

Satisfactory performance amid lockdown...

Polycab reported a satisfactory performance amid the Covid induced lockdown in Q1FY21 wherein it lost almost 40 days of its sales. Consolidated revenue fell 50% YoY in Q1FY21 led by a similar decline in revenue of its core business i.e. wire & cable. While cable demand remained muted throughout the quarter, the housing wire segment (~45% of total wire & cable segment) witnessed strong double digit growth in June led by pent up demand and pre-stocking due to price hike. Despite such a challenging scenario, gross margins increased ~50 bps YoY while EBITDA margin was at ~6% (down ~560 bps YoY), mainly due to low operating leverage. The management has indicated at demand improvement on a month on month basis post relaxation of lockdown. While the plant utilisation has reached 50-60% currently, the company reported a marginal growth in revenue for July 2020 (as on date). The company also increased its focus towards export markets and recorded export revenue growth of 116% in Q1FY21. The export revenue contribution to total topline increased to 10% in Q1FY21 vs. 2% in Q1FY20. We maintain our positive stance on the stock, considering Polycab's strong fundamentals (that will help it to recoup its lost sales swiftly with a recovery in business activities) and stringent working capital management to reduce the risk on the balance sheet.

Signs of recovery on month on month basis

With sales loss for almost 40 days in Q1FY21, the company witnessed a demand recovery on a month-on-month basis. It operated at plant utilisation of ~50-60% supported by pent up demand in the housing wire segment and rising business opportunities on the export front. Despite nil sales from Dangote project, Polycab posted robust growth of 116% YoY in export revenue in Q1FY21 led by good demand traction in US, Australia. We model revenue CAGR of ~5% for FY20-21E led by FMEG segment revenue CAGR of 14% and wire & cable segment revenue CAGR of 3% in the same period.

Significant cost rationalisation during lockdown

The company has taken significant steps to rationalise fixed cost like lower variable pays & incentives and other costs. This, along with low advertisement expenditure (down 92% YoY) helped in clocking EBITDA margin of ~6% YoY in a period of lower sales. We believe operating margins will improve gradually in coming quarters with increase in plant utilisation.

Valuation & Outlook

We believe Polycab's Q1FY21 performance was satisfactory despite such challenging demand conditions. Strong balance sheet, market leadership position in wire & cable business and profitable growth in FMEG segment in coming quarters would help drive the future growth of Polycab. We have revised our revenue, earning estimate up by 5% and 4% respectively for FY22E. We reiterate **BUY** with a revised TP of ₹ 950 (valuing at 17x FY22E).



Particulars

Particular	Amount
Market Cap (₹Crore)	12,252.7
Total Debt (FY 20) (₹Crore)	152.3
Cash & Inv (FY 20) (₹Crore)	276.0
EV (₹Crore)	12,129.1
52 week H/L	1180/ 525
Equity capital (₹Crore)	148.9
Face value (₹)	10.0

Key Highlights

- Export revenue grew 116% YoY in Q1FY21. Contribution of export revenue to total revenue increased from 2% in Q4FY20 to 10% in Q1FY21
- Gross margin expanded 50 bps YoY in Q1FY21. Significant cost rationalisation to safeguard margins
- Maintain BUY rating on stock with revised target price of ₹ 950/share

