

## B2C category remains driving force...

Polycab reported a healthy Q3FY21 performance with consolidated topline and PAT increasing ~12% and 19% YoY, respectively. Growth was largely driven by B2C category products (~40% of overall topline). The fast moving electrical goods (FMEG) segment reported healthy growth of 41% YoY to ₹ ~306 crore while wires & cable business segment growth came in at 11% YoY to ₹ 2407 crore. On the wires & cable business, while housing wires continued their strong momentum led by distribution expansion & pick up in renovation works, cable demand remained sluggish owing to lower offtake by institutional clients. On the FMEG front, strong revenue growth is attributable to strong rural demand, better product mix and price hikes during the period. According to the management, higher government expenditure on infrastructure and construction activities would help in revival in the cable business going forward while growth momentum of FMEG business is likely to continue on a low base. On the cost front, the company witnessed a sharp rise in input prices (in the range of 15-50%), which was passed through partially. Polycab would take a further price hike in the coming quarter to pass on inflationary pressure to maintain operating margins. As on 9MFY21, the balance sheet remained strong with net cash position at ₹ 1333 crore along with improvement in the working capital cycle.

## Focus on new product launches

In its continuous efforts to increase revenue contribution from FMEG segment (increased from ~9% in FY20 to ~12% in 9MFY21), the company has launched premium brand "Hohm" in top 10 cities in India. The IoT based switches, fans, geysers, lighting products are aspirational products that would command higher margin than the existing 5% EBIT margin of the FMEG segment. The company has also received approval to supply its special cable to defence, railways and electric vehicles.

## Cost rationalisation continues, expect margin to stay elevated

While the company faced pressure in gross margin (down ~320 bps YoY), it witnessed savings in other costs, mainly due to various cost optimisation measures in 9MFY21. This helped maintain EBITDA margin at the same level (at ~13%) of Q3FY20. According to the management, Polycab would pass on inflationary pressure along with cost saving measures in coming quarters, which would help it to maintain EBITDA margin at ~13% level.

## Valuation & Outlook

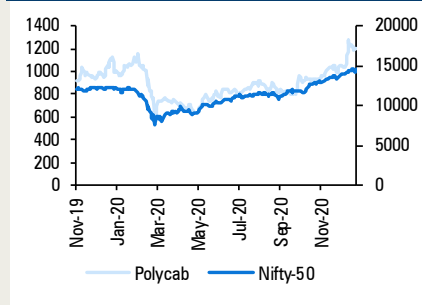
We believe a revival in the government's infra spending along with focus on profitable growth of FMEG business would help improve RoCEs, RoEs, for the company, going forward. We roll over our valuation on FY23E and reiterate our **BUY** recommendation with a revised target price of ₹ 1385/share (earlier TP of ₹ 1040), valuing at 17x FY23E.



### Particulars

Particular	Amount
Market Cap (₹ Crore)	17,597.5
Total Debt (FY20) (₹ Crore)	152.3
Cash & Inv (FY20) (₹ Crore)	276.0
EV (₹ Crore)	17,473.8
52 week H/L	1325/ 571
Equity capital (₹ Crore)	148.9
Face value (₹)	10.0

### Price performance



### Key risk to our call

- We model revenue CAGR of ~11% in wires & cable business (85% of revenue). Delay in revival of core business (i.e. wires & cable) may restrict topline growth, going forward
- Delay in passing on higher input price may result in lower EBITDA margin, going forward

