

October 18, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

# Polycab India Ltd

## Increased competition and business mix change dents margin; reiterate NEUTRAL

### Result Synopsis

Polycab performance has been mixed bag with revenue coming 8% higher than estimates, while margins missing the estimates. Revenue grew 30% on yoy basis, with wires and cables, FMEG and EPC segment growing by 24%, 21% and 240% respectively. Margins have contracted on back of 1) Higher losses in FMEG business on account of increased A&P spends and fixed costs; 2) Increase in employee cost as company has added manpower to focus on vertical wise business and 3) Increased competition and 4) higher growth in lower margin business. Growth in its key segment of wires and cables was driven by strong volume growth in wires which grew 2x of that Cables. Channel expansion, changes in product architecture and influencer management program has resulted continued growth in FMEG. 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 (Both government and private 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 FY24-27E revenue of 19%. We have trimmed down the margin expectation given the change in business mix, increased competition, 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 Rs7,639. This stock should be bought on every correction.

### Result Highlights

- Quarter summary** – Polycab has delivered better than expected revenue growth in Q2 with revenue growing 30.4% yoy. Gross margin and EBITDA margin stood at 23.6% and 11.5% respectively.
- Wires & cables** – Wires and cables revenue grew 24.1% yoy, driven by strong volume growth in wires which has seen growth of ~25% in volume terms and 40% in value terms. After many quarters wires have outperformed cables.
- FMEG** –FMEG business revenue grew by 20.5% YoY. Strong growth in FMEG has been attributed to higher demand for fans on low base and healthy switchgear demand.
- Working Capital** – Net working capital on average basis has seen improvement. Company's gross borrowings in 2Q has marginally inched up to Rs1103mn vs Rs984mn in 1QFY25.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	54,984	50,796	49,840	8.2	10.3	
EBITDA	6,316	6,731	6,570	-6.2	-3.9	Strong growth in wires has resulted in revenue beat.
EBITDA Margin (%)	11.5	13.3	13.2	-180 bps	-170 bps	
Adjusted PAT	4,452	4,752	4,530	-6.3	-1.7	

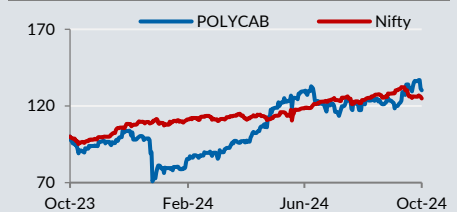
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 7,102
Target Price	: Rs 7,639
Potential Return	: +7.6%

### Stock data (as on Oct 18, 2024)

Nifty	24,866
52 Week h/l (Rs)	7605 / 3801
Market cap (Rs/USD mn)	1070879 / 12743
Outstanding Shares (mn)	150
6m Avg t/o (Rs mn):	3,348
Div yield (%):	0.4
Bloomberg code:	POLYCAP IN
NSE code:	POLYCAP

### Stock performance



	1M	3M	1Y
Absolute return	6.7%	8.6%	33.3%

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

Promoter	63.1%
FII+DII	22.8%
Others	14.1%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	7,639	6,413

### Δ in earnings estimates

	FY26e	FY27e
EPS (New)	157.6	160.3
EPS (Old)	160.3	NA
% change	-1.7%	NA%

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	229,738	265,189	304,967
YoY Growth	27.4%	15.4%	15.0%
EBIDTA	28,649	33,866	40,776
YoY Growth	15.0%	18.2%	20.4%
PAT	19,752	23,681	28,690
YoY Growth	9.6%	19.9%	21.2%
ROE	22.1	22.4	22.9
EPS	131.5	157.6	191.0
P/E	54.0	45.1	37.2
BV	14.3	11.6	9.8
EV/EBITDA	37.2	31.4	25.7

