



TM

## Finolex Cables

27 May 2024

## RESULT UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 1,450 Target Price: Rs 1,574

## Stock Info

Sensex/Nifty	75,399/22,935
Bloomberg	FNXC IN
Equity shares (mn)	153
52-wk High/Low	1,504/779
Face value	Rs 2
M-Cap	Rs 200bn/ USD 2.4bn
3-m Avg turnover	USD 6.4mn

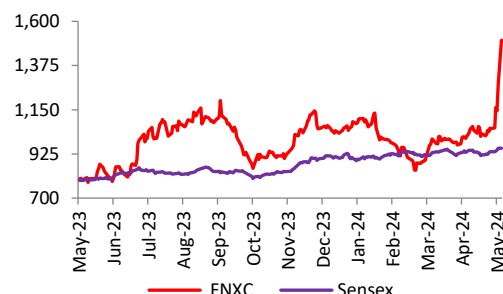
## Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	50,144	57,647	66,274
EBITDA	5,882	7,241	8,718
OPM (%)	11.7	12.6	13.2
PAT (adj.)	6,517	7,942	9,470
EPS (Rs)	42.6	51.9	61.9
PE (x)	34.0	27.9	23.4
P/B (x)	4.5	3.9	3.4
EV/EBITDA (x)	33.8	27.1	21.8
RoE (%)	13.2	14.1	14.6
RoCE (%)	14.5	15.1	15.6
Net-D/E (x)	(0.5)	(0.5)	(0.5)

## Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	35.9	35.9	35.9
- Pledged			
FII	11.6	11.1	11.8
DII	15.9	15.9	15.6
Others	36.7	37.1	36.7

## Stock Performance (1-year)



## Inline 4Q; robust industry outlook to drive re-rating

Finolex Cables (FNXC) 4Q (revenue/EBITDA/PAT up 14%/11%/6% YoY) came inline with our estimates. Volume in electrical wires grew 16% YoY, driven by construction and infrastructure development activities. In FY24, volumes in wires and cables grew 15% and 26%, respectively. FNXC aims to grow 2x of the nominal GDP growth in the C&W division. Volume of optic fiber cable (OFC) in 4Q saw some pick-up. However, it was down 30% YoY in FY24 due to delay in tenders from the govt as well as from private telecom players. 5G roll out is taking time but it provides strong growth opportunity for several years. After a ~Rs 2.2bn capex in FY24, it further plans to invest Rs 3.4bn in FY25, mainly on the E-beam facility (phase-1 under commissioning; 2<sup>nd</sup> line to be operational by Sep'24) and the Preform facility (should be operational by Dec'24). Improving outlook of the electrical wire industry in last 2-3 years is benefitting FNXC performance and driving its valuation re-rating. We expect FNXC's large valuation gap with peers to narrow. We increase earnings estimates by ~5% and now expect 15%/21% CAGR in revenue/PAT over FY24-26E. While we increase our target price to Rs 1,574 (~25x FY26E P/E for 25% RoIC, earlier Rs 1,341 at ~23x), we downgrade rating to HOLD after a massive ~70% rally in its scrip since 14-Mar-24. ([concall KTAs](#))

**Healthy and inline 4Q:** Consol. revenue/EBITDA/PAT increased 14%/11%/6% YoY. Gross margin remained low at 20.8% (down 51bps YoY and 14bps QoQ). EBITDA margin expanded 61bps QoQ but stood low at 11.6%. A higher other income (up 10% QoQ) negated the impact of higher tax (up 36% QoQ) and resulted in an inline PAT. WC cycle remained under check and boosted cash flows. CFO/EBITDA remained high at ~100% with Rs 5.8bn generation in FY24.

**Electrical wires & cables – 4Q revenue up 16% YoY; EBIT margin 12.1%, down 70bps YoY and up 33bps QoQ:** Volume grew 16% YoY, driven by construction and infrastructure development activities. In FY24, volumes in wires and cables grew 15% and 26%, respectively. Post years of weakness, a revival in the real estate sector seems sustainable. FNXC's market share gain in wires may be tough, given the taut competition among incumbents. Capex for e-beam and auto cables is on.

**Communication cables - 4Q revenue down 9% YoY; EBIT margin 2.4%, up 20-30bps YoY and QoQ:** Volume of OFC in 4Q saw some pick-up. However, it was lower YoY for FY24 primarily due to delay in tenders (both govt as well as private telecom players). Metal based products showed 10% volume growth though. 5G roll out is taking time but it provides strong growth opportunity for several years.

**FMEG - 4Q revenue up 41% YoY; EBIT margin 1.3%; we are watchful of Rs 5bn revenue guidance:** New launches and distribution network expansion contributed to the volume growth across categories. Lighting revenue continued to be severely impacted by price erosion. FMEG revenue has scaled up in last 2 years (FY24 up 15% at Rs 2.25bn; took 8 years to cross Rs 1bn); margin uptick is yet to be seen. We are watchful of FNXC's Rs 5bn revenue guidance in 2-3 years.

**Capex programs on track:** FNXC invested ~Rs 2.2bn in FY24 on various capex programs. Phase-1 of the E-beam facility is currently under commissioning; the second equipment is expected to arrive in June'24 and is expected to be commissioned in Sep'24. Phase-1 of the Preform facility should be operational by Dec'24. Overall, it plans a Rs 3.4bn capex in FY25 with a small spillover likely in FY26.