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Key Financial Summary

₹Crore	FY18	FY19	FY20E	FY21E	FY22E	(CAGR 20-22E)
Net sales	6770.3	7956.0	8830.0	7764.0	9667.9	4.6
EBITDA	728.9	923.2	1135.0	900.6	1247.2	4.8
EBITDA Margin(%)	10.8	11.6	12.9	11.6	12.9	
Net Profit	358.6	500.5	765.6	628.5	825.0	3.8
EPS (₹)	25.4	35.4	51.4	42.2	55.4	
P/E(x)	32.4	23.2	16.0	19.5	14.9	
RoE (%)	15.3	17.6	20.0	13.9	17.0	
RoCE (%)	20.9	28.3	26.5	16.8	22.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	976.6	1951.1	-49.9	2129.4	-54.1	Revenue impacted by lockdown in the month of April'20
Other Income	33.6	33.6	0.2	46.5	-28	
Raw Material Exp	709.7	1427.8	-50.3	1476.9	-51.9	Bening raw material prices results ~50 bps increase in gross margin
Employee cost	81.2	92.0	-11.7	89.9	-9.6	Lower incentives and variable pays helped in saving employee cost in Q1FY 21
Advertisement Exp	3.2	38.6	-91.8	18.5	-82.9	Rationalisation of Advertisement expenditure owing to low demand
Freight and forwarding Exp	26.5	43.3	-38.9	49.9	-47.0	
Other Expenditure	98.5	126.0	-21.8	193.6	-49.1	
Total Expenditure	919.1	1727.7	-46.8	1828.8	-49.7	
EBITDA	57.5	223.4	-74.3	300.6	-80.9	
EBITDA Margin (%)	5.9	11.5	-556 bps	14.1	-823 bps	Low operating leverage drags the EBITDA margins
Depreciation	44.3	38.5	15.0	42.2	5.0	
Interest	16.3	12.1	34.6	15.9	2.3	
Exceptional items	-9.7	0.0	NM	0.0	NM	Gains from previously help equity interest in Ryker
PBT	40.3	206.4	-80.5	288.9	-86.1	
Total Tax	-78.5	71.3	-210.0	68.0	-215.4	Net saving on tax front is largely attributable to income tax refund
PAT	117.6	135.3	-13.1	215.1	-45.4	

Key Metrics *

Wires & Cables	825.2	1,637.5	-49.6	1,860.5	-55.6	Domestic sales were largely hit by nationwide lockdown. Domestic distribution channel sales (wire segment) were half of last year while institutional business was impacted severely due to covid-19 related lockdowns
FMEG	137.8	240.1	-42.6	183.3	-24.8	Faster recovery witnessed in the lighting and agro pumps. However Fans was impacted due to lower offtake in the month of April and May (typically key summer stocking periods)
Copper	15.0	NA	NA	NA	NA	The company has started reported revenue from Ryker from current quarter
Others	53.4	122.6	-56.4	159.2	-66.5	Segment performance was impacted due to stalled execution on account of lockdown

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ crore)	FY21E			FY22E			Comments
	Old	Actual	% Chg	Old	New	% Chg	
Revenue	7,745.1	7,764.0	0.2	9,199.2	9,667.9	5.1	While FY21E will be a challenging year in terms of lower demand, we believe a pick-up in construction activity coupled with execution of strong export order would drive performance of the company
EBITDA	890.7	900.6	1.1	1,195.9	1247.2	4.3	
EBITDA Margin (%)	11.5	11.6	10bps	13.0	12.9	-10bps	Various cost rationalisation measures would help in a fast recovery in margin
PAT	538.4	628.5	16.7	792.1	825.0	4.1	
EPS (₹)	36.2	42.2	16.7	53.2	55.4	4.2	

Source: Company, ICICI Direct Research

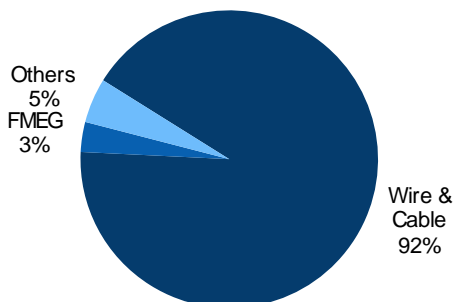
Exhibit 3: Assumptions

	Current (%)				Previous		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Wire & Cable	14.0	8.6	(13.0)	22.0	(12.0)	15.0	We believe rising contribution of exports and recovery in construction activities would lead to recovery in core business from FY22E onwards
FMEG	34.6	30.7	(10.0)	45.0	(10.0)	45.0	Low base coupled with addition of new dealers would help drive growth in FMEG segment
Copper			NA	10.0	Na	Na	
Others	92.5	29.8	(18.0)	20.0	(14.0)	20.0	High-quality broadband services and laying optical fibre cables across the nation under Bharat Net project would be key growth driver for project business

