

Polycab India Ltd.

19th October 2023

Current price discounting the robust business outlook

In Q2 FY24, Polycab India Ltd. (PIL) again recorded robust revenue growth along with margin improvement. The Company recorded a 27% revenue growth on a YoY basis, driven by volume growth in the C&W segment. Domestically, growth is being witnessed both in the distribution-driven as well as institutional businesses, with growth in cables continuing to outpace that of wires. EBITDA margins stood at ~14%, recording a YoY expansion of ~160 Bps. Performance from the FMEG segment remained weak on account of prolonged sluggish demand in the key product categories and recorded a higher loss on a YoY basis. We continue to believe in PIL's growth prospects, but based on our estimates, PIL is quoting at rich valuations. Therefore, we maintain our REDUCE rating on PIL with a target price of Rs. 4,907 based on our revised estimates.

Margin expansion-led growth continues

In Q2 FY24, PIL registered a strong revenue growth of 27% on a YoY basis, driven by the C&W segment, along with a 160 Bps EBITDA margin expansion on a YoY basis. Operating leverage and a better product mix were the key drivers for margin expansion. Additionally, a large part of the growth during the quarter was driven by volume, which has come on the back of an impressive performance in the domestic market because of strong demand by distribution-driven as well as institutional customers. Currently, demand is being supported by government CAPEX and positive momentum in the real estate sector. Cables continue to outperform wires in Q2 FY24 as well. We believe that if the current growth run rate continues, PIL may achieve its Rs. 200 Bn revenue target under project LEAP in FY25 itself instead of FY26.

Higher marketing spends keep the FMEG segment under pressure

The FMEG business continued its weak performance in Q2 FY24 as well due to weak consumer demand in the larger business of fans and lights. In Q2 FY24, the segment recorded an operating loss of Rs. 60 Mn vis-à-vis Rs. 27 Mn in Q2 FY23. The primary reason for a higher operating loss on a YoY basis was the higher ad spending done by the Company during the quarter. Losses were partially contained by a higher contribution of premium products during the quarter. On the positive side, other FMEG product categories like switchgear, conduit pipes and switches showed impressive growth in Q2 FY24.

Currently, PIL is directing efforts towards filling gaps in its FMEG product portfolio and brand building. The Company expects profitability in the FMEG segment to improve owing to a higher contribution from products like switchgears, switches, etc., improved contribution of in-house manufacturing, and premiumization. The operating profit target of PIL for its FMEG segment under project LEAP stays unchanged at 10% by FY26.

View & Valuation

We believe that PIL will maintain its business performance on the back of bright business prospects and will continue to operate in an EBITDA margin range of 12%-13%. However, our estimates indicate that PIL is quoting at rich valuations. Therefore, based on our revised estimates, we maintain our REDUCE rating on Polycab India Ltd. with a target price of Rs. 4,907 (38x FY25E EPS).

REDUCE

CMP Rs. 5,292

TARGET Rs. 4,907 (-7.3%)

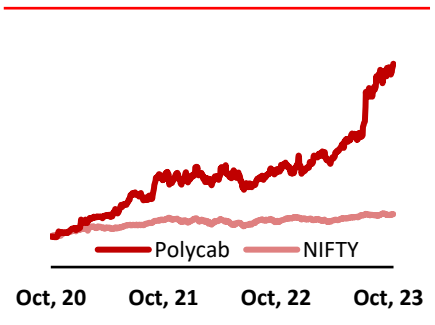
Company Data

Bloomberg Code	POLYCAB IN
MCAP (Rs. Mn)	7,93,976
O/S Shares (Mn)	150
52w High/Low	5,493 / 2,500
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	3,610

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	66.00	66.20	66.61
FIIIs	9.65	9.77	8.11
DIIIs	9.76	9.35	10.11
Non-Institutional	14.61	14.67	15.15

Polycab vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY23	FY24E	FY25E
Revenue	141.1	176.3	200.2
EBITDA	18.5	234.5	270.2
Net Profit	12.9	16.6	19.4
Total Assets	94.3	112.7	131.6
ROCE (%)	23%	23%	22%
ROE (%)	21%	23%	22%

Source: Company, Keynote Capitals Ltd.

