

HOLD

TP: Rs 7,700 | ▲ 8%

POLYCAB INDIA

Consumer Durables

18 October 2024

Strong run continues

- **Healthy revenue growth at 30% YoY; EBITDA falls on high competition and high ad spends**
- **Company revises revenue guidance – to achieve Rs 200bn in FY25; capex and EBITDA guidance intact**
- **We cut FY25E EPS by 4%, maintain FY26E/FY27E. We value POLYCAB at 45x Sep'26E P/E, with a new TP of Rs 7,700. Maintain HOLD**

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Topline beat, margins miss: POLYCAB delivered another strong quarter, with 30% YoY topline growth, reaching Rs 54.9bn (vs BoBCaps estimate of Rs 50bn). This marked the highest-ever second quarter revenue in the company's history and crossed the Rs 100bn milestone for the first half. However, despite robust revenue growth, gross margin declined by 360bps, while EBITDA margin contracted by 300bps to 11.5%. The compression was largely driven by increased competition in the W&C segment, lower contribution from the higher-margin distribution business, and increased losses in the FMEG segment due to higher ad spend and fixed costs. As a result, despite the strong revenue, PAT grew by only 4% to Rs 4.4bn.

W&C shines yet again: POLYCAB's wires and cables segment continued to shine, growing 24% YoY to Rs 47.2bn in Q2, and fueling the company's overall quarterly growth. The domestic business grew 28%, driven by strong mid-teen volume increases. However, EBIT margin contracted 230bps to 12.3%, impacted by heightened competition in the W&C market and reduced contribution from the higher-margin domestic segment. On the international front, sales declined by 15% YoY, contributing 6.1% to total revenue.

FMEG set to improve: The FMEG segment's revenue grew a strong 21% YoY, reaching Rs 4bn in a non-seasonal quarter, driven primarily by a surge in fan sales, benefiting from a low base and significant increase in online sales. Switchgears saw the strongest growth, fueled by robust demand from the real estate sector. Management anticipates further acceleration in FMEG demand in the coming year, particularly due to continued strength in the real estate market, with additional gains expected from channel realignment. However, margins remained negative, primarily due to higher A&P spends as well as elevated fixed costs.

Maintain HOLD: Following the Q2 performance and factoring in weaker margins, we cut our EPS estimates for FY25 by 4% and broadly maintain them for FY26/FY27. Also, we value POLYCAB at 45x Sep'26E P/E, resulting in a higher TP of Rs 7,700 (previously Rs 7,100). We maintain our HOLD rating due to limited upside for the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 7,120
Market cap	US\$ 12.7bn
Free float	37%
3M ADV	US\$ 36.8mn
52wk high/low	Rs 7,605/Rs 3,801
Promoter/FPI/DII	63%/12%/8%

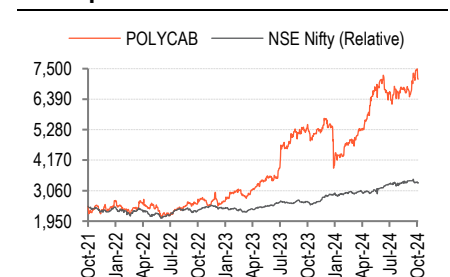
Source: NSE | Price as of 18 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	180,394	215,639	248,681
EBITDA (Rs mn)	24,918	28,786	33,927
Adj. net profit (Rs mn)	17,840	19,933	23,671
Adj. EPS (Rs)	118.9	132.8	157.7
Consensus EPS (Rs)	118.9	133.0	160.0
Adj. ROAE (%)	24.1	22.3	22.1
Adj. P/E (x)	59.9	53.6	45.2
EV/EBITDA (x)	42.8	37.0	31.4
Adj. EPS growth (%)	40.5	11.7	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

