

Polycab India Ltd.

23rd January 2024

Growth outlook of the C&W segment remains strong

In Q3 FY24, Polycab India Ltd. (PIL) recorded a revenue growth of 17%, completely driven by volume growth in the C&W segment on a YoY basis, along with a slight moderation in EBITDA margin. Domestically, higher growth was witnessed in cables compared to wires. Exports recorded a weaker-than-expected performance on account of PIL switching to a distributor-led model in the USA. EBITDA margins stood at ~13%, recording a minor compression of ~44 Bps on a YoY basis. Performance from the FMEG segment weakened further due to continued sluggishness in demand across key product categories, which widened segment losses on a YoY basis. PIL's growth prospects continue to be promising, but developments around the Income Tax matter need to be kept under watch.

C&W business continues to progress well

In Q3 FY24, PIL registered a revenue growth of 17% on a YoY basis in the C&W segment, completely driven by volumes. In Q3 also, growth in cables came ahead of wires owing to strong industrial demand. Going forward, the Company expects the industrial segment to continue doing well, coupled with improved demand for wires due to various real estate projects coming closer to completion. In addition to this, PIL currently has a strong export order book, which is expected to result in strong export business from Q4 FY24 onwards. In line with the strong business outlook, the Company is envisaging a CAPEX of Rs. 8-9 Bn and Rs. 6-7 Bn in FY24 and FY25, respectively.

Measures to revive the FMEG business are being implemented

Weak consumer demand across key segments, along with continued price erosion in the lighting business, dragged the performance of the FMEG segment in Q3 FY24 also. In addition to this, elevated advertisement spending resulted in a widening of operating losses. The Company acknowledged the fact that execution has fallen short of expectations and is taking serious measures to bring the business back to growth along with improved margins. PIL believes that the FMEG business will start reviving in a few quarters.

Developments around Income Tax matter need to be closely watched

Though PIL has not received any written communication from the Income Tax department yet. This continues to be an overhang that needs to be closely monitored. Any negative development relating to this can impair sentiments around the Company for the long-term. The Company continues to show confidence in its business and corporate governance practices.

View & Valuation

We continue to believe in the robust business outlook of PIL, along with the Company's ability to maintain EBITDA margins in the range of 12-13%. Also, the recent fall in price has increased valuation comfort. However, we continue to keep a close watch on the progression of the Income Tax matter. Therefore, based on our revised estimates, we change our rating on Polycab India Ltd. from REDUCE to NEUTRAL with a target price of Rs. 4,623 (38x FY25E EPS).

NEUTRAL

CMP Rs. 4,379

TARGET Rs. 4,623 (+5.6%)

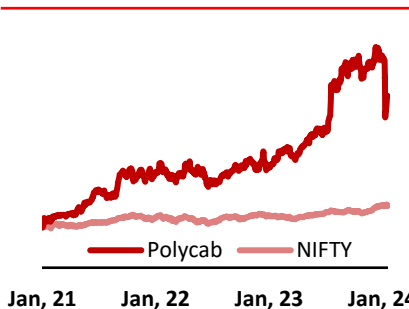
Company Data

Bloomberg Code	POLYCAB IN
MCAP (Rs. Mn)	6,56,977
O/S Shares (Mn)	150
52w High/Low	5,723 / 2,737
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	5,632

Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	65.91	66.00	66.20
FIIIs	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	175.1	201.3
EBITDA	18.5	23.3	25.8
Net Profit	12.9	16.0	17.9
Total Assets	94.3	112.0	130.4
ROCE (%)	23%	23%	21%
ROE (%)	21%	22%	21%

Source: Company, Keynote Capitals Ltd.

