

BUY

TP: Rs 4,300 | ▲ 22%

POLYCAB INDIA

Consumer Durables

13 June 2023

Annual report analysis: Project Leap well on track

- Remains market leader in core wires & cables business; FMEG segment tepid in FY23 but guided to return to form in FY24
- FY26 revenue target of Rs 200bn under Project Leap looks achievable given 26% CAGR over FY21-FY23 and strong growth tailwinds
- TP raised from Rs 3,900 to Rs 4,300 based on a higher 38x target P/E (vs. 35x) on FY25E given expected growth acceleration; maintain BUY

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Remains market leader in wires & cables: With 22-24% share of the organised market, Polycab remains market leader in the Indian wires & cables (W&C) industry. W&C grew 17% YoY in FY23. International business grew 50% YoY and accounted for ~10% of segmental revenue. Mass market brand *Etira* launched in FY23 did well, contributing ~12% of retail wire revenue. The company has also entered the EHV segment which has limited competition and hence holds promise in the long term.

Tepid FMEG segment to return to form in FY24: FMEG business was flat during the year on account of subdued demand and a distribution rejig by the company which necessitated a gradual reduction in supplies to outgoing channel partners. With the rejig complete, the business is expected to be on track in FY24. Management's key long-term goal for this segment is an EBITDA margin of 10-12% by FY26.

Closing in on Project Leap targets: In FY21, Polycab set a target of achieving Rs 200bn in revenue by FY26, an 18% CAGR, under Project Leap. Over FY21-FY23, it clocked a 26% CAGR, implying a 13% run-rate for the next three years. We believe this is easily achievable given the strong tailwinds for W&C as well as FMEG from rising demand, cost efficiencies, and a revamped distribution strategy. Exports that were targeted to reach 10% of sales by FY26 have done so in FY23 itself.

Robust balance sheet: Operating cash flow stood at Rs 14.3bn in FY23 (vs. Rs 5.1bn in FY22) and ROIC at 23.1% vs. the 4Y average of 21.5%. The cash conversion cycle has consistently improved and net cash as at end-FY23 was at Rs 19bn vs. targeted capex of Rs 6bn-7bn for FY24, signifying a comfortable financial position.

Maintain BUY: We are optimistic on Polycab's prospects given moats in its core W&C business, growth in FMEG and B2C expansion. Further, ingredients for long-term growth are in place led by a focus on manufacturing (~95% of products made inhouse), premiumisation (~40 fans launched in FY23, 60% in the premium/super-premium class), and brand & network building. Given the acceleration towards Project Leap targets, we hike our target FY25E P/E to 38x (vs. 35x) – a 50% premium to the stock's 3Y average – for a new TP of Rs 4,300 (vs. Rs 3,900) and reiterate BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 3,534
Market cap	US\$ 6.4bn
Free float	34%
3M ADV	US\$ 12.2mn
52wk high/low	Rs 3,618/Rs 2,044
Promoter/FPI/DII	66%/10%/9%

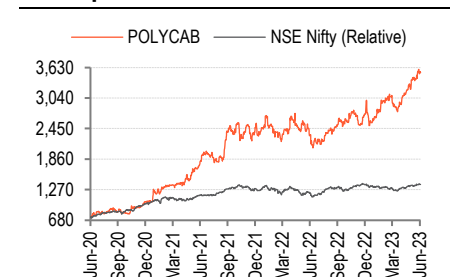
Source: NSE | Price as of 12 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	141,078	162,895	182,252
EBITDA (Rs mn)	18,521	21,899	24,645
Adj. net profit (Rs mn)	12,700	14,701	16,539
Adj. EPS (Rs)	84.9	98.2	110.5
Consensus EPS (Rs)	84.9	92.5	107.8
Adj. ROAE (%)	20.9	20.4	19.6
Adj. P/E (x)	41.6	36.0	32.0
EV/EBITDA (x)	28.5	24.1	21.5
Adj. EPS growth (%)	51.8	15.8	12.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

