

BUY

TP: Rs 3,000 | ▲ 36%

POLYCAB INDIA

Consumer Durables

20 July 2022

Resilient margins offset moderation in revenue

- Pricing action, cost-cutting initiatives and premiumization all helped to keep margins intact in Q1
- Quarter ended with soft June sales but company hopeful of a strong Q3 due to the festive season and an overall robust H2FY23
- Remains the leader in wires & cables with a potential for rerating as ECD scales up; maintain BUY for TP of Rs 3,000

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Margins maintained: Polycab's Q1FY23 revenue grew 46% YoY to Rs 27bn, nearly two-thirds of which was driven by volumes (above pre-pandemic level). EBITDA margin was in line at 11.4% (11% est.) and gross margin stood at 25% (22.2% in Q4FY22), aided by pricing action, cost-cutting initiatives and premiumisation. EBIT margins for wires & cables (W&C) and FMEG were at 11.5% and 2.1% respectively. Management saw no discernible improvement in demand but remains optimistic about a better H2FY23.

W&C margin guidance at 11-13%: Management expects an EBITDA margin of 11-13% for W&C in FY23 depending on commodity prices. For FMEG, margin pressure is expected to continue due to competitive intensity. While benefits from realignment exercise for fans are expected to accrue starting Nov. FMEG margins have been ~2% and management aims to raise this to 10-12% by FY26 through scale, operational leverage, premiumisation and cost optimisation.

Minor blip in working capital cycle: The working capital cycle was affected during Q1FY23 due to (i) higher inventory levels as demand did not pan out as expected, and (ii) lower payable days owing to a change in copper procurement from international to domestic markets, which required the company to pay in advance. Management expects payable days to normalise over the next two quarters as Polycab switches back to an international vendor. In FY23, the company plans to invest Rs 3bn-4bn towards capex, of which Rs 1bn will be spent in Q1.

Maintain BUY: Despite subdued realisations, Polycab has demonstrated its resilience as the leader in W&C by protecting its margin. However, growth in the FMEG segment as well as a path to restore profitability to the mid-single-digits in this segment will be critical for the company. We continue to value the stock at 35x FY24E EPS, a 50% premium to the 3Y average, given its strong growth profile and potential rerating towards FMEG valuations. Maintain BUY with an unchanged TP of Rs 3,000.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	POLYCAB IN/Rs 2,199
Market cap	US\$ 4.1bn
Free float	32%
3M ADV	US\$ 12.4mn
52wk high/low	Rs 2,820/Rs 1,762
Promoter/FPI/DII	68%/6%/9%

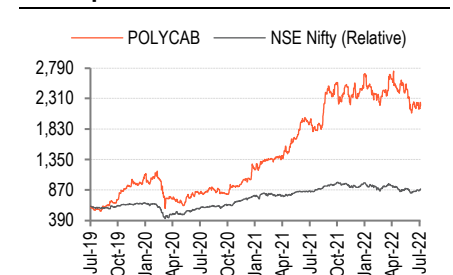
Source: NSE | Price as of 20 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,42,934	1,61,523
EBITDA (Rs mn)	12,652	15,967	19,398
Adj. net profit (Rs mn)	8,365	10,616	13,023
Adj. EPS (Rs)	55.9	71.0	87.1
Consensus EPS (Rs)	55.9	73.1	89.5
Adj. ROAE (%)	16.2	17.7	18.7
Adj. P/E (x)	39.3	31.0	25.3
EV/EBITDA (x)	26.0	20.6	17.0
Adj. EPS growth (%)	(0.2)	26.9	22.7

