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FIRST LIGHT

21 July 2022

RESEARCH

Polycab India | Target: Rs 3,000 | +36% | BUY

Resilient margins offset moderation in revenue

SUMMARY

Polycab India

- Pricing action, cost-cutting initiatives and premiumization all helped to keep margins intact in Q1
- Quarter ended with soft June sales but company hopeful of a strong Q3 due to the festive season and an overall robust H2FY23
- Remains the leader in wires & cables with a potential for rerating as ECD scales up; maintain BUY for TP of Rs 3,000

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Daily macro indicators

Indicator	18-Jul	19-Jul	Chg (%)
US 10Y yield (%)	2.99	3.02	4bps
India 10Y yield (%)	7.44	7.44	0bps
USD/INR	79.98	79.95	0.0
Brent Crude (US$/bbl)	106.3	107.4	1.0
Dow	31,073	31,827	2.4
Hang Seng	20,846	20,661	(0.9)
Sensex	54,521	54,768	0.5
India FII (US$ mn)	**15-Jul**	**18-Jul**	**Chg ($ mn)**
FII-D	(1.5)	70.2	71.7
FII-E	(204.6)	27.5	232.2

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 3,000 | ⮝ 36%

POLYCAB INDIA | Consumer Durables | 20 July 2022

Resilient margins offset moderation in revenue

- **Pricing action, cost-cutting initiatives and premiumization all helped to keep margins intact in Q1**
- **Quarter ended with soft June sales but company hopeful of a strong Q3 due to the festive season and an overall robust H2FY23**
- **Remains the leader in wires & cables with a potential for rerating as ECD scales up; maintain BUY for TP of Rs 3,000**

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Margins maintained: Polycab's Q1FY23 revenue grew 46% YoY to Rs 27bn, nearly two-thirds of which was driven by volumes (above pre-pandemic level). EBITDA margin was in line at 11.4% (11% est.) and gross margin stood at 25% (22.2% in Q4FY22), aided by pricing action, cost-cutting initiatives and premiumisation. EBIT margins for wires & cables (W&C) and FMEG were at 11.5% and 2.1% respectively. Management saw no discernible improvement in demand but remains optimistic about a better H2FY23.

W&C margin guidance at 11-13%: Management expects an EBITDA margin of 11-13% for W&C in FY23 depending on commodity prices. For FMEG, margin pressure is expected to continue due to competitive intensity. While benefits from realignment exercise for fans are expected to accrue starting Nov. FMEG margins have been ~2% and management aims to raise this to 10-12% by FY26 through scale, operational leverage, premiumisation and cost optimisation.

Minor blip in working capital cycle: The working capital cycle was affected during Q1FY23 due to (i) higher inventory levels as demand did not pan out as expected, and (ii) lower payable days owing to a change in copper procurement from international to domestic markets, which required the company to pay in advance. Management expects payable days to normalise over the next two quarters as Polycab switches back to an international vendor. In FY23, the company plans to invest Rs 3bn-4bn towards capex, of which Rs 1bn will be spent in Q1.

Maintain BUY: Despite subdued realisations, Polycab has demonstrated its resilience as the leader in W&C by protecting its margin. However, growth in the FMEG segment as well as a path to restore profitability to the mid-single-digits in this segment will be critical for the company. We continue to value the stock at 35x FY24E EPS, a 50% premium to the 3Y average, given its strong growth profile and potential rerating towards FMEG valuations. Maintain BUY with an unchanged TP of Rs 3,000.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	POLYCAB IN/Rs 2,199
Market cap	US$ 4.1bn
Free float	32%
3M ADV	US$ 12.4mn
52wk high/low	Rs 2,820/Rs 1,762
Promoter/FPI/DII	68%/6%/9%

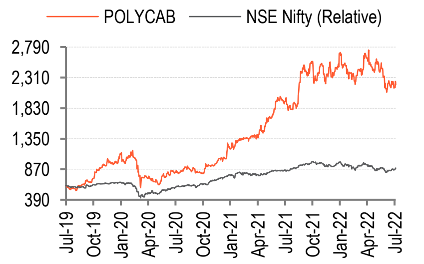
Source: NSE | Price as of 20 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,42,934	1,61,523
EBITDA (Rs mn)	12,652	15,967	19,398
Adj. net profit (Rs mn)	8,365	10,616	13,023
Adj. EPS (Rs)	55.9	71.0	87.1
Consensus EPS (Rs)	55.9	73.1	89.5
Adj. ROAE (%)	16.2	17.7	18.7
Adj. P/E (x)	39.3	31.0	25.3
EV/EBITDA (x)	26.0	20.6	17.0
Adj. EPS growth (%)	(0.2)	26.9	22.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

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.

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