Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Polycab India Ltd

All-round Q4; strong demand in key segment leads growth

Capital Goods	Sharekhan code: POLYCAB		
Reco/View: Buy ↔	CMP: Rs. 2,428	Price Target: Rs. 3,000 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 25.1

Updated Jan 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

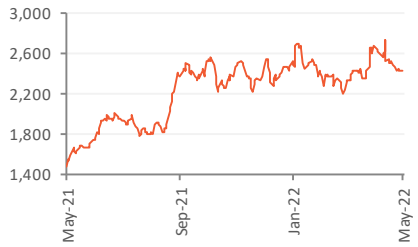
Company details

Market cap:	Rs. 36,285 cr
52-week high/low:	Rs. 2,820 / 1,468
NSE volume: (No of shares)	4 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.8 cr

Shareholding (%)

Promoters	68.1
FII	5.8
DII	9.2
Others	17.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.7	0.5	-2.0	62.8
Relative to Sensex	-0.7	8.6	8.3	53.4

Sharekhan Research, Bloomberg

Summary

- Polycab reported better-than-expected performance for Q4FY2022 on all fronts with growth led by strong demand in cables & wires (C&W) segment. FMEG was affected by weak demand in certain products owing to broader inflation.
- Timely price hikes were able to combat inflationary pressures on cost and OPM is slated to tread higher going forward led by price hikes and healthy demand environment.
- Project leap remains on track with Rs. 20,000 crore revenue target by FY26. The company expects to outpace industry growth in both C&W and FMEG segment by market share gains through widening its distribution reach and product portfolio optimization.
- We retain a Buy on Polycab India Limited (POLYCAB) with an unchanged PT of Rs. 3,000, on account of strong show in Q4FY22 and healthy long-term growth outlook in both C&W and FMEG businesses.

Polycab India Limited's (Polycab's) Q4FY22 performance beat expectations on all fronts led by healthy demand and price hikes particularly in the cables & wires (C&W) segment. Its revenue grew by ~35% y-o-y to Rs 3,970 crore (versus our estimate of 17% growth). C&W revenues grew by 39% y-o-y despite a relatively healthier base. The growth in wires was better than cables. FMEG business posted subdued growth of 9% y-o-y due to low demand for certain products. EPC business grew by 8% YoY. Operating profit growth, however, was restricted to 18% y-o-y to Rs 476 crore due to cost inflation pressures. Consequently, OPM declined by 170 bps y-o-y to 12% (vs our estimate of 11.4%). Net profit grew by 20% y-o-y to Rs 325 crore (vs our estimate of Rs 272cr). EBIT margin declined in both wires & cables and FMEG segment due to cost pressures. Further, a new sub brand "Etira" was launched in the economy price segment. The C&W business is expected to do well with demand traction in domestic distribution driven business and pick-up in the institutional business driven by government and private capex. Further, improvement in FMEG revenue is expected on account of product launches across premium and economic categories. OPM is expected to tread higher led by recent price hikes and cooling off of commodity prices.

Key positives

- Cables & Wires (C&W) segment's revenues were up 39% y-o-y, OPM improved q-o-q led by price hikes which enabled the company to pass on the q-o-q increase in input costs.
- Market share in the C&W segment improved by ~200 bps during the year and is currently at 22-24%.
- Net working capital cycle has reduced from 65 days to 54 days at Q4FY22-end.

Key negatives

- C&W profitability declined y-o-y due to volatility in raw materials and inflationary pressures.
- Institutional business in C&W space was subdued as compared to last quarter.
- FMEG reported subdued growth in revenues due to muted demand in switchgear and margins were affected by cost inflation and lower revenues.

Management Commentary

- The company continues to focus on Project Leap, targeting Rs. 20,000 crore revenues by FY2026 and it expects contribution from FMEG to grow significantly. It aims to regain an EBITDA margin of 11-13% in C&W and achieve ~12% EBITDA margins in FMEG by FY26.
- The company has built up strong team in FMEG with hiring from companies like Crompton, Havells, Panasonic among others which would drive FMEG growth in the coming years.
- The company would incur an annual capex of Rs 300-350cr in the next two years – 2/3 of which would be attributed to C&W and rest would be spent in growing FMEG business.
- Of the total revenues in FY22, the share of B2B business stands at 60% (vs 70% - 5 years back). In, FY22 volumes grew by 10% y-o-y in C&W segment.