Source: Company, Bloomberg, BOBCAPS Research

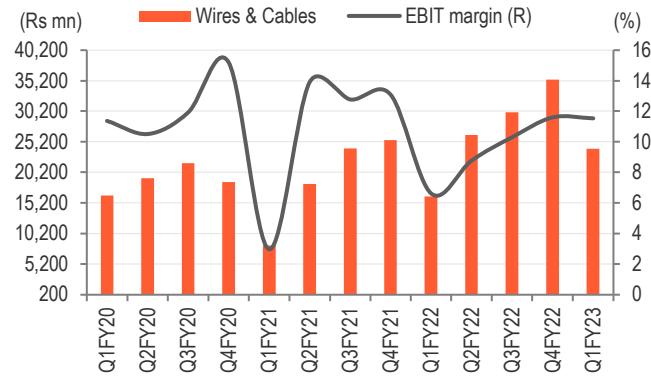
Stock performance



Source: NSE

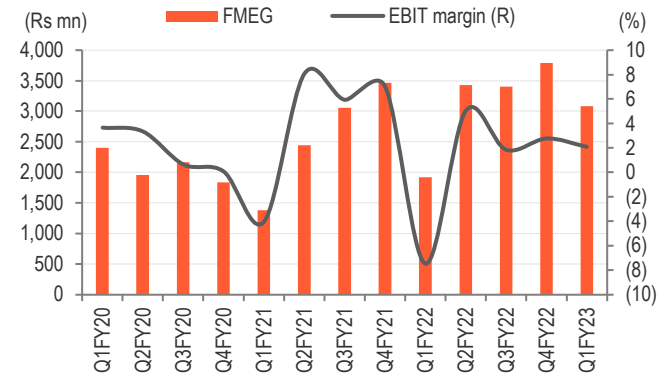


Fig 1 – Lower RM cost softens revenue growth for cables



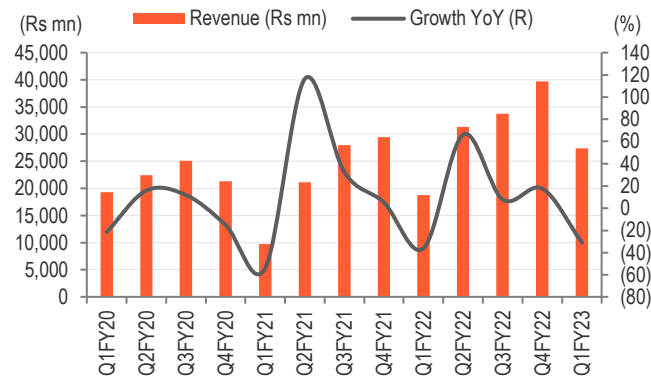
Source: Company, BOBCAPS Research

Fig 2 – FMEG margin remains under pressure



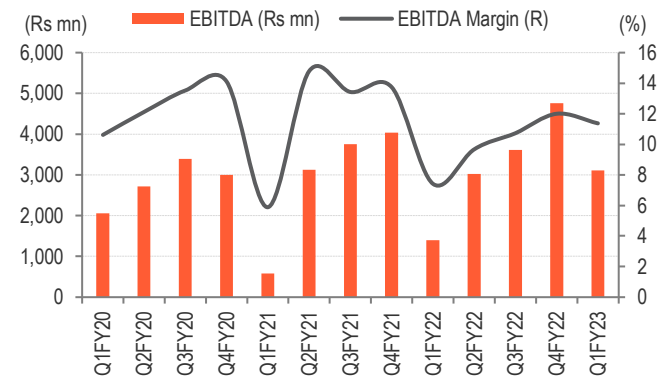
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth driven by volumes



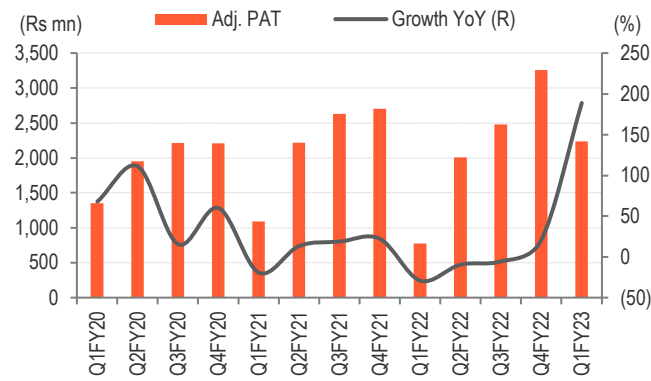
Source: Company, BOBCAPS Research

Fig 4 – Pricing and cost efficiencies arrest fall in margin...



