

BUY

TP: Rs 5,000 | ▲ 16%

POLYCAB INDIA

| Consumer Durables

| 19 July 2023

Strong momentum continues

- Impressive Q1 fuelled by 47% YoY growth in wires & cables business; FMEG set to improve
- Project Leap targets likely to be achieved well before the FY26 timeline, sustaining Polycab's earnings upgrade cycle
- FY24/FY25 EPS raised ~9% each on a strong Q1 for a new TP of Rs 5,000 (vs. Rs 4,300), set at 40x FY25E EPS (vs. 38x); maintain BUY

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Strong momentum: Polycab posted yet another impressive quarter, with topline growth of 42% YoY to Rs 38.9bn in Q1FY24, ahead of consensus and our estimates. Management has effectively managed margins, as visible in a stable EBITDA margin QoQ and 270bps YoY expansion to 14.1%, a notable result given the seasonal dip in Q1. Net profit at Rs 4bn surged 82% YoY. Polycab performed well on the back of strong volume growth in the wires & cables (W&C) business and accelerated growth in international sales, with operating leverage acting in its favour.

Robust W&C volumes: W&C revenue grew 47% YoY to Rs 35.3bn in Q1, buoying overall growth for the quarter. This was despite a ~10% YoY fall in copper prices, implying strong volume growth of 50-60%. Domestic demand was robust led by improving trends in capex and real estate, enabling the cables business to do better than wires.

FMEG set to improve: FMEG revenue grew just 2% YoY in Q1 but we expect the benefits of channel realignment to accrue going forward. Margins were negative on higher A&P spends and fixed costs. This business is likely to improve as channel inventory of fans non-compliant with the new energy ratings has been exhausted, leading to fresh stocking of newer models.

Project Leap targets could be met before time: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26 under Project Leap, an implied CAGR of 18%. So far, it has clocked a 26% CAGR over FY21-FY23, 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 and see a strong probability of this goal being reached well before FY26.

Maintain BUY: Following the Q1 outperformance, we raise our FY24/FY25 EPS estimates by 8.6%/8.5%. On rolling valuations forward to Jun'25E, our TP rises to Rs 5,000 (vs. Rs 4,300), based on a 40x P/E (vs. 38x), ~40% premium to the stock's 3Y average. We have increased our multiple to factor in the faster-than-expected growth which can sustain the current earnings upgrade cycle. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 4,309
Market cap	US\$ 7.8bn
Free float	34%
3M ADV	US\$ 19.5mn
52wk high/low	Rs 4,325/Rs 2,193
Promoter/FPI/DII	66%/10%/9%

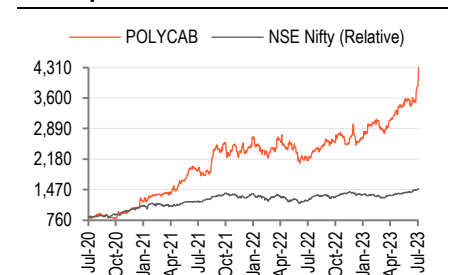
Source: NSE | Price as of 19 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,41,078	1,68,104	1,88,047
EBITDA (Rs mn)	18,521	23,599	26,541
Adj. net profit (Rs mn)	12,700	15,966	17,952
Adj. EPS (Rs)	84.9	106.7	120.0
Consensus EPS (Rs)	84.9	92.5	107.8
Adj. ROAE (%)	20.9	22.0	20.8
Adj. P/E (x)	50.8	40.4	35.9
EV/EBITDA (x)	34.8	27.3	24.3
Adj. EPS growth (%)	51.8	25.7	12.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

