

20th July 2023

CMP – ₹4,455/-

View – ACCUMULATE

Q1FY24 Result Highlights

- **Strong growth momentum continues in Q1FY24** – Polycab reported Revenue/EBITDA/PAT growth of 42.1%/76.3%/~82% YoY and de-grew by 10%/10%/6% QoQ to ₹38.9bn/₹5.5bn/~₹4bn respectively led by strong performance in the wires and cables (W&C) division in Q1FY24. The wires & cables (W&C) segment carried forward its strong momentum as revenue rose ~47% YoY to ₹35.3bn on healthy volume growth of ~50-60%. Domestic demand was robust led by improving trends in capex and real estate, enabling the cables business to do better than wires. EBITDA margin saw 274bps YoY expansion to 14.1%, a notable result given the seasonal dip in Q1. Domestically as per the management there was accelerated growth in the northern region, followed by the west, south and east. The west contributed the most, followed by the south, north and east.
- **Management view significant W&C demand visibility** – The W&C segment grew 47% YoY in Q1FY24 on the back of strong, broad-based volume growth of 50-60% in the domestic and international businesses. Polycab is seeing good demand across sectors such as infrastructure, roadways and highways, electricity transmission and distribution, and real estate. Cables continue to outperform wires within the segment. The mix between cable and wire revenue was 70:30 in FY23 which has changed to 73:27 in Q1. The cables business is largely distribution-led, and Polycab is moving toward having its own people on-ground and garnering secondary orders. EBIT margin improved 325bps to 14.8% in Q1FY24 v/s 11.5% YoY due to better operating leverage, pricing action and strong international operations. The management view sees significant W&C demand visibility in the short and medium term due to the capex cycle and real estate growth.
- **International business contributed ~9% of Polycab's revenue in Q1FY24**, growing 88% YoY on the back of sustained growth momentum in institutional business especially from North America, Australia and Europe in the renewable oil & gas and infrastructure sectors. It is also seeing large EPC projects coming up and expects significant demand there. It is preparing to shift to a distribution-led model in the international business which management believes will raise export contribution.
- **FMEG performance likely to improve further** – Polycab's FMEG business grew 2.1%/3.1% YoY/QoQ to ₹3.145bn owing to weak consumer sentiment. Polycab has made structural changes in the FMEG business during FY23 and expects the benefits to play out in coming quarters. Management also believes consumer sentiment will perk up in the next two quarters amid signs of recovery in the rural sector and an improving economic environment.

FMEG EBIT margin remained at -1.8% v/s 2.1% YoY and -2.3% QoQ on account of fixed and promotional costs along with the absence of benefits of scale. However, earnings quality has improved with 91% channel finance penetration.

With older fan inventory being sold off, the company made fresh sales of newer Bureau of Energy Efficiency or BEE-compliant fans during the quarter. It is making various efforts in the segment, including distribution channel improvement, product differentiation, and influencer management. In the January-June period after the new norms came into effect, it introduced 80 new SKUs and is set to launch 20 more in the next two quarters.

Important Statistics

MCAP (₹ bn)	667.9
52-week H/L (₹)	4,487/2,194
NSE Code	POLYCAB
BSE Code	542652

Shareholding Pattern (%) Mar'23

Promoter	66.2
DII	9.3
FII	9.8
Public & Others	14.7

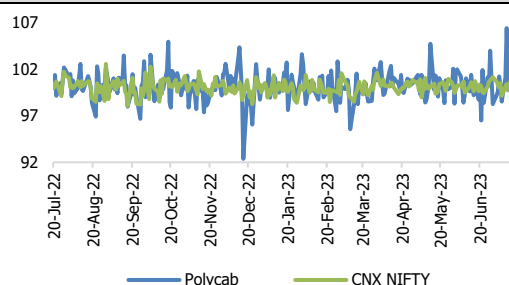
Financials

Particulars	FY20	FY21	FY22
Revenue	88,300	87,922	122,038
<i>Wires & 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>
EBITDA	11,350	11,111	12,652
EBITDA Margin (%)	12.9	12.6	10.4
Net Profit	7,656	8,380	8,365
EPS (₹)	51.4	56.2	60.8
P/E (x)	86.7	79.3	73.3
EV/EBITDA (x)	58.8	60.0	52.6
P/BV (x)	17.3	14.0	12.0
RoE (%)	22.9	19.5	16.2
RoCE (%)	23.3	19.2	18.8

