

July 19, 2023

## Q1FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		HOLD	
Target Price	4,760		3,476	
Sales (Rs. m)	1,73,732	2,00,789	1,62,722	1,84,084
% Chng.	6.8	9.1		
EBITDA (Rs. m)	23,371	26,972	20,740	23,920
% Chng.	12.7	12.8		
EPS (Rs.)	110.2	126.7	96.0	112.3
% Chng.	14.9	12.8		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,22,796	1,41,078	1,73,732	2,00,789
EBITDA (Rs. m)	13,407	18,521	23,371	26,972
Margin (%)	10.9	13.1	13.5	13.4
PAT (Rs. m)	9,120	12,700	16,510	18,974
EPS (Rs.)	61.0	84.8	110.2	126.7
Gr. (%)	8.6	38.9	30.0	14.9
DPS (Rs.)	14.0	17.0	18.5	22.5
Yield (%)	0.3	0.4	0.4	0.5
RoE (%)	17.7	20.9	22.4	21.3
RoCE (%)	23.2	28.6	30.5	29.1
EV/Sales (x)	5.2	4.4	3.6	3.0
EV/EBITDA (x)	47.2	33.8	26.5	22.6
PE (x)	70.6	50.8	39.1	34.0
P/BV (x)	11.6	9.7	8.0	6.6

### Key Data

POLC.BO | POLYCAB IN

52-W High / Low	Rs.4,325 / Rs.2,132
Sensex / Nifty	67,097 / 19,833
Market Cap	Rs.646bn/ \$ 7,868m
Shares Outstanding	150m
3M Avg. Daily Value	Rs.1452.06m

### Shareholding Pattern (%)

Promoter's	66.20
Foreign	9.78
Domestic Institution	9.34
Public & Others	14.67
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	22.1	52.3	91.4
Relative	14.9	38.2	56.3

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## Robust revenue growth, margins improvement

### Quick Pointers:

- Domestic W&C business reported ~53% volume growth in Q1FY24.
- EBITDA margin expanded by 270bps, W&C margin improved by 330 bps YoY.

*We upward revised our FY24/25E earnings estimates by 14.8%/12.7% and upgrade to 'Accumulate' from 'HOLD' to mainly reflect revision in top-line growth assumption (6.8%/9.1% in FY24/FY25) and margin improvement (~13.5% EBITDA margin) with segment & product mix. Polycab reported strong revenue growth of 42.1% YoY in Q1FY24, despite high base and fluctuation in commodity prices on the back of robust volume growth (~53%) in W&C business. The company expects to achieve Rs 200bn revenues sooner than targeted by FY26E under Project LEAP given 1) strong volume growth in W&C from infrastructure/real estate/construction activities (which accelerated institution business growth), 2) focus on B2C through deepening reach & premiumization of product portfolio and 3) expected market share gain of ~2% in coming years with wide SKUs, availability of products, logistics support etc. We expect Revenue/EBITDA/PAT CAGR of 19.3%/20.7%/22.2% over FY23-25E led by strong domestic demand environment supported by government measures & revival in private capex along with strong traction in export revenue. Upgrade to 'Accumulate' from 'HOLD' at revised TP of Rs 4760 (Rs 3553 earlier) given solid Q1 performance and strong guidance for coming years.*

**W&C business reported ~53% volume growth:** W&C business reported 48% revenue growth on the back of robust volume growth (~53%) in W&C business. Domestic distribution business, institution business and export has driven strong growth in W&C. Geographically, growth was broad based with highest growth coming from North region mainly from strong traction in infrastructure – railways & roads, power transmission business and real estate sector. Cables growth continued to outperform wires growth in Q1FY24. Polycab gained market share in FY23 of ~150 bps and reached 17%+ (expected to improve further). W&C margin improved by 320bps YoY on account of judicious price revisions, better operating leverage and strong growth in international business.

