

October 19, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

Polycab India Ltd

Capex tailwinds leads to continued outperformance; maintain Neutral

Result Synopsis

Wires and Cables continues to witness strong growth with cables outperforming wires. Volume growth for cables and wires in Q2 stood at ~30% and 20% respectively. Margins continues to remain strong remains higher than the management guidance of 11-13%. Favorable product mix along with higher operating leverage has led to higher margin trajectory. FMEG has remained subdued, with its key categories like Fans and lighting witnessing de-growth on back of poor consumer demand, while switches and conduit pipes have seen healthy growth. Company's GTM initiatives and rejig in distribution network is done with, company now expects growth momentum to return as company is planning to launch new products and SKU's and demand to pick up in 2H. The company continues to focus on brand building, new product development, premiumization of offerings and influencer management program which will lead to industry leading growth. The company looks well placed to keep gaining market share and grow faster than the industry, which should lead to continued re-rating.

We expect strong growth momentum to continue in the ensuing quarters 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, now with distribution transition largely completed FMEG segment should see growth going forward. We estimate the company to now deliver FY23-25E revenue/EBITDA CAGR of 23%/24% respectively. Given the strong traction seen in distribution led business, company should command higher multiple. We have increased our earnings estimates of FY24 and FY25 by 7% and 3% respectively on strong 1H performance resulting in PT of Rs5,234 valuing the company at 40x. We continue with our NEUTRAL stance as stock has seen significant rally in past quarter and would wait for some correction to make a fresh entry.

Result Highlights

- **Quarter summary** – Polycab continues to deliver strong performance in Q2 with revenue growing 26.6% yoy. Gross margin and EBITDA margin stood at 27.1% and 14.4% respectively expanding on yoy basis.
- **Wires & cables** – Wires and cables revenue grew 28.9% yoy as demand for cables continues to remain strong with company getting strong traction in the export markets. Margins improved on yoy basis led by higher operating leverage and favorable product mix.
- **FMEG** –FMEG business saw muted growth of 8.1% YoY. Fans and lighting witnessing de-growth on back of poor consumer demand, smaller business of Switches and conduit pipes has seen strong growth.
- **Working Capital** – Net working capital has improved in Q2. Improvement is largely on back of lower inventory and higher payables days. Company is consistently focusing on improving the efficiency as bringing down its working capital requirements

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	42,177	40,767	40,720	3.5	3.6	Strong demand for cables have resulted in revenue beat.
EBITDA	6,089	5,630	5,610	8.2	8.5	
EBITDA Margin (%)	14.4	13.8	13.8	63 bps	63 bps	
Adjusted PAT	4,298	3,951	3,920	8.8	9.6	

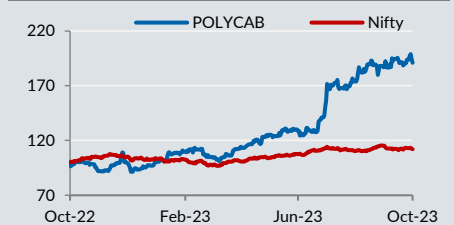
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 5,248
Target Price	: Rs 5,305
Potential Return	: +1.4%

Stock data (as on October 19, 2023)

Nifty	19,605
52 Week h/l (Rs)	5494 / 2500
Market cap (Rs/USD mn)	820429 / 9859
Outstanding Shares (mn)	150
6m Avg t/o (Rs mn):	2,034
Div yield (%):	0.4
Bloomberg code:	POLYCAP IN
NSE code:	POLYCAP

Stock performance



	1M	3M	1Y
Absolute return	2.2%	21.8%	93.9%

Shareholding pattern (As of Mar'23 end)

Promoter	66.0%
FII+DII	19.4%
Others	14.6%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	5,305	4,505

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	117.7	131.9
EPS (Old)	110.3	128.0
% change	7.0%	3.0%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	141,078	179,887	203,356
YoY Growth	15.6%	27.5%	13.0%
EBIDTA	18,521	25,260	28,148
YoY Growth	46.4%	36.4%	11.4%
PAT	12,823	17,630	19,752
YoY Growth	51.6%	37.5%	12.0%
ROE	21.1	24.1	22.6
EPS	85.6	117.7	131.9
P/E	61.1	44.5	39.7
BV	16.4	14.1	11.8
EV/EBITDA	42.3	31.0	27.6