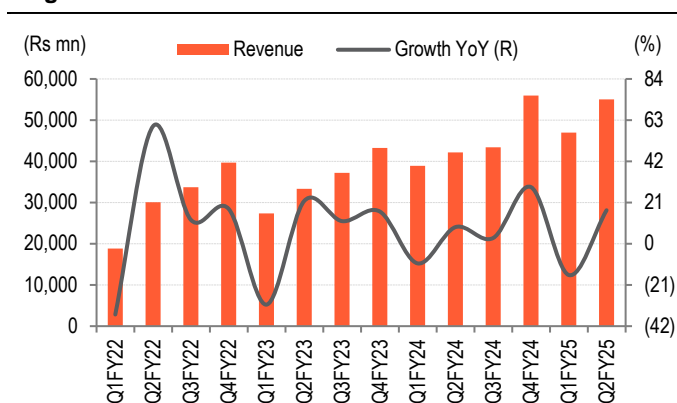
(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS est. Q2FY25	Variance (%)
Revenue	54,984	42,177	30.4	46,980	17.0	101,965	81,071	25.8	50,190.6	10
EBITDA	6,316	6,089	3.7	5,834	8.3	12,149	11,575	5.0	6,586.7	(4)
EBITDA Margin (%)	11.5	14.4	(300bps)	12.4	(90bps)	11.9	14.3	(240bps)	13.0	
Depreciation	721	603		671		1,392	1,174			
Interest	453	268		413		866	517			
Other Income	762	353		584		1,346	993			
PBT	5,903	5,572	6.0	5,334	10.7	11,237	10,876	3.3		
Tax	1,451	1,274		1,317		2,769	2,551			
Adjusted PAT	4,452	4,256	4.6	3,960	12.4	8,468	8,326	1.7	4,564.6	(2)
Exceptional item	-	-		0		0	0			
Reported PAT	4,452	4,256	4.6	3,960	12.4	8,468	8,326	1.7		
Adj. PAT Margin (%)	8.1	10.1	(200bps)	8.4	(30bps)	8.3	10.3	(200bps)		
EPS (Rs)	29.8	28.7	3.6	26.8	10.9	56.6	55.6	1.7		

Source: Company, BOBCAPS Research

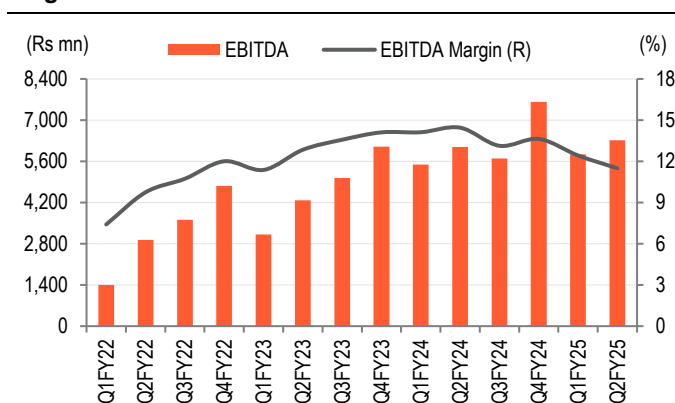
Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Segment revenue														
Wires & Cables	16,269	26,281	29,988	35,400	24,057	29,517	33,418	40,783	35,338	38,047	39,041	48,647	39,421	47,200
Growth YoY (%)	97.2	43.9	24.6	39.1	47.9	12.3	11.4	15.2	46.9	28.9	16.8	19.3	11.6	24.1
% of sales	83.12	79.83	87.22	87.98	85.50	87.79	87.72	90.28	88.32	87.74	87.78	84.97	81.33	82.77
FMEG	1,919	3,429	3,404	3,792	3,082	3,054	3,420	3,052	3,145	3,300	2,962	3,581	3,855	3,975
Growth YoY (%)	39.2	40.6	11.4	9.3	60.6	-11.0	0.5	-19.5	2.1	8.1	-13.4	17.3	22.6	20.5
% of sales	9.8	10.4	9.9	9.4	11.0	9.1	9.0	6.8	7.9	7.6	6.7	6.3	8.0	7.0
EBIT														
Wires & Cables	1,073	2,305	3,089	4,106	2,773	3,463	4,593	5,896	5,223	5,547	5,474	7,363	4,967	5,793
EBIT margin (%)	6.6	8.8	10.3	11.6	11.5	11.7	13.7	14.5	14.8	14.6	14.0	15.1	12.6	12.3
FMEG	(143)	172	63	105	64	(27)	(24)	(70)	(57)	(60)	(366)	(459)	(28)	(252)
EBIT margin (%)	(7.5)	5.0	1.8	2.8	2.1	(0.9)	(0.7)	(2.3)	(1.8)	(1.8)	(12.4)	(12.8)	(0.7)	(6.4)

