

July 19, 2023

RESULT REPORT Q1 FY24 | Sector: Consumer Durables

Polycab India Ltd

Strong performance on back of capex upcycle; downgrade to NEUTRAL on limited gains

Result Synopsis

Polycab continues to witness strong growth in its core category of wires and cables led by demand coming from the cables segment and strong traction in international business. Volume growth at 50-60% remains encouraging with cables continuing to outshine wires. Margins have surprised positively and is currently higher than the guidance on back of judicious price revisions and higher operating leverage. FMEG has remained subdued, however its key categories like Fans, Switches and conduit pipes have seen sequential growth. Company's GTM initiatives and rejig in distribution network is done with, company now expects growth momentum to return as company is planning to launch new products and SKU's and demand is set to return as interest rates have peaked. The company continues to focus on brand building, new product development, premiumization of offerings and influencer management program which will lead to industry leading growth. The company looks well placed to keep gaining market share and grow faster than the industry, which should lead to continued re-rating.

We expect strong growth momentum to continue in the ensuing quarters as well as increased distribution, premiumization and improving customer satisfaction will lead to industry leading growth. Also, now with distribution transition largely completed FMEG segment should see growth going forward. We estimate the company to now deliver FY23-25E revenue/EBITDA CAGR of 16%/20% respectively. Given the strong traction seen in distribution led business, company should command higher multiple. We have increased our earnings estimates of FY24 and FY25 by 14.7% and 14.3% respectively on strong Q1 performance resulting in PT of Rs4,505. We however downgrade the stock to NEUTRAL as stock has seen significant rally in past few days and would wait for some correction to make a fresh entry.

Result Highlights

- Quarter summary** – Polycab has once again delivered strong performance in Q1 with revenue growing 42.1% yoy. Gross margin and EBITDA margin stood at 26.5% and 14.1% respectively expanding on yoy basis.
- Wires & cables** – Wires and cables revenue grew 46.9% yoy as demand for cables continues to remain strong with company getting strong traction in the export markets. Margins improved sequentially led by higher operating leverage and judicious price revisions.
- FMEG** –FMEG business saw muted growth of 2.1% YoY. Fans and Switches business recovered on sequential basis, while lighting business saw decline on back of price correction in the LED segment.
- Working Capital** – Working capital has increased in Q1. The increase is largely on back of increased inventory of raw material as company has ordered higher inventory copper as its vendor is expected to undergo annual maintenance shutdown and demand trends for wires and cables continues to be robust.

Exhibit 1: Actual vs estimates

| Rsmn | Actual | Estimate | | % Variation | | Remarks |
|-------------------|--------|----------|-----------|-------------|-----------|--|
| | | YES Sec | Consensus | YES Sec | Consensus | |
| Sales | 38,894 | 29,245 | 31,390 | 33.0 | 23.9 | Strong demand for cables have resulted in significant earnings beat. |
| EBITDA | 5,486 | 3,655 | 4,000 | 50.1 | 37.1 | |
| EBITDA Margin (%) | 14.1 | 12.5 | 12.7 | 161 bps | 140 bps | |
| Adjusted PAT | 4,028 | 2,543 | 2,700 | 58.4 | 49.2 | |

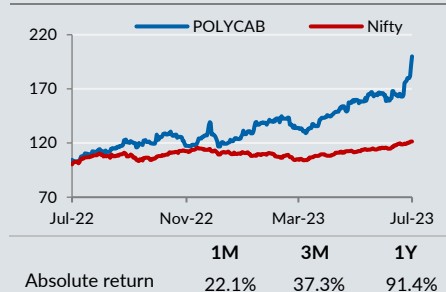
Source: Company, YES Sec

| | |
|------------------|------------------|
| Reco | : NEUTRAL |
| CMP | : Rs 4,289 |
| Target Price | : Rs 4,505 |
| Potential Return | : +5.0% |

