

October 19, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	5,943		5,665	
Sales (Rs. m)	1,80,233	2,08,231	1,73,732	2,00,789
% Chng.	3.7	3.7		
EBITDA (Rs. m)	25,320	28,826	23,371	26,972
% Chng.	8.3	6.9		
EPS (Rs.)	118.1	134.6	110.2	126.7
% Chng.	7.1	6.2		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,41,078	1,80,233	2,08,231	2,42,856
EBITDA (Rs. m)	18,521	25,320	28,826	33,371
Margin (%)	13.1	14.0	13.8	13.7
PAT (Rs. m)	12,700	17,689	20,151	23,530
EPS (Rs.)	84.8	118.1	134.6	157.1
Gr. (%)	38.9	39.3	13.9	16.8
DPS (Rs.)	17.0	18.5	22.5	28.0
Yield (%)	0.3	0.3	0.4	0.5
RoE (%)	20.9	23.8	22.2	21.5
RoCE (%)	28.6	32.4	30.4	29.4
EV/Sales (x)	5.5	4.3	3.7	3.1
EV/EBITDA (x)	42.1	30.6	26.5	22.5
PE (x)	63.0	45.2	39.7	34.0
P/BV (x)	12.1	9.7	8.0	6.7

Key Data POLC.BO | POLYCAB IN

52-W High / Low	Rs.5,494 / Rs.2,500
Sensex / Nifty	65,877 / 19,671
Market Cap	Rs.801bn/ \$ 9,619m
Shares Outstanding	150m
3M Avg. Daily Value	Rs.3791.04m

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	4.0	72.5	94.2
Relative	6.7	56.4	73.8

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Robust vol. growth with margins improvement

Quick Pointers:

- Domestic W&C business reported ~30% volume growth in Q2FY24.
- EBITDA margin expanded by 160bps, W&C margin improved by 300bps YoY.

We upward revised our FY24/25/FY26E earnings estimates by 7.1%/6.2%/2.9% to mainly reflect revision in top-line growth assumption (3.7% in FY24/FY25/FY26) and margin improvement (~14% EBITDA margin in FY24) with segment & product mix. Polycab reported healthy revenue growth of 26.6% YoY in Q2FY24, on the back of robust volume growth (~30%) in domestic 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 domestic W&C from infrastructure/real estate/construction activities (which accelerated institution business growth), 2) focus on B2C through increase in advertisement (3-5% of retail revenue vs 2.1% in FY23), expanding reach & change in product mix and 3) expected W&C market share gain of ~2% in coming years with wide SKUs, availability of products, logistics support etc. We expect Revenue/EBITDA/PAT CAGR of 19.8%/21.7%/22.8% over FY23-26E led by strong domestic demand environment supported by government measures & revival in private capex. Maintain 'Accumulate' with TP of Rs5943 (earlier Rs 5665).

W&C business reported ~30% domestic volume growth: W&C business reported 28.9% revenue growth on the back of robust volume growth (~30%) in domestic W&C business. Domestically, both distribution driven business and institutional business exhibited strong performance. Geographically, growth was broad based, with highest growth coming from North region, mainly from strong traction in infrastructure – railways & roads, power transmission business & real estate sector. Cables continued to outperform wires growth in Q2FY24. Healthy vol. growth indicates market share gain for Polycab. W&C margin improved 300bps YoY to 14.6%, led by better operating leverage & improvement in product-mix.

Sales grew 26.6% and PAT grew 58.8%: Sales grew 26.6% YoY to Rs42.2bn (PLe: Rs38.0bn) led by healthy volume growth in domestic W&C business. W&C business grew 28.9% YoY to Rs38bn (PLe: Rs33.9bn) on strong domestic volume growth of ~30% (Dom. W&C revenue up 35.5% YoY). Export revenue decline by 9.5% YoY which contributed 9.3% to its total sales. Gross margins expanded by 100bps YoY to 27.1%. (PLe:26%). EBITDA grew by 42.4% YoY to Rs6.1bn (PLe: Rs5.2bn). EBITDA margins expanded by 160bps YoY to 14.4% (PLe: 13.6%). PAT grew by 58.5% YoY to Rs4.3bn (PLe: Rs3.6bn) was largely from volume growth and improvement in margins. W&C's EBIT grew 60.2% YoY to Rs5.5bn and margins expanded by 300bps YoY to 14.6%, led by better operating leverage and improvement in product-mix. FMEG revenues grew 8.1% YoY to Rs3.3bn and reported EBIT loss of Rs 60.2mn in Q2FY24 vs loss of Rs26.8mn in Q2FY23.

