

BUY

TP: Rs 6,100 | ▲ 17%

POLYCAB INDIA

Consumer Durables

04 December 2023

Management meet takeaways: Brand refresh underway

- New brand identity is aimed at driving demand and spurring FMEG business; EHV capacity addition on track
- Leadership maintained in core wires & cables business; Project Leap export target achieved well ahead of FY26 timeline
- Growth prospects remain strong; maintain BUY with TP of Rs 6,100 (unchanged)

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We interacted with the management of Polycab. Key takeaways:

New brand identity to boost FMEG business: Polycab unveiled a new brand logo towards the end of September, aimed at encapsulating the company's leadership in wires & cables (W&C), the fast-moving electrical goods (FMEG) business and future readiness. Management believes the brand repositioning will bolster sales traction, deepen the company's pan-India presence and particularly help the FMEG business.

Demand outlook strong: After clocking robust 33% YoY revenue growth in H1FY24, the company expects momentum to continue in the second half, aided by favourable demand and market conditions. Management believes domestic demand will remain robust, backed by improving trends in capex and real estate, which should enable the cables business to outdo wires. Polycab expects the current 70:30 mix of cables to wires in revenue to continue for the remainder of the year. B2C business, which forms 33% of the mix, fetches better margins.

Project Leap targets likely to be met ahead of time: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26 under Project Leap, an implied 18% CAGR. The company is on track to achieving this milestone well before time but indicated that revisions to the target, if any, will be made only at the end of FY24. Polycab is also nearing its goal of 10% exports in the topline, reaching 9.3% in Q2FY24.

EHV capex on track: Work on the new extra-high voltage (EHV) cable facility is underway, with operations to start by end-FY26. For FY24, capex is guided at Rs 7bn.

Export outlook favourable: Exports contribute ~10% of sales. Polycab has various certifications which make exports easier. It is also planning warehouses in other geographies which will reduce delivery times and shorten the working capital cycle.

Maintain BUY: We are optimistic about Polycab's prospects given moats in its core W&C business, growth in FMEG and B2C expansion. With the company likely to outperform its sales target, we maintain our BUY rating with an unchanged TP of Rs 6,100, valuing the stock at 45x Sep'25E EPS, ~50% premium to the 3Y average.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	POLYCAB IN/Rs 5,235
Market cap	US\$ 9.5bn
Free float	34%
3M ADV	US\$ 40.0mn
52wk high/low	Rs 5,494/Rs 2,500
Promoter/FPI/DII	66%/12%/8%

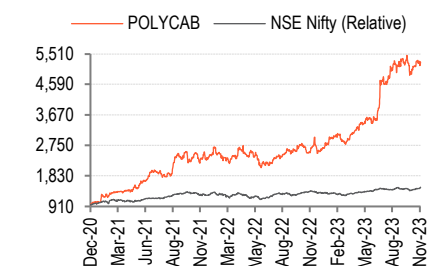
Source: NSE | Price as of 1 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	141,078	170,624	196,892
EBITDA (Rs mn)	18,521	23,595	27,501
Adj. net profit (Rs mn)	12,700	16,220	18,884
Adj. EPS (Rs)	84.9	108.4	126.2
Consensus EPS (Rs)	84.9	109.0	128.0
Adj. ROAE (%)	20.9	22.3	21.7
Adj. P/E (x)	61.7	48.3	41.5
EV/EBITDA (x)	42.3	33.2	28.5
Adj. EPS growth (%)	51.8	27.7	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	122,038	141,078	170,624	196,892	222,030
EBITDA	12,652	18,521	23,595	27,501	31,166
Depreciation	2,015	2,092	2,777	3,297	3,717
EBIT	10,637	16,430	20,818	24,204	27,449
Net interest inc./(exp.)	(352)	(598)	(499)	(469)	(504)
Other inc./(exp.)	899	1,333	1,467	1,613	1,775
Exceptional items	0	0	0	0	0
EBT	11,184	17,165	21,786	25,348	28,720
Income taxes	2,706	4,250	5,490	6,388	6,893
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(26)	(93)	(26)	(26)	(26)
Reported net profit	8,365	12,700	16,220	18,884	21,751
Adjustments	0	0	0	0	0
Adjusted net profit	8,365	12,700	16,220	18,884	21,751

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	12,175	20,326	28,048	32,366	36,498
Other current liabilities	4,436	4,430	6,203	7,158	8,071
Provisions	0	0	0	0	0
Debt funds	831	1,551	3,325	3,606	3,875
Other liabilities	1,239	1,636	1,900	2,135	2,360
Equity capital	1,494	1,498	1,498	1,498	1,498
Reserves & surplus	53,943	64,814	77,741	93,035	110,895
Shareholders' fund	55,437	66,311	79,239	94,532	112,393
Total liab. and equities	74,119	94,255	118,715	139,797	163,198
Cash and cash eq.	4,071	6,952	17,433	24,953	38,917
Accounts receivables	12,964	12,466	16,601	18,277	21,107
Inventories	21,996	29,514	33,224	39,765	44,038
Other current assets	4,739	6,650	8,043	9,281	10,466
Investments	7,641	13,505	13,505	13,505	13,505
Net fixed assets	16,170	20,104	23,827	27,030	27,314
CWIP	3,755	2,508	3,033	3,500	3,947
Intangible assets	230	203	203	203	203
Deferred tax assets, net	0	0	0	0	0
Other assets	2,553	2,352	2,845	3,283	3,702
Total assets	74,119	94,255	118,715	139,797	163,198

