

January 25, 2021

## Q3FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,359		1,247	
Sales (Rs. m)	1,05,622	1,20,591	1,02,459	1,16,035
% Chng.	3.1	3.9		
EBITDA (Rs. m)	13,636	15,944	13,246	15,261
% Chng.	2.9	4.5		
EPS (Rs.)	61.3	72.3	59.7	69.3
% Chng.	2.7	4.4		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	88,300	88,085	1,05,622	1,20,591
EBITDA (Rs. m)	11,350	11,211	13,636	15,944
Margin (%)	12.9	12.7	12.9	13.2
PAT (Rs. m)	7,591	7,709	9,130	10,759
EPS (Rs.)	51.0	51.8	61.3	72.3
Gr. (%)	44.1	1.6	18.4	17.8
DPS (Rs.)	7.0	9.0	11.0	13.5
Yield (%)	0.6	0.7	0.9	1.1
RoE (%)	22.7	18.1	17.9	18.1
RoCE (%)	30.5	24.1	24.0	24.4
EV/Sales (x)	2.0	1.9	1.6	1.4
EV/EBITDA (x)	15.7	15.2	12.4	10.3
PE (x)	23.8	23.4	19.8	16.8
P/BV (x)	4.7	3.8	3.3	2.8

### Key Data POLC.BO | POLYCAB IN

52-W High / Low	Rs.1,325 / Rs.570
Sensex / Nifty	48,348 / 14,239
Market Cap	Rs.181bn/ \$ 2,477m
Shares Outstanding	149m
3M Avg. Daily Value	Rs.1392.52m

### Shareholding Pattern (%)

Promoter's	68.44
Foreign	12.54
Domestic Institution	4.71
Public & Others	14.31
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	14.7	47.9	18.8
Relative	11.4	16.6	2.3

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## Sustained improvement in B2C mix

### Quick Pointers:

- Housing wires registered healthy double digit growth; cable sales flat
- B2C mix (FMEG and housing wires) at 40% vs 33%

**We increase our FY21/ FY22/ FY23 earnings by (0.9%)/ 2.7%/ 4.4% and reiterate our positive stance on Polycab given 1) increased B2C mix (40% from 33%) 2) strong consumer demand 3) sustained improvements in FMEG margins and 4) distribution expansion. We remain positive on emerging growth opportunity given 1) pick up in renovation/ construction activities 2) distribution expansion 3) 29% 3Q growth in exports (ex Dangote) 4) gains from unorganized sector and 5) launch of IOT based ECD brand HOHM. Despite commodity headwinds, Polycab remains confident of sustaining/ improving margins in W&C & FMEG through 1) Cost savings initiatives 2) distribution expansion 3) changing mix 4) calibrated price actions and 5) gains from operating leverage. We estimate PAT CAGR of 18.1% over FY21-23E. We value the stock on SOTP basis and arrive at a target price of Rs1,359 (derived PE of 18.8x FY23 EPS; W&C/ FMEG valued at 18x/ 25x). Steady increase in B2C mix will likely rerate the stock in long term. Reiterate BUY.**

**Sales grew by 11.6%, PAT up by 20%:** Revenues grew by 11.6% to Rs28bn with W&C sales up by 5.6% while FMEG sales grew by 41%. Gross margins contracted by ~320bps YoY to 24.3%. EBITDA grew by 10.8% YoY to Rs3.8bn while margins contracted by 10bps YoY to 13.4%. Operating scale aided 230bps/40bps/20bps reduction in other expenses/employee cost/ freight cost (as a % of sales), while ad spends were down 20bps down YoY. PAT grew by 20% YoY to Rs2.6bn

**W&C/ FMEG sales up 5.6%/ 41%; margins expand:** Wires & Cables (W&C) Revenues/EBIT grew by 5.6%/ 19.1% YoY to Rs22.7bn/ Rs3.1bn; margins expanded by 150bps to 13.5%. FMEG Revenues/EBIT grew by 41%/ 13x YoY to Rs3.1bn/ Rs182mn; margins expanded by 530bps to 5.9%. Others (EPC) Revenues /EBIT declined by 53%/ 71.4% YoY to Rs614mn /Rs86mn; margins contracted by 900bps to 14%. Copper Revenues/EBIT grew by 78%/ 2.3x QoQ to Rs1.9bn/ Rs200mn; margins expanded by 250bps QoQ to 10.8%.

