

BUY

TP: Rs 3,300 | ▲ 22%

POLYCAB INDIA

| Consumer Durables

| 19 October 2022

Beat on all fronts

- Strong performance in wires & cables boosts Q2 topline by 11% YoY to Rs 33bn; exports up 75%
- FMEG distribution realignment exercise to be completed by FY23-end; management maintains long-term margin (FY26) forecast at 10%
- FY23/FY24 EPS raised 8%/4%; on rollover, our TP stands revised up to Rs 3,300 (vs. Rs 3,000) – retain BUY

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Growth led by wires & cables (W&C): Polycab’s Q2FY23 revenue at Rs 33.3bn increased 11% YoY (3Y CAGR at 14%), ahead of our/consensus growth estimates by 18%/11%. The outperformance came from the core W&C vertical (+12% YoY) and strong exports (+75% YoY). Robust volume growth in W&C (15%+) cushioned the topline as realisations weakened amidst the recent easing of commodity prices.

Resilient margins: EBITDA margin at 12.8% (+150bps QoQ) was at the upper end of the guided band of 11-13% while gross margin stood at 26.1% (+110bps QoQ). Polycab’s timely price revisions (reflecting pricing power) along with strong exports aided margins. Average net working capital days improved to 44 vs. 63 days in Q1FY23 (guided to remain stable in coming quarters), with the cash position at Rs 4.9bn.

FMEG a laggard: Revenue from the fast-moving electrical goods (FMEG) segment dipped 11% YoY to Rs 3.1bn (3Y CAGR at 16%), owing to poor rural demand, seasonality in the fan segment and a distribution rejig undertaken as per the company’s Leap strategy. FEMG EBIT margin turned negative (-0.9% vs. +5% in Q2FY22) as the focus on market share continues. Management anticipates that realignment of distribution for the Leap project will draw to a close by FY23-end and thus anticipates a recovery in FEMG EBIT thereafter.

Maintain BUY: Polycab is progressing well towards meeting its long-term Leap target of ~Rs 200bn in revenue by FY26, given multiple growth levers such as moats in the W&C vertical, ramp-up in FEMG, strategic expansion of the B2C business, and a massive opportunity landscape on account of growing consumption, infrastructure development and favourable policy reform. In light of the strong Q2 performance, we raise our FY23/FY24 EPS estimates by 8%/4%. This coupled with rollover to Sep’24E valuations translates to a revised TP of Rs 3,300 (Rs 3,000 earlier). We continue to value the stock at 35x EPS, a 50% premium to the 3Y average – retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 2,707
Market cap	US\$ 4.9bn
Free float	32%
3M ADV	US\$ 10.0mn
52wk high/low	Rs 2,863/Rs 2,044
Promoter/FPI/DII	68%/6%/9%

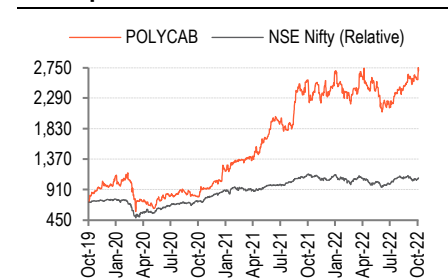
Source: NSE | Price as of 19 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,47,987	1,67,087
EBITDA (Rs mn)	12,652	17,139	20,007
Adj. net profit (Rs mn)	8,365	11,490	13,476
Adj. EPS (Rs)	55.9	76.8	90.1
Consensus EPS (Rs)	55.9	73.1	86.0
Adj. ROAE (%)	16.2	19.1	19.0
Adj. P/E (x)	48.4	35.2	30.0
EV/EBITDA (x)	32.0	23.6	20.2
Adj. EPS growth (%)	(0.2)	37.4	17.3

