

January 21, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		ACCUMULATE	
Target Price	6,021		6,021	
Sales (Rs. m)	2,03,543	2,36,899	2,03,957	2,37,911
% Chng.	(0.2)	(0.4)		
EBITDA (Rs. m)	28,009	32,595	28,062	32,728
% Chng.	(0.2)	(0.4)		
EPS (Rs.)	130.1	152.8	130.9	154.1
% Chng.	(0.6)	(0.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,41,078	1,76,900	2,03,543	2,36,899
EBITDA (Rs. m)	18,521	24,504	28,009	32,595
Margin (%)	13.1	13.9	13.8	13.8
PAT (Rs. m)	12,700	17,325	19,535	22,941
EPS (Rs.)	84.8	115.4	130.1	152.8
Gr. (%)	38.9	36.1	12.8	17.4
DPS (Rs.)	17.0	18.5	22.5	28.0
Yield (%)	0.4	0.4	0.5	0.6
RoE (%)	20.9	23.4	21.7	21.2
RoCE (%)	28.6	31.9	29.7	29.0
EV/Sales (x)	4.5	3.5	3.0	2.5
EV/EBITDA (x)	34.0	25.5	22.0	18.5
PE (x)	51.1	37.6	33.3	28.4
P/BV (x)	9.8	8.0	6.6	5.5

Key Data

POLC.BO | POLYCAB IN

52-W High / Low	Rs.5,733 / Rs.2,737
Sensex / Nifty	71,424 / 21,572
Market Cap	Rs.651bn/ \$ 7,838m
Shares Outstanding	150m
3M Avg. Daily Value	Rs.5984.1m

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	(21.1)	(8.1)	57.0
Relative	(21.5)	(14.2)	33.3

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Healthy volume growth to drive revenue

Quick Pointers:

- Domestic W&C business reported ~18% volume growth in Q3FY24.
- EBITDA margin contracted by 50bps; W&C margin improved by 30bps YoY.

We upgrade our rating from Accumulate to 'BUY' at an unchanged TP of Rs 6,021 valuing at PE of 39x FY26E earnings, given significant correction in stock prices on concerns of tax evasion. Polycab reported healthy revenue growth of 16.8% YoY in Q3FY24, even after disruption in business during last ten days of Dec-23 due to IT raid at various locations. Growth was largely from cable business on the back of robust volume growth in domestic business. Regarding income tax searches, Polycab reiterated that as on date, the company had not received any written communication from IT dept. The company expects sustained volume growth in dom. C&W business on the back of strong demand environment, supported by government's continuous focus on infrastructure development and pickup in private capital expenditure. Accordingly, Polycab is expected to achieve Rs 200bn revenues sooner than targeted by FY26E under Project LEAP. We expect Revenue/EBITDA/PAT CAGR of 19.0%/20.9%/21.9% over FY23-26E led by strong domestic demand environment supported by government measures & revival in private capex. Upgrade to 'BUY'.

W&C business reported ~18% domestic vol. growth: W&C business reported 16.8% revenue growth, driven by robust volume growth. The sustained strength in demand is attributed to ongoing support from both government and private capex. On domestic front, both distribution and institutional segments demonstrated robust performance. However, growth in institutional business outperformed distribution business. International business revenue accounted for 6.2% of the total consolidated revenue for the quarter. Polycab expects continued strong performance in international business for Q4FY24 and beyond. Cables continued to outperform wires growth in Q3FY24. Healthy vol. growth indicates market share gain for Polycab. W&C margin improved 30bps YoY to 14.0%, led by better operating leverage & improvement in product-mix.