**Sales grew 42.1% and PAT grew 48.1%:** Sales grew 42.1% YoY to Rs38.9bn (PLe: Rs31.3bn) despite high base and fluctuation in commodity prices. Wires and cable business grew 48% YoY with strong traction in international business which grew by 88% YoY with increase in international coverage and opening of warehouse in USA, while domestic business grew by 44.6% YoY. Export revenue contribution was 8.9% to its total sales. Gross margin expanded 150 bps YoY to 26.5%. EBITDA grew 76.3% YoY to Rs 5.5bn (PLe:4.0bn). EBITDA margins expanded 270bps YoY to 14.1% (PLe:12.8%). PAT grew 81.7% YoY to Rs4.0bn (PLe: Rs2.7bn) was largely from volume growth and improvement in margins. W&C's EBIT grew 89.5% YoY to Rs5.2bn and margins expanded by 320bps YoY to 14.8%. FMEG revenues grew 2.1% YoY to Rs3.1bn and reported EBIT loss of Rs 56.7mn vs profit of Rs64mn in Q1FY24.

## Exhibit 1: Q1FY24 Result Overview (Rs mn)

Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Net Sales</b>	<b>38,894</b>	<b>27,366</b>	<b>42.1</b>	<b>43,237</b>	<b>(10.0)</b>	<b>141,077</b>	<b>122,038</b>	<b>15.6</b>
Gross Profit	10,313	6,842	50.7	10,880	(5.2)	35,968	27,381	31.4
% of NS	26.5	25.0		25.2		25.5	22.4	
<b>Other Expenses</b>	<b>4,828</b>	<b>3,731</b>	29.4	<b>4,784</b>	0.9	<b>17,448</b>	<b>14,729</b>	18.5
% of NS	12.4	13.6		11.1		12.4	12.1	
<b>EBITDA</b>	<b>5,486</b>	<b>3,111</b>	<b>76.3</b>	<b>6,095</b>	<b>(10.0)</b>	<b>18,520</b>	<b>12,652</b>	<b>46.4</b>
Margins (%)	14.1	11.4		14.1		13.1	10.4	
Depreciation	571	510	12.0	535	6.9	2,092	2,015	3.8
Interest	249	84	196.7	282	(11.5)	597	352	69.7
Other Income	640	443	44.3	515	24.2	1,333	899	48.3
<b>PBT</b>	<b>5,305</b>	<b>2,960</b>	<b>79.2</b>	<b>5,794</b>	<b>(8.4)</b>	<b>17,165</b>	<b>11,180</b>	<b>53.5</b>
Tax	1,277	722	76.9	1,446	(11.7)	4,250	2,706	57.0
Tax rate (%)	24.1	24.4		25.0		24.8	24.2	
<b>Adjusted PAT</b>	<b>3,993</b>	<b>2,198</b>	<b>81.7</b>	<b>4,248</b>	<b>(6.0)</b>	<b>12,699</b>	<b>8,361</b>	<b>51.9</b>

Source: Company, PL

## Exhibit 2: Segmental Breakup (Rs mn)

Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Revenues</b>								
Wires & Cables	35,338	23,885	48.0	40,783	-13.4	126,805	106,953	18.6
FMEG	3,145	3,052	3.1	3,052	3.1	12,535	12,544	-0.1
Others	1,528	751	103.5	1,338	14.2	3,909	2,942	32.9
<b>Total</b>	<b>40,012</b>	<b>27,688</b>	<b>44.5</b>	<b>45,173</b>	<b>-11.4</b>	<b>143,248</b>	<b>122,439</b>	<b>17.0</b>
<b>EBIT</b>								
Wires & Cables	5,223	2,756	89.5	5,896	-11.4	16,419	10,405	57.8
EBIT margin (%)	14.8	11.5	3.2	14.5		12.9	9.7	
FMEG	(57)	62	NA	-70	NA	(56)	196	NA
EBIT margin (%)	-1.8	2.0		-2.3		-0.4	1.6	
Others	183	105	74.6	82	124.2	454	438	3.6
EBIT margin (%)	12.0	14.0		6.1		11.6	14.9	
<b>Total EBIT</b>	<b>5,349</b>	<b>2,923</b>	<b>83.0</b>	<b>5,908</b>	<b>-9.5</b>	<b>16,817</b>	<b>11,039</b>	<b>52.3</b>
EBIT margin (%)	13.4	10.6		13.1		11.7	9.0	