Exhibit 1: Q2FY24 Result Overview (Rs mn)

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Net Sales	42,177	33,324	26.6	38,894	8.4	81,071	60,689	33.6
Gross Profit	11,438	8,699	31.5	10,313	10.9	21,752	15,541	40.0
<i>% of NS</i>	<i>27.1</i>	<i>26.1</i>		<i>26.5</i>		<i>26.8</i>	<i>25.6</i>	
Other Expenses	5,349	4,422	21.0	4,828	10.8	10,177	8,153	24.8
<i>% of NS</i>	<i>12.7</i>	<i>13.3</i>		<i>12.4</i>		<i>12.6</i>	<i>13.4</i>	
EBITDA	6,089	4,276	42.4	5,486	11.0	11,575	7,387	56.7
<i>Margins (%)</i>	<i>14.4</i>	<i>12.8</i>		<i>14.1</i>		<i>14.3</i>	<i>12.2</i>	
Depreciation	603	523	15.4	571	5.5	1,174	1,033	13.7
Interest	268	139	92.7	249	7.5	517	223	131.9
Other Income	353	(22)	NA	640	(44.8)	993	421	135.7
PBT	5,572	3,593	55.1	5,305	5.0	10,876	6,553	66.0
Tax	1,274	878	45.0	1,277	(0.2)	2,551	1,600	59.4
<i>Tax rate (%)</i>	<i>22.9</i>	<i>24.4</i>		<i>24.1</i>		<i>23.5</i>	<i>24.4</i>	
Adjusted PAT	4,256	2,680	58.8	3,993	6.6	8,248	4,878	69.1

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn)

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenues								
Wires & Cables	38,047	29,517	28.9	35,338	7.7	73,385	53,574	37.0
FMEG	3,300	3,054	8.1	3,145	4.9	6,445	6,135	5.1
Others	2,015	1,051	91.8	1,528	31.8	3,543	1,802	96.7
Total	43,362	33,621	29.0	40,012	8.4	83,373	61,511	35.5
EBIT								
Wires & Cables	5,547	3,463	60.2	5,223	6.2	10,769	6,235	72.7
<i>EBIT margin (%)</i>	<i>14.6</i>	<i>11.7</i>		<i>14.8</i>		<i>14.7</i>	<i>11.6</i>	
FMEG	(60)	-27	NA	-57	NA	(117)	38	NA
<i>EBIT margin (%)</i>	<i>-1.8</i>	<i>-0.9</i>		<i>-1.8</i>		<i>-1.8</i>	<i>0.6</i>	
Others	225	159	41.8	183	22.6	408	283	44.0
<i>EBIT margin (%)</i>	<i>11.2</i>	<i>15.1</i>		<i>12.0</i>		<i>11.5</i>	<i>15.7</i>	
Total EBIT	5,712	3,594	58.9	5,349	6.8	11,061	6,556	68.7
<i>EBIT margin (%)</i>	<i>13.2</i>	<i>10.7</i>		<i>13.4</i>		<i>13.3</i>	<i>10.7</i>	

Source: Company, PL

Q2FY24 Concall Highlights

- **Healthy growth in volume to continue** given 1) healthy traction across sectors – railway/road/power/real estate/renewable etc. 2) demand coming from private sectors, 3) domestic market share gain by Polycab with quality of products, wide SKUs, availability of products at time & superior logistic support.
- **Cables growth continued to outperform wires growth**; this is expected to continue for near term.
- **Management has maintained its EBITDA margin guidance to 12-14%** even after delivering 14.3% EBITDA margin in 1HFY24 on account of better operating leverage and favorable product mix.
- **Working capital days will be between 50-60 days, going forward.** Polycab reported sequential improvement in working capital days with normalization in inventory days at end of Q2FY24.
- **Capex is expected to be Rs6-7bn each in FY24 and FY25.**
- 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 market penetrations.

