

Retail Equity Research Polycab India Ltd

Cables

BSE CODE: 542652

NSE CODE: POLYCAB

Bloomberg CODE: POLYCAB:IN

SENSEX: 64,081

SELL

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 5,052 TARGET Rs. 4,473 RETURN -11%
(Closing: 02-11-23)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↑

Muted consumer demand...dim outlook

Polycab India Ltd is one of India's largest wire and cable manufacturers, providing electrical solutions to households as well as industries.

- Polycab's consolidated revenue rose 26.6% YoY in Q2FY24 to Rs. 4,218cr, led by robust volume growth in its domestic wires and cables business.
- EBITDA increased 42.7% YoY to Rs. 609cr and EBITDA margin improved 160bps YoY to 14.4%, supported by better operating efficiency and a more favourable product mix.
- A buoyant real estate sector and government initiatives have contributed to the robust growth of the wires and cables segment. Strong demand for its products and services, favourable market conditions, growth in its international business, and branding initiatives are expected to support the company's profitability. However, a sharp rise in input costs, muted consumer demand, heightened competitive pressures and limited stock upside potential due to high valuation remain key risks. Therefore, with a cautious outlook, we downgrade to SELL rating on the stock with a revised target price of Rs. 4,473, based on 35x FY25E adjusted EPS.

Surge in wires and cables volume boosts revenue

Polycab's consolidated revenue rose 26.6% YoY in Q2FY24 to Rs. 4,218cr, supported by significant volume growth in the wires and cables segment. Revenue of the segment rose a sharper 27.8% YoY to Rs. 3,805cr, owing to robust volume growth amid sustained demand, supported by government capex and an upbeat real estate market. Meanwhile, the international business contributed 9.3% to total revenue, with the company expanding its presence to 76 countries. Despite the persistent challenges in consumer demand within its core fans and lights divisions, the fast-moving electric goods (FMEG) business achieved an 8.2% YoY growth, driven by robust switchgears and conduit pipes & fittings sales. The 'other' segment, which primarily comprises the engineering, procurement, construction business, posted a sharper 95% YoY growth.

EBITDA margin expansion led by operational efficiency

EBITDA increased 42.7% YoY in Q2FY24 to Rs. 609cr. EBITDA margin widened 160bps YoY to 14.4%, primarily driven by operational efficiency and a more favourable product mix in the wires and cables segment. Despite the increase in advertising expenses, the FMEG business was able to control margin contraction, owing to a shift in mix towards higher-margin products. Profit after tax stood at Rs. 430cr, up 58.8% YoY.

Key concall highlights

- In terms of capital expenditure, Polycab is looking to invest Rs. 600cr to Rs. 700cr in each FY24 and FY25.
- Also, its extra high voltage facility is expected to be commissioned by end-FY26.
- The company introduced a new brand identity as well to reflect its innovation, technology, and sustainability focus.

Valuation

The management expects demand for its wires and cables to increase because of the sustained sharp growth of the real estate sector and government initiatives. The company's continued focus on product development, brand positioning and pricing strategies should also benefit its FMEG segment. However, rising input costs, subdued consumer demand, and heightened competitive pressures remain concerns. Additionally, the company is trading at a high valuation compared to its 3-year forward P/E. Therefore, we suggest cautious outlook and downgrade to SELL rating on the stock with a revised target price of Rs. 4,473 based on 35x FY25E adjusted EPS.

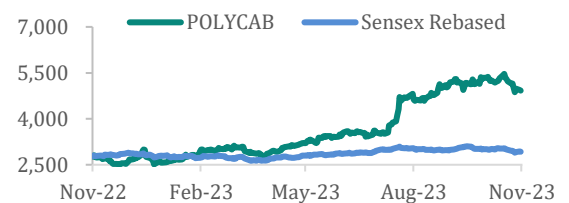
Company Data

Market Cap (cr)	Rs. 75,667
Enterprise Value (cr)	Rs. 73,214
Outstanding Shares (cr)	15.0
Free Float	31.0%
Dividend Yield	0.4%
52 week high	Rs. 5,493
52 week low	Rs. 2,500
6m average volume	22,190
Beta	0.8
Face value	Rs. 10

