

RESEARCH**BOB ECONOMICS RESEARCH | INDIA STORY**

Credit and Economic growth

POLYCAB INDIA | TARGET: Rs 7,100 | +8% | HOLD

Management meet takeaways: Steady growth on the horizon

SUMMARY**INDIA ECONOMICS: INDIA STORY**

Global economies have been tackling the challenges of uneven growth, divergence in global central bank actions, risk of looming war and escalating geo-political tensions. India on the other hand is one of the fastest growing emerging economies. It has the potential to achieve a robust growth of 8% surpassing its peers by harnessing the demographic dividend to its full potential supported by strong investment opportunities and sound macroeconomic fundamentals. Technological advancement and green energy will play a pivotal role. Higher economic activities will generate credit opportunities in the country. The study aims to analyze this relationship in the last few years across sectors.

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- W&C on robust growth trajectory, fueled by government infrastructure investments & rising real estate demand; 2HFY25 to exceed 1HFY25
- FMEG segment is working to strengthen its position with diverse mix of fans, lights, switches, and switchgears
- POLYCAB is strategically launching a distribution model for international markets, while leveraging its EPC division to drive profits

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INDIA STORY

23 September 2024

Credit and Economic growth

Global economies have been tackling the challenges of uneven growth, divergence in global central bank actions, risk of looming war and escalating geo-political tensions. India on the other hand is one of the fastest growing emerging economies. It has the potential to achieve a robust growth of 8% surpassing its peers by harnessing the demographic dividend to its full potential supported by strong investment opportunities and sound macroeconomic fundamentals. Technological advancement and green energy will play a pivotal role. Higher economic activities will generate credit opportunities in the country. The study aims to analyze this relationship in the last few years across sectors.

Jahnavi Prabhakar
Economist

India's economy has been growing at a steady pace compared to its global counterparts. In more than a decade (last 12-years), the economy has registered a strong and steady growth of 5.9% even as it witnessed global health emergency such as Covid-19 pandemic. If this period is excluded, growth scales up further to 6.6% driven by structural reform measures, prudent fiscal management coupled with political stability. Notably in the last 12-years, the average nominal GDP growth stands at 11.1% and the SCB's credit growth at 11.7%. Notably, there is strong relationship between the credit growth and GDP growth. To understand this better further, the study attempts to analyze the impact of any change in credit growth to a change in GDP growth and this is denoted with a multiple factor or elasticity between these two variables. The analysis has been done for the period between FY12 and FY24 across different variables and this has been divided in to 2-phases of 5/6 years each.

The caveats to the study includes the following:

- The Covid-19 period (FY21 and FY22) has been excluded for some variables in phase-2 while calculating elasticity multiple as it doesn't provide an accurate picture.
- In order to avoid further distortion, any extreme values or outliers have also been excluded from the estimation.

The change in credit growth to change in Nominal GDP growth has remained steady in the last 12 years, with the average multiple for both phase-1 and phase-2 standing at 1.0 and 1.1 respectively. This simply implies if the nominal GDP of the country in FY25 is expected to grow by 10.5% as per the Budget. The credit growth therefore for the same period is likely to expand by at least $1.1 \times 10.5\%$. The credit disbursements across sectors in the span of last 12-year has remain resilient.



HOLD
 TP: Rs 7,100 | ▲ 8%

POLYCAB INDIA

| Consumer Durables

| 23 September 2024

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Arshia Khosla
 research@bobcaps.in

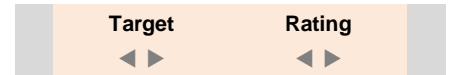
Wires and Cables: A Promising Growth Path: The wires and cables segment is seeing strong demand, mainly due to the Indian government’s focus on infrastructure development and a rebound in private investments. This positive environment has led management to feel optimistic about growth in the coming years. As infrastructure projects increase, the segment is well-positioned to take advantage of these opportunities, suggesting a bright future for the company’s operations in this area.

Strategic Margin Goals for Wires and Cables: Regarding financial performance, POLYCAB has set ambitious targets for its EBIT margins in the wires and cables segment, aiming for a range of 12-13% over the medium to long term. Specifically, wires are expected to achieve higher margins of 14-15%, while cables are projected to maintain margins of 9-11%. This focus on improving margins across different product lines demonstrates the POLYCAB’s commitment to maximizing profitability while navigating market challenge.

Distribution Success: Growing Institutional Business: The distribution segment has been performing well, especially with the institutional business experiencing faster growth. This trend highlights the effectiveness of POLYCAB’s distribution strategies, allowing the company to meet the increasing demand from institutional clients. With a capacity utilization factor (CUF) for the wires and cables segment at a strong 70-75%, it is clear that production levels are being effectively managed to satisfy market needs, reinforcing the company’s operational efficiency.

Steady Growth in Switches and Switchgears: The growth of switches and switchgears remains strong and steady, indicating ongoing demand in these areas. This positive trend is essential, as it reflects customer confidence and expanding market share. However, the lighting segment continues to face challenges like pricing pressures and weaker consumer demand. Still, the overall performance of the FMEG segment has benefited from better contributions from switchgears, conduit pipes, and fittings, improving profitability despite the challenges in lighting.

Key changes



Ticker/Price	POLYCAB IN/Rs 6,559
Market cap	US\$ 11.7bn
Free float	37%
3M ADV	US\$ 47.0mn
52wk high/low	Rs 7,331/Rs 3,801
Promoter/FPI/DII	63%/12%/8%

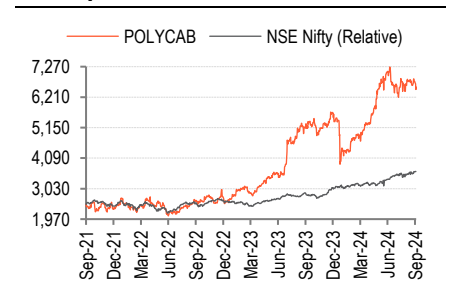
Source: NSE | Price as of 20 Sep 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	180,394	211,132	240,653
EBITDA (Rs mn)	24,918	29,821	33,843
Adj. net profit (Rs mn)	17,840	20,713	23,618
Adj. EPS (Rs)	118.9	138.0	157.4
Consensus EPS (Rs)	118.9	137.5	160.0
Adj. ROAE (%)	24.1	23.0	21.9
Adj. P/E (x)	55.2	47.5	41.7
EV/EBITDA (x)	39.4	32.9	29.0
Adj. EPS growth (%)	40.5	16.1	14.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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