**Concall Takeaways:** 1) Gross margins down largely due to commodity pressure (up 15-50%) and conscious decision to not pass on all input cost inflation to market 2) Working towards maintaining payables in line with inventory. Receivable days to come down further with increase in channel financing 3) Channel financing: W&C at 60-65%; FMEG at 25% (up from 17-18%) 4) Utilization of cash generated from business: capex, acquisitions (FMEG & EHV), war chest. Rest to be distributed amongst shareholders 5) B2C mix has improved to 40% from 33% 6) Domestic wires grew in healthy double digits; cables sales flat YoY 7) In FMEG, fans grew strongly gaining leadership position in few geographical clusters 8) Launched new brand "Hohm". An IoT based premium offering. Almost all products Made in India

**Exhibit 1: Q3FY21 Result Overview (Rs mn): Sales grew by 11.6% YoY; PAT grew by 20% YoY**

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
<b>Net Sales</b>	<b>27,988</b>	<b>25,073</b>	<b>11.6</b>	<b>21,137</b>	<b>58,891</b>	<b>67,006</b>	<b>-12.1</b>
Operating & Manufacturing Expenses	21,196	18,190	16.5	15,128	43,422	48,917	-11.2
<i>% of Net Sales</i>	<i>75.7</i>	<i>72.5</i>		<i>71.6</i>	<i>73.7</i>	<i>73.0</i>	
<b>Gross Profit</b>	<b>6,792</b>	<b>6,883</b>	<b>-1.3</b>	<b>6,009</b>	<b>15,469</b>	<b>18,089</b>	<b>-14.5</b>
<i>% of Net Sales</i>	<i>24.3</i>	<i>27.5</i>		<i>28.4</i>	<i>26.3</i>	<i>27.0</i>	
Personnel Cost	896	915	-2.0	897	2,606	2,759	-5.5
<i>% of Net Sales</i>	<i>3.2</i>	<i>3.6</i>		<i>4.2</i>	<i>4.4</i>	<i>4.1</i>	
Other Expenses	2,138	2,577	-17.1	1,987	5,406	6,985	-22.6
<i>% of Net Sales</i>	<i>7.6</i>	<i>10.3</i>		<i>9.4</i>	<i>9.2</i>	<i>10.4</i>	
Total Expenditure	24,230	21,682	11.8	18,012	51,434	58,661	-12.3
<b>EBITDA</b>	<b>3,758</b>	<b>3,391</b>	<b>10.8</b>	<b>3,125</b>	<b>7,457</b>	<b>8,345</b>	<b>-10.6</b>
<i>Margin (%)</i>	<i>13.4</i>	<i>13.5</i>		<i>14.8</i>	<i>12.7</i>	<i>12.5</i>	
Other income	345	3	9863.9	327	1,008	463	117.6
Depreciation	478	407	17.6	456	1,377	1,187	16.0
<b>EBIT</b>	<b>3,624</b>	<b>2,988</b>	<b>21.3</b>	<b>2,996</b>	<b>7,089</b>	<b>7,621</b>	<b>-7.0</b>
Interest	88	86	2.9	114	365	336	8.6
<b>PBT before exceptional item</b>	<b>3,536</b>	<b>2,902</b>	<b>21.9</b>	<b>2,882</b>	<b>6,724</b>	<b>7,285</b>	<b>-7.7</b>
Total Taxes	905	686	32.0	664	1,624	1,764	-7.9
<i>ETR (%)</i>	<i>25.6</i>	<i>23.6</i>		<i>23.0</i>	<i>24.2</i>	<i>24.2</i>	
<b>PBT before JV/Associates/Minority share</b>	<b>2,631</b>	<b>2,216</b>	<b>18.7</b>	<b>2,218</b>	<b>5,100</b>	<b>5,521</b>	<b>-7.6</b>
Share of JV/Associates	5	-2		-3	-9	-16	
Non-controlling Interest	11	26		10	21	54	
<b>Adj. PAT</b>	<b>2,625</b>	<b>2,188</b>	<b>20.0</b>	<b>2,205</b>	<b>5,070</b>	<b>5,451</b>	<b>-7.0</b>
Exceptional Item	0	0		0	937	0	
<b>PAT</b>	<b>2,625</b>	<b>2,188</b>	<b>20.0</b>	<b>2,205</b>	<b>6,007</b>	<b>5,451</b>	<b>10.2</b>