Revision in estimates – We have revised our profit estimates marginally downwards for FY2023/FY2024 building in inflationary pressures.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 3,000: Polycab is expected to benefit from government infrastructure investments, revival in housing demand and pick up in private capex spending. OPM is expected to improve with the impact of price hikes and operating leverage offset the increased input costs. The focus on increasing exports and scaling up of FMEG business with product launches would be other key growth triggers. Overall, we believe the company is on a healthy growth trajectory, owing to its leadership position and a strong product portfolio both in the C&W and FMEG businesses and strong distribution and in-house manufacturing capabilities. Hence, we retain a Buy on the stock with an unchanged PT of Rs. 3,000.

Key Risks

Fluctuations in raw-material prices and intense competition are key concerns.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net sales (Rs cr)	8,792	12,204	14,842	17,310
OPM (%)	12.6	10.4	11.4	12.1
Net profit (Rs cr)	842	845	1,159	1,444
Growth (YoY) %	10.0	0.4	37.1	24.6
Adjusted EPS (Rs)	56.5	56.7	77.7	96.8
PER (x)	43.0	42.8	31.2	25.1
P/B (x)	7.6	6.7	5.7	4.8
EV/EBIDTA (x)	28.7	26.1	20.1	16.2
RoCE (%)	23.5	22.0	26.7	28.0
RoNW (%)	19.6	16.7	19.8	20.8

Source: Company; Sharekhan estimates

Strong show in C&W continues

Polycab India Limited's (Polycab's) Q4FY22 performance has beaten our expectations on all fronts led by healthy demand environment and price hikes particularly in C&W segment. Revenues grew by ~35% y-o-y to Rs 3,970cr (vs our estimate of 17% growth). C&W segment's revenue grew by 39% y-o-y despite a relatively healthier base. The growth was led by healthy demand environment despite sharp inflation and strong execution. Growth in wires was higher than cables led by continued momentum in real estate and higher replacement demand. The FMEG business posted subdued growth of 9% y-o-y due to low demand in certain products such as switches. EPC business grew by 8% YoY. Operating profit growth, however, was restricted to 18% y-o-y to Rs 476 crore due to cost inflation pressures. Consequently, OPM declined by 170 bps y-o-y to 12% (vs our estimate of 11.4%). Net profit grew by 20% y-o-y to Rs 325 crore (versus our estimate of Rs 272 crore). EBIT margin declined in both C&W (11.6%, down 140 bps y-o-y) and FMEG segment (2.8%, down ~420bps) due to cost pressures.

Business outlook remains positive

Polycab is expected to benefit from increasing traction in domestic cables and improvement in institutional cables business with broad based recovery across sectors. Polycab has roped in industry veterans from peers such as Havells India and Crompton Greaves Consumer Electricals in FMEG business. Their expertise shall help the company further strengthen its brand and product portfolio (mix of premium and economic products) by leveraging demand potential of semi-urban and rural regions. The company reiterated its initiative, Project Leap, through which it intends to achieve a revenue of Rs. 20,000 crore by FY2026E and aims to grow faster than the industry. The company would incur an annual capex of Rs 300-350 crore p.a. of which 2/3rd would be spent towards cables segment to augment exports, maintenance capex as well as building capabilities in products where utilization is very high. The rest would be attributed to FMEG business for enhancing product portfolio and expanding market reach. Thus, we believe Polycab is well poised for a healthy growth both in the C&W and FMEG segments.

Polycab Q4FY22 Earnings Concall Highlights

- **Project Leap – A five-year growth roadmap:** Project Leap is on track, aiming at Rs 20,000cr revenue by FY26, which translates to a CAGR of ~13% over FY22-26. Polycab has guided for 1.5x industry growth in Wires & Cables and 2x industry growth in FMEG segment by FY26. It aims to regain an EBITDA margin of 11-13% in Wires & Cables and achieve ~12% EBITDA margin in FMEG by FY26. The company plans to achieve these targets by distribution expansion and product portfolio optimization across all categories.
- **Investment of Rs. 200 crore for new office space:** The company has bought a new office space of 55,000 square feet in Central Mumbai for Rs 200 crore. Therefore, FY22 capex is higher at Rs 500-550 crore.
- **Capex plans for the next 2-3 years:** The company would incur an annual capex of Rs. 300-350 crore p.a. of which two-thirds would be spent towards cables segment to augment exports and maintenance capex as well as building capabilities in products where utilization is very high. The rest would be attributed to FMEG business for enhancing product portfolio and expanding market reach.
- **Price hikes:** The price hikes taken during Q4 were able to combat cost inflation in C&W segment as gross margins came in at similar levels of Q3FY22
- **Volume growth:** Volumes in the C&W segment has grown by 10% y-o-y during FY22.