Source: Company, PL

## Q1FY24 Concall Highlights

- Management indicated that the company will achieve Rs200bn revenue sooner than FY26.
- **Healthy growth in volume to continue** given 1) domestic market share gain by Polycab with quality of products, wide SKUs, availability of products at time, superior logistic support; 2) robust demand from Govt. & private sectors, 3) wide distribution reach of 4,300 authorized dealers & distributors & 205,000+ retail outlets.
- **Demand – Supply imbalance in domestic W&C market** led to company's superior growth and also resulted in market share gain.
- **Management has upward revised EBITDA margin guidance to 12-14%** from 11%-13% on account of judicious price revisions, better operating leverage and strong growth in international business.
- **The working capital days will be between 50-55 days going forward.** Polycab reported higher inventory days at end of Q1FY24 because of 1) anticipated strong demand in coming quarters, and 2) inventory built up prior to shut down planned from two major copper smelters as a part of their annual maintenance, which will normalize in coming quarters.
- **Capex is expected to be Rs5-6bn in FY24.** Free cash flows will be utilized in distributing dividends and for future M&A deals.
- International business to contribute 10% of overall business by FY26.
- **A&P spends to be 3.5% of B2C business topline** with focus on digital marketing to enhance customer reach and deepen penetrations in the market.

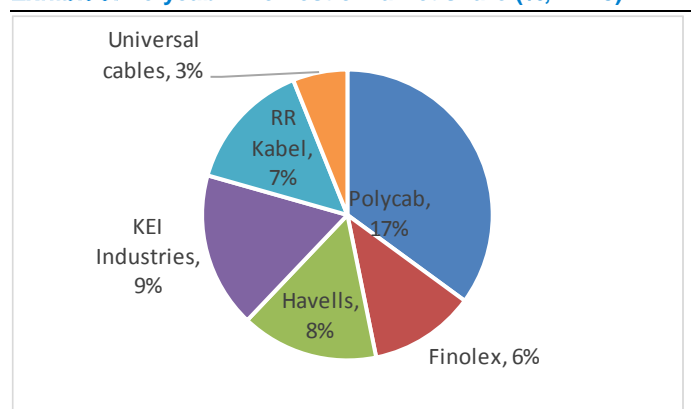
## Cables & Wires Segment

- **The volume growth was in the range of 50%-60% in Q1FY24.** W&C business has 72:28 mix of cables:wires in Q1FY24. A low single digit price revision was taken in Q1 due to less volatility being observed.
- **Cables business in focus and is growing faster than wires**, with growth in infrastructure – railways & roads, Power transmission business and real estate sectors. Cables business mix for copper: aluminum is 50:50.
- **The capacity utilization is at 60%-70% for W&C business.** Polycab is setting up new facility for EHV cables in collaboration with overseas partner.
- **B2B sales will continue to contribute 60% -65% of overall sales.** Polycab has been supplying cables to INS Vikrant and other industries like refineries, automobiles. C&W business has 83% channel financing in terms of value of sales.
- **Highest growth in domestic W&C is from North region** followed by west, south and east. Geographically, South is largest contributor in domestic W&C business followed by west, north and east.