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Q3 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue	43,405	37,152	17%	42,177	3%	1,24,475	97,841	27%	1,41,078
COGS	31,692	27,603	15%	30,739	3%	91,011	72,752	25%	1,05,109
Gross Profit	11,713	9,548	23%	11,438	2%	33,464	25,089	33%	35,969
Gross Profit %	27%	26%	128 Bps	27%	-13 Bps	27%	26%	124 Bps	25%
Employee Cost	1,494	1,132	32%	1,557	-4%	4,400	3,381	30%	4,568
A&SP	904	636	42%	446	103%	1,612	999	61%	1,244
Freight & forwarding	876	819	7%	864	1%	2,534	2,267	12%	3,146
Other Operating Expense	2,745	1,923	43%	2,483	11%	7,617	6,016	27%	8,490
EBITDA	5,695	5,038	13%	6,089	-6%	17,303	12,426	39%	18,521
EBITDA %	13.1%	13.6%	-44 Bps	14.4%	-132 Bps	13.9%	12.7%	120 Bps	13.1%
Depreciation	619	525	18%	603	3%	1,793	1,557	15%	2,092
EBIT	5,076	4,514	12%	5,486	-7%	15,509	10,869	43%	16,430
EBIT %	12%	12%	-45 Bps	13%	-131 Bps	12%	11%	135 Bps	12%
Finance Cost	322	93	248%	268	20%	839	316	166%	598
Other Income	710	397	79%	353	101%	1,670	818	104%	1,333
PBT	5,464	4,818	13%	5,572	-2%	16,340	11,371	44%	17,165
PBT %	13%	13%	-38 Bps	13%	-62 Bps	13%	12%	151 Bps	12%
Share of Associates	-	-8	-	-	-	-	-29	-	-93
Tax	1,299	1,199	8%	1,274	2%	3,846	2,798	37%	4,242
Profit for the period	4,165	3,611	15%	4,298	-3%	12,494	8,544	46%	12,831
EPS	27.40	23.83	-	28.26	-	82.23	56.35	-	84.66

Segment Highlights (Rs. Mn)

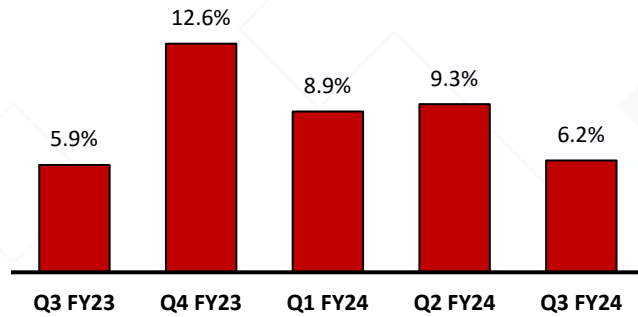
Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue									
Cables & Wires	39,041	33,418	17%	38,047	3%	1,12,426	86,992	29%	1,27,775
FMEG	2,962	3,420	-13%	3,300	-10%	9,407	9,555	-2%	12,607
Others	2,475	1,260	96%	2,015	23%	5,986	3,309	81%	4,647
Operating Profit									
Cables & Wires	5,474	4,593	19%	5,547	-1%	16,244	10,828	50%	16,724
FMEG	-366	-24	-	-60	-	-483	13	-	-56
Others	394	152	160%	225	75%	802	435	84%	517
Operating Profit Margin %									
Cables & Wires	14%	14%	28 Bps	15%	-56 Bps	14%	12%	200 Bps	13%
FMEG	-12%	-1%	-1,166 Bps	-2%	-1,053 Bps	-5%	0%	-527 Bps	0%
Others	16%	12%	388 Bps	11%	477 Bps	13%	13%	25 Bps	11%

Source: Company, Keynote Capitals Ltd.

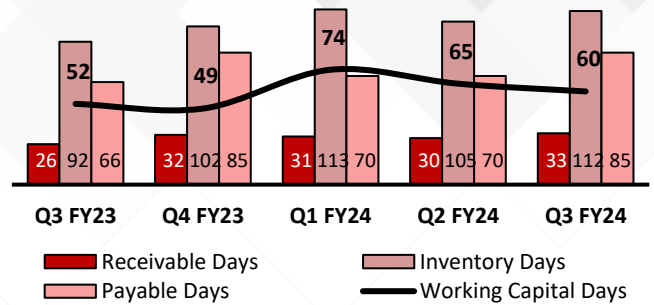
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Quarterly business progression

