

July 22, 2021

Q1FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		BUY	
Target Price	1,977		1,927	
Sales (Rs. m)	1,15,980	1,33,948	1,16,148	1,34,117
% Chng.	(0.1)	(0.1)		
EBITDA (Rs. m)	14,339	17,728	14,901	17,801
% Chng.	(3.8)	(0.4)		
EPS (Rs.)	63.5	80.8	66.8	81.6
% Chng.	(4.9)	(0.9)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	88,300	89,265	1,15,980	1,33,948
EBITDA (Rs. m)	11,350	11,670	14,339	17,728
Margin (%)	12.9	13.1	12.4	13.2
PAT (Rs. m)	7,591	7,724	9,469	12,050
EPS (Rs.)	51.0	51.8	63.5	80.8
Gr. (%)	44.1	1.6	22.6	27.3
DPS (Rs.)	7.0	10.0	13.0	16.0
Yield (%)	0.4	0.5	0.7	0.8
RoE (%)	22.7	18.0	18.4	19.9
RoCE (%)	30.5	24.9	24.7	26.9
EV/Sales (x)	3.2	3.1	2.4	2.0
EV/EBITDA (x)	24.9	23.6	19.3	15.2
PE (x)	37.5	36.9	30.1	23.7
P/BV (x)	7.4	6.0	5.1	4.3

Key Data POLC.BO | POLYCAB IN

52-W High / Low	Rs.2,034 / Rs.795
Sensex / Nifty	52,837 / 15,824
Market Cap	Rs.285bn / \$ 3,830m
Shares Outstanding	149m
3M Avg. Daily Value	Rs.1239.3m

Shareholding Pattern (%)

Promoter's	68.40
Foreign	6.51
Domestic Institution	8.66
Public & Others	16.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.5)	49.5	132.2
Relative	(2.0)	40.4	66.7

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RM volatility impact margins; Hold

Quick Pointers:

- Insufficient price hike (high single digit against early teen RM inflation) impacted margins
- Maintain high single digit FMEG margin guidance in 2 years

We cut our FY22 / FY23 earnings by 4.9% / 1% and downgrade the stock to Hold given 1) margin pressures on account of volatile RM prices and 2) slow pace of recovery within institutional portfolio.

We remain structurally positive on longer terms prospects given 1) steady increase in B2C mix 2) pick up in renovation/ construction activities 3) sustained investments in brand building 4) gains from unorganized sector and 5) acquisition of Silvan Technologies and launch of IOT based ECD brand HOHM. We estimate Sales/ PAT CAGR of 22.5%/ 24.9% over FY21-23E. We value the stock on SOTP basis and arrive at a target price of Rs1,977 (derived PE of 22.8x Jun23 EPS; W&C/ FMEG valued at 24x/ 30x). However, given the sharp re-rating in the past 12 months' we expect returns to be back ended. Downgrade to Hold.

Sales grew by 92.6%, Adj PAT up by 3.1x: Revenue grew by 92.6% YoY to Rs18.8bn with W&C sales up by 99.9% while FMEG sales grew by 39.2%. Gross margins contracted by 390bps YoY to 23.4%. EBITDA grew by 142.4% YoY to Rs1.4bn while margins expanded by 150bps YoY to 7.4%. Other expenses/employee cost (as a % of sales) were down by 170bps/ 320bps YoY, while ad spends were up 10bps YoY. Adj PAT grew by 3.1x YoY to Rs740mn.

W&C/ FMEG sales up 99.9%/ 39.2%: Wires & Cables (W&C) Revenues/EBIT grew by 99.9%/ 4.3x YoY to Rs15.9bn/ Rs1bn; margins expanded by 350bps YoY to 6.6%. FMEG Revenues grew by 39.2% to Rs1.9bn; loss expanded YoY to Rs143mn vs Rs56mn while margins stood at -7.5% vs -4%. Others (EPC) Revenues grew by 19.5% YoY to Rs575mn. EBIT declined by 6.1% YoY to Rs65mn; margins contracted by 310bps to 11.3%. Copper Revenues grew by 6.1x YoY to Rs577mn. EBIT stood at Rs38mn with margins of 6.6% (vs -1.7%).

