

Strong revenue growth; high 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)

Q3FY22 Results: Strong show on the revenue front but delay in price hikes drags the EBITDA margin.

- Strong revenue growth of 23% YoY to ₹ 3372 crore led by 25% growth in wire & cable segment. FMEG revenue growth of 11% came on a strong base
- EBITDA margin declined ~200 bps YoY to 10.7% due to delay in price hikes and higher other expenses. Sequentially, margin improved 100 bps
- PAT from continued operation at ₹ 248.4 crore was up 1.4% YoY

What should investors do? Polycab's share price has grown by ~2.5x over the past two years (from ~₹ 1019 in January 2020 to ~₹ 2510 levels in January 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We revise our target price to ₹ 3000/share valuing stock at 35x 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 the 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 ~17%, ~13%, respectively, in FY21-24E

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 ₹ 1515



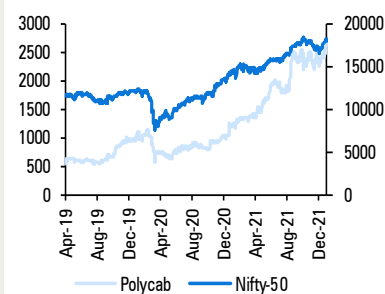
Particulars

Particular	Amount
Market Cap (₹ Crore)	37,428.9
Total Debt (FY21) (₹ Crore)	215.3
Cash & Inv (FY21) (₹ Crore)	520.9
EV (₹ Crore)	37,123.2
52 week H/L	2771/ 1146
Equity capital (₹ Crore)	148.9
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	68.4	68.4	68.4	68.4	68.2
FII	7.0	6.4	6.5	6.9	6.4
DII	10.3	9.9	8.8	8.8	8.7
Others	14.3	15.3	16.3	15.9	16.8

Price Chart



Recent event & key risks

- Key Risk:** (i) Delay in revival of wire 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	8792.2	11%	11069.3	12489.1	14011.4	16.8%
EBITDA	923.2	1135.0	1111.1	19%	1119.1	1504.9	1814.5	17.8%
EBITDA Margin(%)	11.6	12.9	12.6		10.1	12.1	13.0	
Net Profit	500.5	765.6	885.9	37%	820.4	1031.3	1266.4	12.7%
EPS (₹)	35.4	51.4	59.4		55.0	69.2	84.9	
P/E(x)	70.8	48.8	42.2		45.6	36.3	29.6	
RoE (%)	17.6	20.0	17.9		14.5	17.0	18.0	
RoCE (%)	28.3	26.4	20.8		18.3	22.2	23.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Strong revenue growth amid challenging environment

- Polycab reported strong revenue growth of 23% YoY led by wire & cable business. The wire & cable business revenue increased 25% YoY supported by 5-6% YoY volume growth. The company witnessed strong demand for cables in Q3 from the project business but demand for wires was muted due to lower volume offtake by dealers amid fear of lockdown. The FMEG business revenue increased, albeit at a slower pace of 11% mainly due to higher base of last year
- EBITDA margin declined 200 bps YoY to 10.7% due to higher raw material costs and other expenditure. EBIT margin of wire & cable came in at 10.3% in Q3, while FMEG EBIT margin was weak at 1.8% (vs. 5.9% in Q3FY21, 5% in Q2FY22) due to delay in price hikes and higher advertisement expense
- The company has divested 100% stake in Ryker Base Pvt Ltd (Copper business) for the consideration of ~ ₹ 178 crore. Excluding the one-time gains from sales of business, the PAT came in at ₹ 248.1 crore, up 1.4% YoY