Ashish Poddar

ashishpoddar@systematixgroup.in  
+91 22 6704 8039

Krisha Zaveri

krishazaveri@systematixgroup.in  
+91 22 6704 8023

## Concall key highlights (4QFY24)

### Business development & Outlook

- Aims to grow 2x of the nominal GDP growth
- EBITDA margin expected to normalize in 12-13% range by 2QFY25 due to adequate price action taken
- Incremental focus on weak regions such as East and North
- CU: wires 72%, cables 50%, OFC 50%
- Retail touch point over 210k
- A&P spend to stay at 1-1.5% of revenue

### Wires & Cables

- 4Q revenue grew 16% YoY and 18% QoQ led by construction and infrastructure development
- Wire/cable volume up 15%/50% in 4Q
- Agricultural applications have grown well
- For FY24, wires/cables volume grew 15%/26% YoY
- Revenue mix: construction wire 60- 65%, auto, industrial and agri 10-15% each
- Adding capacities in agri and auto cables
- Took ~10% price rise during March-May, following movement in copper price
- EHV cables: has confirmed orders of Rs 2.8bn + L1 for Rs 1.9bn

### Communication Cables

- 4Q revenue declined 9% YoY and 2% QoQ
- Volume of optic fiber cable (OFC) in 4Q saw some pick-up. However, it was down 30% YoY for FY24 primarily due to delay in tender (both govt as well as private telecom players).
- Volume growth in metal based products stood at 14%/10% for 4Q/FY24
- Margins suppressed due to subdued demand

### FMEG

- Revenue up 41% YoY and 7% QoQ
- Price erosion continues in lighting, however, volume growth remains healthy
- Maintains Rs 5bn revenue guidance in next 2-3 years

### Capex

- Phase-1 of the E-beam facility is currently under commissioning; the second equipment is expected to arrive in June'24 and is expected to be commissioned in Sep'24. Peak revenue potential of Rs 5-6bn is expected to be achieved by FY26.
- Phase-1 of the Preform facility should be operational by Dec'24.
- Overall, it plans a ~Rs 3.4bn capex in FY25 with a small spillover likely in FY26.

## Exhibit 1: Finolex Cables – Quarterly results (consolidated)

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
<b>Revenue</b>	<b>12,243</b>	<b>12,043</b>	<b>11,874</b>	<b>12,217</b>	<b>14,010</b>	<b>14</b>	<b>15</b>	<b>50,144</b>	<b>44,811</b>	<b>12</b>
Raw material costs	9,634	9,500	9,230	9,658	11,096	15	15	39,483	35,445	11
Employee costs	393	427	426	451	469	19	4	1,773	1,627	9
Other expenses	759	651	758	771	826	9	7	3,005	2,646	14
<b>EBITDA</b>	<b>1,457</b>	<b>1,465</b>	<b>1,461</b>	<b>1,337</b>	<b>1,619</b>	<b>11</b>	<b>21</b>	<b>5,882</b>	<b>5,094</b>	<b>15</b>
Depreciation	151	105	108	109	117	(23)	7	439	464	(5)
Finance costs	9	3	4	4	9	4	110	20	12	64
Other income	418	388	418	450	497	19	10	1,753	1,177	49
<b>PBT</b>	<b>1,715</b>	<b>1,745</b>	<b>1,767</b>	<b>1,675</b>	<b>1,991</b>	<b>16</b>	<b>19</b>	<b>7,177</b>	<b>5,795</b>	<b>24</b>
Tax	528	496	523	468	635	20	36	2,121	1,452	46
<b>PAT before JV/Asso.</b>	<b>1,188</b>	<b>1,249</b>	<b>1,244</b>	<b>1,207</b>	<b>1,356</b>	<b>14</b>	<b>12</b>	<b>5,056</b>	<b>4,343</b>	<b>16</b>
Share of JV/Asso.	562	355	298	303	505	(10)	67	1,461	700	109
<b>PAT (share after JV)</b>	<b>1,750</b>	<b>1,604</b>	<b>1,542</b>	<b>1,510</b>	<b>1,861</b>	<b>6</b>	<b>23</b>	<b>6,517</b>	<b>5,043</b>	<b>29</b>
EPS (Rs)	11.4	10.5	10.1	9.9	12.2	6	23	42.6	33.0	29
<b>As % Revenue</b>						<b>YoY (bps)</b>	<b>QoQ (bps)</b>			<b>YoY (bps)</b>
<b>Gross margin</b>	<b>21.3</b>	<b>21.1</b>	<b>22.3</b>	<b>20.9</b>	<b>20.8</b>	<b>(51)</b>	<b>(14)</b>	<b>21.3</b>	<b>20.9</b>	<b>36</b>
Employee costs	3.2	3.5	3.6	3.7	3.4	14	(34)	3.5	3.6	(9)
Other expenses	6.2	5.4	6.4	6.3	5.9	(31)	(41)	6.0	5.9	9
<b>EBITDA margin</b>	<b>11.9</b>	<b>12.2</b>	<b>12.3</b>	<b>10.9</b>	<b>11.6</b>	<b>(34)</b>	<b>61</b>	<b>11.7</b>	<b>11.4</b>	<b>36</b>
Depreciation	1.2	0.9	0.9	0.9	0.8	(41)	(6)	0.9	1.0	(16)
Finance costs	0.1	0.0	0.0	0.0	0.1	(1)	3	0.0	0.0	1
Other income	3.4	3.2	3.5	3.7	3.5	13	(14)	3.5	2.6	87
<b>PBT</b>	<b>14.0</b>	<b>14.5</b>	<b>14.9</b>	<b>13.7</b>	<b>14.2</b>	<b>20</b>	<b>50</b>	<b>14.3</b>	<b>12.9</b>	<b>138</b>
Effective tax rate	30.8	28.4	29.6	27.9	31.9	112	394	29.6	25.1	450
<b>PAT</b>	<b>14.3</b>	<b>13.3</b>	<b>13.0</b>	<b>12.4</b>	<b>13.3</b>	<b>(101)</b>	<b>92</b>	<b>13.0</b>	<b>11.3</b>	<b>174</b>
<b>Segment Revenues</b>						<b>YoY (%)</b>	<b>QoQ (%)</b>			<b>YoY (%)</b>
Electric Cables	10,318	10,115	9,885	10,209	12,007	16	18	42,216	36,835	15
Communication Cables	1,400	1,365	1,365	1,303	1,280	(9)	(2)	5,312	5,790	(8)
Others (FMEG)	453	465	549	599	639	41	7	2,252	1,953	15
Copper Rod (external sales)	73	98	76	106	85	16	(20)	364	232	57
<b>Segment EBIT (%)</b>						<b>YoY (bps)</b>	<b>QoQ (bps)</b>			<b>YoY (bps)</b>
Electric Cables	12.8	13.1	14.2	11.7	12.1	(70)	33	12.7	12.4	31
Communication Cables	2.3	2.0	2.0	2.1	2.4	17	32	2.1	2.2	(12)
Others (FMEG)	0.9	1.5	1.6	1.2	1.3	33	5	1.4	1.1	27
Copper Rods	0.1	0.2	0.2	0.2	0.3	22	10	0.2	0.2	1
<b>Blended</b>	<b>11.1</b>	<b>11.4</b>	<b>12.2</b>	<b>10.2</b>	<b>10.7</b>	<b>(35)</b>	<b>56</b>	<b>11.1</b>	<b>10.6</b>	<b>48</b>
Un-allocable exp	3.0	3.1	2.8	3.6	3.5	54	(3)	3.3	2.3	92