Stock data (as on July 19, 2023)

| | |
|-------------------------|-------------|
| Nifty | 19,833 |
| 52 Week h/l (Rs) | 4325/2132 |
| Market cap (Rs/USD mn) | 618862/7534 |
| Outstanding Shares (mn) | 150 |
| 6m Avg t/o (Rs mn): | 1153 |
| Div yield (%): | 0.5 |
| Bloomberg code: | POLYCAP IN |
| NSE code: | POLYCAP |

Stock performance



Shareholding pattern (As of Mar'23 end)

| | |
|----------|-------|
| Promoter | 66.2% |
| FII+DII | 19.1% |
| Others | 14.7% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|---------|-------|
| Rating | NEUTRAL | ADD |
| Target Price | 4,505 | 3,668 |

Δ in earnings estimates

| | FY24e | FY25e |
|-----------|-------|-------|
| EPS (New) | 110.3 | 128.0 |
| EPS (Old) | 96.2 | 112.0 |
| % change | 14.7% | 14.3% |

Financial Summary

| (Rs mn) | FY23 | FY24E | FY25E |
|------------|---------|---------|---------|
| Revenue | 141,078 | 169,763 | 191,370 |
| YoY Growth | 15.6% | 20.3% | 12.7% |
| EBITDA | 18,521 | 23,499 | 26,872 |
| YoY Growth | 46.4% | 26.9% | 14.4% |
| PAT | 12,823 | 16,519 | 19,166 |
| YoY Growth | 51.6% | 28.8% | 16.0% |
| ROE | 21.1 | 22.7 | 22.2 |
| EPS | 85.6 | 110.3 | 128.0 |
| P/E | 47.6 | 36.9 | 31.8 |
| BV | 13.5 | 11.6 | 9.7 |
| EV/EBITDA | 32.9 | 25.9 | 22.4 |

AAKASH FADIA

Analyst

aakash.fadia@ysil.in

+91 22 6885 0521



ARSHIA KHOSLA, Associate

Exhibit 2: Quarterly snapshot (Consolidated)

| Particulars (Rs mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | y/y % | q/q % | FY23 | FY22 | y/y % |
|------------------------|--------|--------|--------|--------|--------|-------|-------|-------|--------|--------|
| Sales | 27,366 | 33,324 | 37,152 | 43,236 | 38,894 | 42.1 | -10.0 | -10.0 | 39,700 | 27,366 |
| EBITDA | 3111 | 4276 | 5038 | 6095 | 5486 | 76.3 | -10.0 | -10.0 | 4763 | 3111 |
| EBITDA Margin % | 11.4 | 12.8 | 13.6 | 14.1 | 14.1 | | | | 12.0 | 11.4 |
| Depreciation | 509.9 | 522.7 | 524.5 | 534.6 | 571.4 | 12.1 | 6.9 | 6.9 | 502.6 | 509.9 |
| EBIT | 2601 | 3754 | 4514 | 5560 | 4914 | 88.9 | -11.6 | -11.6 | 4261 | 2601 |
| EBIT Margin % | 9.5 | 11.3 | 12.1 | 12.9 | 12.6 | | | | 10.7 | 9.5 |
| Interest charges | 84 | 139 | 93 | 282 | 249 | 195.6 | -11.5 | -11.5 | 125 | 84 |
| Other Income | 443.5 | -22.3 | 396.8 | 515.2 | 640.0 | 44.3 | 24.2 | 24.2 | 168.2 | 443.5 |
| PBT | 2960 | 3592 | 4818 | 5794 | 5305 | 79.2 | -8.4 | | 0.0 | 0.0 |
| Tax | 722.0 | 880.0 | 1201.6 | 1446.5 | 1276.8 | 76.9 | -11.7 | -8.4 | 4304 | 2960 |
| Effective Tax Rate (%) | 24.4 | 24.5 | 24.9 | 25.0 | 24.1 | -1.3 | -3.6 | -11.7 | 1046.8 | 722.0 |
| PAT | 2225 | 2704 | 3608 | 4284 | 4028 | 81.0 | -6.0 | -3.6 | 24.3 | 24.4 |
| PAT Margin % | 8.1 | 8.1 | 9.7 | 9.9 | 10.4 | | 4.5 | -6.0 | 3253 | 2225 |
| EPS (Rs) | 14.9 | 18.1 | 24.1 | 28.7 | 27.0 | 81.0 | -6.0 | 4.5 | 8.2 | 8.1 |