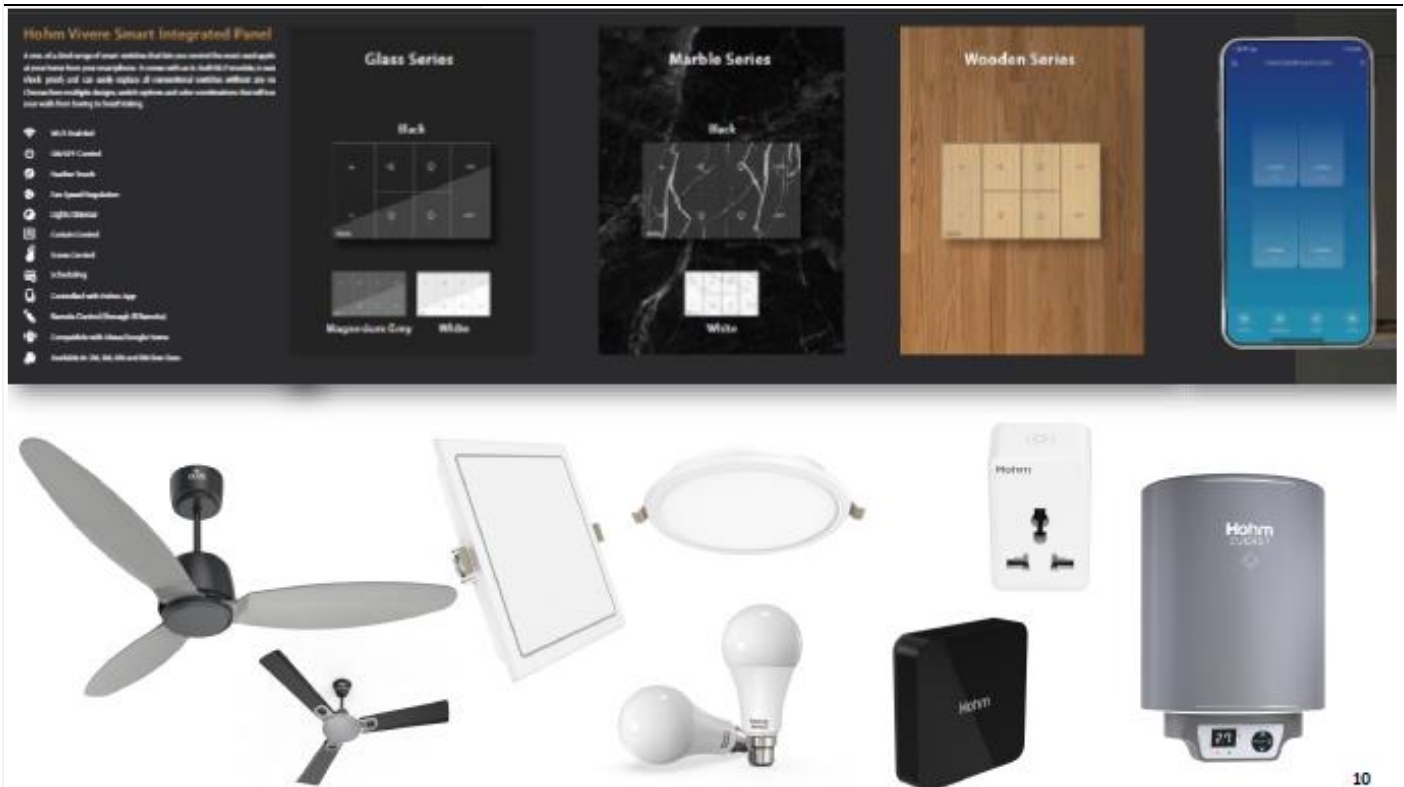
Source: Company, PL

**Exhibit 2: Segmental Breakup (Rs mn): W&C revenues grew by 6%, margins expanded by 150bps; FMEG margins up 530bps**

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
<b>Revenues</b>							
Wires & Cables	22,703	21,502	5.6	17,408	48,046	56,759	-15.4
FMEG	3,055	2,166	41.0	2,440	6,873	6,523	5.4
Copper	1,866	-	NA	952	2,913	0	
Others	614	1,306	-53.0	580	1,676	3,829	-56.2
<b>Total</b>	<b>28,238</b>	<b>24,975</b>	<b>13.1</b>	<b>21,379</b>	<b>59,507</b>	<b>67,111</b>	<b>-11.3</b>
<b>EBIT</b>							
Wires & Cables	3,062	2,571	19.1	2,534	5,840	6,445	-9.4
<i>EBIT margin (%)</i>	<i>13.5</i>	<i>12.0</i>	<i>1.5</i>	<i>14.6</i>	<i>12.2</i>	<i>11.4</i>	<i>0.8</i>
FMEG	182	14	1201.1	196	322	167	92.8
<i>EBIT margin (%)</i>	<i>5.9</i>	<i>0.6</i>	<i>5.3</i>	<i>8.0</i>	<i>4.7</i>	<i>2.6</i>	<i>2.1</i>