Source: Company, Systematix Institutional Research

Note: Segment EBIT margin is as per reported numbers and not adjusted for the unallocable expenses/income

Exhibit 2: Revenue mix – 4QFY24

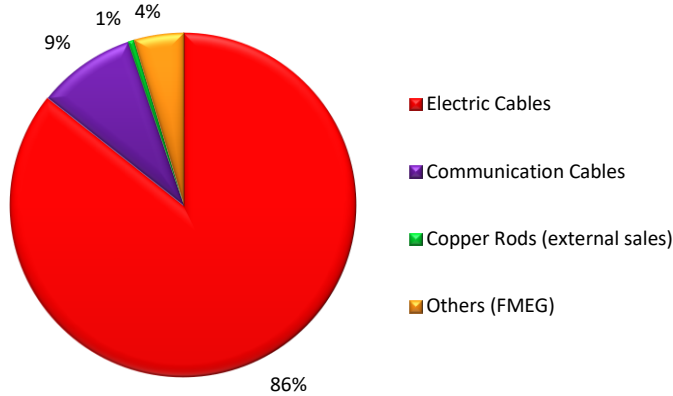


Exhibit 3: Revenue mix – Quarterly trend

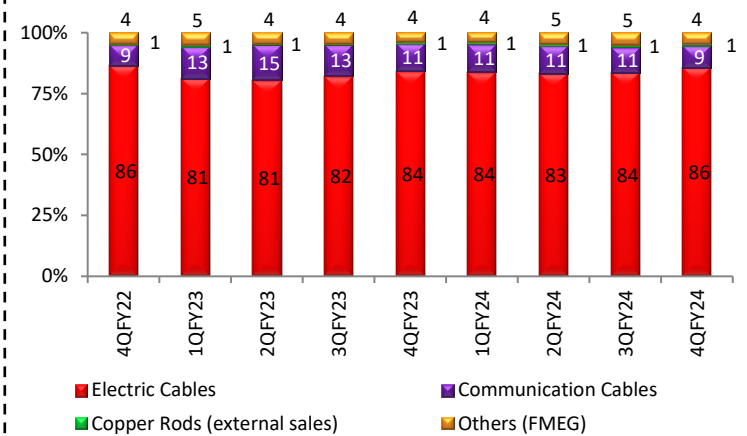


Exhibit 4: Revenue – quarterly growth trend

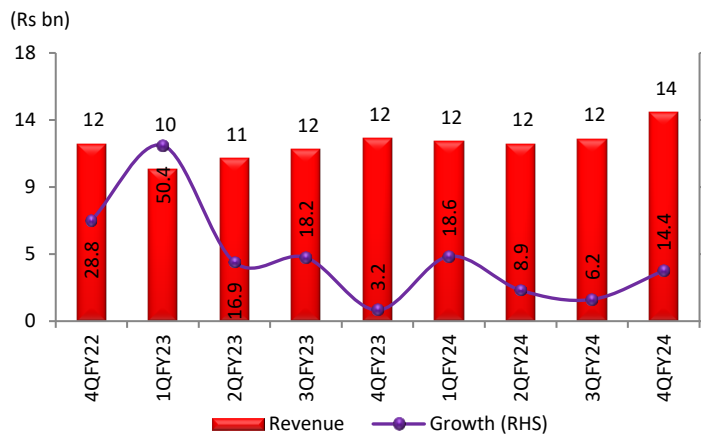


Exhibit 5: Expenses as % of Revenue– quarterly trend

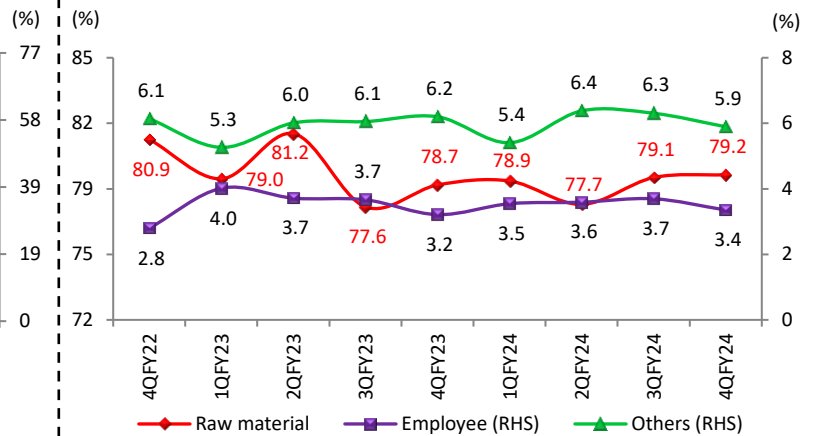


Exhibit 6: EBITDA, PAT and margin– quarterly trend

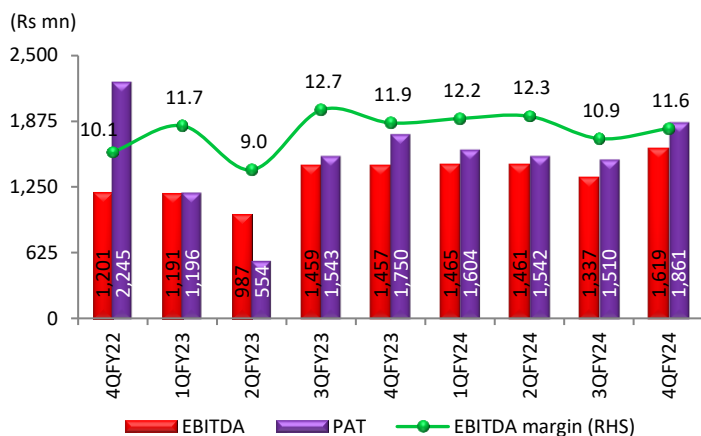
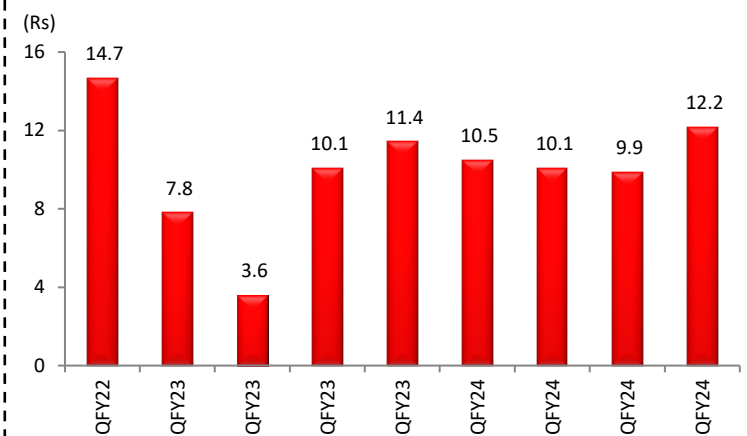