- **Decrease in B2B share:** Out of the total FY22 revenues, share of B2B business stands at 60% (versus 70% - 5 years back).
- **FMEG space:** In FMEG space, fans revenue share is around 30-33%, Switchgear at 15%, Light and luminaries at 15%. The channel inventory in FMEG is at normal level.
- **Growth plans for FMEG:** The company plans to target all the price points in FMEG space. Currently from being a mid-premium category player, it targets to increase share of premium products. In fans and lights, premiumization has improved. The company also wants to target economic categories by launching new products in the space.
- **Working capital:** Receivable days stood at 41 days. Inventory also reduced to 81 days in Q4FY2022, while payables days reduced to 67 days.
- **Distribution reach:** Currently, there are over 4600 dealers/distributors and 2,05,000 retail outlets.

Results (Consolidated) **Rs cr**

Particulars (Rs cr)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	3,970	2,943	34.9%	3,372	17.7%
Operating profit	476	404	17.9%	362	31.7%
Other Income	17	23	-27.3%	22	-22.3%
Interest	13	13	-5.2%	8	60.1%
Depreciation	50	46	9.1%	51	-1.7%
PBT	430	368	17.0%	324	32.7%
Tax	105	98	7.3%	76	37.2%
Reported PAT	325	271	19.9%	247	31.7%
Adj. PAT	325	271	19.9%	247	31.7%
Adj.EPS	21.7	18.1	19.9%	16.5	31.7%
Margin			BPS		BPS
OPM (%)	12.0	13.7	(173)	10.7	127
NPM (%)	8.2	9.2	(103)	7.3	87
Tax rate	24.3	26.5	(219)	23.5	80

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – Ample scope for growth

The wires and cables industry contributes 40-45% to India's electrical equipment industry. In terms of volumes, the Indian wires and cables industry (including exports) has grown from 6.3 million km in FY2014 to 14.5 million km in FY2018, posting a ~23% CAGR over the period. The industry registered an ~11% CAGR in value terms from Rs. 34,600 crore in FY2014 to Rs. 52,500 crore in FY2018. The C&W industry was expected to register a 14.5% CAGR from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. The government has envisaged Rs. 111 lakh crore capital expenditure in infrastructure sectors in India during FY2020 to FY2025. The continued thrust of the government on infrastructure investment is expected to improve demand for the W&C industry. The Indian FMEG industry has many growth opportunities, led by macro drivers such as evolving consumer aspirations, increasing awareness, rising income, rural electrification, urbanization, and digital connectivity. Products such as energy-efficient fans, modular switches, building and home automation, and LED lights are riding an ever-increasing wave of consumer demand. There is also a rising demand for various electrical appliances.

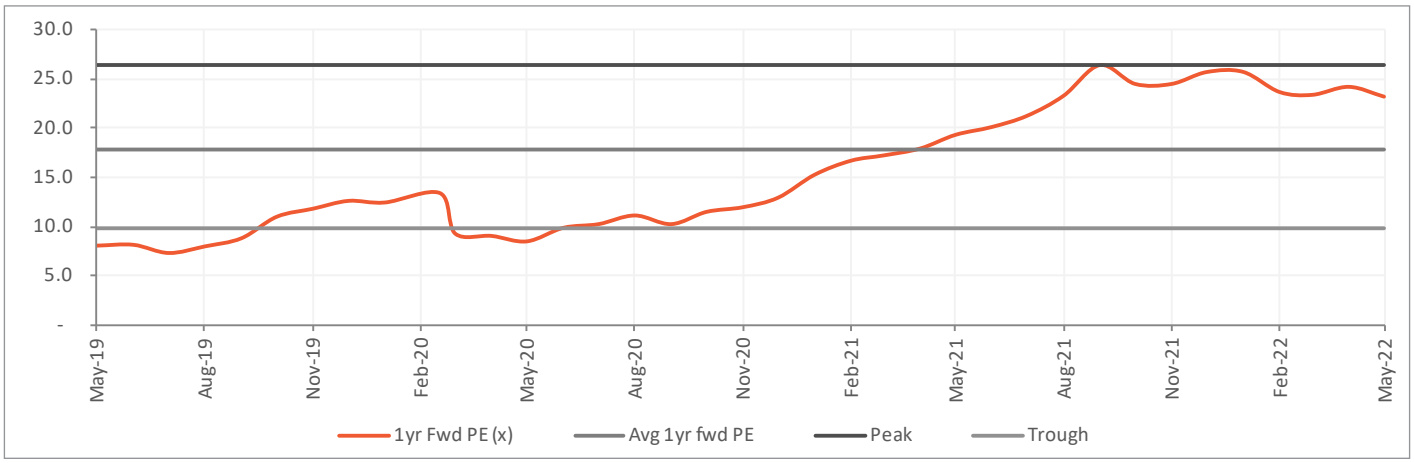
Company Outlook – Growth prospects bright

