

## Accumulate

### Better than expected numbers. Maintain Accumulate

- Q3 numbers came in better than estimates with higher sales, EBITDA and PAT by 12%, 11% and 19% YoY respectively (Exhibit 1). WC days came in lower sequentially at 56 days at Q3 compared to 85 days in Q2FY21, with a major rise in payables. Polycab has comfortable liquidity position with C&CE of Rs13.9bn and cash flow from operations of Rs7.7bn in Q3.
- Wires & Cables margins came in marginally higher by 86bps YoY at 12.9% while FMEG margins saw an exponential increase of 530bps YoY to 5.9% in Q3FY21. FMEG revenues grew exponentially 41% YoY despite higher A&P spends and normalization of other expenses.
- We maintain our Accumulate valuing the stock at 18x Sep22E at a TP of Rs1350 and recommend buying it on dips. We increase estimates over FY21/22/23 as highlighted in Exhibit 2. We expect the stock to get rerated with an increasing B2C mix from current 40% levels.

### Better than expected numbers across all metrics

Q3 reported strong numbers with revenues, EBITDA and PAT coming in higher by 12%, 11% and 19% YoY at Rs28bn, Rs3.8bn and Rs2.6bn; which was higher than estimates as highlighted in Exhibit 1. Wires & Cables revenues came in higher by 11% YoY at Rs24bn and FMEG came in higher by 41% YoY at Rs3.1bn due to lower base. Wires & Cables margins came in higher by ~90bps YoY at 12.8% while FMEG margins saw an exponential increase of 530bps YoY to 5.9% in Q2FY21. The other expenses have declined to 6.3% of sales over ~250bps YoY. Overall EBITDA margins came in flat at 13.4%, while GP margins came in lower by 320bps at 24.3% compared to 27.5% in Q3FY20. Staff cost and A&P remained flat YoY as major ad expenses on IPL sponsorship (80%) were incurred in Q3. CCC days were lower sequentially at 56 days as compared to 85 days, due to a sharp rise in payables. Net cash position in Q3 was Rs13.3bn and ROCE came in at 30.6%..

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	27,988	25,073	11.6	21,137	32.4
Total Expense	24,230	21,682	11.8	18,012	34.5
EBITDA	3,758	3,391	10.8	3,125	20.3
Depreciation	478	407	17.6	456	4.9
EBIT	3,280	2,984	9.9	2,669	22.9
Other Income	345	3	9863.9	327	5.3
Interest	88	86	2.9	114	(22.4)
EBT	3,536	2,902	21.9	2,882	22.7
Tax	905	686	32.0	664	36.2
RPAT	2,636	2,214	19.1	2,216	19.0
APAT	2,636	2,214	19.1	2,216	19.0
			(bps)		(bps)
Gross Margin (%)	24.3	27.5	(319)	28.4	(416)
EBITDA Margin (%)	13.4	13.5	(10)	14.8	(136)
NPM (%)	9.4	8.8	59	10.5	(106)
Tax Rate (%)	25.6	23.6	196	23.0	255
EBIT Margin (%)	11.7	11.9	(18)	12.6	(91)

CMP	Rs 1,215
Target / Upside	Rs 1,350 / 11%
NIFTY	14,372

### Scrip Details

Equity / FV	Rs 1,490mn / Rs 10
Market Cap	Rs 181bn
	USD 2bn
52-week High/Low	Rs 1,325/ 570
Avg. Volume (no)	6,49,102
Bloom Code	POLYCAB IN

Price Performance	1M	3M	12M
Absolute (%)	15	38	19
Rel to NIFTY (%)	15	38	27

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	68.6	68.5	68.4
MF/Banks/FIs	12.9	12.2	10.3
FIIIs	4.5	6.1	7.0
Public / Others	14.0	13.0	14.3

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	21.3	17.8	15.1
EV/EBITDA	14.1	11.6	9.7
ROE (%)	20.4	20.6	20.7
RoACE (%)	21.1	21.1	21.0

