

Polycab India Ltd

BUY

CMP Rs957

Target Rs1,118

Upside 16.8%

2Q FY20 result update

- ✓ Polycab reported stronger than expected numbers led by healthy revival in domestic B2C segment and exports. C&W segment revenues declined 5% yoy; the decline was lower-than-expected on account of double digit growth in housing wires and 47% yoy growth in exports. However, domestic B2B segment declined 30-40% yoy due to slower execution in infrastructure projects. Excluding Dangote revenues (Rs440mn), exports jumped 400% yoy led by increasing presence in export market. Recovery in revenues is also aided by the strong increase in copper prices. FMEG growth of 24.7% yoy was quite higher than our expectations. Growth was led by improved pricing, superior product mix and strengthening of distribution network. EPC segment revenues remained weak as order inflow remained low and execution challenges persist. The company continues to witness demand recovery across major segments in October.
- ✓ Margins of 14.8% in Q2 was quite higher than our estimates due to higher share of B2C business and various cost saving initiatives taken by the company. C&W EBIT margin expansion of 340bps yoy was led by higher share of wires business, consolidation of Ryker plant and forex gain (vs loss in Q2 FY20). FMEG segment too registered strong margin expansion led by superior product mix, stable pricing scenario and lower A&P spends. Most of the segments in the FMEG business registered healthy growth considering the overall supply-demand challenges in the domestic market. Margins in this business are expected to normalize from current levels, but are expected to remain quite higher than last year and initially guided margins.
- ✓ Polycab has been focusing on launching new products/SKUs in its FMEG categories and is looking at improving its product mix which is currently skewed towards mass market. The company launched 40 SKUs in the fans segment over the last one month. The company in Q3 is expected to launch a series of products (IOT enabled + premium) and expects this to drive growth in addition to the strengthening of distribution network. The company has also invested into A&P during the quarter via IPL 2020 and expects to improve brand presence across India.
- ✓ We maintain our positive stand on Polycab post the Q2 results. The sturdy performance reported by the company in Q2 despite the challenges witnessed by the industry is quite encouraging. We believe the company would be able to gain market share in the FMEG segment as it keeps on investing into increasing reach, brand visibility and into new products. Polycab's robust balance sheet and strong brand recall would allow it to invest into this business (R&D and A&P) and would accelerate market share gains in the FMEG space. We believe valuation re-rating would continue led by the strong brand presence, robust balance sheet, healthy return ratios and increasing share of B2C FMEG business. Current valuations of 15.3x FY23E P/E appear reasonable. We maintain our Buy rating on the stock with a revised target price of Rs1,118 (20x Sept' 22 P/E).

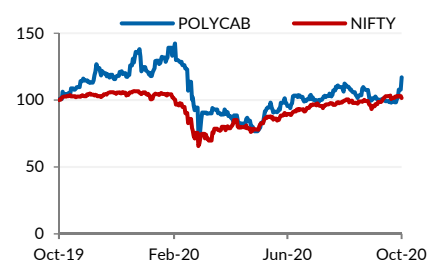
Conference call highlights:

- ✓ Tier 1-2 towns have registered healthy double digit growth whereas large metros have not shown significant pick up as of now. On sequential basis, demand has recovered considerably. Demand outlook is strong given materialization of big projects bodes will drive improved demand for wires and cables. Investment from private sector remains soft. However, improvement in consumer sentiment and reviving demand in end-user industries will bode well for company in near term.

Stock data (as on Oct 26, 2020)

Nifty	11,768
52 Week h/l (Rs)	1182 / 570
Market cap (Rs/USD mn)	142607 / 1931
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	222
Div yield (%):	0.7
Bloomberg code:	POLYCAB IN
NSE code:	POLYCAB

Stock performance



	1M	3M	1Y
Absolute return	15.5%	16.8%	18.0%

Shareholding pattern (As of Sep'20 end)

Promoter	68.5%
FII+DII	18.3%
Others	13.2%

Δ in earnings estimates

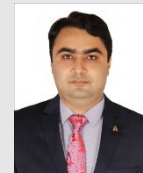
	FY21e	FY22e	FY23e
EPS (New)	48.5	52.6	59.3
EPS (Old)	48.5	52.6	59.3
% change	-	-	-

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- ✓ B2B segment still facing challenges on execution in various states. However, on a sequential basis, infrastructure and construction activities are improving and labor is not much of a concern now
- ✓ B2C categories posted healthy double-digit growth whereas B2B wires and cable are on recovery path. (de-grew in Q2)
- ✓ A&P spend (~0.6% of sales) and staff cost (~4.4% of sales) are broadly in-line with last year.
- ✓ Geographically, North was better than other geographies in last quarter. Distribution business performed better than institutional business. Within domestic distribution channel sales, housing wires business continued its momentum posting a double -digit growth in Q2.
- ✓ Overall exports revenue grew by 47 % yoy. Sales to Dangote amounted to Rs440mn. Excluding Dangote order, exports grew strongly by about 400 % yoy led by US, Australia, Asia, and Middle East. The company has received approval as well as order from several large multi-national energy infrastructure companies. The company received a follow up order of US\$10mn from Dangote to be executed by Q4 FY22.
- ✓ In FMEG business, sales grew by 25 % yoy in Q2 led by pricing, better product mix, distribution augmentation and reviving consumer demand. Fans grew strongly despite higher competitive intensity. 14 new products and over 40 new SKUs were launched in past six months. Relatively stable price environment in Lighting business aided value growth. Pumps sales more than doubled on yoy basis. Switchgears saw a revival however switches remained muted due to operational issues. Profitability in Q2 improved sharply despite rising input costs on account of calibrated pricing actions, premiumisation and working capital interventions. Management said that margin of 8% is not sustainable due to bulky charge of IPL related advertisement cost for the full year.
- ✓ In October, FMEG business is recording double-digit growth followed by B2C wires. B2B cable/Institutional business is still a challenge which recorded de-growth of 20-30% YoY
- ✓ Innovation remains a key focus area: The company is launching a new portfolio of premium products in next one month which are IOT enabled. This portfolio will be largely focused on FMEG categories. This reflects company's efforts towards transforming into an aspirational brand. The company is also launching a new set of wiring accessories etc.
- ✓ The company has retail outlets reach of 1,37,000 and 3,650 authorized dealers/distributors. Project Bandhan now touches 1,54,000 electricians and 47,000 retailers. Availability in lower tier towns, semi-urban areas and rural areas has improved significantly. As the company aims to become premium global player in wires and cables space and top-player in domestic FMEG space, the company is adopting next generation go-to-market strategies and solution-oriented business model.
- ✓ Management guided for 11-13% of EBITDA margin as sustainable in C&W. The company had been taking about ~100bps EBIT margin expansion every year in FMEG business. The company said that it will be able to beat that guidance