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	5,116	14,275	19,252	17,999	22,227
Capital expenditures	(5,200)	(4,584)	(6,500)	(6,500)	(4,000)
Change in investments	935	0	0	0	0
Other investing cash flows	(4)	(7,442)	(753)	(670)	(641)
Cash flow from investing	(4,270)	(12,026)	(7,253)	(7,170)	(4,641)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(168)	332	1,774	281	269
Interest expenses	0	0	0	0	0
Dividends paid	(1,839)	(2,570)	(3,292)	(3,591)	(3,890)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,007)	(2,238)	(1,518)	(3,310)	(3,621)
Chg in cash & cash eq.	(1,160)	11	10,481	7,519	13,964
Closing cash & cash eq.	4,071	6,952	17,433	24,953	38,917

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	55.9	84.9	108.4	126.2	145.4
Adjusted EPS	55.9	84.9	108.4	126.2	145.4
Dividend per share	14.0	20.0	22.0	24.0	26.0
Book value per share	370.6	443.2	529.6	631.8	751.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.4	5.6	4.6	4.0	3.5
EV/EBITDA	61.9	42.3	33.2	28.5	25.1
Adjusted P/E	93.6	61.7	48.3	41.5	36.0
P/BV	14.1	11.8	9.9	8.3	7.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.8	74.0	74.5	74.5	75.7
Interest burden (PBT/EBIT)	105.1	104.5	104.6	104.7	104.6
EBIT margin (EBIT/Revenue)	8.7	11.6	12.2	12.3	12.4
Asset turnover (Rev./Avg TA)	7.5	7.0	7.2	7.3	8.1
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.3	0.3	0.3
Adjusted ROAE	16.2	20.9	22.3	21.7	21.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	38.8	15.6	20.9	15.4	12.8
EBITDA	13.9	46.4	27.4	16.6	13.3
Adjusted EPS	(0.2)	51.8	27.7	16.4	15.2
Profitability & Return ratios (%)					
EBITDA margin	10.4	13.1	13.8	14.0	14.0
EBIT margin	8.7	11.6	12.2	12.3	12.4
Adjusted profit margin	6.9	9.0	9.5	9.6	9.8
Adjusted ROAE	16.2	20.9	22.3	21.7	21.0
ROCE	17.8	23.1	23.0	21.2	20.6
Working capital days (days)					
Receivables	39	32	36	34	35
Inventory	66	76	71	74	72
Payables	36	53	60	60	60
Ratios (x)					
Gross asset turnover	4.7	4.9	4.9	4.8	4.8
Current ratio	3.0	2.6	2.5	2.5	2.7
Net interest coverage ratio	30.2	27.5	41.7	51.6	54.5
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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Brand Name: **BOBCAPS**

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BUY – Expected return >+15%

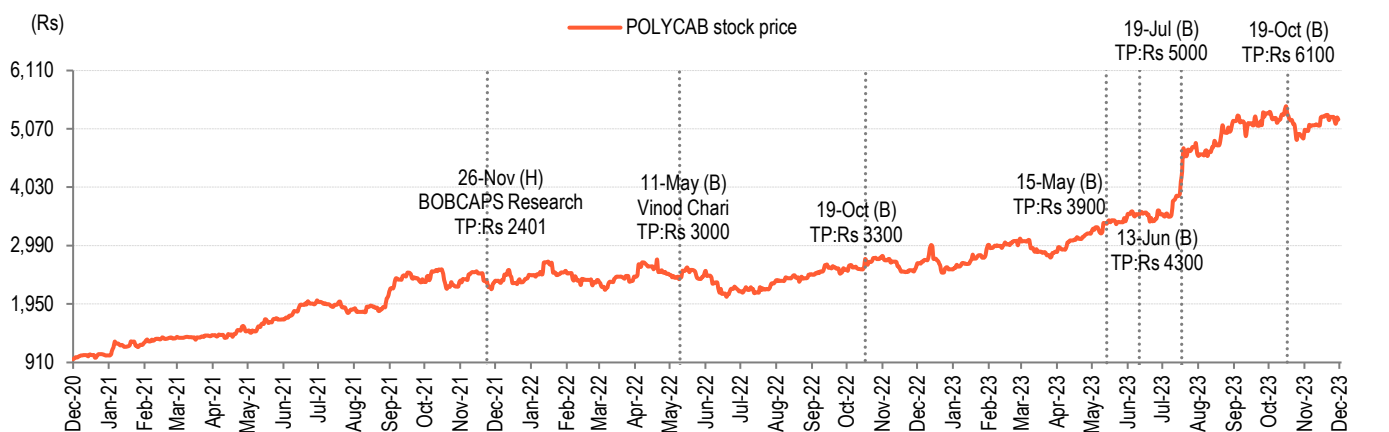
HOLD – Expected return from -6% to +15%

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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