

# Polycab India Ltd.

20<sup>th</sup> Jan 2023

## Volume-led growth in C&W with improved profitability

In Q3 FY23, Polycab India Ltd. (PIL) registered decent growth on a high base with margin improvement. The Company clocked a 10% revenue growth on a YoY basis, led by Cable & Wire (C&W) segment. Performance from the Fast Moving Electrical Goods (FMEG) segment remained lackluster on account of the reorganization of the distribution channel and various margin expansion initiatives. We believe that PIL will post consistent growth and margins in Q4 FY23E and FY24E, which is largely built into the price, leaving limited room for re-rating. Therefore, we maintain our view on PIL with a BUY rating and a target price of Rs. 3,036, valuing it at 33x FY24E earnings.

### Well on track to achieve Rs. 200 Bn revenue under Project LEAP by FY26

PIL achieved 19% YoY growth in 9M FY23 and is yet to report its strongest quarter. This gives us confidence that the Company is on track to achieve its revenue target under Project LEAP. Strong performance on growth is driven by resilient volume-driven domestic demand. During the quarter, PIL registered a 26% volume growth in the C&W business and clocked the highest-ever quarterly production. PIL's export order book remains strong; management indicated that export sales are expected to contribute 8-10% to the overall FY23 revenue.

### Completion of the product portfolio – Entry into Extra High Voltage (EHV) Cables

PIL is the only player manufacturing all types of C&W except EHV cables in Asia. The Company has decided to start manufacturing High-voltage (HV) and EHV cables for which PIL is setting up a facility in Halol, which is expected to commence in FY25. This decision is driven by the multiplication of power demand and increasing smart cities, which will require entire power stations to be built underground, exponentially increasing the demand for HV and EHV cables. To execute this project, PIL has signed a technology know-how agreement with a Swiss company, Brook Cables. The strategic partner will provide design, testing, structure, and installation technology for manufacturing up to 550KV voltage cables. With this, PIL will be able to tap Rs. 40-50 Bn domestic EHV market, along with the export demand for the product.

### Reconstruction of FMEG business

FMEG segment for Q3 FY23 was almost flat YoY and grew 8% YoY on a 9M basis despite a challenging business environment. FMEG segment revived QoQ, but margins remained suppressed due to increased A&SP spending and are expected to improve in FY24E. The Company is working on the realignment of distribution channels, brand building, influencer management programs, new product development, and premiumization of offerings, which is progressing well. These initiatives will help drive revenue growth and margin expansion for the FMEG business from FY24E.

### View & Valuation

We believe that PIL's consistent performance on growth on the back of strong domestic and export demand will continue in Q4 FY23E and FY24E but is priced close to perfection. Based on our revised estimates, we maintain our view on PIL with a BUY rating and target price of Rs. 3,036, valuing it at 33x FY24E earnings.

## BUY

CMP Rs. 2,757

TARGET Rs. 3,036 (+10%)

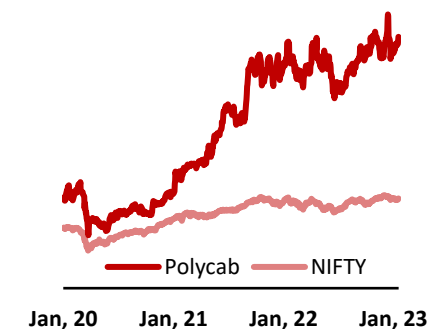
### Company Data

MCAP (Rs. Mn)	4,13,341
O/S Shares (Mn)	150
52w High/Low	3,025 / 2,045
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	1,099

### Shareholding Pattern %

	Dec 22	Sep 22	Jun 22
Promoters	66.61	67.97	67.99
FIIIs	8.11	6.44	5.71
DIIIs	10.11	10.35	9.03
Non-Institutional	15.15	15.24	17.27

### Polycab vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	1,22,038	1,41,342	1,59,716
EBITDA	12,502	16,820	19,166
Net Profit	8,539	12,111	13,799
Total Assets	74,119	98,260	1,11,567
ROCE (%)	15%	20%	20%
ROE (%)	16%	20%	19%

Source: Company, Keynote Capitals Ltd.