### AAKASH FADIA

Analyst

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	42,177	43,405	55,919	46,980	54,984	30.4	17.0	101,965	81,071	25.8
EBITDA	6089	5695	7615	5834	6316	3.7	8.3	12,149	11,575	5.0
EBITDA Margin %	14.4	13.1	13.6	12.4	11.5			11.9	14.3	-16.5
Depreciation	603.0	618.8	657.2	671.2	720.6	19.5	7.4	1,392	1,174	18.5
EBIT	5486	5076	6958	5163	5595	2.0	8.4	10,758	10,400	3.4
EBIT Margin %	13.0	11.7	12.4	11.0	10.2			10.6	12.8	-17.8
Interest charges	268	322	244	413	453	69.1	9.7	866	517	67.5
Other Income	353.2	709.9	538.4	584.1	761.6	115.6	30.4	1,346	993	35.5
PBT	5572	5464	7253	5334	5903	6.0	10.7	11,237	10,876	3.3
Tax	1273.9	1298.8	1717.8	1317.5	1451.4	13.9	10.2	2,769	2,551	8.6
Effective Tax Rate (%)	22.9	23.8	23.7	24.7	24.6			24.6	47	-47.5
PAT	4298	4165	5535	4016	4452	3.6	10.9	8,468	8,326	1.7
PAT Margin %	10.2	9.6	9.9	8.5	8.1			8.3	10.3	-19
EPS (Rs)	28.8	27.9	37.0	26.9	29.8	3.6	10.9	57	56	1.7

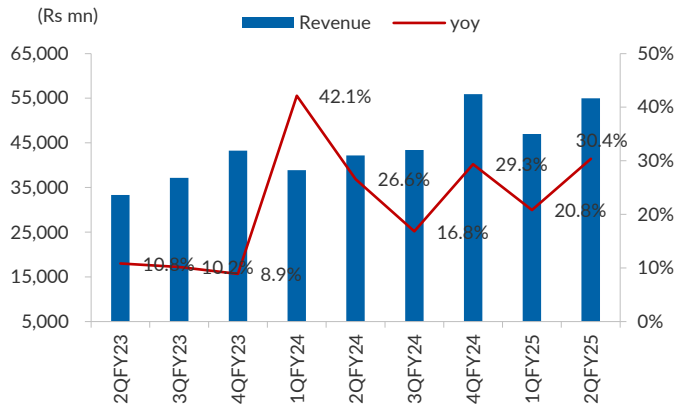
Source: Company, YES Sec

## Exhibit 3: Segmental Performance

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Wires and Cables	38,047	39,041	48,647	39,421	47,200	24.1	19.7	86,621	73,385	18.0
FMEG	3,300	2,962	3,581	3,855	3,975	20.5	3.1	7,830	6,445	21.5
Others	2,015	2,475	5,022	5,194	5,852	190.4	12.7	11,046	3,543	211.7
Less: Intersegment	-1,074	-701	-1,121	-1,289	-1,591	48.1	23.4	-2,880	-1,855	55.2
Total Sales	42,288	43,777	56,130	47,182	55,436	31.1	17.5	102,618	81,518	25.9
PBIT										
Wires and Cables	5546.9	5474.2	7362.9	4966.8	5793.0	4.4	16.6	10,760	10,769	(0.1)
PBIT %	14.6	14.0	15.1	12.6	12.3			12.4	14.7	
FMEG	-60.2	-366.0	-459.1	-28.1	-252.5	319.6	797.8	-281	-117	140.1
PBIT %	-1.8	-12.4	-12.8	-0.7	-6.4			-3.6	-1.8	
Others	224.9	394.3	445.7	572.5	691.2	207.4	20.7	1,264	408	209.5
PBIT %	11.2	15.9	8.9	11.0	11.8			11.4	11.5	
Total PBIT	5,712	5,502	7,350	5,511	6,232	9.1	13.1	11,743	11,061	6.2
PBIT %	13.5	12.6	13.1	11.7	11.2			11.4	13.6	
Finance Costs	249.2	267.9	322.3	244.0	413.0	65.7	69.3	1,083	598	81.3
Other Income	242	338	328	383	309	27.7	-19.2	692	546	26.9
as % of sales	0.6	0.8	0.6	0.8	0.6			0.7	0.7	
Less: Intersegment	-114	-54	-181	-147	-185	61.4	25.3	-332	-213	
PBT	5572	5464	7253	5334	5903	6.0	10.7	11,237	10,876	3.3