## FMEG Segment

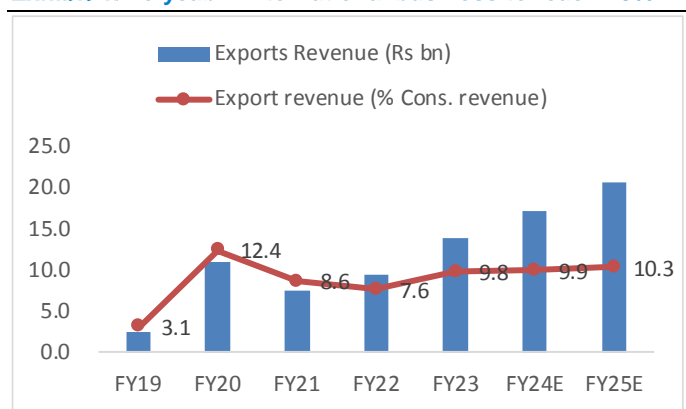
- **FMEG business impacted due to muted demand environment.** Focus will be on further improvement in channel distribution for FMEG business. Management has guided for a 10% EBIT margin by FY26E.
- **The non-star rated fans inventory has completely been sold-off** and are replaced with star rated BEE fans. Management has not taken any price hikes in fans segment in Q1FY24. A total of 18 new SKUs have been introduced in fans segment in Q1FY24.
- **De-growth was observed in lighting business** due to 10%-12% correction in LED business. Around 50-60 new SKU's to be launched in lighting segment in Q2FY24 and Q3FY24 combined.