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	93,635	1,07,699	1,23,464
EBITDA	12,284	14,343	16,708
PAT	8,514	10,140	11,982
EPS (Rs.)	57.2	68.1	80.4

VP - Research: Vinod Chari

Tel: +91 22 40969776

E-mail: vinodc@dolatcapital.com

Associate: Pranav Lala

Tel: +9122 40969722

E-mail: pranavl@dolatcapital.com

### Festive sales along with cost optimization boosted growth

Wire & Cables experienced a 6% YoY growth despite high base, as consumer demand remained stronger and construction slowly picked up. Wire & Cables margins remained strong up marginally by 86bps at 12.8% despite commodity headwinds. Exports remained strong at 10.5% YoY of revenues in Q3; Dangote revenues declined 33% YoY at Rs1.4bn on account of higher base. Ex-Dangote export revenues grew 29% YoY led by Australia, Asia and UK. FMEG revenues were up 41% YoY due to higher festive sales helped switches, switchgears and pumps; resulted in higher revenue contribution of 10.8%. EBIT margins were strong at 5.9% in Q3 up by 530bps YoY due to improved mix, despite higher A&P spends on IPL.

### Maintain Accumulate with a TP of Rs1500

Polycab has maintained its strong growth trajectory, with promising revenues which has led us to upgrade our FY21/22/23 estimates as mentioned in Exhibit 2. We believe in the strength of the business and maintain our Accumulate rating with a valuation of 18xSep22E at a TP of Rs1350.

#### Exhibit 1: Actual v/s DART estimates

(Rs mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q3FY21	Q3FY21E	Q3FY21E	Var (%)	Var (%)	
Sales	27,988	25,278	27,110	10.7	3.2	Better topline with growth across segments
EBITDA	3,758	3,160	3,747	18.9	0.3	
EBITDA margins	13.4	12.5	13.8	92.6	(39.5)	Better cost control led to stronger margins
PAT	2,636	2,110	2,583	24.9	2.1	Better EBITDA and gain from exchange difference led to stronger PAT
Pat margins	9.4	8.3	9.5	107.2	(10.9)	
EPS	17.7	14.2	17.3	24.9	2.1	

Source: Company, DART

#### Exhibit 2: Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	Earlier	New	Change	Earlier	New	Change	Earlier	New	Change
Sales	84,381	93,635	11.0	97,009	107,699	11.0	111,185	123,464	11.0
EBITDA	10,880	12,284	12.9	12,713	14,343	12.8	14,834	16,708	12.6
EBITDA margins	12.9	13.1	22.5	13.1	13.3	21.3	13.3	13.5	19.1
PAT	7,391	8,514	15.2	8,832	10,140	14.8	10,470	11,982	14.4
EPS (Rs)	49.6	57.1	15.2	59.3	68.1	14.8	70.3	80.4	14.4