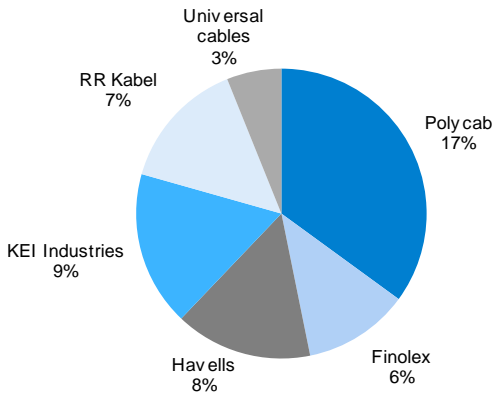
Cables & Wires Segment

- **The volume growth was around 30% in Q2FY24**, cable business delivered more than 30% volume growth and wire ~20% in Q2FY24.
- **Cables business in focus; is growing faster than wires** with growth in infrastructure – railways & roads, power transmission business and real estate sectors.
- **The capacity utilization is at 65%-70% for W&C business.** Polycab is setting up new facility for EHV cables in collaboration with overseas partner, which start by end of FY26.
- **Highest growth in domestic W&C is from North region** (mainly from UP, Delhi, Haryana). Geographically, South is largest contributor in domestic W&C business followed by west, north and east.

FMEG Segment

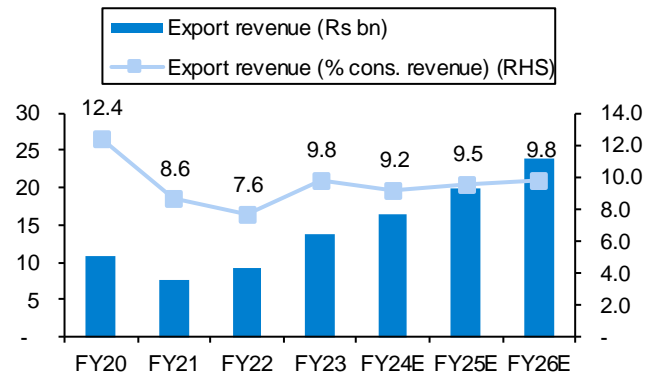
- **FMEG impacted from high competitive intensity in Fan & light segments.** FMEG business exhibited marginal growth of 8% YoY in Q2FY24, in spite of larger businesses of Fans and Lights showing de-growth due to continued weakness in consumer demand. Management has guided for QoQ improvement in margins & excluding adv. expenses, reported positive margin.
- Improvement in mix towards higher margin products contained bottom-line de-growth, despite higher A&P spends during Q2FY24.

Exhibit 3: Polycab – Domestic market share (FY23)