Concall Takeaways: 1) Institutional business grew 2x on a low base. However, still remains below pre-covid levels due to lower large projects. 2) Only high single digit price hikes against RM inflation of early teens led to W&C margin pressure 3) FMEG losses widened due to negative operating leverage, employee increments and higher A&P spends. Maintain high single digit margin guidance in 2 years. 4) Premium fans contribute high teens of overall fans sales. Looking to augment capacity in Roorkee facility while adding new capacity in Halol 5) Inventory levels remain on higher side due to softening fo RM prices in June impacting primary sales and build up in anticipation of good demand environment. 6) Receivables look lower due to low sales coupled with continued collections. Not sustainable at these levels. 7) Channel financing coverage – W&C 65-70%/ FMEG 25-30%

Exhibit 1: Q1FY22 Result Overview (Rs mn): Sales grew by 92.6% YoY; Adj PAT grew by 209.1% YoY

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	18,805	9,766	92.6	30,374	89,265	88,300	1.1
Operating & Manufacturing Expenses	14,399	7,097	102.9	22,644	66,065	63,686	3.7
<i>% of Net Sales</i>	<i>76.6</i>	<i>72.7</i>		<i>74.5</i>	<i>74.0</i>	<i>72.1</i>	
Gross Profit	4,406	2,669	65.1	7,731	23,200	24,613	-5.7
<i>% of Net Sales</i>	<i>23.4</i>	<i>27.3</i>		<i>25.5</i>	<i>26.0</i>	<i>27.9</i>	
Personnel Cost	959	812	18.0	997	3,604	3,657	-1.5
<i>% of Net Sales</i>	<i>5.1</i>	<i>8.3</i>		<i>3.3</i>	<i>4.0</i>	<i>4.1</i>	
Other Expenses	2,054	1,282	60.3	2,521	7,926	9,606	-17.5
<i>% of Net Sales</i>	<i>10.9</i>	<i>13.1</i>		<i>8.3</i>	<i>8.9</i>	<i>10.9</i>	
Total Expenditure	17,412	9,191	89.4	26,162	77,595	76,949	0.8
EBITDA	1,393	575	142.4	4,213	11,670	11,350	2.8
<i>Margin (%)</i>	<i>7.4</i>	<i>5.9</i>		<i>13.9</i>	<i>13.1</i>	<i>12.9</i>	
Other income	253	336	-24.8	274	1,282	928	38.2
Depreciation	521	443	17.8	489	1,866	1,609	16.0
EBIT	1,125	468	140.2	3,997	11,086	10,669	3.9
Interest	122	163	-25.4	166	531	495	7.3
PBT before exceptional item	1,003	305	228.6	3,831	10,555	10,174	3.7
Total Taxes	229	55	318.3	1,006	2,630	2,444	7.6
<i>ETR (%)</i>	<i>22.9</i>	<i>18.0</i>		<i>26.3</i>	<i>24.9</i>	<i>24.0</i>	
PBT before JV/Associates/Minority share	774	251	209.0	2,825	7,925	7,730	2.5
Share of JV/Associates	-21	-12		7	-2	-74	
Non-controlling Interest	13	0		17	38	66	
Adj. PAT	740	239	209.1	2,814	7,884	7,591	3.9
Exceptional Item	0	937		0	937	0	
PAT	740	1,176	-37.1	2,814	8,821	7,591	16.2

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): W&C/FMEG revenues grew by 99.9%/ 39.2% YoY; FMEG margins contract

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Revenues							
Wires & Cables	15,862	7,935	99.9	24,876	72,921	75,192	-3.0
FMEG	1,919	1,378	39.2	3,468	10,341	8,356	23.8
Copper	577	95	506.9	1,420	4,332	0	NA
Others	575	481	19.5	768	2,444	5,230	-53.3
Total	18,933	9,889	91.4	30,532	90,038	88,778	1.4
EBIT							
Wires & Cables	1,040	243	327.3	3,324	9,164	9,255	-1.0
<i>EBIT margin (%)</i>	<i>6.6</i>	<i>3.1</i>		<i>13.4</i>	<i>12.6</i>	<i>12.3</i>	
FMEG	(143)	(56)	NA	244	566	168	236.3
<i>EBIT margin (%)</i>	<i>-7.5</i>	<i>-4.0</i>		<i>7.0</i>	<i>5.5</i>	<i>2.0</i>	
Copper	38	-2	NA	168	455	0	NA
<i>EBIT margin (%)</i>	<i>6.6</i>	<i>-1.7</i>		<i>11.8</i>	<i>10.5</i>	<i>NA</i>	
Others	65	69	NA	145	393	797	-50.8
<i>EBIT margin (%)</i>	<i>11.3</i>	<i>14.4</i>		<i>18.9</i>	<i>16.1</i>	<i>15.2</i>	
Total EBIT	1,000	255	291.3	3,881	10,577	10,220	3.5
<i>EBIT margin (%)</i>	<i>5.3</i>	<i>2.6</i>		<i>12.7</i>	<i>11.7</i>	<i>11.5</i>	