Exhibit 7: Earnings trend– quarterly growth trend



Source: Company, Systematix Institutional Research

Exhibit 8: Electrical cables – Revenue and EBIT (%) trend

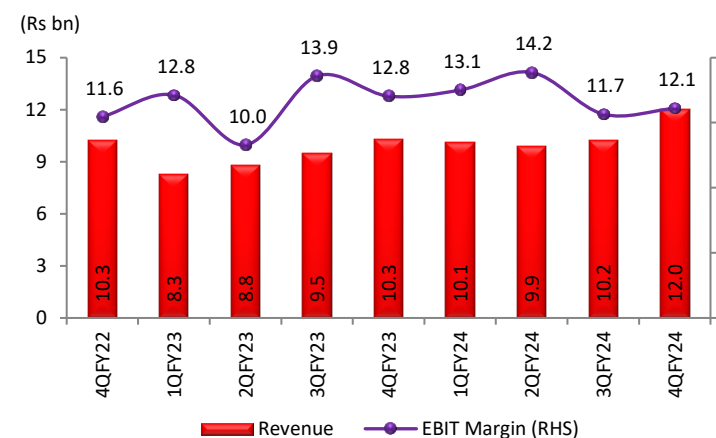


Exhibit 9: Communication Cables – Revenue and EBIT (%) trend

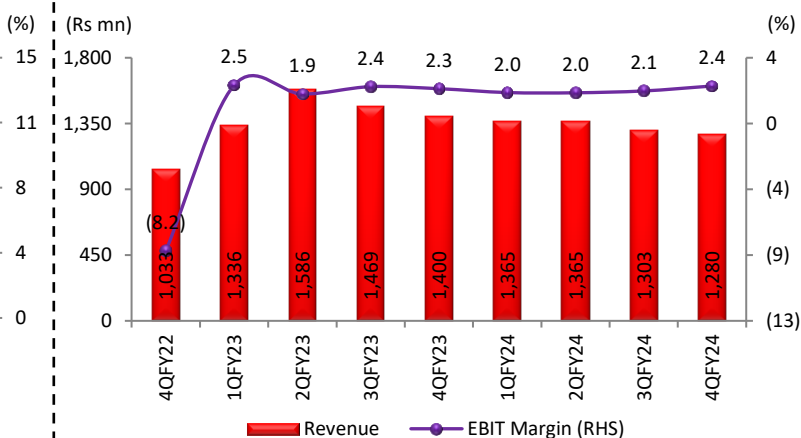