Q3FY22 Earnings Conference Call highlights

- Demand Outlook:**
In Q3, the B2B business of wire & cable witnessed a strong performance due to improved private capex. According to the management, the strong performance is likely to continue in Q4 as well supported by improved capex from government. The B2C portfolio will see improved traction in the coming future from revival in the real estate and addition of new dealers across India. The company maintained its long term revenue growth guidance of 18% in FY21-26E (₹ 20,000 crore revenues by FY26)
- Margins:**
The company sees sequential improvement in EBITDA margin supported by price hikes and improved product mix
- Distribution:** It has around 4,100 pan India dealers 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	77,488	10428	13086	15406	18254	15	13	13	14	1040	1157	1392	1781	25	25	29	36	20	21	24	29	75	67	56	43
Crompton Greaves	26,326	4804	5338	6413	7319	15	14	15	14	617	569	727	822	34	36	42	42	32	28	33	32	43	46	36	32
Bajaj Electrical	13,723	4585	5050	5721	6338	7	7	9	9	189	237	377	438	15	19	25	24	11	15	20	19	73	58	36	31
Polycab	37,429	8792	11069	12489	14011	13	10	12	13	886	820	1031	1266	21	18	22	23	18	14	17	18	42	46	36	30
Symphony	7,283	900	1132	1415	1696	15	17	20	20	107	142	231	280	15	21	30	31	15	20	28	28	68	51	31	26
V guard	9,465	2721	3203	3792	4214	11	10	11	11	202	213	294	333	24	23	28	28	17	18	22	22	47	44	32	28
Voltas	39,423	7556	8459	9666	10963	8	9	10	10	529	656	833	1100	15	19	21	22	11	14	15	17	75	60	47	36

Source: BSE, ICICI Direct Research

Q3 has been the second consecutive quarter of strong topline growth for Polycab (up 42% YoY in Q2) led by recovery in private capex, new launches and dealer additions. We like Polycab for its strong brand & leadership position in the wire & cable business and aggressive plans to expand its FMEG product portfolio. The company has recruited senior personnel from industry to drive its FMEG business. On the wire& cable front, we believe Polycab will be one of the key beneficiaries of a revival in government capex on infra projects. The company has maintained its FY26E revenue guidance of ₹ 20,000 crore (implied revenue CAGR of 18%). Polycab has a robust balance sheet with RoE and RoCE of 19% & 22%, respectively, and net cash balance of ~₹ 674 crore (December 2021). We believe strong future growth and robust balance sheet position of Polycab will narrow down the valuation gap with peers like Havells. We value Polycab at 35x P/E FY24E EPS (~35% discount to Havells) and maintain our BUY rating on stock.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	3372.0	2746.3	22.8	3006.6	12.2	Strong growth in the wire & cable drives overall revenues for company
Other Income	21.6	32.5	-33.4	27.5	-21	
Raw Material Exp	2609.5	2088.0	25.0	2347.4	11.2	Delay in price hikes in the wire segment led to a decline in gross margin by 136 bps YoY
Employee cost	102.5	88.1	16.4	105.2	-2.5	
Adevertisement Exp	43.6	37.2	17.1	14.2	206.9	
Freight and forwarding Exp	85.9	52.0	65.1	69.0	24.5	
Other Expenditure	168.8	131.1	28.7	177.9	-5.1	
Total Expenditure	3010.3	2396.4	25.6	2713.6	10.9	
EBITDA	361.7	349.9	3.4	293.0	23.5	
EBITDA Margin (%)	10.7	12.7	-201 bps	9.7	98 bps	Lower gross margins and higher freight costs led to ~200 bps decline in EBITDA margin
Depreciation	51.1	45.0	13.7	50.9	0.5	
Interest	7.8	6.5	19.6	5.1	53.5	
PBT	324.4	330.9	-2.0	264.5	22.7	
Total Tax	76.3	86.4	-11.7	66.4	15.0	
(Profit)/loss from discon. Op	(67.8)	(18.6)	NM	(2.7)	NM	Profit from sale of Ryker Base Pvt Ltd (wholly owned subsidiary) for the consideration of ~ ₹ 178 crore during Q3
PAT	316.2	263.6	19.9	200.5	57.7	Profit from continued operation increased by 1.4% YoY to ₹ 248.4 crore
Key Metrics*						
Wires & Cables	2,998.8	2,407.3	24.6	2,628.1	14.1	Strong demand for cables (led by project business) and price hikes helped drive overall revenues during Q3
FMEG	340.4	305.5	11.4	342.9	-0.8	Strong demand for lights, pumps & conduit pipes led to strong growth in FMEG even on a higher base
Others	98.9	79.5	24.5	95.0	4.1	Pick-up in infra activities helped drive segment revenue

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	10,998.7	11,069.3	0.6	12,848.9	12,489.1	(2.8)	14,690.9	14,011.4	(4.6)	We marginally cut our revenue estimate for FY23E-24E considering sales of Ryker
EBITDA	1,165.9	1119.1	(4.0)	1,644.7	1504.9	(8.5)	1,939.2	1,814.5	(6.4)	
EBITDA Margin (%)	10.6	10.1	-49bps	12.8	12.1	-75bps	13.2	13.0	-25bps	We revise our margin estimate downside 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	783.7	820.4	4.7	1139.2	1031.3	(9.5)	1,349.3	1,266.4	(6.1)	
EPS (₹)	52.6	55.0	4.7	76.4	69.2	(9.5)	90.4	84.9	(6.1)	

