

Increased consumption across sectors aided in robust revenue growth

Q2FY24 Result Update | Sector: Consumer Electrical | October 19, 2023

HOLD

CMP (Rs)	5,234
Target Price (Rs)	5,562
Potential Upside	6.3%
Sensex	65,733
Nifty	19,641

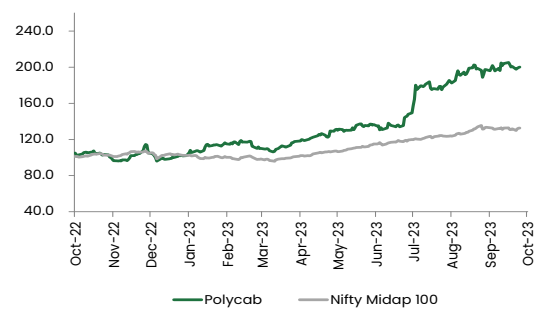
Key Stock data

BSE Code	542652
NSE Code	POLYCAB
Bloomberg	POLYCAB:IN
Shares o/s, Cr (FV 10)	15.0
Market Cap (Rs Cr)	78,530
3M Avg Volume	760,192
52 week H/L	5,493/2,500

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	66.2	66.0	65.9
FII	9.8	12.4	12.4
DII	9.3	7.0	8.1
Others	14.7	14.6	13.6

1 Year relative price performance



1 year PE Forward (x)



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Robust revenue performance: Polycab India posted strong overall performance as its revenue came in at Rs 4,218 Cr experiencing a growth of 26.6% YoY while sequentially despite the high base it grew by 8.4%. Growth was primarily led by its core segment; Wires & Cables which reported revenue of Rs 3,805 Cr, up by 28.9% YoY/7.7% QoQ. Its domestic business accounted for ~90.7% of the overall revenue to Rs 3,826 Cr whereas international business revenue share was at ~9.3% to Rs 392 Cr.

Better operating leverage driving margins growth: Increased consumption across sectors supported volumes growth of 30+% YoY/ 20+% QoQ in Cables/Wires, favorable product mix coupled with stable raw material price of copper, aluminum and others resulted in better operating leverage. As a result, gross profit was up by a healthy 32.3% YoY/11.7% QoQ to Rs 1,184 Cr with a margin of 28.1%. Consequently, EBITDA posted a growth of 42.4% YoY/11% QoQ to Rs 609 Cr and a margin of 14.4%.

Revamped FMEG strategy yet to gain traction: Despite the fans and lighting category posting a de-growth due to weak consumer sentiments, FMEG revenue was up by 8.1% YoY/4.9% QoQ to Rs 330 Cr. The segment revenue growth has not transcribed into its profitability as it posted a EBIT loss of Rs 6 Cr, indicating that the revamped strategy to drive profitability higher is yet to gain traction. As per the company, the FMEG segment market is estimated at ~Rs 45,300 Cr which provides a high growth opportunity over the coming years. We anticipate the company to gradually increase its presence over the coming which shall aid in improving the profitability of the segment.

To benefit from overall infrastructure growth: The overall cables & wires industry has benefitted well over the last few years due to government focus on improving the infrastructure with respect to metros, roadways as well as demand from power as well as recent uptick in residential real estate activities. Similarly, given the company's leadership position and distribution reach it has been one of the largest beneficiaries of such demand trends. Going ahead, we anticipate the traction in solar sector, robust residential activities and switch towards branded products shall aid to the overall growth for the company.

