

July 19, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

# Polycab India Ltd

## Business mix change dents margin; reiterate NEUTRAL

### Result Synopsis

Polycab performance has been mixed bag with revenue coming in line with estimates, while margins missing the estimates. Revenue grew 20% on yoy basis, with wires and cables, FMEG and EPC segment growing by 12%, 22% and 240% respectively. Margins have contracted as there was shift in business mix towards segment with lower margin and contribution from international business which carries higher margin has been lower. Growth in its key segment of wires and cables was lower as there has been channel de-stocking on back of volatility in commodity prices. FMEG growth on the other hand has been strong driven by robust demand for fans, followed by strong demand from switchgears and conduit pipes. Other's segment has seen strong growth led from execution from government's RDSS scheme. Inventory in the channel has normalized as commodity prices have stabilized and there has been improved offtake from the channel. The company is confident of strong demand to continue given the buoyancy in the real-estate, with infrastructure spends and capex continues to remain healthy resulting in strong demand for wires and cables.

We expect strong growth momentum to continue especially in its core category of wires and cables as continued capex, increased in real-estate constriction and exports opportunity will benefit company immensely. Also, FMEG segment should start to pose double digit growth as re-structuring has largely done with. We estimate the company to now deliver FY24-26E revenue of 18%. We have trimmed down the margin expectation given the change in business mix and lower contribution of exports. We continue to maintain our target multiple to 40x as we see strong demand for wires and cables to continue and margins continue to remain higher than the management guidance. We remain NEUTRAL on the stock with PT of Rs6,413. This stock should be bought on every correction.

### Result Highlights

- Quarter summary** – Polycab has delivered inline revenue growth Q1 with revenue growing 20.8% yoy. Gross margin and EBITDA margin stood at 24.6% and 12.4% respectively. Business mix change has resulted in margin contraction.
- Wires & cables** – Wires and cables revenue grew 11.6% yoy, which is lower than estimates. Sharp commodity price movements led demand fluctuations in channel sales in later part of the quarter curtailed the positive impact of higher average commodity prices. Cables continue to outperform wires growth.
- FMEG** –FMEG business revenue grew by 22.6% YoY. Strong growth in FMEG has been attributed to robust demand for fans amid heat wave in several parts of the country. Switches, Switchgears, and conduit pipes has also demonstrated growth.
- Working Capital** – Net working capital on average basis has seen deterioration. Company's gross borrowings in 1Q has marginally inched up to Rs984mn vs Rs898mn in FY24.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	46,980	47,240	46,360	-0.5	1.3	Business mix change has resulted in lower-than-expected margins.
EBITDA	5,834	6,519	6,170	-10.5	-5.4	
EBITDA Margin (%)	12.4	13.8	13.3	-140 bps	-90 bps	
Adjusted PAT	4,016	4,653	4,290	-13.7	-6.4	

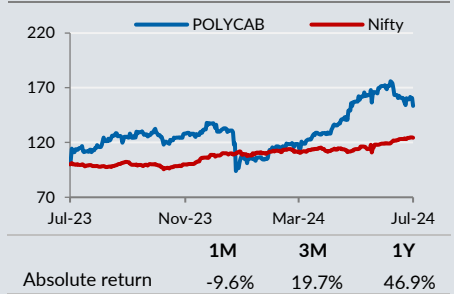
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 6,332
Target Price	: Rs 6,413
Potential Return	: +1.3%

### Stock data (as on Jul 19, 2024)

Nifty	24,531
52 Week h/l (Rs)	7331 / 3801
Market cap (Rs/USD mn)	996775 / 11918
Outstanding Shares (mn)	150
6m Avg t/o (Rs mn):	4,281
Div yield (%)	0.5
Bloomberg code:	POLY CAB IN
NSE code:	POLY CAB

### Stock performance



### Shareholding pattern (As of Mar'24 end)

Promoter	65.2%
FII+DII	19.2%
Others	15.6%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	6,413	6,466

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	138.1	160.3
EPS (Old)	141.4	161.6
% change	-2.3%	-0.8%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	180,394	219,616	253,356
YoY Growth	27.9%	21.7%	15.4%
EBIDTA	24,918	29,144	34,889
YoY Growth	34.5%	17.0%	19.7%
PAT	18,029	20,754	24,086
YoY Growth	40.6%	15.1%	16.1%
ROE	24.3	23.1	22.6
EPS	120.0	138.1	160.3
P/E	52.8	45.8	39.5
BV	17.1	14.3	11.6
EV/EBITDA	38.1	32.6	27.1

