

BUY

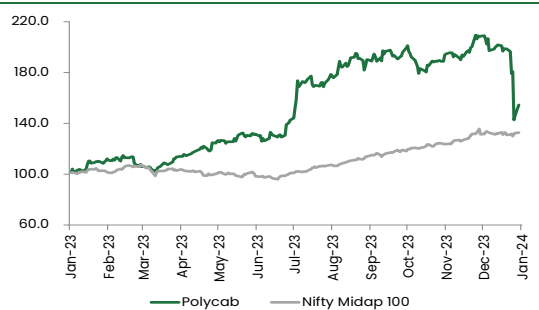
CMP (Rs)	4,375
Target Price (Rs)	5,268
Potential Upside	20.4%
Sensex	71,737
Nifty	21,629

Key Stock data

BSE Code	542652
NSE Code	POLYCAB
Bloomberg	POLYCAB:IN
Shares o/s, Cr (FV 10)	15.0
Market Cap (Rs Cr)	65,709
3M Avg Volume	1,159,078
52 week H/L	5,733/2,723

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	66.0	65.9	65.8
FII	12.4	12.4	15.7
DII	7.0	8.1	5.3
Others	14.6	13.6	13.2

1 year relative price performance

1 year P/E Forward (x)

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Healthy topline growth, however, EBITDA margin a slight miss!

Q3FY24 Result Update | Sector: Consumer Electrical | January 19, 2024

Robust performance: Polycab India revenue came in at Rs 4,340 Cr, registering a growth of 16.8% YoY/2.9% QoQ primarily led by its core Cables & Wires business. Domestic distribution and institutional business reported robust growth with revenue contribution of 93.8% to Rs 4,071 while international business revenue contribution stood at 6.2% to Rs 269 Cr. PAT was Rs 417 Cr, up by 15.2% YoY while it declined by 3.1% sequentially with a PAT margin of 9.6%.

Mixed margin performance: Gross profit grew by 28.5% YoY/28.1% QoQ to Rs 1,283 Cr, benefitting from stable raw material prices as a result gross margin expanded by 269bps YoY/148bps QoQ to 29.6%. The stable raw material prices was offset by increase in other expenses (mainly due to rise in Advertising spends) impacted the operating performance. As a result, EBITDA was Rs 570 Cr, up by 13% YoY while it declined by 6.5% sequentially with a margin of 13.1% which contracted by 44bps YoY/132bp QoQ.

Cables & Wires: Cables & Wires (C&W) volumes grew by 20% YoY with Cables growing at a double digit rate while Wires grew in a single digit range. C&W Revenue grew by 16.8% YoY/2.6% QoQ to Rs 3,904 Cr, driven by healthy demand from Infrastructure & housing development as well as pickup in private capital expenditure across sectors aiding the growth. Its segmental EBIT came in at Rs 547 Cr, up by 19.2% YoY and marginally declined by 1.2% sequentially.

Underperformance in FMEG business: The weak consumer demand sentiments towards FMEG products like Fans, Switches and Switchgears impacted the segment as it de-grew by 13.4% YoY/10.2% QoQ to Rs 296 Cr. Consequently, its EBIT losses extended further to Rs 37 Cr from Rs 2 Cr in the same period last year. We anticipate this segment to continue to underperform due to seasonality as well as muted business environment.

Outlook & Valuation: Given Polycab's leadership position in the industry and consistent addition of capacity, the favorable demand momentum from infrastructure and power sector would enable the company to continue to post healthy double digit volume growth. The monetization of its Extra High Voltage (EHV) business by FY26, will unlock further growth levers for the company making it a complete cables & wires company. Factoring this, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 20.7%/26.2%/26.7% over FY23-FY26E and recommend **Buy** rating with a target price of **Rs 5,268** valuing the company at 30x on its FY26E EPS.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net revenue	14,108	18,058	21,308	24,800
EBITDA	1,852	2,500	3,057	3,722
EBITDAM (%)	13.1	13.8	14.3	15.0
APAT	1,292	1,772	2,169	2,630
APATM (%)	9.2	9.8	10.2	10.6
EPS (Rs)	86.2	118.3	144.8	175.6
PE (x)	50.7	37.0	30.2	24.9
RoE (%)	21.2	24.2	24.4	24.3

Source : RBL Research

Key highlights:

- ◆ Wires business was impacted due to rise in copper prices as well as slowdown in certain states due to election impacting the demand, however, expects the demand recovery from Q4FY24.
- ◆ Merged its FMEG and Power Business unit which is expected to underperform for the next couple of quarters.
- ◆ B2B sales accounted for 70% of revenue while 30% accounted for B2B.
- ◆ Capex: 9MFY24 capex stood at Rs 636 Cr with further capex of Rs 150-200 Cr in Q4FY24 and Rs 600-700 Cr for FY25.
- ◆ Capacity Utilization rate for quarter stood at 70-75%.
- ◆ High other income on the account of favorable foreign exchange and gain on its investments.
- ◆ The company reiterated that it has not received any notice from the respective authority towards tax evasion claims, however, it intends to fully co-operate with the respective authorities to provide them with necessary clarifications.

