

# Polycab India Ltd

15<sup>th</sup> May 2023

## Strong show to continue but discounted in price

In Q4 FY23, Polycab India Ltd. (PIL) registered modest revenue growth on a high base with margin improvement. The Company clocked a 9% revenue growth on a YoY basis, driven by strong exports and volume. PIL now qualifies among the top 15 Cable and Wire (C&W) companies globally due to its ability to deliver all types of products. Performance from the Fast Moving Electrical Goods (FMEG) segment remained weak on account of channel realignment and a challenging business environment. Though we believe in PIL's growth prospects, but it is largely built into the price, leaving limited room for re-rating. Therefore, we change our rating on PIL from BUY to NEUTRAL with a target price of Rs. 3,491.

### The revenue target under project LEAP is well in sight

PIL achieved a ~9% YoY growth in Q4 FY23 and a ~16% in FY23. The Company's current revenue stands at ~Rs. 141 Bn in FY23, and to reach the targeted revenue base of Rs. 200 Bn as part of project LEAP, PIL needs to achieve a CAGR of ~13% between FY24-26. It is worth noting that PIL has historically achieved a five-year revenue CAGR of ~16%, indicating that attaining a nominal growth rate of 13% should not pose significant challenges.

### Strong operating margins in Q4, consistency needs to be watched out

In Q4 FY23, the C&W segment achieved ~15% EBITDA margin, despite an unfavorable C&W mix (cables 70% & wires 30%). The Company operates on a 14-15% margin on wires and 10-11% on cables. The Company attributes this performance to the quality and availability of the product to customers. However, it is notable that the current level of margins is on the higher side of the guided range (11%-13%). Therefore, it is crucial to monitor the continuity of these margins.

### A weak run of FMEG continues

PIL's FMEG segment witnessed another challenging quarter on account of the realignment of distribution channels and a weak business environment. In Q4 FY23, the FMEG revenue degrew by 20% on a YoY basis. Going forward, the Company plans to increase focus on switches and switchgear as these are less competitive and higher margin businesses. With the completion of the distribution channel realignment in FY23, the Company is determined to improve both the top and bottom-line performance starting from FY24. Additionally, under project LEAP, PIL is committed to achieving 10-12% EBITDA margins by FY26E.

### View & Valuation

We believe that PIL will be able to maintain its good business performance on the back of go-to-market efforts and a strong demand environment. However, we believe that there can be uncertainty regarding the sustained maintenance of operating margins that were reported in Q3 & Q4 FY23 and expect margins to be within the guided range. Additionally, we believe the current price is aptly discounting future optimism, leaving little room for re-rating. Therefore, based on our revised estimates, we change our rating on Polycab India Ltd from BUY to HOLD with a target price of Rs. 3,491 (35x FY24E EPS).

## NEUTRAL

CMP Rs. 3,379

TARGET Rs. 3,491 (+3.3%)

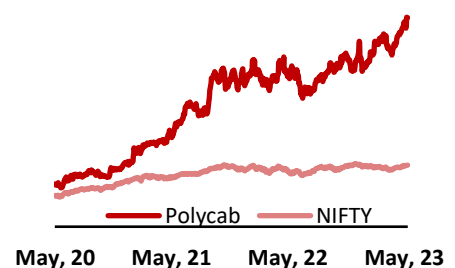
### Company Data

MCAP (Rs. Mn)	5,06,012
O/S Shares (Mn)	150
52w High/Low	3,423 / 2,044
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	965

### Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	66.20	66.61	67.97
FIIIs	9.77	8.11	6.44
DIIIs	9.35	10.11	10.35
Non-Institutional	14.67	15.15	15.24

### Polycab vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs. Bn)	FY22	FY23	FY24E
Revenue	122.0	141.1	159.4
EBITDA	12.5	18.5	20.7
Net Profit	8.5	12.9	14.9
Total Assets	74.1	94.3	107.2
ROCE (%)	15%	23%	20%
ROE (%)	16%	21%	21%

Source: Company, Keynote Capitals Ltd.

