

# Polycab India Ltd.

15<sup>th</sup> January 2024

## Update on the Income Tax Search Operations

On [22<sup>nd</sup> December 2023](#), the Income Tax (IT) department conducted search operations at some premises and plants related to Polycab India Ltd (PIL), which continued till [30<sup>th</sup> December 2023](#). Certain news articles published that the search covered 50 locations in various cities related to the Company across India. While the search was in progress, PIL kept exchanges well-informed right from its initiation till its conclusion by [publishing regular updates](#).

### First news flow post the conclusion of the search

Almost a week after the conclusion of the IT department search, on 8th January 2024, certain media houses published news citing their sources, disclosing that the IT department had made the following claims.

- Tax evasion claim of Rs. 2 Bn
- Claim of transactions booked in promoter accounts worth Rs. 2.5-3.0 Bn

Media houses also informed that the promoters have been sent summons by the department. [On 9<sup>th</sup> January 2024](#), PIL clarified and informed the exchanges that they had not received any written communication from the IT department regarding the outcome of the search.

### Press release by the Press Information Bureau (PIB)

On [10<sup>th</sup> January 2024](#), the PIB came out with a press release saying that the IT department, initiated search operations in the case of a group engaged in the manufacturing of wires and cables and found incriminating evidence in the form of documents and digital data which indicate modus-operandi of tax evasion by the group in connivance with some of its authorized distributors. The press release did not mention the name of the entity.

The press release further went on to disclose the following

- Evidence had been found indicating that the flagship Company has made unaccounted cash sales of ~Rs. 10 Bn, which are not recorded in the books of accounts.
- Evidence of unaccounted cash payments of more than Rs. 4 Bn made by a distributor on behalf of the flagship Company towards the purchase of raw materials have also been seized.
- Non-genuine expenses in the nature of sub-contracting, purchase and transport expenses totalling Rs. 1 Bn have also been identified.
- Uncovered unexplained transactions undertaken by the distributor for issuing bills without a genuine supply of goods, whereas such goods have been sold in the open market in cash. The distributor facilitated some distributors to inflate their purchase accounts, aggregating to Rs. 5 Bn. This distributor only sells products of the flagship Company.
- The department also found unaccounted cash of Rs. 0.04 Bn and has put more than 25 lockers on restraint.

## Not Rated

CMP Rs. 3,981

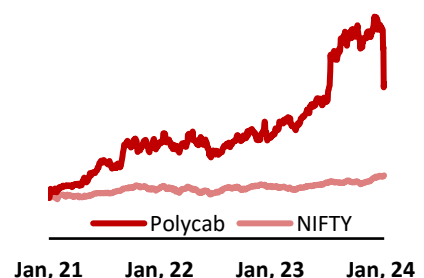
### Company Data

Bloomberg Code	POLYCAB IN
MCAP (Rs. Mn)	5,97,874
O/S Shares (Mn)	150
52w High/Low	5,723 / 2,651
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	5,027

### Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	65.91	66.00	66.20
FIIs	12.40	9.65	9.77
DIIIs	8.09	9.76	9.35
Non-Institutional	13.59	14.61	14.67

### 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.

Devin Joshi, Research Analyst  
Devin@keynoteindia.net

## Polycab India Ltd | Company Update

Following this press release by the PIB, the Company again published a press release on [11<sup>th</sup> January 2024](#), reiterating the fact that it has not received any written communication from the IT department regarding the outcome of the search.

### Board of Directors (Independent) & Auditors

Name	Designation	Some of the Current/Previous Associations except PIL
R.S. Sharma	Independent Director	Independent Director – IGX, Jubilant Industries Former CMD – ONGC
Manju Agarwal	Independent Director	Independent Director – CMS Infosystems, Glenmark Life Science, Gulf Oil Lubricants
T.P. Ostwal	Independent Director	Independent Director – Mankind Pharma, Oberoi Realty
Sutapa Banerjee	Independent Director	Independent Director – Zomato, Godrej Properties, JSW Cement
Pradeep Poddar	Independent Director	Strategic advisor to Uflex, United Way Mumbai
Bhaskar Sharma	Independent Director	Director, CEO – Red Bull India Previous Role - HUL

Auditor Name	House	Some companies with which the auditor is associated
B S R & Co. LLP	KPMG Global Network	3M India, ABB India, Biocon, HCL Tech, HDFC AMC, TCS

Source: Company, Keynote Capitals Ltd.

