

**BUY**

TP: Rs 3,000 | ▲ 25%

**POLYCAB INDIA**

Consumer Durables

11 May 2022

### Wired for growth

- Strong quarter with the core cable and wire business performing well on revenue and margins, beside maintaining market leadership
- On track to meet its long-term revenue target of Rs 200bn in FY26, implying a 14% CAGR with double-digit margins across segments
- Robust growth profile and potential rerating towards FMEG valuations drive our BUY rating; TP Rs 3,000

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**Strong results in difficult times:** Polycab's Q4FY22 revenue increased 35% YoY to Rs 39.7bn due to growth across segments, primarily wires and cables (up 40% YoY). Gross margin declined by 355bps YoY to 22.2% as the company could not fully pass on the raw material price increases. EBIT margin contracted 145bps YoY to 10.7% YoY due to the reduced gross margin which was partially mitigated by better operating leverage. PAT increased 20% to Rs 3.2bn.

**Market leadership in cables and wires aiding growth:** Polycab is one of the largest cable and wire players in India, commanding 15-16% share in a fragmented market (22-24% organised share). We expect the ongoing revival in infrastructure alongside recovery in construction activity to benefit the cable and wire industry. Additionally, the growing demand shift from unorganised to organised players helps market leaders such as Polycab grow faster than industry.

**Initiatives to recoup FMEG growth momentum:** Polycab's fast-moving electrical goods (FMEG) segment posted a 39% revenue CAGR over FY16-FY21. After a stellar performance for the last five years, the momentum softened in FY22 as management realigned strategy with the Project Leap initiative. The company has taken various measures to recoup its momentum by launching products in all price bands and growing its distribution presence.

**BUY, TP Rs 3,000:** The ongoing increase in raw material prices has helped the company to grow its topline via price hikes, especially in cables and wires. Expansion of its product portfolio and distribution presence has also helped Polycab gain market share across product categories. We 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. We assume coverage with a BUY rating and a TP of Rs 3,000.

Key downside risks to growth include higher commodity prices and weaker economic conditions, leading to a drop in demand and failure to gain market share in FMEG product categories.

### Key changes

Target	Rating
▲	▲

Ticker/Price	POLYCAB IN/Rs 2,394
Market cap	US\$ 4.6bn
Free float	32%
3M ADV	US\$ 12.4mn
52wk high/low	Rs 2,820/Rs 1,468
Promoter/FPI/DII	68%/6%/9%