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	33,324	37,152	43,236	38,894	42,177	26.6	8.4	81,071	60,689	33.6
EBITDA	4276	5038	6095	5486	6089	42.4	11.0	11,575	7,387	56.7
EBITDA Margin %	12.8	13.6	14.1	14.1	14.4			14.3	12.2	17.3
Depreciation	522.7	524.5	534.6	571.4	603.0	15.4	5.5	1,174	1,033	13.7
EBIT	3754	4514	5560	4914	5486	46.2	11.6	10,400	6,355	63.7
EBIT Margin %	11.3	12.1	12.9	12.6	13.0			12.8	10.5	22.5
Interest charges	139	93	282	249	268	92.7	7.5	517	223	131.5
Other Income	-22.3	396.8	515.2	640.0	353.2	-1,686.8	-44.8	993	421	135.8
PBT	3592	4818	5794	5305	5572	55.1	5.0	10,876	6,553	66.0
Tax	880.0	1201.6	1446.5	1276.8	1273.9	44.8	-0.2	2,551	1,602	59.2
Effective Tax Rate (%)	24.5	24.9	25.0	24.1	22.9	-6.7	-5.0	23.5	24.4	-4.1
PAT	2704	3608	4284	4028	4298	58.9	6.7	8,326	4,930	68.9
PAT Margin %	8.1	9.7	9.9	10.4	10.2		-1.6	10.3	8.1	26
EPS (Rs)	18.1	24.1	28.7	27.0	28.8	58.9	6.7	55.7	33.0	68.9

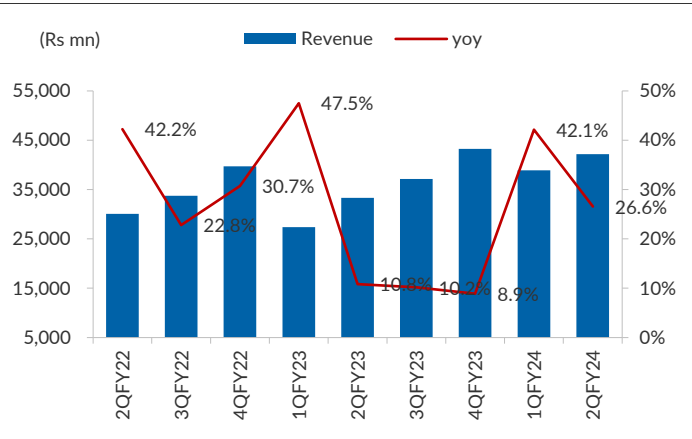
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Wires and Cables	29,517	33,418	40,783	35,338	38,047	28.9	7.7	73,385	53,574	37.0
FMEG	3,054	3,420	3,052	3,145	3,300	8.1	4.9	6,445	6,135	5.1
Others	1,051	1,260	1,338	1,528	2,015	91.8	31.8	3,543	2,049	72.9
Less: Intersegment	-505	-827	-1,784	-781	-1,074	112.8	37.5	-1,855	-954	
Total Sales	33,117	37,271	43,389	39,230	42,288	27.7	7.8	81,518	60,804	34.1
PBIT										
Wires and Cables	3462.5	4593.1	5895.9	5222.6	5546.9	60.2	6.2	10,769	6,235	72.7
PBIT %	11.7	13.7	14.5	14.8	14.6			14.7	11.6	
FMEG	-26.8	-23.9	-69.7	-56.7	-60.2	124.3	6.1	-117	38	(410.8)
PBIT %	-0.9	-0.7	-2.3	-1.8	-1.8			-1.8	0.6	
Others	158.6	151.9	81.8	183.4	224.9	41.8	22.6	408	283	44.0
PBIT %	15.1	12.1	6.1	12.0	11.2			11.5	13.8	
Total PBIT	3,594	4,721	5,908	5,349	5,712	58.9	6.8	11,061	6,556	68.7
PBIT %	10.9	12.7	13.6	13.6	13.5			13.6	10.8	
Finance Costs	139.0	92.6	281.6	249.2	267.9	92.7	7.5	517	223	131.5
Other Income	185	277	363	303	242	31.2	-20.2	303	306	(0.9)
as % of sales	0.6	0.7	0.8	0.8	0.6			0.4	0.5	
Exceptional Items								0	0	
Less: Intersegment	-47	-88	-195	-99	-114	141.9	16.1	-213	-86	
PBT	3593	4818	5794	5305	5572	55.1	5.0	10,876	6,553	66.0