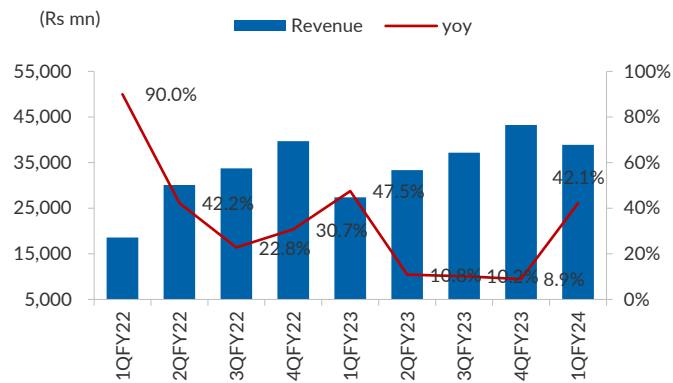
Source: Company, YES Sec

Exhibit 3: Segmental Performance

| Rs mn | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | YoY (%) | QoQ (%) | FY23 | FY22 | YoY (%) |
|--------------------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|
| Wires and Cables | 24,057 | 29,517 | 33,418 | 40,783 | 35,338 | 46.9 | -13.4 | 127,775 | 107,938 | 18.4 |
| FMEG | 3,082 | 3,054 | 3,420 | 3,052 | 3,145 | 2.1 | 3.1 | 12,607 | 12,544 | 0.5 |
| Others | 999 | 1,051 | 1,260 | 1,338 | 1,528 | 53.0 | 14.2 | 4,647 | 3,702 | 25.5 |
| Less: Intersegment | -450 | -505 | -827 | -1,784 | -781 | 73.7 | -56.2 | -3,565 | -1,744 | |
| Total Sales | 27,688 | 33,117 | 37,271 | 43,389 | 39,230 | 41.7 | -9.6 | 141,465 | 123,107 | 14.9 |
| PBIT | | | | | | | | 0 | 0 | |
| Wires and Cables | 2772.7 | 3462.5 | 4593.1 | 5895.9 | 5222.6 | 88.4 | -11.4 | 16724.3 | 10544.8 | 58.6 |
| PBIT % | 11.5 | 11.7 | 13.7 | 14.5 | 14.8 | 28.2 | 2.2 | 51.5 | 37.1 | |
| FMEG | 64.4 | -26.8 | -23.9 | -69.7 | -56.7 | -188.0 | -18.7 | -56.1 | 196.2 | (128.6) |
| PBIT % | 2.1 | -0.9 | -0.7 | -2.3 | -1.8 | -186.2 | -21.1 | -1.8 | 2.2 | |
| Others | 124.8 | 158.6 | 151.9 | 81.8 | 183.4 | 46.9 | 124.2 | 517.1 | 499.0 | 3.6 |
| PBIT % | 12.5 | 15.1 | 12.1 | 6.1 | 12.0 | -4.0 | 96.2 | 45.8 | 53.3 | |
| Total PBIT | 2,962 | 3,594 | 4,721 | 5,908 | 5,349 | 80.6 | -9.5 | 17,185 | 11,240 | 52.9 |
| PBIT % | 10.7 | 10.9 | 12.7 | 13.6 | 13.6 | 27.5 | 0.1 | 47.8 | 34.5 | |
| Finance Costs | 84.3 | 139.0 | 92.6 | 281.6 | 249.2 | 195.6 | -11.5 | 597.6 | 250.1 | 139.0 |
| Other Income | 121 | 185 | 277 | 363 | 303 | 149.8 | -16.4 | 946 | 497 | 90.4 |
| as % of sales | 0.4 | 0.6 | 0.7 | 0.8 | 0.8 | 76.3 | -7.5 | 2.6 | 1.7 | |
| Exceptional Items | | | | | | | | 0 | 0 | |
| Less: Intersegment | -39 | -47 | -88 | -195 | -99 | 153.0 | -49.4 | -369 | -201 | |
| PBT | 2960 | 3593 | 4818 | 5794 | 5305 | 79.2 | -8.4 | 17165 | 11286 | 52.1 |