Sales grew 16.8% and PAT grew 15.4%: Sales grew 16.8% YoY to Rs43.4bn (PLe: Rs41.6bn) led by healthy volume growth in domestic W&C business. W&C business grew 16.8% YoY to Rs39bn (PLe: Rs36.5bn) on strong domestic volume growth in wires and cables business (Dom. W&C revenue up 16.5% YoY). Export revenue grew by ~22% YoY; contribution was 6.2% to its total sales. Gross margins expanded by 130bps YoY to 27.0%. (PLe:26.0%). EBITDA grew by 13.0% YoY to Rs5.7bn (PLe: Rs5.6bn). EBITDA margins contracted by 50bps YoY to 13.1% (PLe: 13.4%). PAT grew by 15.4% YoY to Rs4.1bn (PLe: Rs3.7bn). W&C's EBIT grew 19.2% YoY to Rs5.5bn and margins expanded by 30bps YoY to 14.0%, led by better operating leverage and improvement in product-mix. FMEG revenues down 13.4% YoY to Rs3.0bn and reported EBIT loss of Rs 366mn in Q3FY24 vs loss of Rs24mn in Q3FY24.

Exhibit 1: Q3FY24 Result Overview (Rs mn)

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	43,405	37,151	16.8	42,177	2.9	1,24,475	97,841	27.2
Gross Profit	11,713	9,548	22.7	11,438	2.4	33,464	25,089	33.4
<i>% of NS</i>	<i>27.0</i>	<i>25.7</i>		<i>27.1</i>		<i>26.9</i>	<i>25.6</i>	
Other Expenses	6,018	4,510	33.4	5,349	12.5	16,162	12,663	27.6
<i>% of NS</i>	<i>13.9</i>	<i>12.1</i>		<i>12.7</i>		<i>13.0</i>	<i>12.9</i>	
EBITDA	5,695	5,038	13.0	6,089	(6.5)	17,303	12,425	39.3
<i>Margins (%)</i>	<i>13.1</i>	<i>13.6</i>		<i>14.4</i>		<i>13.9</i>	<i>12.7</i>	
Depreciation	619	525	18.0	603	2.6	1,793	1,557	15.2
Interest	322	93	247.9	268	20.3	839	316	165.9
Other Income	710	397	78.9	353	101.0	1,670	818	104.2
PBT	5,464	4,818	13.4	5,572	(1.9)	16,340	11,371	43.7
Tax	1,299	1,202	8.1	1,274	2.0	3,846	2,798	37.5
<i>Tax rate (%)</i>	<i>23.8</i>	<i>24.9</i>		<i>22.9</i>		<i>23.5</i>	<i>24.6</i>	
Adjusted PAT	4,129	3,576	15.4	4,256	(3.0)	12,380	8,515	45.4

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn)

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Revenues								
Wires & Cables	39,041	33,418	16.8	38,047	2.6	1,12,426	86,992	29.2
FMEG	2,962	3,420	-13.4	3,300	-10.2	9,407	9,555	-1.6
Others	2,475	1,260	96.4	2,015	22.8	5,986	3,309	80.9
Total	44,478	38,098	16.7	43,362	2.6	1,27,818	99,857	28.0
EBIT								
Wires & Cables	5,474	4,593	19.2	5,547	-1.3	16,244	10,828	50.0
<i>EBIT margin (%)</i>	<i>14.0</i>	<i>13.7</i>		<i>14.6</i>		<i>14.4</i>	<i>12.4</i>	
FMEG	(366)	-24	1429.5	-60	508.3	(483)	14	NA
<i>EBIT margin (%)</i>	<i>-12.4</i>	<i>-0.7</i>		<i>-1.8</i>		<i>-5.1</i>	<i>0.1</i>	
Others	394	152	159.6	225	75.3	(2,127)	435	-588.8
<i>EBIT margin (%)</i>	<i>15.9</i>	<i>12.1</i>		<i>11.2</i>		<i>-35.5</i>	<i>13.2</i>	
Total EBIT	5,502	4,721	16.6	5,712	-3.7	13,633	11,277	20.9
<i>EBIT margin (%)</i>	<i>12.4</i>	<i>12.4</i>		<i>13.2</i>		<i>10.7</i>	<i>11.3</i>	