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Q4 FY23 result update

Result Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Revenue	43,237	39,700	9%	37,152	16%	1,41,078	1,22,038	16%
COGS	32,357	30,892	5%	27,603	17%	1,05,109	94,657	11%
Gross Profit	10,880	8,808	24%	9,548	14%	35,969	27,381	31%
<b>Gross Profit %</b>	<b>25%</b>	<b>22%</b>	<b>300 Bps</b>	<b>26%</b>	<b>-50 Bps</b>	<b>26%</b>	<b>22%</b>	<b>310 Bps</b>
Employee Cost	1,187	1,050	13%	1,132	5%	4,568	4,066	12%
A&SP	245	166	48%	636	-61%	1,244	823	51%
Freight & forwarding	879	791	11%	819	7%	3,146	2,740	15%
Other Operating Expense	2,473	2,037	21%	1,923	29%	8,490	7,100	20%
EBITDA	6,095	4,763	28%	5,038	21%	18,521	12,652	46%
<b>EBITDA %</b>	<b>14%</b>	<b>12%</b>	<b>210 Bps</b>	<b>14%</b>	<b>50 Bps</b>	<b>13%</b>	<b>10%</b>	<b>270 Bps</b>
Depreciation	535	503	6%	525	2%	2,092	2,015	4%
EBIT	5,561	4,261	31%	4,514	23%	16,430	10,637	54%
<b>EBIT %</b>	<b>13%</b>	<b>11%</b>	<b>220 Bps</b>	<b>12%</b>	<b>80 Bps</b>	<b>12%</b>	<b>9%</b>	<b>290 Bps</b>
Finance Cost	282	125	126%	93	203%	598	352	70%
Other Income	515	168	207%	397	30%	1,333	899	48%
PBT	5,794	4,304	35%	4,818	20%	17,165	11,184	53%
<b>PBT %</b>	<b>13%</b>	<b>11%</b>	<b>260 Bps</b>	<b>13%</b>	<b>40 Bps</b>	<b>12%</b>	<b>9%</b>	<b>300 Bps</b>
Share of Associates	-64	-4	1500%	-8	700%	-93	-26	258%
Tax	1,446	1,047	38%	1,202	20%	4,250	2,706	57%
<b>Profit for the period</b>	<b>4,284</b>	<b>3,253</b>	<b>32%</b>	<b>3,608</b>	<b>19%</b>	<b>12,823</b>	<b>8,453</b>	<b>52%</b>
<b>EPS</b>	<b>28.4</b>	<b>21.6</b>	<b>-</b>	<b>23.9</b>	<b>-</b>	<b>84.9</b>	<b>60.9</b>	<b>-</b>

Segment Highlights (Rs. Mn)

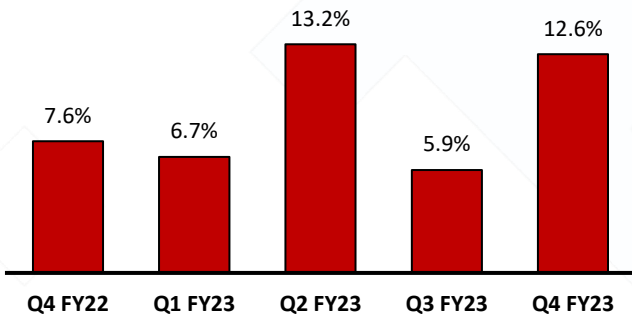
Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
<b>Revenue</b>								
Cables & Wires	40,783	35,400	15%	33,418	22%	1,27,775	1,07,938	18%
FMEG	3,052	3,792	-20%	3,420	-11%	12,607	12,544	1%
Others	1,338	1,044	28%	1,260	6%	4,647	3,702	26%
<b>Operating Profit</b>								
Cables & Wires	5,896	4,106	44%	4,593	28%	16,724	10,545	59%
FMEG	-70	105	-167%	-24	191%	-56	196	-129%
Others	82	139	-41%	152	-46%	517	499	4%
<b>Operating Profit Margin %</b>								
Cables & Wires	15%	12%	286 Bps	14%	71 Bps	13%	10%	332 Bps
FMEG	-2%	3%	-505 Bps	-1%	-158 Bps	-0.4%	2%	-201 Bps
Others	6%	13%	-720 Bps	12%	-594 Bps	11%	14%	-235 Bps

Source: Company, Keynote Capitals Ltd.

