BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 7,100 | ⮝ 15%

POLYCAB INDIA | Consumer Durables | 10 May 2024

Strong quarter, strong outlook

- **Strong topline growth of 27.9% in FY24, with gross and EBIT margin expansion of 90bps and 70bps respectively**
- **W&C market share at 24-26%; Project LEAP target to be achieved early with further target announcements expected in FY25**
- **We raise FY25E/26E EPS by 9% each to bake in strong FY24 and raise target P/E to 45x on ebbing IT raid concerns; TP rises to Rs 7,100**

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Strong quarter across: Polycab recorded a strong quarter and year, with a topline of Rs 55.9bn in Q4 and Rs 180.4bn in FY24, reflecting growth of 29.3% and 27.9% respectively. Gross margin for FY24 improved 90bps YoY to 26.4%, largely due to strategic pricing actions and a better product mix. EBITDA margin expanded 70bps YoY to 13.8% during FY24. Adjusted PAT came in at Rs 18bn for FY24, with quarterly PAT rising above Rs 5bn for the first time.

W&C shines yet again: Polycab's Wires and Cables (W&C) segment grew 26.1% in FY24 and 19.3% in Q4. This exceeds HAVL's 14.1% and KEII's 17.9% for Q4. EBIT margin, also above its peers, stood at 15.1% for Q4, a 60bps expansion YoY, largely due to better operating leverage and lower promotional expenses. Polycab gained significant market share of 25-26% in FY24 (22-24% in FY23 and 18% in FY19) in the organised W&C industry.

Project LEAP on track, further mid-term guidance to follow: Polycab expects to achieve its target of Rs 200bn annual topline, ahead of its initial target, by FY26 end. Exports, currently contributing 8% of topline (in FY24), are expected to rise to 10% by FY26 end as per target. Management indicated further guidance to be announced during FY25, as targets are expected to be achieved sooner than anticipated. Management guided for a Rs 10bn-11bn annual capex over the next two years, which was earlier Rs 6bn-7bn.

IT department update: The Income Tax department has requested Polycab to provide explanations for its queries, but has not charged the company any penalty so far.

Maintain BUY: As concerns over the IT raid conducted on Polycab fade, we raise our target P/E to 45x (from 37x) and our FY25/26 EPS estimates by 9% each to bake in the strong quarter and year. We arrive at a revised TP of Rs 7,100 (Rs 5,200 earlier) and maintain BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	POLYCAB IN/Rs 6,156
Market cap	US$ 11.2bn
Free float	34%
3M ADV	US$ 32.7mn
52wk high/low	Rs 6,363/Rs 3,202
Promoter/FPI/DII	66%/12%/8%

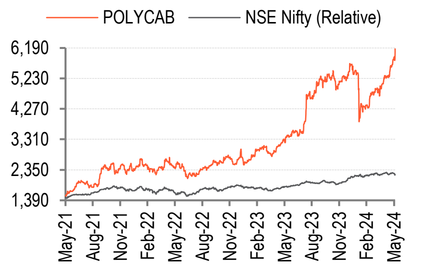
Source: NSE | Price as of 10 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,80,394	2,10,338	2,37,013
EBITDA (Rs mn)	24,918	29,683	33,221
Adj. net profit (Rs mn)	17,840	20,716	23,506
Adj. EPS (Rs)	118.9	138.0	156.6
Consensus EPS (Rs)	118.9	137.0	154.4
Adj. ROAE (%)	24.1	23.0	21.8
Adj. P/E (x)	51.8	44.6	39.3
EV/EBITDA (x)	37.0	31.0	27.7
Adj. EPS growth (%)	40.5	16.1	13.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	55,919	43,237	29.3	43,405	28.8	1,80,394	1,41,078	27.9
EBITDA	7,615	6,095	24.9	5,695	33.7	24,918	18,521	34.5
EBITDA Margin (%)	13.6	14.1	(50bps)	13.1	50bps	13.8	13.1	70bps
Depreciation	657	535		619		2,451	2,092	
Interest	244	282		322		1,083	598	
Other Income	538	515		710		2,209	1,333	
PBT	7,253	5,794	25.2	5,464	32.7	23,593	17,165	37.4
Tax	1,718	1,446		1,299		5,564	4,250	
Adjusted PAT	5,460	4,248	28.5	4,129	32.3	18,029	12,915	39.6
Exceptional item	-	-		0		0	0	
Reported PAT	5,460	4,248	28.5	4,129	32.3	18,029	12,823	40.6
Adj. PAT Margin (%)	9.8	9.8	(10bps)	9.5	30bps	10.0	9.2	80bps
EPS (Rs)	37.0	29.1	27.3	27.8	32.9	118.9	84.6	40.5

