

BUY

TP: Rs 6,100 | ▲ 15%

POLYCAB INDIA

Consumer Durables

19 October 2023

Impressive run continues

- Strong Q2 powered by 29% YoY growth in wires & cables business; FMEG set to improve gradually
- Project Leap revenue targets likely to be achieved ahead of FY26 timeline, sustaining Polycab's earnings upgrade cycle
- FY24/FY25 EPS raised 2%/5% for a new TP of Rs 6,100 (vs. Rs 5,000), set at 45x Sep'25E EPS (vs. 40x); maintain BUY

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Impressive quarter: Polycab posted yet another impressive quarter, with topline growth of 27% YoY to Rs 42.2bn in Q2FY24. Management has effectively managed margins, as visible in the 30bps QoQ and 160bps YoY expansion in EBITDA margin to 14.4% despite higher A&P spend of 2.5-3%. Net profit at Rs 4.3bn surged 59% YoY. The balance sheet remains strong with net cash of Rs 15.3bn at end-Q2.

Robust W&C volumes: Wires & cables (W&C) revenue grew 29% YoY to Rs 38bn in Q2, buoying overall growth for the quarter. This was despite a ~10% QoQ fall in copper prices, implying strong volume growth of 30%. Domestic demand was robust, led by improving trends in capex and real estate, enabling the cables business to outdo wires. Exports have also done well, contributing 9.3% of sales.

FMEG set to improve: FMEG revenue grew at a sedate 8% YoY in Q2 but we expect the benefits of channel realignment to accrue going forward. Margins were negative on account of higher A&P spends and fixed costs. Polycab maintained that it is on track to achieve 10% margins by FY26, as outlined in Project Leap.

Project Leap could be fast-tracked: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26, an implied CAGR of 18%, under Project Leap. The company has already achieved a 26% CAGR over FY21-FY23, leaving only a 13% run-rate for the next three years, suggesting the target could be met well ahead of time. Incremental revenue potential from the extra-high voltage (EHV) business, where the company is incurring ~Rs 7bn in capex, would lend further upside.

Maintain BUY: Following the Q2 outperformance, we raise our FY24/FY25 EPS estimates by 2%/5%. We also move to a higher target P/E multiple of 45x (vs. 40x), ~50% premium to the stock's 3Y average and a PEG of 2x, as we expect the faster-than-expected growth to sustain the company's earnings upgrade cycle. This together with rollover of valuations to Sep'25E results in a revised TP of Rs 6,100 (vs. Rs 5,000). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 5,297
Market cap	US\$ 9.6bn
Free float	34%
3M ADV	US\$ 42.9mn
52wk high/low	Rs 5,494/Rs 2,500
Promoter/FPI/DII	66%/12%/8%

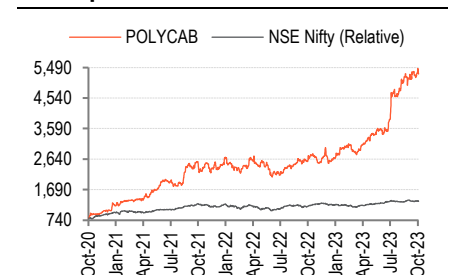
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	141,078	170,624	196,892
EBITDA (Rs mn)	18,521	23,595	27,501
Adj. net profit (Rs mn)	12,700	16,220	18,884
Adj. EPS (Rs)	84.9	108.4	126.2
Consensus EPS (Rs)	84.9	109.0	128.0
Adj. ROAE (%)	20.9	22.3	21.7
Adj. P/E (x)	62.4	48.9	42.0
EV/EBITDA (x)	42.8	33.6	28.8
Adj. EPS growth (%)	51.8	27.7	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

