

Strong revenue growth; input inflation drags margin...

About the stock: Polycab is the largest manufacturer of wire & cable in India. The company also entered the fast moving electrical goods (FMEG) space in 2014 and has recorded strong segment revenue CAGR of 43% in the last five years.

- Polycab is the market leader in the wire & cable business with organised market share of 23%. In the FMEG segment, it is growing through new product launches and dealer addition across India. The company has ~4100 dealers, serving 65 lakh retail outlets
- Robust b/s with RoE, RoCE of 19%, 26%, respectively, (three-year average)

Q2FY22 Results: Higher input costs weighed on profitability.

- Reported revenue growth of 48% YoY to ₹ 3129 crore led by price hikes
- Gross margin declined ~700 bps YoY, resulting in a sharp fall in EBITDA margin by 510 bps YoY to 9.7%. Sequentially, margin improved 227 bps
- PAT declined ~10% YoY to ~₹ 200 crore, tracking lower EBITDA margin

What should investors do? Polycab's share price has grown by ~4x over the past two years (from ~₹ 643 in October 2019 to ~₹ 2310 levels in October 2021).

- We revise our rating on the stock from HOLD to BUY

Target Price and Valuation: We introduce FY24E estimates, roll over our valuation on FY24E and value Polycab at ₹ 2710 i.e. 30x P/E on FY24E EPS.

Key triggers for future price performance:

- Set a target to achieve ₹ 20,000 crore revenues by FY26 (18% CAGR)
- Beneficiary of government's plans to invest ~ ₹ 111 lakh crore in FY20-25 under its National Infrastructure Pipeline
- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration level will give a significant boost to demand for home appliances
- Model revenue, earnings CAGR of 20%, 14%, respectively, in FY21-23E

Alternate Stock Idea: Apart from Polycab, we also like Havells in the same space.

- Trigger for Havells' future revenue growth would be revival in Lloyd's revenues and improvement in margin
- BUY with a target price of ₹ 1545



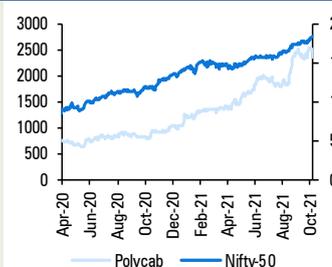
Particulars

Particular	Amount
Market Cap (₹ Crore)	34,804.4
Total Debt (FY21) (₹ Crore)	215.3
Cash & Inv (FY21) (₹ Crore)	531.3
EV (₹ Crore)	34,488.3
52 week H/L	2647/ 900
Equity capital (₹ Crore)	148.9
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	68.6	68.5	68.4	68.4	68.4
FII	4.5	6.1	7.0	6.4	6.5
DII	12.9	12.2	10.3	9.9	8.8
Others	14.0	13.2	14.3	15.3	16.3

Price Chart



Recent event & key risks

- Key Risk:** (i) Delay in revival of cable business (ii) Delay in passing on high input prices

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3Year CAGR (FY21-24E)
Net sales	7956.0	8830.0	8926.5	11%	10998.7	12848.9	14690.9	18.1%
EBITDA	923.2	1135.0	1167.0	19%	1165.9	1644.7	1939.2	18.4%
EBITDA Margin(%)	11.6	12.9	13.1		10.6	12.8	13.2	
Net Profit	500.5	765.6	885.9	37%	783.7	1139.2	1349.3	15.1%
EPS (₹)	35.4	51.4	59.4		52.6	76.4	90.5	
P/E(x)	65.2	44.9	38.9		44.0	30.2	25.5	
RoE (%)	17.6	20.0	18.5		14.9	18.6	18.7	
RoCE (%)	28.3	26.4	21.9		19.1	24.2	24.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Lower profitability amid sharp rise in input prices

- The company reported strong revenue growth of 48% YoY to ₹ 3129 crore led by wire & cable (W&C) business, which was up 44%. Exports business grew 12% YoY contributing 8% to overall revenue in Q2FY22. The FMEG business was up 41% to ₹ 343 crore. The company expects a strong second half of FY22E, led by higher government capex on infrastructure and dealer addition in Tier II and III cities
- Sequentially gross margin dipped 200 bps (vs. ~700 bps YoY) as the price hikes in Q2 helped the company to partially offset input cost pressure
- The management has guided for EBITDA margin of 11% for H2FY22 (vs. 9% in H122) supported by price hikes and operating leverage in the cable segment. Margin is likely to back on track (i.e. ~13% from FY23 onwards)