Source: Company, ICICI Direct Research

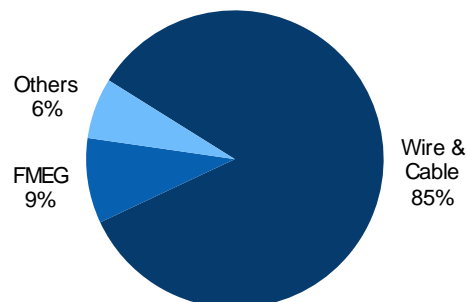
Financial story in charts

Exhibit 4: Segment wise revenue contribution in FY16



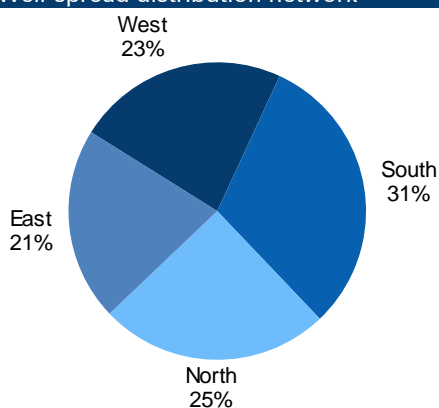
Source: Company, ICICI Direct Research

Exhibit 5: Segment wise revenue contribution in FY20



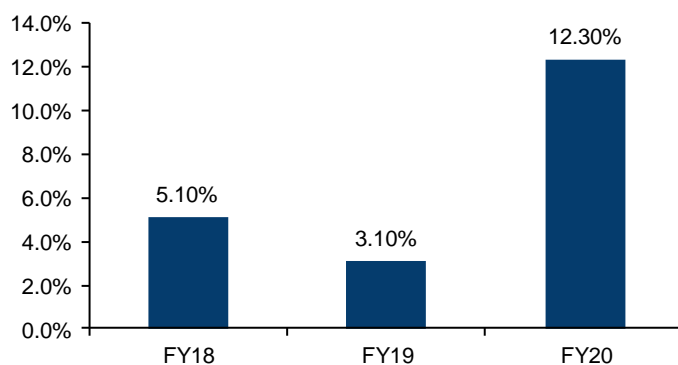
Source: Company, ICICI Direct Research

Exhibit 6: Well-spread distribution network



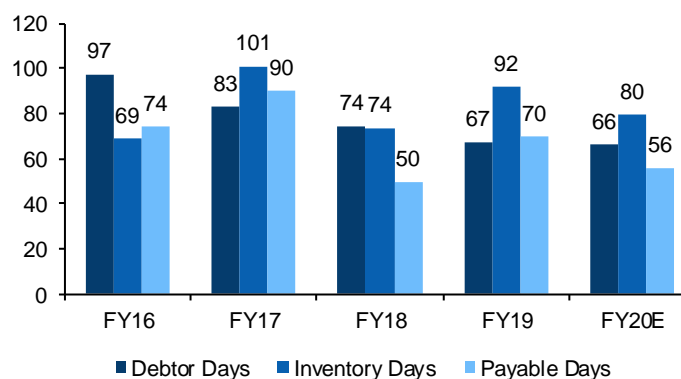
Source: Company, ICICI Direct Research

Exhibit 7: Export revenue contribution in topline



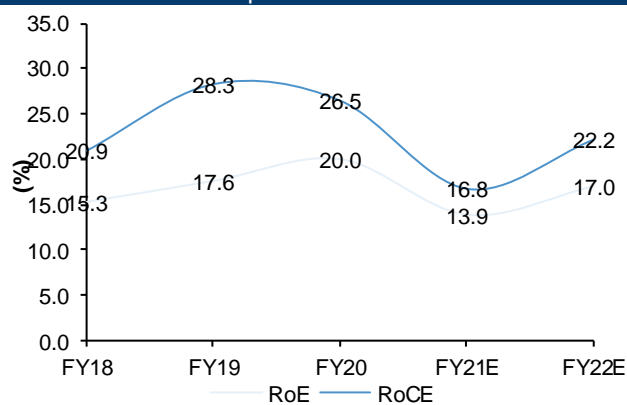
Source: Company, ICICI Direct Research