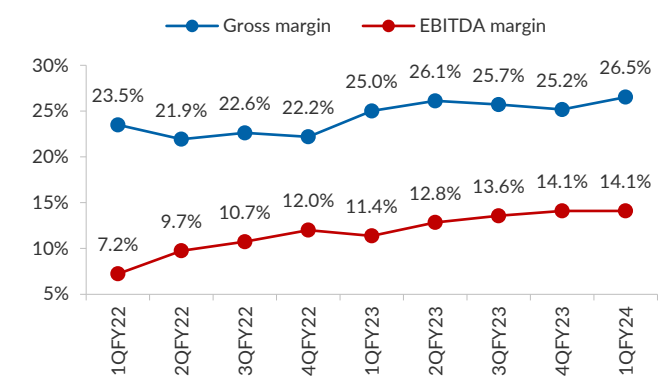
Source: Company, YES Sec

Exhibit 4: Polycab continues to deliver strong revenue growth



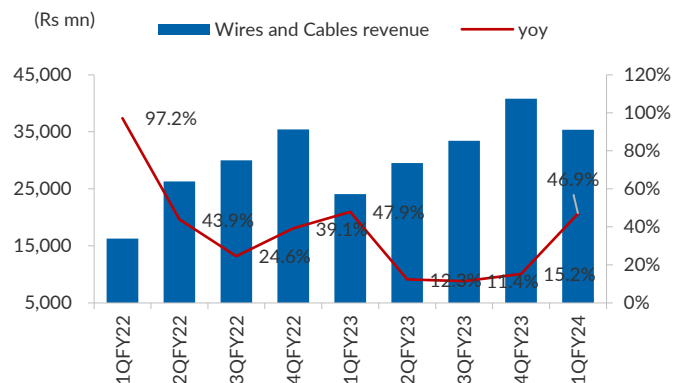
Source: Company, YES Sec

Exhibit 5: Higher operating leverage results in margin improvement



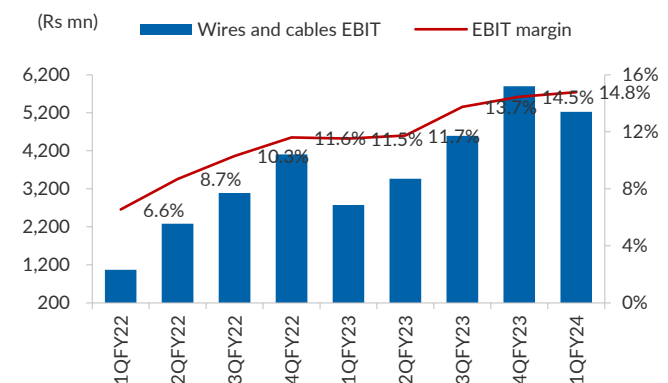
Source: Company, YES Sec

Exhibit 6: Growth has been aided by strong performance of Cables and exports



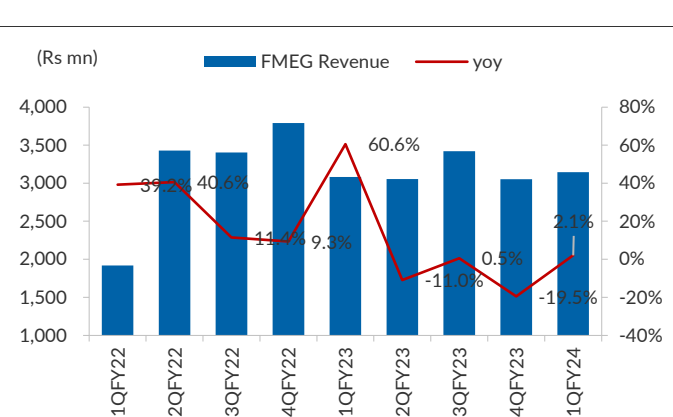
Source: Company, YES Sec

Exhibit 7: EBIT margins continue to improve on higher operating leverage



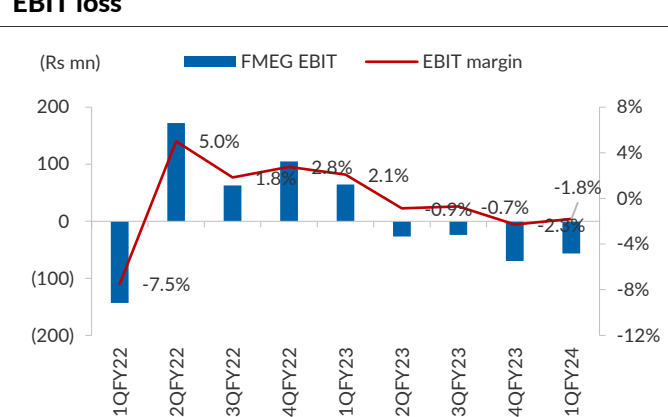
Source: Company, YES Sec

Exhibit 8: FMEG growth remains subdued



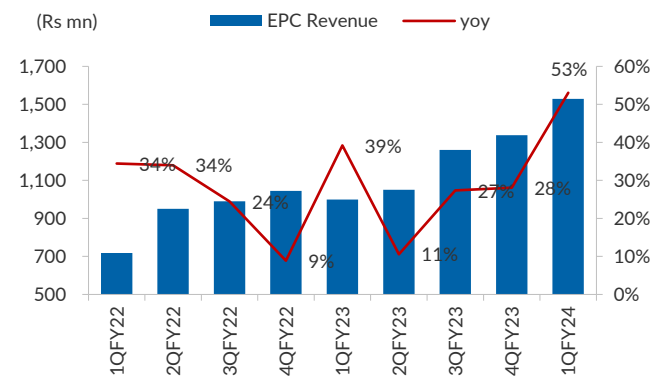
Source: Company, YES Sec

Exhibit 9: Negative operating leverage has resulted in EBIT loss



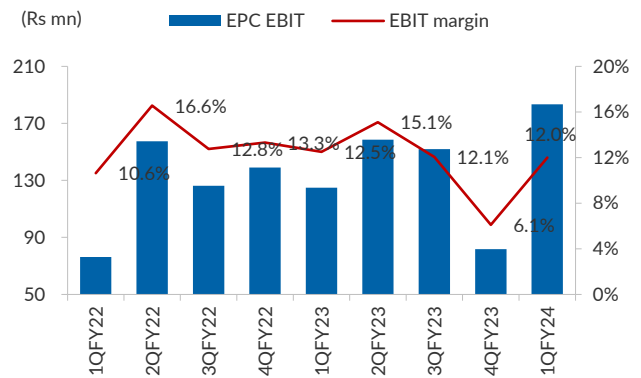
Source: Company, YES Sec

Exhibit 10: EPC business continues to see gradual recovery



Source: Company, YES Sec

Exhibit 11: EBIT margin continues to be range bound



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Macro** – Consumer demand in urban markets remain steady, while pick up in monsoon would result in higher rural demand going forward
- **Wires and Cables** – Strong volume growth of 50-60%. Growth was broad based with strong growth coming from North followed by West, East and South. Central government's capex continues to be strong and is continuing to spend on infra projects. State government is also contributing to the capex upcycle with spends in may surpassing previous years spends.
- **Private capex** – Private capex continues to be strong with capex spends in Q1FY24 to be around Rs5tn led by industry such as Chemicals, Transportation and Power industries.
- **Etira brand** – Wires launched under Etira brand to cater to price sensitive markets like semi-urban and rural areas is been received well by the market. The company is expanding distribution and has plan of covering 140 white spaces in the current year.
