

RESEARCH
BOB Economics Research | Monetary Policy Review

Tackling inflation a priority

Polycab India | Target: Rs 3,000 | +24% | BUY

Annual report analysis: W&C well capitalised; FMEG remains key

SUMMARY
India Economics: Monetary Policy Review

RBI's hawkish policy is focussed largely on heightened inflationary concerns. It has raised policy rate by 50bps. CPI forecast has been revised upward by 100bps in FY23 to 6.7% (our est.: 6.5%). More importantly in the next three quarters, headline CPI is expected to be above RBI's upper tolerance band. However, the current policy gives clear signalling, hence market rates have also remained stable. We expect another 50-75bps rate hike in the current cycle.

[Click here for the full report.](#)
Polycab India

- Maintains leadership in wires & cables with ~23% market share; growth momentum in FMEG business sustained in FY22 (5Y CAGR of 30%)
- Management reaffirms long-term 'Project Leap' strategy with higher cost-savings target of Rs 200bn (Rs 122bn in FY22) by FY26, a 13% CAGR
- Balance sheet remains robust; emerging W&C opportunities plus high-growth FMEG foray reinforce our optimism; BUY, TP Rs 3,000

[Click here for the full report.](#)
Daily macro indicators

Indicator	06-Jun	07-Jun	Chg (%)
US 10Y yield (%)	3.04	2.97	-7bps
India 10Y yield (%)	7.5	7.52	2bps
USD/INR	77.63	77.71	(0.1)
Brent Crude (US\$/bbl)	119.7	119.5	(0.2)
Dow	32,916	33,180	0.8
Hang Seng	21,654	21,532	(0.6)
Sensex	55,675	55,107	(1.0)
India FII (US\$ mn)	03-Jun	06-Jun	Chg (\$ mn)
FII-D	7.5	(198.9)	(206.4)
FII-E	(476.2)	(238.7)	237.4

Source: Bank of Baroda Economics Research



RBI POLICY

08 June 2022

Tackling inflation: a priority

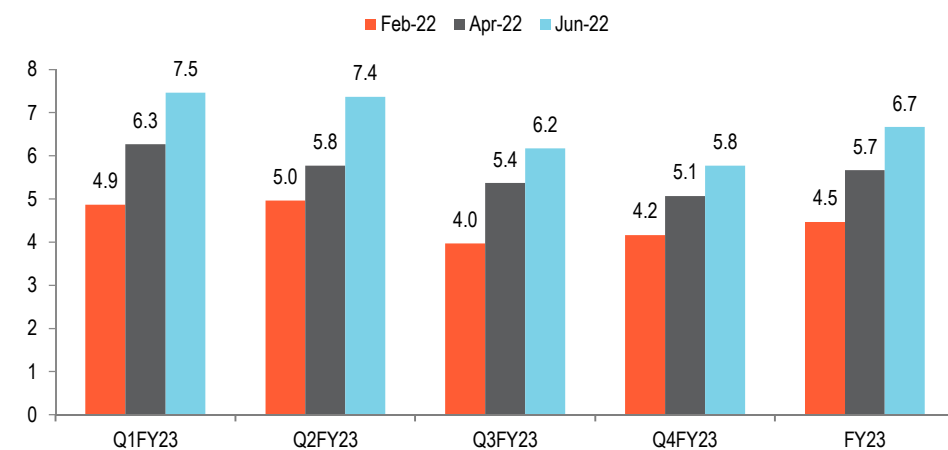
RBI's hawkish policy is focussed largely on heightened inflationary concerns. It has raised policy rate by 50bps. CPI forecast has been revised upward by 100bps in FY23 to 6.7% (our est.: 6.5%). More importantly in the next three quarters, headline CPI is expected to be above RBI's upper tolerance band. However, the current policy gives clear signalling, hence market rates have also remained stable. We expect another 50-75bps rate hike in the current cycle.

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Policy decision: RBI in its current policy raised repo rate by 50bps to 4.9%. Accordingly, the upper and lower bound of policy rate stand at 4.65% and 5.15% respectively. The hawkish policy has focussed largely on elevated inflationary concerns.

Stance has also been changed focusing 'on withdrawal of accommodation'.