Q2FY22 Earnings Conference Call highlights

- Demand Outlook:**
Demand in the H1FY22 was hit by subdued cable demand due to lower government capex. Revival in the private/government spends on infra products will help drive demand for W&C business and FMEG business, going forward. The company maintained its long term revenue growth guidance of 18% in FY21-26E (₹ 20,000 crore revenues by FY26)
- Margins:**
Price hike taken was ~3% QoQ vs 6% increase in input costs. The company further plans to take a price hike that will help drive EBITDA margin to 11% in H2FY22 (vs. ~9% in H1FY22). Long term margin guidance is ~13%
- Distribution reach and channel financing:**
The company has around 4,100 dealers & distributors at the country level and ~1,65,000 retailers

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	79,111	10428	13769	16181	18675	15	14	14	14	1040	1283	1542	1806	25	27	31	33	20	23	26	27	76	62	51	44
Crompton Greaves	28,895	4804	5338	6413	7319	15	14	15	14	617	569	727	822	34	36	42	42	32	28	33	32	47	51	40	35
Bajaj Electrical	13,173	4585	5476	6245	6982	7	8	9	9	189	263	389	449	15	19	25	24	11	16	20	19	70	50	34	29
Polycab	34,446	8927	10999	12849	14691	13	11	13	13	886	784	1139	1349	22	19	24	24	18	15	19	19	39	44	30	26
Symphony	7,352	900	1097	1380	1660	15	17	20	20	107	145	225	275	15	21	29	31	15	20	27	28	69	51	33	27
V guard	10,407	2721	3237	3882	4456	11	10	11	11	202	226	301	352	24	24	28	29	17	19	22	23	52	46	35	30
Voltas	39,357	7556	8786	9958	10409	8	9	11	11	529	727	952	1132	15	20	23	21	11	15	17	17	74	54	41	35

Source: BSE, ICICI Direct Research

We believe Polycab will be one of the key beneficiaries of a revival in government capex on infra projects. On the FMEG front, new launches of premium products and dealer additions in tier II, III cities will drive segment revenue, going forward. The company has maintained its FY26E revenue guidance of ₹ 20,000 crore (implied revenue CAGR of 18%). On the margin front, we believe EBITDA margins would be back at ~13% levels from FY23 (vs. ~9% in H1FY22) considering price hikes, new launches and better operating leverage from its core business. We introduce FY24 estimates, build in revenue & earnings CAGR of 18% & 15%, respectively. The company has a robust balance sheet with RoE and RoCE of 19% & 22%, respectively, and net cash balance of ~₹ 900 crore (September 2022). We roll over our valuation on FY24E and assign a value of ₹ 2710/share i.e. 30x P/E FY24E EPS (~45% discount to Havells). We change our rating from HOLD to BUY.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	3128.8	2113.7	48.0	1880.5	66.4	Favourable base and strong B2C demand drives performance. However, B2B business (cable) demand remained muted
Other Income	26.4	32.7	-19.4	25.3	4	
Raw Material Exp	2455.4	1512.8	62.3	1439.9	70.5	Higher input prices drag gross margin down by ~700 bps YoY
Employee cost	107.1	89.7	19.4	95.9	11.8	
Aadvertisement Exp	14.2	13.4	5.9	7.8	81.3	
Freight and forwarding Exp	69.6	47.2	47.6	40.1	73.5	
Other Expenditure	179.6	138.1	30.1	157.4	14.1	
Total Expenditure	2826.0	1801.2	56.9	1741.2	62.3	
EBITDA	302.8	312.5	-3.1	139.3	117.3	
EBITDA Margin (%)	9.7	14.8	-510 bps	7.4	227 bps	Lower EBITDA margin attributable to higher input costs
Depreciation	53.8	45.6	17.9	52.1	3.2	
Interest	8.8	11.4	-22.4	12.2	-27.4	
PBT	266.6	288.2	-7.5	100.3	165.7	
Total Tax	65.8	66.4	-0.9	22.9	186.9	
PAT	200.5	221.6	-9.5	75.3	166.4	PAT declines ~10% YoY mainly due to lower EBITDA margin
Key Metrics*						
Wires & Cables	2,628.1	1,826.8	43.9	1,626.9	61.5	Favourable base and price hikes in the W&C segment drives segment revenue
FMEG	342.9	244.0	40.6	192.0	78.6	Increased distribution and new launches help drive revenue
Copper	226.2	130.3	73.5	66.6	239.5	
Others	95.0	70.9	34.0	71.8	32.4	Pick-up in infra activities help drive segment revenue