Source: Company, DART

**Exhibit 3: Quarterly Performance**

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
<b>Net Revenue</b>	<b>25,073</b>	<b>21,294</b>	<b>9,766</b>	<b>21,137</b>	<b>27,988</b>	<b>11.6</b>	<b>32.4</b>	<b>66,822</b>	<b>58,891</b>	<b>(11.9)</b>
Cost of materials consumed	16,185	13,565	5,130	13,475	18,516	14.4	37.4	45,072	37,120	(17.6)
Purchase of Stock in trade	147	(484)	1,262	(344)	128	(13.1)	(137.2)	(1,887)	1,046	(155.4)
Changes in Inventories, WIP & SIP	1,857	1,688	705	1,997	2,553	37.4	27.8	5,732	5,255	(8.3)
<b>Total Raw Material Cost</b>	<b>18,190</b>	<b>14,769</b>	<b>7,097</b>	<b>15,128</b>	<b>21,196</b>	<b>16.5</b>	<b>40.1</b>	<b>48,917</b>	<b>43,422</b>	<b>(11.2)</b>
Staff Expenditure	915	899	812	897	896	(2.0)	(0.1)	2,759	2,606	(5.5)
Advertisement and Sales Promotion	376	185	32	134	372	(1.0)	177.6	902	538	(40.3)
Other Expenses	2,201	2,435	1,250	1,852	1,765	(19.8)	(4.7)	6,084	4,868	(20.0)
<b>EBITDA</b>	<b>3,391</b>	<b>3,006</b>	<b>575</b>	<b>3,125</b>	<b>3,758</b>	<b>10.8</b>	<b>20.3</b>	<b>8,161</b>	<b>7,457</b>	<b>(8.6)</b>
Depreciation	407	422	443	456	478	17.6	4.9	1,187	1,377	16.0
<b>EBIT</b>	<b>2,984</b>	<b>2,584</b>	<b>132</b>	<b>2,669</b>	<b>3,280</b>	<b>9.9</b>	<b>22.9</b>	<b>6,974</b>	<b>6,080</b>	<b>(12.8)</b>
Other Income	3	465	336	327	345	9863.9	5.3	647	1008	55.9
Interest	86	159	163	114	88	2.9	(22.4)	336	365	8.6
Profit/(Loss) from Associates & JVs	2	58	12	3	(5)	(314.8)	(287.1)	18	9	(49.1)
<b>PBT</b>	<b>2,900</b>	<b>2,831</b>	<b>391</b>	<b>2,880</b>	<b>3,541</b>	<b>22.1</b>	<b>23.0</b>	<b>7,268</b>	<b>6,812</b>	<b>(6.3)</b>
Tax	686	680	(785)	664	905	32.0	36.2	1,764	784	(55.5)
<b>Net Profit</b>	<b>2,214</b>	<b>2,151</b>	<b>1,176</b>	<b>2,216</b>	<b>2,636</b>	<b>19.1</b>	<b>19.0</b>	<b>5,505</b>	<b>6,027</b>	<b>9.5</b>
Reported EPS	16	15	8	16	19	19.1	19.0	39.0	42.7	9.5
<b>Operating Cost as a % of Sales</b>						<b>bps</b>	<b>bps</b>			<b>bps</b>
Raw Material Cost	72.5	69.4	72.7	71.6	75.7	318.6	415.9	73.2	73.7	52.8
Staff Cost	3.6	4.2	8.3	4.2	3.2	(44.6)	(104.2)	4.1	4.4	29.7
Other Expenses	8.8	11.4	12.8	8.8	6.3	(247.2)	(245.7)	9.1	8.3	(83.9)
<b>Margins (%)</b>						<b>bps</b>	<b>bps</b>			<b>bps</b>
GM	27.5	30.6	27.3	28.4	24.3	(318.6)	(415.9)	26.8	26.3	(52.8)
EBITDA	13.5	14.1	5.9	14.8	13.4	(9.8)	(135.7)	12.2	12.7	45.0
EBIT	11.9	12.1	1.4	12.6	11.7	(18.4)	(90.8)	10.4	10.3	(11.2)
PBT	11.6	13.3	4.0	13.6	12.7	108.7	(97.2)	10.9	11.6	68.9
NPM	8.8	10.1	12.0	10.5	9.4	58.9	(106.3)	8.2	10.2	199.7

Source: Company, DART

**Exhibit 4: Segment Performance 1**

Revenue	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Wires and Cables	21,696	18,605	8,252	18,268	24,073	11.0	31.8	57,293	50,593	(11.7)
FMEG	2,166	1,833	1,378	2,440	3,055	41.0	25.2	6,523	6,873	5.4
Others	1,510	1,592	534	709	795	(47.4)	12.1	4,373	2,038	(53.4)
<b>Total</b>	<b>25,373</b>	<b>22,030</b>	<b>10,164</b>	<b>21,417</b>	<b>27,923</b>	<b>10.1</b>	<b>30.4</b>	<b>68,189</b>	<b>59,504</b>	<b>(12.7)</b>
<b>EBIT</b>										
Wires and Cables	2,583	2,827	244	2,541	3,074	19.0	21.0	6,465	5,859	(9.4)
FMEG	14	1	(56)	196	182	1,201.1	(7.4)	167	322	92.8
Others	338	165	72	100	98	(71.1)	(2.3)	720	270	(62.5)