Exhibit 10: Others (FMEG) – revenue, EBIT margin trend

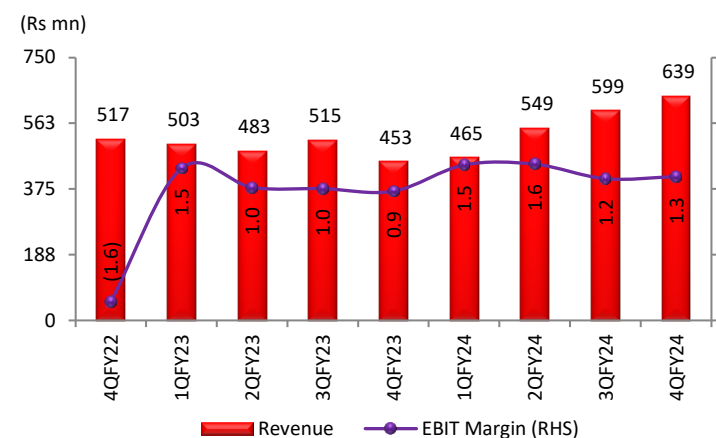


Exhibit 11: Copper rods – revenue, EBIT margin trend

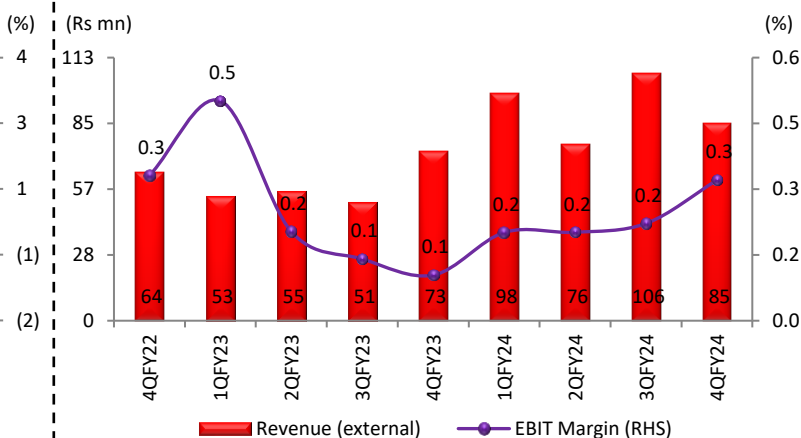
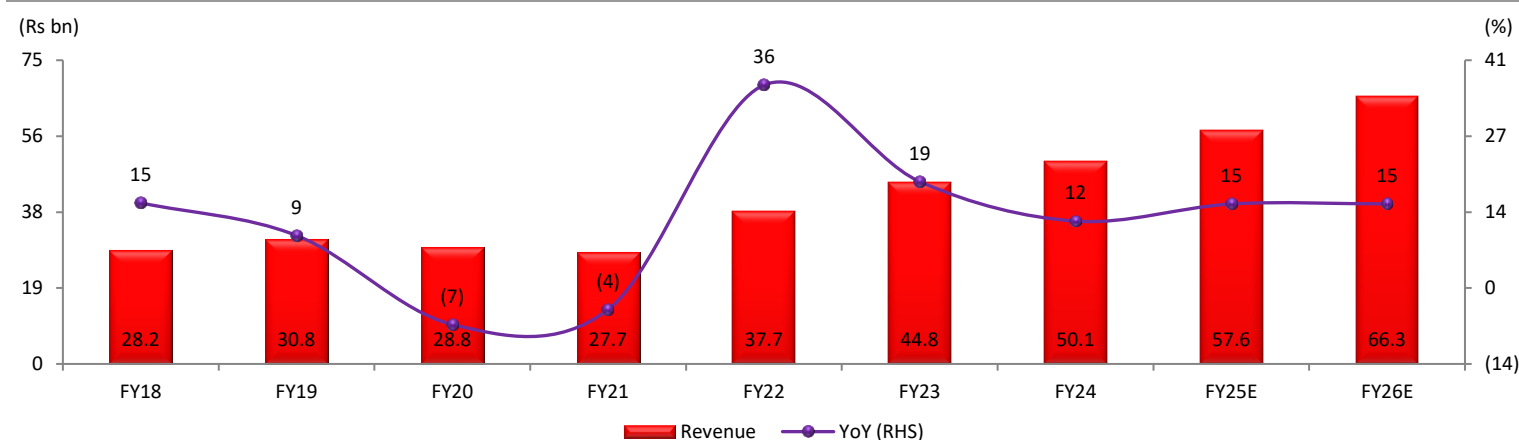
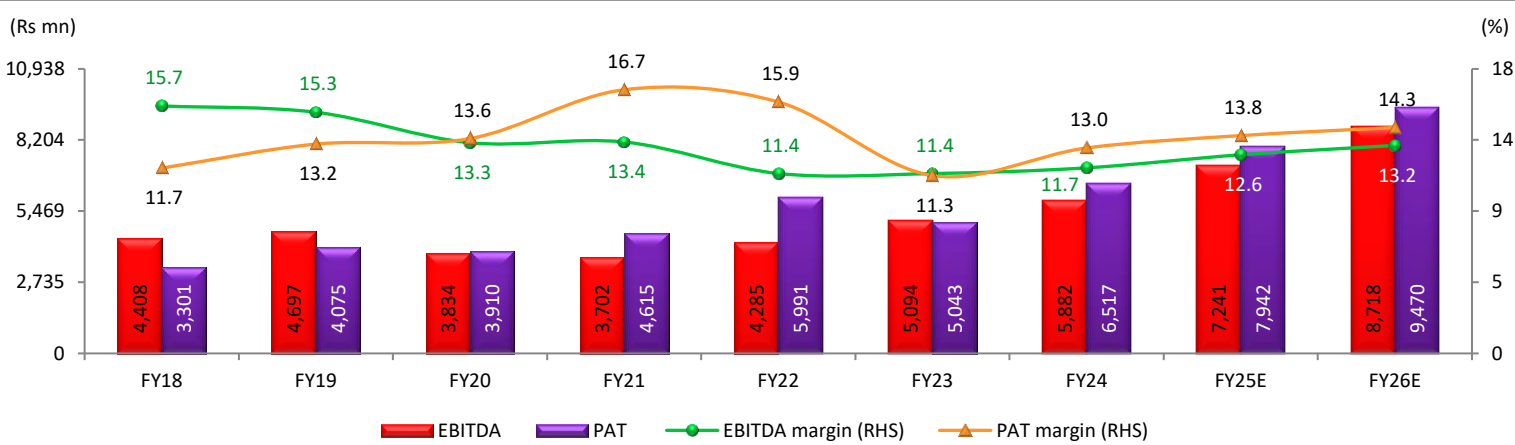


