

17<sup>th</sup> May 2023

CMP – ₹3,435.3/-

View – ACCUMULATE

## Q4FY23 Result Highlights

- **Q4FY23 growth largely driven by Wires & Cables (W&C) volume growth** – Polycab reported Revenue/EBITDA/PAT growth of ~9%/28%/~32% YoY and 16.4%/21%/~19% QoQ respectively led by strong performance in the wires and cables (W&C) division in Q4FY23. The wires & cables (W&C) segment carried forward its strong momentum as revenue rose 15% YoY to ₹40.8bn on healthy volume growth. Management foresees robust order inflows for the domestic business given a strong demand climate led by higher public and private capex. Exports grew 125% YoY in Q4FY23 and 50% in FY23. Prudent price revisions and higher exports resulted in segmental EBIT margin expansion of 286bps YoY. Polycab expects to grow in double digits in FY24. Declared dividend of ₹20 per share compared to ₹14/- YoY.
- **Growth in W&C supported government-private capex along with merger of HDC & LDC vertical** – In the W&C segment; the company has taken mid-single digit price hikes. The year saw volume growth of 21% in W&C with Q4FY23 landing at high single digits, primarily on account of benefits realised from merger of the heavy-duty (HDC) and light-duty cable (LDC) verticals last year. As per management, the demand environment remains strong, supported by government measures and revival in private capex. The company expects to earn a 11-13% EBIT margin in W&C in the long run. It has a cables-to-wires ratio of 70:30, with dealers and distributors contributing ~90% of cable sales and 100% in wires. Polycab requires copper (50%) and aluminium (50%) for its W&C product portfolio. Wires use copper whereas cables require copper and aluminium. There is a 400 bps margin difference between cables (which make 10-11% margins) and wires (which make 14-15% EBITDA margins). Margins have improved in both wires and cables and had guided 10-125 margins for FY26. W&C channel finance penetration increased to 83% from 75% a year ago.
- **Exports contributed 9.8% of total revenues** – There was no one-off order in exports this year; growth was driven by expansion in regular distribution business. Polycab currently does largely B2B sales in exports, but is also in the process of expanding distribution. The company started its exports business with sales to EPC contractors, then gradually added distribution arms. It has now signed up a warehouse in the US, and is trying to grow its distribution business akin to its expansion in India in the past 10-12 years. The US represents 50-60% of Polycab's export revenues, while other countries are in the range of 5-10% each. The company now exports to 70 countries. In the US, Polycab has almost all approvals in place; other regions where it has expanded into are parts of the EU, Australia and LATAM. Every year, the company will look to add more geographies, with a chunk of it from developed markets. Management stated that Polycab is already among the top 15 W&C companies in the world, and is looking to break into the top 5 by remaining aggressive in the export markets. Renewables, oil & gas and infrastructure are sectors driving exports growth. Export margins depend on product. Margins on some products are 200-300 bps higher than those on domestic sales, whereas other products are in line with domestic margin levels.
- **FMEG performance was subdued due to a distribution channel rejig undertaken during the year** – Polycab's FMEG business was flat in FY23 at ₹12.6bn (-19.5% YoY in Q4FY23 to ₹3.1bn) despite weak consumer sentiments, uncertainty in the fans business amid rating transition, and

## Important Statistics

<b>MCAP (₹ bn)</b>	514.5
<b>52-week H/L (₹)</b>	3,490/2,045
<b>NSE Code</b>	POLYCAB
<b>BSE Code</b>	542652

## Shareholding Pattern (%) Mar'23

<b>Promoter</b>	66.2
<b>DII</b>	9.3
<b>FII</b>	9.8
<b>Public &amp; Others</b>	14.7