## Polycab India Ltd | Quarterly Update

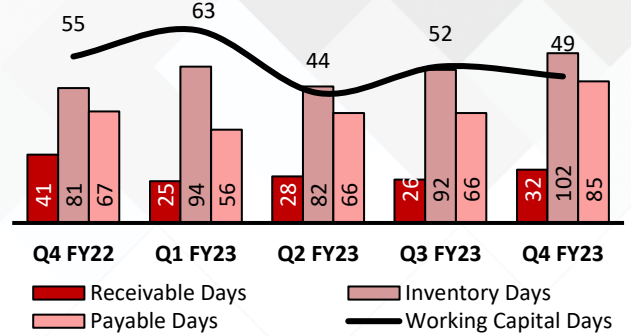
### Quarterly business progression

Export contribution as a % of overall revenue

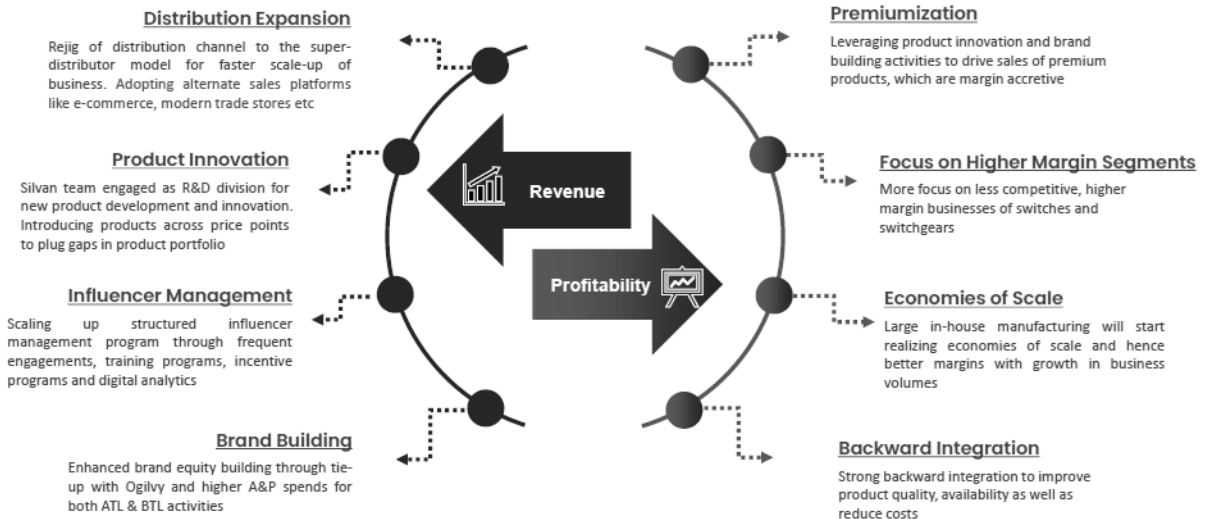


Source: Company, Keynote Capitals Ltd.

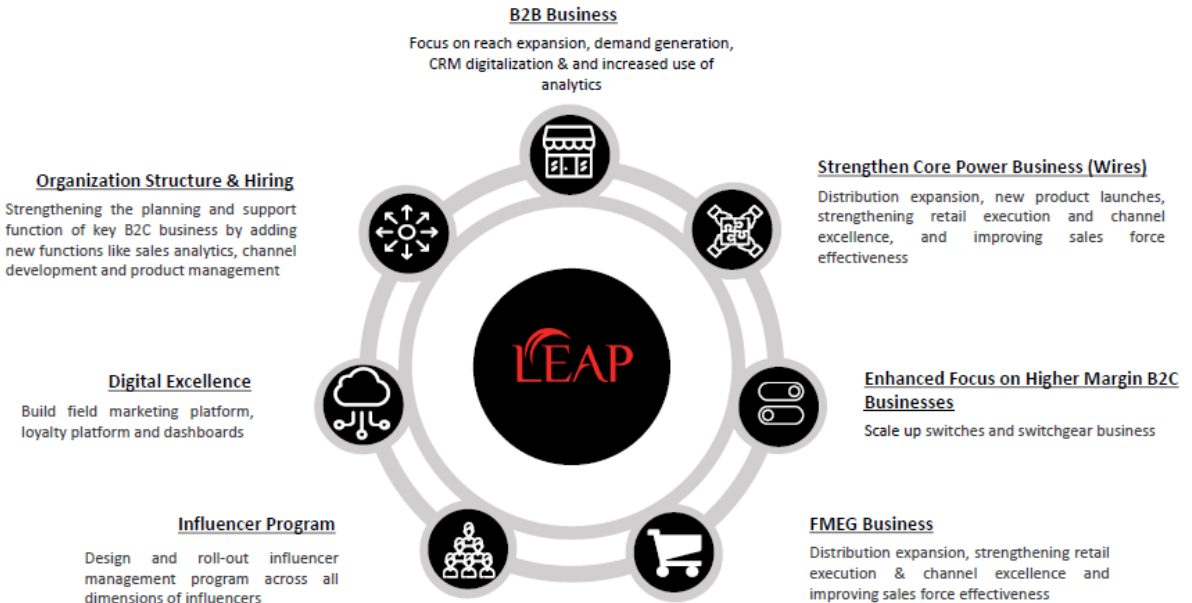
Working capital cycle



### Revenue growth levers and profitability drivers for FMEG



### Key Themes & Priorities for FY24



Source: Company, Keynote Capitals Ltd.