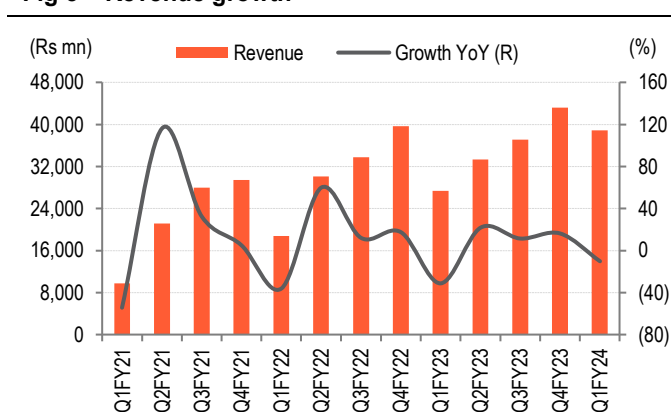
Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	38,894	27,366	42.1	43,237	(10.0)
EBITDA	5,486	3,111	76.3	6,095	(10.0)
EBITDA Margin (%)	14.1	11.4	270bps	14.1	0bps
Depreciation	571	510	-	535	-
Interest	249	84	-	282	-
Other Income	640	443	-	515	-
PBT	5,305	2,960	79.2	5,794	(8.4)
Tax	1,277	722	-	1,446	-
Adjusted PAT	3,993	2,198	81.7	4,248	(6.0)
Exceptional item	-	-	-	0	-
Reported PAT	3,993	2,198	81.7	4,248	(6.0)
Adj. PAT Margin (%)	10.3	8.0	220bps	9.8	40bps
EPS (Rs)	26.9	15.0	80.0	29.1	(7.4)

Source: Company, BOBCAPS Research

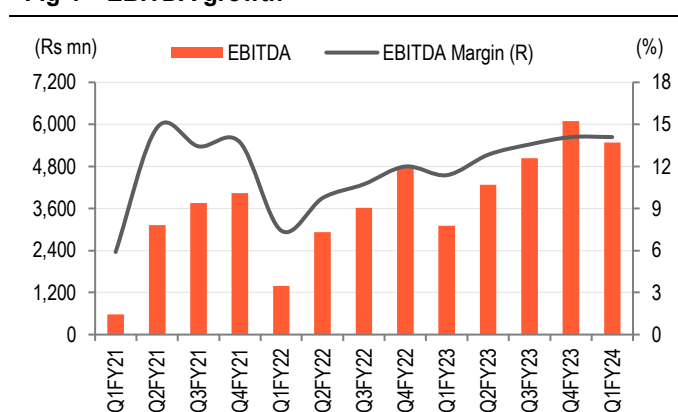
Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Segment revenue													
Wires & Cables	8,252	18,268	24,073	25,442	16,269	26,281	29,988	35,400	24,057	29,517	33,418	40,783	35,338
Growth YoY (%)	(49.6)	(5.0)	11.0	36.7	97.2	43.9	24.6	39.1	47.9	12.3	11.4	15.2	46.9
% of sales	80	80	80	81	83	80	87	88	85	88	88	90	88
FMEG	1,378	2,440	3,055	3,468	1,919	3,429	3,404	3,792	3,082	3,054	3,420	3,052	3,145
Growth YoY (%)	(42.6)	24.7	41.0	89.3	39.2	40.6	11.4	9.3	60.6	(11.0)	0.5	(19.5)	2.1
% of sales	13	11	10	11	10	10	10	9	11	9	9	7	8
EBIT													
Wires & Cables	244	2,541	3,074	3,328	1,073	2,305	3,089	4,106	2,773	3,463	4,593	5,896	5,223
EBIT margin (%)	3.0	13.9	12.8	13.1	6.6	8.8	10.3	11.6	11.5	11.7	13.7	14.5	14.8
FMEG	(56)	196	182	244	(143)	172	63	105	64	(27)	(24)	(70)	(57)
EBIT margin (%)	(4.0)	8.0	5.9	7.0	(7.5)	5.0	1.8	2.8	2.1	(0.9)	(0.7)	(2.3)	(1.8)

