

**BUY**  
 TP: Rs 3,300 | ▲ 20%

**POLYCAB INDIA**

| Consumer Durables

| 20 January 2023

**Buoyant quarter**

- **Upbeat performance in wires & cables aided Q3 topline growth of 10% YoY despite a higher base**
- **FMEG remains a laggard with operational losses; management maintained long-term (FY26) margin forecast at 10%**
- **FY23/FY24 EPS revised by +6%/-5%; on rollover, our TP remains unchanged at Rs 3,300 – retain BUY**

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**Resilient performance:** Polycab’s Q3FY23 results beat our estimates on all fronts led by an upbeat performance in the wires and cables (W&C) division. The company’s topline grew 10% YoY to Rs 37.2bn (Rs 36bn est.), clocking a 3Y CAGR of 14.1%, amidst recent commodity deflation and a higher base. EBITDA margin improved to 13.6% (+280bps YoY) on stronger operating leverage, and adj. PAT rose 46% YoY to Rs 3.6bn (Rs 2.9bn est.) on a lower base and buoyant sales.

**W&C strong but FMEG muted:** The robust demand environment aided highest ever quarterly volumes for the W&C business, taking segmental revenue up 11% YoY to Rs 33.4bn. EBIT margin expanded to 13.7% (2Y high) on a better product mix and judicious price revisions. In contrast, weak consumer demand and a thrust on market share gains weighed on the fast-moving electric goods (FMEG) business, which saw flat YoY sales and EBIT losses. With FMEG distribution alignment being completed by FY23-end, we expect margins to turn positive from FY24 onwards.

**Fans grow amid rating transition:** Restocking at the distributor level ahead of new BEE rating norms has boosted the fans vertical. Demand has risen for lower variants (destocking in premium products), which benefited Polycab. While prices were cut in Q3, management sees scope for hikes once BEE norms are implemented in Q4FY23.

**Margin uptrend continues:** Better operating leverage in W&C and healthy pricing action took EBITDA margin 180bps ahead of our estimate to 13.6% (+70bps QoQ), amid inflationary pressures and higher A&P spends. We believe Polycab is leveraging its improving margin trend to aggressively chase market share in the FEMG business.

**Maintain BUY:** Weakness in the FMEG business and a volatile commodity environment remain challenges in the near term, but a resilient performance in W&C is auguring well for the company. We remain positive on Polycab given its leadership position in the core W&C business and a growing FMEG segment that has structural growth opportunities from infrastructure development. We alter our FY23/FY24 EPS estimates by +6%/-5% to bake in the Q3 print. On rolling valuations over to Dec’24E, our TP remains at Rs 3,300, based on an unchanged 35x P/E. BUY.

**Key changes**

Target	Rating
◀▶	◀▶

Ticker/Price	POLYCAB IN/Rs 2,761
Market cap	US\$ 5.1bn
Free float	34%
3M ADV	US\$ 13.7mn
52wk high/low	Rs 3,025/Rs 2,044
Promoter/FPI/DII	67%/8%/9%