Source: Company, BOBCAPS Research

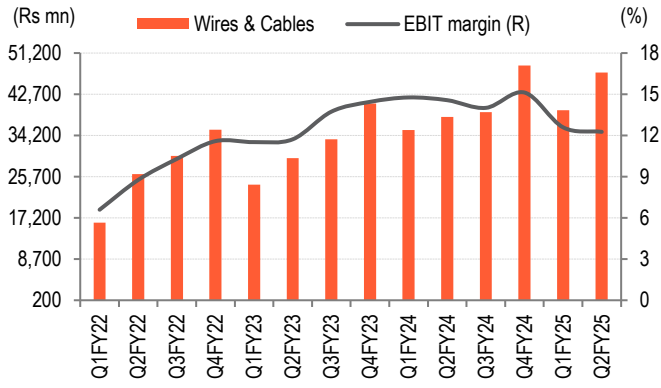
Fig 3 – Revenue trend

Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend

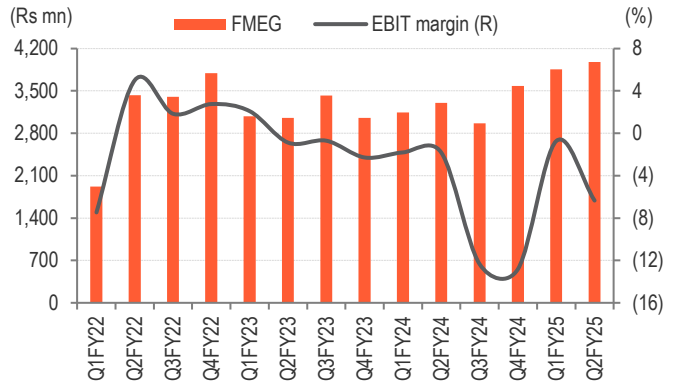
Source: Company, BOBCAPS Research

Fig 5 – Segment performance – W&C



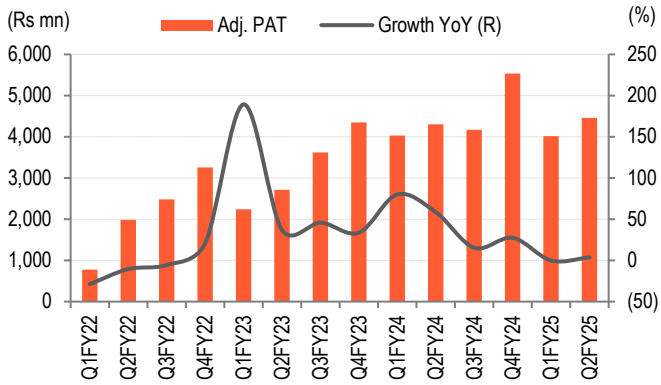
Source: Company, BOBCAPS Research

Fig 6 – Segment performance – FMEG



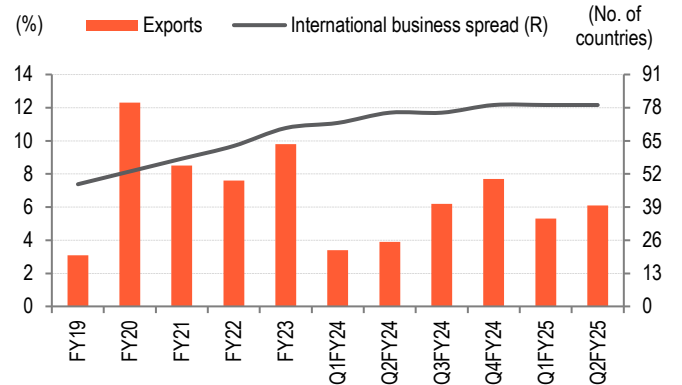
Source: Company, BOBCAPS Research

Fig 7 – PAT growth



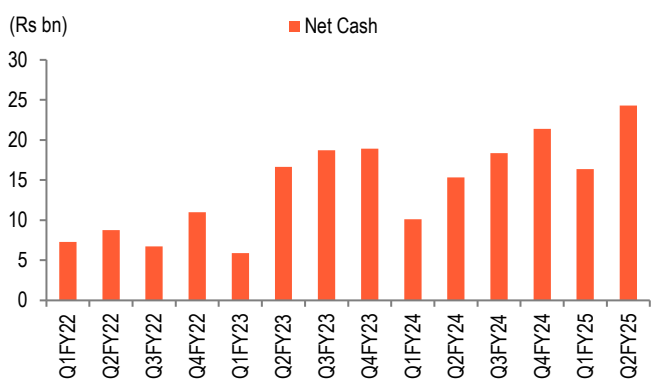
Source: Company, BOBCAPS Research

Fig 8 – Export trend



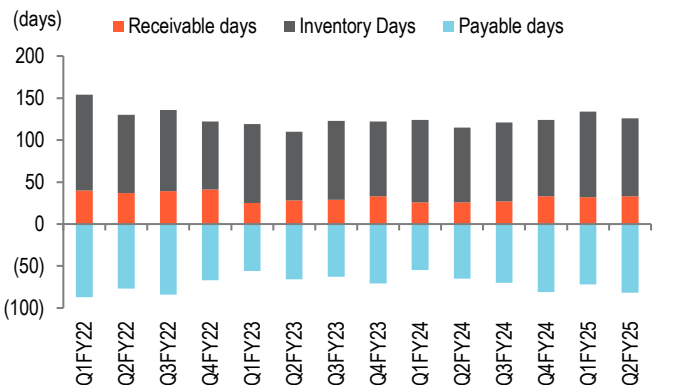
Source: Company, BOBCAPS Research

Fig 9 – Net cash position



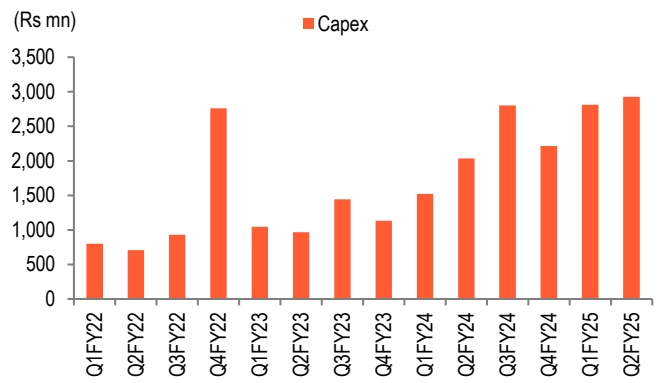
Source: Company, BOBCAPS Research

Fig 10 – Working capital management



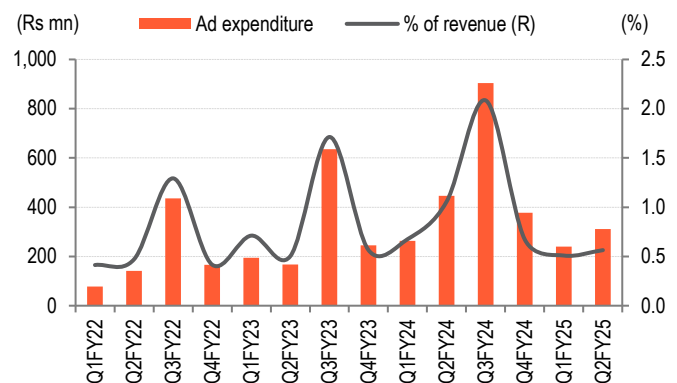
Source: Company, BOBCAPS Research

Fig 11 – Capex spends



Source: Company, BOBCAPS Research

Fig 12 – Ad spends



Source: Company, BOBCAPS Research

Earnings call highlights

- Quarter gone by:** POLYCAB expects to perform better in the second half of FY25, following a decline in EBITDA margins caused by several factors – a preponement in FMEG ad spend, increased manpower costs, heightened competition in house wires due to copper price volatility, and a less favourable sales mix with a lower contribution from the more profitable domestic B2C segment.
- Capex:** The company completed Rs 5.7bn worth of capex in H1, with the full-year FY25 capex projected at Rs 10bn-11bn. Over the next two to three years, it expects capex to remain in the Rs 10bn to 12bn range.
- Demand outlook:** Management anticipates stronger growth and margin performance in H2, with FY25 revenue forecast to exceed Rs 200bn.