### AAKASH FADIA

Analyst

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	38,894	42,177	43,405	55,919	46,980	20.8	-16.0	180,394	141,077	27.9
EBITDA	5486	6089	5695	7615	5834	6.3	-23.4	24,885	18,520	34.4
EBITDA Margin %	14.1	14.4	13.1	13.6	12.4			13.8	13.1	5.1
Depreciation	571.4	603.0	618.8	657.2	671.2	17.5	2.1	2,450	2,092	17.2
EBIT	4914	5486	5076	6958	5163	5.1	-25.8	22,435	16,429	36.6
EBIT Margin %	12.6	13.0	11.7	12.4	11.0			12.4	11.6	6.8
Interest charges	249	268	322	244	413	65.7	69.3	1,083	598	81.3
Other Income	640.0	353.2	709.9	538.4	584.1	-8.7	8.5	2,241	1,333	68.1
PBT	5305	5572	5464	7253	5334	0.5	-26.5	23,593	17,164	37.5
Tax	1276.8	1273.9	1298.8	1717.8	1317.5	3.2	-23.3	5,567	4,250	31.0
Effective Tax Rate (%)	24.1	22.9	23.8	23.7	24.7			23.6	24.8	-4.7
PAT	4028	4298	4165	5535	4016	-0.3	-27.4	18,026	12,822	40.6
PAT Margin %	10.4	10.2	9.6	9.9	8.5			10.0	9.1	10
EPS (Rs)	27.0	28.8	27.9	37.0	26.9	-0.3	-27.4	121	86	40.6

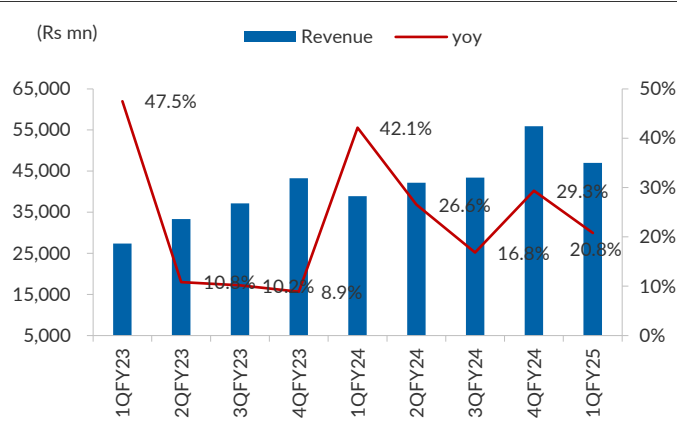
Source: Company, YES Sec

## Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Wires and Cables	35,338	38,047	39,041	48,647	39,421	11.6	-19.0	161,073	127,775	26.1
FMEG	3,145	3,300	2,962	3,581	3,855	22.6	7.6	12,988	12,607	3.0
Others	1,528	2,015	2,475	5,022	5,194	239.9	3.4	11,041	4,647	137.6
Less: Intersegment	-781	-1,074	-701	-1,121	-1,289	65.0	15.0	-3,677	-3,565	
Total Sales	39,230	42,288	43,777	56,130	47,182	20.3	-15.9	181,425	141,465	28.2
PBIT										
Wires and Cables	5222.6	5546.9	5474.2	7362.9	4966.8	-4.9	-32.5	23,607	16,724	41.2
PBIT %	14.8	14.6	14.0	15.1	12.6			14.7	13.1	
FMEG	-56.7	-60.2	-366.0	-459.1	-28.1	-50.4	-93.9	-942	-56	1,580.6
PBIT %	-1.8	-1.8	-12.4	-12.8	-0.7			-7.3	-0.4	
Others	183.4	224.9	394.3	445.7	572.5	212.2	28.4	1,248	517	141.4
PBIT %	12.0	11.2	15.9	8.9	11.0			11.3	11.1	
Total PBIT	5,349	5,712	5,502	7,350	5,511	3.0	-25.0	23,913	17,185	39.1
PBIT %	13.6	13.5	12.6	13.1	11.7			13.2	12.1	
Finance Costs	249.2	267.9	322.3	244.0	413.0	65.7	69.3	1,083	598	81.3
Other Income	303	242	338	328	383	26.2	16.8	1,211	946	28.0
as % of sales	0.8	0.6	0.8	0.6	0.8			0.7	0.7	
Less: Intersegment	-99	-114	-54	-181	-147	49.5	-18.4	-447	-369	
PBT	5305	5572	5464	7253	5334	0.5	-26.5	23,593	17,165	37.4