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current (%)						Previous			Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22 E	FY23 E	FY24 E	
Wire & Cable	14.0	8.6	0.0	28.0	11.0	13.5	20.0	15.0	12.5	We believe 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	17.0	25.0	27.5	21.0	30.0	27.0	Low base coupled, new product launches and addition of new dealers would help drive growth in the FMEG segment
Others	92.5	29.8	(49.7)	23.0	21.0	12.5	23.0	21.0	12.0	Pick-up in infra activities would help in recovery in 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	8,792.2	11,069.3	12,489.1	14,011.4
Growth (%)	11.0	-0.4	25.9	12.8	12.2
Raw material expens	5,626.6	5,770.7	7,682.1	8,342.7	9,303.6
Employee expenses	365.7	353.7	398.5	449.6	448.4
Advertisement & Pror	108.7	68.3	87.4	106.2	119.1
warding expenses	189.7	195.7	287.8	374.7	294.2
Other expenses	662.2	546.3	664.2	811.8	910.7
Total Operating Exp	7,694.9	7,681.1	9,950.2	10,984.1	12,196.9
EBITDA	1,135.0	1,111.1	1,119.1	1,504.9	1,814.5
Growth (%)	22.9	-2.1	0.7	34.5	20.6
Depreciation	160.9	176.2	200.4	222.3	243.8
Interest	49.5	42.7	32.2	20.3	19.5
Other Income	92.8	119.3	99.6	112.4	126.1
PBT	1,017.4	1,011.6	986.2	1,374.7	1,677.2
Total Tax	244.4	170.3	236.7	343.7	410.9
PAT	765.6	885.9	820.4	1,031.3	1,266.4

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	820.4	1031.3	1266.4
Add: Depreciation	160.9	176.2	200.4	222.3	243.8
(Inc)/dec in Current Assets	-152.3	149.9	-945.6	-678.7	-655.1
Inc/(dec) in CL and Provisions	-608.8	27.5	386.3	262.3	316.8
Others	49.5	42.7	32.2	20.3	19.5
CF from operating activities	214.9	1282.1	493.5	857.4	1191.5
(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	137.7	-133.2	-20.3	-19.5
CF from financing activities	134.6	51.9	-342.1	-338.7	-297.9
Net Cash flow	-36.2	239.5	-213.6	53.7	428.6
Opening Cash	317.6	281.4	520.9	307.3	361.1
Closing Cash	281.4	520.9	307.3	361.1	789.6

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	5,145.3	5,908.1	6,906.2
Total Shareholders funds	3,836.4	4,753.9	5,294.4	6,057.2	7,055.3
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	5,579.4	6,297.3	7,290.3
Assets					
Gross Block	2,093.1	2,725.1	3,075.1	3,525.1	3,975.1
Less: Acc Depreciation	671.2	847.4	1,047.7	1,270.0	1,513.8
Total Fixed Assets	1,663.1	1,976.8	2,126.5	2,354.1	2,560.3
Investments	40.0	623.1	643.1	663.1	683.1
Inventory	1,925.0	1,987.9	2,486.8	2,771.5	3,109.4
Debtors	1,599.7	1,564.1	1,939.6	2,224.1	2,495.2
Loans and Advances	29.8	20.8	25.8	29.1	32.7
Other CA	345.6	177.2	243.5	349.7	392.3
Cash	281.4	520.9	307.3	361.1	789.6
Total Current Assets	4,181.4	4,271.0	5,003.1	5,735.5	6,819.2
Creditors	1,353.7	1,348.0	1,668.0	1,881.9	2,111.3
Provisions	49.4	48.7	60.2	67.9	76.2
Other CL	520.2	554.1	608.8	649.4	728.6
Total Current Liabilities	1,923.3	1,950.8	2,337.0	2,599.3	2,916.1
Net current assets	2,258.1	2,320.3	2,666.1	3,136.2	3,903.1
Other non current assets	77.1	143.8	143.8	143.8	143.8
Total Assets	4,038.3	5,064.0	5,579.4	6,297.3	7,290.3