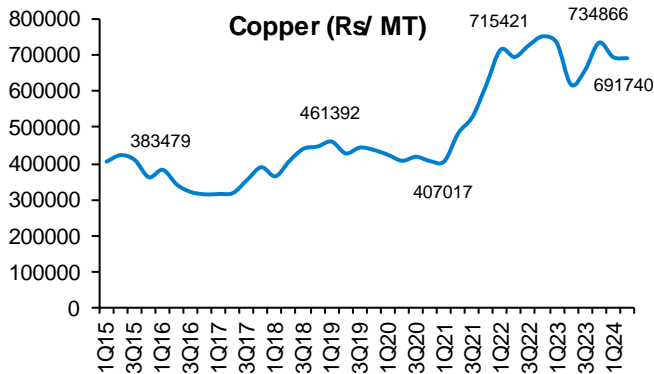
Source: Company, PL

Exhibit 4: Polycab – International business to reach 10%



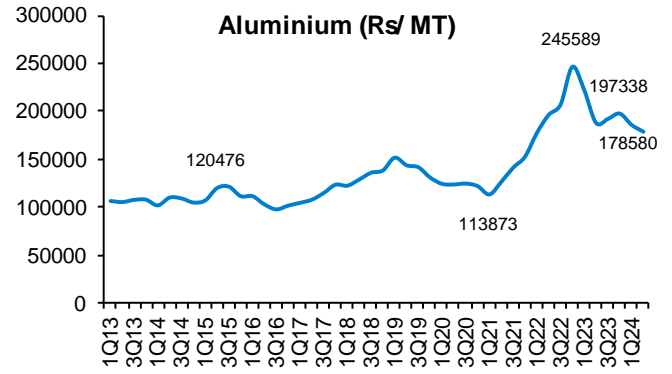
Source: Company, PL

Exhibit 5: Copper price up 11.7%YoY / down 0.5%QoQ



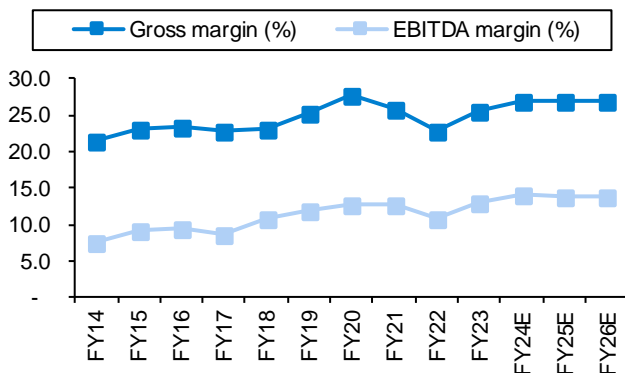
Source: Company, PL

Exhibit 6: Aluminum price down 4.9%YoY / 3.8%QoQ



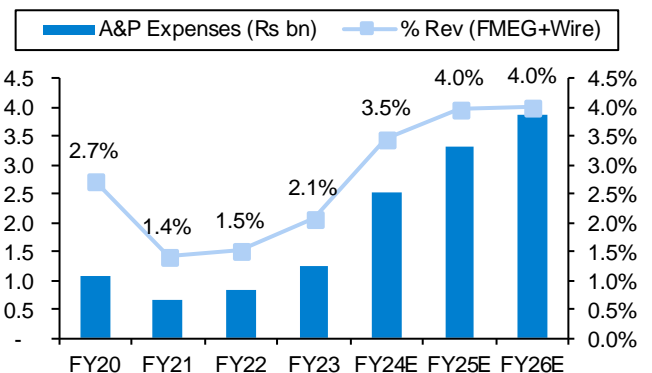
Source: Company, PL

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

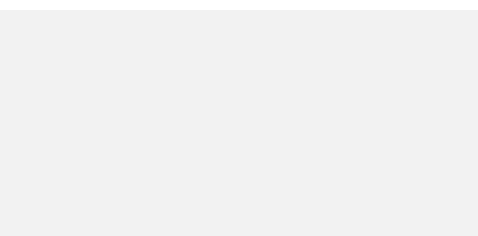


Source: Company, PL

Exhibit 8: Adv. exp. to increase, drive retail business



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,41,078	1,80,233	2,08,231	2,42,856
YoY gr. (%)	14.9	27.8	15.5	16.6
Cost of Goods Sold	1,05,109	1,31,553	1,51,999	1,77,523
Gross Profit	35,969	48,681	56,232	65,334
Margin (%)	25.5	27.0	27.0	26.9
Employee Cost	4,568	6,128	7,080	8,257
Other Expenses	5,981	7,410	8,561	9,984
EBITDA	18,521	25,320	28,826	33,371
YoY gr. (%)	38.1	36.7	13.8	15.8
Margin (%)	13.1	14.0	13.8	13.7
Depreciation and Amortization	2,092	2,380	2,757	3,116
EBIT	16,430	22,940	26,069	30,255
Margin (%)	11.6	12.7	12.5	12.5
Net Interest	598	1,050	1,230	1,429
Other Income	1,333	1,694	2,175	2,766
Profit Before Tax	17,165	23,584	27,015	31,593
Margin (%)	12.2	13.1	13.0	13.0
Total Tax	4,250	5,719	6,686	7,883
Effective tax rate (%)	24.8	24.3	24.8	25.0
Profit after tax	12,915	17,865	20,329	23,710
Minority interest	123	129	136	142
Share Profit from Associate	(93)	(46)	(42)	(38)
Adjusted PAT	12,700	17,689	20,151	23,530
YoY gr. (%)	39.2	39.3	13.9	16.8
Margin (%)	9.0	9.8	9.7	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,700	17,689	20,151	23,530
YoY gr. (%)	39.2	39.3	13.9	16.8
Margin (%)	9.0	9.8	9.7	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,700	17,689	20,151	23,530
Equity Shares O/s (m)	150	150	150	150
EPS (Rs)	84.8	118.1	134.6	157.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	32,420	37,795	42,973	48,184
Tangibles	32,025	37,370	42,518	47,699
Intangibles	395	425	455	485
Acc: Dep / Amortization	11,797	13,976	16,582	19,499
Tangibles	11,559	13,715	16,297	19,188
Intangibles	238	261	285	311