Source: Company, Bloomberg, BOBCAPS Research

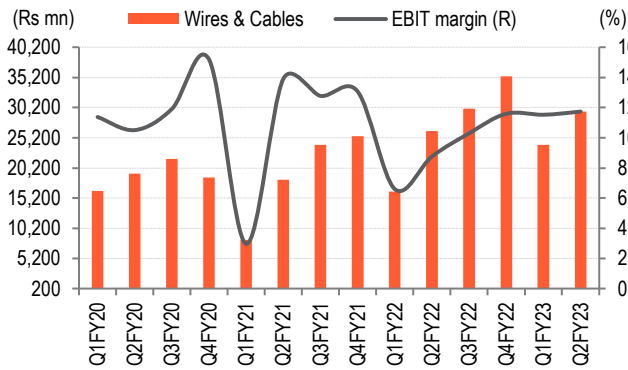
Stock performance



Source: NSE

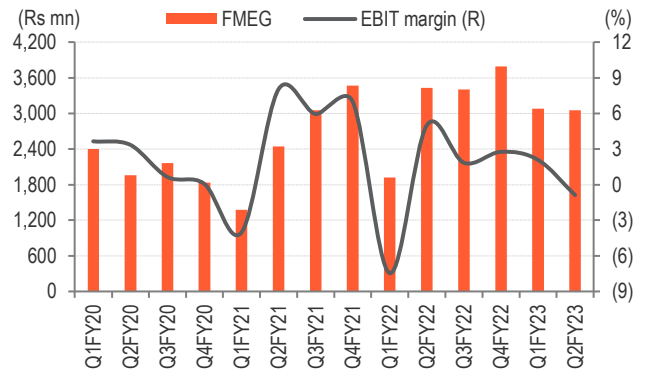


Fig 1 – Volume growth buoys W&C revenue



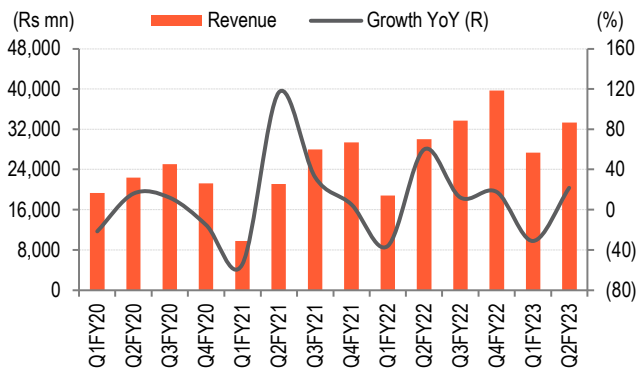
Source: Company, BOBCAPS Research

Fig 2 – FMEG margin weak; likely to revive post FY23E



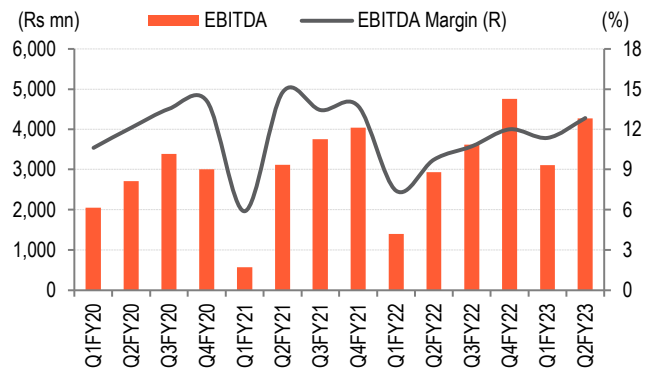
Source: Company, BOBCAPS Research

Fig 3 – Strong W&C sales and exports lift revenue



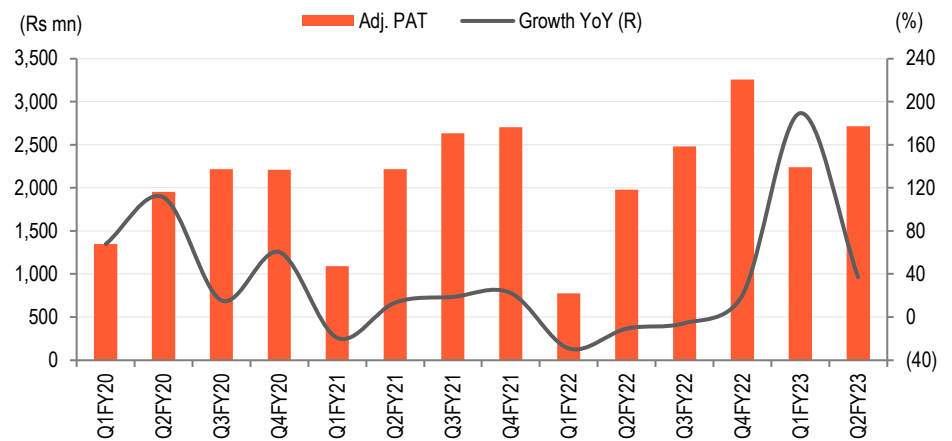
Source: Company, BOBCAPS Research

Fig 4 – Judicious price revisions aid EBITDA margin



Source: Company, BOBCAPS Research

Fig 5 – Higher sales and cost measures support bottomline



Source: Company, BOBCAPS Research

Fig 6 – Quarterly performance

Particulars (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	33,324	30,066	10.8	27,366	21.8
EBITDA	4,276	2,930	46.0	3,111	37.5
EBITDA margin (%)	12.8	9.7	309bps	11.4	147bps
Depreciation	523	509	-	510	-
Interest	139	51	-	84	-
Other Income	-22	275	-	443	-
PBT	3,593	2,645	35.8	2,960	21.4
Tax	880	664	-	722	-
Adjusted PAT	2,713	1,952	39.0	2,238	21.2
Exceptional item	-	-	-	0	-
Reported PAT	2,731	1,952	39.9	2,253	21.2
Adj. PAT margin (%)	8.1	6.5	164.8	8.2	(3.9)
EPS (Rs)	18.1	13.2	36.9	15.0	21.2

Source: Company, BOBCAPS Research

Fig 7 – Actuals vs. estimates

Particulars (Rs mn)	Actual	Estimate	Variance (%)
Revenue	33,324	28,299	17.8
EBITDA	4,276	3,210	33.2
EBITDA Margin (%)	12.8	11.3	149.0
Adj. PAT	2,713	2,142	26.7

Source: Company, BOBCAPS Research

Fig 8 – Segment-wise performance

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
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	29,517
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	12.3
% of Sales	82	84	86	84	80	80	80	81	83	80	87	88	85	88
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	3,054
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	(11.0)
% of Sales	12	9	9	8	13	11	10	11	10	10	10	9	11	9
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	3,463
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	11.7
FMEG	88	65	14	1	(56)	196	182	244	(143)	172	63	105	64	(27)
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	(0.9)

Source: Company, BOBCAPS Research

Earnings call highlights

- **Outlook:** Private capex is gaining traction with rural demand catching up and urban demand expected to improve further. Globally, offtake from industries such as infrastructure, renewable energy, and oil and gas has remained strong. Overall, management anticipates a positive H2FY23.