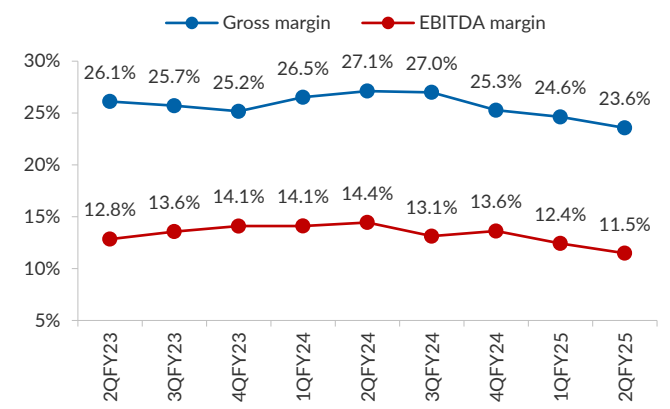
Source: Company, YES Sec

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



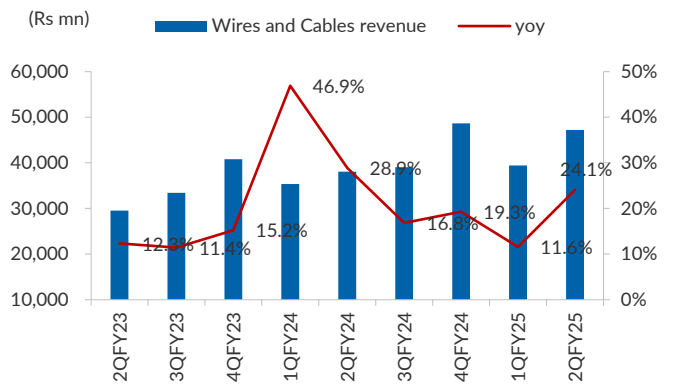
Source: Company, YES Sec

**Exhibit 5: Increased competition and change in mix has resulted in lower margins**



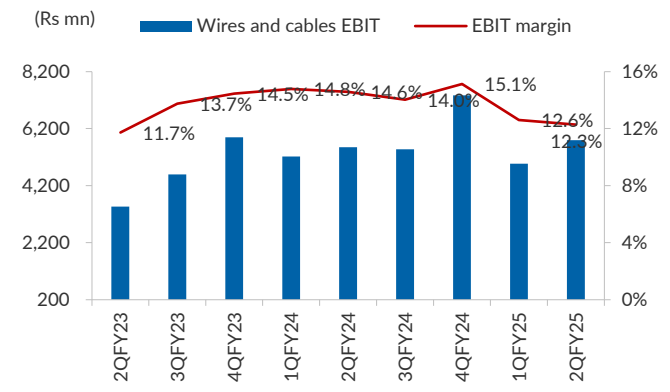
Source: Company, YES Sec

**Exhibit 6: Strong growth in wires have driven growth of wires and cables segment**



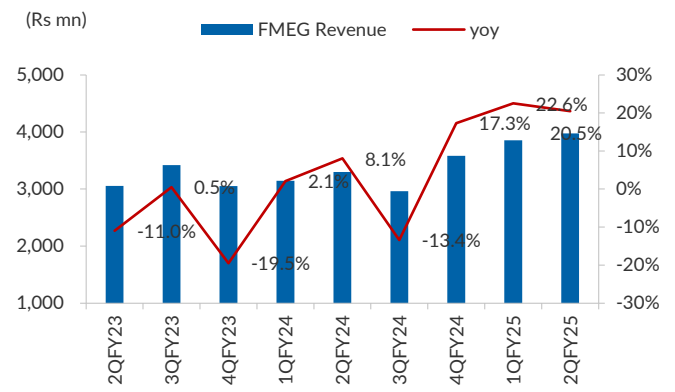
Source: Company, YES Sec

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



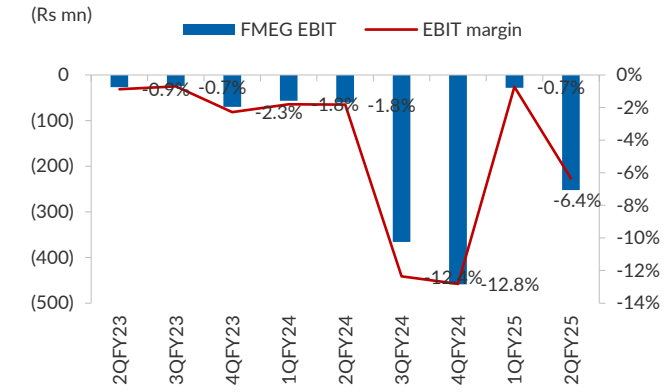
Source: Company, YES Sec

**Exhibit 8: Switchgears and fans segment has propelled FMEG growth**



Source: Company, YES Sec

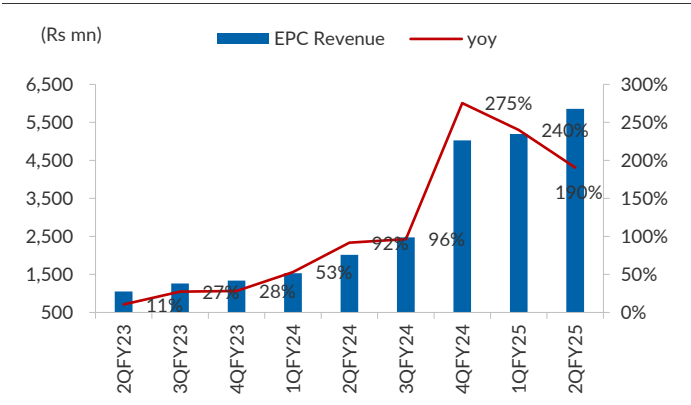
**Exhibit 9: Increased A&P spends and higher fixed cost has resulted in increased losses**



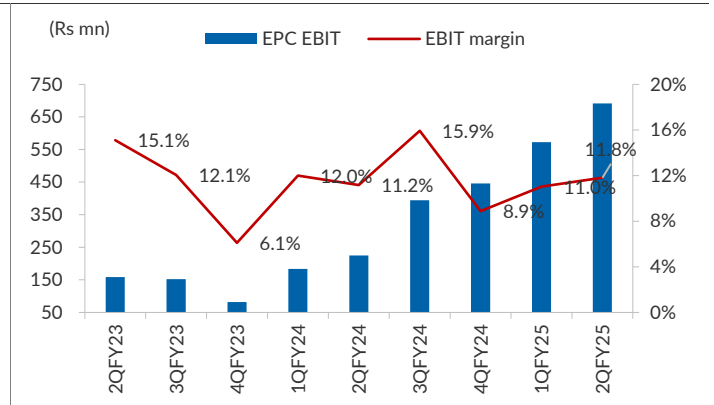
Source: Company, YES Sec

**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

- **Management commentary** – Pickup in rural demand, coupled with increasing government spending will continue to support the strong demand. Polycab is ready with its team and capacity to capture the current strong demand. **Revenue in 2<sup>nd</sup> half will be better than 1<sup>st</sup> half and similar trend will continue for FY25 as well.**
- **Margin contraction** – Margin contraction was on account of 1) Higher losses in FMEG business on account of increased A&P spends and fixed costs; 2) Increase in employee cost as company has added to focus on vertical wise business and 3) Increased competition and higher growth in lower margin business. On yoy basis margin was lower as contribution for high margin exports was lower to 6.1% vs 9% in Q2FY24. **2H is margin accretive and that trend will continue.**
- **Wires and Cables** – After many quarters wires growth has outpaced that of cables. West and South has contributing with strong growth from Maharashtra, Telangana, Karnataka and Tamil Nadu. Growth in wires is 2x of that of cables and mix has seen improvement by 1%.