Consistent quarters of double digit revenue growth

Stable raw material prices led to Gross margin expansion

Higher ad spends impact EBITDA margin

P&L Account Quarterly – consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Operational Revenue	4,340	3,715	16.8	4,218	2.9
Total material cost	3,058	2,717	12.5	3,034	0.8
Gross Profit	1,283	998	28.5	1,184	8.4
Gross Margin (%)	29.6	26.9	269 bps	28.1	148 bps
Employee cost	149	113	31.9	156	(4.1)
Other overheads	564	381	48.0	419	34.5
Total Expenses	3,771	3,211	17.4	3,609	4.5
EBITDA	570	504	13.0	609	(6.5)
EBITDA Margin (%)	13.1	13.6	-44 bps	14.4	-132 bps
Depreciation	62	52	18.0	60	2.6
Interest	32	9	247.9	27	20.3
Other income	71	40	78.9	35	101.0
PBT	546	482	13.4	557	(1.9)
Tax	130	120	8.1	127	2.0
Effective tax rate (%)	23.8	24.9	-117 bps	22.9	91 bps
Reported PAT	417	362	15.2	430	(3.1)
PAT margin (%)	9.6	9.7	-14 bps	10.2	-59 bps

Source : RBL Research

Stable material cost, however, other overhead expenses increased due to ad spends

Cables & Wires and EPC business posted healthy growth

FMEG Business losses extended further

Cost analysis

As a % of net sales	Q3FY24	Q3FY23	Y-o-Y	Q2FY24	Q-o-Q
Material costs	70.4	73.1	-269 bps	71.9	-148 bps
Personnel Costs	3.4	3.0	39 bps	3.7	-25 bps
Other overheads	13.0	10.3	274 bps	9.9	305 bps
Total Costs	86.9	86.4	44 bps	85.6	132 bps

Source : RBL Research

Segmental Revenue

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Cables & Wires	3,904	3,342	16.8	3,805	2.6
FMEG	296	342	-13.4	330	-10.2
Other	248	126	96.4	202	22.8
Total	4,448	3,810	16.7	4,336	2.6
Inter Segmental Revenue	(70)	(83)	-	(107)	-
Total Revenue	4,378	3,727	17.5	4,229	3.5

Source : RBL Research

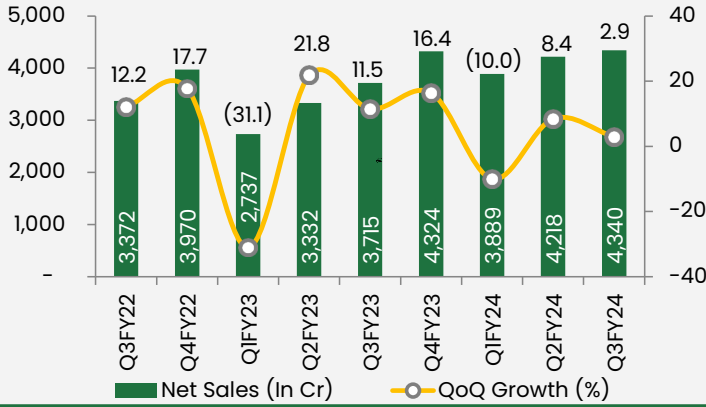
Segmental EBIT

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Wires & Cables	547	459	19.2	555	(1.3)
FMEG	(37)	(2)	-	(6)	-
Other	39	15	159.6	22	75.3
Total	550	472	16.5	571	(3.7)
Inter Segmental EBIT	(5)	(9)	-	(11)	-
Total EBIT	545	463	17.6	560	(2.7)