Export contribution as a % of overall revenue

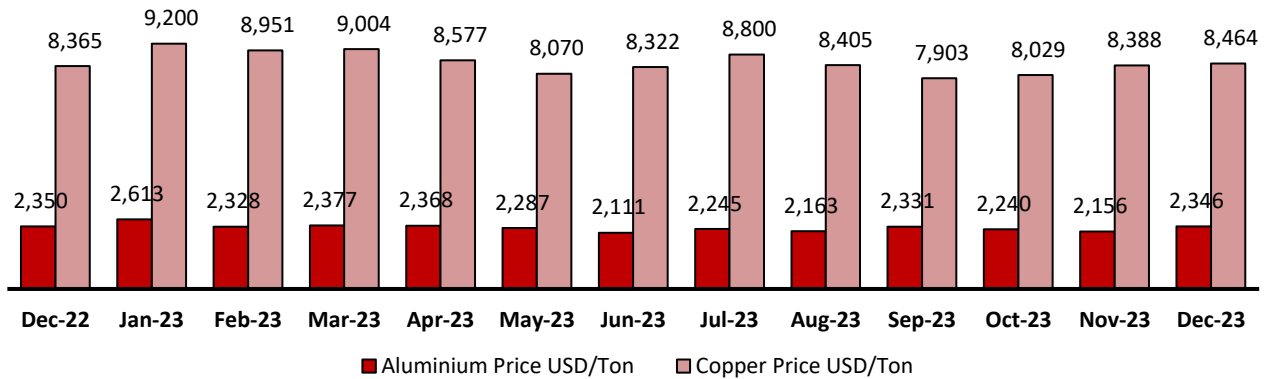


Working capital cycle



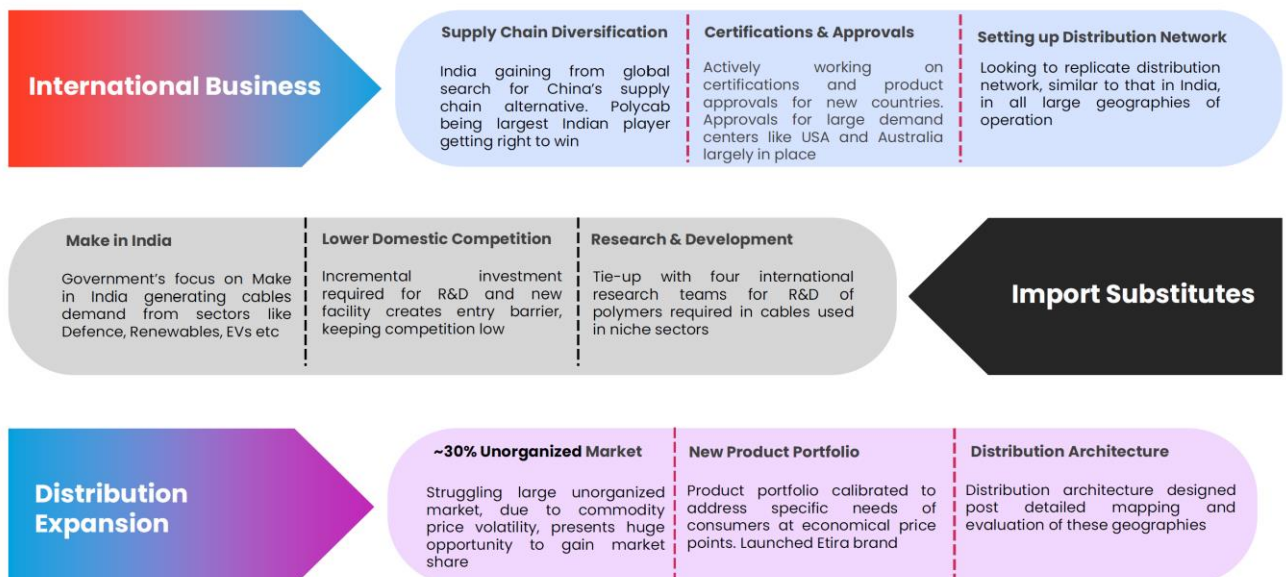
Source: Company, Keynote Capitals Ltd.