Outlook & Valuations: Polycab continues to be the industry leader with a market share of 22-24% in the organized market largely benefiting from strong demand from government capex and real estate up-tick. It foresees a large opportunity in the FMEG business and the realignment of its strategy for the segment shall aid in margin and profit expansion in the future. It has also ventured into the Extra High Voltage (EHV) segment which will be operational by the beginning of FY26 and also looks to continuously expand its international business as it aims to be top 5 players globally. We believe all these factors shall enable the company to post strong overall operational performance. Financially, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 22.9%/30.7%/30.3% over FY23-FY25E and recommend **Hold** rating with a revised target price of **Rs 5,562** valuing the company at 38x on its FY25 EPS.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	12,204	14,108	17,211	20,310
EBITDA	1,265	1,852	2,487	3,016
EBITDAM (%)	10.4	13.1	14.5	14.9
APAT	917	1,292	1,737	2,103
APATM (%)	6.9	9.2	10.1	10.4
EPS (Rs)	61.4	86.2	116.0	140.4
PE (x)	85.3	60.7	42.8	35.8
RoE (%)	16.4	21.2	23.8	23.8

Source : RBL Research

Concall and other key highlights: 1) Company expanded its geographical footprint to 76 countries 2) Capex spent for Q2FY24 was Rs 203.7 Cr, management guided the capex for FY24 and FY25 would be Rs 600-700 Cr each. 3) Net working capital days improved from 69 days to 50 days 4) Robust real estate activities to keep the demand environment healthy for the company. 5) Capacity utilization at 65-70% for cables & wires for Q2FY24 6) Company took a price revision of 10-12% in the LED segment. 7) Residential projects up by ~25% in the major cities which shall aid volumes growth.

Strong revenue growth aided by 30+% volumes growth in Cables & Wires segment

Better operating leverage driving operational growth

Strong overall performance results in stellar PAT

P&L Account Quarterly - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Operational Revenue	4,218	3,332	26.6	3,889	8.4
Total material cost	3,034	2,437	24.5	2,829	7.2
Gross Profit	1,184	895	32.3	1,060	11.7
Gross Margins (%)	28.1	26.9	121 bps	27.3	81 bps
Employee cost	156	115	35.6	135	15.4
Other overheads	419	352	18.9	377	11.3
Total Expenses	3,609	2,905	24.2	3,341	8.0
EBITDA	609	428	42.4	549	11.0
EBITDA Margin (%)	14.4	12.8	160 bps	14.1	33 bps
Depreciation	60	52	15.4	57	5.5
Interest	27	14	92.7	25	7.5
Other income	35	(2)	-	64	(44.8)
PBT	557	359	55.1	530	5.0
Tax	127	88	44.8	128	(0.2)
Effective tax rate (%)	22.9	24.5	-163 bps	24.1	-120 bps
Reported PAT	430	271	58.4	403	6.7
Share of Associates	-	(1)	-	-	-
Adjusted PAT	430	270	58.9	403	6.7
Adj. PAT margin (%)	10.2	8.1	207 bps	10.4	-17 bps

Source : RBL Research

Healthy demand across segments drove the volumes and revenue growth in wires & cables business

FMEG segment profitability remains under pressure

Cost analysis

As a % of net sales	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	Q-o-Q (bps)
Material costs	71.9	73.1	-121 bps	72.7	-81 bps
Personnel Costs	3.7	3.4	25 bps	3.5	22 bps
Other overheads	9.9	10.6	-64 bps	9.7	25 bps
Total Costs	85.6	87.2	-160 bps	85.9	-33 bps

Source : RBL Research

Segmental Revenue

Particulars, Rs cr	Q2FY24	Q2FY23	YoY %	Q1FY24	Q-o-Q %
Wires & Cables	3,805	2,952	28.9	3,534	7.7
FMEG	330	305	8.1	315	4.9
Other	202	105	91.8	153	31.8
Total	4,336	3,362	29.0	4,001	8.4
Inter Segmental Revenue	(107)	(50)	-	(78)	-
Total Revenue	4,229	3,312	27.7	3,923	7.8