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY22E			FY23E			FY24E		Comments
	Old	Actual	% Chg	Old	New	% Chg	Introduced		
Revenue	10,940.9	10,998.7	0.5	12,775.4	12,848.9	0.6	14,690.9	We introduce FY24E estimate and model a revenue CAGR of 18% for FY21-24E	
EBITDA	1,269.1	1165.9	(8.1)	1,635.2	1644.7	0.6	1,939.2		
EBITDA Margin (%)	11.6	10.6	-100bps	12.8	12.8	0bps	13.2	We revise our margin estimate downward for FY22E considering higher input costs and delay in price hikes. We believe margin recovery will start from FY23E onwards led by improved operating leverage	
PAT	883.4	783.7	(11.3)	1158.5	1139.2	(1.7)	1,349.3		
EPS (₹)	59.3	52.6	(11.3)	77.7	76.4	(1.7)	90.5		

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current (%)				FY24E		Previous		Comments
	FY19	FY20	FY21	FY22E	FY23E	introduce	FY22E	FY23E	
Wire & Cable	14.0	8.6	0.2	20.0	15.0	12.5	16.0	15.0	We believe a revival in government expenditure and pick-up in real estate would help drive demand for wires & cable business, going forward
FMEG	34.6	30.7	23.8	21.0	30.0	27.0	27.0	30.0	Low base coupled with new product launches and addition of new dealers would help drive growth in the FMEG segment
Copper			NA	45.0	15.0	14.0	32.0	13.0	
Others	92.5	29.8	(49.7)	23.0	21.0	12.0	30.0	20.0	Pick-up in infra activities would help in a recovery in the EPC business

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	8,830.0	8,926.5	10,998.7	12,848.9	14,690.9
Growth (%)	11.0	1.1	23.2	16.8	14.3
Raw material expens	5,626.6	5,860.1	7,479.1	8,480.3	9,696.0
Employee expenses	365.7	360.4	407.0	436.9	470.1
Advertisement & Pror	108.7	68.3	77.0	89.9	146.9
warding expenses	189.7	196.7	286.0	269.8	308.5
Other expenses	662.2	527.7	681.9	899.4	954.9
Total Operating Exp	7,694.9	7,759.5	9,832.9	11,204.3	12,751.7
EBITDA	1,135.0	1,167.0	1,165.9	1,644.7	1,939.2
Growth (%)	22.9	2.8	-0.1	41.1	17.9
Depreciation	160.9	186.6	214.5	233.9	267.4
Interest	49.5	53.1	30.0	20.3	19.5
Other Income	92.8	128.2	110.0	128.5	146.9
PBT	1,017.4	1,065.2	1,031.3	1,519.0	1,799.2
Total Tax	244.4	179.1	247.5	379.8	449.8
PAT	765.6	885.9	783.7	1,139.2	1,349.3