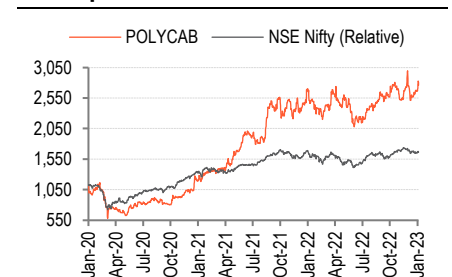
Source: NSE | Price as of 20 Jan 2023

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	122,038	138,722	156,626
EBITDA (Rs mn)	12,652	17,919	19,156
Adj. net profit (Rs mn)	8,365	12,161	12,849
Adj. EPS (Rs)	55.9	81.3	85.9
Consensus EPS (Rs)	55.9	73.1	86.0
Adj. ROAE (%)	16.2	20.1	18.1
Adj. P/E (x)	49.4	34.0	32.2
EV/EBITDA (x)	32.7	23.1	21.6
Adj. EPS growth (%)	(0.2)	45.4	5.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	37,152	33,720	10.2	33,324	11.5	97,841.0	82,337.8	18.8
EBITDA	5,038	3,617	39.3	4,276	17.8	12,425.8	7,888.6	57.5
EBITDA Margin (%)	13.6	10.7	280bps	12.8	70bps	12.7	9.6	311.9
Depreciation	525	511	-	523	-	1,557.0	1,512.6	-
Interest	93	78	-	139	-	316.0	226.8	-
Other Income	397	216	-	(22)	-	818.1	731.0	-
PBT	4,818	3,244	48.5	3,593	34.1	11,370.9	6,880.2	65.3
Tax	1,202	763	-	880	-	2,803.6	1,659.4	-
Adjusted PAT	3,616	2,481	45.8	2,713	33.3	8,567.3	5,220.8	64.1
Exceptional item	-	-	-	0	-	0.0	0.0	-
Reported PAT	3,576	2,467	45.0	2,678	33.6	8,452.0	5,143.7	64.3
Adj. PAT Margin (%)	9.7	7.4	240bps	8.1	160bps	8.8	6.3	241.6
EPS (Rs)	24.2	16.6	45.8	18.1	33.3	57.3	34.9	64.1

Source: Company, BOBCAPS Research

**Fig 2 – Actuals vs. Estimates**

(Rs mn)	Actual	Estimate	Variance (%)
Revenue	37,152	35,967	3.3
EBITDA	5,038	4,226	19.2
EBITDA Margin (%)	13.6	11.8	180bps
Adj. PAT	3,616	2,850	26.9

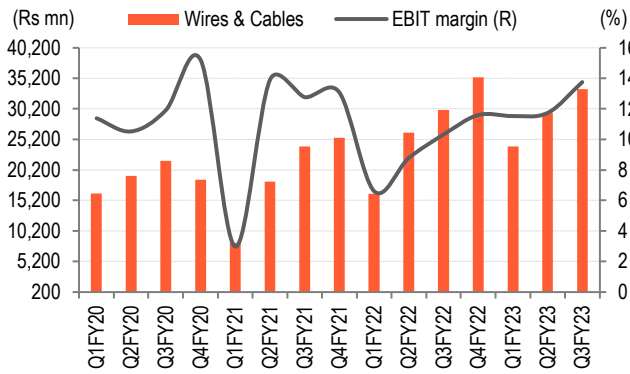
Source: Company, BOBCAPS Research

**Fig 3 – Segment-wise performance**

(Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Revenue</b>													
Wires & Cables	21,696	18,605	8,252	18,268	24,073	25,442	16,269	26,281	29,988	35,400	24,057	29,517	33,418
Growth YoY (%)	18.5	(12.3)	(49.6)	(5.0)	11.0	36.7	97.2	43.9	24.6	39.1	47.9	12.3	11.4
% of sales	86	84	80	80	80	81	83	80	87	88	85	88	88
FMEG	2,166	1,833	1,378	2,440	3,055	3,468	1,919	3,429	3,404	3,792	3,082	3,054	3,420
Growth YoY (%)	33.9	(6.2)	(42.6)	24.7	41.0	89.3	39.2	40.6	11.4	9.3	60.6	(11.0)	0.5
% of sales	9	8	13	11	10	11	10	10	10	9	11	9	9
<b>EBIT</b>													
Wires & Cables	2,583	2,827	244	2,541	3,074	3,328	1,073	2,305	3,089	4,106	2,773	3,463	4,593
EBIT margin (%)	11.9	15.2	3.0	13.9	12.8	13.1	6.6	8.8	10.3	11.6	11.5	11.7	13.7
FMEG	14	1	(56)	196	182	244	(143)	172	63	105	64	(27)	(24)
EBIT margin (%)	0.6	0.1	(4.0)	8.0	5.9	7.0	(7.5)	5.0	1.8	2.8	2.1	(0.9)	(0.7)