Exhibit 1: Result summary

(Rs mn)	Q2 FY21	Q2 FY20	yoy(%)	Q1 FY21	qoq (%)
Revenue	21,137	22,419	(5.7)	9,766	116.4
Operating Profit	3,125	2,717	15.0	575	443.7
OPM(%)	14.8	12.1	266 bps	5.9	890 bps
Other Income	327	124	163.4	336	(2.6)
Depreciation	(456)	(395)	15.4	(443)	3.0
Interest	(114)	(127)	(10.4)	(163)	(30.1)
Exceptional item	-	-	-	97	(100.0)
PBT	2,882	2,319	24.3	403	616.0
Tax	(664)	(365)	82.0	785	(184.6)
PAT	2,218	1,954	13.5	1,187	86.8
Share of P/L of JV	(3)	(16)	(83.7)	(12)	(77.5)
Reported PAT	2,216	1,938	14.3	1,176	88.5

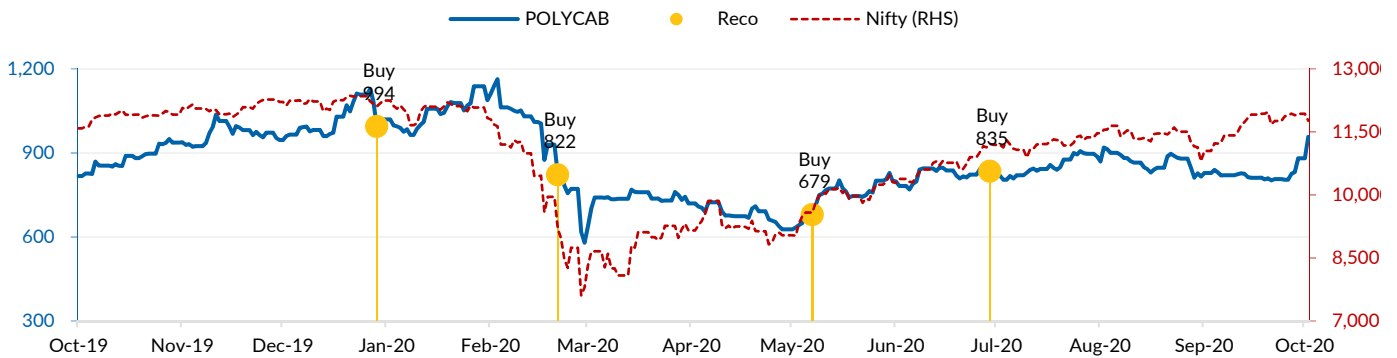
Exhibit 2: Segmental results

(Rs mn)	Q2 FY21	Q2 FY20	yoy(%)	Q1 FY21	qoq (%)
Segmental revenue					
C&W	18,268	19,222	(5.0)	8,252	121.4
FMEG	2,440	1,956	24.7	1,378	77.0
Copper	1,303	-	-	150	769.8
Others	709	1,638	(56.7)	534	32.9
Less: Intersegment revenue	(1,342)	(410)	227.1	(424)	216.2
Total	21,379	22,406	(4.6)	9,889	116.2
EBIT					
C&W	2,541	2,020	25.8	244	941.0
FMEG	196	65	199.8	(56)	-
Copper	123	-	-	(3)	-
Others	100	262	(61.8)	72	39.7
Less: Intersegment results	(50)	(40)	24.1	(2)	2,125.1
Total	2,911	2,308	26.1	255	1,039.6
EBITM (%)					
			bps yoy		bps qoq
C&W	13.9	10.5	340	3.0	1,095
FMEG	8.0	3.3	470	(4.0)	1,208
Copper	9.4	-	-	(1.7)	1,111
Others	14.1	16.0	(189)	13.4	69
Blended	13.6	10.3	332	2.6	1,103

Exhibit 3: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	79,856	88,300	79,685	94,320	105,827
yoy growth (%)	17.9	10.6	(9.8)	18.4	12.2
Operating profit	9,528	11,350	9,808	11,899	13,292
OPM (%)	11.9	12.9	12.3	12.6	12.6
Reported PAT	5,002	7,657	7,225	7,825	8,827
yoy growth (%)	39.5	53.1	(6.9)	9.8	12.8
EPS (Rs)	35.4	51.4	48.5	52.6	59.3
P/E (x)	25.0	17.2	18.2	16.8	14.9
Price/Book (x)	4.4	3.4	2.9	2.6	2.2
EV/EBITDA (x)	13.0	11.5	12.9	10.3	8.8
Net Debt/Equity (x)	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)
RoE (%)	19.3	22.9	17.4	16.3	16.0
RoCE (%)	27.6	29.7	20.4	21.7	21.6

Recommendation Tracker



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