Source: Company, BOBCAPS Research

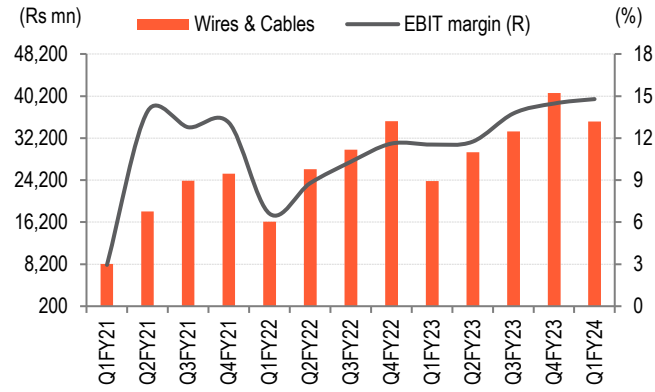
Fig 3 – Revenue growth

Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth

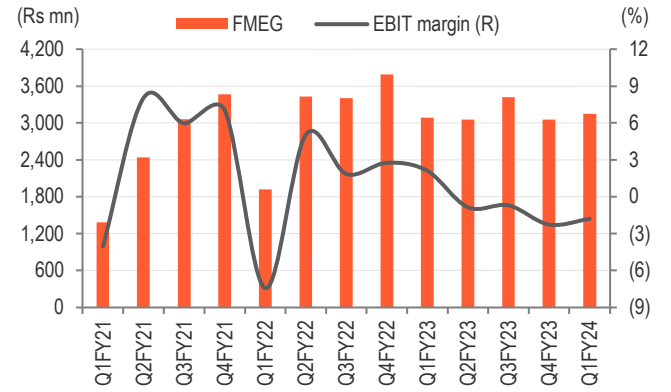
Source: Company, BOBCAPS Research

Fig 5 – W&C segment growth



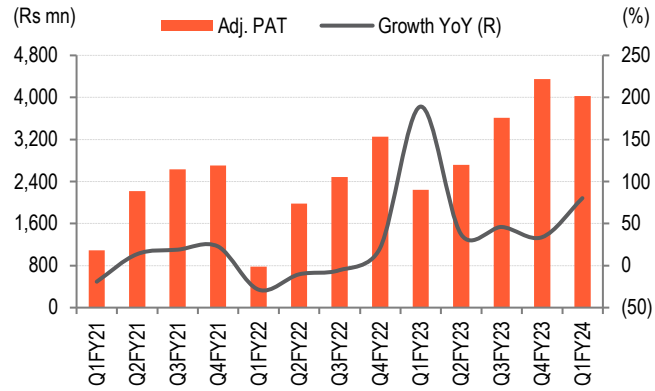
Source: Company, BOBCAPS Research

Fig 6 – FMEG segment growth



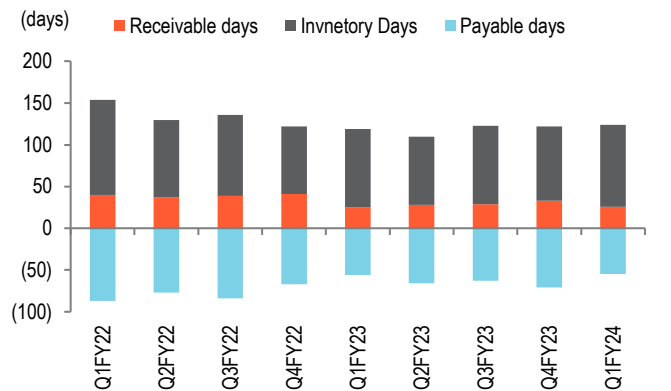
Source: Company, BOBCAPS Research

Fig 7 – PAT growth



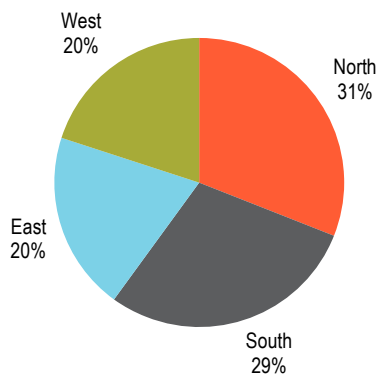
Source: Company, BOBCAPS Research

Fig 8 – Working capital management



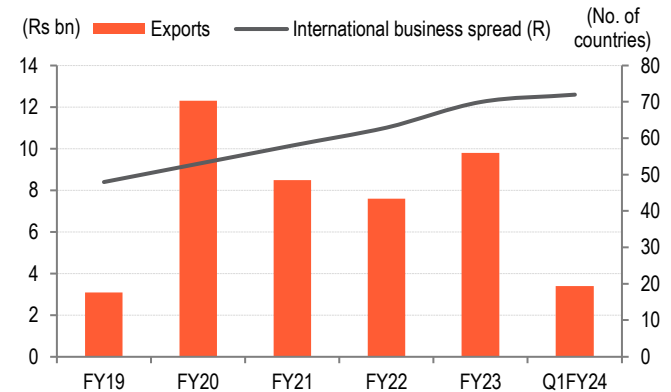
Source: Company, BOBCAPS Research

Fig 9 – Zone-wise distributor split



Source: Company, BOBCAPS Research

Fig 10 – Export trend



Source: Company, BOBCAPS Research

Earnings call highlights

Wires & Cables

- The W&C segment grew 47% YoY in Q1FY24 on the back of strong, broad-based volume growth of 50-60% in the domestic and international businesses. Polycab is seeing good demand across sectors such as infrastructure, roadways and highways, electricity transmission and distribution, and real estate.
- Cables continue to outperform wires within the segment. The mix between cable and wire revenue was 70:30 in FY23 which has changed to 73:27 in Q1. The cables business is largely distribution-led, and Polycab is moving toward having its own people on-ground and garnering secondary orders.
- EBIT margin improved 330bps to 14.8% in Q1FY24 vs. 11.5% in the year-ago quarter due to better operating leverage, pricing action and strong international operations.
- Polycab sees significant W&C demand visibility in the short and medium term due to the capex cycle and real estate growth.

Fast moving electrical goods (FMEG)

- The company posted only 2% YoY topline growth in FMEG owing to weak consumer sentiment. Polycab has made structural changes in the FMEG business during FY23 and expects the benefits to play out in coming quarters. Management also believes consumer sentiment will perk up in the next two quarters amid signs of recovery in the rural sector and an improving economic environment.
- With older fan inventory being sold off, the company made fresh sales of newer Bureau of Energy Efficiency or BEE-compliant fans during the quarter. It is making various efforts in the segment, including distribution channel improvement, product differentiation, and influencer management. In the January-June period after the new norms came into effect, it introduced 80 new SKUs and is set to launch 20 more in the next two quarters.
