Sharekhan by BNP PARIBAS

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Stock Update | Result Update

Polycab India Ltd

Strong Q4, growth momentum sustained

Capital Goods	Sharekhan code: POLYCAB
Reco/View: Buy ↔	CMP: Rs. 6,491
	Price Target: Rs. 7,400 ↑

↑ 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		↔	

Company details

Market cap:	Rs. 97,380 cr
52-week high/low:	Rs. 6,542/3,665
NSE volume: (No of shares)	9.2 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	5.2 cr

Shareholding (%)

Promoters	65.2
FII	12.4
DII	8.1
Others	14.3

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	23.2	39.0	23.3	88.8
Relative to Sensex	23.7	36.4	11.3	68.7

Sharekhan Research, Bloomberg

Summary

- Company reported a strong revenue of Rs. 5592 crore, a growth of 29% y-o-y. It was led by volume growth of over 30% in C&W business and good performance in the EPC segment.
- Operating profit and PAT for the quarter was Rs. 762/546 crore and grew 25%/29% on a y-o-y basis.
- Robust C&W volume growth is expected to continue, given good government and private capex. EPC business is also on a strong growth trajectory. Company has increased the capex guidance to Rs 1000-1100 crore annually for the next three years.
- Strong government and private capex with a growing real estate sector augurs well for growth of the company. We expect revenue/PAT to clock a CAGR of 19%/18%, respectively from FY24-26, with a good RoCE of 31%. Hence, we maintain a Buy rating on the stock with a revised PT of Rs 7400.

Q4FY2024 results were better than expectations with a revenue of Rs 5592 crore, a growth of 29% y-o-y. Growth was primarily led by an over ~30% y-o-y volume growth in the cables & wires (C&W) segment and a revenue growth of 275% y-o-y in the others (EPC) segment. FMEG sales grew by 17% y-o-y. Operating profit grew by ~25% y-o-y to Rs 762 crore, while OPM declined by 50bps y-o-y to 13.6%, mainly due to the EBIT loss in the FMEG segment. EBIT margin in C&W segment improved to 15.1%, while the FMEG space continued to report a loss (~Rs. 46 crore) at the EBIT level mainly due to lower revenue. Net profit grew by ~29% y-o-y to ~Rs 546 crore on the back of healthy revenue growth.

Key positives

- C&W segment's performance was robust with19% y-o-y revenue growth and volume growth of above 30%.
- EPC business grew 275% y-o-y and 103% q-o-q to report a revenue of Rs. 502 crore.

Key negatives

- FMEG business again reported a loss with an EBIT of Rs. -46 crore and margin of -12.8%.
- Lighting in FMEG continues to be plagued by price erosion issues.

Management Commentary

- C&W segment's revenue grew 19% y-o-y and volume wise >30%. Cables growth was 5-10% higher than wires. Expect margins in the segment to be 12-13% (currently it is 15.1%). Company's market share has improved to 25-26% in the organized market vs 22-24% in FY23.
- FMEG segment revenue was Rs. 358 crore, a growth of 17% y-o-y and 21% q-o-q over a low base. Business continues to report a loss due to lack of scale.
- EPC business reported a revenue of Rs. 502 crore and grew 275% y-o-y and 103% q-o-q. Current orderbook is at Rs. 5000 crore which is to be executed over 3-4 years.
- It increased the capex guidance to Rs 1000-1100 crore annually for the next three years from Rs 800-900 crore previously.

Revision in estimates – We have revised our earnings estimates upwards for FY2025-2026E to build in higher sales growth and profitability.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 7,400: Polycab has successfully consolidated its leading position in the C&W industry by performing consistently. Going forward, a strong focus on government and private capex, a comprehensive product portfolio, scaling up of the FMEG business, and exports are key growth drivers. We envisage a 19%/~18% revenue/PAT CAGR over FY2024-FY2026E, with a good RoCE of 31%. Hence, we maintain a Buy rating on the stock with a revised PT of Rs 7400.

Key Risks

1) Fluctuating raw material prices 2) Increasing competition in the C&W and FMEG segment. 3) Continuing losses in FMEG segment.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	14,108	18,039	21,715	25,431
OPM (%)	13.1	13.8	13.2	13.5
Adj. Net Profit	1,282	1,803	2,060	2,487
Growth (YoY) %	39.8	40.6	14.3	20.7
Adjusted EPS (Rs)	85.7	120.5	137.7	166.2
PER (x)	75.5	53.7	47.0	38.9
P/B (x)	14.6	11.9	9.8	8.1
EV/EBIDTA (x)	47.9	35.0	30.2	25.1
RoCE (%)	28.6	32.8	31.4	31.0
RoE (%)	21.1	24.3	22.8	22.8

Source: Company; Sharekhan estimates

Q4FY2024 investor update and earnings concall highlights

Business Outlook: Housing sector, government capex and corporate capex are now making strong contribution to the economy, which will help C&W segment to maintain growth momentum over next few years.