**Exhibit 3: Polycab – Domestic market share (% , FY23)**



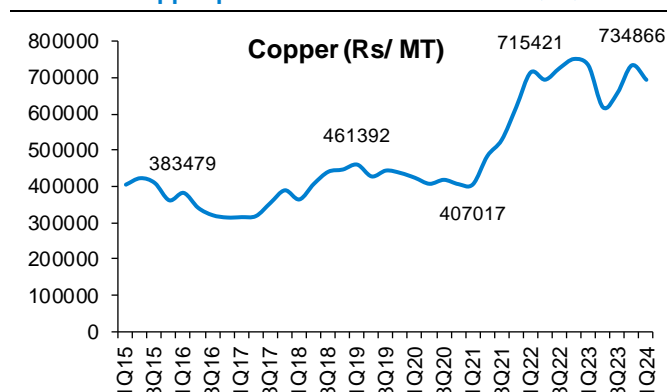
Source: Company, PL

**Exhibit 4: Polycab – International business to reach 10%**



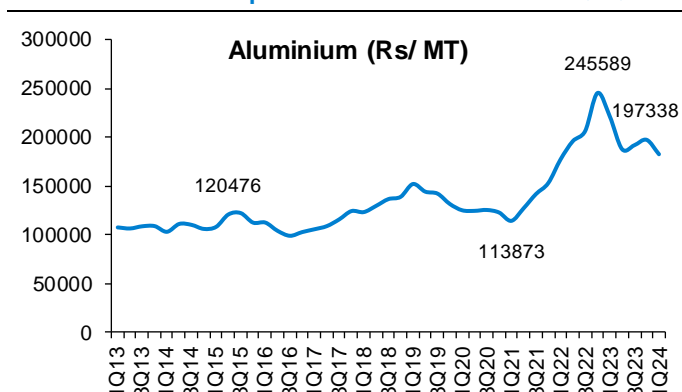
Source: Company, PL

**Exhibit 5: Copper price down 5.3%YoY / 5.4%QoQ**



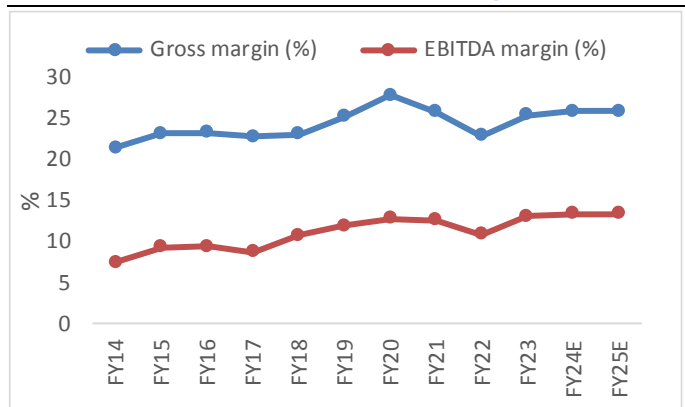
Source: Company, PL

**Exhibit 6: Aluminum price down 16.3%YoY / 6.0%QoQ**



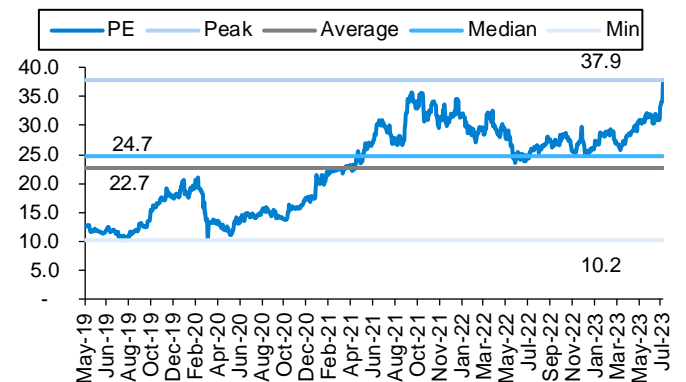
Source: Company, PL

Exhibit 7: GM expected to improve with segment/prod. mix



Source: Company, PL

Exhibit 8: One year forward P/E trades at 34x (FY25E)



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>1,22,796</b>	<b>1,41,078</b>	<b>1,73,732</b>	<b>2,00,789</b>
YoY gr. (%)	39.7	14.9	23.1	15.6
Cost of Goods Sold	94,657	1,05,109	1,28,625	1,48,695
Gross Profit	28,140	35,969	45,107	52,093
Margin (%)	22.9	25.5	26.0	25.9
Employee Cost	4,066	4,568	5,733	6,626
Other Expenses	4,844	5,981	7,056	8,154
<b>EBITDA</b>	<b>13,407</b>	<b>18,521</b>	<b>23,371</b>	<b>26,972</b>
YoY gr. (%)	20.7	38.1	26.2	15.4
Margin (%)	10.9	13.1	13.5	13.4
Depreciation and Amortization	2,015	2,092	2,264	2,618
<b>EBIT</b>	<b>11,392</b>	<b>16,430</b>	<b>21,106</b>	<b>24,354</b>
Margin (%)	9.3	11.6	12.1	12.1
Net Interest	352	598	849	984
Other Income	899	1,333	1,919	2,168
<b>Profit Before Tax</b>	<b>11,939</b>	<b>17,165</b>	<b>22,176</b>	<b>25,538</b>
Margin (%)	9.7	12.2	12.8	12.7
Total Tax	2,706	4,250	5,491	6,387
Effective tax rate (%)	22.7	24.8	24.8	25.0
<b>Profit after tax</b>	<b>9,233</b>	<b>12,915</b>	<b>16,686</b>	<b>19,151</b>
Minority interest	87	123	129	136
Share Profit from Associate	(26)	(93)	(46)	(42)
<b>Adjusted PAT</b>	<b>9,120</b>	<b>12,700</b>	<b>16,510</b>	<b>18,974</b>
YoY gr. (%)	8.8	39.2	30.0	14.9
Margin (%)	7.4	9.0	9.5	9.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>9,120</b>	<b>12,700</b>	<b>16,510</b>	<b>18,974</b>
YoY gr. (%)	8.8	39.2	30.0	14.9
Margin (%)	7.4	9.0	9.5	9.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,120	12,700	16,510	18,974
<b>Equity Shares O/s (m)</b>	<b>149</b>	<b>150</b>	<b>150</b>	<b>150</b>
<b>EPS (Rs)</b>	<b>61.0</b>	<b>84.8</b>	<b>110.2</b>	<b>126.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>26,640</b>	<b>32,420</b>	<b>37,763</b>	<b>42,936</b>
Tangibles	26,264	32,025	37,338	42,481
Intangibles	375	395	425	455
<b>Acc: Dep / Amortization</b>	<b>9,934</b>	<b>11,797</b>	<b>13,860</b>	<b>16,342</b>
Tangibles	9,743	11,559	13,599	16,057
Intangibles	192	238	261	285
<b>Net fixed assets</b>	<b>16,705</b>	<b>20,623</b>	<b>23,903</b>	<b>26,594</b>
Tangibles	16,522	20,466	23,739	26,423
Intangibles	183	157	164	170
Capital Work In Progress	3,755	2,508	2,508	2,508
Goodwill	46	46	46	46
Non-Current Investments	1,058	597	1,026	1,178
Net Deferred tax assets	(272)	(409)	(576)	(831)
Other Non-Current Assets	1,143	1,380	1,185	1,200
<b>Current Assets</b>				
Investments	7,641	13,505	18,505	23,505
Inventories	21,996	29,514	40,458	46,759
Trade receivables	12,964	12,466	12,375	14,303
Cash & Bank Balance	4,071	6,951	8,635	13,224
Other Current Assets	4,203	6,253	5,212	6,024
<b>Total Assets</b>	<b>74,119</b>	<b>94,255</b>	<b>1,14,493</b>	<b>1,36,063</b>
<b>Equity</b>				
Equity Share Capital	1,494	1,498	1,498	1,498
Other Equity	53,943	64,814	79,490	95,693
<b>Total Network</b>	<b>55,437</b>	<b>66,311</b>	<b>80,988</b>	<b>97,191</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	30	42	42	42
Provisions	264	450	313	361
Other non current liabilities	207	165	165	165
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	802	1,509	1,911	2,209
Trade payables	12,175	20,326	22,588	26,113
Other current liabilities	4,437	4,430	6,959	7,996
<b>Total Equity &amp; Liabilities</b>	<b>74,119</b>	<b>94,255</b>	<b>1,14,493</b>	<b>1,36,063</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	12,634	17,073	22,130	25,496
Add. Depreciation	2,015	2,092	2,264	2,618
Add. Interest	352	598	849	984
Less Financial Other Income	899	1,333	1,919	2,168
Add. Other	(1,571)	(204)	(718)	(1,194)
Op. profit before WC changes	13,430	19,557	24,526	27,904
Net Changes-WC	(4,974)	(515)	(5,675)	(4,710)
Direct tax	(3,340)	(4,250)	(5,491)	(6,387)
<b>Net cash from Op. activities</b>	<b>5,116</b>	<b>14,792</b>	<b>13,360</b>	<b>16,808</b>
Capital expenditures	5,330	(4,763)	(5,545)	(5,309)
Interest / Dividend Income	232	325	1,150	1,547
Others	(9,831)	(8,341)	(6,687)	(9,589)
<b>Net Cash from Invt. activities</b>	<b>(4,269)</b>	<b>(12,779)</b>	<b>(11,082)</b>	<b>(13,351)</b>
Issue of share cap. / premium	133	3	-	-
Debt changes	(297)	720	402	298
Dividend paid	(1,491)	(2,092)	(2,540)	(2,771)
Interest paid	(352)	(598)	(849)	(984)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,007)</b>	<b>(1,966)</b>	<b>(2,988)</b>	<b>(3,457)</b>
<b>Net change in cash</b>	<b>(1,160)</b>	<b>47</b>	<b>(709)</b>	<b>-</b>
Free Cash Flow	10,446	10,029	7,816	11,499