- Switches, switchgears and conduit pipes fared well in Q1, while other businesses such as lights and luminaires declined on a sequential basis on account of continued price correction (10-12%, more cuts guided to follow).
- FMEG EBIT margin remained negative on account of fixed and promotional costs along with the absence of benefits of scale. However, earnings quality has improved with 91% channel finance penetration.
- The company expects A&P spend to form 3-5% of B2C sales.

International business

- International business contributed ~9% of Polycab's revenue in Q1, growing 88% YoY on the back of sustained growth momentum in institutional business and accelerated growth in the northern region, followed by the west, south and east. The west contributed the most, followed by the south, north and east.

- The company saw strong demand from the US, Australia and Europe, especially from the renewables, oil & gas and infrastructure sectors. It is also seeing large EPC projects coming up and expects significant demand therefrom.
- Polycab is preparing to shift to a distribution-led model in the international business which management believes will raise export contribution.

Other highlights

- **Others segment:** This consists mainly of the engineering, procurement & construction (EPC) business, and is expected to deliver a high-single-digit operating margin in the long term.
- **Working capital cycle:** The company is comfortable with maintaining a 50-55-day working capital cycle in FY24. Inventory has risen during the quarter to Rs 35bn (vs. Rs 29.5bn in Mar'23) in anticipation of increased demand in the short term.
- **Internal restructuring:** As part of its internal restructuring, Polycab is executing a joint project with a BCG leadership team (initiated in May'21). Most of the strategies are either already in place or currently under implementation.
- **Capex:** Current capacity utilisation is at 60-70%. Polycab plans to incur Rs 6bn in FY24, mainly on its extra high voltage facility.
- **Capital allocation:** The company has net cash of Rs 10.1bn at the end of Q1FY24. While this will be used for capex and dividends, it is also open to M&A in the wires and FMEG segments.