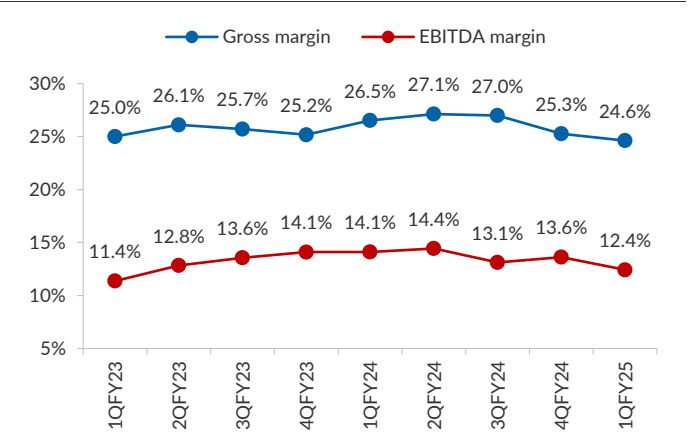
Source: Company, YES Sec

**Exhibit 4: Revenue growth was driven by EPC segment**



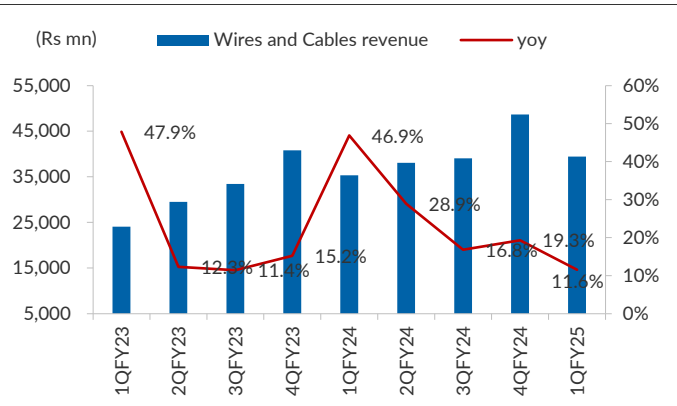
Source: Company, YES Sec

**Exhibit 5: Business mix change has resulted in lower margins**



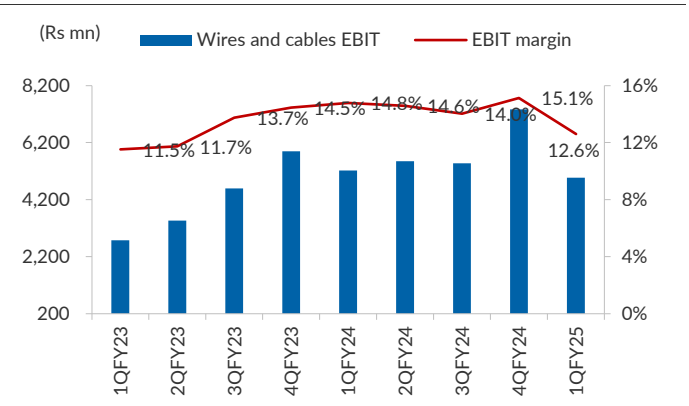
Source: Company, YES Sec

**Exhibit 6: Fluctuation in channel sales has resulted in slower revenue growth**



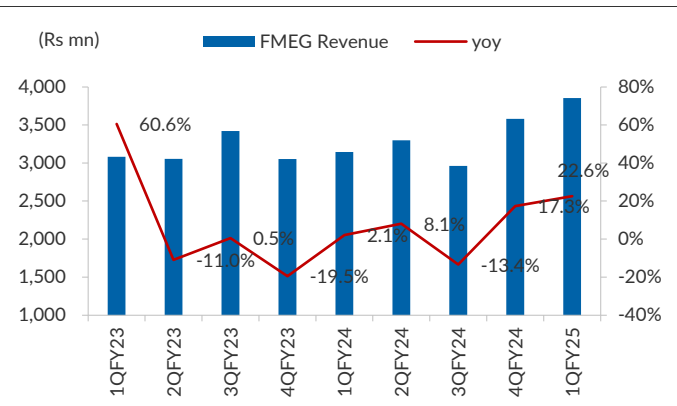
