

Polycab India Ltd.

Nifty: 19282

CMP: INR 5180

Target Price: INR 5692

Cables - Electricals

Polycab, a prominent player in the wire and cable market, has reported outstanding results for the Q2FY24, achieving its highest-ever profitability. The company experienced substantial growth across various regions, with particularly strong performance in North India. The primary driver of this growth was a remarkable year-on-year increase of approximately 27% in revenue from wires and cables. Furthermore, Polycab's international business segment contributed approximately 9.3% to its total revenue, expanding its global presence to encompass 76 nations. The company's operating profit exhibited remarkable growth, surging by approximately 42% YoY to reach Rs. 609 crore. Additionally, the operating profit margin (OPM) showed an improvement of 160 basis points year-on-year, reaching 14.4%. These improved margins can be attributed to enhanced operating leverage and an improved product mix. Considering these impressive financial results and the positive outlook for Polycab, we uphold our BUY rating on the company.

Impressive quarter with all time high profitability:

Polycab continues to deliver remarkable results, posting a significant 27% year-on-year growth in its topline during the Q2FY24. The company's management has effectively maintained margins, evident in the 30 basis points QoQ and 160 basis points YoY expansion in the EBITDA margin, which now stands at 14.4%, even with higher advertising and promotional expenses in the range of 2.5-3%. Notably, the net profit surged to Rs 4.3 billion, a remarkable 59% year-on-year increase. Furthermore, Polycab's balance sheet remains robust, with a net cash position of Rs 15.3 billion at the end of Q2.

The company achieved robust growth of 28% year-on-year in cables and wires (C&W) volumes, driven by strong government capital expenditure and robust demand from the real estate sector. However, the performance of the Fast-Moving Electrical Goods (FMEG) business was moderate, influenced by declining sales in fans and lights due to weak consumer demand.

In summary, Polycab's impressive results highlight its resilience and its ability to leverage favorable market conditions, solidifying its position as a leading player in the industry.

Benefits of distribution realignment in FY24:

In FY23, the distribution restructuring initiative known as Project LEAP was successfully completed. However, this had an impact on the Fast-Moving Electrical Goods (FMEG) segment, primarily due to the launch of fan ratings and changes in distribution. Looking ahead

to FY24, we expect to start reaping the benefits of this distribution restructuring, while also experiencing strong growth in the fan category. This growth will be driven by the clearance of non-BEE (Bureau of Energy Efficiency) inventory and increased sales of BEE-compliant products.

Management is confident about achieving profitable growth in the FMEG segment. This will be facilitated by the introduction of new models, premiumization efforts, and effective distributor management. Furthermore, the company maintains its target of achieving a 10% EBITDA margin by FY26.

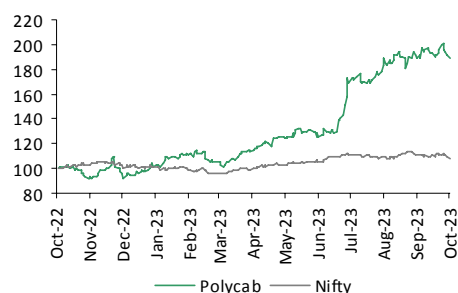
Progress on new project "Project Leap":

The company initiated this strategic project with the primary goal of ensuring sustained growth, even in the face of challenging market conditions. This ambitious five-year plan sets a revenue target of approximately Rs. 200 billion by FY26, implying a compound annual growth rate (CAGR) of 18%. Encouragingly, the progress of this project suggests that it is progressing ahead of schedule, with a robust 26% CAGR in topline revenue from FY21 to FY23. This leaves only a 13% run-rate for the next three years, indicating that the target could be achieved well before the set deadline.

Polycab's focus within this initiative centers on four key areas, enabling them to proactively seize opportunities and effectively navigate potential challenges in their quest for success.

- Customer centricity- Company has successfully integrated go-to-market for Cable & Wire B2B segment.

