

BUY
 TP: Rs 5,200 | ▲ 18%

POLYCAB INDIA

Consumer Durables

19 January 2024

Fair quarter but I-T search clouds multiples

- Revenue growth reasonable at 17% YoY, but EBITDA margin falls on lower exports and higher advertising expenses
- Project Leap target of Rs 200bn in revenue by FY26 retained; to be revisited post FY24
- Pending the tax search outcome, we cut our target P/E to 37x (vs. 45x); retain BUY with a new TP of Rs 5,200 (vs. Rs 6,100)

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Growth continues: Polycab posted a respectable quarter, with topline growth of 17% YoY to Rs 43.4bn in Q3FY24. Its EBITDA margin, however, contracted by 50bps YoY and 130bps QoQ, largely due to increased promotional expenses and lower exports, which stood at 2.1% of revenue. EBITDA margin has expanded in 9MFY24 to 13.9% (vs. 12.7% in 9MFY23), which can be attributed to a favourable product mix and strategic pricing revisions.

W&C growth decelerating, FMEG drags: Wires & cables (W&C) revenue grew 17% YoY (vs. 29% in Q2FY24 and 47% in Q1FY24) to Rs 39bn on the back of strong volume growth, institutional business growth ahead of distribution business, and demand momentum due to continued public and private capex. FMEG business declined 13% YoY in Q3, largely due to weakness in consumer demand, a high base effect in the fans segment and continuing price erosion in the lighting segment. Increased A&P spends and the absence of economies of scale magnified segmental EBIT loss to Rs 366mn (vs. a Rs 24mn loss in Q3FY23).

Project Leap targets retained: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26 under Project Leap, an implied CAGR of 18%. The company has retained this target for now and will revisit it after the current fiscal year.

No new comment on I-T search: The income tax (I-T) department recently carried out searches at various premises of Polycab. However, the company reiterated that it is yet to receive any official communication regarding the outcome of the searches and refrained from commenting further on the matter.

Cut multiples but retain BUY: Pending the outcome of the I-T search, we halve the 50% valuation premium earlier ascribed by us to 25% over the stock's 3Y average multiple. This lowers our target P/E to 37x (vs. 45x) and upon rollover to Dec'25E, we have a reduced TP of Rs 5,200 (vs. Rs 6100). Even so, we maintain our BUY rating given 17% upside potential following a sharp correction in stock price. The outlook for the W&C business remains positive, and Polycab has the highest market share while also comparing well with peers on financial parameters.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	POLYCAB IN/Rs 4,423
Market cap	US\$ 8.1bn
Free float	34%
3M ADV	US\$ 68.5mn
52wk high/low	Rs 5,733/Rs 2,738
Promoter/FPI/DII	66%/12%/8%

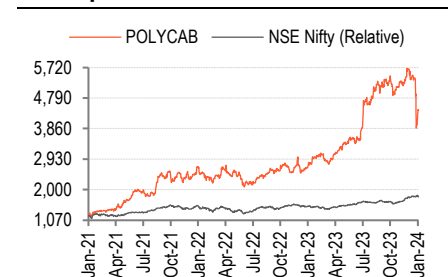
Source: NSE | Price as of 19 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,41,078	1,70,624	1,96,892
EBITDA (Rs mn)	18,521	24,717	27,673
Adj. net profit (Rs mn)	12,700	16,626	18,894
Adj. EPS (Rs)	84.6	110.8	125.9
Consensus EPS (Rs)	84.6	109.0	129.0
Adj. ROAE (%)	20.9	22.8	21.6
Adj. P/E (x)	52.3	39.9	35.1
EV/EBITDA (x)	35.7	26.8	23.9
Adj. EPS growth (%)	51.3	30.9	13.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