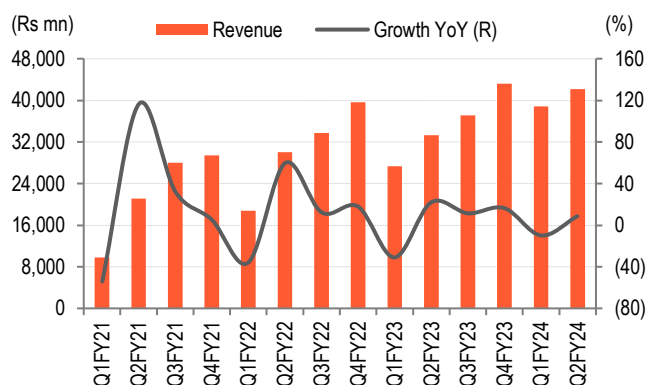
Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	42,177	33,324	26.6	38,894	8.4	81,071	60,689	33.6
EBITDA	6,089	4,276	42.4	5,486	11.0	11,575	7,387	56.7
EBITDA Margin (%)	14.4	12.8	160bps	14.1	30bps	14.3	12.2	210bps
Depreciation	603	523		571		1,174	1,033	
Interest	268	139		249		517	198	
Other Income	353	(22)		640		993	421	
PBT	5,572	3,593	55.1	5,305	5.0	10,876	4,876	123.1
Tax	1,274	880		1,277		2,551	1,602	
Adjusted PAT	4,256	2,678	58.9	3,993	6.6	8,248	4,876	69.2
Exceptional item	-	-		0		0	0	
Reported PAT	4,256	2,678	58.9	3,993	6.6	8,248	4,876	69.2
Adj. PAT Margin (%)	10.1	8.0	210bps	10.3	(20bps)	10.2	8.0	210bps
EPS (Rs)	28.7	18.1	58.4	26.9	6.7	55.6	33.1	68.2

Source: Company, BOBCAPS Research

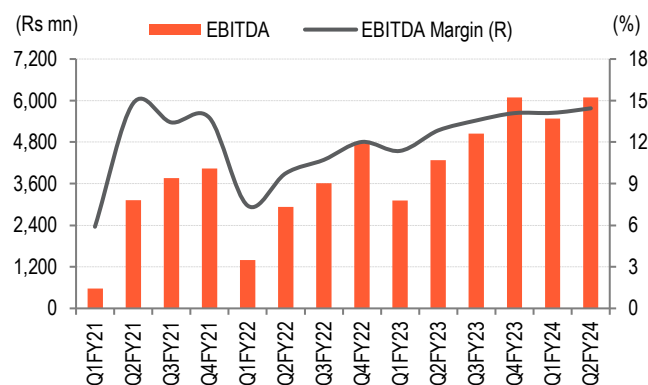
Fig 2 – Segmental revenue

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
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	38,047
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	28.9
% of sales	80	80	80	81	83	80	87	88	85	88	88	90	88	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	3,300
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	8.1
% of sales	13	11	10	11	10	10	10	9	11	9	9	7	8	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	5,547
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	14.6
FMEG	(56)	196	182	244	(143)	172	63	105	64	(27)	(24)	(70)	(57)	(60)
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)	(1.8)