Exhibit 8: Working capital cycle



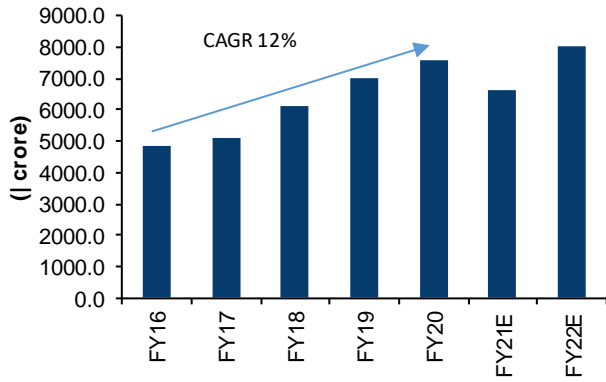
Source: Company, ICICI Direct Research

Exhibit 9: Return ratios profile



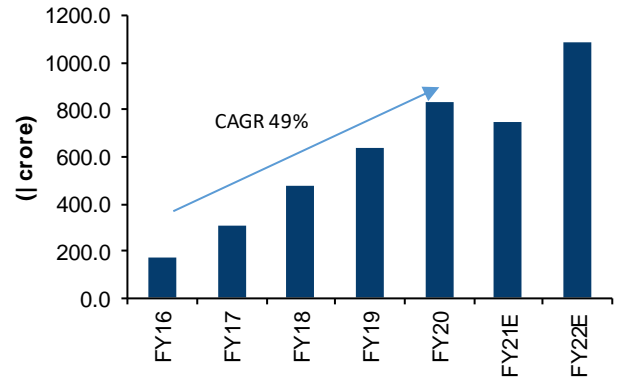
Source: Company, ICICI Direct Research

Exhibit 10: Wire & cable segment growth trend



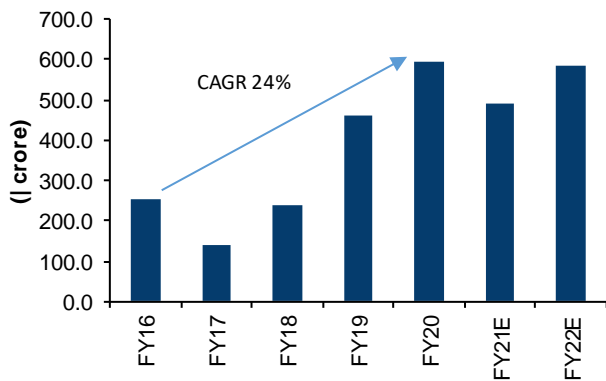
Source: Company, ICICI Direct Research

Exhibit 11: FMEG segment growth trend



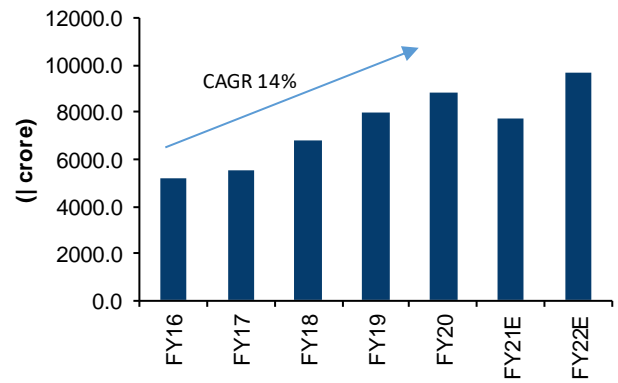
Source: Company, ICICI Direct Research

Exhibit 12: Other segment (largely EPC business) growth trend



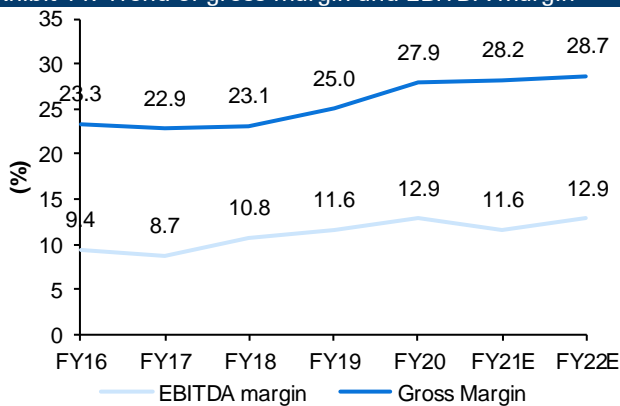
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated revenue growth trend