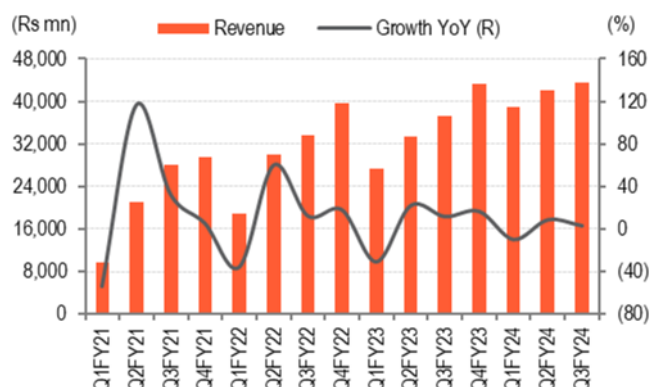
Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	43,405	37,152	16.8	42,177	2.9	1,24,475	97,841	27.2
EBITDA	5,695	5,038	13.0	6,089	(6.5)	17,270	12,426	39.0
EBITDA Margin (%)	13.1	13.6	(40bps)	14.4	(130bps)	13.9	12.7	120bps
Depreciation	619	525		603		1,793	1,557	
Interest	322	93		268		839	502	
Other Income	710	397		353		1,703	818	
PBT	5,464	4,818	13.4	5,572	(1.9)	16,340	8,452	93.3
Tax	1,299	1,202		1,274		3,850	2,804	
Adjusted PAT	4,129	3,576	15.4	4,256	(3.0)	12,377	8,452	46.4
Exceptional item	0	0		0		0	0	
Reported PAT	4,129	3,576	15.4	4,256	(3.0)	12,377	8,452	46.4
Adj. PAT Margin (%)	9.5	9.6	(10bps)	10.1	(60bps)	9.9	8.6	130bps
EPS (Rs)	27.8	24.2	15.2	28.7	(3.1)	83.5	57.3	45.8

Source: Company, BOBCAPS Research

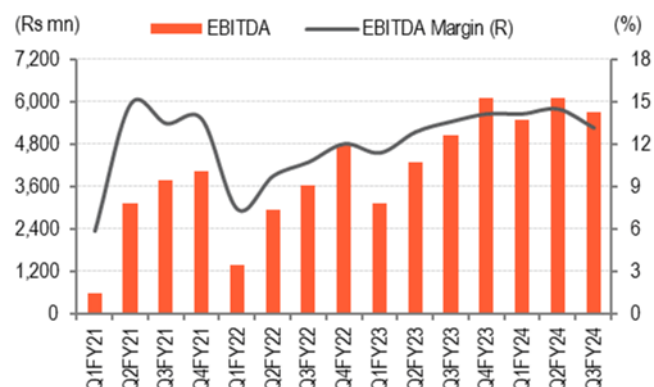
Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Segment revenue											
Wires & Cables	16,269	26,281	29,988	35,400	24,057	29,517	33,418	40,783	35,338	38,047	39,041
Growth YoY (%)	97.2	43.9	24.6	39.1	47.9	12.3	11.4	15.2	46.9	28.9	16.8
% of sales	83.12	79.83	87.22	87.98	85.50	87.79	87.72	90.28	88.32	87.74	87.78
FMEG	1,919	3,429	3,404	3,792	3,082	3,054	3,420	3,052	3,145	3,300	2,962
Growth YoY (%)	39.2	40.6	11.4	9.3	60.6	(11.0)	0.5	(19.5)	2.1	8.1	(13.4)
% of sales	9.8	10.4	9.9	9.4	11.0	9.1	9.0	6.8	7.9	7.6	6.7
EBIT											
Wires & Cables	1,073	2,305	3,089	4,106	2,773	3,463	4,593	5,896	5,223	5,547	5,474
EBIT margin (%)	6.6	8.8	10.3	11.6	11.5	11.7	13.7	14.5	14.8	14.6	14.0
FMEG	(143)	172	63	105	64	(27)	(24)	(70)	(57)	(60)	(366)
EBIT margin (%)	(7.5)	5.0	1.8	2.8	2.1	(0.9)	(0.7)	(2.3)	(1.8)	(1.8)	(12.4)