Source: Company, BOBCAPS Research

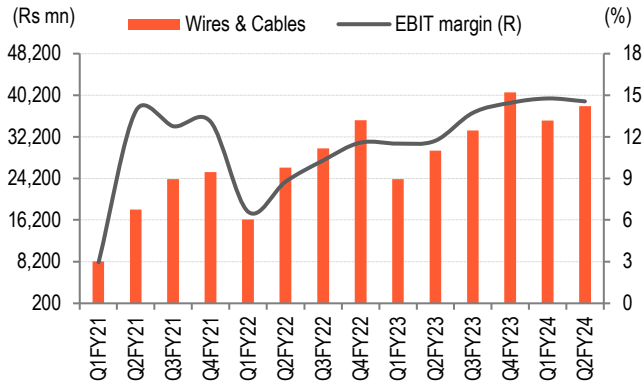
Fig 3 – Revenue growth

Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth

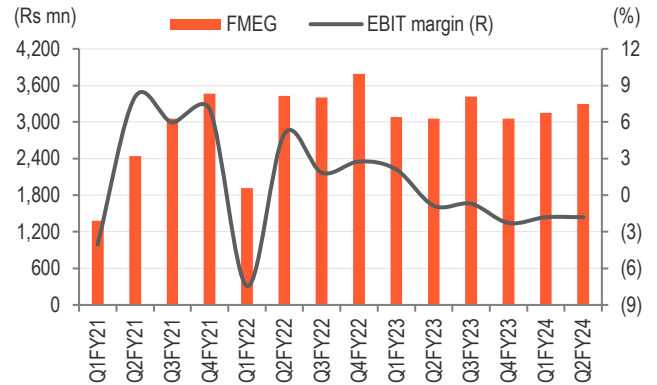
Source: Company, BOBCAPS Research

Fig 5 – W&C segment growth



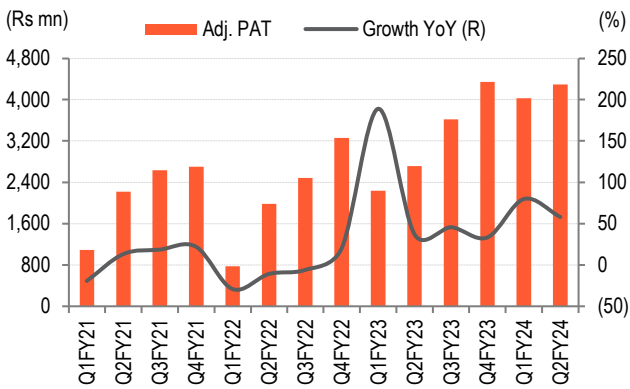
Source: Company, BOBCAPS Research

Fig 6 – FMEG segment growth



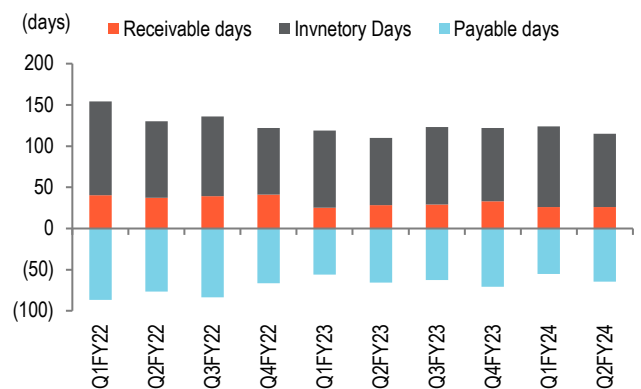
Source: Company, BOBCAPS Research

Fig 7 – PAT growth



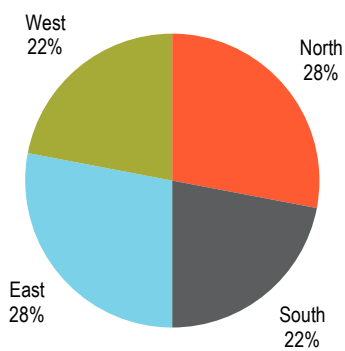
Source: Company, BOBCAPS Research

Fig 8 – Working capital management



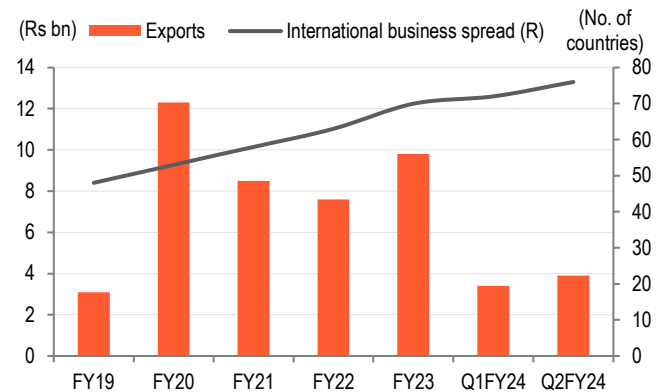
Source: Company, BOBCAPS Research

Fig 9 – Zone-wise distributor split



Source: Company, BOBCAPS Research

Fig 10 – Export trend



Source: Company, BOBCAPS Research

Earnings call highlights

Wires & Cables

- Polycab's W&C segment grew 29% YoY in Q2FY24 on the back of strong, broad-based volume growth of 30%. Management sees sustained W&C demand visibility in the short- and medium-term due to the capex cycle and real estate growth.
- In the domestic market, both dealer and institutional business delivered a strong quarterly performance. Growth was broad-based with the northern region in the lead.
- Cables growth continued to outperform the wires business.
- Segmental EBIT margin improved 170bps YoY to 13% in Q2 vs. 11.3% in the year-ago quarter due to better operating leverage, pricing action and strong international operations.

Fast-moving electrical goods (FMEG)

- Polycab posted only 8% YoY topline growth in FMEG as the fans and lighting businesses declined.
- The company has increased its A&P spend in FMEG due to revamped branding and advertising during events such as the Cricket World Cup. Management expects A&P spend to form 2.5-3% of sales.
- Switches, switchgears and conduit pipes fared well in Q2. These products are more profitable than fans and lights as there is limited competition.
- The company's luminaires business had a strong quarter, benefitting from the set-up of a separate go-to-market vertical, under Project Leap.
- The 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 higher channel finance penetration.

International business

- International business contributed 9.3% of Polycab's revenue in Q2 and the company expanded its global footprint to 76 countries.