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Q2 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue	42,177	33,324	27%	38,894	8%	81,071	60,689	34%	1,41,078
COGS	30,739	24,625	25%	28,581	8%	59,319	45,148	31%	1,05,109
Gross Profit	11,438	8,699	31%	10,313	11%	21,752	15,541	40%	35,969
Gross Profit %	27%	26%	102 bps	27%	60 bps	27%	26%	122 bps	25%
Employee Cost	1,557	1,148	36%	1,349	15%	2,906	2,249	29%	4,568
A&SP	446	168	165%	263	70%	708	363	95%	1,244
Freight & forwarding	864	894	-3%	794	9%	1,658	1,448	14%	3,146
Other Operating Expense	2,483	2,213	12%	2,422	3%	4,905	4,094	20%	8,490
EBITDA	6,089	4,276	42%	5,486	11%	11,575	7,387	57%	18,521
EBITDA %	14.4%	12.8%	160 bps	14.1%	33 bps	14.3%	12.2%	210 bps	13.1%
Depreciation	603	523	15%	571	6%	1,174	1,033	14%	2,092
EBIT	5,486	3,754	46%	4,914	12%	10,400	6,355	64%	16,430
EBIT %	13%	11%	174 bps	13%	37 bps	13%	10%	236 bps	12%
Finance Cost	268	139	93%	249	8%	517	223	132%	598
Other Income	353	-22	-	640	-45%	993	421	136%	1,333
PBT	5,572	3,593	55%	5,305	5%	10,876	6,553	66%	17,165
Share of Associates	0	-8	-	0	-	0	-21	-	-93
Tax	1,274	878	45%	1,273	0%	2,547	1,599	59%	4,250
Profit for the period	4,298	2,706	59%	4,032	7%	8,329	4,933	69%	12,823
EPS	28.26	17.85	-	26.60	-	54.86	32.51	-	84.80

Segment Highlights (Rs. Mn)

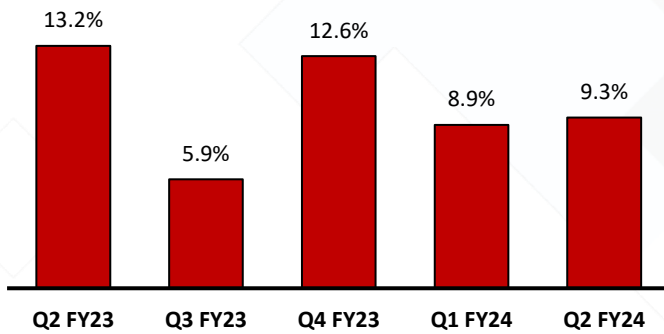
Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue									
Cables & Wires	38,047	29,517	29%	35,338	8%	73,385	53,574	37%	1,27,775
FMEG	3,300	3,054	8%	3,145	5%	6,445	6,135	5%	12,607
Others	2,015	1,051	92%	1,528	32%	3,543	2,049	73%	4,647
Operating Profit									
Cables & Wires	5,547	3,463	60%	5,223	6%	10,769	6,235	73%	16,724
FMEG	-60	-27	-	-57	-	-117	38	-	-56
Others	225	159	42%	184	22%	408	283	44%	517
Operating Profit Margin %									
Cables & Wires	15%	12%	285 bps	15%	-20 bps	15%	12%	304 bps	13%
FMEG	-2%	-1%	-95 bps	-2%	-2 bps	-2%	1%	-243 bps	0%
Others	11%	15%	-394 bps	12%	-85 bps	12%	14%	-231 bps	11%

Source: Company, Keynote Capitals Ltd.