Source: Company, PL

Q3FY24 Concall Highlights

- Wires and cables business grew by 18% YoY with **entire growth coming through volume growth**. Demand is coming from infrastructure activity, growing investments in renewable energy, pickup in private capex & real estate market. **Export demand was affected** from 1) transition to distribution led model in USA and 2) disruption in Red sea due to Israel-Hamas Conflict, but company is confident that it will improve from next quarter.
- The company operated around **70% cables to 30% wires**. Contribution from cables increased due to faster growth.
- EBITDA grew by 13% YoY with EBITDA margins at 13.1%, which is in guidance range of 12-14%.
- Polycab maintained a **working capital cycle at 51 days**, which is within the company's comfort range of 50 to 60 days.
- Incurred **capex of INR6.4bn in first nine months**; aims at INR8-9bn capex for full year and INR6-7bn for FY25. The company is dynamic about capex based on opportunities.
- **A&P spends increased** and accounted for 2.1% (1.1% in Q2FY24) of net sales in Q3, i.e, 900mn.
- **EHV manufacturing plant** expected to be operational by late FY26.

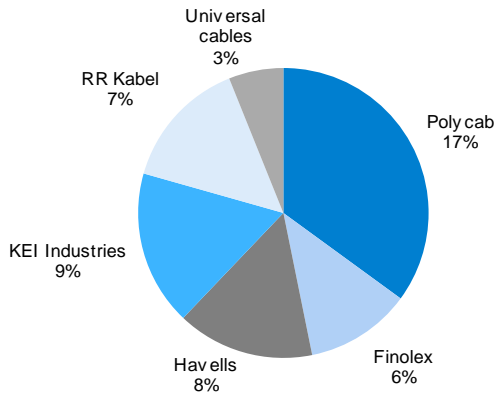
Cables & Wires Segment

- **Domestic business** showed a volume growth of 20%+. Company expects robust growth in coming quarters due to Government capex and increase in Infra spend. **International Business** showed 22% YoY growth and contributed 6.2% to company's revenue, however there is distribution model transition in the US and impact of Israel-Hamas war on trade routes.
- Polycab aims to **add capacity before reaching high utilization levels**, with focus on not exceeding 90% or 95% utilization. Currently utilization is 70% to 75% for cables and wires combined in Q3.
- Management has maintained an **EBITDA margin guidance of 11% to 13%** for cables and wires.

FMEG Segment

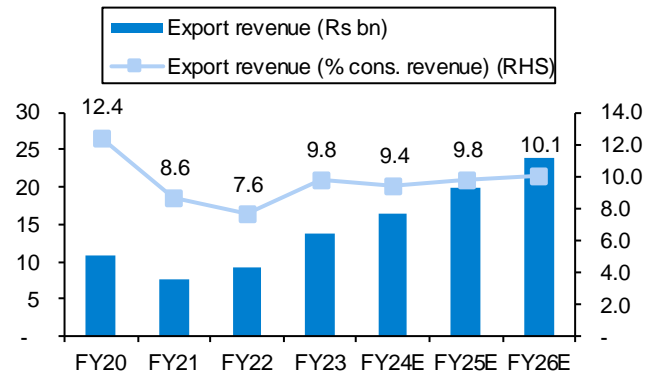
- There is an ongoing internal **restructuring in FMEG business**, with focus on switches and switch gears. Detailed information on changes will be provided in next couple of quarters.
- Company is **spending high on A&P**, including World Cup, for continuous brand visibility. FMEG segment experienced volume growth around Diwali, but was lesser than expected.

Exhibit 3: Polycab – Domestic market share (FY23)