Source : RBL Research

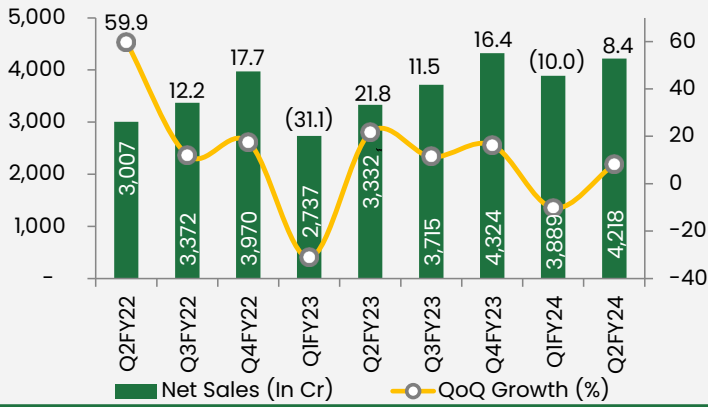
Segmental EBIT

Particulars, Rs cr	Q2FY24	Q2FY23	YoY %	Q1FY24	Q-o-Q %
Wires & Cables	555	346	60.2	522	6.2
FMEG	(6)	(3)	-	(6)	-
Other	22	16	41.8	18	22.6
Total	571	359	58.9	535	6.8
Inter Segmental EBIT	(11)	(5)	-	(10)	-
Total EBIT	560	355	57.8	525	6.6