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	66.2	66.0	65.9
FII's	9.8	9.7	12.4
MFs/Insti	9.4	9.7	8.1
Public	14.3	14.4	13.4
Others	0.4	0.3	0.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	5.8%	52.8%	76.7%
Absolute Sensex	-3.9%	4.5%	4.5%
Relative Return*	9.7%	48.3%	72.2%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	14,108	17,083	19,650
Growth (%)	15.6	21.1	15.0
EBITDA	1,843	2,386	2,745
EBITDA Margin (%)	13.1	14.0	14.0
Adj. PAT	1,271	1,650	1,916
Growth (%)	39.9	29.8	16.2
Adj. EPS	84.7	109.6	127.4
Growth (%)	39.1	29.5	16.2
P/E	34.0	44.7	38.5
P/B	6.5	9.4	7.9
EV/EBITDA	23.2	30.7	26.5
ROE (%)	19.3	21.2	20.8
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Revenue	4,218	3,332	26.6	3,889	8.4	8,107	6,069	33.6
EBITDA	609	427	42.7	549	11.0	1,157	737	57.1
EBITDA margins	14.4	12.8	160bps	14.1	30bps	14.3	12.1	220bps
Depreciation	60	52	15.4	57	5.5	117	103	13.7
EBIT	549	375	46.5	491	11.6	1,040	633	64.2
Interest	27	14	92.7	25	7.5	52	22	131.5
Other Income	35	(1)	n.m.	64	(44.8)	99	44	124.6
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	(1)	n.m.	-	-	-	(2)	n.m.
PBT	557	358	55.4	530	5.0	1,088	653	66.5
Tax	127	88	45.0	127	0.0	255	160	59.2
Reported PAT	430	271	58.8	403	6.6	833	493	68.9
Minority Interest	4	3	57.9	4	18.6	8	5	42.0
PAT att. to shareholders	426	268	58.8	400	6.5	825	488	69.2
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	426	268	58.8	400	6.5	825	488	69.2
No. of shares	15.0	15.0	0.3	15.0	0.1	15.0	15.0	0.3
Adj. EPS (Rs.)	28.3	17.9	58.4	26.6	6.4	54.8	32.5	68.8

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	16,770	19,288	17,083	19,650	1.9	1.9
EBITDA	2,298	2,644	2,386	2,745	3.8	3.8
Margins (%)	13.7	13.7	14.0	14.0	30bps	30bps
Adj. PAT	1,556	1,793	1,650	1,916	6.0	6.9
Adj. EPS	103.6	119.3	109.6	127.4	5.9	6.8

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	8,927	12,204	14,108	17,083	19,650
% change	1.1	36.7	15.6	21.1	15.0
EBITDA	1,167	1,270	1,843	2,386	2,745
% change	3.5	8.8	45.1	29.5	15.1
Depreciation	187	209	209	236	272
EBIT	980	1,061	1,634	2,149	2,474
Interest	53	35	60	77	80
Other Income	138	90	133	153	192
PBT	1,065	1,116	1,707	2,226	2,586
% change	5.4	4.8	53.0	30.4	16.2
Tax	179	271	424	560	651
Tax Rate (%)	16.8	24.3	24.8	25.2	25.2
Reported PAT	886	917	1,283	1,666	1,935
PAT att. to common shareholders	882	909	1,271	1,650	1,916
Adj*	(10)	-	-	-	-
Adj PAT	872	909	1,271	1,650	1,916
% change	14.9	4.1	39.9	29.8	16.2
No. of shares (cr)	14.9	14.9	15.0	15.0	15.0
Adj EPS (Rs.)	58.5	60.9	84.7	109.6	127.4
% change	14.9	4.0	39.1	29.5	16.2
DPS (Rs.)	20.0	14.0	20.0	27.5	31.9