Other highlights

- The 'others' segment consists mainly of the engineering, procurement & construction (EPC) business. Annual sustainable operating margin in this business is guided to be in high single digits over the mid-to-long term.
- The company is comfortable with a 50-55-day working capital cycle in FY24.
- Current capacity utilisation is at 65-70%. Polycab plans to incur capex of Rs 6bn-7bn in FY24 and FY25 each, mainly on its EHV facility.

Valuation methodology

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

We highlight that W&C is among the fastest growing segments in the durables sector and is estimated to grow at 1.5-2x GDP. In our view, Polycab is well placed to continue delivering industry-beating growth along with sustainable operating margins of 12-14%, driving 20%+ ROE, which will support a sustained earnings upgrade cycle.

Following the outperformance in Q2FY24, we raise our FY24/FY25 EPS estimates by 2%/5% and reset to a higher target P/E multiple of 45x (vs. 40x), ~50% premium to the stock's three-year average and a PEG of 2x. On rolling valuations over to Sep'25E, we arrive at a higher TP of Rs 6,100 (vs. Rs 5,000) and reiterate BUY.

Fig 11 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	170,624	196,892	168,104	188,047	1.5	4.7
EBITDA	23,595	27,501	23,599	23,599	(0.0)	3.6
PAT	16,220	18,884	15,966	15,966	1.6	5.2
EPS (Rs)	108.1	125.8	106.4	106.4	1.6	5.2
EBITDA Margin (%)	13.8	14.0	14.0	14.0	(20bps)	(10bps)

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity price volatility,
- sustained weak FMEG performance, and
- delays in achieving Project Leap targets.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.2	2,951	2,500	HOLD
Crompton Greaves	CROMPTON IN	2.3	295	360	BUY
Dixon Technologies	DIXON IN	4.0	5,502	4,300	HOLD
Havells India	HAVL IN	10.4	1,363	1,600	BUY
KEI Industries	KEII IN	2.9	2,665	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	225	250	HOLD
Polycab India	POLYCAB IN	9.6	5,297	6,100	BUY
V-Guard Industries	VGRD IN	1.6	304	290	HOLD
Voltas	VOLT IN	3.4	839	910	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	122,038	141,078	170,624	196,892	222,030
EBITDA	12,652	18,521	23,595	27,501	31,166
Depreciation	2,015	2,092	2,777	3,297	3,717
EBIT	10,637	16,430	20,818	24,204	27,449
Net interest inc./(exp.)	(352)	(598)	(499)	(469)	(504)
Other inc./(exp.)	899	1,333	1,467	1,613	1,775
Exceptional items	0	0	0	0	0
EBT	11,184	17,165	21,786	25,348	28,720
Income taxes	2,706	4,250	5,490	6,388	6,893
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(26)	(93)	(26)	(26)	(26)
Reported net profit	8,365	12,700	16,220	18,884	21,751
Adjustments	0	0	0	0	0
Adjusted net profit	8,365	12,700	16,220	18,884	21,751

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	12,175	20,326	28,048	32,366	36,498
Other current liabilities	4,436	4,430	6,203	7,158	8,071
Provisions	0	0	0	0	0
Debt funds	831	1,551	3,325	3,606	3,875
Other liabilities	1,239	1,636	1,900	2,135	2,360
Equity capital	1,494	1,498	1,498	1,498	1,498
Reserves & surplus	53,943	64,814	77,741	93,035	110,895
Shareholders' fund	55,437	66,311	79,239	94,532	112,393
Total liab. and equities	74,119	94,255	118,715	139,797	163,198
Cash and cash eq.	4,071	6,952	17,433	24,953	38,917
Accounts receivables	12,964	12,466	16,601	18,277	21,107
Inventories	21,996	29,514	33,224	39,765	44,038
Other current assets	4,739	6,650	8,043	9,281	10,466
Investments	7,641	13,505	13,505	13,505	13,505
Net fixed assets	16,170	20,104	23,827	27,030	27,314
CWIP	3,755	2,508	3,033	3,500	3,947
Intangible assets	230	203	203	203	203
Deferred tax assets, net	0	0	0	0	0
Other assets	2,553	2,352	2,845	3,283	3,702
Total assets	74,119	94,255	118,715	139,797	163,198