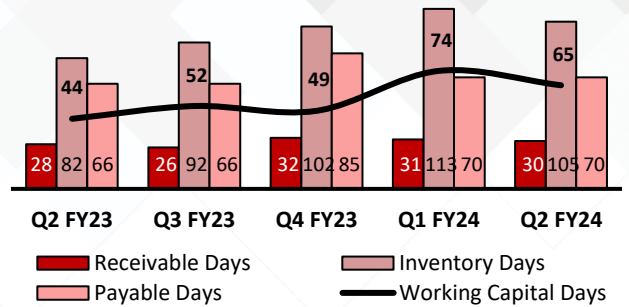
Polycab India Ltd | Quarterly Update

Quarterly business progression

Export contribution as a % of overall revenue

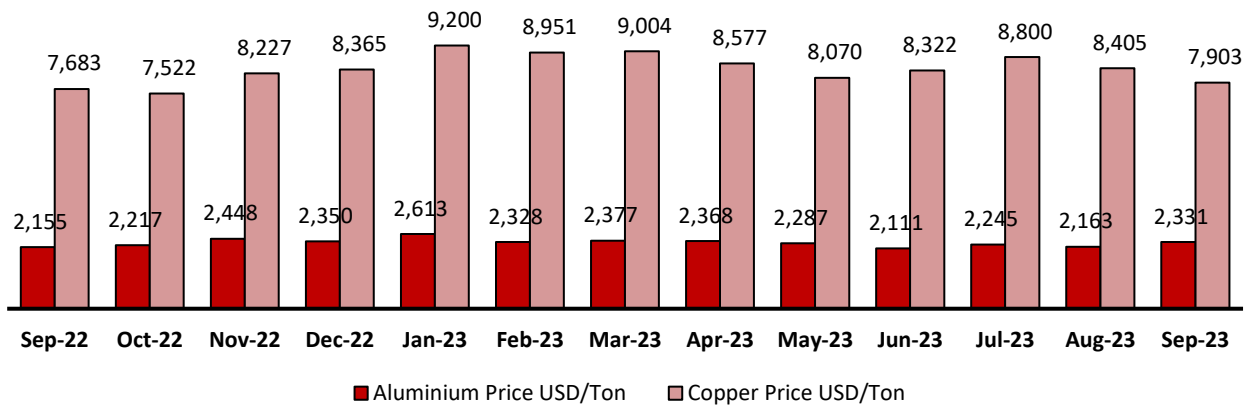


Working capital cycle



Source: Company, Keynote Capitals Ltd.

In Q2 FY24, Aluminium rose sharply by ~10% whereas Copper fell moderately by 5%



Source: Bloomberg, Keynote Capitals Ltd.
Prices taken are for the respective month ended

Opportunities in focus for PIL in the C&W segment

International Business

Supply Chain Diversification

India gaining from global search for China's supply chain alternative. Polycab being largest Indian player getting right to win

Certifications & Approvals

Actively working on certifications and product approvals for new countries. Approvals for large demand centers like USA and Australia largely in place

Setting up Distribution Network

Looking to replicate distribution network, similar to that in India, in all large geographies of operation

Make in India

Government's focus on Make in India generating cables demand from sectors like Defence, Renewables, EVs etc

Lower Domestic Competition

Incremental investment required for R&D and new facility creates entry barrier, keeping competition low

Research & Development

Tie-up with four international research teams for R&D of polymers required in cables used in niche sectors

Import Substitutes

Distribution Expansion

~30% Unorganized Market

Struggling large unorganized market, due to commodity price volatility, presents huge opportunity to gain market share