Source: Company, YES Sec

**Exhibit 7: Volatility in commodity prices have resulted margin erosion**



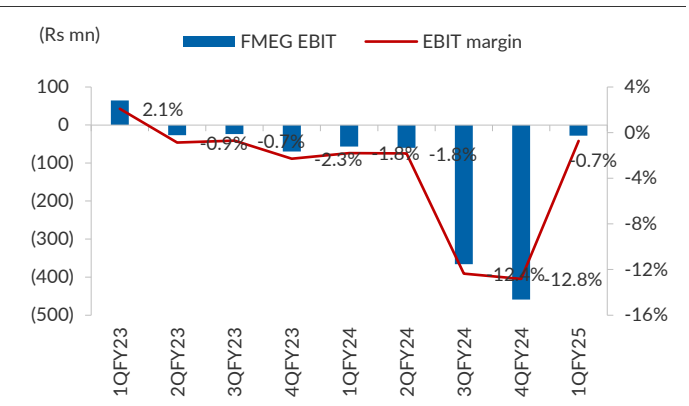
Source: Company, YES Sec

**Exhibit 8: FMEG growth has picked up driven by strong fans sales amid heat waves across the country**



Source: Company, YES Sec

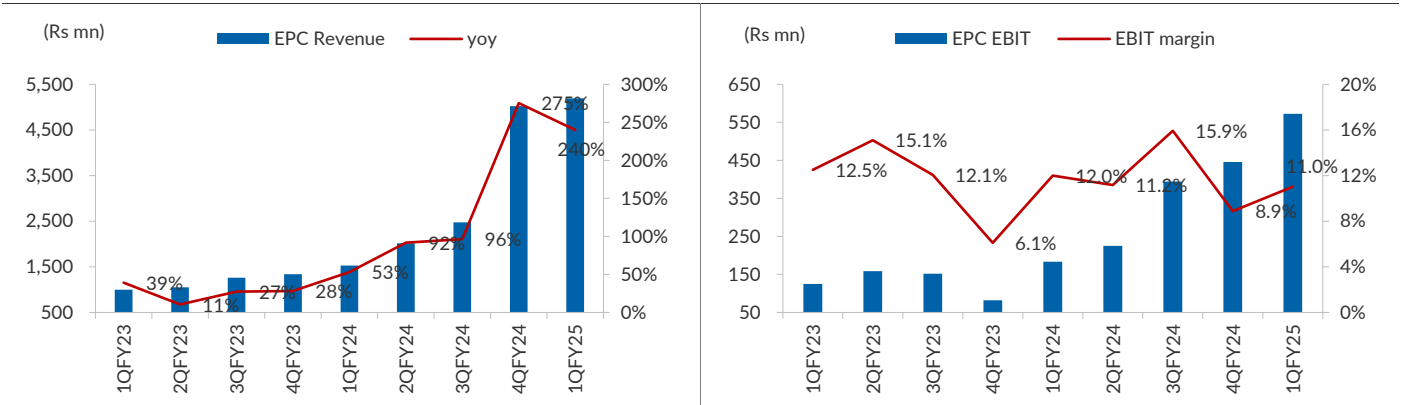
**Exhibit 9: Losses have been curtailed on lower A&P spends and improvement in contribution from switchgears and conduit pipes**