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### Key Financial Summary

₹ Crore	FY19	FY20E	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net sales	7956.0	8830.0	8551.8	11058.8	12641.3	12.7
EBITDA	923.2	1135.0	1135.7	1426.6	1681.3	14.0
EBITDA Margin(%)	11.6	12.9	13.3	12.9	13.3	
Net Profit	500.5	765.6	862.0	1001.0	1186.2	15.7
EPS (₹)	35.4	51.4	57.9	67.2	79.7	
P/E(x)	33.3	23.0	20.4	17.6	14.8	
RoE (%)	17.6	20.0	18.1	19.0	20.1	
RoCE (%)	28.3	26.5	21.2	24.4	26.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	2798.8	2507.3	11.6	2113.7	32.4	The B2C business (~40% of revenue) witnessed strong growth but B2B business segment (60% of revenue) still faced headwinds, especially delay in government orders
Other Income	34.5	0.3	NM	32.7	5	Higher other income due to MTM benefits on investments
Raw Material Exp	2119.6	1819.0	16.5	1512.8	40.1	Sharp rise in input prices and delay in passing of the same resulted in ~320 bps decline in gross margin
Employee cost	89.6	91.5	-2.0	89.7	-0.1	
Adevertisement Exp	37.2	37.6	-1.0	13.4	177.6	
Freight and forwarding Exp	52.5	52.6	-0.1	47.2	11.3	
Other Expenditure	124.0	167.6	-26.0	138.1	-10.2	Various cost optimisation measures resulted in saving in other costs
Total Expenditure	2423.0	2168.2	11.8	1801.2	34.5	
EBITDA	375.8	339.1	10.8	312.5	20.3	
EBITDA Margin (%)	13.4	13.5	-10 bps	14.8	-136 bps	Decline in gross margin offset by saving in other costs
Depreciation	47.8	40.7	17.6	45.6	4.9	
Interest	8.8	8.6	2.9	11.4	-22.4	
PBT	353.6	290.2	21.9	288.2	22.7	
Total Tax	90.5	68.6	32.0	66.4	36.2	
PAT	263.6	221.4	19.1	221.6	19.0	
<b>Key Metrics*</b>						
Wires & Cables	2,407.3	2,169.6	11.0	1,826.8	31.8	B2C segment witnessed healthy double digit growth but institutional business continues to face headwinds. The base period also includes order from Dangote
FMEG	305.5	216.6	41.0	244.0	25.2	Increased distribution, price hikes and better mix drive growth
Copper	232.7	0.0	NA	130.3	NA	The company has started reported revenue from Ryker from Q1FY21
Others	79.5	151.0	-47.4	70.9	12.1	Segment performance impacted by high base and slow execution of orders from private sector

Source: Company, ICICI Direct Research, \*Including inter segment revenue

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comments
	Old	Actual	% Chg	Old	New	% Chg	
Revenue	10,807.0	11,058.8	2.3	12,209.9	12,641.3	3.5	We tweak our estimates upwards for FY22-22E considering current quarter's performance
EBITDA	1,318.4	1426.6	8.2	1,575.1	1681.3	6.7	
EBITDA Margin (%)	12.2	12.9	70bps	12.9	13.3	40bps	Better mix, various cost optimisation measures likley to keep margin elevated
PAT	936.4	1001.0	6.9	1108.2	1186.2	7.0	
EPS (₹)	62.9	67.2	6.9	74.4	79.7	7.1	

Source: Company, ICICI Direct Research

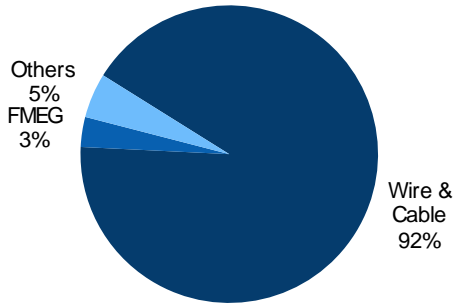
Exhibit 3: Assumptions

	Current (%)					Previous		Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Wire & Cable	14.0	8.6	(3.0)	22.3	14.0	22.0	13.0	We believe revival in government expenditure would help drive demand of wires & cable business, going forward
FMEG	34.6	30.7	11.0	35.0	25.0	30.0	20.0	Low base coupled with addition of new dealers would help drive growth in FMEG segment
Copper			NA	50.0	13.0	50.0	10.0	
Others	92.5	29.8	(50.0)	50.0	25.0	50.0	25.0	High-quality broadband services and laying optical fiber cables across the nation under Bharat Net project would be key growth driver for project business