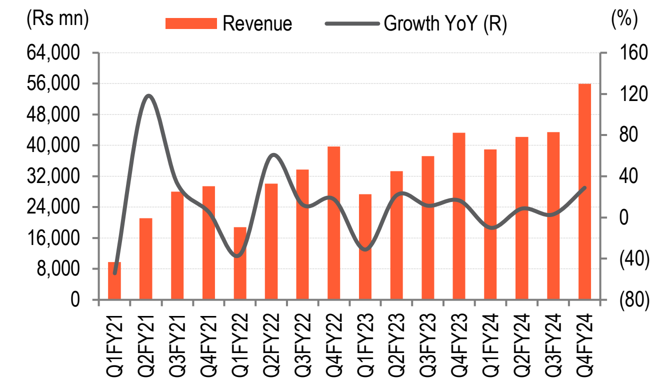
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
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
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
% 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
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
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
% 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
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
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
FMEG	(143)	172	63	105	64	(27)	(24)	(70)	(57)	(60)	(366)	(459)
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)

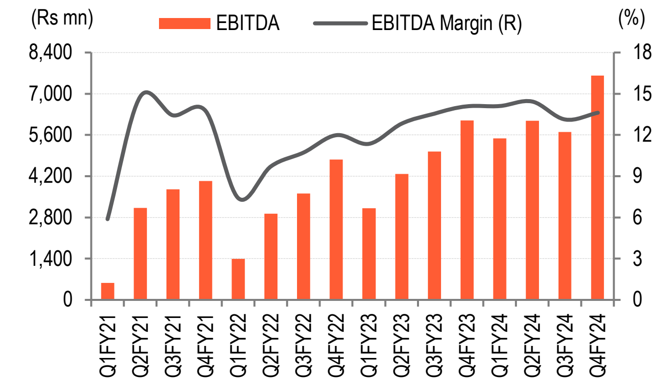
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



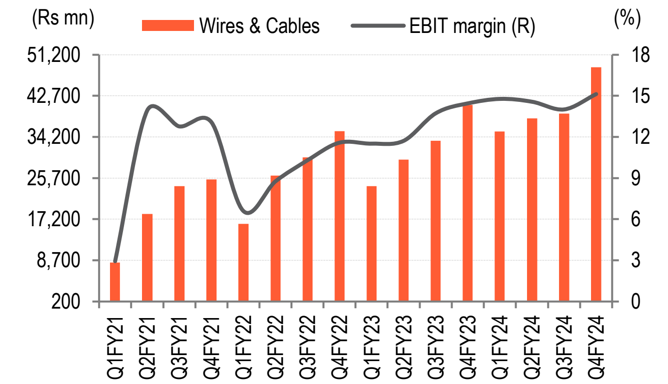
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