- **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.
- **International business** – International business has seen increase 36% on sequential basis contributing 6.1% to the revenue. **Middle-east and Australia has resulted in sequential export growth**
- **Working capital** – Working capital has seen improvement to 44 days as inventory buildup that was there at the end of Q1 has been liquidated.
- **FMEG** – Demand for FMEG will improve from FY26 as real-estate continues to be remain strong. Company is focusing on the switchgear segment as margins are far higher as compared to any other products in FMEG
- Private and Government investments will increase in 2HFY25 driving the demand for wires and cables. The company is very positive on the demand environment going forward
- **EPC segment** – Others segment has seen strong growth on back of execution of RDSS orders. Similar quarterly run-rate will continue for next 2 years as RDSS orders remain strong outlook on RDSS orders is very strong. Order book in RDSS stands at Rs48bn and need to be executed in next 3-4 years.
- **Capex** – Capex for FY25 would be Rs10-12bn and similar capex will be there for FY26 as well. Most of the capex will be for wires and cables.
- **The company has applied for Bharat net all 16 tenders.** Contribution of OFC to overall revenue is very low. Bharat net tenders is ~Rs500bn.
- Volume growth in wires stood at north of 25% and value growth is 40% and similar for cables value growth is 20% and volume growth in cables is ~10%.
- Competitive intensity in wires has increased as companies are trying to take the market share and Polycab had to protect its share and could not pass on complete the increase.
- **Exports** – Growth rate in international business in the medium term next 3-5 years will be higher as compared to domestic growth as base in international revenue is low.