Net fixed assets	20,623	23,820	26,391	28,685
Tangibles	20,466	23,655	26,221	28,511
Intangibles	157	164	170	174
Capital Work In Progress	2,508	2,508	2,508	2,508
Goodwill	46	46	46	46
Non-Current Investments	597	1,062	1,219	747
Net Deferred tax assets	(409)	(586)	(789)	(1,026)
Other Non-Current Assets	1,380	1,185	1,200	1,216
Current Assets				
Investments	13,505	18,505	23,505	28,505
Inventories	29,514	41,972	48,492	56,556
Trade receivables	12,466	12,839	14,833	17,299
Cash & Bank Balance	6,951	8,541	14,168	22,532
Other Current Assets	6,253	5,407	6,247	7,286
Total Assets	94,255	1,16,543	1,39,354	1,66,231
Equity				
Equity Share Capital	1,498	1,498	1,498	1,498
Other Equity	64,814	80,669	98,050	1,18,210
Total Network	66,311	82,167	99,548	1,19,708
Non-Current Liabilities				
Long Term borrowings	42	42	42	42
Provisions	450	324	375	437
Other non current liabilities	165	165	165	165
Current Liabilities				
ST Debt / Current of LT Debt	1,509	1,983	2,291	2,671
Trade payables	20,326	23,102	26,693	31,176
Other current liabilities	4,430	7,206	8,279	9,604
Total Equity & Liabilities	94,255	1,16,543	1,39,354	1,66,231

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	17,073	23,538	26,973	31,555
Add. Depreciation	2,092	2,380	2,757	3,116
Add. Interest	598	1,050	1,230	1,429
Less Financial Other Income	1,333	1,694	2,175	2,766
Add. Other	(204)	(520)	(1,243)	(1,637)
Op. profit before WC changes	19,557	26,448	29,717	34,462
Net Changes-WC	(515)	(7,141)	(4,930)	(5,392)
Direct tax	(4,250)	(5,719)	(6,686)	(7,883)
Net cash from Op. activities	14,792	13,588	18,100	21,188
Capital expenditures	(4,763)	(5,577)	(5,328)	(5,410)
Interest / Dividend Income	325	990	1,547	2,003
Others	(8,341)	(6,593)	(10,627)	(13,364)
Net Cash from Inv. activities	(12,779)	(11,181)	(14,408)	(16,770)
Issue of share cap. / premium	3	-	-	-
Debt changes	720	473	308	381
Dividend paid	(2,092)	(2,540)	(2,771)	(3,370)
Interest paid	(598)	(1,050)	(1,230)	(1,429)
Others	-	-	-	-
Net cash from Fin. activities	(1,966)	(3,117)	(3,693)	(4,417)
Net change in cash	47	(709)	-	-
Free Cash Flow	10,029	8,011	12,772	15,778

Source: Company Data, PL Research

Quarterly Financials (Rs m)