Source: Company, ICICI Direct Research

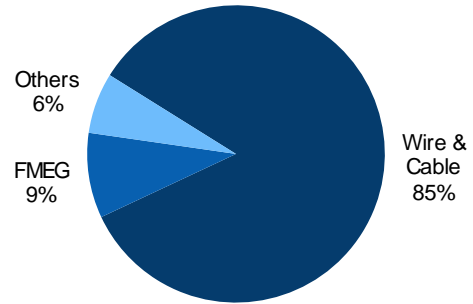
Financial story in charts

Exhibit 4: Segment wise revenue contribution in FY16



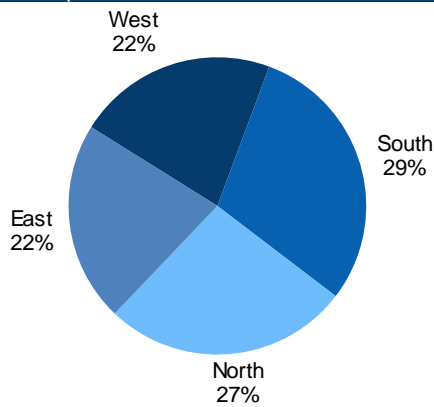
Source: Company, ICICI Direct Research

Exhibit 5: Segment wise revenue contribution in FY20



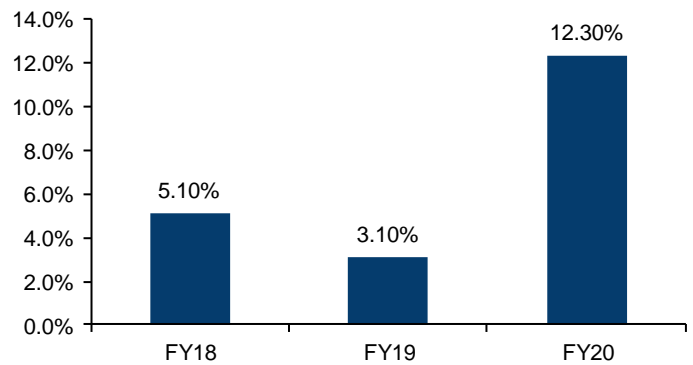
Source: Company, ICICI Direct Research

Exhibit 6: Well-spread distribution network



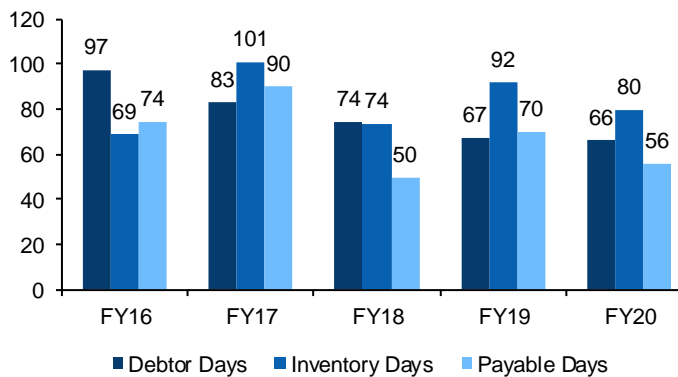
Source: Company, ICICI Direct Research

Exhibit 7: Export revenue contribution in topline



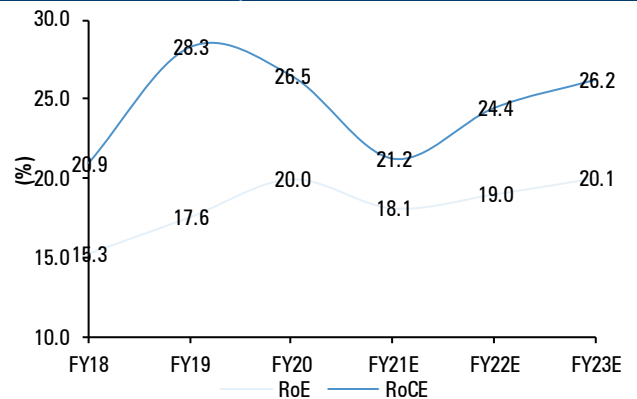
Source: Company, ICICI Direct Research

Exhibit 8: Working capital cycle



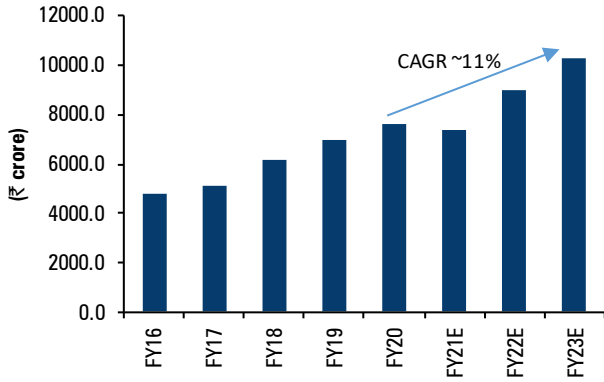
Source: Company, ICICI Direct Research

Exhibit 9: Return ratio profile



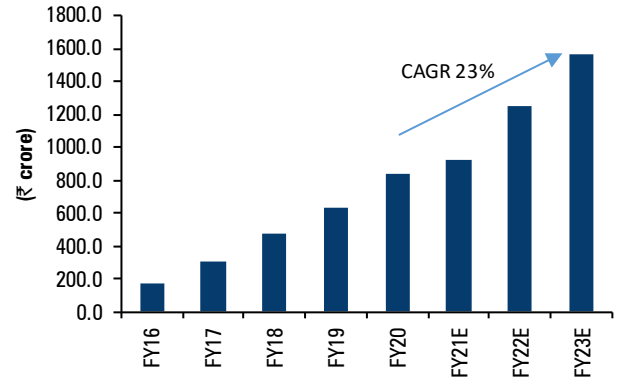
Source: Company, ICICI Direct Research

Exhibit 10: Wire & cable segment growth trend



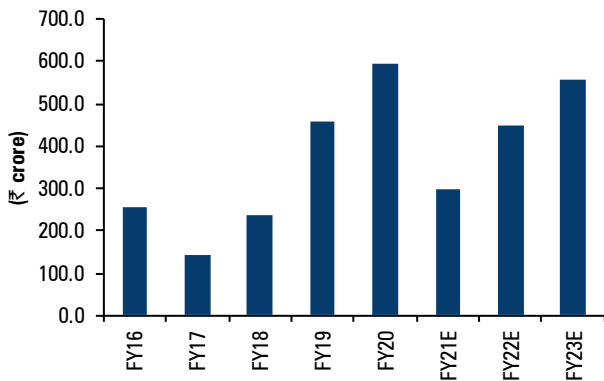
Source: Company, ICICI Direct Research

Exhibit 11: FMEG segment growth trend



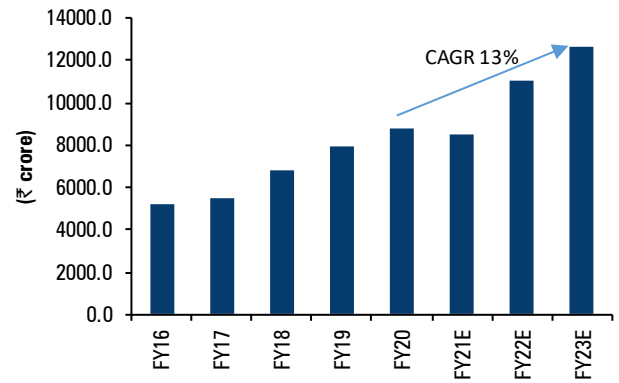
Source: Company, ICICI Direct Research

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



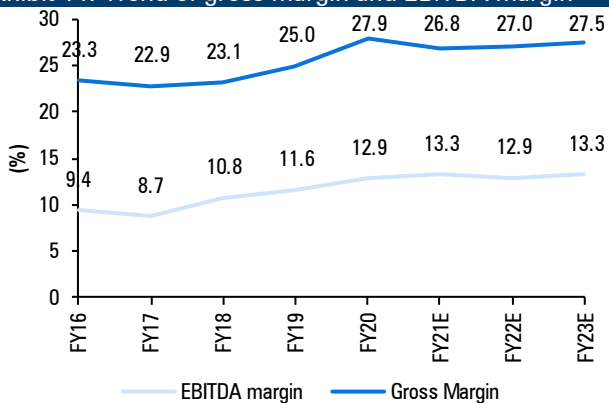
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated revenue growth trend



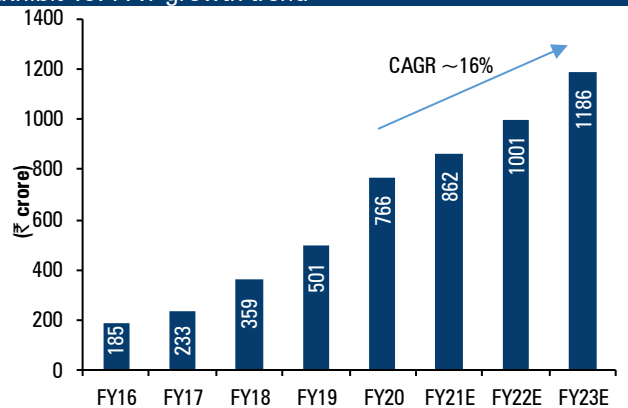