Valuation methodology

We remain optimistic on Polycab's growth prospects considering its strong footing in the W&C segment and anticipated improvement in FMEG business as benefits of channel realignment play out. The company is well on track to achieve its FY26 goals under Project Leap (Rs 200bn topline by FY26, exports at 10% of consolidated sales, and 10-12% EBITDA margin in FMEG) and is also doing well on the international front.

Considering the outperformance in Q1FY24, we raise our FY24/FY25 EPS estimates by 8.6%/8.5%. On rolling valuations forward to Jun'25E, our TP rises to Rs 5,000 (vs. Rs 4,300), based on a 40x P/E (vs. 38x) which is ~40% premium to the stock's three-year average. We have increased our target multiple to factor in Polycab's faster-than-expected growth which can sustain the current earnings upgrade cycle. Maintain BUY.

Fig 11 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	1,68,104	1,88,047	1,62,895	1,82,252	3.2	3.2
EBITDA	23,599	26,541	21,899	24,645	7.8	7.7
PAT	15,966	17,952	14,701	16,539	8.6	8.5
EPS (Rs)	106.4	119.6	97.9	110.2	8.6	8.5
EBITDA Margin (%)	14.0	14.1	13.4	13.5	60bps	60bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity price volatility, and
- sustained weak FMEG performance.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,203	2,260	HOLD
Blue Star	BLSTR IN	0.9	794	1,650	BUY
Crompton Greaves	CROMPTON IN	2.3	293	370	BUY
Havells India	HAVL IN	10.4	1,364	1,600	BUY
Orient Electric	ORIENTEL IN	0.6	239	240	HOLD
Polycab India	POLYCAB IN	7.8	4,309	5,000	BUY
V-Guard Industries	VGRD IN	1.5	288	270	HOLD
Voltas	VOLT IN	3.1	778	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	87,922	1,22,038	1,41,078	1,68,104	1,88,047
EBITDA	11,111	12,652	18,521	23,599	26,541
Depreciation	1,762	2,015	2,092	3,124	3,597
EBIT	9,350	10,637	16,430	20,475	22,945
Net interest inc./(exp.)	(427)	(352)	(598)	(495)	(457)
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	21,447	24,101
Income taxes	1,703	2,706	4,250	5,405	6,074
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	15,966	17,952
Adjustments	0	0	0	0	0
Adjusted net profit	8,380	8,365	12,700	15,966	17,952

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	13,480	12,175	20,326	27,634	30,912
Other current liabilities	5,776	4,436	4,430	6,111	6,836
Provisions	0	0	0	0	0
Debt funds	1,926	831	1,551	3,298	3,512
Other liabilities	1,425	1,239	1,636	1,877	2,056
Equity capital	1,491	1,494	1,498	1,498	1,498
Reserves & surplus	46,048	53,943	64,814	77,488	91,849
Shareholders' fund	47,539	55,437	66,311	78,986	93,346
Total liab. and equities	70,147	74,119	94,255	1,17,906	1,36,662
Cash and cash eq.	5,313	4,071	6,952	17,913	28,293
Accounts receivables	14,358	12,964	12,466	16,356	17,456
Inventories	19,879	21,996	29,514	32,734	37,979
Other current assets	1,945	4,739	6,650	7,924	8,864
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	2,988	3,343
Intangible assets	94	230	203	203	203
Deferred tax assets, net	0	0	0	0	0
Other assets	3,075	2,553	2,352	2,803	3,135
Total assets	70,147	74,119	94,255	1,17,906	1,36,662

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	12,382	5,116	14,275	19,695	18,266
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)	(689)	(509)
Cash flow from investing	(10,121)	(4,270)	(12,026)	(7,189)	(4,509)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,075)	(168)	332	1,747	213
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)	(1,545)	(3,378)
Chg in cash & cash eq.	656	(1,160)	11	10,961	10,380
Closing cash & cash eq.	5,313	4,071	6,952	17,913	28,293