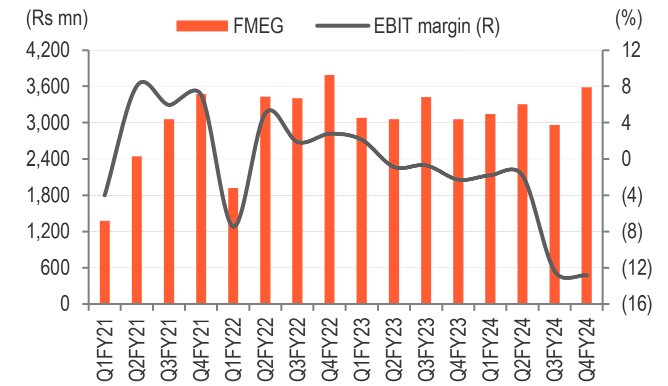
Source: Company, BOBCAPS Research

Fig 5 – Segment performance – W&C



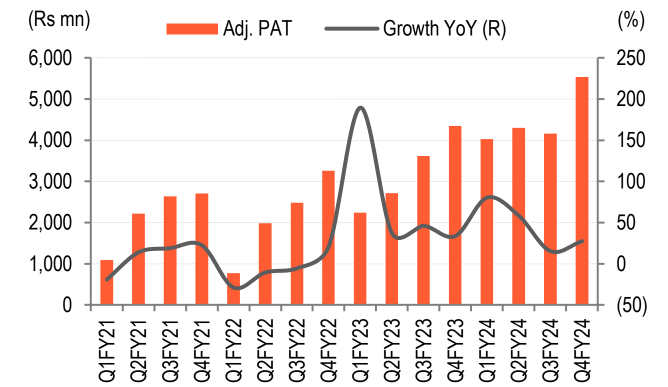
Source: Company, BOBCAPS Research

Fig 6 – Segment performance – FMEG



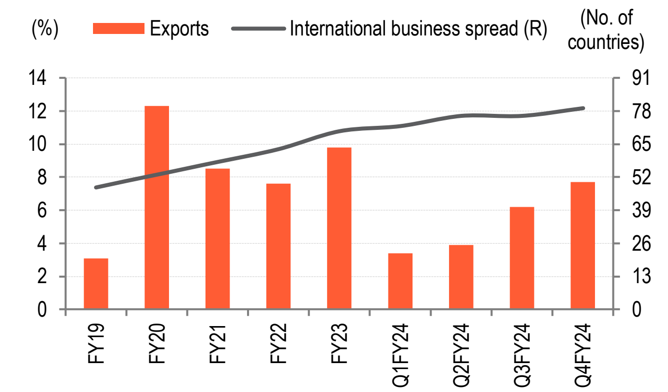
Source: Company, BOBCAPS Research

Fig 7 – PAT growth



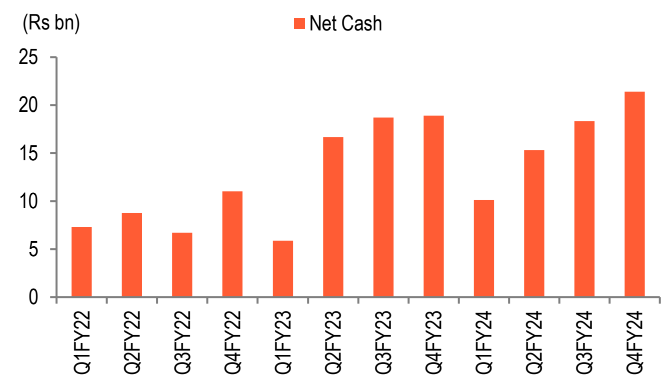
Source: Company, BOBCAPS Research

Fig 8 – Export trend



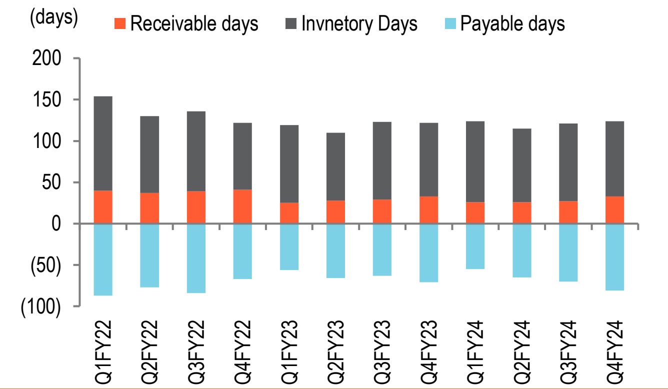
Source: Company, BOBCAPS Research

Fig 9 – Net cash position



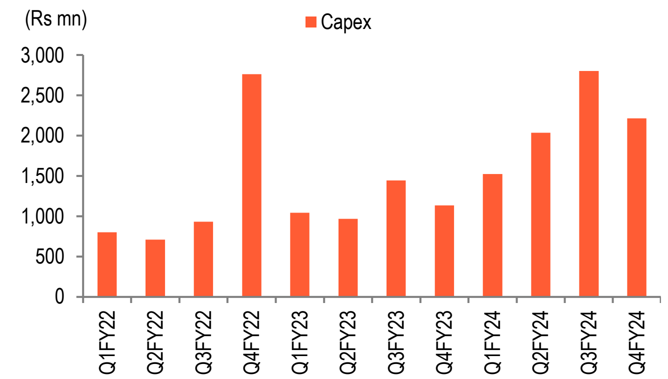
Source: Company, BOBCAPS Research

Fig 10 – Working capital management



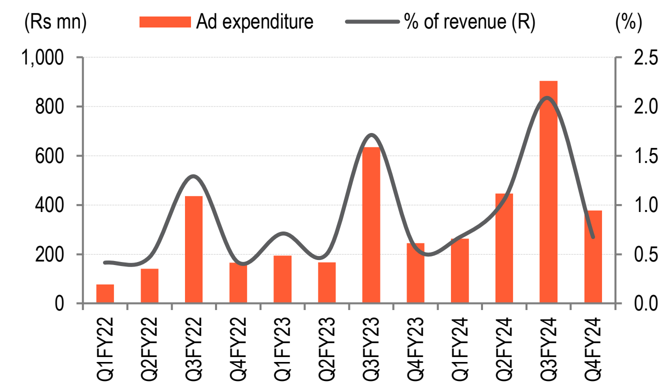
Source: Company, BOBCAPS Research

Fig 11 – Capex spends



Source: Company, BOBCAPS Research

Fig 12 – Ad spends



Source: Company, BOBCAPS Research

Earnings call highlights

Wires & Cables (W&C)

- **Segment performance:** W&C segment grew well on the back of strong volume growth, with 19.3% YoY growth in topline for Q4 and 26.1% for FY24. EBIT margin grew 60bps YoY to 15.1% for Q4, and 160bps YoY to 14.7% for FY24. Polycab has a 70-30 mix between cables-wires within this segment.
- **Volume growth:** Polycab grew 30-40% in volume terms for both Q4 and FY24. Cables grew faster than wires with both growing more than 30%.
- **Profitability:** Polycab expects to deliver 12-13% EBIT margin for this segment over the medium to long term.
- **Peer comparison:** Polycab performed better than its peers Havells and KEI Industries, which posted topline growth of 14.1% and 17.9% respectively in Q4FY24. EBIT margin for the two companies stood at 12% (flat YoY) and 10.9% (+150bps YoY) respectively for Q4FY24.
- **Domestic business:** Distribution business continued to show healthy performance, with the institutional business growing faster. Within the domestic business, 89-90% of the sales was made through the distribution model.
- **Capacity utilisation factor:** CUF for W&C was 70-75% during Q4FY24.

Fast-moving electrical goods (FMEG)

- **Segment performance:** The segment registered strong revenue growth of 17.3% during this seasonally strong demand quarter. This segment reported an EBIT loss of Rs 459mn during Q4, largely due to lack of economies of scale and a one-time impact of aged inventory impairment amounting to Rs 105mn. Fans and lighting contributed to 50% of the topline in this segment, which has come down from 60% earlier, following the price erosion in the lighting industry.
- **Strategy:** Management has merged all B2C businesses under one head, identified gaps in execution, and expects the changes to take effect over the next 2-3 quarters. After this, management expects the FMEG business to grow ahead of industry peers.