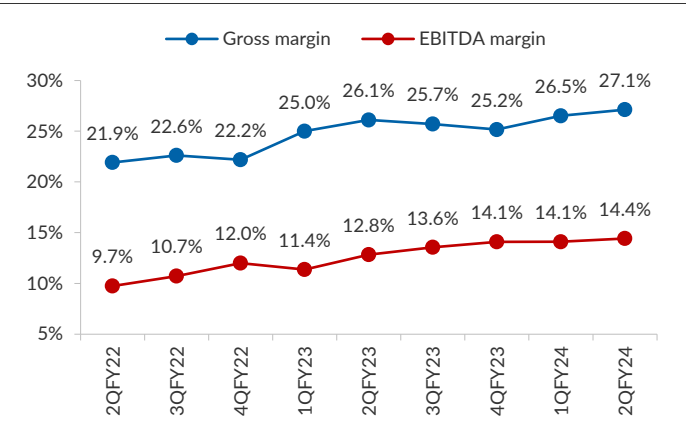
Source: Company, YES Sec

Exhibit 4: Polycab continues to deliver strong revenue growth



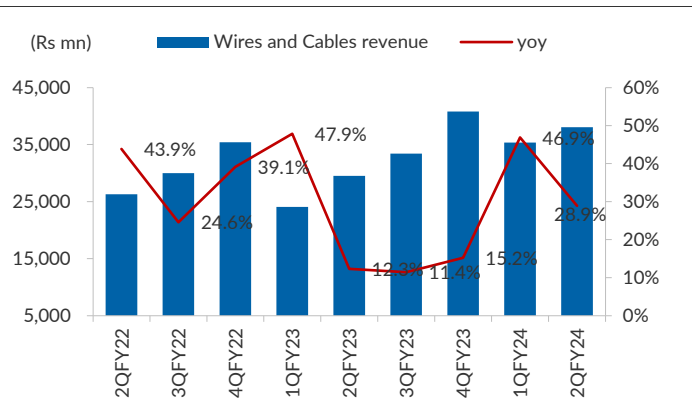
Source: Company, YES Sec

Exhibit 5: Higher operating leverage results in margin improvement



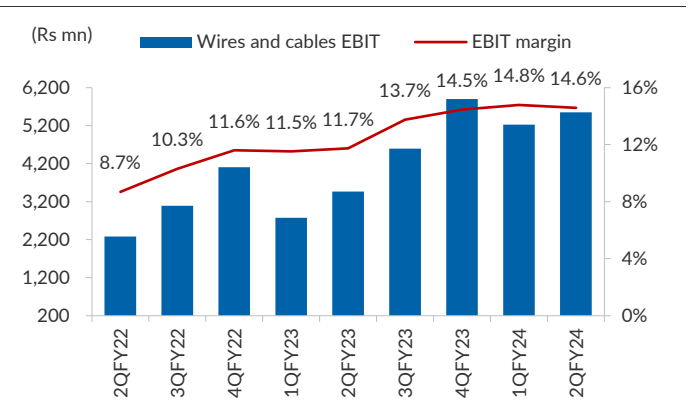
Source: Company, YES Sec

Exhibit 6: Growth has been aided by strong performance of Cables and exports



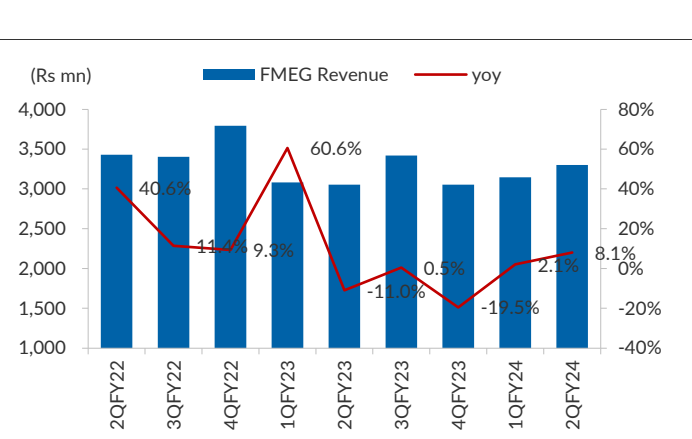
Source: Company, YES Sec

Exhibit 7: EBIT margins continue to improve on higher operating leverage



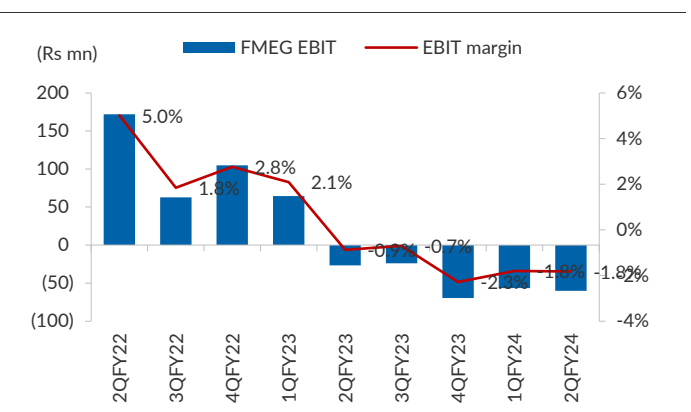
Source: Company, YES Sec

Exhibit 8: FMEG growth remains subdued



Source: Company, YES Sec

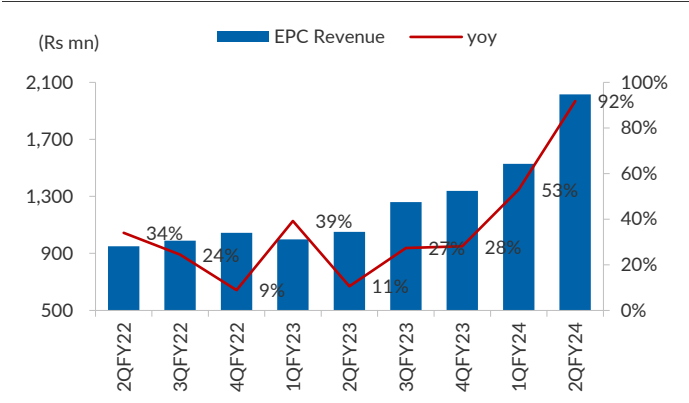
Exhibit 9: Increased A&P spends has resulted in EBIT loss