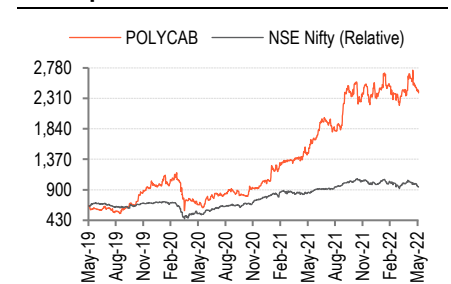
Source: NSE | Price as of 10 May 2022

### Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,43,600	1,61,610
EBITDA (Rs mn)	12,688	16,241	20,062
Adj. net profit (Rs mn)	7,733	10,420	12,725
Adj. EPS (Rs)	51.7	69.6	85.1
Consensus EPS (Rs)	51.7	73.8	90.4
Adj. ROAE (%)	15.0	17.5	18.4
Adj. P/E (x)	46.3	34.4	28.1
EV/EBITDA (x)	27.9	21.8	17.7
Adj. EPS growth (%)	4.6	34.8	22.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**Fig 1 – Annual and quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue (post indirect taxes)</b>	<b>39,700</b>	<b>29,427</b>	<b>34.9</b>	<b>33,720</b>	<b>17.7</b>	<b>1,22,038</b>	<b>87,922</b>	<b>39.8</b>
Cost of Revenue	(30,892)	(21,857)	41.3	(26,095)	18.4	(94,657)	(65,171)	47.0
<b>Gross Profit</b>	<b>8,808</b>	<b>7,571</b>	<b>16.3</b>	<b>7,625</b>	<b>15.5</b>	<b>27,381</b>	<b>22,751</b>	<b>19.7</b>
Gross Margin (%)	22.2	25.7	(354bps)	22.6	(43bps)	22.4	25.9	(344bps)
Employee Benefits Expense	(1,050)	(976)	7.6	(1,025)	2.4	(4,066)	(3,537)	14.6
Other Expense	(2,994)	(2,554)	17.2	(2,983)	0.4	(10,663)	(8,102)	34.0
Other Income	0	0	-	0	-	0	0	-
<b>EBITDA</b>	<b>4,763</b>	<b>4,040</b>	<b>17.9</b>	<b>3,617</b>	<b>31.7</b>	<b>12,688</b>	<b>11,111</b>	<b>11.3</b>
EBITDA margin (%)	12.0	13.7	(173bps)	10.7	127.2bps	10.4	12.6	(224bps)
Depreciation & Amortization	(503)	(461)	9.1	(511)	(1.7)	(2,015)	(1,762)	12.8
<b>EBIT</b>	<b>4,261</b>	<b>3,580</b>	<b>19.0</b>	<b>3,106</b>	<b>37.2</b>	<b>10,637</b>	<b>9,350</b>	<b>11.1</b>
EBIT margin (%)	10.7	12.2	(143bps)	9.2	152bps	8.7	10.6	(192bps)
Interest Income	0	0	-	0	-	128	0	-
Interest Expense	(125)	(132)	(5.2)	(78)	60.1	(352)	(427)	(16.9)
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	168	231	(27.3)	216	(22.3)	139	1,193	(27.3)
Forex	0	0	-	0	-	632	0	-
<b>Total Financials</b>	<b>43</b>	<b>99</b>	<b>(56.6)</b>	<b>138</b>	<b>(68.9)</b>	<b>547</b>	<b>766</b>	<b>(34.2)</b>
<b>Income after financial items</b>	<b>4,304</b>	<b>3,679</b>	<b>17.0</b>	<b>3,244</b>	<b>32.7</b>	<b>11,184</b>	<b>10,116</b>	<b>7.8</b>
Margin (%)	10.8	12.5	(166bps)	9.6	122bps	9.2	11.5	(234bps)
Associate Income	(4)	7	(152.6)	3	(241.3)	(26)	6	1,010.9
<b>Pretax income</b>	<b>4,300</b>	<b>3,686</b>	<b>16.7</b>	<b>3,247</b>	<b>32.4</b>	<b>11,159</b>	<b>10,122</b>	<b>7.6</b>
Total Non-Recurring	0	0	-	0	-	0	0	(100.0)
<b>Reported Pretax</b>	<b>4,300</b>	<b>3,686</b>	<b>16.7</b>	<b>3,247</b>	<b>32.4</b>	<b>11,159</b>	<b>10,122</b>	<b>6.6</b>
Taxation	0	0	-	0	-	0	0	-
Total	(1,047)	(976)	7.3	(763)	37.2	(2,706)	(1,703)	53.3
% of pretax income before Associates	24	27	(8.3)	24	0.0	24	17	0.0
<b>Net income before minorities</b>	<b>3,253</b>	<b>2,711</b>	<b>20.0</b>	<b>2,484</b>	<b>31.0</b>	<b>8,452</b>	<b>8,418</b>	<b>(2.8)</b>
Minorities	(32)	(18)	81.0	(16)	93.3	(87)	(38)	127.4
<b>Net income after minorities</b>	<b>3,222</b>	<b>2,693</b>	<b>19.6</b>	<b>2,467</b>	<b>30.6</b>	<b>8,365</b>	<b>8,380</b>	<b>(3.4)</b>
Tax on non-core	0	0	-	0	-	0	0	-
<b>Core net income</b>	<b>3,222</b>	<b>2,693</b>	<b>19.6</b>	<b>2,467</b>	<b>30.6</b>	<b>7,733</b>	<b>8,380</b>	<b>(2.3)</b>
Net margin (%)	8.1	9.2	(104bps)	7.3	80bps	6.3	9.5	(319bps)

Source: Company, BOBCAPS Research

**Fig 2 – Segment performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue</b>								
Wires & Cables	35,400	25,318	39.8	29,988	18.0	1,07,938	75,911	42.8
Fast moving electrical goods (FMEG)	3,792	3,468	9.3	3,404	11.4	12,544	10,341	21.3
Others	1,044	960	8.9	989	5.6	3,702	2,998	20.9
<b>Segment Profit</b>								
Wires & Cables	4,106	3,306	24.2	3,089	32.9	10,545	9,069	14.8
Fast moving electrical goods (FMEG)	105	244	(57.0)	63	67.1	196	566	(65.3)
Others	139	187	(25.5)	126	10.1	499	456	(10.2)
<b>Segment Margin (%)</b>								
Wires & Cables	11.6	13.1	(146bps)	10.3	130bps	9.8	11.9	(218bps)
Fast moving electrical goods (FMEG)	2.8	7.0	(426bps)	1.8	92bps	1.6	5.5	(391bps)
Others	13.3	19.4	(614bps)	12.8	55bps	13.5	15.2	(174bps)

Source: Company, Bloomberg

## Valuation methodology

Being the market leader in cables and wires, we expect Polycab to not only pass on the higher raw material cost but also to gain market share given its superior product quality. Its recent entry into the economical category via the launch of 'Etira' will help the company 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 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. We assume coverage with a BUY rating and a TP of Rs 3,000.