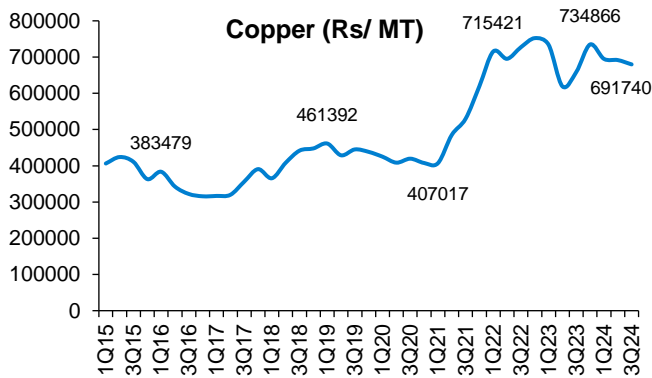
Source: Company, PL

Exhibit 4: Polycab – International business to reach 10%



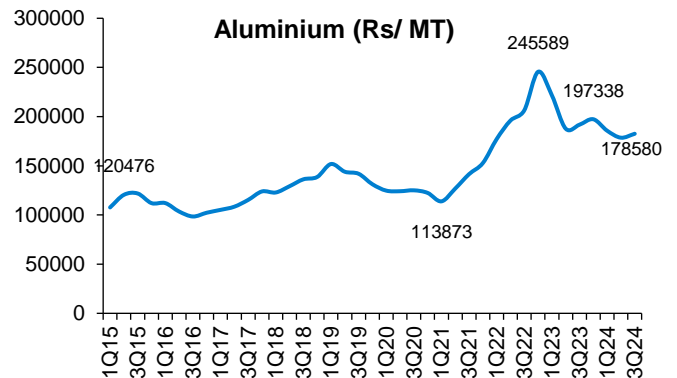
Source: Company, PL

Exhibit 5: Copper price up 2.7%YoY / down 2.2%QoQ



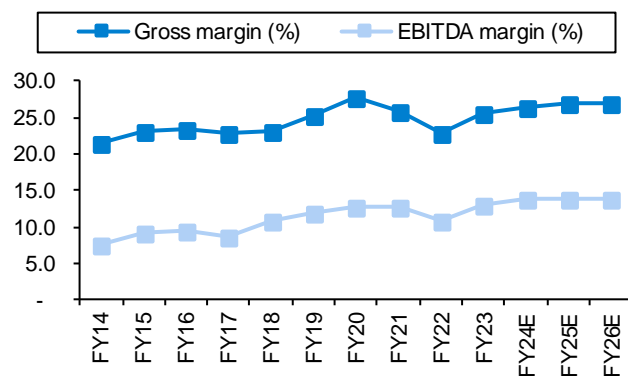
Source: Company, PL

Exhibit 6: Aluminum price down 5.2%YoY / up 1.8%QoQ



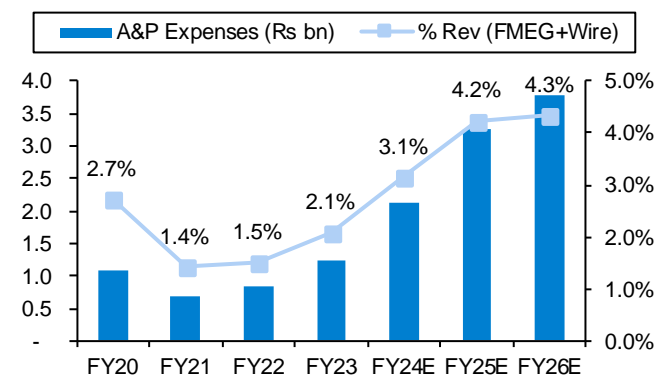
Source: Company, PL

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

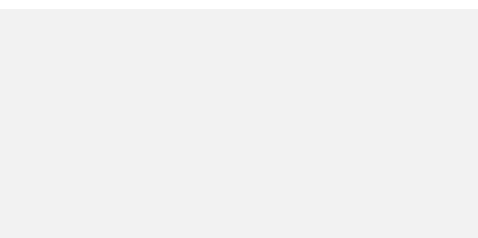


Source: Company, PL

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	1,76,900	2,03,543	2,36,899
YoY gr. (%)	14.9	25.4	15.1	16.4
Cost of Goods Sold	1,05,109	1,29,979	1,48,745	1,73,125
Gross Profit	35,969	46,921	54,798	63,774
Margin (%)	25.5	26.5	26.9	26.9
Employee Cost	4,568	6,015	6,920	8,055
Other Expenses	5,981	7,115	8,368	9,739
EBITDA	18,521	24,504	28,009	32,595
YoY gr. (%)	38.1	32.3	14.3	16.4
Margin (%)	13.1	13.9	13.8	13.8
Depreciation and Amortization	2,092	2,404	2,786	3,105
EBIT	16,430	22,100	25,223	29,490
Margin (%)	11.6	12.5	12.4	12.4
Net Interest	598	1,090	1,253	1,407
Other Income	1,333	2,053	2,193	2,698
Profit Before Tax	17,165	23,063	26,163	30,782
Margin (%)	12.2	13.0	12.9	13.0
Total Tax	4,250	5,593	6,475	7,680
Effective tax rate (%)	24.8	24.3	24.8	25.0
Profit after tax	12,915	17,470	19,687	23,101
Minority interest	123	145	152	160
Share Profit from Associate	(93)	-	-	-
Adjusted PAT	12,700	17,325	19,535	22,941
YoY gr. (%)	39.2	36.4	12.8	17.4
Margin (%)	9.0	9.8	9.6	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,700	17,325	19,535	22,941
YoY gr. (%)	39.2	36.4	12.8	17.4
Margin (%)	9.0	9.8	9.6	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,700	17,325	19,535	22,941
Equity Shares O/s (m)	150	150	150	150
EPS (Rs)	84.8	115.4	130.1	152.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	32,420	37,779	42,949	48,154
Tangibles	32,025	37,354	42,494	47,669
Intangibles	395	425	455	485
Acc: Dep / Amortization	11,797	13,999	16,611	19,488
Tangibles	11,559	13,739	16,326	19,177