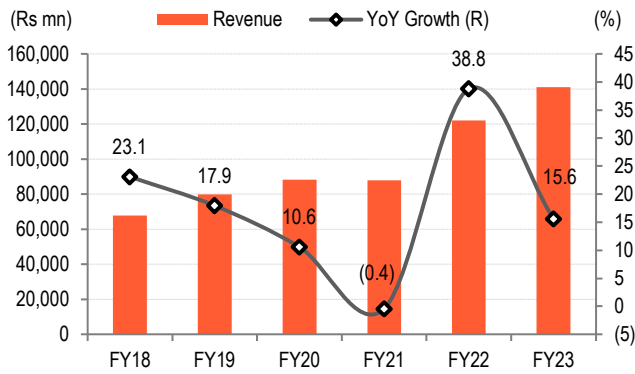


Source: NSE



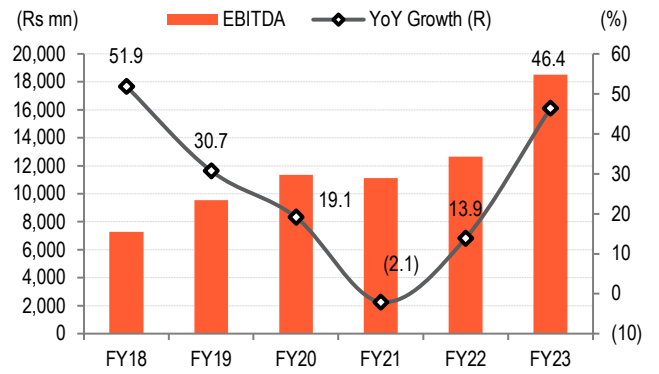
Growth trends & financial metrics

Fig 1 – Revenue growth



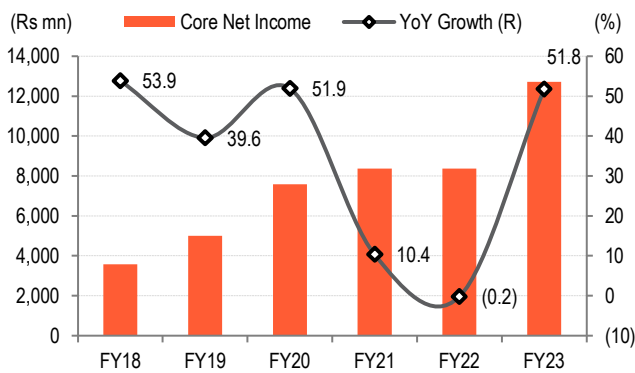
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth



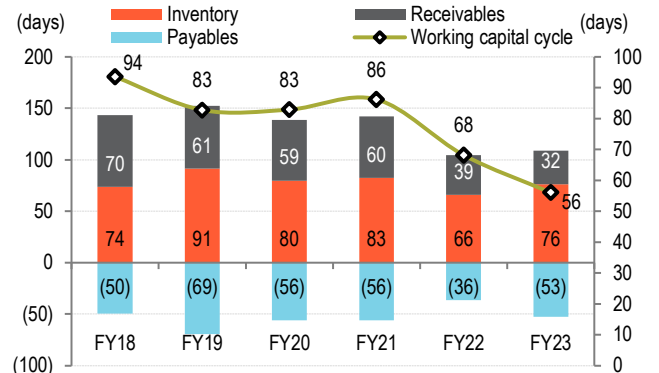
Source: Company, BOBCAPS Research

Fig 3 – PAT growth



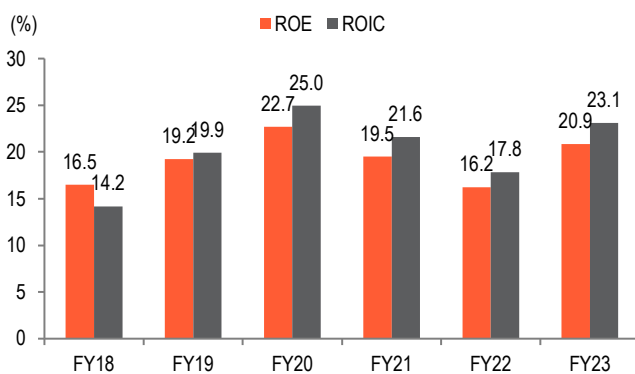
Source: Company, BOBCAPS Research

Fig 4 – Working capital cycle improving



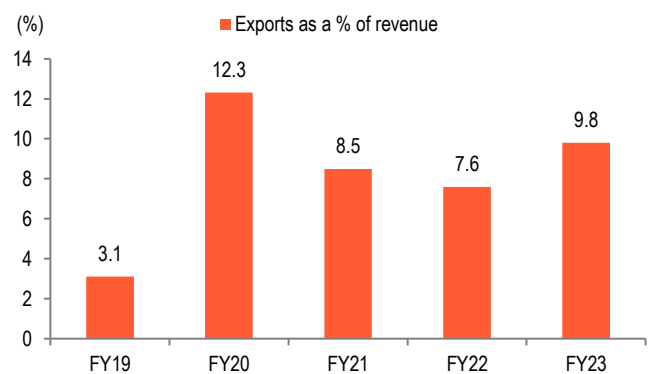
Source: Company, BOBCAPS Research

Fig 5 – Return ratios

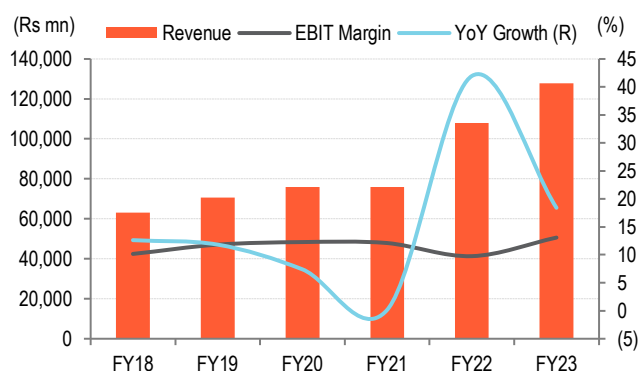


Source: Company, BOBCAPS Research

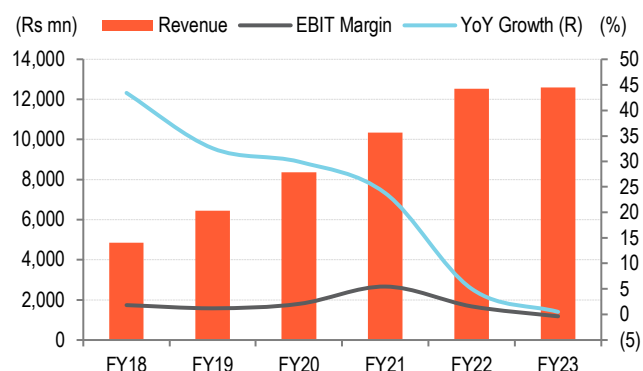
Fig 6 – Export contribution



Source: Company, BOBCAPS Research

Fig 7 – Segmental growth: Wires & Cables

Source: Company, BOBCAPS Research

Fig 8 – Segmental growth: FMEG

Source: Company, BOBCAPS Research

Fig 9 – Contingent liabilities

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
1. Taxation matters						
Sales tax/ VAT demand	359	371	9	4	2	1
Service tax duty demand	-	-	-	18	18	18
Excise duty demand	46	46	86	9	9	8+
Custom duty demand	16	22	17	17	17	17
2. Customs Duty on Capital goods imported						
	-	51	31	97	46	43
3. Customs Duty on Raw materials imported						
	-	6	76	207	190	210
4. O/s corporate guarantees on behalf of subsidiaries						
	4,849	1,300	1,244	-	-	-
5. Claims not acknowledged as debt						
	-	634	634	-	-	-
Total	5,269	2,429	2,097	352	282	288
Net worth	23,476	28,470	38,364	47,539	55,437	66,311
Contingent liabilities (ex-guarantees) as a % of Net worth	22.4	8.5	5.5	0.7	0.5	0.4