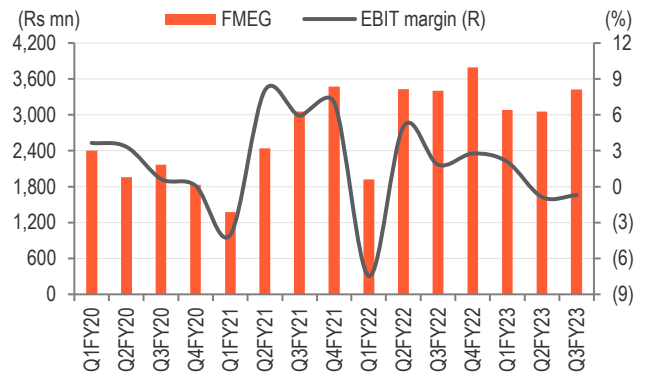
Source: Company, BOBCAPS Research

**Fig 4 – Resilient W&C performance**



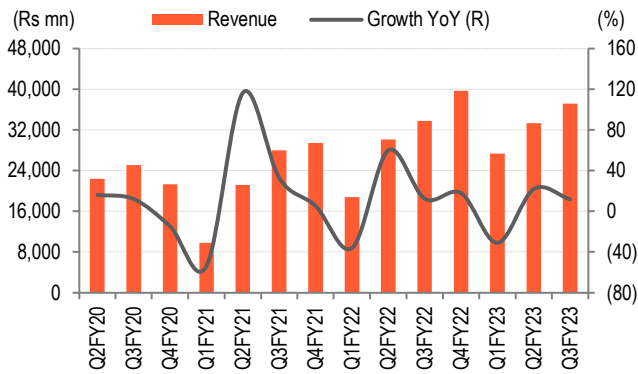
Source: Company, BOBCAPS Research

**Fig 5 – FMEG remains a laggard**



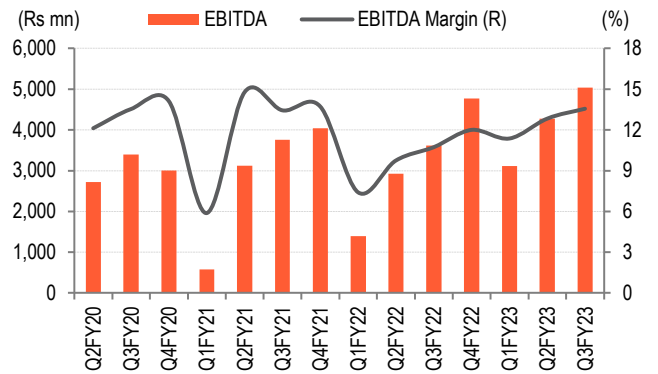
Source: Company, BOBCAPS Research

**Fig 6 – Buoyant topline led by higher W&C volumes**



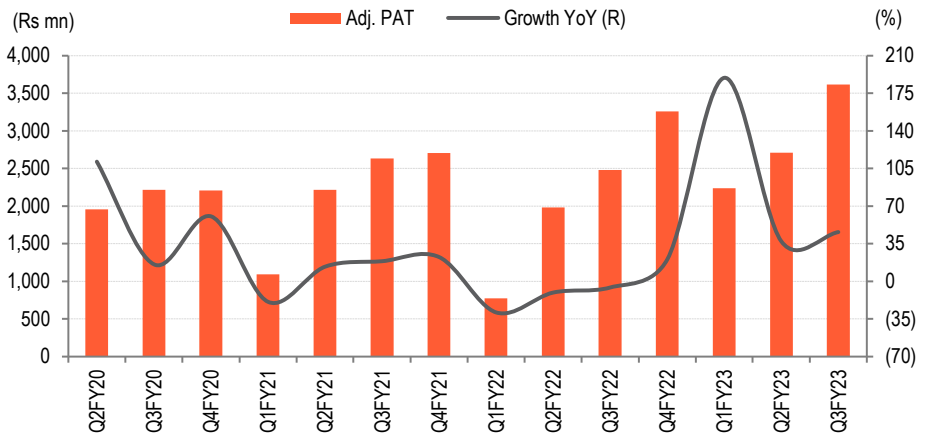
Source: Company, BOBCAPS Research

**Fig 7 – EBITDA margin at 2Y high**



Source: Company, BOBCAPS Research

**Fig 8 – Strong topline growth boosts PAT**



Source: Company, BOBCAPS Research

## Earnings call highlights

- **Demand outlook:** As per management, both private and public capex are improving. Additionally, the real estate sector has maintained its momentum which bodes well for the business.
- **W&C:** The W&C business posted 26% YoY volume growth in 9MFY23, largely driven by the domestic market, with 18-20% growth in Q3FY23. The prospects for Q4 also look bright on capex-driven budget estimates. Contribution of the wires business increased to 40% in Q3 (from the normal 30%) led by higher capex and real estate traction, which translated to better margins.
- **Foray into HV & EHV:** Polycab foresees strong growth opportunities in the high-voltage (HV) and extra-high-voltage (EHV) verticals of the W&C business (400-550KVH wires & cables). Currently, there are only two large active players with in-house manufacturing capabilities in the space. Polycab plans to commission a state-of-the-art facility in Halol, Gujarat, over the next 2-2.5 years for these products.
- **Exports:** The exports business has maintained traction in 9MFY23 and is seeing sustained demand from the oil & gas, renewables and infrastructure industries. The company has a strong order book, implying continued momentum in coming quarters. The shift from institutional project execution to expanding its distribution business led to higher exports and ultimately higher profitability.
- **Margins:** Management aims to maintain W&C EBIT margins in the 11-13% range and FMEG margins at 10%+ in the long term.
