

January 21, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	2,387		2,342	
Sales (Rs. m)	134,721	154,617	140,939	161,389
% Chng.	(4.4)	(4.2)		
EBITDA (Rs. m)	16,629	19,852	17,677	20,908
% Chng.	(5.9)	(5.1)		
EPS (Rs.)	75.2	90.8	79.2	95.1
% Chng.	(5.1)	(4.5)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	87,922	118,558	134,721	154,617
EBITDA (Rs. m)	11,111	11,989	16,629	19,852
Margin (%)	12.6	10.1	12.3	12.8
PAT (Rs. m)	7,380	7,865	11,212	13,535
EPS (Rs.)	49.5	52.7	75.2	90.8
Gr. (%)	(2.9)	6.6	42.6	20.7
DPS (Rs.)	10.0	11.0	14.5	18.5
Yield (%)	0.4	0.4	0.6	0.7
RoE (%)	17.2	15.4	18.9	19.4
RoCE (%)	23.7	20.7	25.8	26.4
EV/Sales (x)	4.1	3.1	2.7	2.3
EV/EBITDA (x)	32.8	30.6	21.7	17.9
PE (x)	50.7	47.6	33.4	27.7
P/BV (x)	7.9	6.9	5.8	5.0

Key Data

POLC.BO | POLYCAB IN

52-W High / Low	Rs.2,772 / Rs.1,126
Sensex / Nifty	59,037 / 17,617
Market Cap	Rs.375bn/ \$ 5,040m
Shares Outstanding	149m
3M Avg. Daily Value	Rs.1215.1m

Shareholding Pattern (%)

Promoter's	68.15
Foreign	6.43
Domestic Institution	8.65
Public & Others	16.77
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.8	26.1	96.0
Relative	3.8	11.5	64.8

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Sustained investments to drive long term growth

Quick Pointers:

- Cables grew faster than wires; Institutional sales up 150% in 3Q.
- FMEG margin guidance maintained at 10-12% by FY26

We cut our FY22/FY23/FY24 earnings by 4.1%/ 5.1%/ 4.5% largely on account of 1) inflationary input cost environment led margin pressure and 2) impact of Ryker (Copper segment) divestment. Polycab remains optimistic on the demand scenario further buoyed by strong bounce back in the institutional segment and expects to exit FY22 with margins at 11%. Although FMEG margins were a disappointment as Polycab continues to restructure the vertical (management structure, GTM, product portfolio) under Project Leap, the management remains confident of attaining double digit margins by FY26.

We continue to remain structurally positive on longer term prospects given 1) sustained increase in B2C mix with focus on premiumization 2) pick up in infrastructure/ renovation/ construction activities and 3) implementation of Project Leap (Targeting Rs200bn revenue; margin improvement; GTM expansion by FY26). We estimate Sales/ PAT CAGR of 20.7%/ 22.4% over FY21-24E. We value the stock on SOTP basis and arrive at a target price of Rs2,387 (derived PE of 26.3x FY24 EPS; W&C/ FMEG valued at 26x/ 30x). However, given the sharp re-rating in the past 12 months' we expect returns to be back ended. Maintain Hold.

Sales grew by 22.8%, PAT up by 1.2%: Revenue grew by 22.8% YoY to Rs33.7bn with W&C/ FMEG sales up by 23.5%/ 11.4% YoY. Gross margins contracted by 140bps YoY to 22.6%. EBITDA grew by 3.4% YoY to Rs3.6bn while margins contracted by 200bps YoY to 10.7%. Employee cost /A&P spends (as a % of sales) were down by 20bps/ 10bps while opex/ freight were up 20bps/70bpsYoY. PAT from continuing operations grew by 1.2% YoY to Rs2.5bn.

W&C/ FMEG sales up 23.5%/ 11.4%: Wires & Cables (W&C) Revenues/ EBIT grew by 23.5%/ 1.1% YoY to Rs29.7bn/ Rs3bn; margins declined by 230bps YoY to 10.3%. FMEG Revenues grew by 11.4% to Rs3.4bn; EBIT fell by 65.5% YoY to Rs63mn; margins declined by 410bps YoY to 1.9%. Others (EPC) Revenues/EBIT grew by 21.2%/ 24% YoY to Rs745mn/ Rs106mn; margins up by 30bps to 14.3%.