Relative Price Performance



Shareholding (%)

Shareholding (%)	Sep-23
Promoters	65.9
FII's	12.4
DII's	6.1
QIB + AIF	2.0
Others	13.6

Key Data

BSE Code	542652
NSE Symbol	POLYCAB
Bloomberg Code	POLYCAB IN
Reuters Code	POLC.NS
Shares Outstanding (mn)	1500
Face Value	10
Mcap (INR cr)	79,430
52 Week H/L	5,494/2,500
CMP	5297
Beta	0.73

Cables - Electricals

- Go-to-market excellence-The company expanded its reach to 146 underpenetrated cities for B2B business, as well as on-boarded 317 and 371 new distributors respectively, for the retail buyer in FMEG businesses.

Through these efforts, direct quotes from Polycab have increased from 16% in fiscal '22 to 34%, indicating a strong shift towards control over pricing, market dynamics, and direct dealing with customers.

- Winning with new products -As part of building the new product strategy, the company have revamped their entire fans portfolio with premiumization at core, the focus remains on more design and aesthetic oriented product portfolio with fans up to five star ratings.
- Step up organization and digital enablers - Majority of talent acquisition for critical roles was completed across businesses and functions.

Strong Pipeline:

The company is currently witnessing a surge in repeat orders from its global large-scale customers, and as part of its strategic vision, it aims to achieve a double-digit contribution from exports

in the midterm. Additionally, with a positive outlook, the company anticipates robust institutional demand driven by the revival in infrastructure, real estate, capex cycle, and increased government spending.

Thanks to the successful implementation of the project leap initiative, the company has bolstered its NPDP (New Product Development) pipeline and is actively building a diversified and distinctive portfolio within the FMEG (Fast-Moving Electrical Goods) sector. These initiatives position the company for continued growth and competitive advantage in the market.

Valuations:

Based on Polycab's steady progress towards its ambitious revenue target of INR 200 billion by FY2026 and maintained that it is on track to achieve 10% margins by FY26, as outlined in Project Leap. The impressive growth rate it is currently demonstrating, we maintain our BUY rating for this stock. Our analysis indicates a target price of INR 5,692/-, reflecting the company's strong potential for further growth and value appreciation in the market. Investors can find great potential in this stock given its promising performance and strategic initiatives.

Quarterly Results:

Rs in Mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	42,177	33,324.00	27%	38,894.00	8%	81,071.00	60,689.00	34%
Cost of materials consumed	30,739	24,625	25%	28,581	8%	59,319	45,148	31%
Employee Cost	1,557	1,148.00	36%	1,349	15%	2,906	2,249	29%
Other Expenses	3,792	3,275	16%	3,478	9%	7,271	5,904	23%
Share of profit/ (loss) of JVs (Net of tax)	0	8		0		0	21	
Total Expenditure	36,088	29,056	24%	33,408	8%	69,496	53,322	30%
EBITDA	6,089	4,268.00	43%	5,486.00	11%	11,575.00	7,367.00	57%
EBITDA Margins (%)	14.4%	12.8%	13%	14.1%	2%	14.3%	12.1%	18%
Depreciation	603	523	15%	571	6%	1174	1033	14%
Other Income	353	-22	-1705%	640	-45%	993	421	136%
EBIT	5,839	3,723.00	57%	5,555.00	5%	11,394.00	6,755.00	69%
Interest	268	139.00	93%	249	8%	517	223	132%
PBT	5,571	3,584.00	55%	5,306.00	5%	10,877.00	6,532.00	67%
Tax	1,274	878.00	45%	1,273	0%	2,547	1,599	59%
Profit After Tax	4,297	2,706.00	59%	4,033.00	7%	8,330.00	4,933.00	69%
Profit After Tax Margins (%)	10.2%	8.1%	25%	10.4%	-2%	10.3%	8.1%	26%
Equity	1,500	1,497		1,499		1,500	1,497	
Face Value	10	10		10		10	10	
EPS	29.87	17.35	72%	26.79	11%	56.66	31.98	77%

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