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Profit after Tax	765.6	885.9	783.7	1139.2	1349.3
Add: Depreciation	160.9	186.6	214.5	233.9	267.4
(Inc)/dec in Current Assets	-152.3	149.9	-915.7	-863.5	-792.7
Inc/(dec) in CL and Provisions	-608.8	27.5	371.4	352.1	383.4
Others	49.5	53.1	30.0	20.3	19.5
CF from operating activities	214.9	1303.0	483.9	881.9	1227.0
(Inc)/dec in Investments	-40.0	-583.1	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-355.4	-489.9	-350.0	-450.0	-450.0
Others	9.7	-21.5	5.0	5.0	5.0
CF from investing activities	-385.8	-1,094.5	-365.0	-465.0	-465.0
Issue/(Buy back) of Equity	7.7	0.2	0.0	0.0	0.0
Inc/(dec) in loan funds	-39.7	63.0	-30.0	-50.0	-10.0
Dividend paid & dividend tax	-104.5	-149.0	-178.9	-268.4	-268.4
Others	271.2	127.2	-131.0	-20.3	-19.5
CF from financing activities	134.6	41.4	-340.0	-338.7	-297.9
Net Cash flow	-36.2	249.9	-221.1	78.2	464.0
Opening Cash	317.6	281.4	531.3	310.2	388.4
Closing Cash	281.4	531.3	310.2	388.4	852.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Liabilities					
Equity Capital	148.9	149.1	149.1	149.1	149.1
Reserve and Surplus	3,687.5	4,604.8	5,108.6	5,979.3	7,060.3
Total Shareholders funds	3,836.4	4,753.9	5,257.7	6,128.5	7,209.4
Total Debt	152.3	215.3	185.3	135.3	125.3
Other non current liabilities	49.6	94.7	99.7	104.7	109.7
Total Liabilities	4,038.3	5,064.0	5,542.7	6,368.5	7,444.4
Assets					
Gross Block	2,093.1	2,725.1	3,075.1	3,525.1	3,975.1
Less: Acc Depreciation	671.2	857.8	1,072.2	1,306.1	1,573.5
Total Fixed Assets	1,663.1	1,966.4	2,101.9	2,318.1	2,500.7
Investments	40.0	623.1	643.1	663.1	683.1
Inventory	1,925.0	1,987.9	2,470.9	2,851.4	3,260.2
Debtors	1,599.7	1,564.1	1,927.2	2,288.2	2,616.2
Loans and Advances	29.8	20.8	25.7	30.0	34.3
Other CA	345.6	177.2	242.0	359.8	411.3
Cash	281.4	531.3	310.2	388.4	852.4
Total Current Assets	4,181.4	4,281.4	4,976.0	5,917.7	7,174.4
Creditors	1,353.7	1,348.0	1,657.3	1,936.1	2,213.7
Provisions	49.4	48.7	59.8	69.9	79.9
Other CL	520.2	554.1	604.9	668.1	763.9
Total Current Liabilities	1,923.3	1,950.8	2,322.1	2,674.2	3,057.5
Net current assets	2,258.1	2,330.7	2,653.9	3,243.5	4,116.8
Other non current assets	77.1	143.8	143.8	143.8	143.8
Total Assets	4,038.3	5,064.0	5,542.7	6,368.5	7,444.4