- **RM sourcing:** The copper used in the W&C business is mostly sourced overseas with minor supplies coming from the domestic market, whereas aluminum is sourced from both the domestic and overseas markets. The steel requirements are typically fulfilled from the domestic market.
- **FMEG:** Per management, reorientation of the current product mix (toward high-margin switches and switchgears), product development and higher R&D on premium category products is essential to drive margins in the FMEG business. To this end, it has hired eligible talent, introduced a strategic framework and is improving its digital presence. The company now has in-house manufacturing for most products (except small agri-pumps). With concerted efforts to grow the business, management expects to achieve a 10% margin in FMEG long term (FY26).
- **Capex:** Polycab aims to incur capex of Rs 6bn-7bn for CY23, of which ~75% will be spent towards the W&C vertical (a majority to build the EHV plant), with the balance being allocated to the FMEG business.

## Valuation methodology

Weakness in the FMEG business and a volatile commodity environment remain challenges in the near term, but a resilient performance in the W&C business augurs well for Polycab. We remain positive on the company given its leadership position in the core W&C business with structural growth opportunities from infrastructure development and a growing FMEG segment on consumption led opportunities.

We alter our FY23/FY24/FY25 EPS estimates by +6%/-5%/-5% to bake in the Q3 print. On rolling valuations over to Dec'24E, our TP remains at Rs 3,300, based on an unchanged 35x P/E multiple – a 50% premium to the three-year average. Retain BUY.

**Fig 9 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	138,722	156,626	172,604	147,987	167,087	184,127	(6.3)	(6.3)	(6.3)
EBITDA	17,919	19,156	21,145	17,139	20,007	22,432	4.5	(4.3)	(5.7)
PAT	12,161	12,849	14,311	11,490	13,476	15,097	5.8	(4.7)	(5.2)
EPS (Rs)	81.3	85.9	95.7	76.8	90.1	100.9	5.8	(4.7)	(5.2)
EBITDA Margin (%)	12.9	12.2	12.3	11.6	12.0	12.2	130bps	30bps	10bps