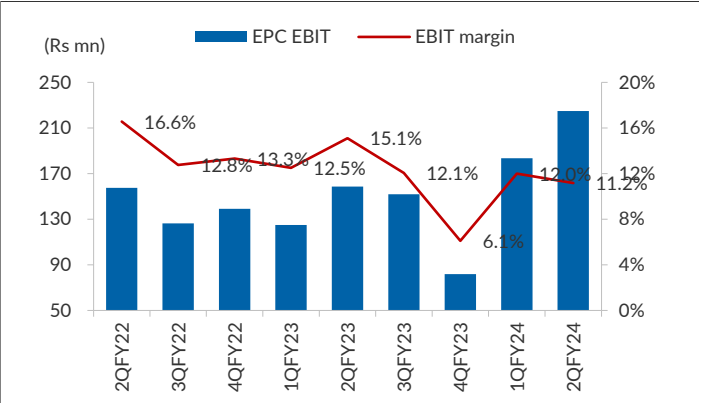
Source: Company, YES Sec

Exhibit 10: EPC business continues to see gradual recovery

Exhibit 11: EBIT margin continues to be range bound



Source: Company, YES Sec



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Macro** – Domestic consumption growth along with government capex push has led to strong demand for wires and cables. This along with real estate construction activity has resulted in continued strong demand drivers for wires and cables. **States capex continues to be strong with 17 major states capex increasing by 26% in 1H to Rs1.6tn.**
- **Wires and Cables** – Strong volume growth of 30% during Q2. Growth was broad based with strong growth coming from North led by Uttar Pradesh, Delhi and Haryana. Wires business has witnessed good growth with company's strategy of providing products at various price points and brand is paying rich dividend. Company has 3 brands viz. Etira, Optima and Green wires has now combined sales of 30%. **Cables growth was north of 30% while wires growth is around 20%.**
- **Geographical growth** – Sales in South continues to remain strong with revenue in southern region growing by xx% outperforming other regions with traction from states like Karnataka, Telangana and Tamil Nādu.
- **International business** – International business grew 14% on sequential basis now contributing 9.3% of the total consolidated revenue.
- **Demand** – Demand is for cables is coming across the sector and industries with infra, Power and real-estate doing well. Based on the ground level demand trends volume growth is expected to be much better than it has been historically.
- **Realizations** – Mix of copper and Aluminum price has resulted low single digit in realizations.
- **FMEG** – Fans business being a seasonal business has seen some disruption in 1H, next season will be the first full season of changed environment which is when pickup is likely. Lighting slowdown is industrywide phenomena, however there is likely se see demand increase in Q3 during the festive season. Other smaller product categories are seeing good growth. **FMEG growth will be gradual.**
- **Project leap** – Target set out under project leap of Rs20,000 crs of revenue by FY26 is likely to achieve ahead of schedule. The company is recalibrating and will come with the updated targets in next few quarters.
- **Distribution** – The company distribution realignment has been largely complete and company is continuously increasing its distribution presence to tap the newer markets.
- **A&P Spends** – A&P spends are accounted as an when the event occurs. World-cup spending
- **Exports** – Exports business has been around Rs4bn which is 11% growth. Company is confident on strong revenue growth in exports as company is entering new geographies and has necessary approvals in place.