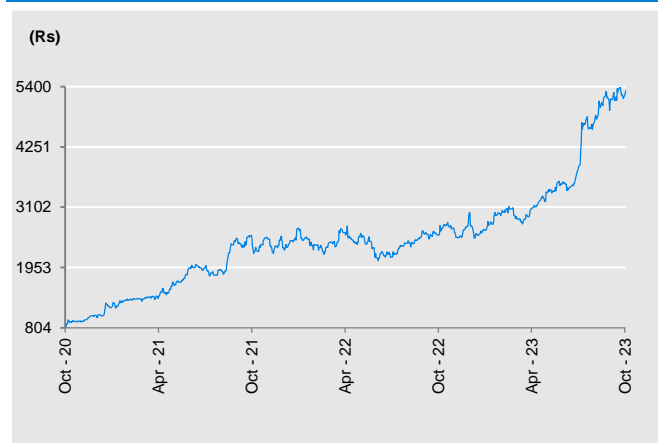
Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	37,151	43,237	38,894	42,177
YoY gr. (%)	10.2	8.9	42.1	26.6
Raw Material Expenses	27,603	32,357	28,581	30,739
Gross Profit	9,548	10,880	10,313	11,438
Margin (%)	25.7	25.2	26.5	27.1
EBITDA	5,038	6,095	5,486	6,089
YoY gr. (%)	39.3	28.1	76.3	42.4
Margin (%)	13.6	14.1	14.1	14.4
Depreciation / Depletion	525	535	571	603
EBIT	4,514	5,561	4,914	5,486
Margin (%)	12.1	12.9	12.6	13.0
Net Interest	93	282	249	268
Other Income	397	515	640	353
Profit before Tax	4,818	5,794	5,305	5,572
Margin (%)	13.0	13.4	13.6	13.2
Total Tax	1,202	1,446	1,277	1,274
Effective tax rate (%)	24.9	25.0	24.1	22.9
Profit after Tax	3,616	4,348	4,028	4,298
Minority interest	32	37	35	42
Share Profit from Associates	(8)	(64)	-	-
Adjusted PAT	3,576	4,248	3,993	4,256
YoY gr. (%)	44.9	32.0	81.7	58.9
Margin (%)	9.6	9.8	10.3	10.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,576	4,248	3,993	4,256
YoY gr. (%)	44.9	32.0	81.7	58.9
Margin (%)	9.6	9.8	10.3	10.1
Other Comprehensive Income	133	(66)	(131)	71
Total Comprehensive Income	3,709	4,182	3,862	4,327
Avg. Shares O/s (m)	149	149	149	149
EPS (Rs)	24.0	28.5	26.8	28.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	84.8	118.1	134.6	157.1
CEPS	98.8	134.0	153.0	177.9
BVPS	442.8	548.6	664.7	799.3
FCF	67.0	53.5	85.3	105.4
DPS	17.0	18.5	22.5	28.0
Return Ratio(%)				
RoCE	28.6	32.4	30.4	29.4
ROIC	29.7	35.5	35.4	37.2
RoE	20.9	23.8	22.2	21.5
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)
Net Working Capital (Days)	38	47	47	47
Valuation(x)				
PER	63.0	45.2	39.7	34.0
P/B	12.1	9.7	8.0	6.7
P/CEPS	54.1	39.8	34.9	30.0
EV/EBITDA	42.1	30.6	26.5	22.5
EV/Sales	5.5	4.3	3.7	3.1
Dividend Yield (%)	0.3	0.3	0.4	0.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Accumulate	5,665	5,259
2	20-Jul-23	Accumulate	4,760	4,309
3	06-Jul-23	Hold	3,476	3,553
4	15-May-23	Hold	3,249	3,381
5	11-Apr-23	Hold	2,794	2,982
6	21-Jan-23	Hold	2,750	2,761
7	06-Jan-23	Hold	2,651	2,626

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,983	1,889
2	Bajaj Electricals	BUY	1,421	1,056
3	Century Plyboard (I)	BUY	855	653
4	Cera Sanitaryware	Accumulate	8,857	8,176
5	Crompton Greaves Consumer Electricals	BUY	401	301
6	Finolex Industries	Accumulate	243	227
7	Greenpanel Industries	BUY	495	374
8	Havells India	Accumulate	1,538	1,399
9	Kajaria Ceramics	Accumulate	1,445	1,319
10	KEI Industries	BUY	2,908	2,726
11	Polycab India	Accumulate	5,665	5,259
12	R R Kabel	BUY	1,624	1,503
13	Supreme Industries	Accumulate	4,225	3,925
14	Voltas	Hold	909	885

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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