Concall Takeaways: 1) Within W&C, domestic distribution remained healthy, while institutional business bounced backed strongly 2) Excluding large order in base, exports grew by 24% YoY aided by repeat orders. 3) 4Q22 margins expected to be at lower end of 11-13% annual guidance 4) In 3Q, price hikes taken were higher than mid-single digit RM inflation, This aided QoQ improvement in margins. 5) Within FMEG, premiumization will be one of the key strategic levers and will drive profitability. 25-30% fans contribution is from premium segment 6) Maintained FMEG margins guidance of 10-12% by FY26 7) Channel financing coverage – W&C 65-70%/ FMEG 35-40%

Exhibit 1: Q3FY22 Result Overview (Rs mn): Sales grew by 22.8% YoY; PAT grew by 1.2% YoY

Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	9MFY22	9MFY21	YoY gr. (%)
Net Sales	33,720	27,463	22.8	30,066	82,338	58,495	40.8
Operating & Manufacturing Expenses	26,095	20,880	25.0	23,474	63,765	43,315	47.2
<i>% of Net Sales</i>	<i>77.4</i>	<i>76.0</i>		<i>78.1</i>	<i>77.4</i>	<i>74.0</i>	
Gross Profit	7,625	6,584	15.8	6,592	18,573	15,180	22.4
<i>% of Net Sales</i>	<i>22.6</i>	<i>24.0</i>		<i>21.9</i>	<i>22.6</i>	<i>26.0</i>	
Personnel Cost	1,025	881	16.4	1,052	3,016	2,561	17.8
<i>% of Net Sales</i>	<i>3.0</i>	<i>3.2</i>		<i>3.5</i>	<i>3.7</i>	<i>4.4</i>	
Other Expenses	2,983	2,204	35.3	2,611	7,669	5,548	38.2
<i>% of Net Sales</i>	<i>8.8</i>	<i>8.0</i>		<i>8.7</i>	<i>9.3</i>	<i>9.5</i>	
Total Expenditure	30,103	23,964	25.6	27,136	74,449	51,424	44.8
EBITDA	3,617	3,499	3.4	2,930	7,889	7,071	11.6
<i>Margin (%)</i>	<i>10.7</i>	<i>12.7</i>		<i>9.7</i>	<i>9.6</i>	<i>12.1</i>	
Other income	216	325	-33.4	275	731	961	-24.0
Depreciation	511	450	13.7	509	1,513	1,301	16.3
EBIT	3,322	3,375	-1.5	2,696	7,107	6,731	5.6
Interest	78	65	19.6	51	227	295	-23.1
PBT before exceptional item	3,244	3,309	-2.0	2,645	6,880	6,437	6.9
Total Taxes	763	864	-11.7	664	1,659	1,567	5.9
<i>ETR (%)</i>	<i>23.5</i>	<i>26.1</i>		<i>25.1</i>	<i>24.1</i>	<i>24.4</i>	
PBT before JV/Associates/Minority share	2,481	2,445	1.5	1,981	5,221	4,869	7.2
Share of JV/Associates	3	5		-3	-22	-1	
Non-controlling Interest	16	11		26	55	21	
Adj. PAT	2,467	2,439	1.2	1,952	5,144	4,847	6.1

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): W&C/FMEG revenues grew by 23.5%/ 11.4% YoY

Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	9MFY22	9MFY21	YoY gr. (%)
Revenues							
Wires & Cables	29,679	24,023	23.5	26,000	71,843	50,501	42.3
FMEG	3,404	3,055	11.4	3,429	8,752	6,873	27.3
Others	745	614	21.2	795	2,115	1,676	26.2
Total	33,827	27,692	22.2	30,225	82,710	59,050	40.1
EBIT							
Wires & Cables	3,044	3,011	1.1	2,263	6,341	5,756	10.2
<i>EBIT margin (%)</i>	<i>10.3</i>	<i>12.5</i>		<i>8.7</i>	<i>8.8</i>	<i>11.4</i>	
FMEG	63	182	-65.5	172	91	322	-71.6
<i>EBIT margin (%)</i>	<i>1.8</i>	<i>5.9</i>		<i>5.0</i>	<i>1.0</i>	<i>4.7</i>	
Others	106	86	24.0	145	316	247	27.9
<i>EBIT margin (%)</i>	<i>14.3</i>	<i>14.0</i>		<i>18.2</i>	<i>14.9</i>	<i>14.7</i>	

