

BUY

TP: Rs 8,090 | ▲ 29%

POLYCAB INDIA

Consumer Durables

23 January 2025

Growth momentum continues; eyes on Project Spring

- **Healthy revenue growth at 20% YoY; EBITDAM expands on better W&C margins and reduced FMEG losses**
- **Project Leap has achieved its targets ahead of schedule, and the company has now set its sights on Project Spring for FY30**
- **We maintain our EPS estimate for FY26 and raise FY27 by 2%. We value POLYCAB at 45x Dec'26E P/E, with new TP of Rs 8,090. Upgrade to BUY**

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In-line topline, margins beat: POLYCAB delivered a strong performance in Q3, with revenue growing 20% YoY to Rs 52bn (slightly below our estimate of Rs 53bn). This marked the highest-ever third-quarter revenue in the company's history. Despite strong top-line growth, gross margin contracted by 130bps due to raw material price volatility. On the positive side, EBITDA margin improved by 70bps to 13.8%, driven by better margins in the wires and cables segment and reduced losses in the FMEG business. As a result, APAT grew by 11% to Rs 4.5bn.

W&C stable, FMEG shines: POLYCAB's wires and cables (W&C) segment saw moderate 12% YoY growth in Q3FY25, bolstered by strong domestic cable performance, although temporarily impacted by high channel inventory and falling copper prices. With inventory levels normalising and copper prices rising, we expect a rebound in wire sales in Q4FY25. The international business grew 62% YoY, contributing 8.3% to the company's topline. The FMEG segment surged 45% YoY, driven by strategic efforts in channel expansion, product improvements, and influencer management. The fan segment continued to grow, and the lights and luminaries segment rebounded strongly after a period of decline.

Project Leap achieved ahead of time; new Project Spring set for FY30:

POLYCAB's Project Spring aims to grow its W&C business 1.5x the industry growth rate, with a target domestic EBITDAM of 11-13% and expand international revenue to 10% of total sales, supported by Rs 60bn-80bn capex over five years, ensuring 4x-5x asset turnover. The FMEG business, poised for 8-10% market growth, targets 1.5x to 2x faster expansion while maintaining its focus on existing products and aiming for EBITDAM of 8-10% by FY30. Healthy cashflows from both segments will fund increased capex, and facilitate a dividend payout increase to 30% by FY30.

Upgrade to BUY: We remain optimistic about POLYCAB's growth, supported by its leadership in W&C and improving prospects in the FMEG segment. Following its strong Q3FY25 performance, we raise our FY27 EPS estimate by 2% and value the stock at 45x P/E upon roll forward to Dec'26E, and revise our TP to Rs 8,090 (from Rs 7,700). Given the recent stock price correction, we upgrade to BUY from HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	POLYCAB IN/Rs 6,251
Market cap	US\$ 10.8bn
Free float	37%
3M ADV	US\$ 23.7mn
52wk high/low	Rs 7,605/Rs 4,125
Promoter/FPI/DII	63%/12%/8%

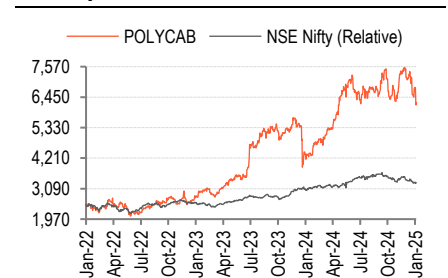
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	180,394	212,463	250,555
EBITDA (Rs mn)	24,918	27,622	34,242
Adj. net profit (Rs mn)	17,840	18,691	23,673
Adj. EPS (Rs)	118.9	124.5	157.7
Consensus EPS (Rs)	118.9	128.0	160.0
Adj. ROAE (%)	24.1	21.0	22.4
Adj. P/E (x)	52.6	50.2	39.6
EV/EBITDA (x)	37.5	33.9	27.3
Adj. EPS growth (%)	40.5	4.8	26.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	Q3FY25E	Variance (%)
Revenue	52,261	43,405	20.4	54,984	(5.0)	154,225	124,475	23.9	53,180.7	(2)
EBITDA	7,199	5,695	26.4	6,316	14.0	19,349	17,270	12.0	6,560.9	10
EBITDA Margin (%)	13.8	13.1	70bps	11.5	230bps	12.5	13.9	(130bps)	12.3	12
Depreciation	786	619		721		2,177	1,793			
Interest	498	322		453		1,364	839			
Other Income	250	710		762		1,596	1,703			
PBT	6,166	5,464	12.8	5,903	4.4	17,403	16,340	6.5		
Tax	1,522	1,299		1,451		4,291	3,850			
Adjusted PAT	4,576	4,129	10.8	4,398	4.0	13,112	12,491	5.0	4,519.6	1
Exceptional item	-	-		0		0	0			
Reported PAT	4,576	4,129	10.8	4,398	4.0	13,112	12,491	5.0		
Adj. PAT Margin (%)	8.8	9.5	(80bps)	8.0	80bps	8.5	10.0	(150bps)		
EPS (Rs)	31.0	27.8	11.5	29.8	4.3	87.4	83.2	5.0		