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## Q3 FY23 result update

### Result Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
Revenue	37,152	33,720	10.2%	33,324	11.5%	97,841	82,338	18.8%	1,22,037
COGS	27,603	26,095	5.8%	24,625	12.1%	72,752	63,765	14.1%	94,657
Gross Profit	9,548	7,625	25.2%	8,699	9.8%	25,089	18,573	35.1%	27,380
<b>Gross Profit %</b>	<b>25.7%</b>	<b>22.6%</b>	<b>309 Bps</b>	<b>26.1%</b>	<b>-40 Bps</b>	<b>25.6%</b>	<b>22.6%</b>	<b>309 Bps</b>	<b>22.4%</b>
Employee Cost	1,132	1,025	10.4%	1,148	-1.4%	3,381	3,016	12.1%	4,066
A&SP	636	436	45.9%	168	279.0%	999	656	52.2%	823
Freight & forwarding	819	859	-4.7%	894	-8.4%	2,267	1,949	16.3%	2,740
Other Operating Expense	1,923	1,688	13.9%	2,213	-13.1%	6,016	5,063	18.8%	6,484
EBITDA	5,038	3,617	39.3%	4,276	17.8%	12,426	7,889	57.5%	13,267
<b>EBITDA %</b>	<b>13.6%</b>	<b>10.7%</b>	<b>284 Bps</b>	<b>12.8%</b>	<b>73 Bps</b>	<b>12.7%</b>	<b>9.6%</b>	<b>312 Bps</b>	<b>10.9%</b>
Depreciation	525	511	2.6%	523	0.3%	1,557	1,513	2.9%	2,015
EBIT	4,514	3,106	45.3%	3,753	20.3%	10,869	6,376	70.5%	11,252
<b>EBIT %</b>	<b>12.1%</b>	<b>9.2%</b>	<b>294 Bps</b>	<b>11.3%</b>	<b>89 Bps</b>	<b>11.1%</b>	<b>7.7%</b>	<b>336 Bps</b>	<b>9.2%</b>
Finance Cost	93	78	18.5%	139	-33.4%	316	227	39.3%	352
Other Income	397	216	83.3%	(22)	-1903.6%	818	731	11.9%	899
<b>PBT</b>	<b>4,818</b>	<b>3,244</b>	<b>48.5%</b>	<b>3,592</b>	<b>34.1%</b>	<b>11,371</b>	<b>6,880</b>	<b>65.3%</b>	<b>11,799</b>
Share of Associates	(8)	3	-405.7%	(8)	0.9%	(29)	(22)	32.5%	-26
Tax	1,202	763	57.5%	880	36.6%	2,804	1,659	68.9%	2,706
PAT from discontinued operations	-	678	-	-	0.0%	-	721	0.0%	-
<b>PAT</b>	<b>3,608</b>	<b>3,162</b>	<b>14.1%</b>	<b>2,704</b>	<b>33.4%</b>	<b>8,538</b>	<b>5,919</b>	<b>44.2%</b>	<b>9,067</b>
<b>EPS</b>	<b>23.9</b>	<b>21.1</b>	<b>-</b>	<b>17.9</b>	<b>-</b>	<b>56.5</b>	<b>39.3</b>	<b>-</b>	<b>60.9</b>

### Segment Highlights (Rs. Mn)

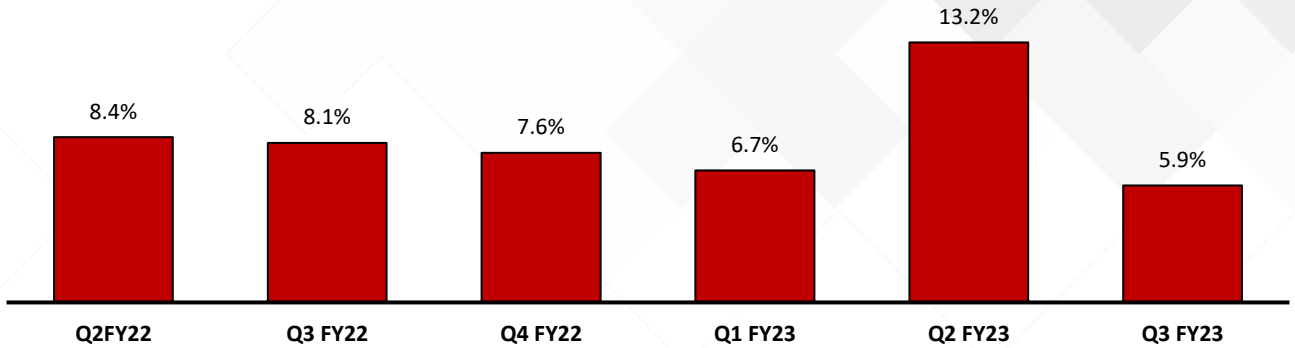
Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
<b>Revenue</b>									
Cables & Wires	33,418	29,988	11.4%	29,517	13.2%	86,992	72,538	19.9%	1,07,938
FMEG	3,420	3,904	-12.4%	3,054	12.0%	9,555	8,752	9.2%	12,544
Others	1,260	989	27.4%	1,051	19.9%	3,309	2,657	24.5%	3,702
<b>Operating Profit</b>									
Cables & Wires	4,593	3,089	48.7%	3,463	32.6%	10,828	6,439	68.2%	10,545
FMEG	(24)	63	-138.2%	(27)	-11.4%	14	91	-85.0%	196
Others	152	126	20.3%	159	-4.5%	435	360	20.9%	499
<b>Operating Profit Margin %</b>									
Cables & Wires	13.7%	10.3%	344 Bps	11.7%	201 Bps	12.4%	8.9%	357 Bps	9.8%
FMEG	-0.7%	1.6%	-231 Bps	-0.9%	18 Bps	0.1%	1.0%	-90 Bps	1.6%
Others	12.1%	12.8%	-71 Bps	15.1%	-308 Bps	13.2%	13.5%	-39 Bps	13.5%