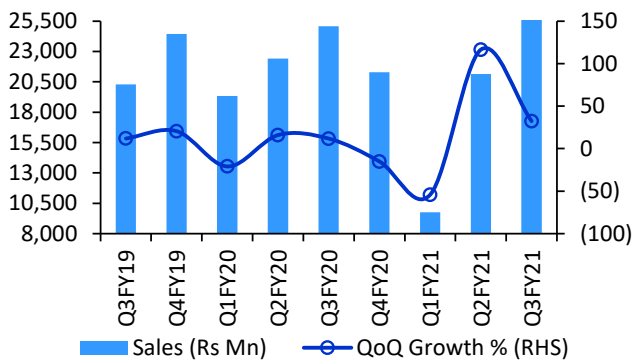
Source: Company, DART

### Exhibit 5: Segment performance 2

EBIT Margin (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Wires and Cables	11.9	15.2	3.0	13.9	12.8	86.3	(114.1)	11.3	11.6	30
FMEG	0.6	0.1	-4.0	8.0	5.9	530.1	(209.9)	2.6	4.7	213
Others	22.4	10.4	13.4	14.1	12.3	(1,011.1)	(181.5)	16.5	13.2	(322)
<b>Segment Capital employed</b>										
Wires and Cables	26,896	30,079	29,939	28,548	23,972	(10.9)	(16.0)	26,896	23,972	(10.9)
FMEG	3,507	3,692	3,253	2,738	3,199	(8.8)	16.8	3,507	3,199	(8.8)
Others	1,784	3,194	2,048	2,387	2,216	24.2	(7.2)	1,784	2,216	24.2
Copper	0	0	856	1,605	2,747	0	71.1	0	2,747	0
Other Unallocable	5,211	1,450	3,864	7,018	12,770	145.1	82.0	5,211	12,770	145.1