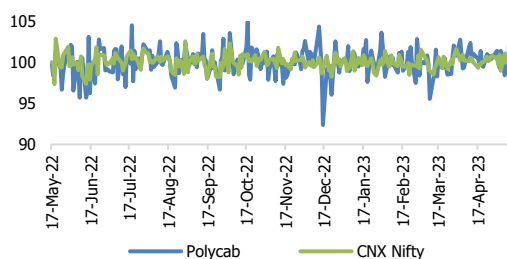
## Financials

Particulars	FY20	FY21	FY22
<b>Revenue</b>	<b>88,300</b>	<b>87,922</b>	<b>122,038</b>
<i>Wires &amp; Cables</i>	<i>75,192</i>	<i>75,911</i>	<i>107,938</i>
<i>% of Revenue</i>	<i>85.2</i>	<i>86.3</i>	<i>88.4</i>
<i>FMEG</i>	<i>8,536</i>	<i>10,341</i>	<i>12,544</i>
<i>% of Revenue</i>	<i>9.7</i>	<i>11.6</i>	<i>10.3</i>
<b>EBITDA</b>	<b>11,350</b>	<b>11,111</b>	<b>12,652</b>
<b>EBITDA Margin (%)</b>	<b>12.9</b>	<b>12.6</b>	<b>10.4</b>
<b>Net Profit</b>	<b>7,656</b>	<b>8,380</b>	<b>8,365</b>
EPS (₹)	51.4	56.2	56.0
P/E (x)	66.8	61.1	56.5
EV/EBITDA (x)	45.3	46.2	40.5
P/BV (x)	13.3	10.8	9.2
RoE (%)	22.9	19.5	16.2
RoCE (%)	23.3	19.2	16.7

Particulars	FY23P	FY24E	FY25E
<b>Revenue</b>	<b>141,078</b>	<b>161,384</b>	<b>183,141</b>
<i>Wires &amp; Cables</i>	<i>127,775</i>	<i>141,932</i>	<i>149,871</i>
<i>% of Revenue</i>	<i>90.6</i>	<i>87.9</i>	<i>81.8</i>
<i>FMEG</i>	<i>12,607</i>	<i>13,661</i>	<i>19,611</i>
<i>% of Revenue</i>	<i>8.9</i>	<i>8.5</i>	<i>10.7</i>
<b>EBITDA</b>	<b>18,521</b>	<b>21,796</b>	<b>25,773</b>
<b>EBITDA Margin (%)</b>	<b>13.1</b>	<b>13.5</b>	<b>14.1</b>
<b>Net Profit</b>	<b>12,700</b>	<b>14,683</b>	<b>16,718</b>
EPS (₹)	84.8	98.3	111.9
P/E (x)	40.5	35.0	30.7
EV/EBITDA (x)	27.6	23.5	20.9
P/BV (x)	7.7	6.6	5.7
RoE (%)	19.0	19.5	20.4
RoCE (%)	17.4	18.7	19.6

Source: Company, Way2Wealth

## Relative Performance



Source: Company, Way2Wealth

17<sup>th</sup> May 2023

CMP – ₹3,435.3/-

View – **ACCUMULATE**

distribution channel restructuring. 60% of FMEG revenues comes from fans & lighting, 15-16% from switches & switchgears, 15% from pipes & fittings, and the rest from solar/agricultural pumps, etc. The company is adopting a premium product strategy in fans, evident from the higher share of premium launches (~60%) relative to total launches following rating transition. In fans, for BEE-compliant models, prices are up mid-single digits on average. Now that headwinds are largely abating, management expects the FMEG business to rebound, aiding overall performance. The business saw negative EBIT in FY23 due to higher A&P spends, staff cost and input cost pressures. With distribution realignment completed, the company is confident of improving the topline and bottomline in the fans business from FY24, and expects to earn a 10-12% EBIT margin by FY26. Table Wall Pedestal (TPW) and ceiling fans will be manufactured at the new Halol factory.

- Polycab has launched new Switches portfolio under the "Etria" brand. The switches plant, commissioned in the middle of last year, has benefited segment economics, and the switches business grew 1.5x YoY/1.9x QoQ in Q4FY23. The company is raising its focus on this subsegment where lower competition translates to higher margins.
- Capacity utilization was less than 70% in W&C, while in FMEG it varied by product. In switchgears, it was at 65-70%, while the switches plant has just started operations. Capacity anyway is not a constraint in the FMEG business because the company can add capacities within a couple of months as required.
- **Others business** – This consists largely of the engineering, procurement and construction (EPC) business. Annual sustainable operating margin here is guided to be in high single digits over the mid-to-long term.
- Management stated that the company will raise A&P spending 2-3x YoY in FY24 to grow its B2C business. The company has a strong supply chain which enables stock replenishment within 24 hours. This enables dealers to store less inventory and prevent build-up. The company has guided for a 50-55 days working capital cycle but aims to improve this further. Management expects to incur ₹6bn-7bn in capex during FY24.