Source: Company, BOBCAPS Research

Fig 10 – Working capital management

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
Accounts receivable	12,908	13,343	14,336	14,358	12,964	12,466
Receivable days	70	61	59	60	39	32
Inventory	13,657	19,958	19,250	19,879	21,996	29,514
Inventory days	74	91	80	83	66	76
Accounts payable	9,221	15,202	13,537	13,480	12,175	20,326
Payable days	50	69	56	56	36	53
Cash conversion cycle	94	83	83	86	68	56

Source: Company, BOBCAPS Research

Fig 11 – Subsidiaries

Subsidiary/JV	Nature	Shareholding (%)
Tirupati Reels Private Limited	Subsidiary	55
Dowells Cables Accessories Private Limited	Subsidiary	60
Silvan Innovation Labs Private Limited	Subsidiary	100
Polycab Australia Pty Limited	Subsidiary	100
Polycab Support Force Private Limited	Subsidiary	100
Uniglobus Electricals and Electronics Private Limited	Subsidiary	100
Polycab USA LLC	Subsidiary	100
Polycab Electricals and Electronics Private Limited	Subsidiary	100
Steel Matrix Private Limited	Subsidiary	75
Techno Electromech Private Limited	Joint Venture	50

Source: Company, BOBCAPS Research

Fig 12 – Plant locations

Location	No. of plants
Halol, Gujarat	9
Daman	11
Nashik, Maharashtra	2
Roorkee, Uttarakhand	2
Chennai, Tamil Nadu	1

Source: Company, BOBCAPS Research

Fig 13 – Auditor's remuneration

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
Auditor's remunerations	18.5	21.7	10.47	11.35	11.12	11.88
as a % of EBITDA	0.3	0.2	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research

Fig 14 – Remuneration of key management personnel (KMP)

Particulars (Rs mn)	FY19	FY20	FY21	FY22	FY23
Executive Director					
Inder T. Jaisinghani	86	115	141	138	217
Ramesh T. Jaisinghani	28	31	32	4	
Ajay T. Jaisinghani	28	31	32	4	
Bharat A. Jaisinghani			-	19	21
Nikhil R. Jaisinghani			-	19	21
Rakesh Talati			-	18	25
Shyam Lal Bajaj	26	31	28	3	
Key Management Personnel					
Gandharv Tongia	-	-	15	22	8
Manita Gonsalves	-	-	1	4	
Subramaniam Sai Narayana	3	5	2	-	-
Total	172	213	252	230	292
as a % of Employee expense	5.7	5.8	7.1	5.7	6.4

Source: Company, BOBCAPS Research

Annual report takeaways

Polycab India (Polycab) is a leading manufacturer of wires, cables and allied products, and also has a presence in the fast-moving electrical goods (FMEG) industry. The company sees structural growth catalysts in the form of demand from India's growing infrastructure and telecom sectors, revival of the real estate sector, premiumisation, rural electrification, the renewable energy push, and diversification of global supply chains. Polycab registered its highest ever consolidated revenue at Rs 141bn and PAT at Rs 12.7bn in FY23, supported by healthy volume growth in the W&C business.

Segmental performance

Wires & Cables

- Polycab achieved mid-teens volume growth in FY23 and marked its highest production volumes.
- The company commands 22-24% share in India's organised W&C market, with a 15-16% share in the entire Indian cables market. It has a significant market presence in West and South India.
- Apart from a broad product portfolio, Polycab has strong pricing options in its raw material procurement contracts that give it an advantage over peers in terms of weathering commodity price volatility. A 24-hour delivery system to vendors similarly shields dealer and distributor margins by enabling them to keep lower inventory.

FMEG

- Polycab's FMEG business has grown by an average of ~Rs 1.5bn in sales annually over the FY16-FY22 period, but was flattish this year (Fig 8). This was due to a subdued demand environment on account of high inflation and the internal restructuring of its FMEG distribution channel.
- To foster growth in the segment, the company focused on tie-ups with large distributors that had a higher capacity to invest in the business. This transition also caused a gradual decline in inventory, affecting performance.
- Polycab tied up with Ogilvy for advertising and promotion (A&P) and Interbrand to help with brand establishment, among other A&P initiatives.
- Through the acquisition of Silvan last year, it has improved R&D efforts for the FMEG business to help with new product development and innovation.
- In switches and switchgears, the company is moving towards premiumisation for a better margin profile, along with backward integration and achieving economies of scale from in-house manufacturing.