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- inability to scale up the FMEG business amidst high competition, and
- growth slowing in the core W&C business.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,919	2,100	HOLD
Blue Star	BLSTR IN	1.4	1,217	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.5	323	500	BUY
Dixon Technologies	DIXON IN	2.6	3,516	5,200	BUY
Havells India	HAVL IN	8.9	1,154	1,500	BUY
KEI Industries	KEII IN	1.7	1,517	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	265	280	HOLD
Polycab India	POLYCAB IN	5.1	2,761	3,300	BUY
Syrma SGS	SYRMA IN	0.6	271	390	BUY
V-Guard Industries	VGRD IN	1.3	252	250	HOLD
Voltas	VOLT IN	3.2	780	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Jan 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Total revenue</b>	<b>87,922</b>	<b>122,038</b>	<b>138,722</b>	<b>156,626</b>	<b>172,604</b>
EBITDA	11,111	12,652	17,919	19,156	21,145
Depreciation	1,762	2,015	2,139	2,586	2,766
EBIT	9,350	10,637	15,780	16,570	18,379
Net interest inc./(exp.)	(427)	(352)	(410)	(379)	(342)
Other inc./(exp.)	1,193	899	989	1,088	1,197
Exceptional items	0	0	0	0	0
EBT	10,116	11,184	16,359	17,279	19,233
Income taxes	1,703	2,706	4,122	4,354	4,847
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	(26)	(26)	(26)	(26)
<b>Reported net profit</b>	<b>8,380</b>	<b>8,365</b>	<b>12,161</b>	<b>12,849</b>	<b>14,311</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,380</b>	<b>8,365</b>	<b>12,161</b>	<b>12,849</b>	<b>14,311</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	13,480	12,175	22,804	25,747	28,373
Other current liabilities	5,776	4,436	5,043	5,694	6,275
Provisions	0	0	0	0	0
Debt funds	1,926	831	2,411	2,529	2,634
Other liabilities	1,425	1,239	1,374	1,519	1,648
Equity capital	1,491	1,494	1,494	1,494	1,494
Reserves & surplus	46,048	53,943	64,308	75,062	87,279
Shareholders' fund	47,539	55,437	65,803	76,557	88,773
<b>Total liab. and equities</b>	<b>70,147</b>	<b>74,119</b>	<b>97,434</b>	<b>112,045</b>	<b>127,702</b>
Cash and cash eq.	11,544	11,712	20,276	32,468	39,699
Accounts receivables	14,358	12,964	18,695	18,873	22,029
Inventories	19,879	21,996	29,645	30,851	35,442
Other current assets	1,945	4,739	5,387	6,082	6,703
Investments	0	0	0	0	0
Net fixed assets	18,261	16,170	16,031	15,445	14,679
CWIP	991	3,755	4,268	4,819	5,310
Intangible assets	94	230	230	230	230
Deferred tax assets, net	0	0	0	0	0
Other assets	3,075	2,553	2,902	3,277	3,611
<b>Total assets</b>	<b>70,147</b>	<b>74,119</b>	<b>97,434</b>	<b>112,045</b>	<b>127,702</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Cash flow from operations</b>	<b>12,382</b>	<b>5,116</b>	<b>11,507</b>	<b>16,949</b>	<b>11,916</b>
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)	(727)	(780)	(696)
<b>Cash flow from investing</b>	<b>(10,121)</b>	<b>(4,270)</b>	<b>(2,727)</b>	<b>(2,780)</b>	<b>(2,696)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,075)	(168)	1,580	118	105
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
<b>Cash flow from financing</b>	<b>(1,606)</b>	<b>(2,007)</b>	<b>(215)</b>	<b>(1,977)</b>	<b>(1,990)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>656</b>	<b>(1,160)</b>	<b>8,565</b>	<b>12,192</b>	<b>7,230</b>
<b>Closing cash &amp; cash eq.</b>	<b>11,544</b>	<b>11,712</b>	<b>20,276</b>	<b>32,468</b>	<b>39,699</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	56.0	55.9	81.3	85.9	95.7
Adjusted EPS	56.0	55.9	81.3	85.9	95.7
Dividend per share	10.0	10.0	12.0	14.0	14.0
Book value per share	317.8	370.6	439.8	511.7	593.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	4.7	3.4	3.0	2.6	2.4
EV/EBITDA	37.2	32.7	23.1	21.6	19.5
Adjusted P/E	49.3	49.4	34.0	32.2	28.9
P/BV	8.7	7.5	6.3	5.4	4.7