**Fig 3 – Estimates Vs. Consensus**

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	143.6	161.6	133.3	152.9	7.7	5.7
EBITDA	16.2	20.1	15.6	19.1	3.9	5.2
EBIT	14.0	17.5	13.9	16.9	0.7	3.7
Pretax Income	14.0	17.0	14.4	17.8	(2.8)	(4.4)
Net Income	10.4	12.7	10.7	13.4	(2.5)	(4.7)
EPS (Rs)	69.6	85.1	72.8	90.8	(4.3)	(6.3)

Source: Bloomberg, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- 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	1.5	3,470	3,471	HOLD
Blue Star	BLSTR IN	1.3	1,027	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.8	346	621	BUY
Dixon Technologies	DIXON IN	2.8	3,680	5,431	HOLD
Havells India	HAVL IN	9.9	1,224	1,500	BUY
Orient Electric	ORIENTEL IN	0.9	321	350	HOLD
Polycab India	POLYCAB IN	4.6	2,394	3,000	BUY
V-Guard Industries	VGRD IN	1.1	201	321	BUY
Voltas	VOLT IN	4.2	989	1,250	BUY
Whirlpool India	WHIRL IN	2.6	1,565	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 10 May 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>87,298</b>	<b>88,565</b>	<b>1,22,038</b>	<b>1,43,600</b>	<b>1,61,610</b>
EBITDA	10,349	10,969	12,688	16,241	20,062
Depreciation	(1,609)	(1,866)	(2,051)	(2,269)	(2,516)
EBIT	8,740	9,103	10,637	13,972	17,546
Net interest inc./(exp.)	(287)	(404)	(224)	(161)	(650)
Other inc./(exp.)	720	1,154	771	139	139
Exceptional items	1,001	798	0	0	0
EBT	10,100	10,650	11,159	13,950	17,035
Income taxes	(2,444)	(1,791)	(2,706)	(3,530)	(4,310)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(140)	(40)	(113)	0	0
<b>Reported net profit</b>	<b>7,591</b>	<b>8,821</b>	<b>8,365</b>	<b>10,420</b>	<b>12,725</b>
Adjustments	(1,001)	(1,430)	(632)	0	0
<b>Adjusted net profit</b>	<b>6,589</b>	<b>7,391</b>	<b>7,733</b>	<b>10,420</b>	<b>12,725</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	13,480	13,480	12,175	21,638	26,566
Other current liabilities	13,718	13,716	12,429	21,892	26,820
Provisions	256	251	264	264	264
Debt funds	1,221	1,926	1,181	6,610	0
Other liabilities	1,054	1,425	994	994	994
Equity capital	1,489	1,491	1,494	1,494	1,494
Reserves & surplus	36,875	46,048	53,943	62,276	72,923
Shareholders' fund	38,364	47,539	55,437	63,770	74,418
<b>Total liab. and equities</b>	<b>59,616</b>	<b>70,147</b>	<b>74,119</b>	<b>97,343</b>	<b>1,06,309</b>
Cash and cash eq.	2,813	5,313	4,071	7,262	9,368
Accounts receivables	14,336	14,358	12,964	23,605	26,566
Inventories	19,250	19,879	21,996	31,474	35,421
Other current assets	4,100	8,176	12,380	12,380	12,380
Investments	0	0	0	0	0
Net fixed assets	14,203	18,602	16,522	16,451	16,418
CWIP	0	0	0	0	0
Intangible assets	17	71	183	183	183
Deferred tax assets, net	10	0	0	0	0
Other assets	4,887	3,747	6,003	5,987	5,972
<b>Total assets</b>	<b>59,616</b>	<b>70,147</b>	<b>74,119</b>	<b>97,343</b>	<b>1,06,309</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,443</b>	<b>12,382</b>	<b>5,116</b>	<b>2,056</b>	<b>13,771</b>
Capital expenditures	(2,901)	(1,870)	(5,265)	(2,183)	(2,467)
Change in investments	0	(304)	0	0	0
Other investing cash flows	35	(8,128)	764	(82)	0
<b>Cash flow from investing</b>	<b>(2,866)</b>	<b>(10,302)</b>	<b>(4,502)</b>	<b>(2,265)</b>	<b>(2,467)</b>
Equities issued/Others	4,000	0	0	0	0
Debt raised/repaid	0	0	0	5,428	(6,610)
Interest expenses	0	0	0	(150)	(639)
Dividends paid	0	0	0	(2,088)	(2,077)
Other financing cash flows	(7,890)	(1,606)	(2,007)	(3,190)	9,326
<b>Cash flow from financing</b>	<b>(3,890)</b>	<b>(1,606)</b>	<b>(2,007)</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(69)</b>	<b>656</b>	<b>(1,160)</b>	<b>3,109</b>	<b>2,107</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,813</b>	<b>5,313</b>	<b>4,153</b>	<b>7,262</b>	<b>9,368</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	51.0	59.0	55.9	69.6	85.1
Adjusted EPS	44.3	49.4	51.7	69.6	85.1
Dividend per share	7.0	10.0	14.0	13.9	17.0
Book value per share	257.7	318.8	371.8	427.6	499.1