Source: Company, Keynote Capitals Ltd.

## Polycab India Limited | Quarterly Update

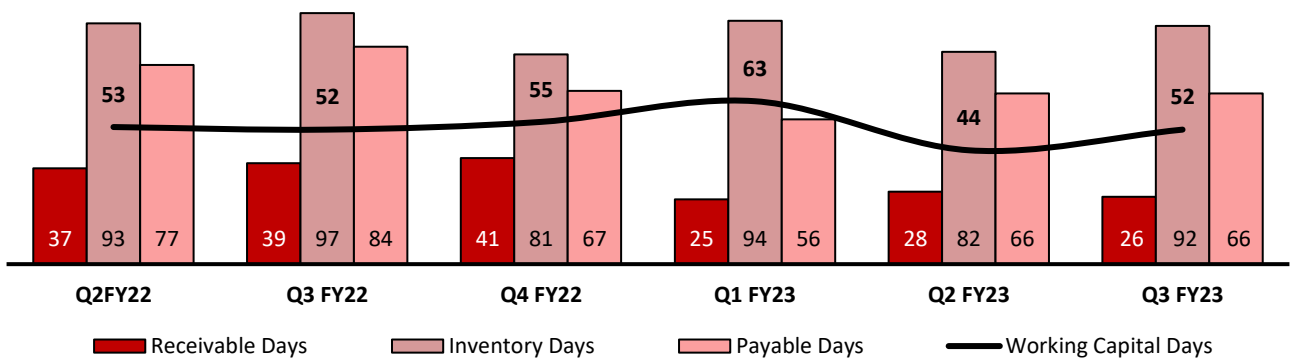
### Quarterly business progression

Export contribution as a % of overall revenue



Source: Company, Keynote Capitals Ltd.

Working capital cycle



Source: Company, Keynote Capitals Ltd.

### Updates on Project LEAP



#### Setup of right organization enablers

- ❖ Majority of talent acquisition for critical roles completed across businesses and functions
- ❖ Performance measures, Rewards & Recognition aligned to the growth strategy
- ❖ New transformation office to strengthen governance and implementation rigor



#### Customer centricity: Foundational moves

- ❖ Redesigned operating model of B2B businesses
- ❖ Heavy Duty & Light Duty Cables verticals merged to unlock significant value
- ❖ Structured approach to strategic key accounts
- ❖ Designed and piloted first in Industry, structured influencer management



#### Go – To – Market Excellence

- ❖ Built presence in Emerging India (Semi Urban & Rural) and Alternate channels
- ❖ Fast-tracked distribution expansion with ~ 2x increase in direct towns coverage
- ❖ Successfully piloted End to End digitization of front-end sales



#### Winning with new products

- ❖ Launched new sub brand "Etira" which will play pivotal role in economy price segments
- ❖ Portfolio roadmap in place for key businesses
- ❖ NPD council setup across businesses for structured review and governance

Source: Company, Keynote Capitals Ltd.

## Q3 FY23 Conference Call Takeaways

### General Highlights

- Following initiatives under Project LEAP are underway - Entering high-growth potential districts where PIL is not operating, activating inactive distributors, securing good business from existing customers, and channeling growth through the Emerging India segment.
- The Company will invest Rs. 6-7 Bn in the form of CAPEX in CY23, of which 3/4<sup>th</sup> will be invested in the C&W segment and the rest in FMEG.
- Both B2B and B2C segments are doing well on the back of government focus on infrastructure and upturn in the real estate sector. The Company expects equal contributions from B2C and B2B segments by FY26.
- Exports are expected to contribute 8-10% of overall revenue in FY23 on the back of strong orders. The Company plans to transition to a distribution-led business model in exports in the future.
- Working capital increased due to an increase in inventory. PIL stocked raw material inventory in anticipation of positive demand in Q4 FY23.

