

HOLD
 TP: Rs 7,100 | ▲ 8%

POLYCAB INDIA

Consumer Durables

23 September 2024

Management meet takeaways: Steady growth on the horizon

- **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**

Arshia Khosla
 research@bobcaps.in

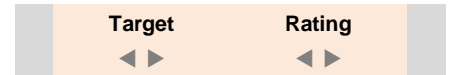
Wires and Cables: A Promising Growth Path: The wires and cables segment is seeing strong demand, mainly due to the Indian government’s focus on infrastructure development and a rebound in private investments. This positive environment has led management to feel optimistic about growth in the coming years. 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%

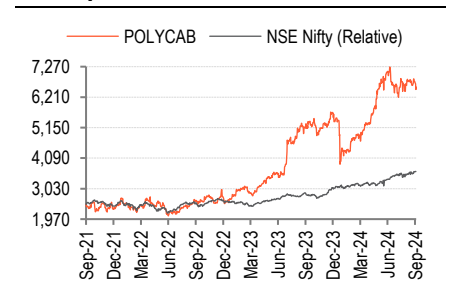
Source: NSE | Price as of 20 Sep 2024

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



EPC Division: Strong Order Book and Margin Outlook: The EPC (Engineering, Procurement, and Construction) division has shown solid performance, with a strong order book that signals future revenue potential. This segment is strategically important, especially for projects requiring significant cable supply. While the EPC business isn't the main focus, POLYCAB is actively bidding on projects that match its strategy, ensuring it can capture relevant opportunities in the market.

Long-Term Profitability in EPC: Management has provided margin guidance for the EPC business, expecting long-term margins in the high single digits. This outlook suggests a cautious yet positive view of the segment's profitability, with contributions to the top line expected to be in the mid to high single digits.

International Expansion: A Focused Distribution Model: In terms of international growth, POLYCAB is shifting to a distribution model for its export business, similar to its successful domestic operations. This initiative starts with the US market, which may see some softness during its stabilization phase. However, management is confident that other international markets will perform well, providing a balanced growth strategy. By adopting a familiar distribution approach, POLYCAB aims to strengthen its presence abroad, ensuring it remains competitive while exploring new growth opportunities.

Valuation methodology

POLYCAB is a market leader in the wires and cables industry, and continues to gain market share. It has a strong topline and healthy margin, well above its industry peers. We maintain our forecasts and continue to value POLYCAB at 45x with 1-year forward considering FY26E and FY27E earnings with due weightage. We maintain our HOLD rating for the stock with an unchanged TP of Rs 7,100 due to the absence of imminent catalysts, while we await potential revisions to Project LEAP targets by management.

Key risks

Key upside risks to our estimates are:

- higher-than-anticipated demand, and
- faster growth in the FMEG business.

Key downside risks to our estimates are:

- commodity price volatility, and
- delays in EPC business execution

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	141,078	180,394	211,132	240,653	278,611
EBITDA	18,521	24,918	29,821	33,843	39,676
Depreciation	2,092	2,451	3,239	3,938	4,718
EBIT	16,430	22,468	26,582	29,905	34,958
Net interest inc./(exp.)	(598)	(1,083)	(1,143)	(1,198)	(1,269)
Other inc./(exp.)	1,333	2,209	2,319	2,435	2,557
Exceptional items	0	0	0	0	0
EBT	17,165	23,593	27,758	31,143	36,247
Income taxes	4,250	5,564	6,995	7,474	8,699
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(93)	0	0	0	0
Reported net profit	12,700	17,840	20,713	23,618	27,497
Adjustments	0	0	0	0	0
Adjusted net profit	12,700	17,840	20,713	23,618	27,497

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	20,326	28,633	34,707	39,559	45,799
Other current liabilities	4,430	6,474	7,577	8,637	9,999
Provisions	0	0	0	0	0
Debt funds	1,551	898	2,286	2,396	2,537
Other liabilities	1,636	2,913	3,313	3,698	4,192
Equity capital	1,498	1,502	1,502	1,502	1,502
Reserves & surplus	64,814	80,369	96,579	115,694	138,689
Shareholders' fund	66,311	81,871	98,081	117,197	140,191
Total liab. and equities	94,255	120,789	145,964	171,487	202,719
Cash and cash eq.	6,952	4,024	11,450	17,473	28,164
Accounts receivables	12,466	20,471	21,308	25,798	28,993
Inventories	29,514	36,751	43,591	49,357	57,333
Other current assets	6,650	7,670	8,976	10,231	11,845
Investments	13,505	18,224	18,224	18,224	18,224
Net fixed assets	20,104	21,678	28,439	34,501	39,783
CWIP	2,508	5,784	6,770	7,717	8,934
Intangible assets	203	206	206	206	206
Deferred tax assets, net	0	0	0	0	0
Other assets	2,352	5,981	7,000	7,979	9,237
Total assets	94,255	120,789	145,964	171,487	202,719