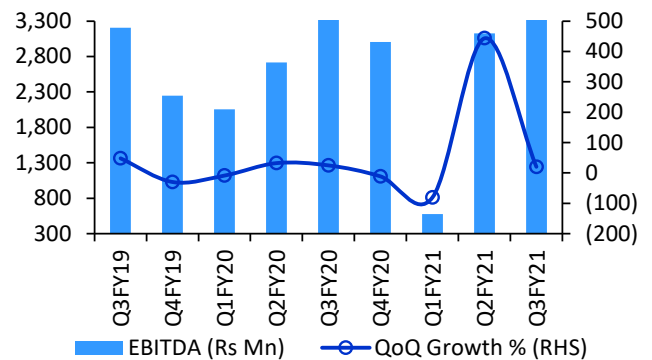
Source: Company, DART

### Exhibit 6: Sales & QoQ Growth (%)



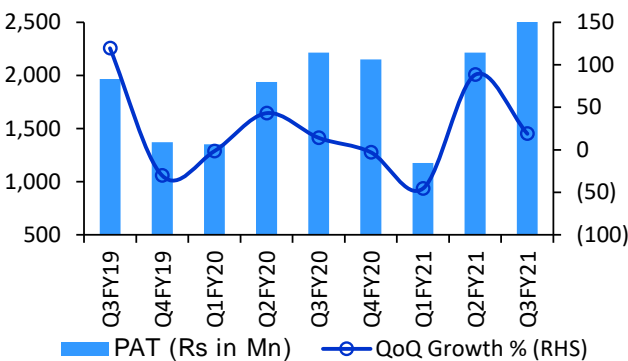
Source: Company, DART

### Exhibit 7: EBITDA & QoQ Growth (%)



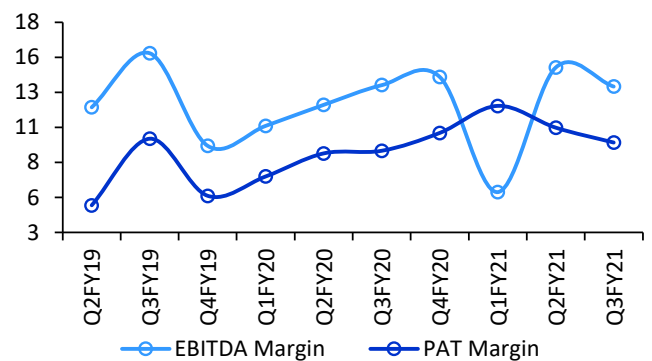
Source: Company, DART

### Exhibit 8: PAT & QoQ Growth (%)



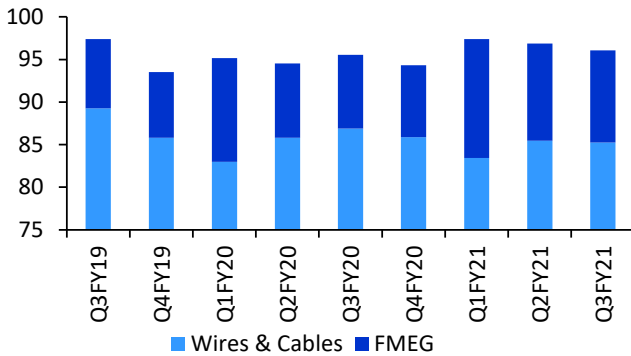
Source: Company, DART

### Exhibit 9: Margin Trends (%)



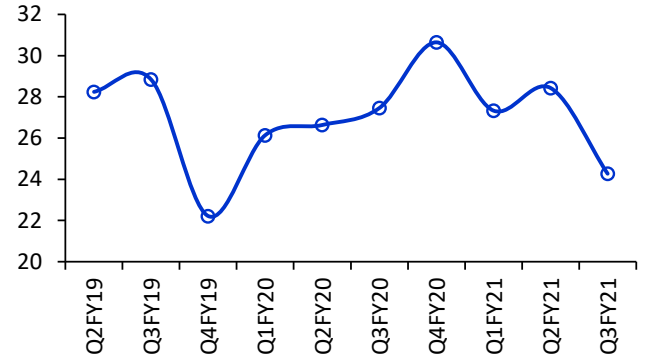
Source: Company, DART

**Exhibit 10: Quarterly revenue contribution (%)**



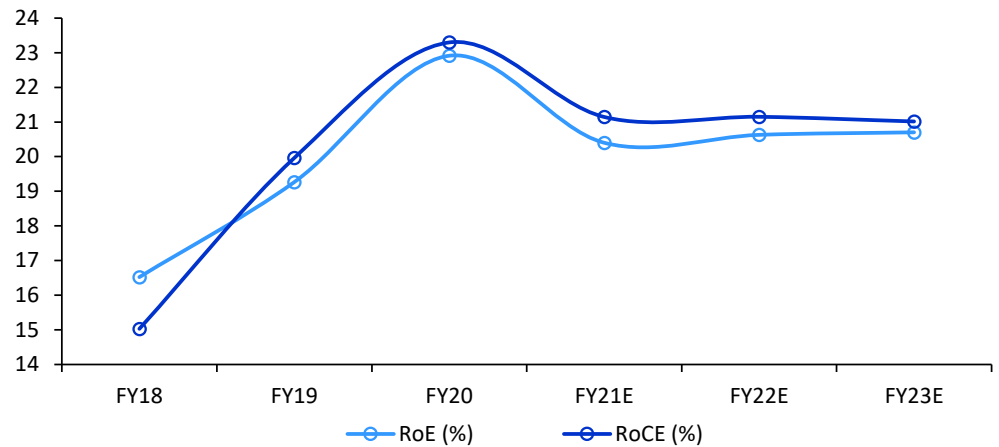
Source: Company, DART

**Exhibit 11: Quarterly gross margins (%)**



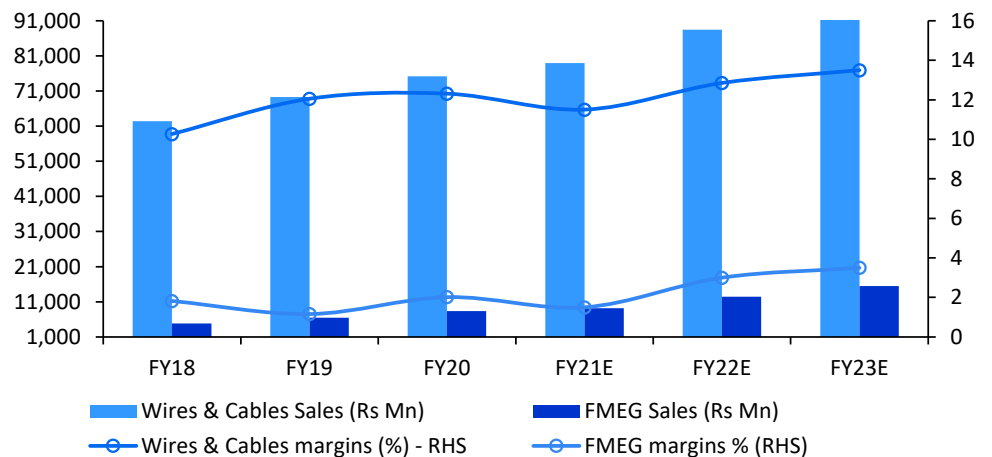
Source: Company, DART

**Exhibit 12: Return Ratio**



Source: Company, DART

**Exhibit 13: Annual Segment wise**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>88,300</b>	<b>93,635</b>	<b>1,07,699</b>	<b>1,23,464</b>
<b>Total Expense</b>	<b>76,949</b>	<b>81,352</b>	<b>93,356</b>	<b>1,06,755</b>