Exhibit 12: Income – annual growth trend



Source: Company, Systematix Institutional Research

Exhibit 13: EBITDA, PAT – annual growth, margin trends



Source: Company, Systematix Institutional Research

## Commodity prices, currency movement

Exhibit 14: Copper price trend

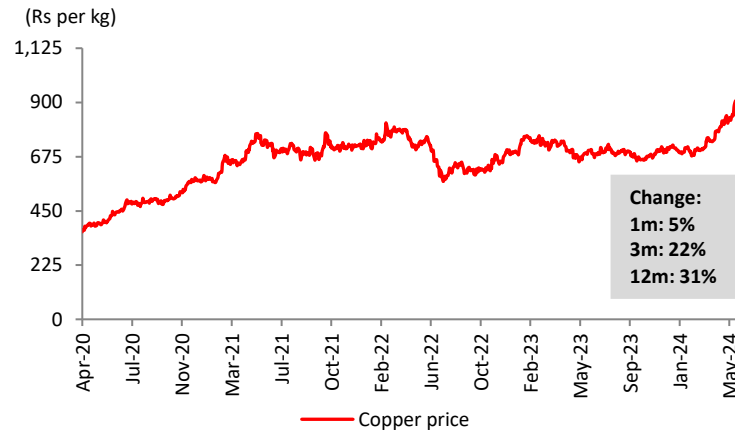


Exhibit 15: Copper price - 3-month rolling average

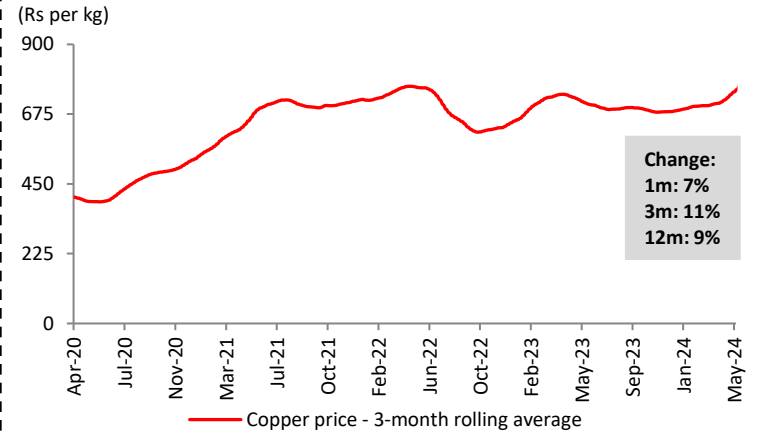


Exhibit 16: LME Aluminium price

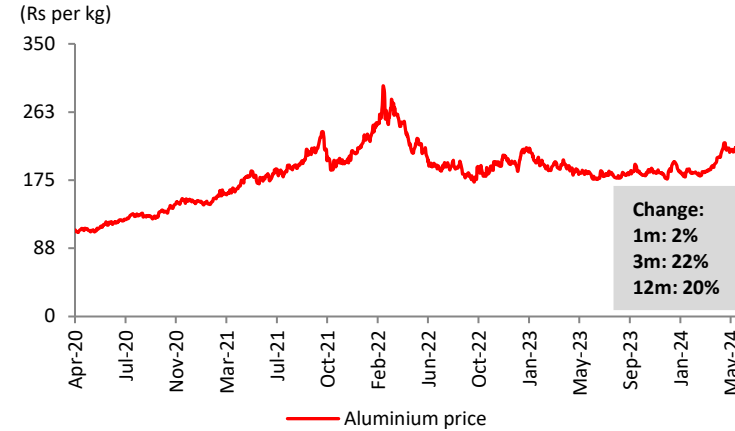


Exhibit 17: LME Aluminium price - 3-month rolling average

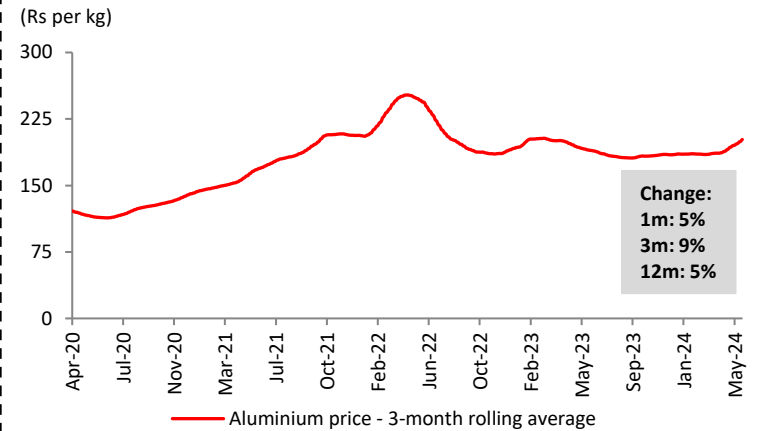


Exhibit 18: Polypropylene (PP) price

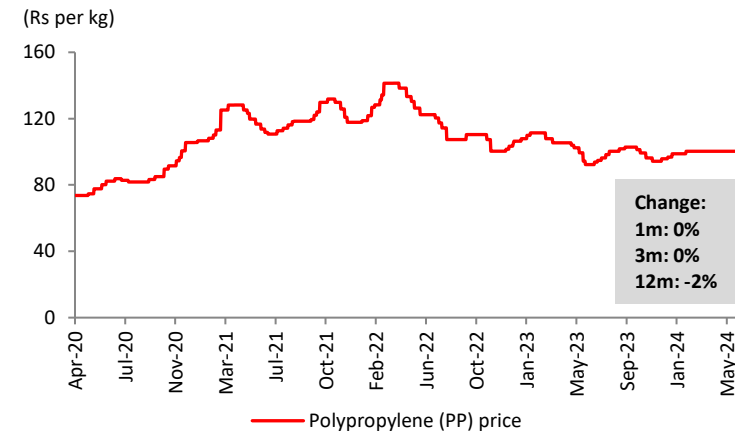
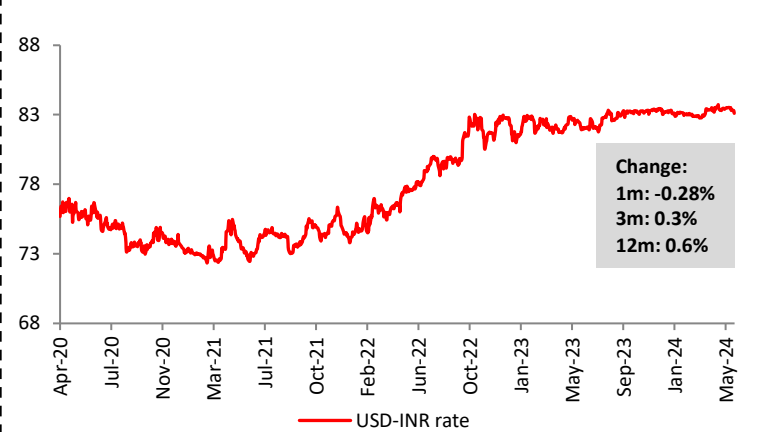