## View

Despite a high base and softening commodity prices, Polycab India reported its highest-ever quarterly topline Q4FY23 on the back of healthy volume growth in Wires & Cables (W&C) business. The W&C segment's revenue growth was led by strong growth in exports, better operating leverage and judicious price revisions. The company has set a topline target of ₹200bn by FY26-end under project LEAP. While outlook for the W&C segment remains strong on the back of robust B2B demand amid Govt's persistent infra push and uptick in the Real Estate sector, we expect FMEG segment sales to pick up pace in FY24 post distribution revamp. The company will continue to benefit from its distribution rejig and expansion, product innovation/ augmentation, in-house manufacturing, and branding efforts along with its strategic initiatives under Project Leap. Polycab also has a strong advantage in terms of raw material sourcing which bodes well for protecting its margins going ahead. Strategic focus on increasing wires business share and developing exports market will also aid margin expansion. Successful scaling of FMEG business will be a key trigger for the stock in the future. Hence, we continue to maintain our **ACCUMULATE** stance on the stock (**P/E – 30.7x FY25E** with **EPS of ₹111.9**).

17<sup>th</sup> May 2023

CMP – ₹3,435.3/-

 View – **ACCUMULATE**
**FINANCIAL PERFORMANCE**

(₹ mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Revenue</b>	<b>43,237</b>	<b>39,700</b>	<b>8.9</b>	<b>37,152</b>	<b>16.4</b>	<b>141,078</b>	<b>122,038</b>	<b>15.6</b>
Operating Exps	32,357	30,892	4.7	27,603	17.2	105,109	94,657	11.0
% of Sales	74.8	77.8	(298)	74.3	54	74.5	77.6	(306)
Gross Profit	10,880	8,808	23.5	9,548	13.9	35,969	27,381	31.4
% of Sales	25.2	22.2	298	25.7	(54)	25.5	22.4	306
Employee Cost	1,187	1,050	13.0	1,132	4.8	4,568	4,066	12.3
% of Sales	2.7	2.6	10	3.0	(30)	3.2	3.3	(9)
Other Expenses	3,598	2,994	20.2	3,378	6.5	12,880	10,663	20.8
% of Sales	8.3	7.5	78	9.1	(77)	9.1	8.7	39
<b>EBITDA</b>	<b>6,095</b>	<b>4,763</b>	<b>28.0</b>	<b>5,038</b>	<b>21.0</b>	<b>18,521</b>	<b>12,652</b>	<b>46.4</b>
<b>% EBITDA Margin</b>	<b>14.1</b>	<b>12.0</b>	<b>210</b>	<b>13.6</b>	<b>54</b>	<b>13.1</b>	<b>10.4</b>	<b>276</b>
Other Income	515.2	168	206.2	396.8	(29.8)	1,333.3	899	48.3
Depreciation	535	503	6.4	525	1.9	2092	2015	3.8
EBIT	6,076	4,429	37.2	4,911	23.7	22,153	11,536	92.0
Interest	282	125	125.0	93	204.0	598	352	69.8
PBT	5,794	4,304	34.6	4,818	20.3	21,555	11,184	92.7
Tax	1,446	1,047	38.2	1,202	20.4	4,250	2,706	57.0
JV/ Associates	(64)	(4)	1,608.0	(8)	689.5	(93)	(26)	262.5
Non-Controlling Interest	37	32	15.2	32	15.1	123	87	41.3
<b>Net Profit</b>	<b>4,248</b>	<b>3,222</b>	<b>31.8</b>	<b>3,576</b>	<b>18.8</b>	<b>12,700</b>	<b>9,086</b>	<b>39.8</b>
EPS (₹)	28.4	21.6	31.6	23.9	18.7	84.8	60.8	39.5
<b>Adjus.Net Profit</b>	<b>4,248</b>	<b>3,222</b>	<b>31.8</b>	<b>3,576</b>	<b>18.8</b>	<b>12,700</b>	<b>8,365</b>	<b>51.8</b>
Adjus.EPS (₹)	28.4	21.6	31.6	23.9	18.5	84.8	56.0	51.5