New Product Portfolio

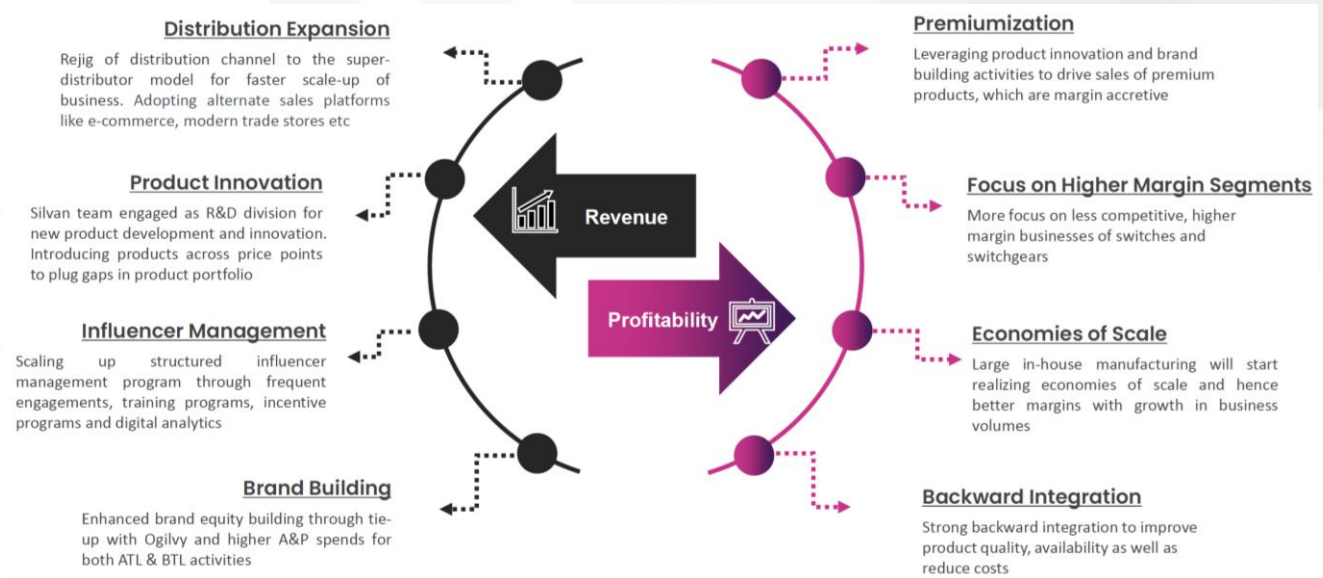
Product portfolio calibrated to address specific needs of consumers at economical price points. Launched Eтира brand

Distribution Architecture

Distribution architecture designed post detailed mapping and evaluation of these geographies

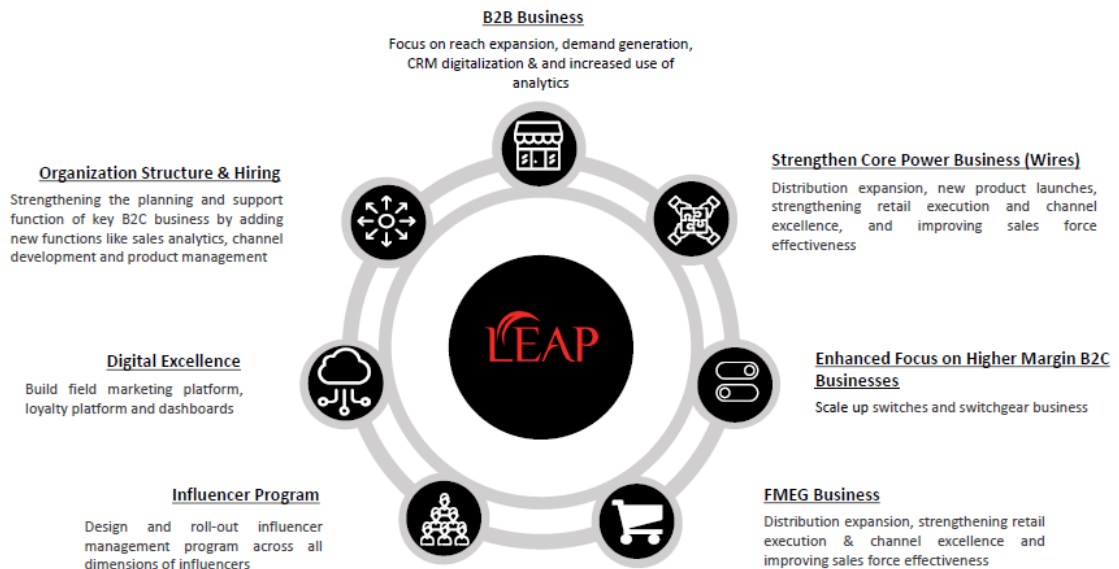
Source: Company, Keynote Capitals Ltd.

Revenue growth levers and profitability drivers for the FMEG segment



Source: Company, Keynote Capitals Ltd.