### Closing thoughts

Raids are not uncommon in India. Many marquee Indian companies have seen income tax searches in the past, and a search operation alone doesn't confirm irregularities of any nature.

A press release done by the PIB has its own merit. However, if we go by the clarification provided by the Company, it is still saying that it has not received any written communication from the IT department so far.

At the current juncture, we believe that the matter still holds partial obscurity, which will only be clarified as more information gets published by both parties involved. Right now, whether the Company is guilty of tax evasion or not, cannot be said with 100% certainty.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>1,22,038</b>	<b>1,41,078</b>	<b>1,76,347</b>	<b>2,00,154</b>	<b>2,20,170</b>
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
<b>EBITDA</b>	<b>12,502</b>	<b>18,490</b>	<b>23,454</b>	<b>26,620</b>	<b>29,283</b>
Growth %	-	48%	27%	13%	10%
Margin%	10%	13%	13%	13%	13%
Depreciation	2,015	2,092	2,412	2,428	2,668
<b>EBIT</b>	<b>10,487</b>	<b>16,398</b>	<b>21,042</b>	<b>24,193</b>	<b>26,615</b>
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
<b>PBT</b>	<b>11,184</b>	<b>17,165</b>	<b>22,305</b>	<b>25,602</b>	<b>28,099</b>
Tax	2,706	4,250	5,576	6,400	7,025
<b>PAT</b>	<b>8,478</b>	<b>12,915</b>	<b>16,729</b>	<b>19,201</b>	<b>21,074</b>
Others (Minorities, Associates)	-113	-216	-140	-140	-140
<b>Net Profit</b>	<b>8,365</b>	<b>12,700</b>	<b>16,589</b>	<b>19,061</b>	<b>20,934</b>
Shares (Mn)	149.4	149.8	149.8	149.8	149.8
<b>EPS</b>	<b>60.80</b>	<b>84.80</b>	<b>112.64</b>	<b>129.14</b>	<b>141.65</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Cash, Cash equivalents &amp; Bank</b>	<b>4,071</b>	<b>6,952</b>	<b>4,801</b>	<b>11,975</b>	<b>24,025</b>
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
<b>Total Current Assets</b>	<b>51,411</b>	<b>69,087</b>	<b>79,412</b>	<b>93,938</b>	<b>1,12,168</b>
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
<b>Total Assets</b>	<b>74,119</b>	<b>94,241</b>	<b>1,12,732</b>	<b>1,31,397</b>	<b>1,50,960</b>
<b>Creditors</b>	<b>12,175</b>	<b>20,326</b>	<b>24,170</b>	<b>26,835</b>	<b>29,286</b>
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
<b>Total Current Liabilities</b>	<b>17,413</b>	<b>26,266</b>	<b>30,790</b>	<b>33,455</b>	<b>35,906</b>
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
<b>Total Non Current Liabilities</b>	<b>1,018</b>	<b>1,291</b>	<b>1,285</b>	<b>1,285</b>	<b>1,285</b>
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
<b>Total Equity &amp; Liabilities</b>	<b>74,119</b>	<b>94,241</b>	<b>1,12,732</b>	<b>1,31,397</b>	<b>1,50,960</b>

### 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
<b>Cash flow from operating Activities</b>	<b>4,250</b>	<b>14,398</b>	<b>9,245</b>	<b>15,533</b>	<b>18,529</b>
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
<b>Cash flow from investing activities</b>	<b>-4,270</b>	<b>-12,026</b>	<b>-4,567</b>	<b>-2,496</b>	<b>-2,421</b>
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
<b>Cash flow from financing activities</b>	<b>-2,007</b>	<b>-2,271</b>	<b>-2,531</b>	<b>-3,577</b>	<b>-4,338</b>
<b>Net Change in cash</b>	<b>-2,026</b>	<b>101</b>	<b>2,147</b>	<b>9,461</b>	<b>11,770</b>

### Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	61	85	113	129	142
Growth %	-	39%	33%	15%	10%
Book Value Per Share	371	443	539	645	760
<b>Return Ratios</b>					
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%
<b>Turnover Ratios</b>					
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
<b>Liquidity Ratios</b>					
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
<b>Valuation</b>					
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 <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%
19 <sup>th</sup> July 2023	REDUCE	4,309	-2%
19 <sup>th</sup> October 2023	REDUCE	5,292	-7%
14 <sup>th</sup> January 2024	NR	3,981	-

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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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: [jairaj@keynoteindia.net](mailto:jairaj@keynoteindia.net)

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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