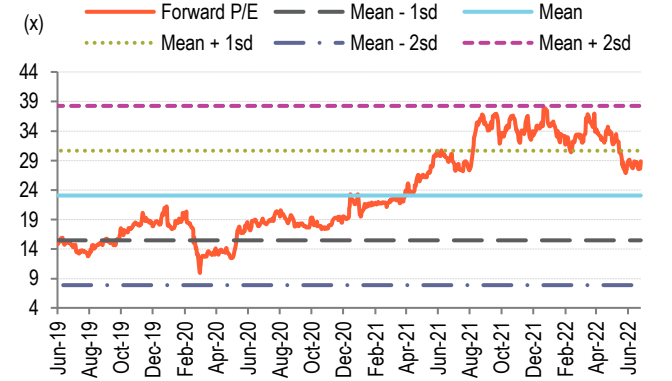
Source: Company, BOBCAPS Research

Fig 5 – ...resulting in lower-than-anticipated fall in profit



Source: Company, BOBCAPS Research

Fig 6 – Stock price correction offers an opportunity



Source: Company, BOBCAPS Research

Fig 7 – Quarterly performance

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	27,366	18,805	45.5	39,700	(31.1)
EBITDA	3,111	1,393	123.3	4,763	(34.7)
EBITDA margin (%)	11.4	7.4	396bps	12.0	(63bps)
Depreciation	510	521	-	503	-
Interest	84	122	-	125	-
Other Income	443	253	-	168	-
PBT	2,960	1,003	195.0	4,304	(31.2)
Tax	722	229	-	1,047	-
Adjusted PAT	2,238	740	202.5	3,257	(31.3)
Exceptional item	-	-	-	0	-
Reported PAT	2,253	740	204.6	3,222	(30.1)
Adj. PAT margin (%)	8.2	3.9	425bps	8.2	(2.5)
EPS (Rs)	15.0	5.2	189.2	21.8	(31.3)

Source: Company, BOBCAPS Research

Fig 8 – Actuals vs. estimates

Particulars (Rs mn)	Actual	Estimates	Variance
Revenue	27,366	31,029	(11.8)
EBITDA	3,111	3,413	(8.9)
EBITDA margin (%)	11.4	11.0	37bps
Adj. PAT	2,238	2,205	1.5

Source: Company, BOBCAPS Research

Fig 9 – Segment-wise quarterly performance

Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue													
Wires & Cables	16,375	19,222	21,696	18,605	8,252	18,268	24,073	25,442	16,269	26,281	29,988	35,400	24,057
Growth YoY (%)	7.8	20.7	18.5	(12.3)	(49.6)	(5.0)	11.0	36.7	97.2	43.9	24.6	39.1	47.9
as a % of sales	81.9	84.2	85.5	84.5	80.0	80.4	79.6	81.0	83.1	79.8	87.2	88.0	85.5
FMEG	2,401	1,956	2,166	1,833	1,378	2,440	3,055	3,468	1,919	3,429	3,404	3,792	3,082
Growth YoY (%)	62.1	41.6	33.9	(6.2)	(42.6)	24.7	41.0	89.3	39.2	40.6	11.4	9.3	60.6
as a % of sales	12.0	8.6	8.5	8.3	13.4	10.7	10.1	11.0	9.8	10.4	9.9	9.4	11.0
EBIT													
Wires & Cables	1,862	2,020	2,583	2,827	244	2,541	3,074	3,328	1,073	2,305	3,089	4,106	2,773
EBIT margin (%)	11.4	10.5	11.9	15.2	3.0	13.9	12.8	13.1	6.6	8.8	10.3	11.6	11.5
FMEG	88	65	14	1	(56)	196	182	244	(143)	172	63	105	64
EBIT margin (%)	3.7	3.3	0.6	0.1	(4.0)	8.0	5.9	7.0	(7.5)	5.0	1.8	2.8	2.1

Source: Company, BOBCAPS Research

Valuation methodology

Being the market leader in wires and cables, we expect Polycab to not only pass on the higher raw material cost but also to gain market share given its superior product quality. The company's recent entry into the economical category via the 'Etira' brand launch will help it cater to all strata of consumers. In addition, we believe the measures taken under Project LEAP and constant efforts to strengthen distribution presence could aid significant market share gains across product categories.