Source: Company, ICICI Direct Research

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

- A pick-up in private construction and infrastructure activity helped in the recovery in the wires & cable business. However, there was slower offtake from government led projects due to funding issues amid pandemic
- Lower export revenue (down 33%) on account of higher base of Dangote order (₹ 140 crore in Q3FY21 vs. ₹ 320 crore in Q3FY20). Excluding that, exports revenue increased 29% YoY supported by increased demand from Australia, Asia and the UK
- OFC business remained sluggish but special cable business reported good progress as the company received approval to supply cable for defence, railways and EVs
- The company expects market share gain from unorganised segment, going forward
- Revenue contribution ratio between wires & cable was at 40:60

### FMEG segment

- There was strong growth in the fan segment. The company gained leadership position in some geographies
- For H1FY21, revenue increased 5% YoY while EBIT margin was up ~200 bps YoY to 4.7%
- Launch of premium IoT based products under the brand name 'Hohm', which will be available in top 10 cities. All products would be manufactured in-house

### EPC segment

- There was sharp revenue decline of 47% YoY on account of higher base
- Annual sustainable operating margin in this business is expected to be in high single digits over the medium to long term

### Others

- B2C contribution in topline increased to 40% (from earlier 30%)
- Ryker plant will be largely utilised for in-house consumption and sales would largely be limited to left over capacity
- Sharp rise in input prices (copper, aluminium, steel and PVC prices increased 15%-50%). Calibrated price action taken by the company is expected to offset the price increase
- The company will pass on the entire price rise in future, helping maintain margin. However, increasing margin from FMEG segments would help drive overall EBITDA margin
- Project Udaan (cost saving measures) is progressing well. The company may have witnessed significant saving on the operating costs front in the near future. On an annualised basis, the company expects ~11-13% of EBITDA margin
- The company has a total dealer network of ~4000 (2000+ exclusive for FMEG) with ~151000 retail touch points. The focus is to increase the reach in semi urban and rural India where Polycab has a limited reach. Over the years, the company's exposure to metro cities has reduced from 60% to 45%
- Cash flow from operation increased to ₹ 1546 crore in 9MFY21 compared ₹ 543 crore in 9MFY20. The company's net cash position as on December 2020 increased to ₹ 1333 crore vs. ₹ 640 crore in December 2019