Source: Company, BOBCAPS Research

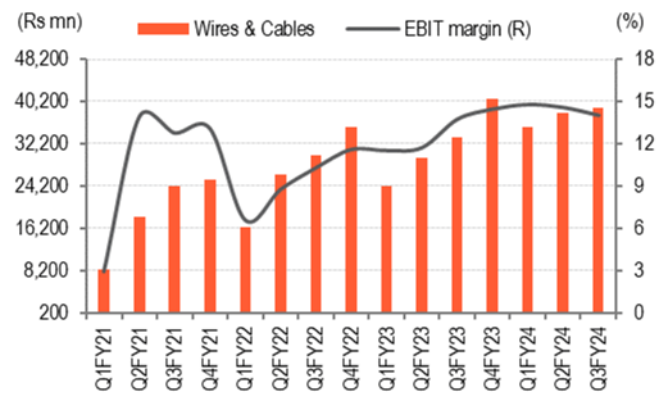
Fig 3 – Revenue trend

Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend

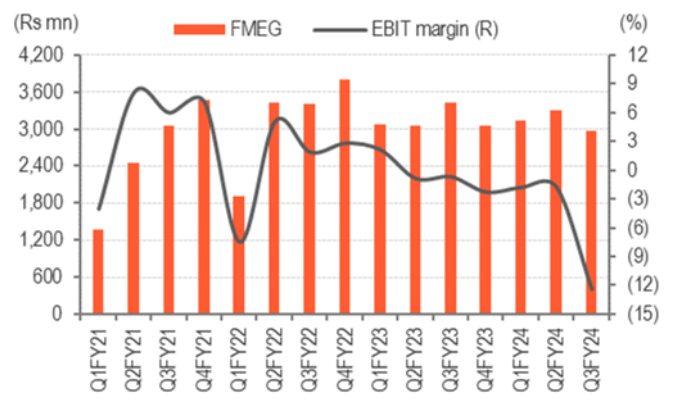
Source: Company, BOBCAPS Research

Fig 5 – Segment performance – W&C



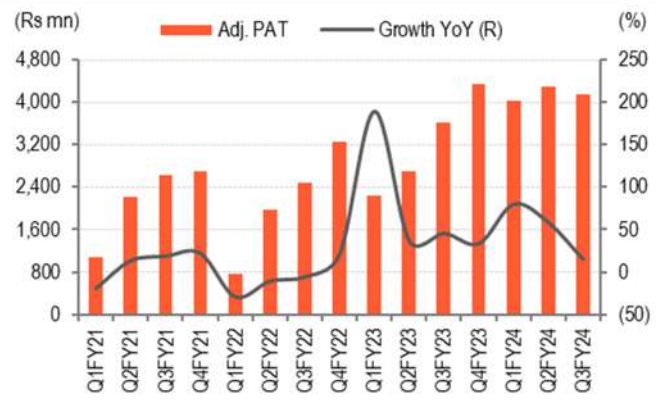
Source: Company, BOBCAPS Research

Fig 6 – Segment performance – FMEG



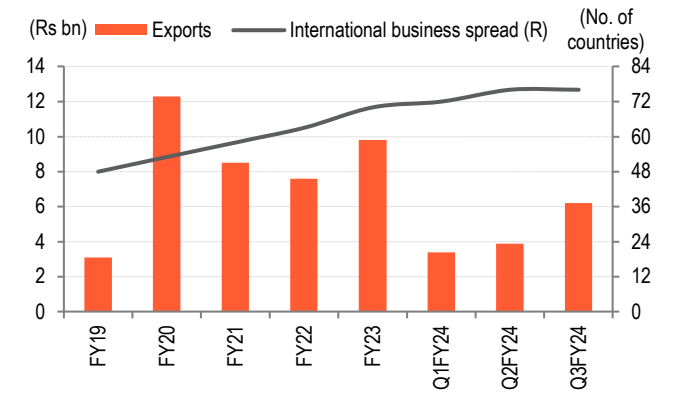
Source: Company, BOBCAPS Research

Fig 7 – PAT growth



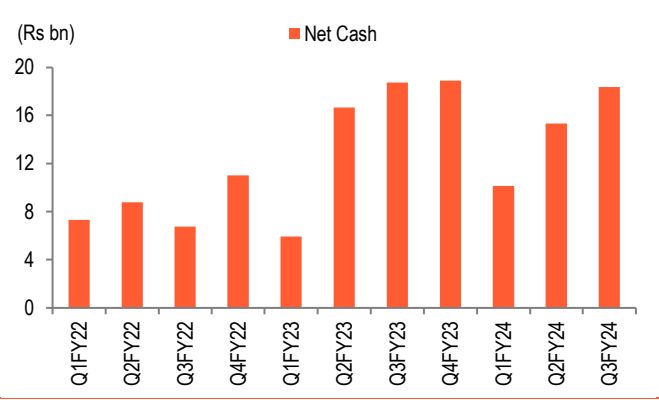
Source: Company, BOBCAPS Research

Fig 8 – Export trend



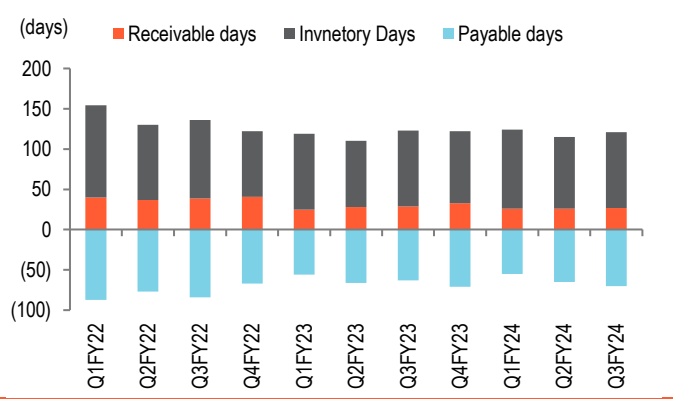
Source: Company, BOBCAPS Research

Fig 9 – Net cash position



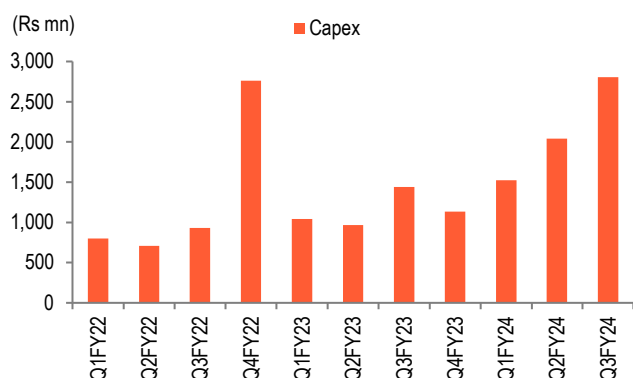
Source: Company, BOBCAPS Research

Fig 10 – Working capital management



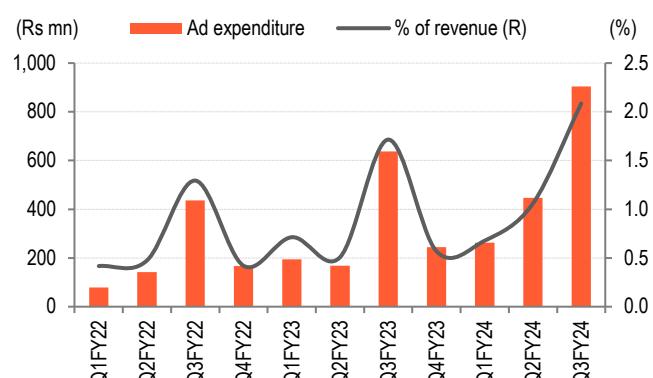
Source: Company, BOBCAPS Research

Fig 11 – Capex spends



Source: Company, BOBCAPS Research

Fig 12 – Ad spends



Source: Company, BOBCAPS Research

Earnings call highlights

Key parameters

- Demand:** W&C demand remains robust, supported by the government's continuous focus on infrastructure development and a pickup in private capex. Management sees growth visibility for the next couple of years.
- Promotional expenses:** Polycab's A&P spends expanded to 2.1% of revenue in Q3FY24 vs. 1% in Q2 on account of advertising during the Cricket World Cup and a brand revamp. Management reiterated that A&P spends will remain between 3% and 5% of B2C sales on an annual basis.