We tweak estimates and continue to value the stock at 35x FY24E EPS, a 50% premium to the three-year average, given its strong growth profile and potential re-rating towards FMEG valuations. Maintain BUY with an unchanged TP of Rs 3,000.

Fig 10 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	1,42,934	1,61,523	1,43,600	1,61,610	(0.5)	(0.1)
EBITDA	15,967	19,398	16,241	20,062	(1.7)	(3.3)
PAT	10,616	13,023	10,420	12,725	1.9	2.3
EPS	71.0	87.1	69.6	85.1	1.9	2.3
EBITDA margin (%)	11.2	12.0	11.3	12.4	(14bps)	(41bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a drop in demand due to higher commodity prices,
- weakness in the economy which could erode disposable incomes,
- failure to gain market share in the FMEG segment, leading to loss of margins, and
- failure to penetrate into newer FMEG product categories.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.1	2,508	3,500	HOLD
Blue Star	BLSTR IN	1.2	995	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.1	396	500	BUY
Dixon Technologies	DIXON IN	2.9	3,934	4,600	BUY
Havells India	HAVL IN	9.6	1,223	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	286	310	HOLD
Polycab India	POLYCAB IN	4.1	2,199	3,000	BUY
V-Guard Industries	VGRD IN	1.2	231	250	HOLD
Voltas	VOLT IN	4.3	1,030	1,250	BUY
Whirlpool India	WHIRL IN	2.7	1,695	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 20 Jul 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	88,300	87,922	1,22,038	1,42,934	1,61,523
EBITDA	11,350	11,111	12,652	15,967	19,398
Depreciation	1,609	1,762	2,015	2,406	2,730
EBIT	9,741	9,350	10,637	13,560	16,668
Net interest inc./(exp.)	(495)	(427)	(352)	(256)	(243)
Other inc./(exp.)	928	1,193	899	989	1,088
Exceptional items	0	0	0	0	0
EBT	10,174	10,116	11,184	14,294	17,513
Income taxes	2,444	1,703	2,706	3,602	4,413
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(74)	6	(26)	(26)	(26)
Reported net profit	7,591	8,380	8,365	10,616	13,023
Adjustments	0	0	0	0	0
Adjusted net profit	7,591	8,380	8,365	10,616	13,023

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	13,537	13,480	12,175	23,496	26,552
Other current liabilities	5,440	5,776	4,436	5,196	5,872
Provisions	0	0	0	0	0
Debt funds	1,221	1,926	831	2,439	2,561
Other liabilities	1,054	1,425	1,239	1,408	1,558
Equity capital	1,489	1,491	1,494	1,494	1,494
Reserves & surplus	36,875	46,048	53,943	62,763	73,692
Shareholders' fund	38,364	47,539	55,437	64,258	75,187
Total liab. and equities	59,616	70,147	74,119	96,796	1,11,729
Cash and cash eq.	3,213	11,544	11,712	18,057	30,566
Accounts receivables	14,336	14,358	12,964	19,262	19,463
Inventories	19,250	19,879	21,996	30,545	31,815
Other current assets	3,700	1,945	4,739	5,551	6,273
Investments	0	0	0	0	0
Net fixed assets	13,865	18,261	16,170	15,764	15,034
CWIP	2,412	991	3,755	4,397	4,969
Intangible assets	17	94	230	230	230
Deferred tax assets, net	0	0	0	0	0
Other assets	2,823	3,075	2,553	2,991	3,379
Total assets	59,616	70,147	74,119	96,796	1,11,729

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	2,446	12,382	5,116	9,444	17,292
Capital expenditures	(2,891)	(1,911)	(5,200)	(2,000)	(2,000)
Change in investments	266	(8,193)	935	0	0
Other investing cash flows	2	(17)	(4)	(911)	(810)
Cash flow from investing	(2,622)	(10,121)	(4,270)	(2,911)	(2,810)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,194)	(1,075)	(168)	1,608	122
Interest expenses	0	0	0	0	0
Dividends paid	1,301	(531)	(1,839)	(1,795)	(2,094)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	107	(1,606)	(2,007)	(188)	(1,972)
Chg in cash & cash eq.	(69)	656	(1,160)	6,345	12,509
Closing cash & cash eq.	3,213	11,544	11,712	18,057	30,566