- **Margin improvement** – Margin improvement is on back of judicious price revision, higher operating leverage and strong growth in international business.
- **Price revision** – The company would have taken price reduction in low single digit in Q1
- **Fans** – Fans has seen sequential growth on introduction of new SKU's based on new BEE rating. The company has launched 80 new SKU's in Q1 with 20 new SKU's to be launched further. Working to improve market share in Fans. The company has not taken any price increase in Fans in Q1.
- **Lighting** – Lighting has seen decline on back of 10-12% price correction. Further price correction is expected in the lighting segment. Company has launched 50SKU's in lighting.
- **FMEG** – Consumer demand has been muted for FMEG products. The company expects FMEG demand to gradually improve in quarters going forward. Margins in FMEG is expected to be improve from the current fiscal year. The company has completed distribution rejig and company will launch new products on continued basis.
- **Working capital** - Working capital is higher as company has ordered higher inventory of copper as its vendors was going for maintenance shutdown and company does not want to lose out on strong demand. Higher working capital is temporary in nature and working capital is expected to see normalization in next two quarters to about 55-60 days.
- **Cables vs wires mix** – Cables have grown faster than the wires. Cables contribution has inched up to 72% which is 200-300bps higher than the Q4.
- **EBITDA margins** – The company expects EBITDA margin to be in the band of 12-14% vs earlier 11-13% as it is getting benefit of higher operating leverage.
- **International business** – India is very small in global cables and wires industry. Global wires and cables market stands at USD250bn of which US is 20%. The company will look to focus on the cables for exports