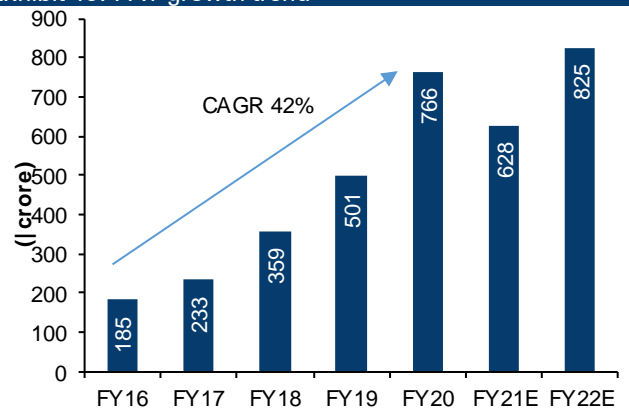
Source: Company, ICICI Direct Research

Exhibit 14: Trend of gross margin and EBITDA margin



Source: Company, ICICI Direct Research

Exhibit 15: PAT growth trend



Source: Company, ICICI Direct Research

Conference call highlights

Wire & cable segment

- Segment revenue declined 51% YoY in Q1FY21. Domestic sales were impacted by the nationwide lockdown
- Institutional sales were impacted adversely due to delay in order finalisation
- Housing wires business (~45% of total wire & cable sales) witnessed double digit growth in June supported by pent up demand and pre-stocking due to price hikes
- Dangote project linked sales were nil in Q1. Despite this, the export revenue grew 116% YoY due to increased business opportunities in developed countries like the US and Australia
- Export contribution to overall sales increased to 10% in Q1FY21 (2% in Q1FY20)
- Segment adjusted EBIT margin declined to 3.1% in Q1FY21 vs. 11.6% and 15.2% in Q1FY20 and Q4FY20, respectively

FMEG segment

- The FMEG segment declined 43% YoY in Q1FY21. The company witnessed pent up demand in the FMEG business during June 2020
- FMEG contribution to overall sales increased 177 bps YoY to 14% in Q1FY21
- Lighting and agro pumps saw a better recovery. Fans were impacted as April and May are typically key summer stocking periods
- Segment EBIT slipped into the red at ~₹ 6 crore due to low operating leverage. EBIT margin increased from 1% in FY19 to 2.1% in FY20

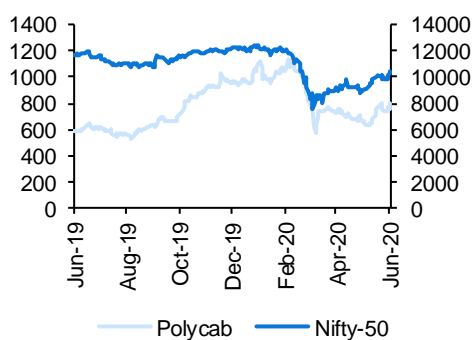
EPC segment

- Segment revenue in Q1FY21 declined 61% YoY. Operating profitability was higher at 14.4%
- Annual sustainable operating margin in this business is expected to be in high single digits over the mid to long term

Others

- Overall capacity utilisation is hovering around 50-60%
- While the dealer network in non-containment zones is operational, dealers in containment zones are facing problems due to lockdown
- While the business recovery rate in tier 1 cities is ~80%, the metro regions business recovery rate is struggling at 40% due to intermediate lockdown by local authorities
- The company is working on various cost optimisation initiatives to improve operating leverage
- Future advertisement expenditure would be depending on demand conditions
- Export revenue is expected to be ~10%, going ahead
- Capex would be ~₹ 200 crore in FY21 of which ~35% would be towards augmenting FMEG capacities
- Net cash of ~ ₹ 200 crore by the end of June 2020
- The company has a total dealer network of ~3500 with ~130000 retail touch points. The focus is to increase the reach in semi urban and rural India where the company has a limited reach. Over the years, the company's exposure to metro cities has reduced from 60% to 45%