COGS	63,686	68,260	78,513	90,005
Employees Cost	3,657	4,073	4,631	5,062
Other expenses	9,606	9,018	10,212	11,688
<b>EBIDTA</b>	<b>11,350</b>	<b>12,284</b>	<b>14,343</b>	<b>16,708</b>
Depreciation	1,609	1,889	1,977	2,177
<b>EBIT</b>	<b>9,741</b>	<b>10,395</b>	<b>12,366</b>	<b>14,531</b>
Interest	495	609	538	494
Other Income	928	1,592	1,723	1,975
Exc. / E.O. items	74	0	0	0
<b>EBT</b>	<b>10,100</b>	<b>11,378</b>	<b>13,550</b>	<b>16,012</b>
Tax	2,444	2,864	3,411	4,030
RPAT	7,656	8,514	10,140	11,982
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>7,656</b>	<b>8,514</b>	<b>10,140</b>	<b>11,982</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,489	1,490	1,490	1,490
Minority Interest	150	150	150	150
Reserves & Surplus	36,875	43,630	51,708	61,086
<b>Net Worth</b>	<b>38,364</b>	<b>45,119</b>	<b>53,198</b>	<b>62,576</b>
Total Debt	1,221	936	1,077	1,235
Net Deferred Tax Liability	175	175	175	175
<b>Total Capital Employed</b>	<b>39,910</b>	<b>46,381</b>	<b>54,600</b>	<b>64,136</b>