## Q4 FY23 Conference Call Takeaways

### General Highlights

- The revenue growth is attributable to growth in sales volume and increased demand from export markets. It is important to emphasize that this growth has been achieved without any margin compromise, evident by an increase of 270 bps YoY in EBITDA margins in FY23.
- In FY23, working capital days declined from 61 to 50 due to improved channel financing penetration. In addition to this, channel finance penetration stood at 83% compared to 75% on a YoY basis. According to PIL, a working capital cycle of 50-55 days is considered optimal and conducive to their overall financial stability.
- The Company launched Etira brand switches in the economy category and relaunched green wires in the premium category.
- The Company plans to invest Rs. 6-7 Bn as CAPEX in CY23.
- Operating margins for a few export products are 300-400 bps higher than domestic. Exports are largely B2B, and the Company plans to establish a distribution network overseas and replicate what it did domestically. The Company expanded its global footprint to 70 countries in FY23.
- USA is the highest contributing export market with a 50-60% contribution to the total export revenue of the Company.

### C&W segment

- In FY23, the C&W segment grew by 17% YoY despite a healthy base and lower commodity prices on the back of robust volume growth of 21% and strong traction in international business.
- The outperformance was primarily due to benefits realized through the merger of Heavy Duty Cables (HDC) and Light Duty Cables (LDC) verticals in FY22.
- In FY23, EBITDA margins for the segment improved by 332 bps YoY, led by judicious price revisions in line with the commodity price movements and strong growth in international business.
- In FY23, capacity utilization of the C&W segment stood at 70%.
- 90% of cables are supplied through distributors; the balance is through institutional clients.

### FMEG segment

- In Q4FY23, fans' business was subdued due to heavy channel inventory stocking before transitioning to the new BEE norms. The Company introduced 40 new BEE-compliant SKUs, with 30 of them in the premium and super-premium categories, which aligns with the Company's premiumization strategy.
- New fan manufacturing plant with an additional capacity of 6 Mn units in Halol is now operational. The Company will now manufacture table, pedestal, and wall fans in-house in the Halol plant, in addition to manufacturing the ceiling fans.
- Fans and lighting contribute 60% to the FMEG revenue, followed by 15-20% contributed by switches and switchgear, 15% by pipes and fittings, with the remaining portion derived from other products.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>87,922</b>	<b>1,22,038</b>	<b>1,41,078</b>	<b>1,59,418</b>	<b>1,80,142</b>
Growth %		39%	16%	13%	13%
Raw Material Expenses	62,604	92,279	1,03,757	1,14,781	1,29,702
Employee Expenses	3,537	4,066	4,568	5,101	5,765
Other Expenses	10,670	13,190	14,231	18,811	21,257
<b>EBITDA</b>	<b>11,111</b>	<b>12,502</b>	<b>18,521</b>	<b>20,724</b>	<b>23,418</b>
Growth %		13%	48%	12%	13%
Margin%	13%	10%	13%	13%	13%
Depreciation	1,762	2,015	2,092	2,146	2,013
<b>EBIT</b>	<b>9,350</b>	<b>10,487</b>	<b>16,430</b>	<b>18,578</b>	<b>21,406</b>
Growth %		12%	57%	13%	15%
Margin%	11%	9%	12%	12%	12%
Interest Paid	427	352	598	102	102
Other Income & exceptional	1,193	1,049	1,333	1,400	1,470
<b>PBT</b>	<b>10,116</b>	<b>11,184</b>	<b>17,165</b>	<b>19,876</b>	<b>22,774</b>
Tax	1,703	2,706	4,250	4,969	5,693
<b>PAT</b>	<b>8,412</b>	<b>8,478</b>	<b>12,915</b>	<b>14,907</b>	<b>17,080</b>
Others (Minorities, Associates)	44	62	30	29	27
<b>Net Profit</b>	<b>8,456</b>	<b>8,539</b>	<b>12,946</b>	<b>14,936</b>	<b>17,107</b>
Shares (Mn)	149.1	149.4	149.8	149.8	149.8
<b>EPS</b>	<b>59.15</b>	<b>60.80</b>	<b>86.44</b>	<b>99.73</b>	<b>114.23</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	5,313	4,071	6,952	9,453	19,120
Current Investments	6,231	7,641	13,505	13,505	13,505
Debtors	14,358	12,964	12,466	15,942	18,014
Inventory	19,879	21,996	29,514	32,139	36,317
Short Term Loans & Advances	1,473	3,990	103	103	103
Other Current Assets	472	749	6,547	6,547	6,547
Total Current Assets	47,726	51,411	69,087	77,689	93,606
Net Block & CWIP	19,687	20,506	23,177	27,506	28,460
Long Term Investments	118	93	0	0	0
Other Non-current Assets	2,616	2,109	1,990	1,990	1,990
<b>Total Assets</b>	<b>70,147</b>	<b>74,119</b>	<b>94,255</b>	<b>1,07,185</b>	<b>1,24,056</b>
Creditors	13,480	12,175	20,326	21,133	24,098
Provision	519	413	268	268	268
Short Term Borrowings	890	765	1,509	1,509	1,509
Other Current Liabilities	5,257	4,059	4,162	4,162	4,162
Total Current Liabilities	20,146	17,413	26,266	27,072	30,038
Long Term Debt	1,037	30	42	42	42
Deffered Tax Liabilities	418	272	423	423	423
Other Long Term Liabilities	819	716	839	839	839
Total Non Current Liabilities	2,274	1,018	1,304	1,304	1,304
Paid-up Capital	1,491	1,494	1,498	1,498	1,498
Reserves & Surplus	46,048	53,943	64,814	77,061	91,089
Shareholders' Equity	47,539	55,437	66,311	78,559	92,587
Non Controlling Interest	188	251	374	251	128
<b>Total Equity &amp; Liabilities</b>	<b>70,147</b>	<b>74,119</b>	<b>94,255</b>	<b>1,07,185</b>	<b>1,24,056</b>