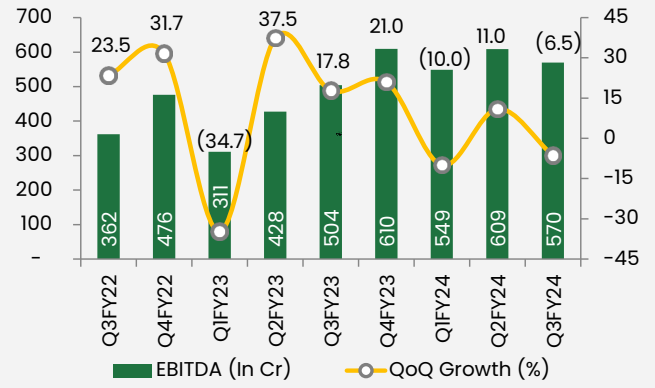
Source : RBL Research

Story in charts

Consistent growth driven by infra & housing development

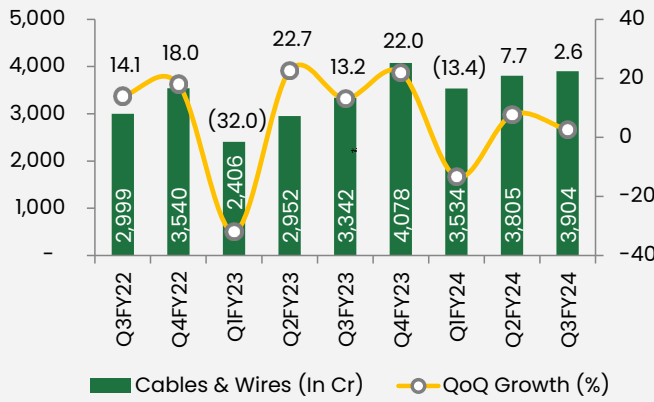


Higher Ad spends results in sequential decline

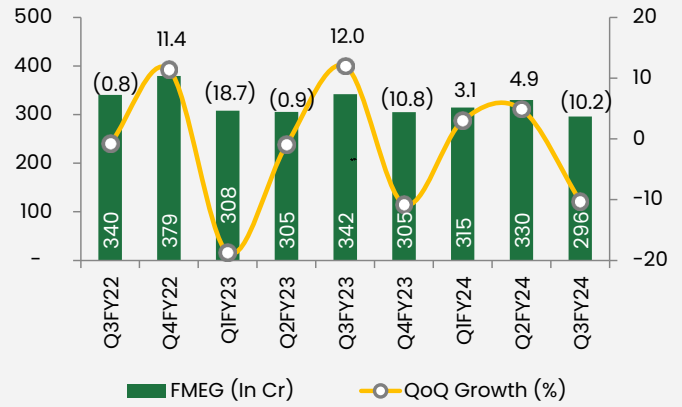


Source : RBL Research

Sustainable growth in C&W business

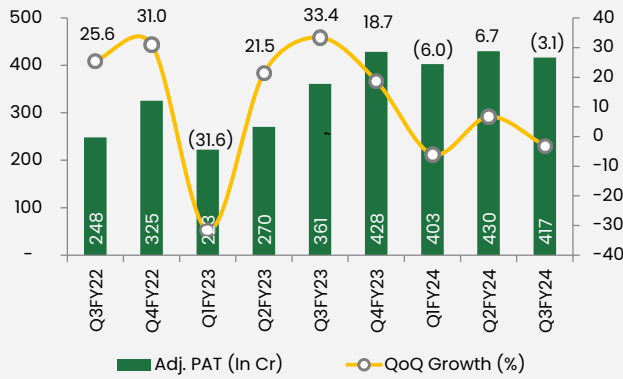


Weak consumer demand impacted the sales

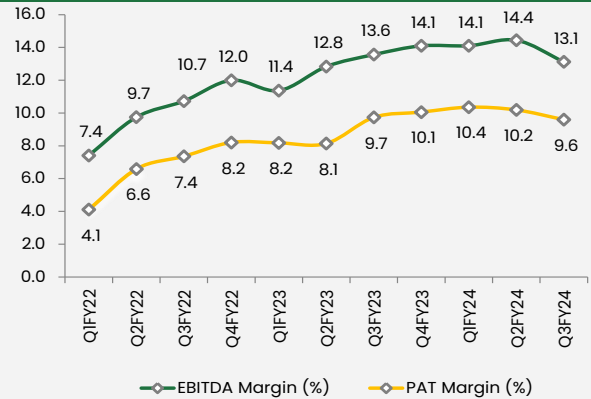


Source : RBL Research

Continues to post healthy YoY growth

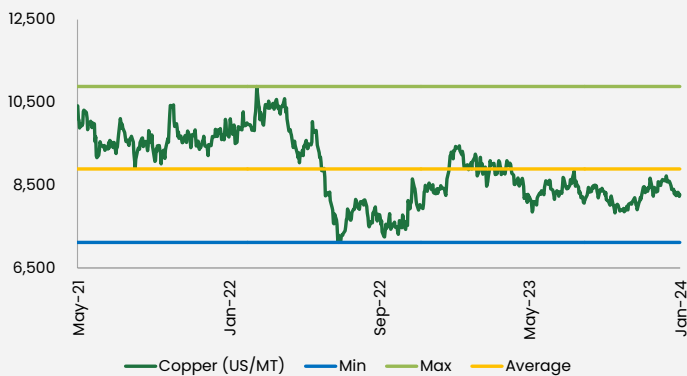


Trend of EBITDA & PAT margin



Source : RBL Research

Trend of Aluminum prices



Trend of Copper prices



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net sales	14,108	18,058	21,308	24,800
Expenditure				
Total raw material cost	10,376	13,092	15,418	17,914
Employee cost	457	596	724	818
Other expenses	1,423	1,870	2,109	2,345
Total expenditure	12,256	15,558	18,251	21,078
EBITDA	1,852	2,500	3,057	3,722
EBITDAM (%)	13.1	13.8	14.3	15.0
Other income	133	193	222	245
Depreciation	209	290	347	420
PBIT	1,776	2,404	2,932	3,547
Interest expenses	60	72	79	87
PBT	1,717	2,332	2,853	3,460
Tax	425	560	685	830
Adjusted PAT	1,292	1,772	2,169	2,630
Share of Associates	-9	-	-	-
Reported PAT	1,282	1,772	2,169	2,630
PATM (%)	9.1	9.8	10.2	10.6

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share Capital	149.8	149.8	149.8	149.8
Reserves & Surplus	6,481	7,879	9,599	11,704
Total Shareholder's Fund	6,631	8,029	9,748	11,854
Minority Interest	37	37	37	37
Non-Current Liabilities				
Total borrowings	155	185	215	245
Other long term liabilities	39	72	88	99
Deferred tax liabilities	42	69	66	77
Long term provision	45	44	66	83
Current Liabilities				
Trade payables	2,033	1,851	1,987	2,533
Short term provisions	27	34	40	47
Other current liabilities	413	487	496	532
Total Liabilities	9,422	10,809	12,744	15,508
Fixed Assets	2,010	2,232	2,889	3,344
Current work in process	251	335	361	421
Intangible assets	57	59	52	58
Other non-current assets	145	119	159	202
Current Assets				
Current investments	1,350	1,564	1,461	1,932
Inventories	2,951	3,369	3,881	4,604