- Profitability:** Gross margin expanded 130bps YoY while EBITDA margin contracted 50bps YoY for the quarter, largely due to higher promotional expenditure and lower export contribution. Management expects exports to normalise to 10% of sales in a few quarters, aiding margins going forward.
- Working capital management:** Polycab had a working capital cycle of 51 days in Q3, in line with its normalised target of 50-60 days. The cycle has improved YoY by 9 days largely due to improved payable days.
- Capex:** Capex for the quarter stood at Rs 2.8bn (Rs 6.4bn in 9MFY24). Management expects to incur Rs 8bn-9bn for FY24, with a Rs 6bn-7bn target for FY25.

Wires & Cables (W&C)

- Performance:** Polycab's W&C segment grew 17% YoY in Q3FY24 on the back of strong, broad-based volume growth, with institutional business outpacing distribution business. Management sees sustained demand visibility in the short- and medium-term due to the capex cycle and real estate growth.
- Volume growth:** Domestic W&C volumes grew 20% YoY, with stronger growth in cables and single-digit growth in wires. The growth in wires has slowed in some states due to elections, along with the high base effect of last year which saw peak sales.

- **Capacity utilisation:** Utilisation for the quarter stood at 70-75% for wires and cables. This can go up to 95%, but Polycab intends to incur new capex as and when demand arises.

Fast-moving electrical goods (FMEG)

- **Performance:** FMEG business declined 13% YoY in Q3, primarily because of sustained weakness in consumer demand. Higher A&P spends and a lack of economies of scale led to a fall in bottomline.