Source: Company Data, PL Research

**Key Financial Metrics**

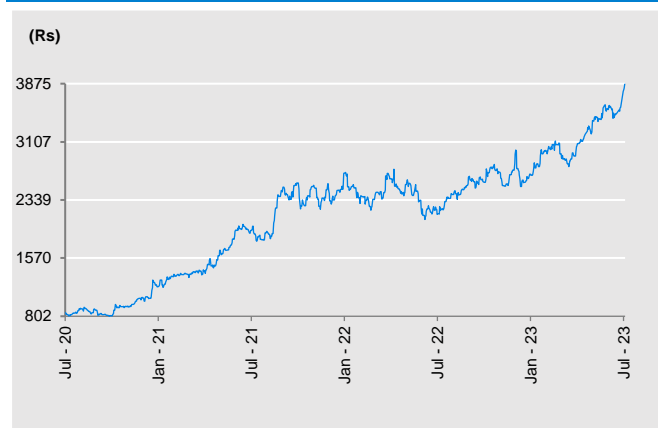
Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	61.0	84.8	110.2	126.7
CEPS	74.5	98.8	125.4	144.2
BVPS	371.0	442.8	540.8	649.0
FCF	69.9	67.0	52.2	76.8
DPS	14.0	17.0	18.5	22.5
<b>Return Ratio(%)</b>				
RoCE	23.2	28.6	30.5	29.1
ROIC	21.4	29.7	32.9	33.5
RoE	17.7	20.9	22.4	21.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	57	38	47	47
<b>Valuation(x)</b>				
PER	70.6	50.8	39.1	34.0
P/B	11.6	9.7	8.0	6.6
P/CEPS	57.8	43.6	34.4	29.9
EV/EBITDA	47.2	33.8	26.5	22.6
EV/Sales	5.2	4.4	3.6	3.0
Dividend Yield (%)	0.3	0.4	0.4	0.5