Key Themes & Priorities for FY24 Under Project LEAP



Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

General Highlights

- The demand that the industry is currently witnessing is something that has never taken place in history and looks sustainable, given India's economic outlook. The Company is in the process of recalibrating targets previously given under project LEAP.
- The government is at the forefront of the CAPEX which is taking place in India. The current demand environment continues to be favourable, with strong broad-based demand.

General Highlights

- The government's aggression has had a rub-off effect on the private sector as well. Large private companies are also planning significant CAPEX in anticipation of a good demand environment going forward.
- Generally, for PIL, H2 is better than H1. The management anticipates this trend to continue in FY24 as well.
- In the long term, the Company plans to spend 3-5% of its B2C topline behind brand-building. PIL records A&SP expenses as and when they are incurred.
- Currently, PIL is operating at 65-70% utilization. This can go up to 95% also, but the Company continues to incur CAPEX as and when demand is visible.
- The total planned CAPEX for the Company for FY24 and FY25 will be Rs. 6-7 Bn each year.

C&W segment

- In Q2 FY24, cables grew faster than wires, which led to the contribution of cables going up by ~300 bps. There is a strong demand for cables from the infrastructure, power and real-estate sectors. In Q2 FY24, cables grew at 30%+, whereas wires grew at ~20% YoY.
- Strong demand is also visible in the Special-Purpose Cables (SPC), which generate a relatively better margin for the Company. This has resulted in PIL expanding its installed capacity for SPC. Additionally, the defence sector is giving a strong impetus to the demand for SPC.
- The CAPEX behind the Extra Heavy Voltage (EHV) cables facility has started. The bulk of the C&W investments to be made by PIL in FY24-25 will be for this facility. Production is expected to commence in FY26.
- PIL anticipates the export business to contribute significantly to the business in the future. The Company has all the capacity, capabilities and approvals in place and plans to enter more countries in the future.

FMEG segment

- Benefits of various initiatives like enhanced in-house manufacturing and channel realignment taken by the Company in the past are now benefitting PIL.
- Currently, efforts are being directed towards filling gaps in the product portfolio and brand building. PIL aims to be present across all the price points in all the FMEG product categories.
- The Company is actively working on improving the revenue contribution of product categories where the competitive intensity is low. These include products like switches and switchgears. Apart from this, increased in-house manufacturing and premiumization will aid the FMEG bottom in the future.
- Fans saw a major technology change, which resulted in weak business. PIL anticipates the upcoming season to be good. LED light business is also struggling due to price erosion, which seems to have bottomed out now. The upcoming festive season should be good for LED lights.
- In Q2 FY24, three new fans were introduced by PIL.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,22,038	1,41,078	1,76,347	2,00,154	2,20,170
Growth %	-	16%	25%	14%	10%
Raw Material Expenses	91,530	1,01,218	1,26,970	1,44,111	1,58,522
Employee Expenses	4,066	4,568	5,643	6,405	7,045
Other Expenses	13,939	16,802	20,280	23,018	25,319
EBITDA	12,502	18,490	23,454	26,620	29,283
Growth %	-	48%	27%	13%	10%
Margin%	10%	13%	13%	13%	13%
Depreciation	2,015	2,092	2,412	2,428	2,668
EBIT	10,487	16,398	21,042	24,193	26,615
Growth %	-	56%	28%	15%	10%
Margin%	9%	12%	12%	12%	12%
Interest Paid	352	598	170	95	95
Other Income & exceptional	1,049	1,364	1,433	1,504	1,579
PBT	11,184	17,165	22,305	25,602	28,099
Tax	2,706	4,250	5,576	6,400	7,025
PAT	8,478	12,915	16,729	19,201	21,074
Others (Minorities, Associates)	-113	-216	-140	-140	-140
Net Profit	8,365	12,700	16,589	19,061	20,934
Shares (Mn)	149.4	149.8	149.8	149.8	149.8
EPS	60.80	84.80	112.64	129.14	141.65