Source: Company, Way2Wealth

17<sup>th</sup> May 2023

CMP – ₹3,435.3/-

View – ACCUMULATE

## SEGMENTAL PERFORMANCE

	(₹ mn)							
Revenue	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Wires &amp; Cables</b>	<b>40,783</b>	<b>35,400</b>	<b>15.2</b>	<b>33,418</b>	<b>22.0</b>	<b>127,775</b>	<b>107,938</b>	<b>18.4</b>
<b>FMEG</b>	<b>3,052</b>	<b>3,792</b>	<b>(19.5)</b>	<b>3,420</b>	<b>(10.8)</b>	<b>12,607</b>	<b>12,544</b>	<b>0.5</b>
Others (EPC)	1338	1,044	28.1	1260	6.2	4,647	3,702	25.5
Inter-segment	(1,784)	(507)	251.7	(827)	115.8	(3,565)	(1,744)	104.4
<b>TOTAL</b>	<b>43,389</b>	<b>39,730</b>	<b>9.2</b>	<b>37,271</b>	<b>16.4</b>	<b>141,465</b>	<b>122,440</b>	<b>15.5</b>
<b>EBIT (₹ mn)</b>								
Wires & Cables	5,896	4,106	43.6	4,593	28.4	16,724	10,545	58.6
<i>EBIT Margin (%)</i>	<i>14.5</i>	<i>11.6</i>	<i>286</i>	<i>13.7</i>	<i>71</i>	<i>13.1</i>	<i>9.8</i>	<i>332</i>
FMEG	(70)	105	(166.5)	(24)	(191.3)	(56)	196	(128.6)
<i>EBIT Margin (%)</i>	<i>(2.3)</i>	<i>2.8</i>	<i>(505)</i>	<i>(0.7)</i>	<i>(158)</i>	<i>(0.4)</i>	<i>1.6</i>	<i>(201)</i>
Others (EPC)	82	139	(41.2)	152	(46.1)	517	499	3.6
<i>EBIT Margin (%)</i>	<i>(4.6)</i>	<i>(27.4)</i>	<i>2,283</i>	<i>12.1</i>	<i>(1,664)</i>	<i>(14.5)</i>	<i>13.5</i>	<i>(2,799)</i>
Inter-segment	(195)	(59)	232.3	(88)	122.3	(369)	(201)	83.6
<b>TOTAL</b>	<b>5,713</b>	<b>4,291</b>	<b>33.1</b>	<b>4,633</b>	<b>23.3</b>	<b>16,817</b>	<b>11,039</b>	<b>52.3</b>
<i>EBIT Margin (%)</i>	<i>13.2</i>	<i>10.8</i>	<i>237</i>	<i>12.4</i>	<i>74</i>	<i>11.9</i>	<i>9.0</i>	<i>287</i>