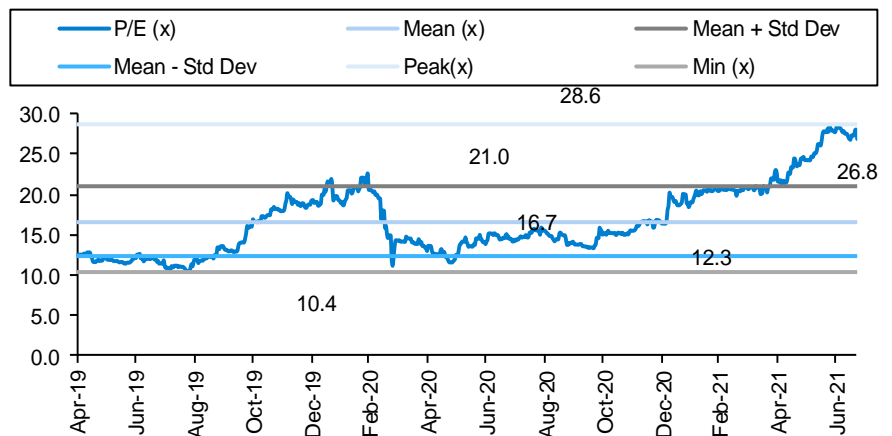
Source: Company, PL

Exhibit 3: SOTP: Implied PE of 22.8x Jun23 earnings

Jun23	Basis	Multiple	EPS	Value (Rs)	Value %
Wires & Cables	P/E	24	71.4	1715	87%
FMEG	P/E	30	6.9	207	10%
Copper	P/E	10	3.6	36	2%
Others (EPC)	P/E	10	1.9	19	1%
Target Price				1977	100%
Implied P/E		22.8			

Source: PL

Exhibit 4: Polycab is trading at 6% discount to its peak 1yr forward multiple



Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	88,300	89,265	1,15,980	1,33,948
YoY gr. (%)	10.6	1.1	29.9	15.5
Cost of Goods Sold	63,686	66,065	86,077	97,752
Gross Profit	24,613	23,200	29,902	36,196
Margin (%)	27.9	26.0	25.8	27.0
Employee Cost	3,657	3,604	4,291	5,090
Other Expenses	4,183	3,422	5,009	5,810
EBITDA	11,350	11,670	14,339	17,728
YoY gr. (%)	19.1	2.8	22.9	23.6
Margin (%)	12.9	13.1	12.4	13.2
Depreciation and Amortization	1,609	1,866	2,164	2,328
EBIT	9,741	9,804	12,175	15,400
Margin (%)	11.0	11.0	10.5	11.5
Net Interest	495	531	462	520
Other Income	928	1,282	1,019	1,307
Profit Before Tax	10,174	10,555	12,732	16,187
Margin (%)	11.5	11.8	11.0	12.1
Total Tax	2,444	2,791	3,209	4,079
Effective tax rate (%)	24.0	26.4	25.2	25.2
Profit after tax	7,730	7,764	9,524	12,108
Minority interest	66	38	50	52
Share Profit from Associate	(74)	(2)	(5)	(6)
Adjusted PAT	7,591	7,724	9,469	12,050
YoY gr. (%)	51.9	1.8	22.6	27.3
Margin (%)	8.6	8.7	8.2	9.0
Extra Ord. Income / (Exp)	-	1,097	-	-
Reported PAT	7,591	8,821	9,469	12,050
YoY gr. (%)	51.9	16.2	7.3	27.3
Margin (%)	8.6	9.9	8.2	9.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,591	8,821	9,469	12,050
Equity Shares O/s (m)	149	149	149	149
EPS (Rs)	51.0	51.8	63.5	80.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	24,642	30,944	33,532	36,652
Tangibles	24,472	30,712	33,270	36,359
Intangibles	170	233	263	293
Acc: Dep / Amortization	10,422	12,271	14,264	16,444
Tangibles	10,269	12,109	14,082	16,240
Intangibles	153	162	181	204
Net fixed assets	14,220	18,673	19,269	20,208
Tangibles	14,203	18,602	19,187	20,119
Intangibles	17	71	81	89
Capital Work In Progress	2,412	991	1,500	1,500
Goodwill	-	23	23	23
Non-Current Investments	1,983	2,017	2,033	1,894
Net Deferred tax assets	(165)	(418)	(545)	(707)
Other Non-Current Assets	492	717	826	834
Current Assets				
Investments	400	6,231	6,331	10,331
Inventories	19,250	19,879	25,420	28,992
Trade receivables	14,336	14,358	19,065	21,285
Cash & Bank Balance	2,813	5,313	3,941	5,961
Other Current Assets	2,014	1,563	1,740	2,009
Total Assets	59,616	70,147	80,903	93,883
Equity				
Equity Share Capital	1,489	1,491	1,491	1,491
Other Equity	36,875	46,048	54,025	64,137
Total Network	38,364	47,539	55,516	65,628
Non-Current Liabilities				
Long Term borrowings	107	1,037	617	197
Provisions	256	251	232	241
Other non current liabilities	171	341	341	341
Current Liabilities				
ST Debt / Current of LT Debt	1,115	890	1,160	1,206
Trade payables	13,537	13,480	16,744	19,015
Other current liabilities	5,440	5,776	5,220	5,924
Total Equity & Liabilities	59,616	70,147	80,903	93,883