Overall, the outlook remains positive despite near-term challenges, which remains transient given the growth prospects ahead through various initiatives taken by the company such as Project Udaan and Project Leap. POLYCAB has gained a market share in the organized market (20-22% from 18% in FY2020), auguring well for growth. The company has outlined its new initiative Project Leap through which it intends to achieve Rs. 20,000 crore in revenues by FY2026E on superior growth versus the industry in B2C segments (2x in FMEG and 1.5x in retail wires) and stronger position in B2B segments.

Valuation – Retain Buy with an unchanged PT of Rs. 3,000

Polycab is expected to benefit from government infrastructure investments, revival in housing demand and pick up in private capex spending. OPM is expected to improve with the impact of price hikes and operating leverage offset the increased input costs. The focus on increasing exports and scaling up of FMEG business with product launches would be other key growth triggers. Overall, we believe the company is on a healthy growth trajectory, owing to its leadership position and a strong product portfolio both in the C&W and FMEG businesses and strong distribution and in-house manufacturing capabilities. Hence, we retain a Buy on the stock with an unchanged PT of Rs. 3,000.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

POLYCAB manufactures and sells wires and cables and FMEGs besides executing a few EPC projects. The company has 25 manufacturing facilities, including two joint ventures with Techno and Trafigura, located across Gujarat, Maharashtra, Uttarakhand, and the union territory of Daman and Diu. POLYCAB strives to deliver customised and innovative products with speed and quality service.

Investment theme

POLYCAB is the market leader in the wires and cables space with an extensive product portfolio and distribution reach coupled with accelerated growth in the FMEG space, which augurs well for growth visibility. The company's market position and success are driven by its robust distribution network, wide range of product offerings, efficient supply chain management, and strong brand image. POLYCAB's five-year roadmap to achieve to achieve Rs. 20,000 crore in FY2026E with more focus towards brand positioning, operations and business growth along with strong emphasis on governance and sustainability outpacing the industry's growth provides healthy visibility ahead. Revenue from the wires and cable segment has seen a decent 14.4% CAGR during FY2018-FY2022 and FMEG grew by ~27% CAGR during the same period. Further, increasing market share of organized players, which grew from 61% in FY2014 to 66% in FY2018, is expected to touch 74% in FY2023E, which augurs well for the industry leaders.

Key Risks

- **Fluctuations in raw-material prices pose a key challenge:** Any sharp increase or decrease in the prices of key raw material (copper and aluminium) could sharply impact margins.
- **Currency risk:** POLYCAB faces forex risks as a portion of its raw-material purchases, particularly aluminum, copper, and PVC compound, are priced with reference to benchmarks quoted in US Dollar terms.

Additional Data

Key management personnel

Inder T. Jaisinghani	Chairman andManaging Director
Ajay T. Jaisinghani	Whole-Time Director
R. Ramakrishnan	Chief Executive Officer
Bharat A. Jaisinghani	Director – FMEGBusiness (Non-board member)
Manoj Verma	Executive President and Chief Operating Officer (CE)
Gandharv Tongia	Deputy Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jaisinghani Inder	12.97
2	Jaisinghani Ajay T	12.95
3	Jaisinghani Ramesh T	12.37
4	Jaisinghani Girdhari T	10.16
5	Jaisinghani Kunal	3.89
6	Jaisinghani Bharat	3.66
7	Jaisinghani Nikhil	3.65
8	Hariani Anil	3.25
9	DSP Investment Managers	1.54
10	Canara Robeco mutual fund	1.17

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;