## Financial summary

Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>8,830.0</b>	<b>8,551.8</b>	<b>11,058.8</b>	<b>12,641.3</b>
Growth (%)	11.0	-3.2	29.3	14.3
Raw material expens	5,626.6	5,473.1	6,989.2	7,964.0
Employee expenses	365.7	352.3	420.2	493.0
Advertisement & Pror	108.7	94.1	132.7	151.7
warding expenses	189.7	188.1	232.2	265.5
Other expenses	662.2	521.7	774.1	884.9
Total Operating Exp	7,694.9	7,416.1	9,632.3	10,960.0
<b>EBITDA</b>	<b>1,135.0</b>	<b>1,135.7</b>	<b>1,426.6</b>	<b>1,681.3</b>
Growth (%)	22.9	0.1	25.6	17.9
Depreciation	160.9	179.6	201.3	230.1
Interest	49.5	45.9	38.6	32.6
Other Income	92.8	111.2	132.7	164.3
PBT	1,017.4	1,031.1	1,319.4	1,583.0
Total Tax	244.4	166.1	316.7	395.7
<b>PAT</b>	<b>765.6</b>	<b>862.0</b>	<b>1,001.0</b>	<b>1,186.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	765.6	862.0	1001.0	1186.2
Add: Depreciation	160.9	179.6	201.3	230.1
(Inc)/dec in Current Assets	-152.3	-844.9	-573.0	-414.6
Inc/(dec) in CL and Provisions	-608.8	37.6	417.8	340.4
Others	49.5	45.9	38.6	32.6
<b>CF from operating activities</b>	<b>214.9</b>	<b>280.2</b>	<b>1085.7</b>	<b>1374.6</b>
(Inc)/dec in Investments	-40.0	0.0	-320.0	-470.0
(Inc)/dec in Fixed Assets	-355.4	-180.0	-250.0	-350.0
Others	9.7	2.0	5.0	5.0
<b>CF from investing activities</b>	<b>-385.8</b>	<b>-178.0</b>	<b>-565.0</b>	<b>-815.0</b>
Issue/(Buy back) of Equity	7.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-39.7	120.0	-30.0	-50.0
Dividend paid & dividend tax	-104.5	-71.5	-446.6	-535.9
Others	265.8	38.9	-38.6	-32.6
<b>CF from financing activities</b>	<b>129.2</b>	<b>87.4</b>	<b>-515.2</b>	<b>-618.5</b>
Net Cash flow	-41.6	189.7	5.5	-58.9
Opening Cash	317.6	276.0	465.6	471.2
Closing Cash	276.0	465.6	471.2	412.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	148.9	148.9	148.9	148.9
Reserve and Surplus	3,682.1	4,557.5	5,111.9	5,762.1
Total Shareholders funds	3,831.0	4,706.4	5,260.7	5,911.0
Total Debt	152.3	272.3	242.3	192.3
Other non current liabilities	49.6	51.6	56.6	61.6
<b>Total Liabilities</b>	<b>4,032.9</b>	<b>5,030.3</b>	<b>5,559.6</b>	<b>6,164.9</b>
<b>Assets</b>				
Gross Block	2,093.1	2,273.1	2,523.1	2,873.1
Less: Acc Depreciation	671.2	850.8	1,052.1	1,282.1
Total Fixed Assets	1,663.1	1,663.5	1,712.3	1,832.2
Investments	40.0	40.0	360.0	830.0
Inventory	1,925.0	2,624.1	2,726.8	3,117.0
Debtors	1,599.7	1,757.2	2,120.9	2,078.0
Loans and Advances	29.8	28.8	37.3	42.6
Other CA	345.6	334.7	432.8	494.7
Cash	276.0	465.6	471.2	412.2
Total Current Assets	4,176.0	5,210.5	5,789.0	6,144.6
Creditors	1,353.7	1,405.8	1,666.4	1,904.9
Provisions	49.4	51.3	60.8	69.5
Other CL	520.2	503.8	651.5	744.7
Total Current Liabilities	1,923.3	1,960.9	2,378.7	2,719.1
Net current assets	2,252.7	3,249.6	3,410.3	3,425.6
Other non current assets	77.1	77.1	77.1	77.1
<b>Total Assets</b>	<b>4,032.9</b>	<b>5,030.3</b>	<b>5,559.6</b>	<b>6,164.9</b>