### 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	103.7	104.3	104.6
EBIT margin (EBIT/Revenue)	10.6	8.7	11.4	10.6	10.6
Asset turnover (Rev./Avg TA)	4.8	7.5	8.7	10.1	11.8
Leverage (Avg TA/Avg Equity)	0.4	0.3	0.3	0.2	0.2
Adjusted ROAE	19.5	16.2	20.1	18.1	17.3

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(0.4)	38.8	13.7	12.9	10.2
EBITDA	(2.1)	13.9	41.6	6.9	10.4
Adjusted EPS	10.4	(0.2)	45.4	5.7	11.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.6	10.4	12.9	12.2	12.3
EBIT margin	10.6	8.7	11.4	10.6	10.6
Adjusted profit margin	9.5	6.9	8.8	8.2	8.3
Adjusted ROAE	19.5	16.2	20.1	18.1	17.3
ROCE	19.5	16.3	20.0	17.8	17.0
<b>Working capital days (days)</b>					
Receivables	60	39	49	44	47
Inventory	83	66	78	72	75
Payables	56	36	60	60	60
<b>Ratios (x)</b>					
Gross asset turnover	3.8	4.7	5.2	5.5	5.6
Current ratio	2.4	3.0	2.6	2.7	2.9
Net interest coverage ratio	21.9	30.2	38.5	43.7	53.7
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%

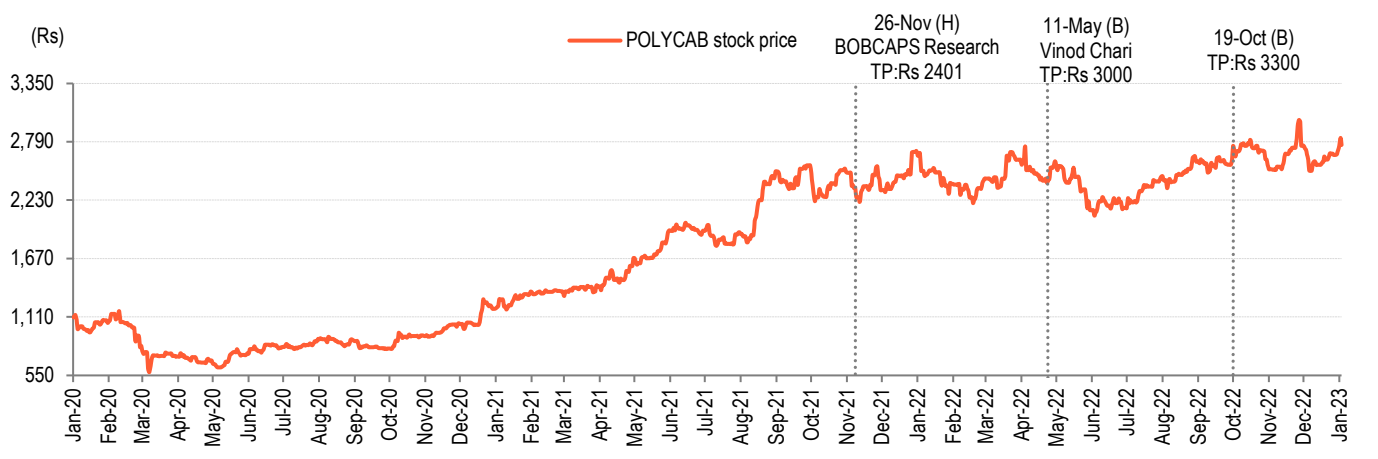
**HOLD** – Expected return from -6% to +15%

**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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