Source: Company, PL

Exhibit 3: SOTP: Implied PE of 26.3x FY24 earnings

FY24	Basis	Multiple	EPS	Value (Rs)	Value %
Wires & Cables	P/E	26	81.0	2129	89%
FMEG	P/E	30	7.7	231	10%
Others (EPC)	P/E	10	2.7	27	1%
Target Price				2,387	100%
Implied P/E		26.3			

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	87,922	118,558	134,721	154,617
YoY gr. (%)	(0.4)	34.8	13.6	14.8
Cost of Goods Sold	65,171	91,427	101,132	115,131
Gross Profit	22,751	27,131	33,588	39,486
Margin (%)	25.9	22.9	24.9	25.5
Employee Cost	3,537	4,150	4,850	5,566
Other Expenses	3,598	4,946	5,104	5,719
EBITDA	11,111	11,989	16,629	19,852
YoY gr. (%)	(2.1)	7.9	38.7	19.4
Margin (%)	12.6	10.1	12.3	12.8
Depreciation and Amortization	1,762	2,034	2,231	2,435
EBIT	9,350	9,955	14,398	17,416
Margin (%)	10.6	8.4	10.7	11.3
Net Interest	427	324	451	470
Other Income	1,193	915	1,148	1,259
Profit Before Tax	10,116	10,546	15,096	18,205
Margin (%)	11.5	8.9	11.2	11.8
Total Tax	2,703	2,584	3,804	4,588
Effective tax rate (%)	26.7	24.5	25.2	25.2
Profit after tax	7,412	7,962	11,291	13,617
Minority interest	38	80	84	88
Share Profit from Associate	6	(17)	5	6
Adjusted PAT	7,380	7,865	11,212	13,535
YoY gr. (%)	(2.8)	6.6	42.6	20.7
Margin (%)	8.4	6.6	8.3	8.8
Extra Ord. Income / (Exp)	1,000	-	-	-
Reported PAT	8,380	7,865	11,212	13,535
YoY gr. (%)	10.4	(6.1)	42.6	20.7
Margin (%)	9.5	6.6	8.3	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,380	7,865	11,212	13,535
Equity Shares O/s (m)	149	149	149	149
EPS (Rs)	49.5	52.7	75.2	90.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	30,944	33,545	36,656	39,786
Tangibles	30,712	33,282	36,363	39,463
Intangibles	233	263	293	323
Acc: Dep / Amortization	12,271	14,134	16,226	18,503
Tangibles	12,109	13,953	16,025	18,279
Intangibles	162	180	201	224
Net fixed assets	18,673	19,412	20,430	21,283
Tangibles	18,602	19,329	20,338	21,184
Intangibles	71	83	92	99
Capital Work In Progress	991	1,500	1,500	1,500
Goodwill	23	23	23	23
Non-Current Investments	2,017	2,062	1,900	1,672
Net Deferred tax assets	(418)	(450)	(601)	(783)
Other Non-Current Assets	717	826	834	842
Current Assets				
Investments	6,231	6,331	10,331	11,331
Inventories	19,879	25,985	29,159	33,465
Trade receivables	14,358	19,489	21,408	24,569
Cash & Bank Balance	5,313	1,923	4,059	8,395
Other Current Assets	1,563	1,778	2,021	2,319
Total Assets	70,147	80,097	92,515	106,352
Equity				
Equity Share Capital	1,491	1,491	1,491	1,491
Other Equity	46,048	53,142	62,714	74,086
Total Network	47,539	54,633	64,205	75,578
Non-Current Liabilities				
Long Term borrowings	1,037	46	-	-
Provisions	251	237	242	278
Other non current liabilities	341	341	341	341
Current Liabilities				
ST Debt / Current of LT Debt	890	711	808	928
Trade payables	13,480	17,784	19,672	20,818
Other current liabilities	5,776	5,329	5,956	6,799
Total Equity & Liabilities	70,147	80,097	92,515	106,352