In Q3 FY24, Aluminium prices largely remained flat whereas Copper prices surged by ~7%



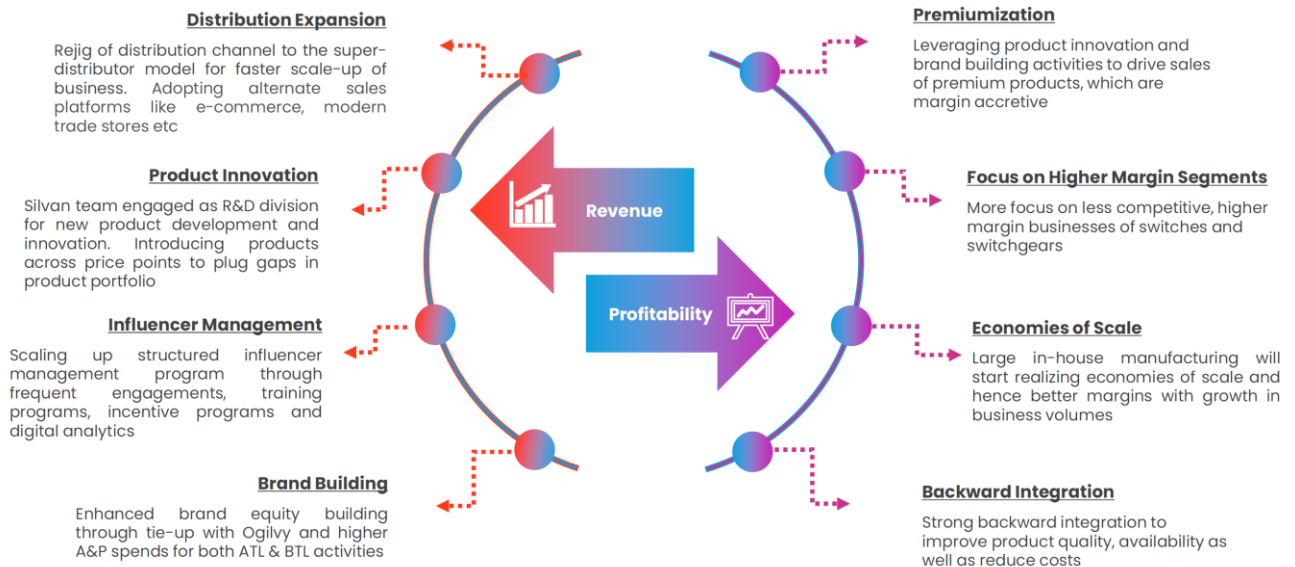
Source: Bloomberg, Keynote Capitals Ltd.
Prices taken are for the respective month ended