*B2B includes cables, and B2C includes wires and FMEG segment.*

### C&W segment

- During 9M FY23, the C&W demand environment remained strong as the domestic distribution-driven business grew by 25% YoY on the back of strong volume growth of ~26%. The outperformance was primarily on the back of benefits realized through the merger of heavy-duty & light-duty cable verticals in FY22.
- The Cable and Wire mix in Q3 FY23 was 60:40, which previously was 70:30. In the long run, PIL estimates an 11-13% EBITDA margin in the C&W segment.

### FMEG segment

- The Company is working on the following initiatives to improve its FMEG business - change in product mix, availability across all price points, economies of scale, and more advertisement spending. The benefits of these initiatives are expected to be visible from FY24E.
- Fan segment grew fastest by 24% as distributors started restocking. Price hikes in fans will be visible from Q4 FY23 as the BEE-compliant inventories were out in the market from 1<sup>st</sup> January 2023.
- Currently fans & lights contributes 2/3<sup>rd</sup> to the FMEG revenue. PIL aims to have a higher proportion of switchgear and switches in their FMEG sales mix in the future as they are high-margin product categories. Recently, the Company installed a new manufacturing facility for switches in Daman.
- Fans facility at Roorkee of 4.2 Mn capacity is running at full capacity utilization. The Halol facility will become operational in the current quarter resulting in 100% capacity expansion. The capacity for switches is adequate and is expandable if required, and the switchgear facility is currently undergoing expansion.
- Almost all FMEG products are now being manufactured in-house, except Agro-pumps and solar products, which have a minuscule revenue contribution.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>87,922</b>	<b>1,22,038</b>	<b>1,41,342</b>	<b>1,59,716</b>	<b>1,80,479</b>
Growth %		39%	16%	13%	13%
Raw Material Expenses	62,604	92,279	1,01,766	1,14,995	1,29,945
Employee Expenses	3,537	4,066	5,088	5,750	6,497
Other Expenses	10,670	13,190	17,668	19,805	21,116
<b>EBITDA</b>	<b>11,111</b>	<b>12,502</b>	<b>16,820</b>	<b>19,166</b>	<b>22,921</b>
Growth %		13%	35%	14%	20%
Margin%	13%	10%	12%	12%	13%
Depreciation	1,762	2,015	1,997	2,093	2,134
<b>EBIT</b>	<b>9,350</b>	<b>10,487</b>	<b>14,823</b>	<b>17,073</b>	<b>20,787</b>
Growth %		12%	41%	15%	22%
Margin%	11%	9%	10%	11%	12%
Interest Paid	427	352	256	256	256
Other Income & exceptional	1,193	1,049	1,500	1,500	1,500
<b>PBT</b>	<b>10,116</b>	<b>11,184</b>	<b>16,067</b>	<b>18,317</b>	<b>22,031</b>
Tax	1,703	2,706	4,017	4,579	5,508
<b>PAT</b>	<b>8,412</b>	<b>8,478</b>	<b>12,050</b>	<b>13,738</b>	<b>16,523</b>
Others (Minorities, Associates)	44	62	61	60	60
<b>Net Profit</b>	<b>8,456</b>	<b>8,539</b>	<b>12,111</b>	<b>13,799</b>	<b>16,583</b>
Shares (Mn)	149.1	149.4	150.0	150.0	150.0
<b>EPS</b>	<b>59.15</b>	<b>60.80</b>	<b>80.74</b>	<b>91.99</b>	<b>110.55</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Cash, Cash equivalents &amp; Bank</b>	<b>5,313</b>	<b>4,071</b>	<b>8,376</b>	<b>13,220</b>	<b>21,729</b>
Current Investments	6,231	7,641	7,641	7,641	7,641
Debtors	14,358	12,964	22,615	25,555	28,877
Inventory	19,879	21,996	30,530	34,499	38,983
Short Term Loans & Advances	1,473	3,990	3,990	3,990	3,990
Other Current Assets	472	749	749	749	749
<b>Total Current Assets</b>	<b>47,726</b>	<b>51,411</b>	<b>73,900</b>	<b>85,653</b>	<b>1,01,969</b>
Net Block & CWIP	19,687	20,506	22,184	23,765	24,699
Long Term Investments	118	93	67	40	13
Other Non-current Assets	2,616	2,109	2,109	2,109	2,109
<b>Total Assets</b>	<b>70,147</b>	<b>74,119</b>	<b>98,260</b>	<b>1,11,567</b>	<b>1,28,790</b>
Creditors	13,480	12,175	26,472	28,551	32,263
Provision	519	413	413	413	413
Short Term Borrowings	890	765	765	765	765
Other Current Liabilities	5,257	4,059	4,059	4,059	4,059
<b>Total Current Liabilities</b>	<b>20,146</b>	<b>17,413</b>	<b>31,710</b>	<b>33,789</b>	<b>37,501</b>
Long Term Debt	1,037	30	30	30	30
Deffered Tax Liabilities	418	272	272	272	272
Other Long Term Liabilities	819	716	716	716	716
<b>Total Non Current Liabilities</b>	<b>2,274</b>	<b>1,018</b>	<b>1,018</b>	<b>1,018</b>	<b>1,018</b>
Paid-up Capital	1,491	1,494	1,500	1,500	1,500
Reserves & Surplus	46,048	53,943	63,869	75,184	88,782
Shareholders' Equity	47,539	55,437	65,369	76,684	90,282
Non Controlling Interest	188	251	164	77	-11
<b>Total Equity &amp; Liabilities</b>	<b>70,147</b>	<b>74,119</b>	<b>98,260</b>	<b>1,11,567</b>	<b>1,28,790</b>