C&W segment: Growth was mainly driven by an over 30% rise in volumes for both the quarter and the year. The C&W segment growth was driven by both strong government capex and private capex and a growing real estate sector. The split of Cables: Wires was 71:29 in the quarter. Polycab's market share has increased in the organized segment to 25-26% from 22-24% in FY23. Expect segment's margins to be in the range of 12-13% (Currently it is 15.1%). The export business grew over 60% q-o-q from a weak base of the previous quarter.

FMEG segment: Revenues grew 17% q-o-q and 21% q-o-q due to the weak base of last quarter. Growth was led by fans due to the early onset of summer. Fans and lights contribute 50% of the segment's topline. Lighting business continues to witness price erosion. The switch business showed growth for the quarter. The segment continues to report EBIT losses due to a lack of scale.

Others: The EPC business is doing well and grew 275% y-o-y and 103% q-o-q, The EBIT margin in the business was 8.9% for the quarter. The current order book in the business is Rs 5000 crore which is to be executed over the next 3-4 years.

Capex: The company has increased the capex guidance to Rs 1000-1100 annually for the next three years from Rs 800-900 crore previously. This will be used for the EHV manufacturing facility and special purpose cables at Halol and for Low Tension (LT), High Tension (HT) cables at Daman.

Income-Tax Issue: The company has to send some details to the tax department regarding this issue. Other than that, normal operations are running smoothly.

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Net Sales	**5,592**	**4,324**	**29.3**	**4,340**	**28.8**
Operating profit	762	610	24.9	570	33.7
Other Income	54	52	4.4	71	-24.2
Interest	24	28	-13.4	32	-24.3
Depreciation	66	53	22.9	62	6.2
PBT	725	579	25.2	546	32.7
Tax	172	145	18.7	130	32.2
EO	-	-			
Reported PAT	554	428	29.2	417	32.9
Adjusted PAT	546	425	28.6	413	32.3
Adj. EPS (Rs.)	36.3	28.3	28.6	27.5	32.3
Margin			**BPS**		**BPS**
GPM (%)	25.3	25.2	10	27.0	-172
OPM (%)	13.6	14.1	-48	13.1	50
NPM (%)	9.8	9.8	-6	9.5	25
Tax rate (%)	24.0	25.0	-96	23.8	23

Source: Company, Sharekhan Research

Segment-wise revenue break-up (Consolidated) **Rs cr**

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Net sales					
Wires & Cables (W&C)	4,753	3,900	21.9	3,834	24.0
FMEG	358	305	17.3	296	20.9
Others	502	134	275.4	248	102.9
Total Net sales	**5,613**	**4,339**	**29.4**	**4,378**	**28.2**
PBIT					
Wires & Cables (W&C)	718	570	26.0	542	32.5
FMEG	-46	-7	NA	-37	NA
Others	45	8	445.3	39	13.1
Total PBIT	**717**	**571**	**25.5**	**545**	**31.6**
PBIT Margin (%)			**BPS**		**BPS**
Wires & Cables (W&C)	15.1	14.6	50	14.1	98
FMEG	-12.8	-2.3	NM	-12.4	NM
Others	8.9	6.1	277	15.9	-705

Source: Company Data, Sharekhan research, *Adjusted for inter-segment revenue

Outlook and Valuation

■ Sector view - Ample scope for growth

The C&W industry contributes 40-45% of India's electrical equipment industry. In terms of volumes, the Indian C&W industry (including exports) is estimated to have grown in low teens in FY2023 to Rs. 68.000-73,000 crore in size. The Indian C&W market is projected to grow to Rs. 90,000-95,000 crore by FY2026. Sectors such as power, Railways, infrastructure, oil and gas, telecom, real estate, renewables, defence, and automobiles are the largest demand drivers for the industry. Organised players command a lion's share of the market, at roughly 70%, while unorganised players largely dominate the rural geographies. 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 C&W industry. The Indian FMEG industry has many growth opportunities, led by macro drivers such as evolving consumer aspirations, increasing awareness, rising income, rural electrification, urbanisation, 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.