Inflation a growing evil: The current policy has revised inflation projection upward by 100bps to 6.7% in FY23 from 5.7% estimated earlier. The entire trajectory for FY23 has been revised upward. For Q1, headline CPI is expected to be 120bps higher at 7.5% from 6.3% earlier, for Q2, it is expected to be 160bps higher at 7.4%, for Q3, +80bps higher at 6.2% and for Q4, +70bps higher at 5.8%. The policy statement flagged significant upside risks to inflation. It highlighted 1) supply shocks emanating from adverse global factors, 2) heightened risks to food inflation from 'shortfall in the rabi production due to the heat wave'. 3) edible oil prices remaining under pressure, 4) second round pass through to pump prices on account of increase in international crude prices. Notably, in the current policy document average crude price assumption has been kept at US\$ 105/bbl, which is also subject to considerable risks, considering the current run rate at ~US\$ 120/bbl.

Fig 1 – RBI's headline CPI forecasts

Source: CEIC, Bank of Baroda Research



BUY

TP: Rs 3,000 | ▲ 24%

POLYCAB INDIA

Consumer Durables

08 June 2022

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- Balance sheet remains robust; emerging W&C opportunities plus high-growth FMEG foray reinforce our optimism; **BUY, TP Rs 3,000**

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Key takeaways from our analysis of Polycab's FY22 annual report:

Remains leader in W&C segment: Polycab's wires & cables (W&C) business grew 48% in FY22 driven by the inflation-led rise in price realisations, with cost pressures remaining largely constant throughout the year. Although mostly pass-through, Polycab made the tactical decision to absorb increased prices in select categories within the cables segment in order to bolster market share. The company remains the market leader with a 22-24% share in the organised W&C market. In addition to the traditional growth in W&C from construction, utilities and telecom, opportunities are opening up from electric vehicles, renewables, digital connectivity and defence.

Sales mix to improve as FMEG share rises: The FMEG segment grew 21% in FY22. Polycab expects to continue outperforming industry growth (pegged at high-single-digits over the medium term), backed by rising disposable incomes, changing consumer preferences, technological advancements and privatisation. Notably, the company believes most of the categories in which it operates will grow in high-single-digits to low-double-digits over the next few years.

Strengthening distribution: Polycab has increased the number of authorised dealers and distributors from 4,100 to 4,600+ at end-FY22. In addition, its retail outlet reach has risen nearly 25% YoY, from 165,000 to 205,000. About 21% of this network is exclusively for the W&C business, 54% is utilised by the FMEG segment and 25% is common to both segments.

Net cash up, capex steady: The company plans to maintain an annual capex rate of Rs 3bn-4bn over the next few years, with a focus on greenfield and brownfield projects. Its financial position is strong with net cash of over Rs 11bn and D/E of just 0.01x. ROE/ROCE stood at 16.5%/20.5% for FY22.

Maintain BUY, TP Rs 3,000: We continue to value the stock at 35x FY24E EPS, a 50% premium to the 3Y average, and maintain BUY with a TP of Rs 3,000. Key downside risks to growth include higher commodity prices and a weaker economy.

Key changes

Target	Rating
◀ ▶	◀ ▶

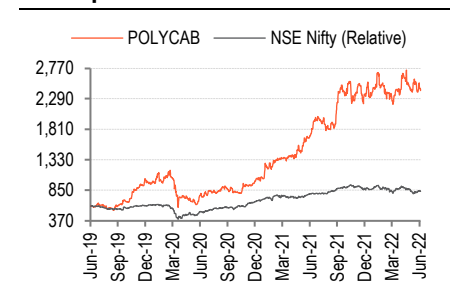
Ticker/Price	POLYCAB IN/Rs 2,418
Market cap	US\$ 4.6bn
Free float	32%
3M ADV	US\$ 12.0mn
52wk high/low	Rs 2,820/Rs 1,730
Promoter/FPI/DII	68%/6%/9%

Source: NSE | Price as of 7 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,43,600	1,61,610
EBITDA (Rs mn)	12,688	16,241	20,062
Adj. net profit (Rs mn)	7,733	10,420	12,725
Adj. EPS (Rs)	51.7	69.6	85.1
Consensus EPS (Rs)	51.7	73.8	90.4
Adj. ROAE (%)	15.0	17.5	18.4
Adj. P/E (x)	46.8	34.7	28.4
EV/EBITDA (x)	28.2	22.0	17.9
Adj. EPS growth (%)	4.6	34.8	22.1

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

Stock performance

Source: NSE



Disclaimer

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.

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