**Applications of Funds**

Net Block	14,220	14,332	14,854	15,177
CWIP	2,412	0	0	0
Investments	255	555	555	555
<b>Current Assets, Loans &amp; Advances</b>	<b>42,729</b>	<b>51,931</b>	<b>60,770</b>	<b>71,013</b>
Inventories	19,250	21,340	22,419	25,701
Receivables	15,997	16,418	17,114	18,942
Cash and Bank Balances	2,827	8,006	14,872	19,813
Loans and Advances	244	244	244	244
Other Current Assets	4,011	4,923	5,121	5,312
<b>Less: Current Liabilities &amp; Provisions</b>	<b>19,706</b>	<b>20,437</b>	<b>21,579</b>	<b>22,608</b>
Payables	13,537	15,392	16,229	16,913
Other Current Liabilities	6,169	5,045	5,350	5,695
	<i>sub total</i>			
Net Current Assets	23,023	31,494	39,191	48,405
<b>Total Assets</b>	<b>39,910</b>	<b>46,381</b>	<b>54,600</b>	<b>64,136</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	27.9	27.1	27.1	27.1
EBIDTA Margin	12.9	13.1	13.3	13.5
EBIT Margin	11.0	11.1	11.5	11.8
Tax rate	24.2	25.2	25.2	25.2
Net Profit Margin	8.7	9.1	9.4	9.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	72.1	72.9	72.9	72.9
Employee	4.1	4.4	4.3	4.1
Other	10.9	9.6	9.5	9.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	19.7	17.1	23.0	29.4
Inventory days	80	83	76	76
Debtors days	66	64	58	56
Average Cost of Debt	31.5	56.4	53.5	42.7
Payable days	56	60	55	50
Working Capital days	95	123	133	143
FA T/O	6.2	6.5	7.3	8.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	51.4	57.2	68.1	80.4
CEPS (Rs)	62.2	69.8	81.3	95.0
DPS (Rs)	7.0	5.0	8.0	11.0
Dividend Payout (%)	13.6	8.8	11.8	13.7
BVPS (Rs)	257.5	302.9	357.1	420.0
RoANW (%)	22.9	20.4	20.6	20.7
RoACE (%)	23.3	21.1	21.1	21.0
RoAIC (%)	30.2	27.6	31.7	34.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1215	1215	1215	1215
P/E	23.6	21.3	17.8	15.1
Mcap (Rs Mn)	1,80,983	1,80,983	1,80,983	1,80,983
MCap/ Sales	2.0	1.9	1.7	1.5
EV	1,78,977	1,72,913	1,66,188	1,61,404
EV/Sales	2.0	1.8	1.5	1.3
EV/EBITDA	15.8	14.1	11.6	9.7
P/BV	4.7	4.0	3.4	2.9
Dividend Yield (%)	0.6	0.4	0.7	0.9
<b>(F) Growth Rate (%)</b>				
Revenue	10.6	6.0	15.0	14.6
EBITDA	19.1	8.2	16.8	16.5
EBIT	20.1	6.7	19.0	17.5
PBT	33.6	12.7	19.1	18.2
APAT	53.0	11.2	19.1	18.2
EPS	53.0	11.2	19.1	18.2

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,941	7,458	11,201	9,755
CFI	(3,916)	(488)	(2,500)	(2,500)
CFF	(2,374)	(1,791)	(1,835)	(2,313)
FCFF	2,386	7,870	8,701	7,255
Opening Cash	3,176	2,827	8,006	14,872
Closing Cash	2,827	8,006	14,872	19,813

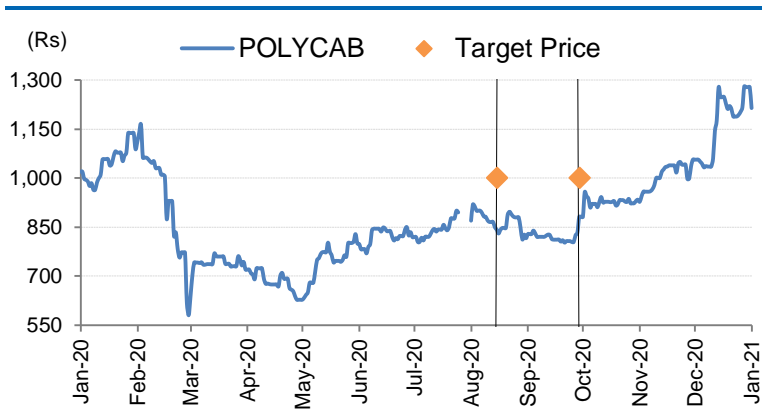
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Accumulate	1,000	842
Oct-20	Accumulate	1,000	881

\*Price as on recommendation date

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>

#### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013



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Member: BSE Limited and National Stock Exchange of India Limited.

S SEBI Registration No: BSE – INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com

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