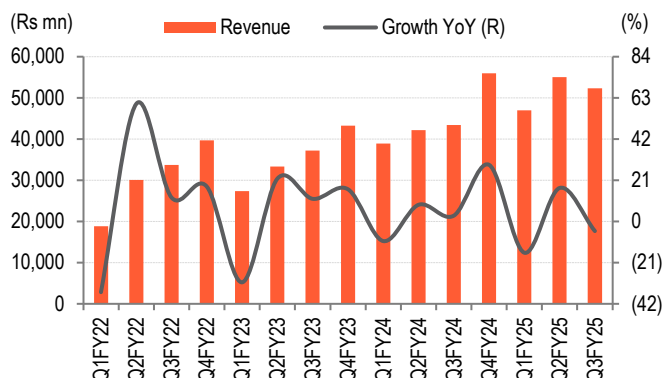
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Segment revenue													
Wires & Cables	29,988	35,400	24,057	29,517	33,418	40,783	35,338	38,047	39,041	48,647	39,421	47,200	43,846
Growth YoY (%)	24.6	39.1	47.9	12.3	11.4	15.2	46.9	28.9	16.8	19.3	11.6	24.1	12.3
% of sales	87.22	87.98	85.50	87.79	87.72	90.28	88.32	87.74	87.78	84.97	81.33	82.77	82.63
FMEG	3,404	3,792	3,082	3,054	3,420	3,052	3,145	3,300	2,962	3,581	3,855	3,975	4,232
Growth YoY (%)	11.4	9.3	60.6	(11.0)	0.5	(19.5)	2.1	8.1	(13.4)	17.3	22.6	20.5	42.9
% of sales	9.9	9.4	11.0	9.1	9.0	6.8	7.9	7.6	6.7	6.3	8.0	7.0	8.0
EBIT													
Wires & Cables	3,089	4,106	2,773	3,463	4,593	5,896	5,223	5,547	5,474	7,363	4,967	5,793	5,904
EBIT margin (%)	10.3	11.6	11.5	11.7	13.7	14.5	14.8	14.6	14.0	15.1	12.6	12.3	13.5
FMEG	63	105	64	(27)	(24)	(70)	(57)	(60)	(366)	(459)	(28)	(252)	(128)
EBIT margin (%)	1.8	2.8	2.1	(0.9)	(0.7)	(2.3)	(1.8)	(1.8)	(12.4)	(12.8)	(0.7)	(6.4)	(3.0)

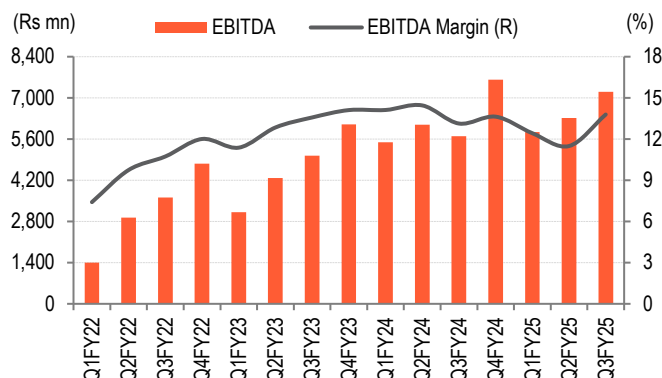
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