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	4.1	4.0	2.9	2.5	2.2
EV/EBITDA	34.8	32.4	27.9	21.8	17.7
Adjusted P/E	54.1	48.5	46.3	34.4	28.1
P/BV	9.3	7.5	6.4	5.6	4.8

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	72.4	75.0	69.3	74.7	74.7
Interest burden (PBT/EBIT)	104.1	108.2	104.9	99.8	97.1
EBIT margin (EBIT/Revenue)	10.0	10.3	8.7	9.7	10.9
Asset turnover (Rev./Avg TA)	150.6	136.5	169.2	167.5	158.7
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.4	1.4	1.5
Adjusted ROAE	19.7	17.2	15.0	17.5	18.4

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	9.8	1.5	37.8	17.7	12.5
EBITDA	12.7	6.0	15.7	28.0	23.5
Adjusted EPS	46.6	11.6	4.6	34.8	22.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.9	12.4	10.4	11.3	12.4
EBIT margin	10.0	10.3	8.7	9.7	10.9
Adjusted profit margin	7.5	8.3	6.3	7.3	7.9
Adjusted ROAE	19.7	17.2	15.0	17.5	18.4
ROCE	25.1	20.3	19.9	22.7	24.8
<b>Working capital days (days)</b>					
Receivables	60	59	39	60	60
Inventory	80	82	66	80	80
Payables	56	56	36	55	60
<b>Ratios (x)</b>					
Gross asset turnover	4.6	3.8	4.2	4.4	4.6
Current ratio	2.0	2.4	3.0	2.4	2.7
Net interest coverage ratio	30.4	22.6	47.5	86.6	27.0
Adjusted debt/equity	0.0	0.0	0.0	0.1	0.0

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

## Disclaimer

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

**BUY** – Expected return >+15%

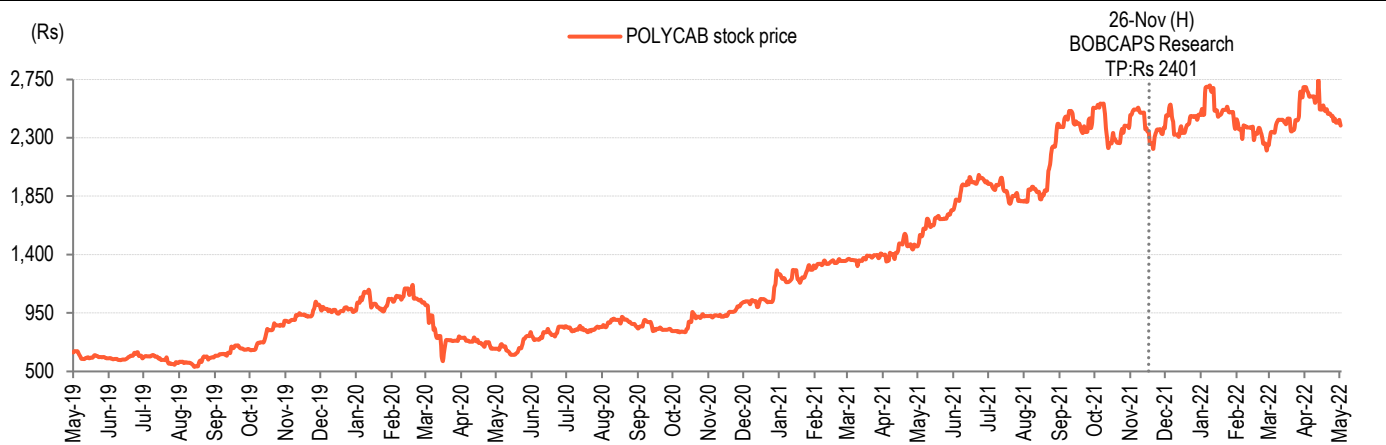
**HOLD** – Expected return from -6% to +15%

**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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As of 30 April 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 66 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD\*, 1 is rated REDUCE\* and 14 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

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