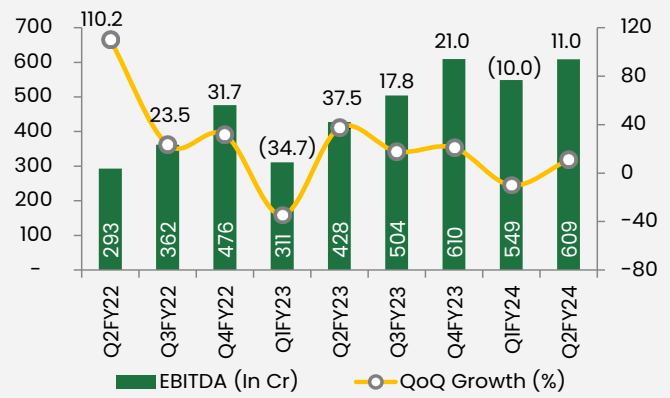
Source : RBL Research

Story in charts

Strong revenue growth benefiting from uptick in Infrastructure

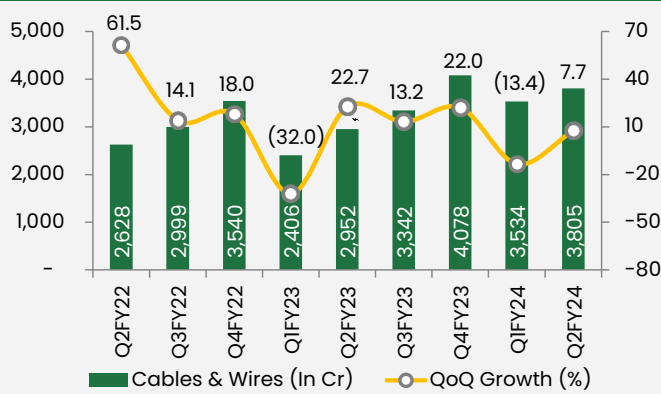


Stable raw material prices aid in EBITDA expansion

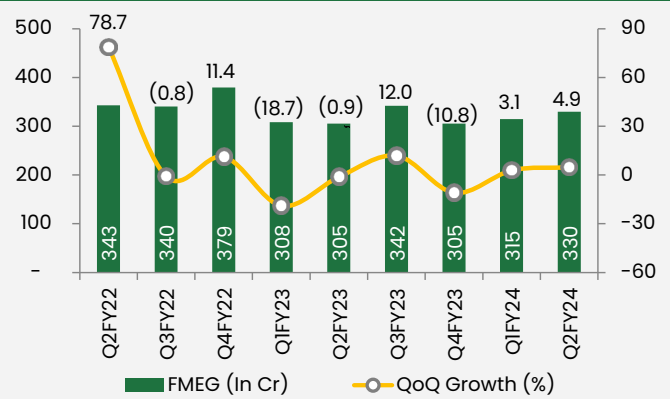


Source : RBL Research

Cables & Wires continue to post strong growth

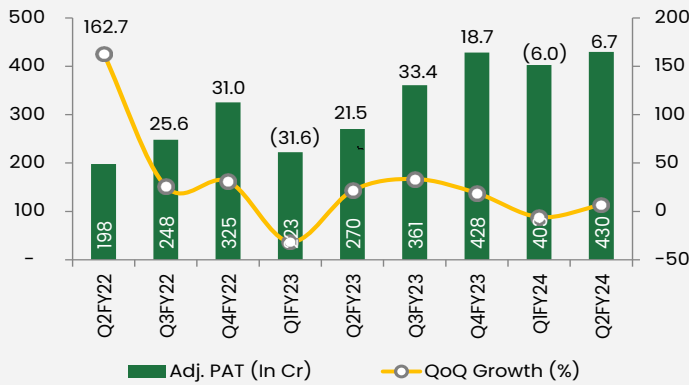


Moderate growth due to weak consumer sentiments

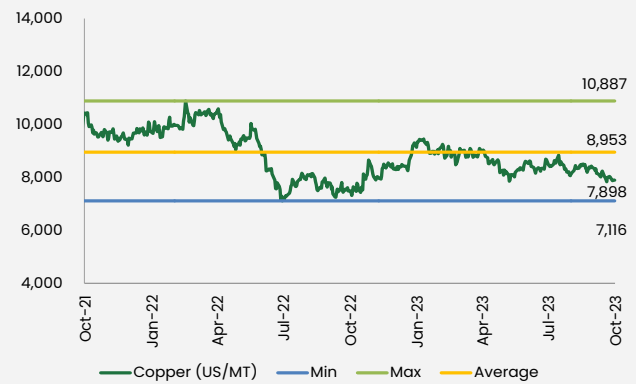


Source : RBL Research

Consistent rise in profitability

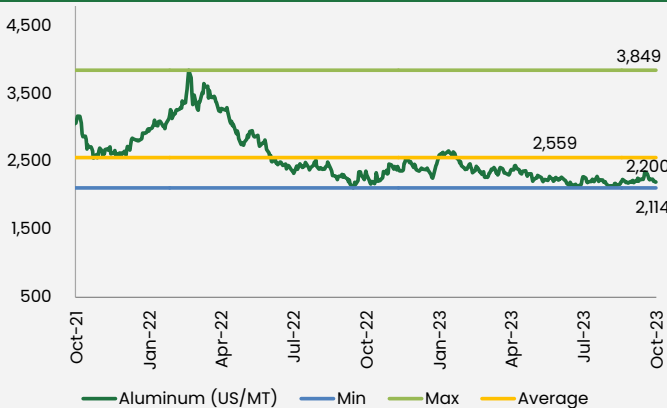


Trend of Copper prices

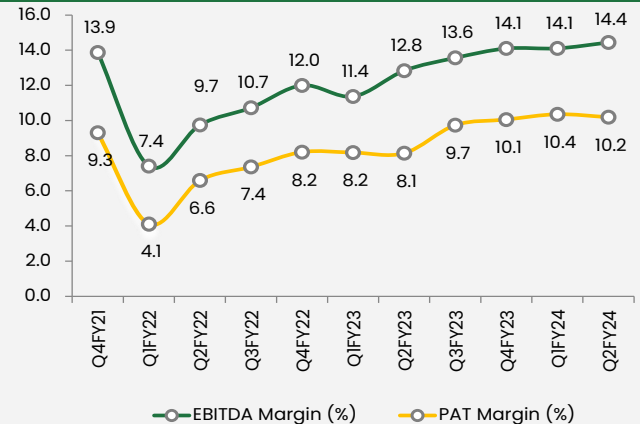


Source : RBL Research

Trend of Aluminum prices



Solid margins performance



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	12,204	14,108	18,058	21,308
Expenditure				
Total raw material cost	9,354	10,376	13,092	15,395
Employee cost	407	457	596	724
Other expenses	1,178	1,423	1,761	2,024
Total expenditure	10,939	12,256	15,449	18,144
EBITDA	1,265	1,852	2,609	3,164
EBITDAM (%)	10.4	13.1	14.5	14.9
Other income	90	133	160	192
Depreciation	202	209	290	393
PBIT	1,154	1,776	2,479	2,963
Interest expenses	35	60	72	79
PBT	1,118	1,717	2,408	2,884
Tax	271	425	578	692
Adjusted PAT	848	1,292	1,830	2,192
Exceptional Items	72	-	-	-
Share of Associates	-3	-9	-	-
Reported PAT	917	1,282	1,830	2,192
PATM (%)	7.5	9.1	10.1	10.3

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	149.4	149.8	149.8	149.8
Reserves & Surplus	5,394	6,481	7,937	9,710
Total Shareholder's Fund	5,544	6,631	8,087	9,859
Minority Interest	25	37	37	37
Non-Current Liabilities				
Total borrowings	83	155	205	245
Long term provision	26	45	45	45
Current Liabilities				
Trade payables	1,218	2,033	2,077	1,811
Short term provisions	25	27	34	40
Other current liabilities	422	413	528	624
Total Liabilities	7,415	9,422	11,095	12,743
Fixed Assets	1,617	2,010	2,421	2,328
Current work in process	375	251	251	251
Intangible assets	58	57	57	57
Other non-current assets	131	145	145	145
Current Assets				