Opportunities in focus for PIL in the C&W segment

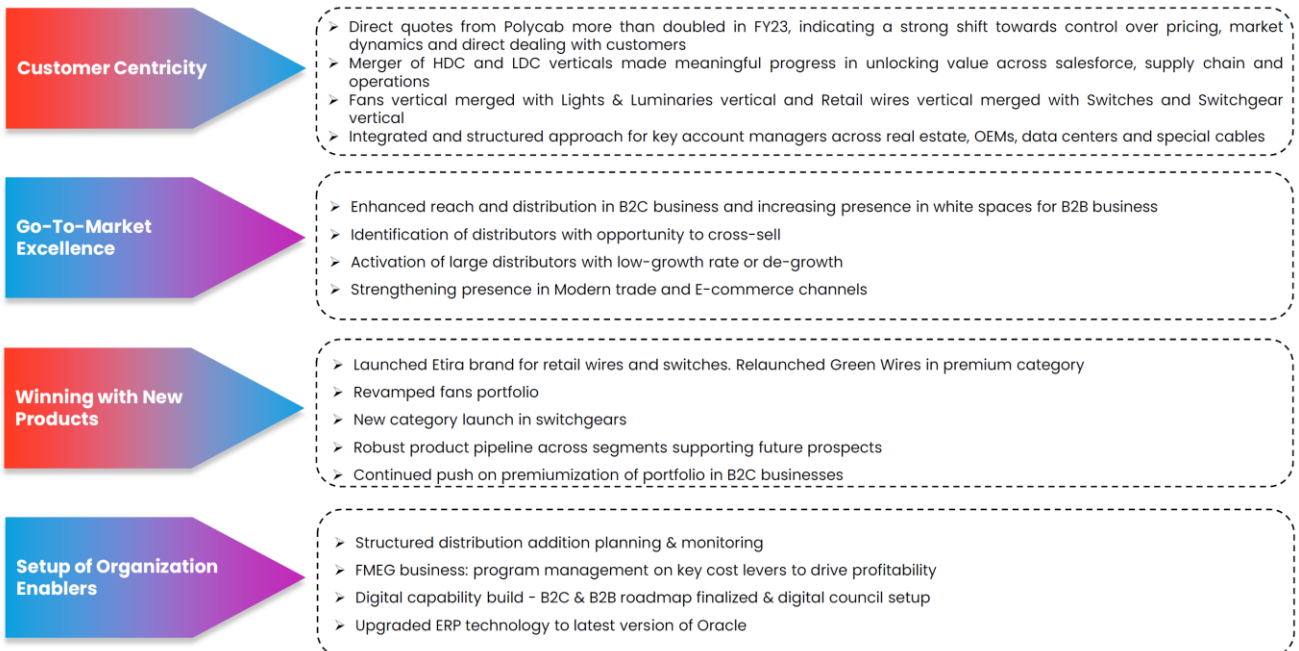


Source: Company, Keynote Capitals Ltd.

Revenue growth levers and profitability drivers for the FMEG segment



Progress Under Project LEAP



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

General Highlights

- PIL has still not received any written communication from the Income Tax authorities regarding the outcome of the search. In the meantime, business continues to progress smoothly.
- The Company will overshoot on CAPEX guidance for FY24. Total CAPEX incurred in FY24 will be ~Rs. 8-9 Bn followed by Rs. 6-7 Bn of CAPEX in FY25. As of 9M FY24, PIL has already surpassed its guidance and has incurred CAPEX worth ~Rs. 6.4 Bn.

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- Most of this CAPEX will be incurred in the C&W segment across multiple products. The idea is to invest ahead of time so the Company is well positioned to capture the strong demand India and other export markets are expected to witness.
- Advertisement spends for 9M FY24 amount to 4.2% of the B2C revenue. PIL targets to keep advertisement spending in the range of 3-5% of the B2C revenue generated by the Company.
- All three CAPEX cycle drivers, Housing, Government and Corporations, are currently spending. Also, the new project announcement data indicates that CAPEX is taking place in multiple industries.

C&W segment

- In Q3 FY24, cables continued to grow faster than wires, which led to the contribution of cables going up by another ~200 bps. The entire sales growth witnessed by the C&W segment was on account of volume growth.
- Softness in the wires business was witnessed on account of a slowdown in construction activity in certain states owing to pollution control coupled with a slowdown in some other states on account of upcoming elections.
- Real Estate projects announced in the past 2-3 years will start showcasing demand for wires. This is because the demand for wires in any real estate project arises only towards the end of project construction.
- Export sales are currently muted on account of a) PIL shifting to a distribution-led business model in the USA and b) Disruptions taking place in the Red Sea on account of the Israel-Hamas war.
- In its export business, PIL is putting immense effort into getting new orders and getting itself approved in various markets. Currently, the Company has a strong outstanding export order book.
- C&W facilities of PIL are currently operating at 70-75% utilization. The Company will continue undertaking a need-based capacity expansion in anticipation of witnessing strong demand in the times to come. Facilities can operate at 90-95% utilization also but PIL wants to stay ahead of the curve.
- Historically, capacity commissioning by peers has not impacted pricing. The industry has acted rationally and has not resorted to price undercutting.
- The EHV cable facility will be operational towards the end of FY26 as per the previously given guidance by PIL.