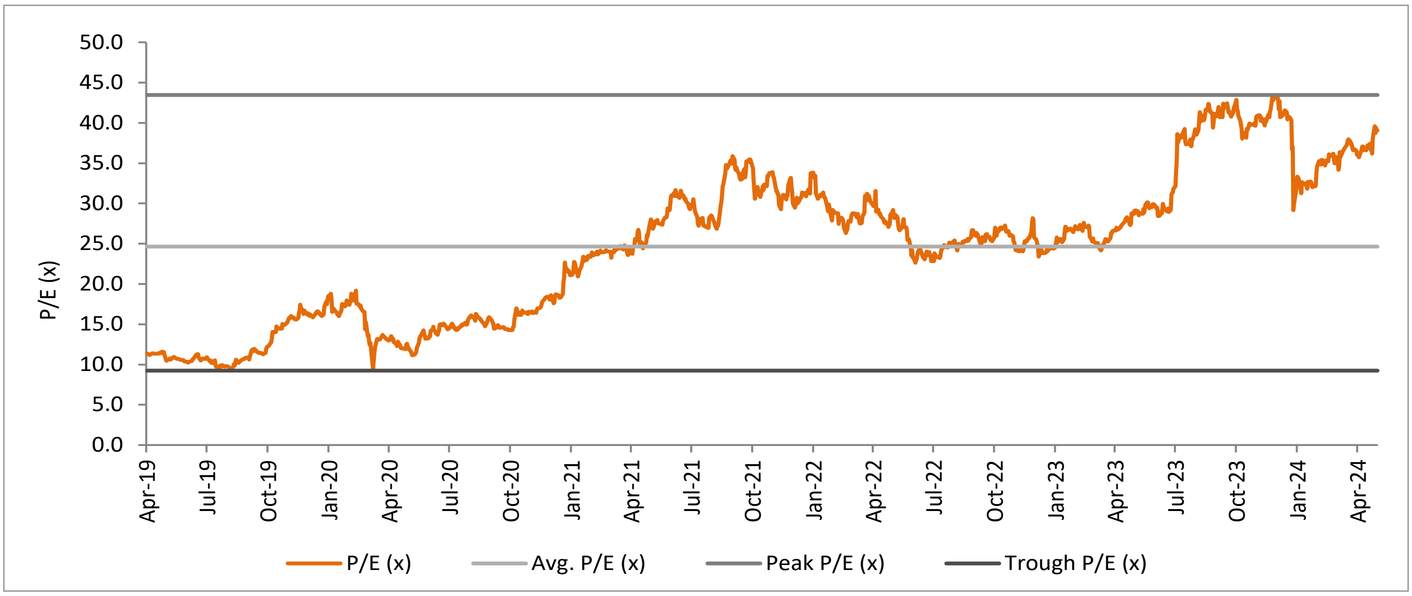
■ Company outlook - Growth prospects bright

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 share in the organised market (25-26% 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 revenue 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 a revised PT of Rs. 7,400

Polycab has successfully consolidated its leading position in the C&W industry by performing consistently. Going forward, a strong focus on government and private capex, a comprehensive product portfolio, scaling up of the FMEG business, and exports are key growth drivers. We envisage a 19%/~18% revenue/PAT CAGR over FY2024-FY2026E, with a good RoCE of 31%. Hence, we maintain a Buy rating on the stock with a revised PT of Rs 7400.

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 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 provide healthy visibility ahead. Revenue from the wires and cable segment has seen a decent 16.8% CAGR during FY2018-FY2024 and FMEG posted a ~17.8% CAGR during the same period. Further, increasing market share of organised players, which grew from 61% in FY2014 to 66% in FY2018, has touched 70% in FY2023, which augurs well for 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 impact margins.
- **Increasing competition:** The C&W segment and FMEG industry are highly fragmented and have many unorganised players. Hence, competitive intensity is high.
- **Continuing losses in FMEG:** Company has been unable to ramp up sales in the segment. Not being to able increase revenue in the segment will drag the overall profitability.

Additional Data

Key management personnel

Inder T. Jaisinghani	Chairman and Managing Director
Bharat A. Jaisinghani	Director – FMEG Business (Non-board member)
Manoj Verma	Executive President and Chief Operating Officer (CE)
Gandharv Tongia	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Investment Managers Pvt Ltd	1.51
2	Vanguard Group Inc/The	1.28
3	Motilal Oswal Asset Management Co	1.21
4	BlackRock Inc	1.06
5	UTI Asset Management Co Ltd	0.75
6	Norges Bank	0.67
7	T Rowe Price Group Inc	0.3
8	Kotak Mahindra Asset Management Co	0.3
9	L&T Mutual Fund Trustee Ltd/India	0.28
10	Canara Robeco Asset Management Co	0.21

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

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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