## FINANCIALS

### Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,498	1,502	1,502	1,502	1,502
Reserves	64,814	80,369	95,183	112,944	134,462
Net worth	66,311	81,871	96,685	114,446	135,964
Debt	1,551	898	1,191	1,323	1,471
Deferred tax liab (net)	423	544	544	544	544
Other non current liabilities	1,213	1,831	2,093	2,292	2,485
Total liabilities	69,499	85,144	100,514	118,605	140,464
Fixed Asset	22,815	27,668	34,830	41,358	43,503
Investments	13,505	18,987	18,987	18,987	18,987
Other Non-current Assets	2,352	5,218	6,603	7,595	8,612
Net Working Capital	29,299	30,200	38,424	44,200	50,676
Inventories	29,514	36,751	44,059	50,858	58,487
Sundry debtors	12,466	20,471	29,016	33,494	38,518
Loans and Advances	5,824	1,395	1,516	1,603	1,700
Sundry creditors	20,326	28,633	36,465	42,092	48,406
Other current liabilities	4,162	6,697	8,507	9,826	11,310
Cash & equivalents	1,528	3,070	1,669	6,465	18,685
Total Assets	69,499	85,144	100,514	118,605	140,464

Source: Company, YES Sec

### Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	141,078	180,394	229,738	265,189	304,967
Operating profit	18,521	24,918	28,649	33,866	40,776
Depreciation	2,092	2,450	3,178	3,905	4,381
Interest expense	598	1,083	1,706	1,191	1,059
Other income	1,333	2,209	2,629	2,876	3,004
Profit before tax	17,165	23,593	26,395	31,646	38,340
Taxes	4,250	5,564	6,644	7,965	9,650
Minorities and other	93	-	-	-	-
Adj. profit	12,823	18,029	19,752	23,681	28,690
Exceptional items	-	-	-	-	-
Net profit	12,823	18,029	19,752	23,681	28,690

Source: Company, YES Sec

## Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	17,763	24,676	28,101	32,838	39,399
Depreciation	2,092	2,450	3,178	3,905	4,381
Tax paid	(4,250)	(5,564)	(6,644)	(7,965)	(9,650)
Working capital Δ	(9,221)	(5,621)	(8,223)	(5,776)	(6,477)
Other operating items					
Operating cashflow	6,383	15,942	16,411	23,001	27,652
Capital expenditure	(4,753)	(7,304)	(10,340)	(10,432)	(6,525)
Free cash flow	1,631	8,639	6,072	12,568	21,127
Equity raised	1,047	2,038	(0)	-	-
Investments	93	(763)	-	-	-
Debt financing/disposal	720	(654)	293	132	148
Interest paid	(598)	(1,083)	(1,706)	(1,191)	(1,059)
Dividends paid	(2,995)	(4,507)	(4,938)	(5,920)	(7,172)
Net Δ in cash	311	1,543	(1,401)	4,795	12,221