FMEG segment

- Maximum focus in the segment is on growing the switches and switchgears business as the Company believes it has the capabilities to build a strong position for itself in this business.
- Currently, PIL is trying to fill portfolio gaps, improve distribution and cross-sell better. The Company targets switches and switchgears business to contribute significantly to its FMEG revenue in the long-run.
- Constant evaluation of inorganic growth opportunities continues, and the Company will pull the trigger once it finds a lucrative opportunity at the right price.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,22,038	1,41,078	1,75,078	2,01,339	2,25,500
Growth %	-	16%	24%	15%	12%
Raw Material Expenses	91,530	1,01,218	1,26,056	1,45,971	1,63,487
Employee Expenses	4,066	4,568	5,602	6,443	7,216
Other Expenses	13,939	16,802	20,134	23,154	25,932
EBITDA	12,502	18,490	23,285	25,771	28,864
Growth %	-	48%	26%	11%	12%
Margin%	10%	13%	13%	13%	13%
Depreciation	2,015	2,092	2,480	2,608	2,908
EBIT	10,487	16,398	20,806	23,163	25,956
Growth %	-	56%	27%	11%	12%
Margin%	9%	12%	12%	12%	12%
Interest Paid	352	598	1,000	900	700
Other Income & exceptional	1,049	1,364	1,706	1,791	1,880
PBT	11,184	17,165	21,511	24,054	27,136
Tax	2,706	4,250	5,378	6,014	6,784
PAT	8,478	12,915	16,133	18,041	20,352
Others (Minorities, Associates)	-113	-216	-140	-140	-140
Net Profit	8,365	12,700	15,993	17,901	20,212
Shares (Mn)	149.4	149.8	149.8	149.8	149.8
EPS	60.80	84.80	108.66	121.39	136.83

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	4,071	6,952	2,560	6,605	17,578
Current Investments	7,641	13,505	13,505	13,505	13,505
Debtors	12,964	12,466	17,508	20,134	22,550
Inventory	21,996	29,514	36,556	42,332	47,411
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	76,779	89,225	1,07,695
Net Block & CWIP	20,506	23,177	33,275	39,234	40,326
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	1,12,032	1,30,436	1,49,998
Creditors	12,175	20,326	23,958	27,314	30,342
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	30,578	33,935	36,962
Long Term Debt	30	42	36	36	36
Deferred 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	78,158	93,066	1,09,460
Shareholders' Equity	55,437	66,311	79,656	94,564	1,10,958
Non Controlling Interest	251	374	514	654	794
Total Equity & Liabilities	74,119	94,241	1,12,032	1,30,436	1,49,998

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	11,184	17,165	21,511	24,054	27,136
Adjustments	1,379	1,995	1,774	1,717	1,728
Change in Working Capital	-4,974	-1,058	-8,453	-5,045	-4,468
Total Tax Paid	-3,340	-3,704	-5,378	-6,014	-6,784
Cash flow from operating Activities	4,250	14,398	9,455	14,713	17,612
Net Capital Expenditure	-5,200	-4,584	-8,000	-6,000	-4,000
Change in investments	-762	-7,665	0	0	0
Other investing activities	1,693	223	1,706	1,791	1,880
Cash flow from investing activities	-4,270	-12,026	-6,294	-4,209	-2,120
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-168	332	675	0	0
Dividend (incl. tax)	-1,492	-2,094	-2,929	-3,273	-4,098
Other financing activities	-347	-508	-1,000	-900	-700
Cash flow from financing activities	-2,007	-2,271	-3,254	-4,173	-4,798
Net Change in cash	-2,026	101	-94	6,331	10,694

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	61	85	109	121	137
Growth %	-	39%	28%	12%	13%
Book Value Per Share	371	443	535	636	746
Return Ratios					
Return on Assets (%)	12%	15%	16%	15%	15%
Return on Equity (%)	16%	21%	22%	21%	20%
Return on Capital Employed (%)	15%	23%	23%	21%	20%
Turnover Ratios					
Asset Turnover (x)	1.7	1.7	1.7	1.7	1.6
Sales / Gross Block (x)	4.5	4.8	4.8	4.6	4.7
Working Capital / Sales (%)	25%	27%	25%	25%	28%
Receivable Days	41	33	31	34	35
Inventory Days	83	93	96	99	100
Payable Days	50	55	61	62	62
Working Capital Days	74	71	66	71	72
Liquidity Ratios					
Current Ratio (x)	3.0	2.6	2.5	2.6	2.9
Interest Coverage Ratio (x)	32.8	29.7	22.5	27.7	39.8
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	0.0	0.0	-0.1
Valuation					
PE (x)	38.9	34.0	26.5	23.7	21.0
Earnings Yield (%)	3%	3%	4%	4%	5%
Price to Sales (x)	2.9	3.1	2.5	2.1	1.9
Price to Book (x)	6.4	6.5	5.4	4.6	3.9
EV/EBITDA (x)	28.0	23.0	18.3	16.5	14.8
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%
23 rd January 2024	NEUTRAL	4,379	+6%

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

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