International business

- Exports accounted for 9.8% of Polycab's annual sales in FY23 (vs. 7.6% in FY22). Of this, North America and Europe were major contributors with 46% and 20% share in international revenue respectively. Asia, South America, Australia and Africa contributed 14%, 11%, 6%, and 3% respectively.
- Exports grew 50% in FY23 on a healthy base, driven by strong orders from key markets of the US, Europe and Asia and key sectors such as renewables, oil & gas and infrastructure.

Balance sheet and Cash flows

- **Capital allocation:** Polycab invests capital towards capex, inorganic growth, and to keep a cash buffer on the balance sheet. Any balance is then distributed to shareholders as dividend.
- **Capex:** The company incurred capex of Rs 4.6bn in FY23 vs. Rs 5.2bn in FY22. It plans to incur Rs 6bn-7bn in CY23, of which three-fourths of the funds will be invested in W&C and the balance in the FMEG business. A major chunk of W&C capex will be used to set up the new extra-high voltage (EHV) manufacturing plant in Halol, Gujarat, and the balance will be for maintenance, greenfield and brownfield projects. The FMEG outlay is earmarked for brownfield projects and maintenance of existing manufacturing facilities.
- **Improvement in working capital cycle:** Polycab was an institutional sales-led business earlier and has transitioned into a distribution-led business over the years. The latter now contributes 83% of revenue as of FY23. Since the credit period allowance for institutional customers is generally higher, this transition has helped the company improve its cash cycle. Improvement in inventory days over the years is due to optimisation and digitalisation of end-to-end sales. Payable days are slightly lower than inventory days for the company.

Manufacturing, distribution and reach

- Polycab owns 23 warehouses & depots and 25 manufacturing facilities across five states in India, namely Gujarat, Maharashtra, Uttarakhand, Tamil Nadu and the Union Territory of Daman (Fig 12).
- As of FY23, the company has a reach of 5,300+ distributors and more than 200,000 retail outlets.
- Dealers and distributors contributed 83% of revenue in FY23.

Project Leap

Launched in 2021, Project Leap is an effort by Polycab to increase its topline to Rs 200bn from Rs 88bn in FY21. It also aims to increase its FMEG EBITDA margin to 10-12% by FY26 and raise the contribution of international revenue from 8.5% in FY21 to 10% by FY26. Project Leap encompasses four main objectives:

- **Customer centricity:** This centres around getting quality products to the consumer while making them cost effective by realising synergies within segments. To this end, the company merged its heavy-duty cable (HDC) and light-duty cable (LDC) verticals in FY22, which helped it achieve its highest-ever volume growth in FY23.
- **Go-to-market (GTM) excellence:** This objective relates to building a presence in the market through different channels in emerging India (semiurban and rural areas) and also using alternate channels. The company has followed this objective by expanding its direct town coverage by 100% in the last year and piloting end-to-end digitisation of front-end sales.
- **New product development:** This relates to continuously launching new products to keep up with changing consumer taste and business environment. In FY22, Polycab launched the brand 'Etira' to cater to the mass-price segment, which helped new product development contribute 12% of the retail wires topline for the year.
- **Setting up of organisation enablers:** This is an objective for its internal operations and constitutes quality talent acquisitions, performance measures, rewards and recognitions, and strengthening of governance.

Valuation methodology

We remain optimistic on Polycab's growth prospects considering the moats in its core W&C business (broad portfolio, strong raw material procurement), along with an uptick in FMEG business and healthy B2C expansion. In our view, the ingredients for long-term growth are in place given the company's focus on manufacturing (~95% of products manufactured inhouse), premiumisation (~40 fans launched in FY23, of which 60% are in the premium and super-premium categories), and brand & network building over the years.