Copper	200	-	NA	88	287	0	
<i>EBIT margin (%)</i>	<i>10.7</i>	<i>-</i>	<i>NA</i>	<i>9.3</i>	<i>9.9</i>		
Others	86	301	-71.4	92	247	651	-62.0
<i>EBIT margin (%)</i>	<i>14.0</i>	<i>23.0</i>	<i>-9.0</i>	<i>15.8</i>	<i>14.7</i>	<i>17.0</i>	<i>-2.2</i>
<b>Total EBIT</b>	<b>3,530</b>	<b>2,886</b>	<b>22.3</b>	<b>2,911</b>	<b>6,696</b>	<b>7,262</b>	<b>-7.8</b>
<i>EBIT margin (%)</i>	<i>12.5</i>	<i>11.6</i>	<i>0.9</i>	<i>13.6</i>	<i>11.3</i>	<i>10.8</i>	<i>0.4</i>

Source: Company, PL

**Exhibit 3: Polycab has launched IoT focused premium brand “Hohm”**



Source: Company, PL

**Exhibit 4: SOTP: Implied PE of 18.8x FY23 earnings**

FY23	Basis	Multiple	EPS	Value (Rs)	Value %
Wires & Cables	P/E	18	60.2	1084	80%
FMEG	P/E	25	6.6	165	12%
Copper	P/E	10	3.7	37	3%
Others (EPC)	P/E	10	2.0	20	1%
Cash & Investment	Per Share			53	4%
Target Price				1359	100%
<b>Implied P/E</b>		<b>18.8</b>			