Source: Company, Keynote Capitals Ltd. estimates

### Cash Flow Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	10,116	11,184	16,067	18,317	22,031
Adjustments	1,727	1,379	752	849	890
Change in Working Capital	2,600	-4,974	-3,887	-4,829	-4,095
Total Tax Paid	-2,409	-3,340	-4,017	-4,579	-5,508
<b>Cash flow from operating Activities</b>	<b>12,034</b>	<b>4,250</b>	<b>8,915</b>	<b>9,757</b>	<b>13,318</b>
Net Capital Expenditure	-1,911	-5,200	-3,675	-3,673	-3,068
Change in investments	-8,071	-645	0	0	0
Other investing activities	-139	1,576	1,500	1,500	1,500
<b>Cash flow from investing activities</b>	<b>-10,121</b>	<b>-4,270</b>	<b>-2,175</b>	<b>-2,173</b>	<b>-1,568</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-1,217	-168	0	0	0
Dividend (incl. tax)	0	-1,492	-2,180	-2,484	-2,985
Other financing activities	-531	-347	-256	-256	-256
<b>Cash flow from financing activities</b>	<b>-1,748</b>	<b>-2,007</b>	<b>-2,436</b>	<b>-2,739</b>	<b>-3,241</b>
<b>Net Change in cash</b>	<b>166</b>	<b>-2,026</b>	<b>4,305</b>	<b>4,844</b>	<b>8,509</b>

### Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>					
EPS	59	61	81	92	111
Growth %		3%	33%	14%	20%
Book Value Per Share	319	371	437	512	602
<b>Return Ratios</b>					
Return on Assets (%)	13%	12%	14%	13%	14%
Return on Equity (%)	20%	16%	20%	19%	20%
Return on Capital Employed (%)	18%	15%	20%	20%	20%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.4	1.7	1.6	1.5	1.5
Sales / Gross Block (x)	3.7	4.5	5.0	5.0	5.1
Working Capital / Sales (%)	27%	25%	27%	29%	32%
Receivable Days	60	41	46	55	55
Inventory Days	114	83	94	103	103
Payable Days	78	50	64	84	83
Working Capital Days	96	74	76	74	76
<b>Liquidity Ratios</b>					
Current Ratio (x)	2.4	3.0	2.3	2.5	2.7
Interest Coverage Ratio (x)	24.7	32.8	63.8	72.6	87.1
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	-0.1	-0.2	-0.2
<b>Valuation</b>					
PE (x)	23.3	38.9	34.2	30.0	25.0
Earnings Yield (%)	4%	3%	3%	3%	4%
Price to Sales (x)	2.3	2.9	2.9	2.6	2.3
Price to Book (x)	4.3	6.4	6.3	5.4	4.6
EV/EBITDA (x)	18.3	28.0	24.4	21.4	17.9
EV/Sales (x)	2.3	2.9	2.9	2.6	2.3

## KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
22 <sup>nd</sup> August 2022	BUY	2,350	+15%
20 <sup>th</sup> October 2022	BUY	2,648	+16%
20 <sup>th</sup> January 2023	BUY	2,757	+10%

Source: Company, Keynote Capitals Ltd. estimates

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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