- **2H has been better than H1 historically and company expects current scenario to be similar to the historical trend. Long term drivers are in place for structural growth going forward as well. Company believes current capex has been structural capex story and is expected to continue for the decade.**
- **Capacity utilization and Capex** – Company is operating at 65-70% in cables and wires. Capex is likely to be around Rs6-7bn each for FY24 and FY25. Company can go to 90% utilization and hence capacity is not a challenge
- **Pricing of LED lighting** – Pricing of LED lighting has gone down by 20-25% in past 18 months, company believes price correction in LED has been largely done, now Volume growth should translate into the value growth.

FINANCIALS

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,491	1,494	1,498	1,498	1,498
Reserves	46,048	53,943	64,814	78,325	93,463
Net worth	47,539	55,437	66,311	79,823	94,961
Debt	2,487	831	1,551	1,967	2,218
Deferred tax liab (net)	418	272	423	423	423
Other non current liabilities	1,007	967	1,213	1,411	1,497
Total liabilities	51,451	57,507	69,499	83,623	99,098
Fixed Asset	19,346	20,154	22,815	26,388	29,742
Investments	6,349	7,733	13,505	13,505	13,505
Other Non-current Assets	2,957	2,461	2,352	2,920	3,304
Net Working Capital	20,421	25,942	29,299	38,334	42,632
Inventories	19,879	21,996	29,514	36,963	41,785
Sundry debtors	14,358	12,964	12,466	19,714	22,286
Loans and Advances	3,317	3,405	5,824	5,934	6,001
Sundry creditors	13,480	12,175	20,326	26,564	30,030
Other current liabilities	4,980	4,183	4,162	5,342	6,034
Cash & equivalents	2,378	1,217	1,528	2,476	9,915
Total Assets	51,451	57,507	69,499	83,623	99,098

Source: Company, YES Sec

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	89,265	122,038	141,078	179,887	203,356
Operating profit	11,670	12,647	18,521	25,260	28,148
Depreciation	1,848	2,005	2,092	2,406	2,805
Interest expense	531	352	598	931	787
Other income	1,282	899	1,333	1,644	1,844
Profit before tax	10,573	11,190	17,165	23,567	26,400
Taxes	1,791	2,706	4,250	5,835	6,537
Minorities and other	2	26	93	102	112
Adj. profit	8,780	8,458	12,823	17,630	19,752
Exceptional items	(97)	-	-	-	-
Net profit	8,877	8,458	12,823	17,630	19,752

Source: Company, YES Sec

Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	11,104	11,542	17,763	24,498	27,187
Depreciation	1,848	2,005	2,092	2,406	2,805
Tax paid	(1,791)	(2,706)	(4,250)	(5,835)	(6,537)
Working capital Δ	(6,502)	(6,930)	(9,221)	(9,035)	(4,298)
Other operating items					
Operating cashflow	4,659	3,910	6,383	12,034	19,157
Capital expenditure	(4,899)	(2,814)	(4,753)	(5,979)	(6,159)
Free cash flow	(240)	1,097	1,631	6,055	12,998
Equity raised	1,789	1,532	1,047	(0)	-
Investments	137	26	93	-	-
Debt financing/disposal	916	(1,655)	720	415	251
Interest paid	(531)	(352)	(598)	(931)	(787)
Dividends paid	(1,491)	(2,092)	(2,995)	(4,118)	(4,614)
Net Δ in cash	656	(1,161)	311	949	7,439