Intangibles	238	261	285	311
Net fixed assets	20,623	23,779	26,338	28,666
Tangibles	20,466	23,615	26,168	28,492
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	1,043	1,193	731
Net Deferred tax assets	(409)	(582)	(779)	(1,010)
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	41,196	47,400	55,168
Trade receivables	12,466	12,601	14,499	16,875
Cash & Bank Balance	6,951	8,922	14,045	21,939
Other Current Assets	6,253	5,307	6,106	7,107
Total Assets	94,255	1,15,742	1,37,572	1,63,594
Equity				
Equity Share Capital	1,498	1,502	1,502	1,502
Other Equity	64,814	80,305	97,062	1,16,625
Total Network	66,311	81,807	98,564	1,18,127
Non-Current Liabilities				
Long Term borrowings	42	42	42	42
Provisions	450	318	366	426
Other non current liabilities	165	165	165	165
Current Liabilities				
ST Debt / Current of LT Debt	1,509	1,946	2,239	2,606
Trade payables	20,326	22,826	26,122	30,403
Other current liabilities	4,430	7,080	8,101	9,378
Total Equity & Liabilities	94,255	1,15,742	1,37,572	1,63,594

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	17,073	23,063	26,163	30,782
Add. Depreciation	2,092	2,404	2,786	3,105
Add. Interest	598	1,090	1,253	1,407
Less Financial Other Income	1,333	2,053	2,193	2,698
Add. Other	(204)	52	(255)	(399)
Op. profit before WC changes	19,557	26,609	29,947	34,895
Net Changes-WC	(515)	(6,402)	(4,812)	(5,222)
Direct tax	(4,250)	(5,593)	(6,475)	(7,680)
Net cash from Op. activities	14,792	14,614	18,659	21,992
Capital expenditures	(4,763)	(5,560)	(5,345)	(5,433)
Interest / Dividend Income	325	400	547	753
Others	(8,341)	(6,973)	(10,123)	(12,894)
Net Cash from Inv. activities	(12,779)	(12,134)	(14,921)	(17,574)
Issue of share cap. / premium	3	4	-	-
Debt changes	720	437	293	367
Dividend paid	(2,092)	(2,540)	(2,778)	(3,379)
Interest paid	(598)	(1,090)	(1,253)	(1,407)
Others	-	-	-	-
Net cash from Fin. activities	(1,966)	(3,189)	(3,738)	(4,419)
Net change in cash	47	(709)	-	-
Free Cash Flow	10,029	9,054	13,314	16,560

Source: Company Data, PL Research

Quarterly Financials (Rs m)