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	14,275	12,963	22,145	21,957	27,033
Capital expenditures	(4,584)	(8,580)	(10,000)	(10,000)	(10,000)
Change in investments	(5,213)	(3,839)	0	0	0
Other investing cash flows	(2,229)	4,900	(1,604)	(1,541)	(1,981)
Cash flow from investing	(12,026)	(7,519)	(11,604)	(11,541)	(11,981)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	332	(1,071)	1,388	110	141
Interest expenses	0	0	0	0	0
Dividends paid	(2,570)	(2,803)	(4,503)	(4,503)	(4,503)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,238)	(3,874)	(3,115)	(4,393)	(4,362)
Chg in cash & cash eq.	11	1,570	7,426	6,023	10,691
Closing cash & cash eq.	6,952	4,024	11,450	17,473	28,164

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	84.6	118.9	138.0	157.4	183.2
Adjusted EPS	84.6	118.9	138.0	157.4	183.2
Dividend per share	20.0	30.0	30.0	30.0	30.0
Book value per share	441.8	545.4	653.4	780.8	934.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.0	5.4	4.6	4.1	3.5
EV/EBITDA	53.0	39.4	32.9	29.0	24.7
Adjusted P/E	77.5	55.2	47.5	41.7	35.8
P/BV	14.8	12.0	10.0	8.4	7.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.0	75.6	74.6	75.8	75.9
Interest burden (PBT/EBIT)	104.5	105.0	104.4	104.1	103.7
EBIT margin (EBIT/Revenue)	11.6	12.5	12.6	12.4	12.5
Asset turnover (Rev./Avg TA)	7.0	8.3	7.4	7.0	7.0
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.3	0.3	0.3
Adjusted ROAE	20.9	24.1	23.0	21.9	21.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.6	27.9	17.0	14.0	15.8
EBITDA	46.4	34.5	19.7	13.5	17.2
Adjusted EPS	51.3	40.5	16.1	14.0	16.4
Profitability & Return ratios (%)					
EBITDA margin	13.1	13.8	14.1	14.1	14.2
EBIT margin	11.6	12.5	12.6	12.4	12.5
Adjusted profit margin	9.0	9.9	9.8	9.8	9.9
Adjusted ROAE	20.9	24.1	23.0	21.9	21.4
ROCE	23.1	26.6	23.9	22.2	21.6
Working capital days (days)					
Receivables	32	41	37	39	38
Inventory	76	74	75	75	75
Payables	53	58	60	60	60
Ratios (x)					
Gross asset turnover	4.9	5.4	5.2	4.8	4.6
Current ratio	2.6	2.4	2.4	2.5	2.5
Net interest coverage ratio	27.5	20.7	23.3	25.0	27.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

BUY – Expected return >+15%

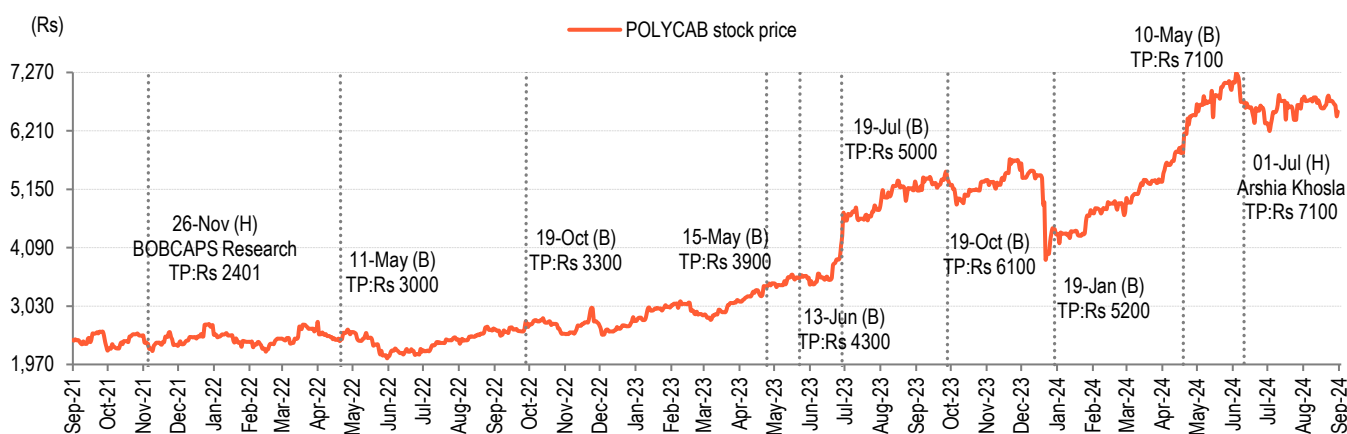
HOLD – Expected return from -6% to +15%

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

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an “as is” basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the “Losses”) which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom (“UK”):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd (“MSL”) who is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (MSL and its affiliates are collectively referred to as “MAYBANK”). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the “Order”), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as “relevant persons”).

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.