Wires & Cables

- Segment performance:** In Q2FY25, the Wires & Cables (W&C) segment posted 24% YoY topline growth, driven by increased government spending, sustained investments from private players, and strong real estate demand. However, the EBIT margin declined by 230bps to 12.3%, largely due to heightened competitive pressure in the domestic W&C market and a reduced contribution from the higher-margin domestic distribution business.
- Volume growth:** The domestic business grew a robust 28% YoY, underpinned by solid mid-teen volume expansion.
- Peer comparison:** In Q2FY25, POLYCAB matched its peer HAVL's topline growth for the W&C segment, with both reporting strong performances – 24% for POLYCAB and 23% for HAVL. However, POLYCAB outperformed on profitability, with a higher EBIT margin of 12.3% compared to HAVL's 8.6% during the same period.
- Domestic business:** The institutional segment outperformed the distribution business, with wires showing stronger growth than cables.
- International business:** The international business grew sharply by 36% QoQ, contributing 6.1% to consolidated revenue for the quarter and 5.7% for H1FY25.

- **Wires drive growth in key regions:** POLYCAB's wires segment grew nearly 2x as its cables business, with strong growth particularly in the western and southern regions of India, led by states like Maharashtra, Telangana, Karnataka and Tamil Nadu. The surge in real estate project launches has been a major driver for house wire sales, and management expects this trend to continue.
- In Q2, wires contributed a slightly higher share to the overall mix, increasing by 100bps, making the sales mix 70-30 between cables and wires. Despite heightened copper price volatility in September, wires volume grew significantly by 20-25% and represented value growth of 40%, while cables experienced early-teens volume growth and 25% value growth.
- **Outlook and market dynamics:** POLYCAB expects private sector capex to improve in H2FY25, following a pickup in government investments that had slowed in Q1 but gained momentum in Q2. The distribution business faces less competition as many peers focus more on institutional sales, leading to mid-teens volume growth in domestic distribution. While POLYCAB has limited exposure on the transmission side due to the absence of extra high voltage (EHV) cables, it has a significant presence in the distribution segment – partly driven by the RDSS (Revamped Distribution Sector Scheme). The company also sees strong growth potential in data centres over the next five to ten years, though the current contribution is minimal. POLYCAB has applied for all 16 packages of the BharatNet optic fibre cables tender worth Rs 500bn.

Fast-moving electrical goods

- **Segment performance:** The fast-moving electrical goods (FMEG) segment posted robust revenue growth of 22% during a seasonally weak quarter, largely fueled by strategic initiatives in channel expansion, product diversification, and a focused influencer management programme. Despite this strong revenue growth, the segment recorded an EBIT loss of Rs 252mn in Q2, primarily driven by increased advertising and promotional spending as well as higher fixed costs.
- **Switchgears:** POLYCAB is highly focused on expanding its switchgear segment within the FMEG business due to its significantly higher margins compared to other product categories. Strong demand from the real estate sector has driven growth in switchgears over the past two to three years. While currently POLYCAB is a smaller player in the B2C market, it aims to be among the top three players in the Indian market in the next five years. Gross margins in this segment are currently above 40%, with room for improvement as production scales up. Management expects recent capacity expansion to drive operating leverage, further boosting profitability. The switchgear business is already EBITDA-positive and is anticipated to contribute increasingly to the segment's overall margins.
- **Premiumisation strategy for FMEG:** POLYCAB's focus on premiumisation within its FMEG segment is progressing well, with premium fans now accounting for over 20% of total fan sales. The company expects FMEG demand to pick up in the coming year, particularly driven by the strength in the real estate market. While margins in the switchgear segment are significantly higher compared to fans and lighting, POLYCAB operates only in the B2C switchgear market, focusing on products like MCB (miniature circuit breakers) and MCCB (moulded case circuit breaker), with demand largely fueled by real estate development. POLYCAB does

not have a presence in industrial switchgear, but its B2C switchgear business has been profitable, with gross margins exceeding 40%.