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>33,323</b>	<b>37,151</b>	<b>43,237</b>	<b>38,894</b>
YoY gr. (%)	10.8	10.2	8.9	42.1
Raw Material Expenses	24,625	27,603	32,357	28,581
Gross Profit	8,699	9,548	10,880	10,313
Margin (%)	26.1	25.7	25.2	26.5
<b>EBITDA</b>	<b>4,276</b>	<b>5,038</b>	<b>6,095</b>	<b>5,486</b>
YoY gr. (%)	46.0	39.3	28.1	76.3
Margin (%)	12.8	13.6	14.1	14.1
Depreciation / Depletion	523	525	535	571
<b>EBIT</b>	<b>3,753</b>	<b>4,514</b>	<b>5,561</b>	<b>4,914</b>
Margin (%)	11.3	12.1	12.9	12.6
Net Interest	139	93	282	249
Other Income	(22)	397	515	640
<b>Profit before Tax</b>	<b>3,592</b>	<b>4,818</b>	<b>5,794</b>	<b>5,305</b>
Margin (%)	10.8	13.0	13.4	13.6
Total Tax	880	1,202	1,446	1,277
Effective tax rate (%)	24.5	24.9	25.0	24.1
<b>Profit after Tax</b>	<b>2,712</b>	<b>3,616</b>	<b>4,348</b>	<b>4,028</b>
Minority interest	27	32	37	35
Share Profit from Associates	(8)	(8)	(64)	-
<b>Adjusted PAT</b>	<b>2,677</b>	<b>3,576</b>	<b>4,248</b>	<b>3,993</b>
YoY gr. (%)	37.2	44.9	32.0	81.7
Margin (%)	8.0	9.6	9.8	10.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,677</b>	<b>3,576</b>	<b>4,248</b>	<b>3,993</b>
YoY gr. (%)	37.2	44.9	32.0	81.7
Margin (%)	8.0	9.6	9.8	10.3
Other Comprehensive Income	50	133	(66)	(131)
<b>Total Comprehensive Income</b>	<b>2,728</b>	<b>3,709</b>	<b>4,182</b>	<b>3,862</b>
Avg. Shares O/s (m)	149	149	149	149
<b>EPS (Rs)</b>	<b>17.9</b>	<b>24.0</b>	<b>28.5</b>	<b>26.8</b>

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Hold	3,476	3,553
2	15-May-23	Hold	3,249	3,381
3	11-Apr-23	Hold	2,794	2,982
4	21-Jan-23	Hold	2,750	2,761
5	06-Jan-23	Hold	2,651	2,626
6	21-Jul-22	Hold	2,264	2,199

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,955	1,924
2	Bajaj Electricals	Accumulate	1,326	1,219
3	Century Plyboard (I)	BUY	800	671
4	Cera Sanitaryware	Hold	7,805	7,690
5	Crompton Greaves Consumer Electricals	BUY	338	286
6	Finolex Industries	Accumulate	194	175
7	Greenpanel Industries	BUY	455	355
8	Havells India	BUY	1,460	1,287
9	Kajaria Ceramics	Hold	1,264	1,255
10	KEI Industries	Hold	2,319	2,329
11	Polycab India	Hold	3,476	3,553
12	Prince Pipes and Fittings	Accumulate	718	657
13	Supreme Industries	Accumulate	3,245	3,245
14	Voltas	Hold	813	767

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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