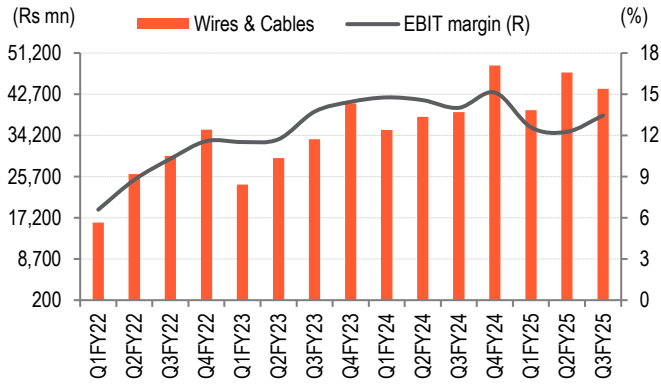
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



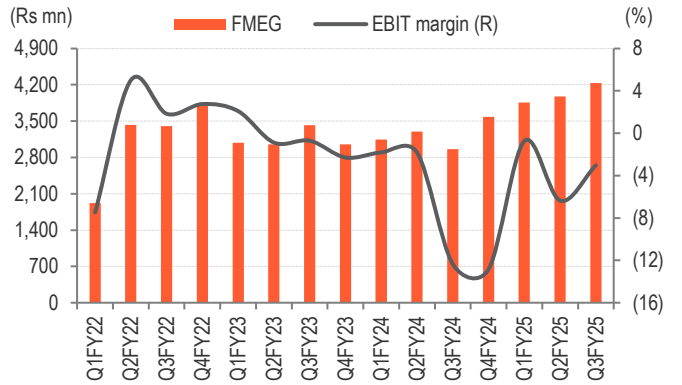
Source: Company, BOBCAPS Research

Fig 5 – Segment performance – W&C



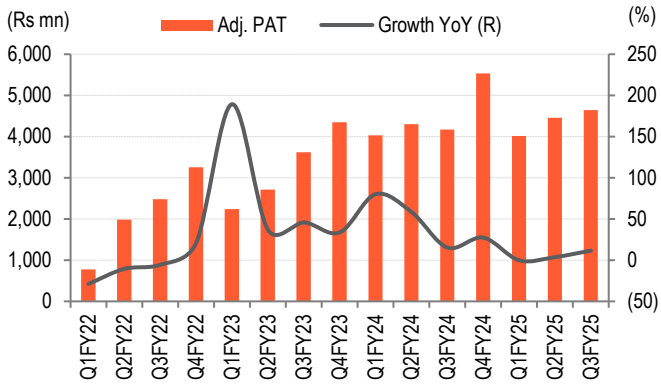
Source: Company, BOBCAPS Research

Fig 6 – Segment performance – FMEG



Source: Company, BOBCAPS Research

Fig 7 – PAT growth



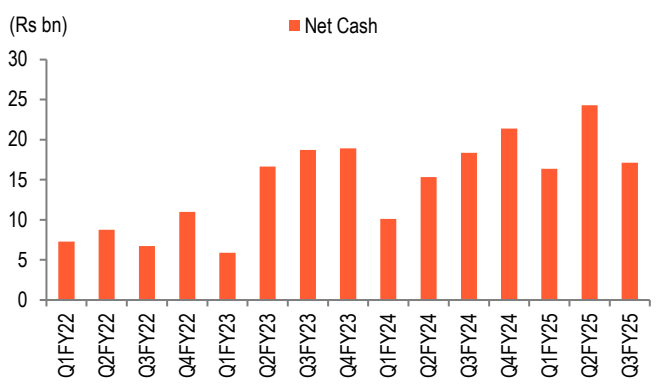
Source: Company, BOBCAPS Research

Fig 8 – Export trend



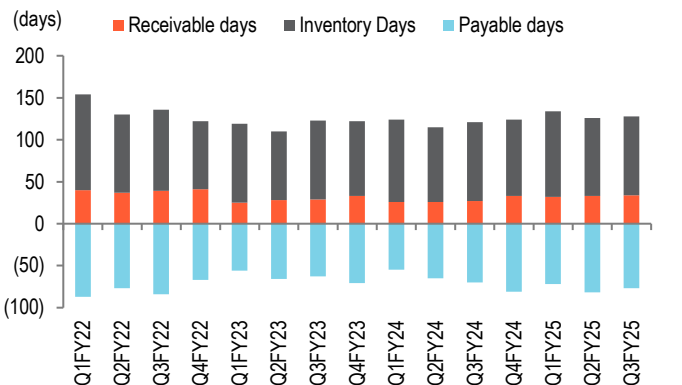
Source: Company, BOBCAPS Research

Fig 9 – Net cash position



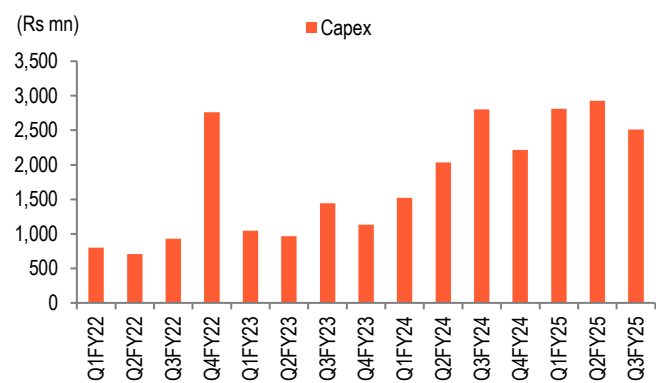
Source: Company, BOBCAPS Research

Fig 10 – Working capital management



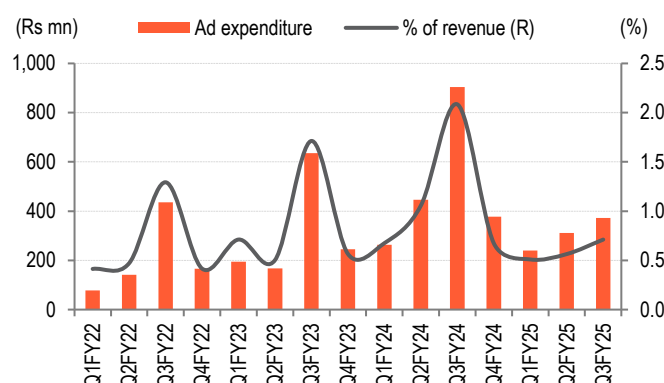
Source: Company, BOBCAPS Research

Fig 11 – Capex spends



Source: Company, BOBCAPS Research

Fig 12 – Ad spends



Source: Company, BOBCAPS Research

Earnings call highlights

Project Spring

Accelerating growth in wires and cables

- **Objective:** Grow the wires and cables business at 1.5x the industry growth rate.
- **Domestic growth:** Target sustainable EBITDA margins of 11-13%.
- **International expansion:** Increase international business share to 10% of overall revenue.
- **Investment plan:** Allocate Rs 60bn-80bn to capex over the next five years.
- **Expected outcome:** Achieve asset turnover of 4x to 5x, driving domestic and international growth.

FMEG business: Positioned for industry-leading growth

- **Market growth:** FMEG (fast moving electrical goods) business expected to grow 8-10%, driven by favourable demographics and urbanisation.
- **Challenger strategy:** Target growth at 1.5x to 2x the industry growth rate, aiming to be a top-three player.
- **Profitability:** Achieve EBITDA margin of 8-10% by FY30.
- **Focus areas:** Maintain existing product categories, with no new additions planned in the near term.
- **Capex allocation:** Use a portion of capex to expand capacities as needed.

Cashflow optimisation and dividend policy

- **Healthy cashflows:** Strong performance in wires and cables and FMEG to generate consistent cashflows.
- **Capex focus:** Most cashflows will be directed towards enhanced capital expenditure.

- **Dividend payout:** Gradually increase the dividend payout ratio to over 30% by FY30, from the current 26.5%.
- **Inorganic growth:** Unutilised cash will be used for strategic acquisitions or growth opportunities.