- **Capex** – Capex continues to remain in the range of Rs6bn on annual basis. Capex will be used in setting up EHV plants and expanding exports.
- **A&P Spends** – A&P spends would continue to inch up as company will be investing brand building. A&P spends is expected to be in range of 3-5% of B2C sales.
- **Capacity utilization** – The current capacity utilization would be in range of 60-70%.
- **Cash utilization** – The company will not shy away from acquiring any company which will increasing the company's ability and presence in the FMEG segment.

FINANCIALS

Exhibit 12: Balance Sheet

| Y/e 31 Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------------|--------|--------|--------|--------|--------|
| Equity capital | 1,491 | 1,494 | 1,498 | 1,498 | 1,498 |
| Reserves | 46,048 | 53,943 | 64,814 | 77,474 | 92,163 |
| Net worth | 47,539 | 55,437 | 66,311 | 78,971 | 93,660 |
| Debt | 2,487 | 831 | 1,551 | 1,858 | 2,089 |
| Deferred tax liab (net) | 418 | 272 | 423 | 423 | 423 |
| Other non current liabilities | 1,007 | 967 | 1,213 | 1,332 | 1,406 |
| Total liabilities | 51,451 | 57,507 | 69,499 | 82,584 | 97,579 |
| Fixed Asset | 19,346 | 20,154 | 22,815 | 26,471 | 29,921 |
| Investments | 6,349 | 7,733 | 13,505 | 13,505 | 13,505 |
| Other Non-current Assets | 2,957 | 2,461 | 2,352 | 2,775 | 3,146 |
| Net Working Capital | 20,421 | 25,942 | 29,299 | 36,485 | 40,424 |
| Inventories | 19,879 | 21,996 | 29,514 | 34,883 | 39,323 |
| Sundry debtors | 14,358 | 12,964 | 12,466 | 18,604 | 20,972 |
| Loans and Advances | 3,317 | 3,405 | 5,824 | 5,905 | 5,967 |
| Sundry creditors | 13,480 | 12,175 | 20,326 | 25,069 | 28,260 |
| Other current liabilities | 4,980 | 4,183 | 4,162 | 5,038 | 5,694 |
| Cash & equivalents | 2,378 | 1,217 | 1,528 | 3,348 | 10,583 |
| Total Assets | 51,451 | 57,507 | 69,499 | 82,584 | 97,579 |