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	50.7	56.0	55.9	71.0	87.1
Adjusted EPS	50.7	56.0	55.9	71.0	87.1
Dividend per share	7.0	10.0	10.0	12.0	14.0
Book value per share	256.4	317.8	370.6	429.5	502.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	3.7	3.7	2.7	2.3	2.0
EV/EBITDA	29.0	29.6	26.0	20.6	17.0
Adjusted P/E	43.3	39.3	39.3	31.0	25.3
P/BV	8.6	6.9	5.9	5.1	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	74.6	82.8	74.8	74.3	74.4
Interest burden (PBT/EBIT)	104.4	108.2	105.1	105.4	105.1
EBIT margin (EBIT/Revenue)	11.0	10.6	8.7	9.5	10.3
Asset turnover (Rev./Avg TA)	6.4	4.8	7.5	9.1	10.7
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.3	0.3	0.2
Adjusted ROAE	22.7	19.5	16.2	17.7	18.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	10.6	(0.4)	38.8	17.1	13.0
EBITDA	19.1	(2.1)	13.9	26.2	21.5
Adjusted EPS	51.9	10.4	(0.2)	26.9	22.7
Profitability & Return ratios (%)					
EBITDA margin	12.9	12.6	10.4	11.2	12.0
EBIT margin	11.0	10.6	8.7	9.5	10.3
Adjusted profit margin	8.6	9.5	6.9	7.4	8.1
Adjusted ROAE	22.7	19.5	16.2	17.7	18.7
ROCE	22.7	19.5	16.3	17.5	18.2
Working capital days (days)					
Receivables	59	60	39	49	44
Inventory	80	83	66	78	72
Payables	56	56	36	60	60
Ratios (x)					
Gross asset turnover	4.7	3.8	4.7	5.3	5.6
Current ratio	2.0	2.4	3.0	2.5	2.6
Net interest coverage ratio	19.7	21.9	30.2	53.0	68.5
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

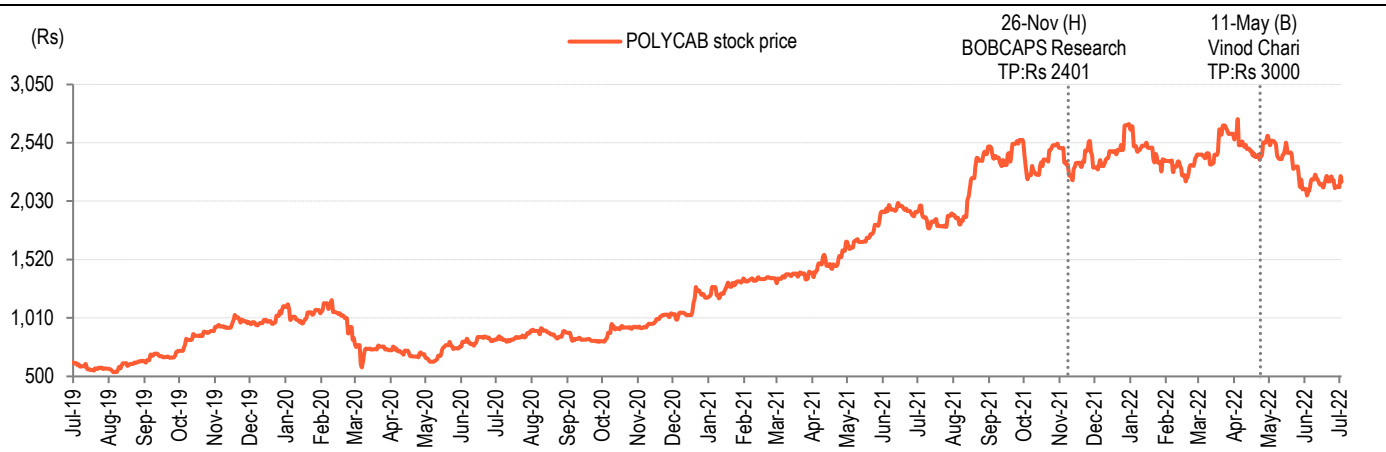
HOLD – Expected return from -6% to +15%

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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