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>88,300</b>	<b>88,085</b>	<b>1,05,622</b>	<b>1,20,591</b>
YoY gr. (%)	10.6	(0.2)	19.9	14.2
Cost of Goods Sold	63,686	64,290	76,141	86,706
Gross Profit	24,613	23,795	29,480	33,885
Margin (%)	27.9	27.0	27.9	28.1
Employee Cost	3,657	3,567	4,278	4,944
Other Expenses	4,183	4,084	5,018	5,459
<b>EBITDA</b>	<b>11,350</b>	<b>11,211</b>	<b>13,636</b>	<b>15,944</b>
YoY gr. (%)	19.1	(1.2)	21.6	16.9
Margin (%)	12.9	12.7	12.9	13.2
Depreciation and Amortization	1,609	1,854	2,016	2,229
<b>EBIT</b>	<b>9,741</b>	<b>9,357</b>	<b>11,620</b>	<b>13,715</b>
Margin (%)	11.0	10.6	11.0	11.4
Net Interest	495	460	508	517
Other Income	928	1,383	1,133	1,227
<b>Profit Before Tax</b>	<b>10,174</b>	<b>10,280</b>	<b>12,245</b>	<b>14,425</b>
Margin (%)	11.5	11.7	11.6	12.0
Total Tax	2,444	2,534	3,086	3,635
Effective tax rate (%)	24.0	24.7	25.2	25.2
<b>Profit after tax</b>	<b>7,730</b>	<b>7,746</b>	<b>9,159</b>	<b>10,790</b>
Minority interest	66	33	34	36
Share Profit from Associate	(74)	(4)	5	6
<b>Adjusted PAT</b>	<b>7,591</b>	<b>7,709</b>	<b>9,130</b>	<b>10,759</b>
YoY gr. (%)	51.9	1.6	18.4	17.8
Margin (%)	8.6	8.8	8.6	8.9
Extra Ord. Income / (Exp)	-	937	-	-
<b>Reported PAT</b>	<b>7,591</b>	<b>8,646</b>	<b>9,130</b>	<b>10,759</b>
YoY gr. (%)	51.9	13.9	5.6	17.8
Margin (%)	8.6	9.8	8.6	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,591	8,646	9,130	10,759
<b>Equity Shares O/s (m)</b>	<b>149</b>	<b>149</b>	<b>149</b>	<b>149</b>
<b>EPS (Rs)</b>	<b>51.0</b>	<b>51.8</b>	<b>61.3</b>	<b>72.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>24,642</b>	<b>27,926</b>	<b>31,000</b>	<b>34,105</b>
Tangibles	24,472	27,726	30,770	33,845
Intangibles	170	200	230	260
<b>Acc: Dep / Amortization</b>	<b>10,422</b>	<b>12,278</b>	<b>14,178</b>	<b>16,280</b>
Tangibles	10,269	12,104	13,983	16,061
Intangibles	153	173	195	219
<b>Net fixed assets</b>	<b>14,220</b>	<b>15,648</b>	<b>16,822</b>	<b>17,824</b>
Tangibles	14,203	15,622	16,787	17,784
Intangibles	17	26	35	40
Capital Work In Progress	2,412	1,500	1,500	1,500
Goodwill	-	23	23	23
Non-Current Investments	1,983	1,629	1,919	2,166
Net Deferred tax assets	(165)	(211)	(334)	(478)
Other Non-Current Assets	492	540	544	547
<b>Current Assets</b>				
Investments	400	5,400	6,400	8,400
Inventories	19,250	19,789	23,729	27,092
Trade receivables	14,336	14,480	17,363	19,162
Cash & Bank Balance	2,813	6,662	6,923	9,858
Other Current Assets	2,014	2,422	2,641	2,774
<b>Total Assets</b>	<b>59,616</b>	<b>69,236</b>	<b>79,190</b>	<b>90,832</b>
<b>Equity</b>				
Equity Share Capital	1,489	1,489	1,489	1,489
Other Equity	36,875	45,521	53,311	62,432
<b>Total Network</b>	<b>38,364</b>	<b>47,010</b>	<b>54,800</b>	<b>63,921</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	107	1,464	929	729
Provisions	256	132	158	181
Other non current liabilities	171	171	171	171
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,115	1,145	1,056	1,085
Trade payables	13,537	14,091	16,271	18,529
Other current liabilities	5,440	4,819	5,243	5,475
<b>Total Equity &amp; Liabilities</b>	<b>59,616</b>	<b>69,236</b>	<b>79,190</b>	<b>90,832</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	10,100	10,276	12,250	14,430
Add. Depreciation	1,609	1,854	2,016	2,229
Add. Interest	495	460	508	517
Less Financial Other Income	928	1,383	1,133	1,227
Add. Other	(524)	11	(426)	(537)
Op. profit before WC changes	11,680	12,601	14,349	16,639
Net Changes-WC	(6,221)	(393)	(4,908)	(3,211)
Direct tax	(3,012)	(2,534)	(3,086)	(3,635)
<b>Net cash from Op. activities</b>	<b>2,446</b>	<b>9,674</b>	<b>6,355</b>	<b>9,793</b>
Capital expenditures	(2,891)	(2,393)	(3,190)	(3,231)
Interest / Dividend Income	243	497	570	699
Others	25	(5,358)	(1,500)	(2,500)
<b>Net Cash from Invt. activities</b>	<b>(2,622)</b>	<b>(7,254)</b>	<b>(4,120)</b>	<b>(5,032)</b>
Issue of share cap. / premium	3,661	-	-	-
Debt changes	(1,328)	1,388	(624)	(171)
Dividend paid	(1,793)	-	(1,340)	(1,638)
Interest paid	(433)	(460)	(508)	(517)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>107</b>	<b>928</b>	<b>(2,473)</b>	<b>(2,326)</b>
<b>Net change in cash</b>	<b>(69)</b>	<b>3,349</b>	<b>(238)</b>	<b>2,434</b>
Free Cash Flow	(445)	7,281	3,165	6,561