- **Fans:** Fans showed strong growth as the brushless direct current motor (BLDC) and premium range of the company gained traction in the market. The company launched over 90SKUs during the year within this product category. Premium and BLDC fans contributed to 28% of total fan sales.
- **Switches and switchgears:** Growth momentum continued in this segment as well.
- **Lighting:** Lighting registered QoQ growth during the quarter despite the ongoing price erosion within the lighting industry. Management expects further price corrections in this industry.

Others

- **Segment performance:** The Others segment, which largely consists of the engineering, procurement & construction (EPC) business, grew by 275% YoY during Q4, with annual revenue growing 137%. The company has a healthy order book of Rs 48bn, with orders won under the Revamped Distribution Sector Scheme (RDSS) scheme expected to be executed in the next 3-4 years.

- **Profitability:** Segmental EBIT margin expanded 280bps YoY to 8.9% for Q4 and 20bps to 11.3% for FY24. Management expects steady high single-digit margins over the medium to long term.

International business

- **Performance:** International business rebounded during the quarter, with 60% QoQ growth in Q4FY24, and contributed 7.7% of the total revenue. Management is confident of achieving 10% revenue contribution from exports by FY26, based on project LEAP.

- **Strategy:** Polycab is moving to a distribution model in the exports business, similar to that of its domestic business, and has begun with the US. It expects the US to be soft while it stabilises in the short term, and other geographies to continue to perform well. The company added 3 more countries during Q4.

Other highlights

- **Update on case with Income Tax department:** Following the raid conducted by the Income Tax department on Polycab's premises in Dec'23, the IT department has requested Polycab to provide explanations for queries raised by the department. Currently, the IT department has not issued the company an order or demand for tax penalty.

- **Capex:** The company incurred a capex of Rs 8.6bn during FY24. Going forward, it expects to incur a capex of Rs 10bn-11bn each year to augment its manufacturing capacities. Of this, 20% is expected to be incurred for extra-high voltage (EHV) cables on its Halol plant, which is expected to be commissioned towards the end of FY26. The company also plans to expand its Halol facility for special purpose cables, optic-fibre cables (OFC), high-tension (HT), low-tension (LT) and other cables going forward. Management expects a 5-6x asset turnover on the capacity planned to be added.