- **Switchgear segment growth and competitive edge:** POLYCAB expanded its switchgear capacity last year, resulting in low capacity utilisation currently. However, the company has been successful in cross-selling switchgears along with its wires, leveraging synergies across product lines. POLYCAB also differentiates itself by offering a seven-year warranty on switchgears, compared to the five-year warranties provided by most of its industry peers. While the switchgear industry is experiencing steady growth, competition remains moderate, allowing POLYCAB to strengthen its position in the market without facing intense competitive pressure.

Others

- **Outlook:** The company maintains a strong presence on the distribution side, with significant involvement in Engineering, Procurement & Construction (EPC) orders under the RDSS scheme, supplying cables for power distribution systems being established. This strategic positioning allows the company to benefit from cable supply margins and EPC-related profitability, enhancing overall returns from large-scale infrastructure projects.
- **EPC segment growth and RDSS execution:** POLYCAB's EPC segment has experienced strong growth, driven by the efficient execution of its RDSS order book, which currently stands at Rs 48bn. Management expects this order to be executed over the next two to three years, ensuring steady revenue generation during this period. The company anticipates that the current quarterly revenue run rate will continue over the next two years, maintaining consistent growth.
- **Sustainable margins and long-term outlook:** In the medium to long term, POLYCAB expects sustainable margins in the high single digit for its EPC business. This is supported by the strong performance of the RDSS scheme and healthy margins from its cables business, which complement its EPC operations.

Valuation methodology

We remain optimistic about POLYCAB's growth prospects considering its strong footing in the W&C segment and anticipated improvement in the FMEG business as the benefits of channel realignment play out. But following the Q2 performance and factoring in weaker margins, we cut our FY25 EPS estimate by 4% and broadly maintain those for FY26/FY27. We value POLYCAB at 45x Sep'26E P/E, arriving at a new TP of Rs 7,700 (from Rs 7,100). We maintain our HOLD rating due to limited upside for the stock.

Fig 13 – Revised estimates

Rs mn	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	215,639	248,681	287,889	211,132	240,653	278,611	2.1	3.3	3.3
EBITDA	28,786	33,927	39,860	29,821	33,843	39,676	(3.5)	0.2	0.5
PAT	19,933	23,671	27,624	20,713	23,618	27,497	(3.8)	0.2	0.5
EPS (Rs)	132.8	157.7	184.0	138.0	157.4	183.2	(3.8)	0.2	0.5
EBITDA Margin (%)	13.3	13.6	13.8	14.1	14.1	14.2	(80bps)	(40bps)	(40bps)

Source: Company, BOBCAPS Research

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
- sustained weakness in FMEG performance.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	141,078	180,394	215,639	248,681	287,889
EBITDA	18,521	24,918	28,786	33,927	39,860
Depreciation	2,092	2,451	3,239	3,938	4,718
EBIT	16,430	22,468	25,548	29,990	35,142
Net interest inc./(exp.)	(598)	(1,083)	(1,151)	(1,213)	(1,286)
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	26,715	31,212	36,413
Income taxes	4,250	5,564	6,732	7,491	8,739
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(93)	0	0	0	0
Reported net profit	12,700	17,840	19,933	23,671	27,624
Adjustments	0	0	0	0	0
Adjusted net profit	12,700	17,840	19,933	23,671	27,624

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	20,326	28,633	35,448	40,879	47,324
Other current liabilities	4,430	6,474	7,739	8,925	10,332
Provisions	0	0	0	0	0
Debt funds	1,551	898	2,303	2,426	2,572
Other liabilities	1,636	2,913	3,372	3,802	4,313
Equity capital	1,498	1,502	1,502	1,502	1,502
Reserves & surplus	64,814	80,369	95,799	114,967	138,088
Shareholders' fund	66,311	81,871	97,301	116,469	139,590
Total liab. and equities	94,255	120,789	146,163	172,501	204,132
Cash and cash eq.	6,952	4,024	9,777	15,116	25,702
Accounts receivables	12,466	20,471	21,763	26,659	29,958
Inventories	29,514	36,751	44,522	51,003	59,242
Other current assets	6,650	7,670	9,168	10,573	12,240
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	6,915	7,974	9,231
Intangible assets	203	206	206	206	206
Deferred tax assets, net	0	0	0	0	0
Other assets	2,352	5,981	7,149	8,245	9,545
Total assets	94,255	120,789	146,163	172,501	204,132