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	4,071	6,952	4,801	11,975	24,025
Current Investments	7,641	13,505	13,505	13,505	13,505
Debtors	12,964	12,466	17,635	20,015	22,017
Inventory	21,996	29,514	36,821	41,792	45,971
Short Term Loans & Advances	3,990	6,068	6,068	6,068	6,068
Other Current Assets	749	582	582	582	582
Total Current Assets	51,411	69,087	79,412	93,938	1,12,168
Net Block & CWIP	20,506	23,177	31,343	35,482	36,814
Long Term Investments	93	0	0	0	0
Other Non-current Assets	2,109	1,977	1,977	1,977	1,977
Total Assets	74,119	94,241	1,12,732	1,31,397	1,50,960
Creditors	12,175	20,326	24,170	26,835	29,286
Provision	413	616	616	616	616
Short Term Borrowings	765	1,483	2,164	2,164	2,164
Other Current Liabilities	4,059	3,840	3,840	3,840	3,840
Total Current Liabilities	17,413	26,266	30,790	33,455	35,906
Long Term Debt	30	42	36	36	36
Deffered Tax Liabilities	272	409	409	409	409
Other Long Term Liabilities	716	839	839	839	839
Total Non Current Liabilities	1,018	1,291	1,285	1,285	1,285
Paid-up Capital	1,494	1,498	1,498	1,498	1,498
Reserves & Surplus	53,943	64,814	78,646	94,506	1,11,477
Shareholders' Equity	55,437	66,311	80,144	96,004	1,12,975
Non Controlling Interest	251	374	514	654	794
Total Equity & Liabilities	74,119	94,241	1,12,732	1,31,397	1,50,960

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	11,184	17,165	22,305	25,602	28,099
Adjustments	1,379	1,995	1,149	1,019	1,184
Change in Working Capital	-4,974	-1,058	-8,633	-4,687	-3,729
Total Tax Paid	-3,340	-3,704	-5,576	-6,400	-7,025
Cash flow from operating Activities	4,250	14,398	9,245	15,533	18,529
Net Capital Expenditure	-5,200	-4,584	-6,000	-4,000	-4,000
Change in investments	-762	-7,665	0	0	0
Other investing activities	1,693	223	1,433	1,504	1,579
Cash flow from investing activities	-4,270	-12,026	-4,567	-2,496	-2,421
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-168	332	675	0	0
Dividend (incl. tax)	-1,492	-2,094	-3,036	-3,481	-4,243
Other financing activities	-347	-508	-170	-95	-95
Cash flow from financing activities	-2,007	-2,271	-2,531	-3,577	-4,338
Net Change in cash	-2,026	101	2,147	9,461	11,770

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	61	85	113	129	142
Growth %	-	39%	33%	15%	10%
Book Value Per Share	371	443	539	645	760
Return Ratios					
Return on Assets (%)	12%	15%	16%	16%	15%
Return on Equity (%)	16%	21%	23%	22%	20%
Return on Capital Employed (%)	15%	23%	23%	21%	20%
Turnover Ratios					
Asset Turnover (x)	1.7	1.7	1.7	1.6	1.6
Sales / Gross Block (x)	4.5	4.8	5.0	4.9	5.0
Working Capital / Sales (%)	25%	27%	26%	27%	31%
Receivable Days	41	33	31	34	35
Inventory Days	83	93	95	100	101
Payable Days	50	55	60	62	63
Working Capital Days	74	71	66	71	73
Liquidity Ratios					
Current Ratio (x)	3.0	2.6	2.6	2.8	3.1
Interest Coverage Ratio (x)	32.8	29.7	132.2	269.9	296.1
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	0.0	-0.1	-0.2
Valuation					
PE (x)	38.9	34.0	25.6	22.3	20.3
Earnings Yield (%)	3%	3%	4%	4%	5%
Price to Sales (x)	2.9	3.1	2.4	2.2	2.0
Price to Book (x)	6.4	6.5	5.4	4.5	3.8
EV/EBITDA (x)	28.0	23.0	18.2	16.0	14.5
EV/Sales (x)	2.9	3.0	2.4	2.1	1.9

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
22 nd August 2022	BUY	2,350	+15%
20 th October 2022	BUY	2,648	+16%
20 th January 2023	BUY	2,757	+10%
15 th May 2023	NEUTRAL	3,379	+3%
19 th July 2023	REDUCE	4,309	-2%
19 th October 2023	REDUCE	5,292	-7%

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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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

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