Given the acceleration towards Project Leap targets, we hike our target FY25E P/E to 38x (vs. 35x) – a 50% premium to the stock's three-year average – for a new TP of Rs 4,300 (vs. Rs 3,900) and reiterate BUY.

Fig 15 – Key assumptions

Parameter (Rs mn)	FY23	FY24E	FY25E
Revenue	1,41,078	1,62,895	1,82,252
EBITDA	18,521	21,899	24,645
EBITDA Margin (%)	13.1	13.4	13.5
EPS (Rs)	84.9	98.3	111.3

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity price volatility, and
- weak FMEG performance.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,101	2,260	HOLD
Blue Star	BLSTR IN	1.7	1,489	1,650	BUY
Crompton Greaves	CROMPTON IN	2.1	277	370	BUY
Havells India	HAVL IN	10.3	1,347	1,500	BUY
KEI Industries	KEI IN	2.3	2,070	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	242	240	HOLD
Polycab India	POLYCAB IN	6.4	3,534	4,300	BUY
Syrma SGS	SYRMA IN	0.9	403	440	BUY
V-Guard Industries	VGRD IN	1.3	255	270	HOLD
Voltas	VOLT IN	3.2	791	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 Jun 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	87,922	122,038	141,078	162,895	182,252
EBITDA	11,111	12,652	18,521	21,899	24,645
Depreciation	1,762	2,015	2,092	3,124	3,597
EBIT	9,350	10,637	16,430	18,775	21,048
Net interest inc./(exp.)	(427)	(352)	(598)	(486)	(448)
Other inc./(exp.)	1,193	899	1,333	1,467	1,613
Exceptional items	0	0	0	0	0
EBT	10,116	11,184	17,165	19,755	22,213
Income taxes	1,703	2,706	4,250	4,978	5,598
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	(26)	(93)	(26)	(26)
Reported net profit	8,380	8,365	12,700	14,701	16,539
Adjustments	0	0	0	0	0
Adjusted net profit	8,380	8,365	12,700	14,701	16,539

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	13,480	12,175	20,326	26,777	29,959
Other current liabilities	5,776	4,436	4,430	5,922	6,625
Provisions	0	0	0	0	0
Debt funds	1,926	831	1,551	3,243	3,450
Other liabilities	1,425	1,239	1,636	1,831	2,004
Equity capital	1,491	1,494	1,498	1,498	1,498
Reserves & surplus	46,048	53,943	64,814	76,223	89,171
Shareholders' fund	47,539	55,437	66,311	77,720	90,668
Total liab. and equities	70,147	74,119	94,255	115,493	132,707
Cash and cash eq.	5,313	4,071	6,952	17,446	26,519
Accounts receivables	14,358	12,964	12,466	15,849	16,918
Inventories	19,879	21,996	29,514	31,719	36,808
Other current assets	1,945	4,739	6,650	7,679	8,591
Investments	6,231	7,641	13,505	13,505	13,505
Net fixed assets	18,261	16,170	20,104	23,480	23,884
CWIP	991	3,755	2,508	2,895	3,240
Intangible assets	94	230	203	203	203
Deferred tax assets, net	0	0	0	0	0
Other assets	3,075	2,553	2,352	2,716	3,038
Total assets	70,147	74,119	94,255	115,493	132,707

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	12,382	5,116	14,275	19,150	16,951
Capital expenditures	(1,911)	(5,200)	(4,584)	(6,500)	(4,000)
Change in investments	(8,193)	935	0	0	0
Other investing cash flows	(17)	(4)	(7,442)	(556)	(494)
Cash flow from investing	(10,121)	(4,270)	(12,026)	(7,056)	(4,494)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,075)	(168)	332	1,691	207
Interest expenses	0	0	0	0	0
Dividends paid	(531)	(1,839)	(2,570)	(3,292)	(3,591)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,606)	(2,007)	(2,238)	(1,601)	(3,384)
Chg in cash & cash eq.	656	(1,160)	11	10,493	9,073
Closing cash & cash eq.	5,313	4,071	6,952	17,446	26,519