Source: Company, YES Sec

Exhibit 15: Du-pont analysis

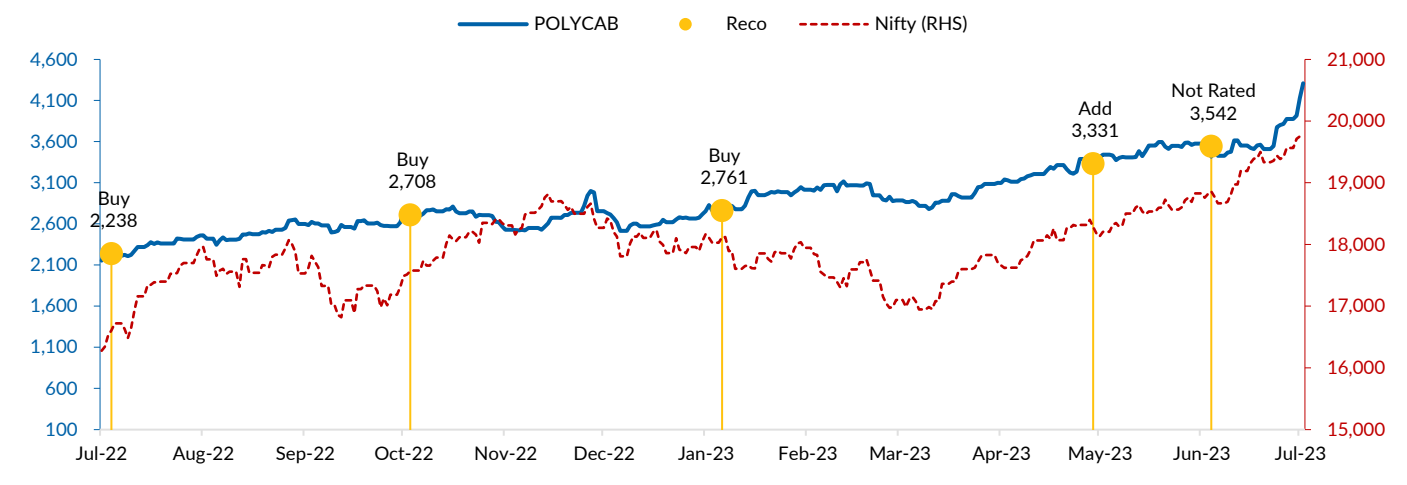
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.83	0.76	0.75	0.75	0.75
Interest burden (x)	0.95	0.97	0.97	0.96	0.97
EBIT margin (x)	0.12	0.09	0.13	0.14	0.13
Asset turnover (x)	1.38	1.69	1.68	1.71	1.62
Financial leverage (x)	1.51	1.40	1.38	1.44	1.44
RoE (%)	20.4	16.4	21.1	24.1	22.6

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	1.1	36.7	15.6	27.5	13.0
Op profit growth	2.8	8.4	46.4	36.4	11.4
EBIT growth	4.1	3.9	53.9	37.9	11.0
Net profit growth	14.7	(3.7)	51.6	37.5	12.0
Profitability ratios (%)					
OPM	13.1	10.4	13.1	14.0	13.8
EBIT margin	12.4	9.5	12.6	13.6	13.4
Net profit margin	9.8	6.9	9.1	9.8	9.7
RoCE	24.7	21.7	28.6	32.7	30.4
RoNW	20.4	16.4	21.1	24.1	22.6

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	13.5	11.7	15.2	16.8	15.7
Per share ratios					
EPS	59.5	56.6	85.6	117.7	131.9
Dividend per share	10.0	14.0	20.0	27.5	30.8
Cash EPS	71.3	70.0	99.6	133.8	150.6
Book value per share	318.8	371.0	442.8	533.0	634.1
Valuation ratios					
P/E	87.9	92.5	61.1	44.5	39.7
P/CEPS	72.8	74.6	52.2	38.9	34.6
P/B	16.4	14.1	11.8	9.8	8.3
EV/EBIDTA	66.9	61.8	42.3	31.0	27.6
Payout (%)					
Dividend payout	17.0	24.7	23.4	23.4	23.4
Tax payout	16.9	24.2	24.8	24.8	24.8
Liquidity ratios					
Debtor days	58.7	38.8	32.3	40.0	40.0
Inventory days	81.3	65.8	76.4	75.0	75.0
Creditor days	55.1	36.4	52.6	53.9	53.9

Recommendation Tracker



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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.

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