Wires and Cables

- **Domestic growth in W&C:** The wires and cable segment achieved moderate 12% YoY growth in Q3FY25, supported by healthy performance in the domestic cable business. However, elevated channel inventory at the start of the quarter and a declining copper price trend temporarily affected wire demand. As inventory levels normalised and copper prices entered an inflationary phase, POLYCAB anticipates a strong rebound in wire sales in Q4FY25.
- **Strong growth in international business:** POLYCAB's international business recorded robust growth of 62% YoY and 29% QoQ in Q3FY25, reflecting its strategic focus on global expansion. The contribution of international revenue to the company's topline rose to 8.3% in Q3FY25 and 6.6% for 9MFY25. The business continues to maintain a healthy order book, ensuring momentum sustains into Q4FY25.
- **Expanded global footprint:** In its efforts to deepen global reach, POLYCAB expanded its geographical presence by adding a new market in Q3FY25, bringing its total footprint to 81 countries.
- **Positioned for Q4 growth:** With normalised channel inventory levels, steady copper price inflation, and solid demand fundamentals, POLYCAB is well-positioned to capitalise on growth opportunities in Q4FY25. The robust performance of the international business and ongoing global expansion further reinforce the company's outlook for sustained success.
- **Margins normalise; wires sales to rebound:** Margins in the wires business returned to normal levels on a QoQ basis in Q3FY25. Wires sales were impacted by channel destocking due to declining copper prices and elevated inventory levels at the beginning of the quarter. With normalised inventory levels and copper prices stabilising, POLYCAB expects a strong rebound in wire sales during Q4FY25.
- **Strong growth aspirations amid industry outlook:** Assuming real GDP growth of 6.5%, the wires and cables industry is expected to grow by 10-13%. POLYCAB aims to outpace the industry with a target growth rate of 1.5x, translating to a robust 15-20% CAGR over the next five years.
- **Capacity utilisation:** POLYCAB's utilisation rate remains strong at 75-80%. Demand for cables is anticipated to stay ahead of supply for the next five years, supported by strong domestic and export growth. The top five players, holding a 60-70% market share, are expected to lead capacity expansions, mitigating concerns of overcapacity in India
- **Expanding export potential, especially in the USA:** Exports are expected to grow faster than domestic sales, with the US driving significant traction. Currently, one-third of POLYCAB's export revenue originates from the US. Indian cables face a 3-5% import duty in the US compared to zero for Mexican imports. Any increase

in tariffs on Mexican exports to the US could enhance the price competitiveness of Indian exports.

- **Diversified growth across categories:** POLYCAB is expanding its portfolio across categories, including HT, LT, optical fibre, and specialised cables. The cables segment continues to dominate the sales mix, contributing over 75%, with double-digit growth in cable volumes and single-digit growth in wires.
- **EHV cable capex to drive long-term growth:** POLYCAB has allocated Rs 6bn-7bn for EHV (extra high voltage) cable capex, which is expected to be commissioned by the end of FY26. Sales contributions will begin in FY27, with a gradual ramp-up and a potential fixed asset turnover of 4x.
- **E-Beam technology:** POLYCAB has been leveraging e-beam technology for cable production over the past two decades. The company has now launched e-beam-enabled wires, which are witnessing rapid growth, reinforcing its innovation-led market presence.

FMEG

- **Segmental performance:** The FMEG segment grew a strong 43% YoY during the quarter, driven by strategic initiatives such as channel expansion, improved product architecture, and the successful execution of an influencer management programme. These efforts have contributed to revenue growth across all product categories, reflecting the effectiveness of the company's strategy.
- **Strong performance in fans and lighting segments:** The fan segment continued its growth trajectory, achieving YoY and sequential growth, with the upcoming fan season expected to sustain this momentum. The lights and luminary segment also rebounded strongly, registering significant volume and value growth after several quarters of decline. This revival was supported by festive demand, the launch of over 130 new SKUs, geographical expansion into more than 500 towns, and the addition of 150 distributors and 7,000 retailers during the year, despite ongoing price pressures.
- **Broad-based growth across FMEG categories:** Segments such as switchgears, conduit pipes, fittings, and switches experienced healthy growth, buoyed by strong demand from the real estate sector. Utilisation rates for FMEG products ranged between 40% and 70%, indicating room for further expansion. While the company has a strong presence in western regions, efforts are underway to establish a more prominent footprint in other areas.
- **Positive outlook for FMEG growth:** With improved gross margins, enhanced operating leverage, and sustained real estate demand, the FMEG segment has curtailed losses and is poised for accelerated growth in the coming years. Strategic initiatives, coupled with a focus on geographical expansion and product innovation, are expected to drive further demand and strengthen the company's position in the FMEG market.