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	1,072	1,126	1,492	1,902	2,206
Non-cash adj.	185	(487)	(196)	(102)	(58)
Changes in W.C	(19)	(127)	131	(758)	(202)
C.F. Operation	1,238	512	1,428	1,042	1,947
Capital exp.	(191)	(520)	(458)	(580)	(665)
Change in inv.	(837)	(76)	(767)	-	(405)
Other invest.CF	16	169	22	31	33
C.F - Investment	(1,012)	(427)	(1,203)	(549)	(1,038)
Issue of equity	8	13	13	-	-
Issue/repay debt	(108)	(17)	33	8	3
Dividends paid	-	(149)	(209)	(412)	(479)
Other finance.CF	(61)	(48)	(64)	(77)	(80)
C.F - Finance	(161)	(201)	(227)	(481)	(556)
Chg. in cash	66	(116)	(2)	12	353
Closing cash	531	407	695	707	1,060

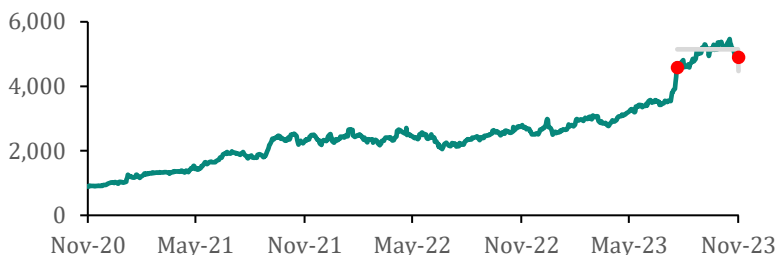
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	531	407	695	707	1,060
Accounts Receivable	1,436	1,296	1,247	1,426	1,769
Inventories	1,988	2,200	2,951	3,868	4,304
Other Cur. Assets	818	1,238	2,016	2,149	2,711
Investments	12	9	-	-	-
Gross Fixed Assets	2,680	2,626	3,202	3,783	4,448
Net Fixed Assets	1,860	1,652	2,047	2,401	2,806
CWIP	99	375	251	238	226
Intangible Assets	9	23	20	23	23
Def. Tax (Net)	0	0	1	17	20
Other Assets	262	211	198	295	306
Total Assets	7,015	7,412	9,425	11,124	13,224
Current Liabilities	1,926	1,661	2,470	2,884	3,515
Provisions	25	26	45	55	55
Debt Funds	193	83	155	163	167
Other Liabilities	99	72	81	95	104
Equity Capital	149	149	150	150	150
Reserves & Surplus	4,605	5,394	6,487	7,725	9,162
Shareholder's Fund	4,754	5,544	6,637	7,874	9,312
Minority Interest	19	25	37	53	72
Total Liabilities	7,015	7,412	9,425	11,124	13,224
BVPS (Rs.)	319	371	442	523	619

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	13.1	10.4	13.1	14.0	14.0
EBIT margin (%)	11.0	8.7	11.6	12.6	12.6
Net profit mgn.(%)	9.9	7.4	9.0	9.7	9.8
ROE (%)	18.6	16.5	19.3	21.2	20.8
ROCE (%)	19.7	18.8	23.9	26.6	25.9
W.C & Liquidity					
Receivables (days)	58.7	38.8	32.3	30.5	32.9
Inventory (days)	109.8	84.8	102.5	111.3	107.7
Payables (days)	74.5	46.9	70.6	68.2	73.7
Current ratio (x)	2.4	3.0	2.6	2.7	2.7
Quick ratio (x)	1.3	1.4	1.3	1.1	1.2
Turnover & Leverage					
Gross asset T.O (x)	3.8	4.6	4.8	4.9	4.8
Total asset T.O (x)	1.4	1.7	1.7	1.7	1.6
Int. coverage ratio (x)	18.4	30.2	27.3	28.1	31.0
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.3	2.9	3.0	4.3	3.7
EV/EBITDA (x)	17.3	27.6	23.2	30.7	26.5
P/E (x)	23.6	38.8	34.0	44.7	38.5
P/BV (x)	4.3	6.4	6.5	9.4	7.9

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
21-Jul-23	ACCUMULATE	5,147
3-Nov-23	SELL	4,473

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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