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	10,100	10,552	12,727	16,182
Add. Depreciation	1,609	1,866	2,164	2,328
Add. Interest	495	531	462	520
Less Financial Other Income	928	1,282	1,019	1,307
Add. Other	(524)	(616)	(744)	(829)
Op. profit before WC changes	11,680	12,333	14,610	18,201
Net Changes-WC	(6,224)	2,458	(8,078)	(3,008)
Direct tax	(3,012)	(2,409)	(3,209)	(4,079)
Net cash from Op. activities	2,443	12,382	3,323	11,114
Capital expenditures	(2,891)	(1,911)	(3,269)	(3,267)
Interest / Dividend Income	243	181	777	1,007
Others	25	(8,391)	(600)	(5,000)
Net Cash from Inv. activities	(2,622)	(10,121)	(3,092)	(7,261)
Issue of share cap. / premium	3,661	84	-	-
Debt changes	(1,325)	(1,227)	(150)	(374)
Dividend paid	(1,793)	-	(1,491)	(1,939)
Interest paid	(433)	(463)	(462)	(520)
Others	-	-	-	-
Net cash from Fin. activities	110	(1,606)	(2,103)	(2,833)
Net change in cash	(69)	656	(1,872)	1,020
Free Cash Flow	(447)	10,471	54	7,847

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	51.0	51.8	63.5	80.8
CEPS	61.8	64.3	78.0	96.4
BVPS	257.7	318.8	372.3	440.1
FCF	(3.0)	70.2	0.4	52.6
DPS	7.0	10.0	13.0	16.0
Return Ratio(%)				
RoCE	30.5	24.9	24.7	26.9
ROIC	23.3	21.9	21.1	25.1
RoE	22.7	18.0	18.4	19.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	83	85	87	85
Valuation(x)				
PER	37.5	36.9	30.1	23.7
P/B	7.4	6.0	5.1	4.3
P/CEPS	30.9	29.7	24.5	19.8
EV/EBITDA	24.9	23.6	19.3	15.2
EV/Sales	3.2	3.1	2.4	2.0
Dividend Yield (%)	0.4	0.5	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	21,137	27,988	30,374	18,805
YoY gr. (%)	(5.7)	11.6	42.6	92.6
Raw Material Expenses	15,128	21,196	22,644	14,399
Gross Profit	6,009	6,792	7,731	4,406
Margin (%)	28.4	24.3	25.5	23.4
EBITDA	3,125	3,758	4,213	1,393
YoY gr. (%)	15.0	10.8	40.1	142.4
Margin (%)	14.8	13.4	13.9	7.4
Depreciation / Depletion	456	478	489	521
EBIT	2,669	3,280	3,724	872
Margin (%)	12.6	11.7	12.3	4.6
Net Interest	114	88	166	122
Other Income	327	345	274	253
Profit before Tax	2,882	3,536	3,831	1,003
Margin (%)	13.6	12.6	12.6	5.3
Total Tax	664	905	1,006	229
Effective tax rate (%)	23.0	25.6	26.3	22.9
Profit after Tax	2,218	2,631	2,825	774
Minority interest	10	11	17	13
Share Profit from Associates	(3)	5	7	(21)
Adjusted PAT	2,205	2,625	2,814	740
YoY gr. (%)	15.0	20.0	31.6	209.1
Margin (%)	10.4	9.4	9.3	3.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,205	2,625	2,814	740
YoY gr. (%)	15.0	20.0	31.6	(37.1)
Margin (%)	10.4	9.4	9.3	3.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,205	2,625	2,814	740
Avg. Shares O/s (m)	149	149	149	149
EPS (Rs)	14.8	17.6	18.9	5.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	BUY	1,927	1,980
2	07-Jun-21	BUY	1,927	1,743
3	06-Apr-21	BUY	1,480	1,376
4	25-Jan-21	BUY	1,359	1,211
5	08-Jan-21	BUY	1,247	1,278
6	04-Jan-21	BUY	1,247	1,034

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	Hold	1,670	1,769
2	KEI Industries	BUY	825	721
3	Polycab India	BUY	1,927	1,980
4	SpiceJet	Hold	85	79
5	SpiceJet	Hold	85	79

PL's Recommendation Nomenclature (Absolute Performance)

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

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