- **Fans:** Revenue from fans slipped YoY due to a high base in Q3FY23 owing to stock liquidation activities prior to the change in energy rating norms. The company has launched 29 new SKUs in the premium BLDC and exhaust fan range during the quarter and expects these lines to scale up going forward.
- **Lighting:** The lighting category continued to witness price erosion. Volume growth in the category was also subdued.
- **Switches and switchgears:** This product category fared well during the quarter.
- **Restructuring:** During Q3, the company merged the FMEG and power business verticals and placed them under a unified business unit head.

Others

- **Performance:** The others segment, which largely consists of the engineering, procurement & construction (EPC) business, doubled YoY in Q3.
- **Profitability:** Segmental EBIT margin expanded 380bps YoY to 15.9%. Management expects steady high-single-digit margins over the medium- to long-term.

International business

- **Performance:** Revenue from international business grew 22% YoY to Rs 2.7bn and contributed 6.2% to consolidated revenue for the quarter. The company expects exports to be in line with the 10% contribution target by FY26 under Project Leap.
- **Outlook:** The international business was muted during the quarter due to the ongoing transition of Polycab's business in the US to a distribution-led business. Additionally, the ongoing war between Israel and Hamas has blocked the Red Sea transportation route for the company, doubling its supply time to six weeks. Management expects some Q3 revenue to be rolled forward to Q4 due to the longer lead time.