Others

- **Segment performance:** Strategic EPC business achieved impressive revenues of Rs 4bn in Q3, growing a robust 111% YoY. Profitability also surged, a 37% increase YoY, while segmental margins stood at a healthy 11.3%. These results reflect the company's strong execution capabilities and focus on delivering value through its EPC projects.
- **Sustained performance outlook:** The company expects the EPC business to maintain a similar quarterly revenue run rate over the next two to three years as it continues to execute its existing order book. This consistent performance underscores the company's commitment to leveraging its strategic EPC capabilities for long-term growth.
- **Contribution and margin expectations:** The Engineering, Procurement & Construction (EPC) segment's contribution to the consolidated topline is projected to remain in the mid to high single-digit range. Additionally, the company anticipates annual sustainable EBIT margins for this business to stabilise in the high single digits over the medium to long term, ensuring profitability and steady growth in the segment.

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. The company has been able to achieve its Project Leap target well ahead of schedule and unveiled Project Spring setting ambitious FY30 targets where it aims to grow its wires and cables business 1.5x the industry growth rate, with a target of domestic EBITDA margins of 11-13% and expanding international revenue to 10% of total sales. The FMEG business, poised for 8-10% market growth, targets 1.5x to 2x faster expansion while maintaining focus on existing products and aiming for EBITDAM of 8-10% by FY30.

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 11-13%, driving 20%+ ROE, which will support a sustained earnings upgrade cycle.

Following the strong Q3FY25, we marginally raise our FY27 EPS estimate by 2% and continue to value the stock at 45x – a 25% premium to the 3Y average and a PEG of 1.5x. On rolling valuations to Dec'26E, we arrive at a higher TP of Rs 8,090 (from Rs 7,700). Due to the recent correction in POLYCAB's stock price, we upgrade our rating to BUY from HOLD.

Fig 13 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	212,463	250,555	296,566	215,639	248,681	287,889	(1.5)	0.8	3.0
EBITDA	27,622	34,242	41,030	28,786	33,927	39,860	(4.0)	0.9	2.9
PAT	18,691	23,673	28,086	19,933	23,671	27,624	(6.2)	0.0	1.7
EPS (Rs)	124.5	157.7	187.1	132.8	157.7	184.0	(6.2)	0.0	1.7
EBITDA Margin (%)	13.0	13.7	13.8	13.3	13.6	13.8	(30bps)	0bps	0bps

Source: BOBCAPS Research

Key risks

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	212,463	250,555	296,566
EBITDA	18,521	24,918	27,622	34,242	41,030
Depreciation	2,092	2,451	3,239	3,736	4,718
EBIT	16,430	22,468	24,383	30,506	36,312
Net interest inc./(exp.)	(598)	(1,083)	(1,604)	(1,703)	(1,823)
Other inc./(exp.)	1,333	2,209	2,275	2,412	2,532
Exceptional items	0	0	0	0	0
EBT	17,165	23,593	25,054	31,215	37,021
Income taxes	4,250	5,564	6,314	7,492	8,885
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(93)	0	0	0	0
Reported net profit	12,700	17,840	18,691	23,673	28,086
Adjustments	0	0	0	0	0
Adjusted net profit	12,700	17,840	18,691	23,673	28,086

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	20,326	28,633	34,925	41,187	48,751
Other current liabilities	4,430	6,474	7,625	8,992	10,643
Provisions	0	0	0	0	0
Debt funds	1,551	898	2,291	2,433	2,604
Other liabilities	1,636	2,913	3,330	3,827	4,426
Equity capital	1,498	1,502	1,502	1,502	1,502
Reserves & surplus	64,814	80,369	94,557	113,727	137,310
Shareholders' fund	66,311	81,871	96,059	115,229	138,812
Total liab. and equities	94,255	120,789	144,231	171,668	205,237
Cash and cash eq.	6,952	4,024	9,163	13,293	22,982
Accounts receivables	12,466	20,471	21,442	26,860	30,861
Inventories	29,514	36,751	43,866	51,388	61,027
Other current assets	6,650	7,670	9,033	10,652	12,609
Investments	13,505	18,224	18,224	18,224	18,224
Net fixed assets	20,104	21,678	28,439	34,703	39,985
CWIP	2,508	5,784	6,813	8,034	9,510
Intangible assets	203	206	206	206	206
Deferred tax assets, net	0	0	0	0	0
Other assets	2,352	5,981	7,044	8,307	9,832
Total assets	94,255	120,789	144,231	171,668	205,237