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	56.0	55.9	84.9	106.7	120.0
Adjusted EPS	56.0	55.9	84.9	106.7	120.0
Dividend per share	10.0	14.0	20.0	22.0	24.0
Book value per share	317.8	370.6	443.2	527.9	623.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	7.3	5.3	4.6	3.8	3.4
EV/EBITDA	58.0	51.0	34.8	27.3	24.3
Adjusted P/E	76.9	77.1	50.8	40.4	35.9
P/BV	13.6	11.6	9.7	8.2	6.9

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	104.7	105.0
EBIT margin (EBIT/Revenue)	10.6	8.7	11.6	12.2	12.2
Asset turnover (Rev./Avg TA)	4.8	7.5	7.0	7.2	7.9
Leverage (Avg TA/Avg Equity)	0.4	0.3	0.3	0.3	0.3
Adjusted ROAE	19.5	16.2	20.9	22.0	20.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(0.4)	38.8	15.6	19.2	11.9
EBITDA	(2.1)	13.9	46.4	27.4	12.5
Adjusted EPS	10.4	(0.2)	51.8	25.7	12.4
Profitability & Return ratios (%)					
EBITDA margin	12.6	10.4	13.1	14.0	14.1
EBIT margin	10.6	8.7	11.6	12.2	12.2
Adjusted profit margin	9.5	6.9	9.0	9.5	9.5
Adjusted ROAE	19.5	16.2	20.9	22.0	20.8
ROCE	21.6	17.8	23.1	22.7	20.3
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	4.8	4.7
Current ratio	2.4	3.0	2.6	2.5	2.7
Net interest coverage ratio	21.9	30.2	27.5	41.4	50.3
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%

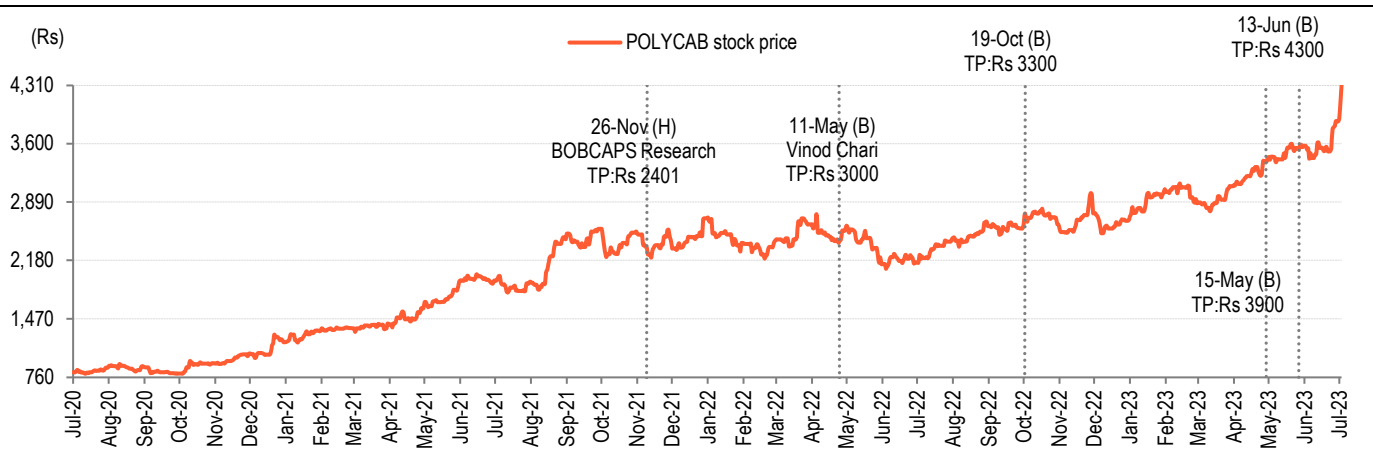
HOLD – Expected return from -6% to +15%

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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