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	55.0	69.2	84.9
Cash EPS	62.2	71.2	68.5	84.1	101.3
BV	257.7	318.8	355.0	406.2	473.1
DPS	7.0	10.0	12.0	18.0	18.0
Operating Ratios (%)					
EBITDA Margin	12.9	12.6	10.1	12.1	13.0
PAT Margin	8.7	9.7	6.9	8.3	9.0
Asset Turnover	4.2	3.2	3.6	3.5	3.5
Inventory Days	79.6	82.5	82.0	81.0	81.0
Debtor Days	66.1	64.9	64.0	65.0	65.0
Creditor Days	56.0	56.0	55.0	55.0	55.0
Return Ratios (%)					
RoE	20.0	17.9	14.5	17.0	18.0
RoCE	26.4	20.8	18.3	22.2	23.3
RoIC	24.7	22.0	18.4	22.5	24.9
Valuation Ratios (x)					
P/E	48.8	42.2	45.6	36.3	29.6
EV / EBITDA	32.8	32.8	32.8	24.3	19.9
EV / Net Sales	4.2	4.2	3.3	2.9	2.6
Market Cap / Sales	4.2	4.3	3.4	3.0	2.7
Price to Book Value	9.7	7.9	7.1	6.2	5.3
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)	3,274	3,870	Buy	3,13,977	33.4	32.4	46.5	58.2	97.9	101.2	70.4	56.2	63.7	65.7	47.3	37.9	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	744	845	Hold	72,257	7.4	7.7	10.1	12.9	100.4	97.0	73.7	57.6	60.6	59.5	47.0	37.4	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6
Kansai Nerolac (KANNER)	576	630	Hold	31,042	10.2	9.0	13.3	15.6	56.2	63.8	43.5	36.9	36.3	40.7	28.7	24.4	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9
Pidilite Industries (PIDIND)	2,700	2,640	Hold	1,37,106	22.2	23.3	29.1	35.2	121.7	115.8	92.7	76.7	81.3	76.1	62.7	52.4	23.8	21.6	26.1	30.5	20.2	18.3	21.9	25.5
Bajaj Electricals (BAJELE)	1,198	1,280	Buy	13,723	16.5	20.7	32.9	38.3	72.6	57.8	36.4	31.3	46.1	38.4	26.2	23.2	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1
Crompton Greaves(CROGR)	420	525	Buy	26,326	9.8	9.1	11.6	13.1	42.7	46.3	36.2	32.0	35.0	34.4	27.5	24.2	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3
Havells India (HAVIND)	1,242	1,515	Buy	77,488	16.7	18.5	22.3	28.6	74.5	67.0	55.7	43.5	48.7	45.2	37.8	29.9	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,510	3,000	Buy	37,429	59.4	55.0	69.2	84.9	42.2	45.6	36.3	29.6	32.8	32.8	24.3	19.9	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	1,041	1,160	Hold	7,283	15.3	20.3	33.1	40.0	68.1	51.2	31.5	26.0	51.1	38.1	24.6	20.1	15.2	21.5	29.5	31.0	14.9	19.5	27.7	28.3
V-Guard Ind (VGUARD)	221	310	Buy	9,465	4.7	5.0	6.9	7.8	46.9	44.5	32.2	28.4	29.5	29.5	22.9	20.1	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8
Voltas Ltd (VOLTAS)	1,192	1,375	Hold	39,423	16.0	19.8	25.2	33.3	74.6	60.1	47.3	35.8	60.8	52.7	41.9	34.1	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBER)	3,433	3,900	Buy	11,567	24.7	44.0	82.2	106.9	138.9	78.0	41.7	32.1	52.3	40.0	23.7	18.6	7.7	10.8	17.0	19.4	5.2	8.9	14.3	15.8
Dixon Technologies (DIXTE)	4,979	5,990	Buy	29,152	27.3	45.8	84.8	116.4	182.6	108.7	58.7	42.8	101.7	63.7	38.1	28.4	23.5	31.2	40.1	39.1	21.7	31.0	39.5	37.2
Supreme Indus (SUPIND)	2,237	2,740	Buy	28,416	77.0	67.6	80.7	91.1	29.1	33.1	27.7	24.6	21.5	24.0	19.8	17.5	33.1	25.7	27.3	27.6	30.9	24.4	25.1	25.0
Astral Polytechnik (ASTPOL)	2,377	2,375	Hold	47,750	20.3	23.3	30.6	38.3	117.0	102.1	77.6	62.0	73.4	65.1	50.6	41.1	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3

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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