Source: Company, YES Sec

**Exhibit 10: Robust execution of EPC order-book has resulted in strong revenue growth**

**Exhibit 11: Margins have remained in the guided range**



Source: Company, YES Sec

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Infrastructures growth slowdowns in month of May** – Infrastructure has seen slowdown in month of May accentuated by heatwaves and labor shortages.
- **Finished goods inventory buildup** – Inventory days are higher on back of buildup of inventory of the finished goods of wires and cables as demand has slumped post the sharp correction in commodity prices in latter part of June.
- **Wires and Cables** – Volume growth in domestic wires and cables business stood at 10%. There has been demand softness in one of the largest geographies on the international front leading to decline in international business. Company is maintaining its targeting 10% of the revenue to come from international business by FY26. Cables sales have been 75% of the wires and cables sales. The company would like to improve mix towards the wires
- **Margins** – The company expects domestic margins in wires and cables is largely in the range of 9-11%, while on international business he margins have been higher. Margins are expected to improve as commodity prices have stabilized and margins should improve in ensuing quarters
- **FMEG** – The company is working on improving the mix in the FMEG business to improve the margins. The company now has products across the price points which will result in better revenue growth for the FMEG segment going forward.
- **Channel inventory** are at the normalized levels given that the commodity prices have stabilized in past few days and expect offtake to improve from hereon.
- **OCF** – Volatility in copper prices have resulted in higher inventory which has resulted in higher working capital resulting in deterioration in OCF. This is transient in nature and will be normalized going forward.
- **EPC** – EPC order book continues to remain healthy and company undertakes EPC order where there has been high proportion of the cable supply. Margins are expected to be in the high single digit over medium to long term.
- **A&P** – A&P spends would be continue to remain in the range of 3-5% of the B2C sales.
- **Working capital** – Company expects ideal working capital days in the range of 30-40 days, which company is striving to achieve.
- **Income tax search update** – There has been no further update on the income tax search which had happened coupled of quarters back. The company has not received any order or income tax demand so far. The company is completely complying with the tax authorities.
- **Exports** – Exports will remain subdued for few more quarters as there is slowdown in demand from US
- **Capacity utilization** – Capacity utilization in Q1FY25 is in the range of 70-75%.
- **Stake sale by promoters** – Stake was sold was on account of personal consumption and it will not be regular feature.

## FINANCIALS

### Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	1,494	1,498	1,502	1,502	1,502
Reserves	53,943	64,814	80,369	95,935	114,000
Net worth	55,437	66,311	81,871	97,437	115,502
Debt	831	1,551	898	1,044	1,169
Deferred tax liab (net)	272	423	544	544	544
Other non current liabilities	967	1,213	1,831	2,037	2,226
Total liabilities	57,507	69,499	85,144	101,061	119,441
Fixed Asset	20,154	22,815	27,668	34,586	40,821
Investments	7,733	13,505	18,987	18,987	18,987
Other Non-current Assets	2,461	2,352	5,218	6,425	7,413
Net Working Capital	25,942	29,299	30,200	40,069	46,077
Inventories	21,996	29,514	36,751	45,427	52,407
Sundry debtors	12,964	12,466	20,471	27,738	31,999
Loans and Advances	3,405	5,824	1,395	1,491	1,574
Sundry creditors	12,175	20,326	28,634	34,859	40,215
Other current liabilities	4,183	4,162	6,697	8,145	9,397
Cash & equivalents	1,217	1,528	3,071	995	6,143
Total Assets	57,507	69,499	85,144	101,061	119,441

Source: Company, YES Sec

### Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	122,038	141,078	180,394	219,616	253,356
Operating profit	12,647	18,521	24,918	29,144	34,889
Depreciation	2,005	2,092	2,450	3,134	3,817
Interest expense	352	598	1,083	673	626
Other income	899	1,333	2,209	2,398	1,743
Profit before tax	11,190	17,165	23,593	27,735	32,188
Taxes	2,706	4,250	5,564	6,981	8,102
Minorities and other	26	93	-	-	-
Adj. profit	8,458	12,823	18,029	20,754	24,086
Exceptional items	-	-	-	-	-
Net profit	8,458	12,823	18,029	20,754	24,086

Source: Company, YES Sec

## Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	11,542	17,763	24,677	28,408	32,814
Depreciation	2,005	2,092	2,450	3,134	3,817
Tax paid	(2,706)	(4,250)	(5,564)	(6,981)	(8,102)
Working capital Δ	(6,930)	(9,221)	(5,620)	(9,869)	(6,008)
Other operating items					
Operating cashflow	3,910	6,383	15,943	14,692	22,521
Capital expenditure	(2,814)	(4,753)	(7,304)	(10,052)	(10,052)
Free cash flow	1,097	1,631	8,639	4,641	12,470
Equity raised	1,532	1,047	2,038	(0)	-
Investments	26	93	(763)	-	-
Debt financing/disposal	(1,655)	720	(654)	146	126
Interest paid	(352)	(598)	(1,083)	(673)	(626)
Dividends paid	(2,092)	(2,995)	(4,507)	(5,188)	(6,021)
Net Δ in cash	(1,161)	311	1,543	(2,076)	5,148