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 industry peers. The company is working hard to reap benefits soon from its exports and FMEG businesses. The company's EPC business has a robust order of Rs 48bn, which provides revenue visibility for the next 3-4 years.

As concerns over the IT raid on Polycab fade, we raise our target P/E to 45x (from 37x) and our FY25/26 EPS estimates by 9.6%/8.9% to bake in the strong Q4 and FY24. We arrive at a higher target price of Rs 7,100 (Rs 5,200 earlier) and maintain BUY.

Fig 13 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,10,338	2,37,013	1,96,892	2,22,030	6.8	6.7
EBITDA	29,683	33,221	27,673	31,018	7.3	7.1
PAT	20,716	23,506	18,894	21,588	9.6	8.9
EPS (Rs)	138.0	156.6	125.9	143.8	9.6	8.9
EBITDA Margin (%)	14.1	14.0	14.1	14.0	10bps	0bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity price volatility,
- sustained weak FMEG performance, and
- delays in EPC business execution.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,803	3,200	SELL
Blue Star	BLSTR IN	3.3	1,415	1,670	BUY
Havells India	HAVL IN	12.9	1,687	1,780	HOLD
KEI Industries	KEII IN	4.3	3,929	3,680	HOLD
Orient Electric	ORIENTEL IN	0.5	209	230	HOLD
Polycab India	POLYCAB IN	11.2	6,156	7,100	BUY
Syrma SGS	SYRMA IN	1.0	473	550	HOLD
Voltas	VOLT IN	5.2	1,288	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 May 2024

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	**1,22,038**	**1,41,078**	**1,80,394**	**2,10,338**	**2,37,013**
EBITDA	12,652	18,521	24,918	29,683	33,221
Depreciation	2,015	2,092	2,451	3,099	3,470
EBIT	10,637	16,430	22,468	26,585	29,751
Net interest inc./(exp.)	(352)	(598)	(1,083)	(1,142)	(1,191)
Other inc./(exp.)	899	1,333	2,209	2,319	2,435
Exceptional items	0	0	0	0	0
EBT	11,184	17,165	23,593	27,762	30,995
Income taxes	2,706	4,250	5,564	6,996	7,439
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(26)	(93)	0	0	0
Reported net profit	**8,365**	**12,700**	**17,840**	**20,716**	**23,506**
Adjustments	0	0	0	0	0
Adjusted net profit	**8,365**	**12,700**	**17,840**	**20,716**	**23,506**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	12,175	20,326	28,633	34,576	38,961
Other current liabilities	4,436	4,430	6,474	7,549	8,506
Provisions	0	0	0	0	0
Debt funds	831	1,551	898	2,283	2,383
Other liabilities	1,239	1,636	2,913	3,303	3,650
Equity capital	1,494	1,498	1,502	1,502	1,502
Reserves & surplus	53,943	64,814	80,369	96,582	1,15,585
Shareholders' fund	55,437	66,311	81,871	98,084	1,17,088
Total liab. and equities	**74,119**	**94,255**	**1,20,789**	**1,45,795**	**1,70,587**
Cash and cash eq.	4,071	6,952	4,024	14,970	25,995
Accounts receivables	12,964	12,466	20,471	21,228	25,408
Inventories	21,996	29,514	36,751	43,427	48,610
Other current assets	4,739	6,650	7,670	8,943	10,077
Investments	7,641	13,505	18,224	18,224	18,224
Net fixed assets	16,170	20,104	21,678	25,079	26,609
CWIP	3,755	2,508	5,784	6,745	7,600
Intangible assets	230	203	206	206	206
Deferred tax assets, net	0	0	0	0	0
Other assets	2,553	2,352	5,981	6,974	7,858
Total assets	**74,119**	**94,255**	**1,20,789**	**1,45,795**	**1,70,587**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	**5,116**	**14,275**	**12,963**	**22,127**	**21,821**
Capital expenditures	(5,200)	(4,584)	(8,580)	(6,500)	(5,000)
Change in investments	935	(5,213)	(3,839)	0	0
Other investing cash flows	(4)	(2,229)	4,900	(1,563)	(1,392)
Cash flow from investing	**(4,270)**	**(12,026)**	**(7,519)**	**(8,063)**	**(6,392)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(168)	332	(1,071)	1,385	99
Interest expenses	0	0	0	0	0
Dividends paid	(1,839)	(2,570)	(2,803)	(4,503)	(4,503)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(2,007)**	**(2,238)**	**(3,874)**	**(3,118)**	**(4,404)**
Chg in cash & cash eq.	**(1,160)**	**11**	**1,570**	**10,947**	**11,025**
Closing cash & cash eq.	**4,071**	**6,952**	**4,024**	**14,970**	**25,995**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	55.9	84.6	118.9	138.0	156.6
Adjusted EPS	55.9	84.6	118.9	138.0	156.6
Dividend per share	14.0	20.0	30.0	30.0	30.0
Book value per share	370.6	441.8	545.4	653.5	780.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	7.5	6.5	5.1	4.4	3.9
EV/EBITDA	72.8	49.7	37.0	31.0	27.7
Adjusted P/E	110.1	72.8	51.8	44.6	39.3
P/BV	16.6	13.9	11.3	9.4	7.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.8	74.0	75.6	74.6	75.8
Interest burden (PBT/EBIT)	105.1	104.5	105.0	104.4	104.2
EBIT margin (EBIT/Revenue)	8.7	11.6	12.5	12.6	12.6
Asset turnover (Rev./Avg TA)	7.5	7.0	8.3	8.4	8.9
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.3	0.3	0.2
Adjusted ROAE	16.2	20.9	24.1	23.0	21.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	38.8	15.6	27.9	16.6	12.7
EBITDA	13.9	46.4	34.5	19.1	11.9
Adjusted EPS	(0.2)	51.3	40.5	16.1	13.5
Profitability & Return ratios (%)					
EBITDA margin	10.4	13.1	13.8	14.1	14.0
EBIT margin	8.7	11.6	12.5	12.6	12.6
Adjusted profit margin	6.9	9.0	9.9	9.8	9.9
Adjusted ROAE	16.2	20.9	24.1	23.0	21.8
ROCE	17.8	23.1	26.6	23.9	22.1
Working capital days (days)					
Receivables	39	32	41	37	39
Inventory	66	76	74	75	75
Payables	36	53	58	60	60
Ratios (x)					
Gross asset turnover	4.7	4.9	5.4	5.4	5.3
Current ratio	3.0	2.6	2.4	2.5	2.7
Net interest coverage ratio	30.2	27.5	20.7	23.3	25.0
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**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