Exhibit 19: USD-INR rate



Source: LME, Bloomberg

## Valuation and View

We like FNXC for its leadership in electrical wires, strong brand equity, pan-India distribution network, robust balance sheet, and FCF generation. However, performance over the last few years has been mixed, as i) it has not been able to replicate the success in FMEG and Finolex J-Power JV so far, and ii) its huge cash balance, currently yielding low returns, is suppressing its RoE. With the right initiatives on the profitability front, FNXC has managed to expand EBITDA margin by >400bps from 10.5% to ~15% over FY14-18, rendering the company cash rich.

Margin expansion, diversification into consumer-facing businesses and ~20% PAT CAGR led to significant re-rating in the stock price in the five years to FY18. Post FY18, the stock de-rated, largely due to flat earnings in its core businesses, lack of scale in FMEG and lower return ratios over FY17-21.

Improving outlook of the electrical wire industry in last 2-3 years is benefitting FNXC performance and driving its valuation re-rating. We expect FNXC's large valuation gap with peers to narrow. We increase earnings estimates by ~5% and now expect 15%/21% CAGR in revenue/PAT over FY24-26E. While we increase our target price to Rs 1,574 (~25x FY26E P/E for 25% RoIC, earlier Rs 1,341 at ~23x), we downgrade rating to HOLD after a massive ~70% rally in its scrip since 14-Mar-24.

### Exhibit 20: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var	
	FY25	FY26	FY25	FY26	FY25	FY26
Revenue	56,436	63,750	57,647	66,274	2	4
EBITDA	7,179	8,421	7,241	8,718	1	4
EBITDA margin (%)	12.7	13.2	12.6	13.2		
PAT	7,591	8,948	7,942	9,470	5	6
EPS (Rs)	49.6	58.5	51.9	61.9	5	6

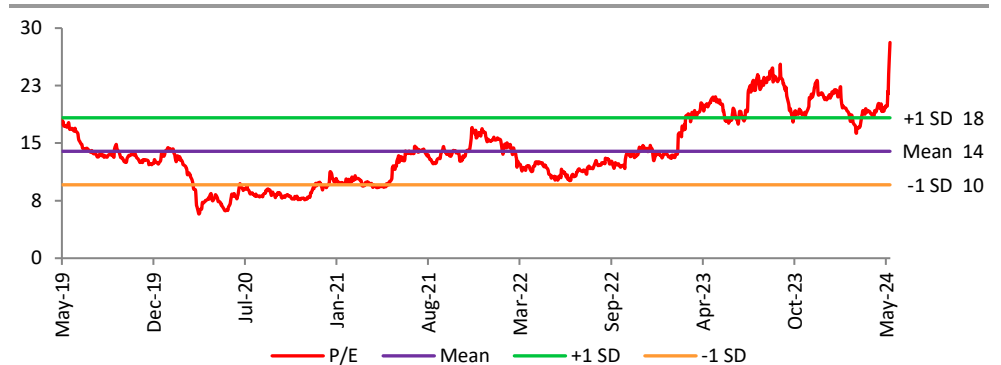
Source: Systematix Institutional Research

### Exhibit 21: FNXC - SoTP based target price calculation

	FY26E (Rs mn)	Per share (Rs)
Core business profit	7,153	
Target P/E (x)	28	
<b>Core business market-cap</b>	<b>2,00,291</b>	<b>1,310</b>
<b>Finolex Ind m-cap on our TP (Rs 269) at 25% holdco discount</b>	<b>40,407</b>	<b>264</b>
<b>Target market-cap</b>	<b>2,40,698</b>	<b>1,574</b>

Source: Systematix Institutional Research

### Exhibit 22: FNXC - P/E band (one-year-forward and standard deviation)



Source: BSE, Systematix Institutional Research

## Key risks

- Sharp volatility in copper prices
- Continuing losses in newer businesses



# FINANCIALS

## Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net revenues</b>	<b>37,681</b>	<b>44,811</b>	<b>50,144</b>	<b>57,647</b>	<b>66,274</b>
<i>Growth (%)</i>	36	19	12	15	15
Raw material expenses	29,663	35,445	39,483	44,901	51,217
<i>Gross Margin (%)</i>	21.3	20.9	21.3	22.1	22.7
Employee & Other exp.	3,734	4,273	4,779	5,505	6,340
<b>EBITDA</b>	<b>4,285</b>	<b>5,094</b>	<b>5,882</b>	<b>7,241</b>	<b>8,718</b>
<i>EBITDA margins (%)</i>	11.4	11.4	11.7	12.6	13.2
Depreciation	389	464	439	508	569
Other income	714	1,177	1,753	1,760	1,831
Finance costs	15	12	20	24	28
PBT	4,596	5,795	7,177	8,469	9,952
<i>Effective tax rate (%)</i>	40.8	25.1	29.6	28.7	28.1
Associates/(Minorities)	3,271	700	1,461	1,903	2,316
<b>Net Income</b>	<b>5,991</b>	<b>5,043</b>	<b>6,517</b>	<b>7,942</b>	<b>9,470</b>
Adjusted net income	5,991	5,043	6,517	7,942	9,470
Shares outstanding	153	153	153	153	153
FDEPS (Rs per share)	39.2	33.0	42.6	51.9	61.9
<i>FDEPS growth (%)</i>	30	(16)	29	22	19

## Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	306	306	306	306	306
Net worth	39,221	43,704	49,459	56,483	65,034
Total debt	3	3	9	10	11
Minority interest	-	-	-	-	-
DT Liability/ (Asset)	2,617	2,695	3,268	3,168	3,068
<b>Capital Employed</b>	<b>41,841</b>	<b>46,402</b>	<b>52,735</b>	<b>59,660</b>	<b>68,113</b>
Net tangible assets	3,799	4,335	4,433	6,925	7,157
Net Intangible assets	3	14	12	12	12
Goodwill	-	-	-	-	-
CWIP	868	210	1,675	175	175
Investments (Strategic)	10,954	10,935	11,939	11,939	11,939
Investments (Financial)	9,189	15,164	23,898	26,898	33,898
Current Assets	19,748	18,412	13,415	17,284	19,289
Cash	379	734	980	640	376
Current Liabilities	3,099	3,403	3,617	4,212	4,733
Working capital	16,649	15,009	9,798	13,071	14,556
<b>Capital Deployed</b>	<b>41,841</b>	<b>46,402</b>	<b>52,735</b>	<b>59,660</b>	<b>68,113</b>
Contingent Liabilities	2,392	2,469	-	-	-

## Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
EBIT (incl. other income)	4,167	4,747	5,530	7,996	9,825
Non-cash items	389	464	439	508	569
OCF before WC changes	4,555	5,211	5,968	8,504	10,393
Incr./ (decr.) in WC	(1,520)	318	(1,385)	3,273	1,485
Others including taxes	1,345	1,330	1,584	1,890	2,258
Operating cash-flow	4,731	3,563	5,769	3,340	6,650
Capex	668	310	2,185	1,500	800
Free cash-flow	4,063	3,253	3,584	1,840	5,850
Acquisitions	-	-	-	-	-
Dividend	838	915	1,070	918	918
Equity raised	-	-	-	-	-
Debt raised	(16)	(39)	(35)	1	1
Fin Investments	4,302	3,244	3,074	3,000	7,000
Misc. Items (CFI + CFF)	(1,172)	(1,296)	(852)	(1,736)	(1,803)
Net cash-flow	78	350	257	(340)	(264)

## Ratios @ Rs 1,450

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	37.0	44.0	34.0	27.9	23.4
EV/EBITDA (x)	49.7	40.8	33.8	27.1	21.8
EV/sales (x)	5.7	4.6	4.0	3.4	2.9
P/B (x)	5.7	5.1	4.5	3.9	3.4
RoE (%)	15.3	11.5	13.2	14.1	14.6
RoCE (%)	11.8	13.2	14.5	15.1	15.6
ROIC (%)	18.8	15.4	21.0	23.2	24.7
DPS (Rs per share)	6.0	7.0	8.0	6.0	6.0
Dividend yield (%)	0.4	0.5	0.6	0.4	0.4
Dividend payout (%)	15.3	21.2	18.8	11.6	9.7
Net debt/equity (x)	(0.2)	(0.4)	(0.5)	(0.5)	(0.5)
Receivables (days)	17	18	13	20	20
Inventory (days)	63	55	42	50	50
Payables (days)	18	17	17	18	18
CFO:PAT (%)	79	71	89	42	70

Source: Company, Systematix Institutional Research

## Institutional Equities Team

<b>Nikhil Khandelwal</b>	<b>Managing Director</b>	<b>+91-22-6704 8001</b>	<b>nikhil@systematixgroup.in</b>
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### Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Abhishek Mathur	FMCG	+91-22-6704 8059	abhishekmathur@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Santosh Yellapu	Capital Goods	+91-22-6704 8094	santoshiyellapu@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Deeksha Bhardwaj	Strategy & Economics	+91-22-6704 8017	deekshabhardwaj@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Midcaps	+91-22-6704 8038	kalashjain@systematixgroup.in
Krishna Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishnazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Rushank Mody	Pharmaceuticals and Healthcare	+91-22-6704 8046	rushankmody@systematixgroup.in
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeeathod@systematixgroup.in

### Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in
Niraj Singh	Dealer	+91-22-6704 8096	nirajsingh@systematixgroup.in

### Corporate Access

<b>Mrunal Pawar</b>	<b>Vice President &amp; Head Corporate Access</b>	<b>+91-22-6704 8088</b>	<b>mrunalpawar@systematixgroup.in</b>
<b>Darsha Hiwrale</b>	<b>Associate Corporate Access</b>	<b>+91-22-6704 8083</b>	<b>darshahiwrale@systematixgroup.in</b>

### Production

<b>Madhu Narayanan</b>	<b>Editor</b>	<b>+91-22-6704 8071</b>	<b>madhunarayanan@systematixgroup.in</b>
<b>Mrunali Pagdhare</b>	<b>Production</b>	<b>+91-22-6704 8057</b>	<b>mrunalip@systematixgroup.in</b>
<b>Vijayendra Achrekar</b>	<b>Production</b>	<b>+91-22-6704 8089</b>	<b>vijayendraachrekar@systematixgroup.in</b>

### Operations

<b>Sachin Malusare</b>	<b>Vice President</b>	<b>+91-22-6704 8055</b>	<b>sachinmalusare@systematixgroup.in</b>
<b>Jignesh Mistry</b>	<b>Manager</b>	<b>+91-22-6704 8049</b>	<b>jigneshmistry@systematixgroup.in</b>
<b>Hiren Patel</b>	<b>Assistant Manager</b>	<b>+91-22-6704 8056</b>	<b>hirenpatel@systematixgroup.in</b>

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Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id [contactus@systematixgroup.in](mailto:contactus@systematixgroup.in). Visit us at: [www.systematixgroup.in](http://www.systematixgroup.in)

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id [compliance@systematixgroup.in](mailto:compliance@systematixgroup.in)

Details of Email id grievance redressal cell : [grievance@systematixgroup.in](mailto:grievance@systematixgroup.in)

Details of Registration : CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 12034600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | AMFI - ARN - 64917