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	14,275	12,963	20,690	21,444	26,990
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	(1,839)	(1,724)	(2,046)
Cash flow from investing	(12,026)	(7,519)	(11,839)	(11,724)	(12,046)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	332	(1,071)	1,405	123	146
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)	(3,098)	(4,380)	(4,357)
Chg in cash & cash eq.	11	1,570	5,753	5,339	10,586
Closing cash & cash eq.	6,952	4,024	9,777	15,116	25,702

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	84.6	118.9	132.8	157.7	184.0
Adjusted EPS	84.6	118.9	132.8	157.7	184.0
Dividend per share	20.0	30.0	30.0	30.0	30.0
Book value per share	441.8	545.4	648.2	775.9	930.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.6	5.9	4.9	4.3	3.7
EV/EBITDA	57.5	42.8	37.0	31.4	26.7
Adjusted P/E	84.2	59.9	53.6	45.2	38.7
P/BV	16.1	13.1	11.0	9.2	7.7

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	104.6	104.1	103.6
EBIT margin (EBIT/Revenue)	11.6	12.5	11.8	12.1	12.2
Asset turnover (Rev./Avg TA)	7.0	8.3	7.6	7.2	7.2
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.3	0.3	0.3
Adjusted ROAE	20.9	24.1	22.3	22.1	21.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.6	27.9	19.5	15.3	15.8
EBITDA	46.4	34.5	15.5	17.9	17.5
Adjusted EPS	51.3	40.5	11.7	18.8	16.7
Profitability & Return ratios (%)					
EBITDA margin	13.1	13.8	13.3	13.6	13.8
EBIT margin	11.6	12.5	11.8	12.1	12.2
Adjusted profit margin	9.0	9.9	9.2	9.5	9.6
Adjusted ROAE	20.9	24.1	22.3	22.1	21.6
ROCE	23.1	26.6	23.2	22.4	21.8
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	5.3	4.9	4.8
Current ratio	2.6	2.4	2.4	2.4	2.5
Net interest coverage ratio	27.5	20.7	22.2	24.7	27.3
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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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**



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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%

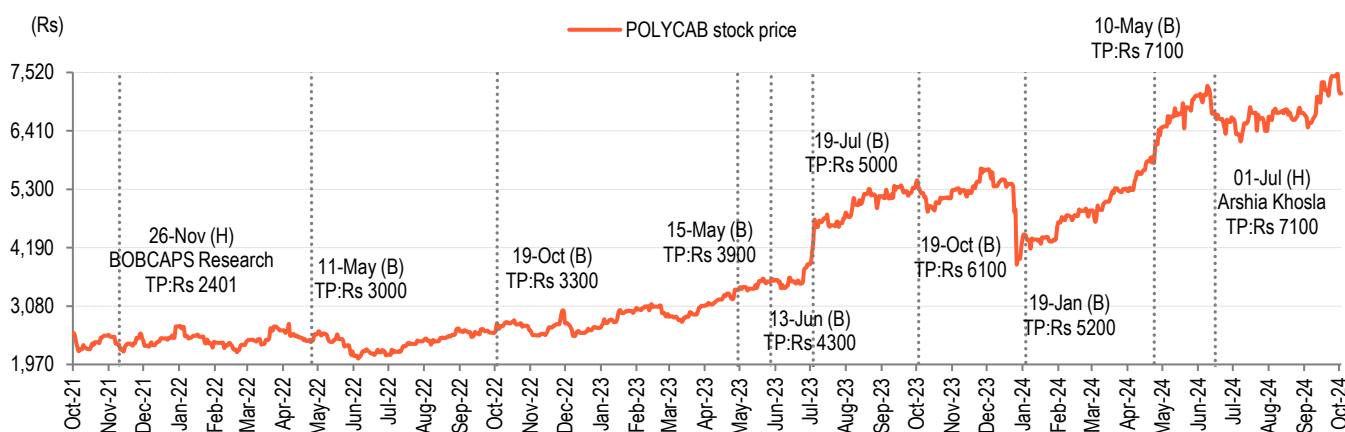
HOLD – Expected return from -6% to +15%

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)



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