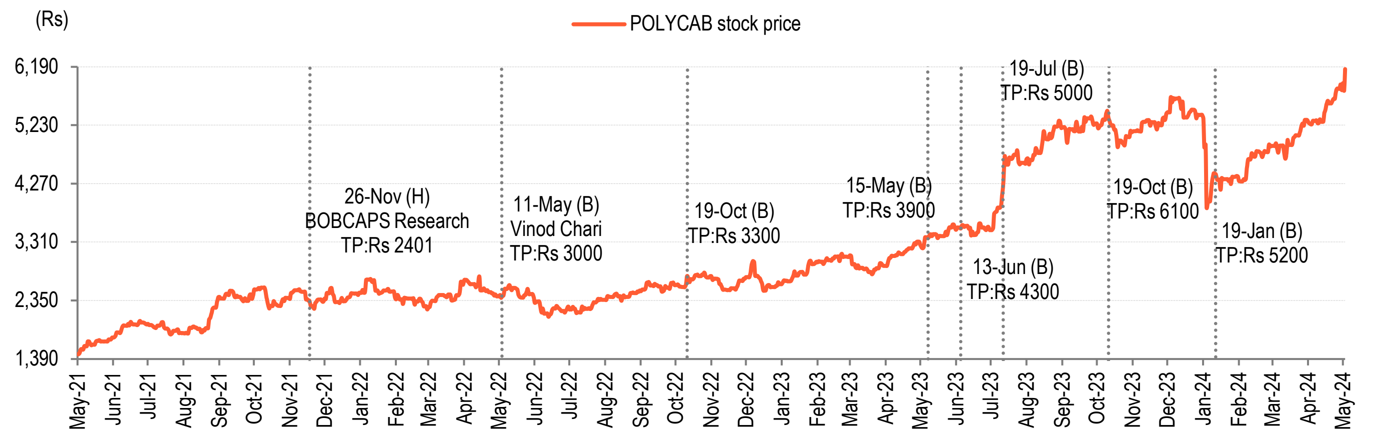
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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

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