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	51.0	51.8	61.3	72.3
CEPS	61.8	64.2	74.9	87.2
BVPS	257.7	315.8	368.1	429.3
FCF	(3.0)	48.9	21.3	44.1
DPS	7.0	9.0	11.0	13.5
<b>Return Ratio(%)</b>				
RoCE	30.5	24.1	24.0	24.4
ROIC	23.3	21.7	21.8	23.9
RoE	22.7	18.1	17.9	18.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	83	84	86	84
<b>Valuation(x)</b>				
PER	23.8	23.4	19.8	16.8
P/B	4.7	3.8	3.3	2.8
P/CEPS	19.6	18.9	16.2	13.9
EV/EBITDA	15.7	15.2	12.4	10.3
EV/Sales	2.0	1.9	1.6	1.4
Dividend Yield (%)	0.6	0.7	0.9	1.1

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Net Revenue</b>	<b>21,294</b>	<b>9,766</b>	<b>21,137</b>	<b>27,988</b>
YoY gr. (%)	(13.6)	(50.0)	(5.7)	11.6
Raw Material Expenses	14,769	7,097	15,128	21,196
Gross Profit	6,525	2,669	6,009	6,792
Margin (%)	30.6	27.3	28.4	24.3
<b>EBITDA</b>	<b>3,006</b>	<b>575</b>	<b>3,125</b>	<b>3,758</b>
YoY gr. (%)	23.4	(74.3)	15.0	10.8
Margin (%)	14.1	5.9	14.8	13.4
Depreciation / Depletion	422	443	456	478
<b>EBIT</b>	<b>2,584</b>	<b>132</b>	<b>2,669</b>	<b>3,280</b>
Margin (%)	12.1	1.4	12.6	11.7
Net Interest	159	163	114	88
Other Income	465	336	327	345
<b>Profit before Tax</b>	<b>2,889</b>	<b>305</b>	<b>2,882</b>	<b>3,536</b>
Margin (%)	13.6	3.1	13.6	12.6
Total Tax	680	55	664	905
Effective tax rate (%)	23.5	18.0	23.0	25.6
<b>Profit after Tax</b>	<b>2,209</b>	<b>251</b>	<b>2,218</b>	<b>2,631</b>
Minority interest	12	-	10	11
Share Profit from Associates	(58)	(12)	(3)	5
<b>Adjusted PAT</b>	<b>2,139</b>	<b>239</b>	<b>2,205</b>	<b>2,625</b>
YoY gr. (%)	52.4	(82.2)	15.0	20.0
Margin (%)	10.0	2.5	10.4	9.4
Extra Ord. Income / (Exp)	-	937	-	-
<b>Reported PAT</b>	<b>2,139</b>	<b>1,176</b>	<b>2,205</b>	<b>2,625</b>
YoY gr. (%)	52.4	(12.6)	15.0	20.0
Margin (%)	10.0	12.0	10.4	9.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,139</b>	<b>1,176</b>	<b>2,205</b>	<b>2,625</b>
Avg. Shares O/s (m)	149	149	149	149
<b>EPS (Rs)</b>	<b>14.4</b>	<b>1.6</b>	<b>14.8</b>	<b>17.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	1,247	1,278
2	04-Jan-21	BUY	1,247	1,034

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	UR	-	1,732
2	Polycab India	BUY	1,247	1,034
3	SpiceJet	Hold	100	94

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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