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
EPS	51.4	59.4	52.6	76.4	90.5
Cash EPS	62.2	71.9	66.9	92.1	108.4
BV	257.7	318.8	352.6	411.0	483.5
DPS	7.0	10.0	12.0	18.0	18.0
Operating Ratios (%)					
EBITDA Margin	12.9	13.1	10.6	12.8	13.2
PAT Margin	8.7	9.8	7.1	8.9	9.2
Asset Turnover	4.2	3.3	3.6	3.6	3.7
Inventory Days	79.6	81.3	82.0	81.0	81.0
Debtor Days	66.1	64.0	64.0	65.0	65.0
Creditor Days	56.0	55.1	55.0	55.0	55.0
Return Ratios (%)					
RoE	20.0	18.5	14.9	18.6	18.7
RoCE	26.4	21.9	19.1	24.2	24.4
RoIC	24.7	23.2	19.2	24.5	26.0
Valuation Ratios (x)					
P/E	44.9	38.9	44.0	30.2	25.5
EV / EBITDA	30.2	28.7	28.9	20.4	17.0
EV / Net Sales	3.9	3.8	3.1	2.6	2.2
Market Cap / Sales	3.9	3.9	3.1	2.7	2.3
Price to Book Value	9.0	7.2	6.6	5.6	4.8
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	2.8	2.7	2.7	2.8	2.8
Quick Ratio	1.4	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	2,920	3,425	Buy	2,80,028	33.4	28.3	40.6	52.3	87.3	103.1	71.9	55.8	56.7	66.6	48.0	37.5	29.6	25.0	33.0	38.5	25.0	21.1	27.9	32.1
Berger Paints (BERPAI)	724	860	Hold	70,315	7.4	9.5	11.9	14.7	97.7	76.6	60.9	49.1	59.0	49.0	40.0	32.6	24.9	29.0	33.9	36.0	21.3	24.7	27.6	29.2
Kansai Nerolac (KANNER)	558	750	Buy	30,072	9.9	13.0	16.1	18.7	56.6	43.1	34.7	29.8	36.1	28.8	23.2	19.9	17.2	21.5	23.4	24.2	13.2	16.6	18.0	18.4
Pidilite Industries (PIDIND)	2,313	2,390	Hold	1,17,454	22.2	25.3	30.7	36.8	104.3	91.3	75.3	62.9	69.6	60.8	51.3	43.3	23.8	23.0	26.9	30.8	20.2	19.5	22.5	25.7
Bajaj Electricals (BAJELE)	1,150	1,250	Buy	13,173	16.5	23.0	34.0	39.2	69.7	50.1	33.9	29.3	44.2	32.0	22.9	20.3	15.1	19.3	25.2	24.2	10.7	16.3	19.9	19.1
Crompton Greaves(CROGR)	461	525	Buy	28,895	9.8	9.1	11.6	13.1	46.9	50.8	39.8	35.2	38.6	37.9	30.3	26.7	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3
Havells India (HAVIND)	1,268	1,545	Buy	79,111	16.7	20.6	24.7	28.9	76.1	61.7	51.3	43.8	49.8	41.6	34.7	29.5	24.9	27.5	30.9	32.9	20.1	22.9	25.5	26.8
Polycab India (POLI)	2,310	2,710	Buy	34,446	59.4	52.6	76.4	90.5	38.9	44.0	30.2	25.5	28.7	28.9	20.4	17.0	21.9	19.1	24.2	24.4	18.5	14.9	18.6	18.7
Symphony (SYMLIM)	1,051	1,050	Hold	7,352	15.3	20.8	32.1	39.3	68.7	50.6	32.7	26.8	51.6	39.7	25.5	20.8	15.2	21.1	29.1	30.7	14.9	19.9	27.0	28.0
V-Guard Ind (VGUARD)	243	310	Buy	10,407	4.7	5.3	7.0	8.2	51.5	46.0	34.5	29.5	32.5	31.5	24.7	20.9	23.9	24.2	28.4	29.0	16.7	18.5	22.0	22.5
Voltas Ltd (VOLTAS)	1,190	1,170	Buy	39,357	16.0	22.0	28.8	34.2	74.4	54.1	41.3	34.8	60.7	48.2	35.9	33.4	15.0	20.2	22.8	21.1	10.6	14.9	17.0	17.4
Amber Enterprises (AMBER)	3,400	3,365	Buy	11,456	24.7	43.2	87.7	109.7	137.6	78.6	38.8	31.0	51.8	38.0	22.0	17.8	7.7	11.0	18.3	19.7	5.2	8.8	15.2	16.0
Dixon Technologies (DIXTE)	4,995	5,050	Buy	29,245	27.3	52.3	97.4	152.5	183.2	95.5	51.3	32.8	102.0	62.0	35.4	22.7	23.5	34.6	47.4	50.6	21.7	33.9	41.7	41.4
Supreme Indus (SUPIND)	2,329	2,740	Buy	29,585	77.0	67.6	80.7	91.1	30.2	34.5	28.9	25.6	22.4	25.0	20.7	18.2	33.1	25.7	27.3	27.6	30.9	24.4	25.1	25.0
Astral Polytechnik (ASTPOL)	2,137	2,160	Hold	42,929	20.3	24.6	31.8	40.6	105.2	86.7	67.2	52.7	66.0	55.9	43.7	34.4	27.5	29.2	32.5	34.0	21.5	22.8	24.9	26.0
EPL (ESSPRO)	216	279	Hold	6,810	7.7	9.4	11.6	13.3	27.9	22.9	18.7	16.3	11.5	10.4	8.6	7.5	16.2	17.7	20.8	21.5	14.8	16.6	18.9	19.7
Time Techno (TIMTEC)	71	100	Buy	1,606	4.8	8.3	10.7	11.5	14.9	8.5	6.6	6.2	5.7	4.6	3.8	3.5	8.7	12.2	13.9	13.9	5.7	9.5	11.3	11.1
Moldtek Packaging (MOLP)	672	675	Buy	1,863	17.3	22.5	30.6	38.0	38.9	29.9	22.0	17.7	20.8	16.3	12.7	10.4	21.4	24.8	29.1	30.1	20.7	21.9	24.1	23.9

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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