Source: Company, YES Sec

## Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.75	0.76	0.75	0.75	0.75
Interest burden (x)	0.97	0.96	0.94	0.96	0.97
EBIT margin (x)	0.13	0.14	0.12	0.12	0.13
Asset turnover (x)	1.68	1.68	1.72	1.67	1.64
Financial leverage (x)	1.38	1.45	1.49	1.50	1.48
RoE (%)	21.1	24.3	22.1	22.4	22.9

Source: Company, YES Sec

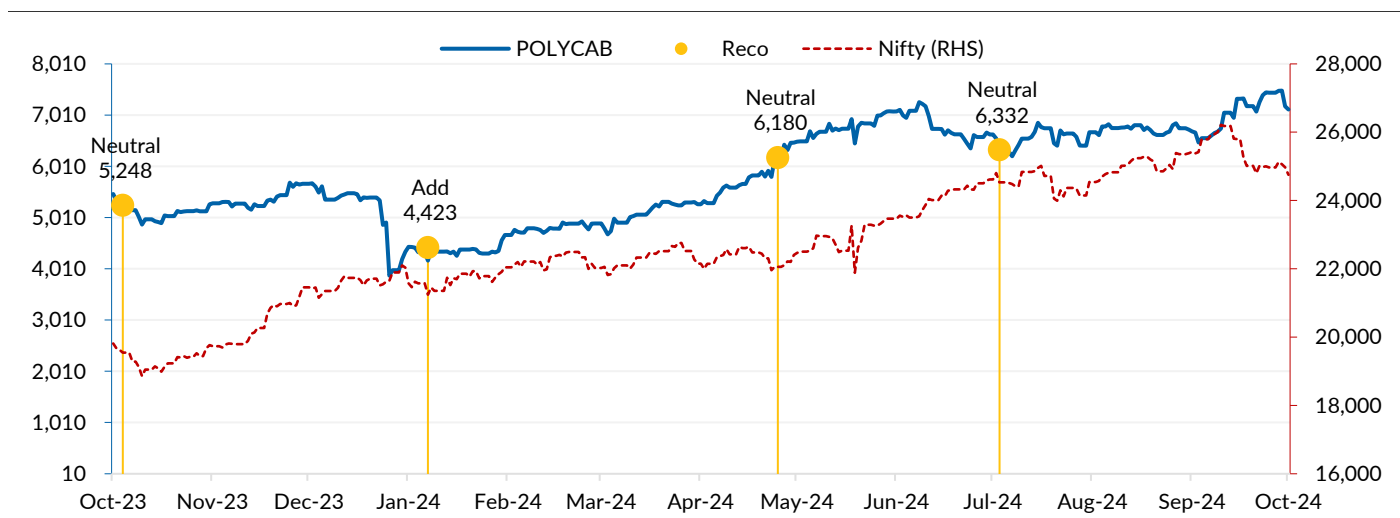
## Exhibit 16: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Revenue growth	15.6	27.9	27.4	15.4	15.0
Op profit growth	46.4	34.5	15.0	18.2	20.4
EBIT growth	53.9	38.9	13.9	16.9	20.0
Net profit growth	51.6	40.6	9.6	19.9	21.2
<b>Profitability ratios (%)</b>					
OPM	13.1	13.8	12.5	12.8	13.4
EBIT margin	12.6	13.7	12.2	12.4	12.9
Net profit margin	9.1	10.0	8.6	8.9	9.4
RoCE	28.6	32.8	31.1	30.7	31.1
RoNW	21.1	24.3	22.1	22.4	22.9
RoA	15.2	16.8	14.8	14.9	15.4

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share ratios</b>					
EPS	85.6	120.0	131.5	157.6	191.0
Dividend per share	20.0	30.0	32.9	39.4	47.7
Cash EPS	99.6	136.3	152.6	183.6	220.1
Book value per share	442.8	545.0	643.6	761.8	905.0
<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	23.4	25.0	25.0	25.0	25.0
Tax payout	24.8	23.6	25.2	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	32.3	41.4	46.1	46.1	46.1
Inventory days	76.4	74.4	70.0	70.0	70.0
Creditor days	52.6	57.9	57.9	57.9	57.9

Source: Company, YES Sec

## Recommendation Tracker





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