Source: Company, YES Sec

## Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.76	0.75	0.76	0.75	0.75
Interest burden (x)	0.97	0.97	0.96	0.98	0.98
EBIT margin (x)	0.09	0.13	0.14	0.13	0.13
Asset turnover (x)	1.69	1.68	1.68	1.66	1.61
Financial leverage (x)	1.40	1.38	1.45	1.48	1.47
RoE (%)	16.4	21.1	24.3	23.1	22.6

Source: Company, YES Sec

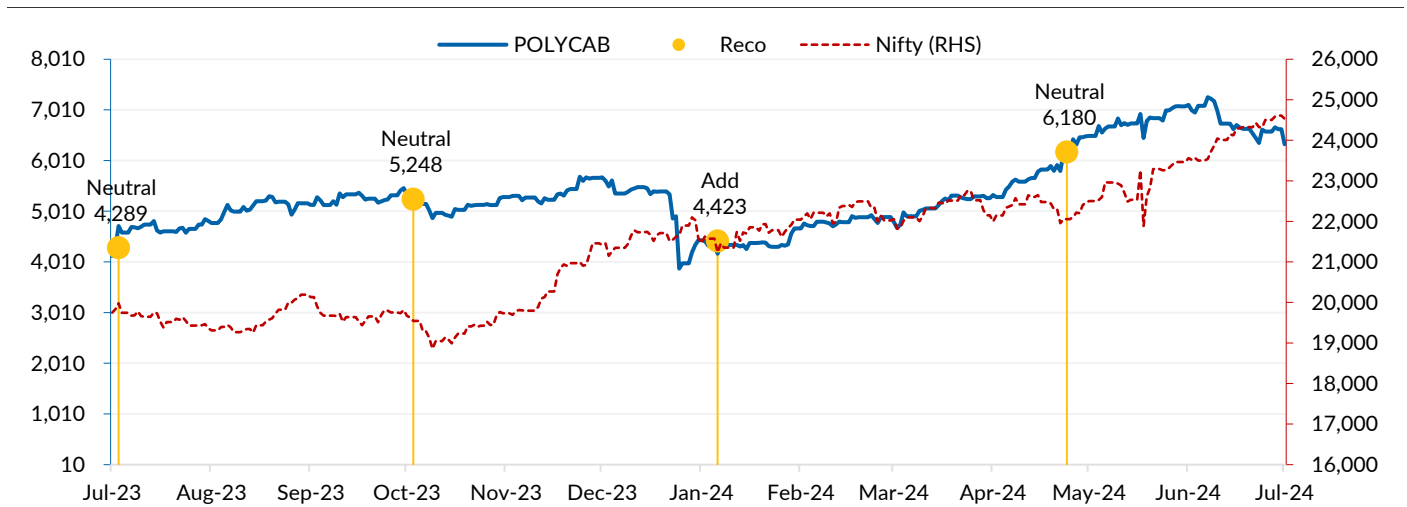
## Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	36.7	15.6	27.9	21.7	15.4
Op profit growth	8.4	46.4	34.5	17.0	19.7
EBIT growth	3.9	53.9	38.9	15.1	15.5
Net profit growth	(3.7)	51.6	40.6	15.1	16.1
<b>Profitability ratios (%)</b>					
OPM	10.4	13.1	13.8	13.3	13.8
EBIT margin	9.5	12.6	13.7	12.9	13.0
Net profit margin	6.9	9.1	10.0	9.5	9.5
RoCE	21.7	28.6	32.8	31.3	30.5
RoNW	16.4	21.1	24.3	23.1	22.6
RoA	11.7	15.2	16.8	15.6	15.3

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Per share ratios</b>					
EPS	56.6	85.6	120.0	138.1	160.3
Dividend per share	14.0	20.0	30.0	34.5	40.1
Cash EPS	70.0	99.6	136.3	159.0	185.7
Book value per share	371.0	442.8	545.0	648.6	768.8
<b>Valuation ratios</b>					
P/E	111.9	74.0	52.8	45.8	39.5
P/CEPS	90.2	63.2	46.5	39.8	34.1
P/B	17.1	14.3	11.6	9.8	8.2
EV/EBIDTA	74.8	51.2	38.1	32.6	27.1
<b>Payout (%)</b>					
Dividend payout	24.7	23.4	25.0	25.0	25.0
Tax payout	24.2	24.8	23.6	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	38.8	32.3	41.4	46.1	46.1
Inventory days	65.8	76.4	74.4	75.5	75.5
Creditor days	36.4	52.6	57.9	57.9	57.9

Source: Company, YES Sec

## Recommendation Tracker





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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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