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	14,275	12,963	19,923	20,479	26,422
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	(1,674)	(1,988)	(2,401)
Cash flow from investing	(12,026)	(7,519)	(11,674)	(11,988)	(12,401)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	332	(1,071)	1,393	142	171
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)	(3,110)	(4,361)	(4,332)
Chg in cash & cash eq.	11	1,570	5,140	4,130	9,689
Closing cash & cash eq.	6,952	4,024	9,163	13,293	22,982

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	84.6	118.9	124.5	157.7	187.1
Adjusted EPS	84.6	118.9	124.5	157.7	187.1
Dividend per share	20.0	30.0	30.0	30.0	30.0
Book value per share	441.8	545.4	640.0	767.7	924.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.6	5.2	4.4	3.7	3.2
EV/EBITDA	50.5	37.5	33.9	27.3	22.8
Adjusted P/E	73.9	52.6	50.2	39.6	33.4
P/BV	14.1	11.5	9.8	8.1	6.8

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	102.8	102.3	102.0
EBIT margin (EBIT/Revenue)	11.6	12.5	11.5	12.2	12.2
Asset turnover (Rev./Avg TA)	7.0	8.3	7.5	7.2	7.4
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.3	0.3	0.3
Adjusted ROAE	20.9	24.1	21.0	22.4	22.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.6	27.9	17.8	17.9	18.4
EBITDA	46.4	34.5	10.9	24.0	19.8
Adjusted EPS	51.3	40.5	4.8	26.7	18.6
Profitability & Return ratios (%)					
EBITDA margin	13.1	13.8	13.0	13.7	13.8
EBIT margin	11.6	12.5	11.5	12.2	12.2
Adjusted profit margin	9.0	9.9	8.8	9.4	9.5
Adjusted ROAE	20.9	24.1	21.0	22.4	22.1
ROCE	23.1	26.6	22.3	23.0	22.7
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	5.0	4.9
Current ratio	2.6	2.4	2.3	2.4	2.4
Net interest coverage ratio	27.5	20.7	15.2	17.9	19.9
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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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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

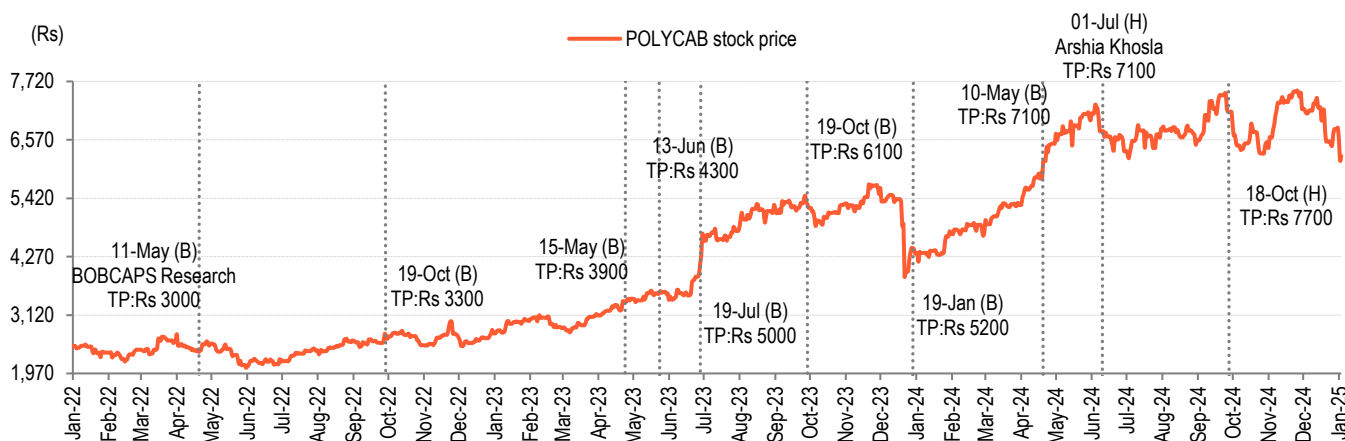
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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