- **Volumes:** Domestic volume growth ranged from the mid-to-high teens across Polycab's product categories in Q2FY23. Export growth was also broad-based.
- **Exports:** Export revenue exhibited robust growth of 75% YoY in Q2 on a healthy base, led by the US, Europe and Asia, to form 13% of consolidated revenue.
- **FMEG:** FMEG experienced a soft quarter due to a subdued demand environment and the implementation of a new distribution strategy (expected to be completed by Q4). Although the contribution margin was positive, incremental organisational expenses resulted in negative EBIT.

As a part of its realignment effort, Polycab is in the process of replacing (or supporting) distributors, resulting in distribution delays until implementation. Nonetheless, management anticipates that FY23 will be the base year for FMEG, with full-fledged operations beginning in FY24.

- **Fans:** The fans business was affected by seasonality, an inflationary environment and transition to the new energy (BEE) regulations. The company's switch business recovered from the lows of Q1FY23, posting 123% QoQ growth.
- **Merger synergies:** Management expects the recent mergers of the fans vertical with lights & luminaries and the retail wires vertical with switches & switchgears to unlock latent value through cross-selling opportunities and operational efficiencies.
- **Working capital:** Working capital days decreased from 73 in Q1FY23 to 42 days in Q2 (closing basis). This was due to increased channel financing penetration and optimal inventory in the system. Per management, working capital at 45-50 days appears sustainable.
- **Cash utilisation:** Polycab's net cash position is currently at Rs 16.7bn (vs. Rs 5.9bn in Q1FY23), owing primarily to the reduction in working capital. Per management, this cash would be used for (i) capex: Rs 4bn per year over the next few years, two-thirds of which would be spent on W&C (exports, backward integration, maintenance capex), with the remainder on the FMEG business (new capacities); (ii) investing in inorganic growth; and (iii) paying dividends.

Valuation methodology

Polycab is the leader in the domestic wires & cables business and enjoys strong pricing power. We believe the company is well placed to leverage the rising opportunities in the W&C space on account of growing consumption, high infrastructure spends and favourable policy norms. Additionally, Polycab's thrust on expanding the B2C business via market share gains in FEMG will further consolidate its position in the electronic consumer durables space.