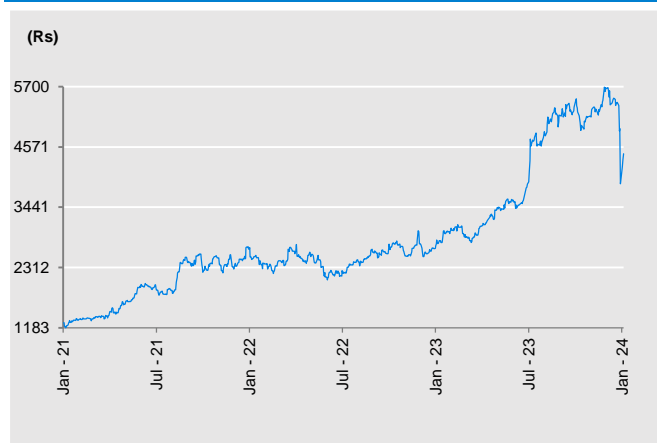
Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	43,237	38,894	42,177	43,405
YoY gr. (%)	8.9	42.1	26.6	16.8
Raw Material Expenses	32,357	28,581	30,739	31,692
Gross Profit	10,880	10,313	11,438	11,713
Margin (%)	25.2	26.5	27.1	27.0
EBITDA	6,095	5,486	6,089	5,695
YoY gr. (%)	28.1	76.3	42.4	13.0
Margin (%)	14.1	14.1	14.4	13.1
Depreciation / Depletion	535	571	603	619
EBIT	5,561	4,914	5,486	5,076
Margin (%)	12.9	12.6	13.0	11.7
Net Interest	282	249	268	322
Other Income	515	640	353	710
Profit before Tax	5,794	5,305	5,572	5,464
Margin (%)	13.4	13.6	13.2	12.6
Total Tax	1,446	1,273	1,274	1,299
Effective tax rate (%)	25.0	24.0	22.9	23.8
Profit after Tax	4,348	4,032	4,298	4,165
Minority interest	37	35	42	37
Share Profit from Associates	(64)	-	-	-
Adjusted PAT	4,248	3,996	4,256	4,129
YoY gr. (%)	32.0	81.8	58.9	15.4
Margin (%)	9.8	10.3	10.1	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,248	3,996	4,256	4,129
YoY gr. (%)	32.0	81.8	58.9	15.4
Margin (%)	9.8	10.3	10.1	9.5
Other Comprehensive Income	(66)	(131)	71	(23)
Total Comprehensive Income	4,182	3,865	4,327	4,105
Avg. Shares O/s (m)	149	149	149	149
EPS (Rs)	28.5	26.8	28.5	27.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	84.8	115.4	130.1	152.8
CEPS	98.8	131.4	148.6	173.5
BVPS	442.8	544.8	656.4	786.7
FCF	67.0	60.3	88.7	110.3
DPS	17.0	18.5	22.5	28.0
Return Ratio(%)				
RoCE	28.6	31.9	29.7	29.0
ROIC	29.7	34.6	34.7	36.7
RoE	20.9	23.4	21.7	21.2
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	51.1	37.6	33.3	28.4
P/B	9.8	8.0	6.6	5.5
P/CEPS	43.9	33.0	29.2	25.0
EV/EBITDA	34.0	25.5	22.0	18.5
EV/Sales	4.5	3.5	3.0	2.5
Dividend Yield (%)	0.4	0.4	0.5	0.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-24	Accumulate	6,021	5,344
2	19-Oct-23	Accumulate	5,943	5,339
3	07-Oct-23	Accumulate	5,665	5,259
4	20-Jul-23	Accumulate	4,760	4,309
5	06-Jul-23	Hold	3,476	3,553
6	15-May-23	Hold	3,249	3,381
7	11-Apr-23	Hold	2,794	2,982

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,983	1,900
2	Bajaj Electricals	Hold	1,047	1,026
3	Century Plyboard (I)	BUY	888	780
4	Cera Sanitaryware	Accumulate	8,597	7,842
5	Crompton Greaves Consumer Electricals	BUY	397	313
6	Finolex Industries	Accumulate	242	209
7	Greenpanel Industries	BUY	498	424
8	Havells India	Accumulate	1,538	1,376
9	Kajaria Ceramics	Accumulate	1,415	1,297
10	KEI Industries	Hold	3,234	3,314
11	Polycab India	Accumulate	6,021	5,344
12	R R Kabel	BUY	1,872	1,566
13	Supreme Industries	Accumulate	4,848	4,465
14	Voltas	Hold	1,003	990

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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