Source: Company, YES Sec

Exhibit 13: Income statement

| Y/e 31 Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------|--------|---------|---------|---------|---------|
| Revenue | 89,265 | 122,038 | 141,078 | 169,763 | 191,370 |
| Operating profit | 11,670 | 12,647 | 18,521 | 23,499 | 26,872 |
| Depreciation | 1,848 | 2,005 | 2,092 | 2,323 | 2,709 |
| Interest expense | 531 | 352 | 598 | 869 | 743 |
| Other income | 1,282 | 899 | 1,333 | 1,783 | 2,202 |
| Profit before tax | 10,573 | 11,190 | 17,165 | 22,090 | 25,622 |
| Taxes | 1,791 | 2,706 | 4,250 | 5,469 | 6,344 |
| Minorities and other | 2 | 26 | 93 | 102 | 112 |
| Adj. profit | 8,780 | 8,458 | 12,823 | 16,519 | 19,166 |
| Exceptional items | (97) | - | - | - | - |
| Net profit | 8,877 | 8,458 | 12,823 | 16,519 | 19,166 |

Source: Company, YES Sec

Exhibit 14: Cashflow Statement

| Y/e 31 Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------|---------|---------|---------|---------|---------|
| Profit before tax | 11,104 | 11,542 | 17,763 | 22,959 | 26,365 |
| Depreciation | 1,848 | 2,005 | 2,092 | 2,323 | 2,709 |
| Tax paid | (1,791) | (2,706) | (4,250) | (5,469) | (6,344) |
| Working capital Δ | (6,502) | (6,930) | (9,221) | (7,186) | (3,939) |
| Other operating items | | | | | |
| Operating cashflow | 4,659 | 3,910 | 6,383 | 12,626 | 18,792 |
| Capital expenditure | (4,899) | (2,814) | (4,753) | (5,979) | (6,159) |
| Free cash flow | (240) | 1,097 | 1,631 | 6,647 | 12,633 |
| Equity raised | 1,789 | 1,532 | 1,047 | - | - |
| Investments | 137 | 26 | 93 | - | - |
| Debt financing/disposal | 916 | (1,655) | 720 | 307 | 231 |
| Interest paid | (531) | (352) | (598) | (869) | (743) |
| Dividends paid | (1,491) | (2,092) | (2,995) | (3,859) | (4,477) |
| Net Δ in cash | 656 | (1,161) | 311 | 1,821 | 7,235 |

Source: Company, YES Sec

Exhibit 15: Du-pont analysis

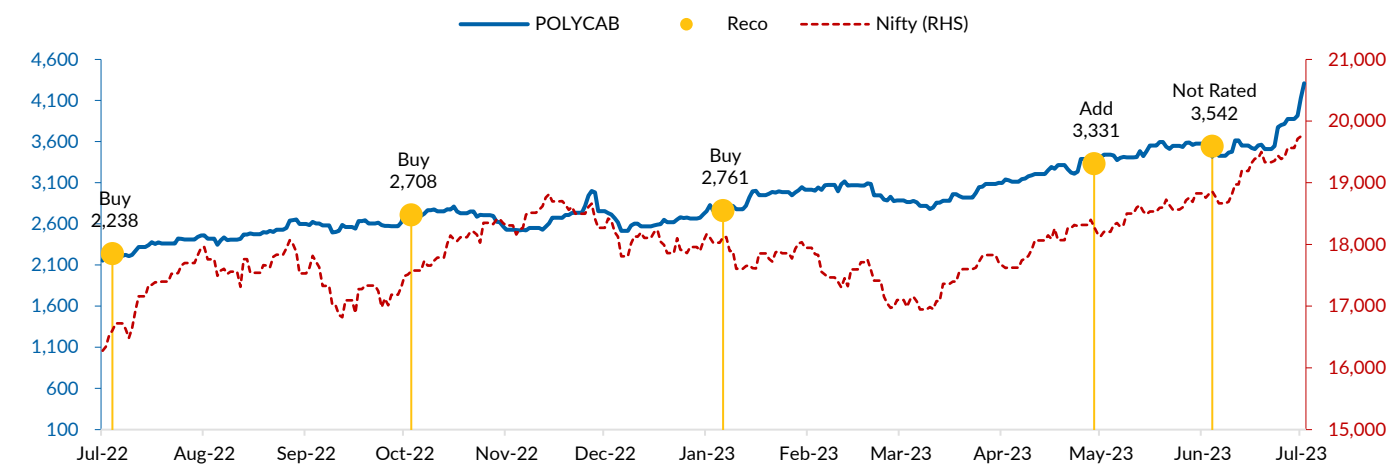
| Y/e 31 Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|------------------------|------|------|------|-------|-------|
| Tax burden (x) | 0.83 | 0.76 | 0.75 | 0.75 | 0.75 |
| Interest burden (x) | 0.95 | 0.97 | 0.97 | 0.96 | 0.97 |
| EBIT margin (x) | 0.12 | 0.09 | 0.13 | 0.14 | 0.14 |
| Asset turnover (x) | 1.38 | 1.69 | 1.68 | 1.64 | 1.56 |
| Financial leverage (x) | 1.51 | 1.40 | 1.38 | 1.43 | 1.42 |
| RoE (%) | 20.4 | 16.4 | 21.1 | 22.7 | 22.2 |