Valuation methodology

Pending the outcome of the I-T search, we halve the 50% valuation premium earlier ascribed by us to the company to 25% over the stock's three-year average multiple, which lowers our target P/E to 37x (vs. 45x). This coupled with minor estimate changes and rollover of valuations to Dec'25E leads to a reduced TP of Rs 5,200 (vs. Rs 6100). We will have better clarity on multiples once we receive details on the outcome of the I-T searches. Despite our reduced valuation, we maintain BUY given 17% upside potential following a sharp correction in stock price.

We have assigned the stock a 25% premium to the historical mean as the outlook for the W&C business remains positive due to continued public and private capex. Further, Polycab has the highest market share and also compares well with peers in terms of financial parameters (Fig 13). The company commands 16% share of the organised market while all its peers continue to have single-digit market share. It also enjoys among the best return ratios in the industry, having the highest ROCE among peers in FY23.

Fig 13 – Peer comparison

Companies	FY23-FY26E CAGR (%)			ROE (%)		ROCE (%)		Market share#
	Revenue	EBITDA	PAT	FY23	FY26E	FY23	FY26E	FY23
POLYCAB	18.0	20.0	22.0	20.0	22.0	27.0	27.0	16.0
RRKABEL ^A	20.0	39.0	44.0	20.3	23.3	15.6	27.2	5.0
KEII	17.0	25.0	22.0	20.2	21.1	25.8	25.3	8.0
FNXC	18.0	23.0	21.0	14.4	17.6	18.5	15.0*	6.0
HAVL	14.0	21.0	23.0	17.0	22.0	22.3	22.9	8.0
VGRD	14.0	23.0	30.0	12.0	19.0	14.5	20.8	4.0

Source: Company, BOBCAPS Research | ^ARR Kabel DRHP, *FY25E, #Organised market

Fig 14 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	170,624	196,892	222,030	170,624	196,892	222,030	0.0	0.0	0.0
EBITDA	24,717	27,673	31,018	23,595	27,501	31,166	4.8	0.6	(0.5)
PAT	16,626	18,894	21,588	16,220	18,884	21,751	2.5	0.0	(0.7)
EPS (Rs)	110.8	125.9	143.8	108.1	125.8	144.9	2.5	0.0	(0.7)
EBITDA Margin (%)	14.5	14.1	14.0	13.8	14.0	14.0	70bps	10bps	(10bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity price volatility,
- sustained weak FMEG performance, and
- negative outcome of the search conducted by the income tax department.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,22,038	1,41,078	1,70,624	1,96,892	2,22,030
EBITDA	12,652	18,521	24,717	27,673	31,018
Depreciation	2,015	2,092	2,857	3,457	3,819
EBIT	10,637	16,430	21,860	24,216	27,199
Net interest inc./(exp.)	(352)	(598)	(998)	(469)	(500)
Other inc./(exp.)	899	1,333	1,467	1,613	1,807
Exceptional items	0	0	0	0	0
EBT	11,184	17,165	22,329	25,360	28,505
Income taxes	2,706	4,250	5,627	6,391	6,841
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(26)	(93)	(26)	(26)	(26)
Reported net profit	8,365	12,700	16,626	18,894	21,588
Adjustments	0	0	0	0	0
Adjusted net profit	8,365	12,700	16,626	18,894	21,588

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	78,137	93,428	1,11,114
Shareholders' fund	55,437	66,311	79,635	94,926	1,12,612
Total liab. and equities	74,119	94,255	1,19,111	1,40,191	1,63,416
Cash and cash eq.	4,071	6,952	15,909	23,586	36,477
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	25,747	28,790	29,971
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	1,19,111	1,40,191	1,63,416

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	5,116	14,275	19,738	18,169	22,166
Capital expenditures	(5,200)	(4,584)	(8,500)	(6,500)	(5,000)
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)	(9,253)	(7,170)	(5,641)
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)	(3,302)	(3,602)	(3,903)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,007)	(2,238)	(1,528)	(3,321)	(3,634)
Chg in cash & cash eq.	(1,160)	11	8,957	7,677	12,891
Closing cash & cash eq.	4,071	6,952	15,909	23,586	36,477