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	5,116	14,275	19,252	17,999	22,227
Capital expenditures	(5,200)	(4,584)	(6,500)	(6,500)	(4,000)
Change in investments	935	0	0	0	0
Other investing cash flows	(4)	(7,442)	(753)	(670)	(641)
Cash flow from investing	(4,270)	(12,026)	(7,253)	(7,170)	(4,641)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(168)	332	1,774	281	269
Interest expenses	0	0	0	0	0
Dividends paid	(1,839)	(2,570)	(3,292)	(3,591)	(3,890)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,007)	(2,238)	(1,518)	(3,310)	(3,621)
Chg in cash & cash eq.	(1,160)	11	10,481	7,519	13,964
Closing cash & cash eq.	4,071	6,952	17,433	24,953	38,917

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	55.9	84.9	108.4	126.2	145.4
Adjusted EPS	55.9	84.9	108.4	126.2	145.4
Dividend per share	14.0	20.0	22.0	24.0	26.0
Book value per share	370.6	443.2	529.6	631.8	751.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.5	5.6	4.6	4.0	3.6
EV/EBITDA	62.6	42.8	33.6	28.8	25.4
Adjusted P/E	94.7	62.4	48.9	42.0	36.4
P/BV	14.3	12.0	10.0	8.4	7.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.8	74.0	74.5	74.5	75.7
Interest burden (PBT/EBIT)	105.1	104.5	104.6	104.7	104.6
EBIT margin (EBIT/Revenue)	8.7	11.6	12.2	12.3	12.4
Asset turnover (Rev./Avg TA)	7.5	7.0	7.2	7.3	8.1
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.3	0.3	0.3
Adjusted ROAE	16.2	20.9	22.3	21.7	21.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	38.8	15.6	20.9	15.4	12.8
EBITDA	13.9	46.4	27.4	16.6	13.3
Adjusted EPS	(0.2)	51.8	27.7	16.4	15.2
Profitability & Return ratios (%)					
EBITDA margin	10.4	13.1	13.8	14.0	14.0
EBIT margin	8.7	11.6	12.2	12.3	12.4
Adjusted profit margin	6.9	9.0	9.5	9.6	9.8
Adjusted ROAE	16.2	20.9	22.3	21.7	21.0
ROCE	17.8	23.1	23.0	21.2	20.6
Working capital days (days)					
Receivables	39	32	36	34	35
Inventory	66	76	71	74	72
Payables	36	53	60	60	60
Ratios (x)					
Gross asset turnover	4.7	4.9	4.9	4.8	4.8
Current ratio	3.0	2.6	2.5	2.5	2.7
Net interest coverage ratio	30.2	27.5	41.7	51.6	54.5
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%

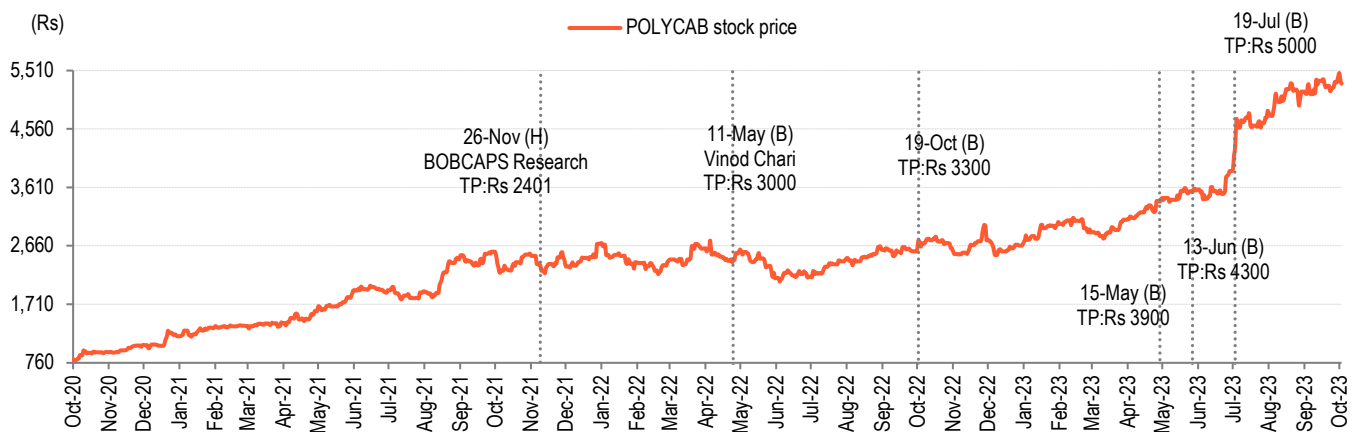
HOLD – Expected return from -6% to +15%

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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