Source: Company, Way2Wealth

	(₹ mn)						
Particulars	FY18	FY19	FY20	FY21	FY22	FY23	YoY (%)
<b>Revenue</b>	<b>67,703</b>	<b>79,856</b>	<b>88,300</b>	<b>87,922</b>	<b>122,038</b>	<b>141,078</b>	<b>15.6</b>
<b>Wires and Cables</b>	62,423	69,295	75,192	75,911	107,938	127,775	18.4
<i>% of Revenue</i>	<i>92.2</i>	<i>86.8</i>	<i>85.2</i>	<i>86.3</i>	<i>88.4</i>	<i>90.6</i>	
<b>FMEG</b>	4,853	6,433	8,536	10,341	12,544	12,607	0.5
<i>% of Revenue</i>	<i>7.2</i>	<i>8.1</i>	<i>9.7</i>	<i>11.8</i>	<i>10.3</i>	<i>8.9</i>	
<b>EBITDA</b>	<b>7,289</b>	<b>9,528</b>	<b>11,350</b>	<b>11,111</b>	<b>12,652</b>	<b>18,521</b>	<b>46.4</b>
<i>EBITDA Margin (%)</i>	<i>10.8</i>	<i>11.9</i>	<i>12.9</i>	<i>12.6</i>	<i>10.4</i>	<i>13.1</i>	
<b>Net Profit</b>	<b>3,586</b>	<b>5,003</b>	<b>7,656</b>	<b>8,380</b>	<b>9,086</b>	<b>12,700</b>	<b>39.8</b>
EPS (₹)	24.1	33.6	51.4	56.2	60.8	84.8	

Source: Company, Way2Wealth

17<sup>th</sup> May 2023

CMP – ₹3,435.3/-

 View – **ACCUMULATE**
**FINANCIALS & VALUATIONS**

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
<b>Revenue</b>	<b>79,856</b>	<b>88,300</b>	<b>87,922</b>	<b>122,038</b>	<b>141,078</b>	<b>161,384</b>	<b>183,141</b>
% YoY Growth	18.0	10.6	(0.4)	38.8	15.6	14.4	13.5
<b>Wires and Cables</b>	<b>69,295</b>	<b>75,192</b>	<b>75,911</b>	<b>107,938</b>	<b>127,775</b>	<b>141,932</b>	<b>149,871</b>
% of Revenue	86.8	85.2	86.3	88.4	90.6	87.9	81.8
% YoY Growth	11.0	8.5	1.0	42.2	18.4	11.1	5.6
<b>FMEG</b>	<b>6,433</b>	<b>8,536</b>	<b>10,341</b>	<b>12,544</b>	<b>12,607</b>	<b>13,661</b>	<b>19,611</b>
% of Revenue	8.1	9.7	11.8	10.3	8.9	8.5	10.7
% YoY Growth	32.6	32.7	21.1	21.3	0.5	8.4	43.6
<b>EBITDA</b>	<b>9,528</b>	<b>11,350</b>	<b>11,111</b>	<b>12,652</b>	<b>18,521</b>	<b>21,796</b>	<b>25,773</b>
<b>EBITDA Margin (%)</b>	<b>11.9</b>	<b>12.9</b>	<b>12.6</b>	<b>10.4</b>	<b>13.1</b>	<b>13.5</b>	<b>14.1</b>
% YoY Growth	30.7	19.1	(2.1)	13.9	46.4	17.7	18.2
<b>Net Profit</b>	<b>5,003</b>	<b>7,656</b>	<b>8,380</b>	<b>8,365</b>	<b>12,700</b>	<b>14,683</b>	<b>16,718</b>
% YoY Growth	39.5	53.0	9.5	(0.2)	51.8	15.6	13.9
EPS (₹)	33.6	51.4	56.2	56.0	84.8	98.3	111.9
P/E (x)	102.2	66.8	61.1	56.5	40.5	35.0	30.7
EV/EBITDA (x)	54.1	45.3	46.2	40.5	27.6	23.5	20.9
P/BV (x)	17.0	13.3	10.8	9.2	7.7	6.6	5.7
RoE (%)	19.3	22.9	19.5	16.2	19.0	19.5	20.4
RoCE (%)	20.0	23.3	19.2	16.7	17.4	18.7	19.6
Debtor Days	67	60	59	59	32	37	35
Inventory Days	91	80	82	66	76	72	73
Creditors Days	69	56	56	56	63	60	59
Cash balances	3,176	2,813	5,313	4,071	6,952	15,634	20,823
FCF	8,658	(887)	9,981	(149)	9,501	11,741	13,248

Source: Company, Way2Wealth



17<sup>th</sup> May 2023

CMP – ₹3,435.3/-

View – **ACCUMULATE**

## Disclaimer

**Analyst Certification:** I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

## Disclosure of Interest Statement Polycab India Ltd. as on 17 May 2023

Name of the Security	Polycab India Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.