Exhibit 16: Historical price trend



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	68.7	68.7	68.6	68.6	68.5
FII	3.3	3.8	NA	4.9	4.5
DII	4.4	4.2	NA	2.8	2.6
Others	23.6	23.3	31.4	23.7	24.4

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Revenue	7,956.0	8,830.0	7,764.0	9,667.9	
Growth (%)	17.5	11.0	-12.1	24.5	
Raw material expe	5,374.6	5,626.6	4,930.1	6,090.8	
Employee expense	300.2	365.7	372.7	406.1	
Advertisement & P	96.6	108.7	62.1	135.4	
Forwarding expense	149.9	189.7	155.3	212.7	
Other expenses	520.1	662.2	698.8	773.4	
Total Operating Ex	7,032.8	7,694.9	6,863.4	8,420.8	
EBITDA	923.2	1,135.0	900.6	1,247.2	
Growth (%)	26.7	22.9	-20.7	38.5	
Depreciation	141.4	160.9	178.6	213.7	
Interest	116.7	49.5	70.7	24.3	
Other Income	93.3	92.8	69.9	82.2	
PBT	758.4	1,017.4	730.9	1,091.3	
Total Tax	255.8	244.4	95.0	261.9	
PAT	500.5	765.6	628.5	825.0	
Growth (%)	39.6	53.0	-17.9	31.3	

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	500.5	765.6	628.5	825.0	
Add: Depreciation	141.4	160.9	178.6	213.7	
(Inc)/dec in Current Assets	-738.6	-152.3	-471.6	-807.1	
Inc/(dec) in CL and Provisions	1236.9	-608.8	-143.0	271.8	
Others	116.7	49.5	70.7	24.3	
CF from operating activities	1257.0	214.9	263.2	527.7	
(Inc)/dec in Investments	2.2	3.9	0.0	0.0	
(Inc)/dec in Fixed Assets	-277.0	-355.4	-180.0	-200.0	
Others	-21.7	-34.2	2.0	5.0	
CF from investing activities	-296.5	-385.8	-178.0	-195.0	
Issue/(Buy back) of Equity	0.0	7.7	0.0	0.0	
Inc/(dec) in loan funds	-535.7	-39.7	50.0	-80.0	
Dividend paid & dividend tax	0.0	-104.5	-71.5	-142.9	
Others	-116.7	265.8	14.0	-324.3	
CF from financing activities	-652.4	129.2	-7.4	-547.3	
Net Cash flow	308.1	-41.6	77.7	-214.6	
Opening Cash	10.7	317.6	276.0	353.7	
Closing Cash	317.6	276.0	353.7	139.1	

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Liabilities					
Equity Capital	141.2	148.9	148.9	148.9	
Reserve and Surplus	2,705.7	3,682.1	4,323.9	4,706.0	
Total Shareholders fund	2,847.0	3,831.0	4,472.8	4,854.9	
Total Debt	192.0	152.3	202.3	122.3	
Other non current liabilities	57.2	49.6	51.6	56.6	
Total Liabilities	3,096.2	4,032.9	4,726.7	5,033.8	
Assets					
Gross Block	1,785.9	2,093.1	2,273.1	2,473.1	
Less: Acc Depreciation	510.3	671.2	849.8	1,063.4	
Total Fixed Assets	1,468.6	1,663.1	1,664.5	1,650.9	
Investments	29.4	25.5	25.5	25.5	
Inventory	1,995.8	1,925.0	2,127.1	2,383.9	
Debtors	1,469.4	1,599.7	1,914.4	2,383.9	
Loans and Advances	25.8	29.8	26.2	32.6	
Other CA	256.7	345.6	303.9	378.4	
Cash	317.6	276.0	353.7	139.1	
Total Current Assets	4,065.3	4,176.0	4,725.3	5,317.8	
Creditors	1,520.2	1,353.7	1,276.3	1,430.3	
Provisions	37.1	49.4	46.6	52.2	
Other CL	974.8	520.2	457.4	569.5	
Total Current Liabilities	2,532.1	1,923.3	1,780.2	2,052.1	
Net current assets	1,533.2	2,252.7	2,945.0	3,265.8	
Other non current assets	65.0	91.6	91.6	91.6	
Total Assets	3,096.2	4,032.9	4,726.7	5,033.8	