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	51.4	57.9	67.2	79.7
Cash EPS	62.2	70.0	80.8	95.1
BV	257.3	316.1	353.4	397.0
DPS	7.0	4.8	30.0	36.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.9	13.3	12.9	13.3
PAT Margin	8.7	10.0	9.1	9.4
Asset Turnover	4.2	3.8	4.4	4.4
Inventory Days	79.6	112.0	90.0	90.0
Debtor Days	66.1	75.0	70.0	60.0
Creditor Days	56.0	60.0	55.0	55.0
<b>Return Ratios (%)</b>				
RoE	20.0	18.1	19.0	20.1
RoCE	26.5	21.2	24.4	26.2
RoIC	24.7	20.2	24.1	27.0
<b>Valuation Ratios (x)</b>				
P/E	23.0	20.4	17.6	14.8
EV / EBITDA	15.4	15.3	11.9	9.8
EV / Net Sales	2.0	2.0	1.5	1.3
Market Cap / Sales	2.0	2.1	1.6	1.4
Price to Book Value	4.6	3.7	3.3	3.0
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	2.8	3.3	3.1	2.9
Quick Ratio	1.4	1.5	1.5	1.3

Source: Company, ICICI Direct Research

**Exhibit 19: ICICI Direct Coverage Universe (Consumer Discretionary)**

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,436	3,010	Hold	2,33,612	32.8	39.9	46.3	74.2	61.0	52.6	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,656	1,260	Hold	24,950	20.7	25.5	27.8	79.9	65.0	59.6	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6
Amber Enterprises (AMBEN)	2,560	2,830	Buy	8,050	23.7	75.1	90.0	107.9	34.1	28.4	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7
Bajaj Electricals (BAJELE)	730	585	Buy	8,299	11.8	17.1	23.0	NM	42.8	31.7	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	732	675	Hold	71,092	7.8	9.7	11.7	94.1	75.8	62.3	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	428	480	Buy	26,836	7.9	9.5	12.0	53.8	44.9	35.6	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	250	280	Hold	7,888	8.0	8.9	11.2	31.1	28.0	22.4	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4
Havells India (HAVIND)	1,116	1,255	Hold	69,627	16.1	17.8	22.9	69.4	62.7	48.7	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	575	605	Buy	30,988	10.3	12.0	14.0	56.0	47.7	41.1	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7
Pidilite Industries (PIDIND)	1,712	1,850	Buy	86,935	22.7	27.8	31.9	75.6	61.6	53.7	55.0	45.3	36.1	28.2	30.9	31.6	23.2	24.9	25.3
Polycab India (POLI)	1,182	1,385	Buy	17,597	57.9	67.2	79.7	20.4	17.6	14.8	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,780	2,010	Buy	22,611	62.2	50.0	58.0	28.6	35.6	30.7	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,032	1,090	Hold	7,220	13.1	29.8	40.0	78.5	34.7	25.8	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	51	43	Hold	1,153	7.5	4.0	9.1	6.8	12.8	5.6	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	226	210	Buy	9,679	3.7	5.3	6.2	61.3	42.5	36.4	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	913	845	Hold	30,196	12.3	22.6	29.8	74.2	40.4	30.7	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

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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