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	55.9	84.6	110.8	125.9	143.8
Adjusted EPS	55.9	84.6	110.8	125.9	143.8
Dividend per share	14.0	20.0	22.0	24.0	26.0
Book value per share	370.6	441.8	530.5	632.4	750.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.4	4.7	3.9	3.4	3.0
EV/EBITDA	52.3	35.7	26.8	23.9	21.3
Adjusted P/E	79.1	52.3	39.9	35.1	30.8
P/BV	11.9	10.0	8.3	7.0	5.9

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	102.1	104.7	104.8
EBIT margin (EBIT/Revenue)	8.7	11.6	12.8	12.3	12.3
Asset turnover (Rev./Avg TA)	7.5	7.0	6.6	6.8	7.4
Leverage (Avg TA/Avg Equity)	0.3	0.3	0.4	0.3	0.3
Adjusted ROAE	16.2	20.9	22.8	21.6	20.8

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	33.5	12.0	12.1
Adjusted EPS	(0.2)	51.3	30.9	13.6	14.3
Profitability & Return ratios (%)					
EBITDA margin	10.4	13.1	14.5	14.1	14.0
EBIT margin	8.7	11.6	12.8	12.3	12.3
Adjusted profit margin	6.9	9.0	9.7	9.6	9.7
Adjusted ROAE	16.2	20.9	22.8	21.6	20.8
ROCE	17.8	23.1	24.0	21.1	20.4
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	4.8	4.6	4.5
Current ratio	3.0	2.6	2.4	2.5	2.7
Net interest coverage ratio	30.2	27.5	21.9	51.7	54.4
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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BUY – Expected return >+15%

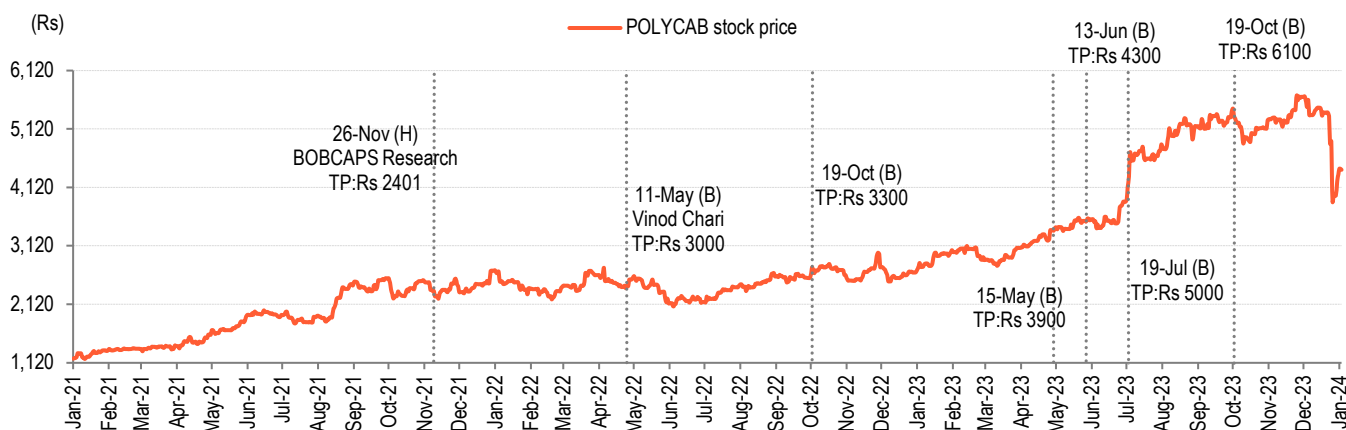
HOLD – Expected return from -6% to +15%

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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