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	10,122	11,250	15,101	18,210
Add. Depreciation	1,762	2,034	2,231	2,435
Add. Interest	427	324	451	470
Less Financial Other Income	1,193	915	1,148	1,259
Add. Other	23	(462)	(688)	(660)
Op. profit before WC changes	12,333	13,145	17,094	20,456
Net Changes-WC	2,458	(7,997)	(2,711)	(5,619)
Direct tax	(2,409)	(2,584)	(3,804)	(4,588)
Net cash from Op. activities	12,382	2,565	10,579	10,249
Capital expenditures	(1,911)	(3,282)	(3,249)	(3,288)
Interest / Dividend Income	181	412	847	887
Others	(8,391)	1,400	(5,000)	(4,000)
Net Cash from Inv. activities	(10,121)	(1,470)	(7,402)	(6,401)
Issue of share cap. / premium	84	-	-	-
Debt changes	(1,227)	(1,169)	50	119
Dividend paid	-	(1,491)	(1,640)	(2,162)
Interest paid	(463)	(324)	(451)	(470)
Others	-	-	-	-
Net cash from Fin. activities	(1,606)	(2,984)	(2,041)	(2,513)
Net change in cash	656	(1,889)	1,136	1,336
Free Cash Flow	10,471	(717)	7,330	6,962

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	49.5	52.7	75.2	90.8
CEPS	61.3	66.4	90.1	107.1
BVPS	318.8	366.4	430.6	506.8
FCF	70.2	(4.8)	49.2	46.7
DPS	10.0	11.0	14.5	18.5
Return Ratio(%)				
RoCE	23.7	20.7	25.8	26.4
ROIC	20.8	17.0	23.5	25.5
RoE	17.2	15.4	18.9	19.4
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	86	85	84	88
Valuation(x)				
PER	50.7	47.6	33.4	27.7
P/B	7.9	6.9	5.8	5.0
P/CEPS	41.0	37.8	27.9	23.4
EV/EBITDA	32.8	30.6	21.7	17.9
EV/Sales	4.1	3.1	2.7	2.3
Dividend Yield (%)	0.4	0.4	0.6	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	30,374	18,552	30,066	33,720
YoY gr. (%)	42.6	90.0	42.2	22.8
Raw Material Expenses	22,644	14,196	23,474	26,095
Gross Profit	7,731	4,356	6,592	7,625
Margin (%)	25.5	23.5	21.9	22.6
EBITDA	4,213	1,342	2,930	3,617
YoY gr. (%)	40.1	133.5	(6.2)	3.4
Margin (%)	13.9	7.2	9.7	10.7
Depreciation / Depletion	489	493	509	511
EBIT	3,724	849	2,421	3,106
Margin (%)	12.3	4.6	8.1	9.2
Net Interest	166	98	51	78
Other Income	274	240	275	216
Profit before Tax	3,831	991	2,645	3,244
Margin (%)	12.6	5.3	8.8	9.6
Total Tax	1,006	233	664	763
Effective tax rate (%)	26.3	23.5	25.1	23.5
Profit after Tax	2,825	759	1,981	2,481
Minority interest	17	13	26	16
Share Profit from Associates	7	(21)	(3)	3
Adjusted PAT	2,814	724	1,952	2,467
YoY gr. (%)	31.6	202.7	(11.5)	1.2
Margin (%)	9.3	3.9	6.5	7.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,814	724	1,952	2,467
YoY gr. (%)	31.6	(38.4)	(11.5)	1.2
Margin (%)	9.3	3.9	6.5	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,814	724	1,952	2,467
Avg. Shares O/s (m)	149	149	149	149
EPS (Rs)	18.9	4.9	13.1	16.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-22	Hold	2,342	2,445
2	25-Oct-21	Hold	2,342	2,338
3	6-Oct-21	Hold	2,319	2,449
4	22-Jul-21	Hold	1,977	1,912
5	6-Jul-21	BUY	1,927	1,980
6	7-Jun-21	BUY	1,927	1,743
7	6-Apr-21	BUY	1,480	1,376
8	25-Jan-21	BUY	1,359	1,211

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	Hold	1,950	2,005
2	KEI Industries	Accumulate	1,007	1,139
3	Polycab India	Hold	2,342	2,445
4	SpiceJet	Hold	70	65

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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