Exhibit 16: Ratio analysis

| Y/e 31 Mar | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------------------|------|-------|------|-------|-------|
| Growth matrix (%) | | | | | |
| Revenue growth | 1.1 | 36.7 | 15.6 | 20.3 | 12.7 |
| Op profit growth | 2.8 | 8.4 | 46.4 | 26.9 | 14.4 |
| EBIT growth | 4.1 | 3.9 | 53.9 | 29.3 | 14.8 |
| Net profit growth | 14.7 | (3.7) | 51.6 | 28.8 | 16.0 |
| Profitability ratios (%) | | | | | |
| OPM | 13.1 | 10.4 | 13.1 | 13.8 | 14.0 |
| EBIT margin | 12.4 | 9.5 | 12.6 | 13.5 | 13.8 |
| Net profit margin | 9.8 | 6.9 | 9.1 | 9.7 | 10.0 |
| RoCE | 24.7 | 21.7 | 28.6 | 30.9 | 29.9 |
| RoNW | 20.4 | 16.4 | 21.1 | 22.7 | 22.2 |

| Y/e 31 Mar | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------|-------|-------|-------|-------|-------|
| RoA | 13.5 | 11.7 | 15.2 | 15.9 | 15.7 |
| Per share ratios | | | | | |
| EPS | 59.5 | 56.6 | 85.6 | 110.3 | 128.0 |
| Dividend per share | 10.0 | 14.0 | 20.0 | 25.8 | 29.9 |
| Cash EPS | 71.3 | 70.0 | 99.6 | 125.8 | 146.1 |
| Book value per share | 318.8 | 371.0 | 442.8 | 527.3 | 625.4 |
| Valuation ratios | | | | | |
| P/E | 72.0 | 75.8 | 50.1 | 38.9 | 33.5 |
| P/CEPS | 59.6 | 61.1 | 42.8 | 33.9 | 29.2 |
| P/B | 13.5 | 11.6 | 9.7 | 8.1 | 6.9 |
| EV/EBIDTA | 54.8 | 50.6 | 34.7 | 27.3 | 23.6 |
| Payout (%) | | | | | |
| Dividend payout | 17.0 | 24.7 | 23.4 | 23.4 | 23.4 |
| Tax payout | 16.9 | 24.2 | 24.8 | 24.8 | 24.8 |
| Liquidity ratios | | | | | |
| Debtor days | 58.7 | 38.8 | 32.3 | 40.0 | 40.0 |
| Inventory days | 81.3 | 65.8 | 76.4 | 75.0 | 75.0 |
| Creditor days | 55.1 | 36.4 | 52.6 | 53.9 | 53.9 |

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

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