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	56.0	55.9	84.9	98.2	110.5
Adjusted EPS	56.0	55.9	84.9	98.2	110.5
Dividend per share	10.0	14.0	20.0	22.0	24.0
Book value per share	317.8	370.6	443.2	519.4	605.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	6.0	4.3	3.7	3.2	2.9
EV/EBITDA	47.6	41.8	28.5	24.1	21.5
Adjusted P/E	63.1	63.2	41.6	36.0	32.0
P/BV	11.1	9.5	8.0	6.8	5.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	82.8	74.8	74.0	74.4	74.5
Interest burden (PBT/EBIT)	108.2	105.1	104.5	105.2	105.5
EBIT margin (EBIT/Revenue)	10.6	8.7	11.6	11.5	11.5
Asset turnover (Rev./Avg TA)	4.8	7.5	7.0	6.9	7.6
Leverage (Avg TA/Avg Equity)	0.4	0.3	0.3	0.3	0.3
Adjusted ROAE	19.5	16.2	20.9	20.4	19.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(0.4)	38.8	15.6	15.5	11.9
EBITDA	(2.1)	13.9	46.4	18.2	12.5
Adjusted EPS	10.4	(0.2)	51.8	15.8	12.5
Profitability & Return ratios (%)					
EBITDA margin	12.6	10.4	13.1	13.4	13.5
EBIT margin	10.6	8.7	11.6	11.5	11.5
Adjusted profit margin	9.5	6.9	9.0	9.0	9.1
Adjusted ROAE	19.5	16.2	20.9	20.4	19.6
ROCE	21.6	17.8	23.1	21.1	19.2
Working capital days (days)					
Receivables	60	39	32	36	34
Inventory	83	66	76	71	74
Payables	56	36	53	60	60
Ratios (x)					
Gross asset turnover	3.8	4.7	4.9	4.7	4.6
Current ratio	2.4	3.0	2.6	2.5	2.7
Net interest coverage ratio	21.9	30.2	27.5	38.6	46.9
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

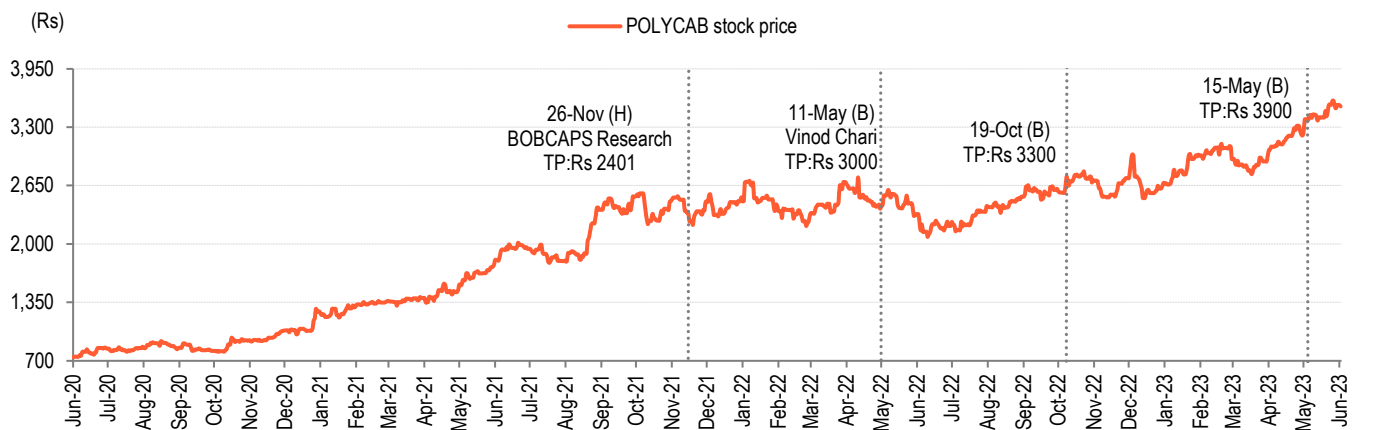
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): POLYCAB INDIA (POLYCAB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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