	1,722	1,550	1,705
Profit Before Tax (pre-EI)	6,495	8,512	9,027	10,434	11,820
Exceptional Items		126			
Pre-tax Profit	6,495	8,638	9,027	10,434	11,820
Taxation	(1,452)	(2,121)	(2,152)	(2,609)	(2,955)
Exceptional Income - post-tax					
Profit After Tax	5,043	6,517	6,875	7,826	8,865
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,043	6,517	6,875	7,826	8,865
Recurring Net Profit	5,043	6,422	6,875	7,826	8,865
Fully Diluted Recurring Net Profit	5,043	6,422	6,875	7,826	8,865

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	5,094	5,882	6,182	6,939	7,979
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(330)	1,402	(1,302)	(1,933)	(4,027)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	596	508	3,380	4,223	4,735
Net Interest (Paid)/Received	(479)	(422)	17	(833)	(903)
Tax Paid	(1,318)	(1,601)	(2,152)	(2,609)	(2,955)
Cashflow From Operations	3,563	5,769	6,125	5,787	4,830
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		865	935
Cash Flow From Investing	(1,437)	(4,396)	(5,850)	(4,165)	(3,454)
Debt Raised/(repaid)	(12)	(33)			
Proceeds From Issue Of Shares	(39)				
Shares Repurchased					
Dividends Paid		(1,070)	(1,151)	(1,310)	(1,484)
Preferred Dividends					
Other Financing Cashflow	(915)	(14)	(17)	(32)	(32)
Cash Flow From Financing	(1,117)	(1,117)	(1,168)	(1,342)	(1,516)
Total Cash Generated	257	(893)	(893)	280	(140)
Free Cashflow To Equity	2,113	1,341	275	1,622	1,376
Free Cashflow To Firm	2,113	1,353	258	1,590	1,344

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	23,943	24,936	26,811	28,765	30,513
Total Debtors	2,178	1,775	2,065	2,509	3,374
Inventories	6,746	5,763	6,638	7,863	10,308
Total Other Current Assets	1,001	5,168	5,549	6,293	7,497
Total Current Assets	33,868	37,642	41,064	45,429	51,691
Fixed Assets	4,218	4,291	10,032	13,334	15,828
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
Total Non-current Assets	15,937	18,722	23,037	26,339	28,833
Short-term Debt		1	1	1	1
Current Portion of Long-Term Debt					
Total Creditors	2,087	2,342	2,515	2,852	3,195
Other Current Liabilities	1,078	985	1,057	1,199	1,343
Total Current Liabilities	3,165	3,327	3,573	4,052	4,539
Total Long-term Debt	3	8	8	8	8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	238	290	290	290	290
Total Non-current Liabilities	240	298	298	298	298
Total Provisions	2,695	3,268	3,268	3,268	3,268
Total Liabilities	6,101	6,893	7,139	7,617	8,105
Shareholders Equity	43,704	49,459	55,183	61,698	69,078
Minority Interests					
Total Equity	43,704	49,459	55,183	61,698	69,078

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	18.9%	11.9%	7.4%	13.4%	12.0%
Operating EBITDA Growth	18.9%	15.5%	5.1%	12.2%	15.0%
Operating EBITDA Margin	11.4%	11.7%	11.5%	11.4%	11.7%
Net Cash Per Share (Rs)	156.53	162.99	175.25	188.02	199.45
BVPS (Rs)	285.75	323.39	360.81	403.41	451.67
Gross Interest Cover	373.35	268.16	340.65	196.44	224.06
Effective Tax Rate	22.4%	24.6%	23.8%	25.0%	25.0%
Net Dividend Payout Ratio	14.1%	12.6%	12.8%	12.6%	12.6%
Accounts Receivables Days	16.08	14.38	13.02	13.67	15.69
Inventory Days	68.36	57.82	52.19	54.11	60.75
Accounts Payables Days	20.53	20.47	20.44	20.03	20.22
ROIC (%)	40.2%	46.3%	34.9%	28.5%	26.2%
ROCE (%)	11.6%	11.9%	10.2%	11.5%	11.7%
Return On Average Assets	12.7%	15.3%	15.0%	14.1%	14.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.