Trade receivables	1,299	1,716	2,484	3,162
Cash & Cash equivalents	692	521	519	565
Short term loans and advances	10	83	91	163
Other current assets	655	813	846	1,058
Total Assets	9,422	10,809	12,744	15,508

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Reported PBT	1,717	2,332	2,853	3,460
Depreciation	209	290	347	420
Tax paid	(425)	(560)	(685)	(830)
Working capital Change	(644)	(1,377)	(1,069)	(1,567)
Operating Cash Flow (a)	856	685	1,447	1,482
Capex	(476)	(598)	(1,025)	(939)
Free Cash Flow	380	87	423	543
Investments	(5)	26	(40)	(43)
Investing Cash Flow (b)	(481)	(572)	(1,065)	(982)
Debt Issuance/ (Repaid)	72	30	30	30
Dividend Paid	(300)	(374)	(449)	(524)
Others	133	60	35	40
Financing Cash Flow (c)	(94)	(284)	(384)	(455)
Net Cash Flow (a + b + c)	281	(171)	(2)	46
Closing Cash	692	521	519	565

Source : RBL Research

Key ratios – consolidated

Particulars	FY23	FY24E	FY25E	FY26E
Per Share Ratios (Rs)				
Dividend per share	20.0	25.0	30.0	35.0
EPS	86.2	118.3	144.8	175.6
CEPS	100.2	137.7	168.0	203.6
Book value per share	442.8	536.1	650.9	791.5
Profitability Ratios (%)				
EBITDA Margin	13.1	13.8	14.3	15.0
PBT Margin	12.2	12.9	13.4	14.0
Net Profit Margin	9.2	9.8	10.2	10.6
RoCE	21.5	24.2	24.3	24.3
RoE	21.2	24.2	24.4	24.3
Dividend Payout	23.2	21.1	20.7	18.6
Efficiency (Days)				
Inventory	76	68	66	68
Creditor	63	47	43	45
Debtor	34	35	43	47
Interest Cover Ratio (x)	29.7	33.5	37.2	40.9
Current ratio (x)	2.5	3.2	3.5	3.5
Valuation Ratios				
P/E (x)	50.7	37.0	30.2	24.9
P/B (x)	9.9	8.2	6.7	5.5
EV/EBITDA (x)	35.1	26.1	21.3	17.5
Dividend Yield (%)	0.8	1.0	1.2	1.4

Source : RBL Research

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S. No.	Statement	Answer	
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		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
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	I/we have received any compensation from the subject company in the past twelve months?		No
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Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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