In light of the strong Q2FY23 performance, we raise our FY23/FY24 EPS estimates by 8%/4%. This coupled with rollover to Sep'24E valuations translates to a revised TP of Rs 3,300 (Rs 3,000 earlier). We continue to value the stock at 35x EPS, a 50% premium to the three-year average – retain BUY.

Fig 9 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY23E	FY24E	FY25E	FY23E	FY24E	FY23E	FY24E
Sales	147,987	167,087	184,127	142,934	161,523	3.5	3.4
EBITDA	17,139	20,007	22,432	15,967	19,398	7.3	3.1
PAT	11,490	13,476	15,097	10,616	13,023	8.2	3.5
EPS (Rs)	76.8	90.1	100.9	71.0	87.1	8.2	3.5
EBITDA Margin (%)	11.6	12.0	12.2	11.2	12.0	40bps	0bps

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- persistent weakness in FEMG EBIT margins,
- high volatility in key raw material prices such as copper,
- demand slowdown amidst recessionary trends, and
- inability to expand FEMG market share.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,234	2,300	HOLD
Blue Star	BLSTR IN	1.4	1,217	1,100	HOLD
Crompton Greaves	CROMPTON IN	2.9	385	500	BUY
Dixon Technologies	DIXON IN	3.1	4,273	4,500	BUY
Havells India	HAVL IN	9.4	1,249	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	272	310	HOLD
Polycab India	POLYCAB IN	4.9	2,707	3,300	BUY
V-Guard Industries	VGRD IN	1.3	254	250	HOLD
Voltas	VOLT IN	3.5	875	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Oct 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	87,922	1,22,038	1,47,987	1,67,087	1,84,127
EBITDA	11,111	12,652	17,139	20,007	22,432
Depreciation	1,762	2,015	2,406	2,730	3,074
EBIT	9,350	10,637	14,733	17,277	19,358
Net interest inc./(exp.)	(427)	(352)	(260)	(247)	(271)
Other inc./(exp.)	1,193	899	989	1,088	1,197
Exceptional items	0	0	0	0	0
EBT	10,116	11,184	15,463	18,118	20,284
Income taxes	1,703	2,706	3,897	4,566	5,112
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	(26)	(26)	(26)	(26)
Reported net profit	8,380	8,365	11,490	13,476	15,097
Adjustments	0	0	0	0	0
Adjusted net profit	8,380	8,365	11,490	13,476	15,097

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	13,480	12,175	24,327	27,466	30,267
Other current liabilities	5,776	4,436	5,380	6,074	6,693
Provisions	0	0	0	0	0
Debt funds	1,926	831	2,472	2,598	2,709
Other liabilities	1,425	1,239	1,449	1,603	1,741
Equity capital	1,491	1,494	1,494	1,494	1,494
Reserves & surplus	46,048	53,943	63,638	75,020	88,022
Shareholders' fund	47,539	55,437	65,132	76,514	89,516
Total liab. and equities	70,147	74,119	98,759	1,14,255	1,30,928
Cash and cash eq.	11,544	11,712	17,802	30,822	38,762
Accounts receivables	14,358	12,964	19,943	20,133	23,500
Inventories	19,879	21,996	31,625	32,911	37,808
Other current assets	1,945	4,739	5,747	6,489	7,150
Investments	0	0	0	0	0
Net fixed assets	18,261	16,170	15,764	15,034	13,960
CWIP	991	3,755	4,553	5,140	5,665
Intangible assets	94	230	230	230	230
Deferred tax assets, net	0	0	0	0	0
Other assets	3,075	2,553	3,096	3,496	3,852
Total assets	70,147	74,119	98,759	1,14,255	1,30,928

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	12,382	5,116	9,376	17,822	12,666
Capital expenditures	(1,911)	(5,200)	(2,000)	(2,000)	(2,000)
Change in investments	(8,193)	935	0	0	0
Other investing cash flows	(17)	(4)	(1,131)	(833)	(743)
Cash flow from investing	(10,121)	(4,270)	(3,131)	(2,833)	(2,743)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,075)	(168)	1,641	125	112
Interest expenses	0	0	0	0	0
Dividends paid	(531)	(1,839)	(1,795)	(2,094)	(2,094)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,606)	(2,007)	(155)	(1,969)	(1,983)
Chg in cash & cash eq.	656	(1,160)	6,090	13,020	7,941
Closing cash & cash eq.	11,544	11,712	17,802	30,822	38,762