Source: Company, Keynote Capitals Ltd. estimates

### Cash Flow Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	10,116	11,184	17,165	19,876	22,774
Adjustments	1,727	1,379	1,871	848	645
Change in Working Capital	2,600	-4,974	-1,058	-5,294	-3,285
Total Tax Paid	-2,409	-3,340	-3,704	-4,969	-5,693
<b>Cash flow from operating Activities</b>	<b>12,034</b>	<b>4,250</b>	<b>14,275</b>	<b>10,461</b>	<b>14,440</b>
Net Capital Expenditure	-1,911	-5,200	-4,584	-3,667	-3,062
Change in investments	-8,071	-645	-7,665	0	0
Other investing activities	-139	1,576	223	1,400	1,470
<b>Cash flow from investing activities</b>	<b>-10,121</b>	<b>-4,270</b>	<b>-12,026</b>	<b>-2,267</b>	<b>-1,592</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-1,217	-168	0	0	0
Dividend (incl. tax)	0	-1,492	-2,094	-2,688	-3,079
Other financing activities	-531	-347	-176	-102	-102
<b>Cash flow from financing activities</b>	<b>-1,748</b>	<b>-2,007</b>	<b>-2,271</b>	<b>-2,790</b>	<b>-3,181</b>
Net Change in cash	166	-2,026	-22	5,404	9,666

### Valuation Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E
<b>Per Share Data</b>					
EPS	59	61	86	100	114
Growth %		3%	42%	15%	15%
Book Value Per Share	319	371	445	526	619
<b>Return Ratios</b>					
Return on Assets (%)	13%	12%	15%	15%	15%
Return on Equity (%)	20%	16%	21%	21%	20%
Return on Capital Employed (%)	18%	15%	23%	20%	20%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.4	1.7	1.7	1.6	1.6
Sales / Gross Block (x)	3.7	4.5	4.8	4.8	5.4
Working Capital / Sales (%)	27%	25%	27%	29%	32%
Receivable Days	60	41	33	33	34
Inventory Days	114	83	91	98	96
Payable Days	78	50	53	64	62
Working Capital Days	96	74	70	66	69
<b>Liquidity Ratios</b>					
Current Ratio (x)	2.4	3.0	2.6	2.9	3.1
Interest Coverage Ratio (x)	24.7	32.8	29.7	196.4	224.9
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	-0.1	-0.1	-0.2
<b>Valuation</b>					
PE (x)	23.3	38.9	39.1	33.9	29.6
Earnings Yield (%)	4%	3%	3%	3%	3%
Price to Sales (x)	2.3	2.9	3.6	3.2	2.8
Price to Book (x)	4.3	6.4	7.6	6.4	5.5
EV/EBITDA (x)	18.3	28.0	27.1	24.3	21.5
EV/Sales (x)	2.3	2.9	3.6	3.2	2.8

## 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%
15 <sup>th</sup> May 2023	NEUTRAL	3,379	+3%

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
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