Current investments	764	1,350	1,604	1,763
Inventories	2,200	2,951	3,612	4,475
Trade receivables	1,376	1,299	1,716	2,237
Cash & Cash equivalents	410	692	466	496
Other current assets	461	655	813	980
Total Assets	7,415	9,422	11,095	12,743

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Reported PBT	1,118	1,717	2,408	2,884
Depreciation	202	209	290	393
Tax paid	(271)	(425)	(578)	(692)
Working capital Change	(834)	(644)	(1,321)	(1,875)
Operating Cash Flow (a)	216	856	799	710
Capex	(283)	(476)	(700)	(300)
Free Cash Flow	(68)	380	99	410
Investments	133	(5)	-	-
Investing Cash Flow (b)	(150)	(481)	(700)	(300)
Debt Issuance/ (Repaid)	(110)	72	50	40
Dividend Paid	(209)	(300)	(374)	(419)
Others	132	133	-	-
Financing Cash Flow (c)	(186)	(94)	(324)	(379)
Net Cash Flow (a + b + c)	(121)	281	(226)	30
Closing Cash	410	692	466	496

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per Share Ratios				
Dividend per share Rs	14.0	20.0	25.0	28.0
EPS Rs	56.6	86.2	122.2	146.4
CEPS Rs	70.0	100.2	141.5	172.6
Book value per share Rs	371.0	442.8	540.0	658.3
Profitability Ratios				
EBITDA Margin (%)	10.4	13.1	14.5	14.9
PBT Margin (%)	9.2	12.2	13.3	13.5
Net Profit Margin (%)	6.9	9.2	10.1	10.3
RoCE (%)	16.4	21.5	24.9	24.4
RoE (%)	16.4	21.2	24.9	24.4
Dividend Payout (%)	24.8	23.2	20.5	19.1
Efficiency				
Inventory (Days)	66	76	73	77
Creditor (Days)	49	63	53	42
Debtor (Days)	41	34	35	38
Interest Cover Ratio (x)	32.8	29.7	34.6	37.6
Debt-Equity Ratio (x)	0.0	0.0	0.0	0.0
Current ratio (x)	2.9	2.5	2.9	3.8
Valuation Ratios				
P/E (x)	85.3	60.7	42.8	35.8
P/B (x)	14.1	11.8	9.7	8.0
EV/EBIDTA (x)	61.6	42.0	29.9	24.7
Dividend Yield (%)	0.6	0.8	1.0	1.1

Source : RBL Research

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		Yes	No
		Tick appropriate	
		Yes	No
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	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
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		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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