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	56.0	55.9	76.8	90.1	100.9
Adjusted EPS	56.0	55.9	76.8	90.1	100.9
Dividend per share	10.0	10.0	12.0	14.0	14.0
Book value per share	317.8	370.6	435.4	511.4	598.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	4.6	3.3	2.7	2.4	2.2
EV/EBITDA	36.4	32.0	23.6	20.2	18.1
Adjusted P/E	48.3	48.4	35.2	30.0	26.8
P/BV	8.5	7.3	6.2	5.3	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	82.8	74.8	74.3	74.4	74.4
Interest burden (PBT/EBIT)	108.2	105.1	105.0	104.9	104.8
EBIT margin (EBIT/Revenue)	10.6	8.7	10.0	10.3	10.5
Asset turnover (Rev./Avg TA)	4.8	7.5	9.4	11.1	13.2
Leverage (Avg TA/Avg Equity)	0.4	0.3	0.3	0.2	0.2
Adjusted ROAE	19.5	16.2	19.1	19.0	18.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(0.4)	38.8	21.3	12.9	10.2
EBITDA	(2.1)	13.9	35.5	16.7	12.1
Adjusted EPS	10.4	(0.2)	37.4	17.3	12.0
Profitability & Return ratios (%)					
EBITDA margin	12.6	10.4	11.6	12.0	12.2
EBIT margin	10.6	8.7	10.0	10.3	10.5
Adjusted profit margin	9.5	6.9	7.8	8.1	8.2
Adjusted ROAE	19.5	16.2	19.1	19.0	18.2
ROCE	19.5	16.3	18.8	18.6	17.8
Working capital days (days)					
Receivables	60	39	49	44	47
Inventory	83	66	78	72	75
Payables	56	36	60	60	60
Ratios (x)					
Gross asset turnover	3.8	4.7	5.5	5.8	6.0
Current ratio	2.4	3.0	2.4	2.6	2.8
Net interest coverage ratio	21.9	30.2	56.8	70.0	71.4
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

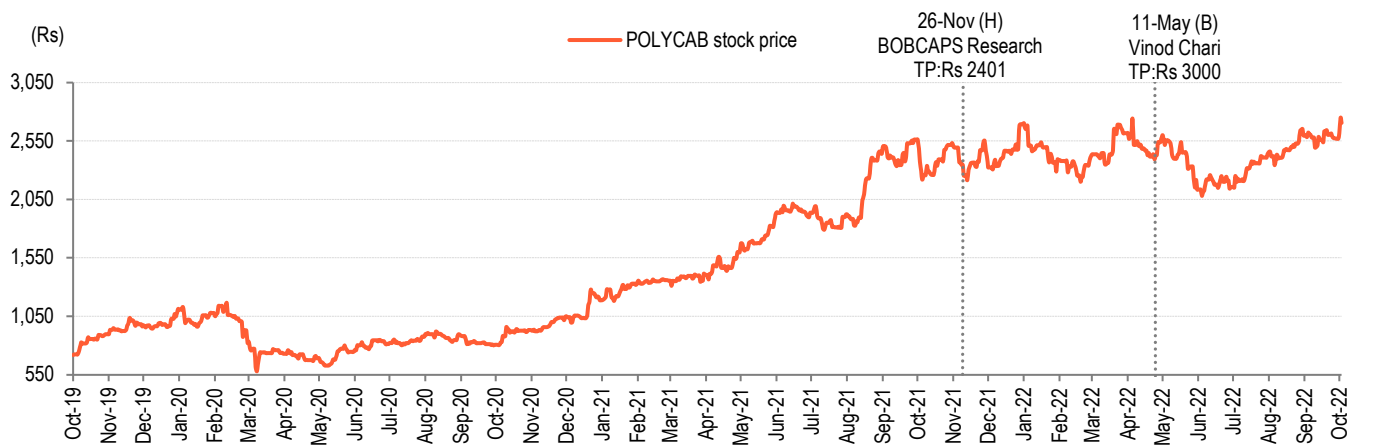
HOLD – Expected return from -6% to +15%

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.

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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