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	35.4	51.4	42.2	55.4
Cash EPS	45.5	62.2	54.2	69.8
BV	201.6	257.3	300.4	326.1
DPS	0.0	7.0	4.8	9.6
Operating Ratios (%)				
EBITDA Margin	11.6	12.9	11.6	12.9
PAT Margin	6.3	8.7	8.0	8.5
Asset Turnover	4.5	4.2	3.4	3.9
Inventory Days	91.6	79.6	100.0	90.0
Debtor Days	67.4	66.1	90.0	90.0
Creditor Days	69.7	56.0	60.0	54.0
Return Ratios (%)				
RoE	17.6	20.0	13.9	17.0
RoCE	28.3	26.5	16.8	22.2
RoIC	22.4	24.7	16.1	20.1
Valuation Ratios (x)				
P/E	23.2	16.0	19.5	14.9
EV / EBITDA	13.1	10.7	13.4	9.8
EV / Net Sales	1.5	1.4	1.6	1.3
Market Cap / Sales	1.5	1.4	1.6	1.3
Price to Book Value	4.1	3.2	2.7	2.5
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	2.4	2.8	3.3	3.5
Quick Ratio	1.1	1.4	1.7	1.9

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap		EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹Cr)	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	
Asian Paints (ASIPA)	1,695	1,900	Hold	1,62,551	29.0	20.4	32.5	58.5	83.3	52.1	39.9	50.6	34.0	27.4	18.4	27.2	30.5	21.2	31.2	
Astral Polytechnik (ASTP)	940	900	Hold	14,162	16.6	14.2	20.0	56.7	66.0	46.9	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4	
Amber Enterprises (AM)	1,505	1,565	Hold	4,733	52.2	15.1	54.9	28.8	99.6	27.4	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7	
Bajaj Electricals (BAJEL)	416	495	Buy	4,730	0.0	4.1	14.8	NM	101.6	28.2	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2	
Berger Paints (BERPAL)	519	570	Hold	50,405	6.8	6.0	10.0	76.8	86.6	51.8	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7	
Essel Propack (ESSPRO)	190	190	Hold	5,518	6.7	6.0	7.9	28.4	31.7	24.1	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2	
Havells India (HAVIND)	585	575	Buy	36,498	11.7	7.8	13.2	49.8	74.7	44.3	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1	
Kansai Nerolac (KANNE)	449	415	Buy	24,198	9.9	7.8	10.4	45.2	57.5	43.1	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7	
Pidilite Industries (PIDINI)	1,382	1,485	Hold	70,852	21.9	18.3	26.2	63.1	75.4	52.7	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6	
Polycab India (POLI)	823	950	Buy	12,253	51.4	42.2	55.4	16.0	19.5	14.9	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0	
Supreme Indus (SUPIND)	1,161	1,040	Hold	14,748	38.5	36.8	27.6	39.7	31.6	42.0	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5	
Symphony (SYMLIM)	857	1,055	Buy	5,995	26.0	23.7	35.1	32.9	36.2	24.4	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9	
Time Techno (TIMTEC)	41	42	Hold	927	7.5	3.2	9.0	5.5	12.9	4.6	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7	
V-Guard Ind (VGUARD)	171	210	Buy	7,279	4.4	3.5	5.1	39.3	48.4	33.6	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2	
Voltas Ltd (VOLTAS)	595	635	Buy	19,679	15.8	9.5	21.4	37.8	62.6	27.8	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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