Particulars	FY23	FY24E	FY25E
Revenue	141,078	167,998	189,135
<i>Wires & Cables</i>	<i>127,775</i>	<i>151,841</i>	<i>166,792</i>
<i>% of Revenue</i>	<i>90.6</i>	<i>90.4</i>	<i>88.2</i>
<i>FMEG</i>	<i>12,607</i>	<i>13,873</i>	<i>19,903</i>
<i>% of Revenue</i>	<i>8.9</i>	<i>8.3</i>	<i>10.5</i>
EBITDA	18,521	23,487	26,654
EBITDA Margin (%)	13.1	14.0	14.1
Net Profit	12,700	15,971	17,908
EPS (₹)	84.8	106.6	119.5
P/E (x)	52.5	41.8	37.3
EV/EBITDA (x)	35.8	28.2	25.1
P/BV (x)	10.0	8.5	7.1
RoE (%)	19.0	21.2	22.7
RoCE (%)	24.2	21.6	20.5

Source: Company, Way2Wealth

Relative Performance



Source: Company, Way2Wealth

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View – **ACCUMULATE**

Switches, switchgears and conduit pipes fared well in Q1FY24, while other businesses such as lights and luminaires declined on a sequential basis on account of continued price correction (10-12%, more cuts guided to follow). The company expects A&P spend to form 3-5% of B2C sales.

- **Others business consisting of the EPC business grew ~47% YoY to ₹183mn** with annual sustainable operating margin here guided to be in high single digits over the mid-to-long term.
- **Project Leap targets could be met before time** – In FY21, Polycab had set a target of achieving ₹200bn in revenue by FY26 under Project Leap, an implied CAGR of 18%. So far, it has clocked a 26% CAGR over FY21-FY23, implying a 13% run-rate for the next three years. We believe this is easily achievable given the strong tailwinds for W&C as well as FMEG and see a strong probability of this goal being reached well before FY26.
- As part of its internal restructuring, Polycab is executing a joint project with a BCG leadership team (initiated in May'21). Most of the strategies are either already in place or currently under implementation.
- The company is comfortable with maintaining a 50-55-day working capital cycle in FY24. Inventory has risen during the quarter to ₹35bn (v/s ₹29.5bn in Mar'23) in anticipation of increased demand in the short term
- Current capacity utilisation is at 60-70%. Polycab plans to incur ₹6bn in FY24, mainly on its extra high voltage facility. The company has net cash of ₹10.1bn at the end of Q1FY24. While this will be used for capex and dividends, it is also open to M&A in the wires and FMEG segments.

View

Polycab India continued its strong performance in Q1FY24 on the back of healthy volume growth in Wires & Cables (W&C) business. The W&C segment's revenue growth led by strong growth in exports and improving trends in capex and real estate, enabling the cables business to do better than wires. Weak consumer demand impacted performance of FMEG. The growth momentum in domestic business is likely to remain strong due to distribution rejig, strong institutional demand and likely revival in FMEG in H2FY24. We are likely to witness revival in fans business as the inventory of non-rated fans is largely over in trade. The value-for-money brand 'Etira' and premium brand 'Hohm' are to be the value drivers with improving maturity of these brands in the medium to long term. The Project Leap targets likely to be achieved well before the FY26 timeline, sustaining Polycab's earnings going forward. 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 – 37.3x FY25E with EPS of ₹119.5).**

20th July 2023

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View – **ACCUMULATE**
FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	38,894	27,366	42.1	43,237	(10.0)	141,078	122,038	15.6
Operating Exps	28,581	20,524	39.3	32,357	(11.7)	105,109	94,657	11.0
% of Sales	73.5	75.0	(152)	74.8	(135)	74.5	77.6	(306)
Gross Profit	10,313	6,842	50.7	10,880	(5.2)	35,969	27,381	31.4
% of Sales	26.5	25.0	152	25.2	135	25.5	22.4	306
Employee Cost	1,349	1,101	22.6	1,187	13.7	4,568	4,066	12.3
% of Sales	3.5	4.0	(55)	2.7	72	3.2	3.3	(9)
Other Expenses	3,478	2,630	32.3	3,598	(3.3)	12,880	10,663	20.8
% of Sales	8.9	9.6	(67)	8.3	62	9.1	8.7	39
EBITDA	5,486	3,111	76.3	6,095	(10.0)	18,521	12,652	46.4
% EBITDA Margin	14.1	11.4	274	14.1	1	13.1	10.4	276
Other Income	640	443	44.3	515.2	(24.2)	1,333.3	899	48.3
Depreciation	571	510	12.1	535	6.9	2092	2015	3.8
EBIT	5,554	3,045	82.4	6,076	(8.6)	22,153	11,536	92.0
Interest	249	84	195.6	282	(11.5)	598	352	69.8
PBT	5,305	2,960	79.2	5,794	(8.4)	21,555	11,184	92.7
Tax	1,277	722	76.9	1,446	(11.7)	4,250	2,706	57.0
JV/ Associates	-	(13)	(100.0)	(64)	(100.0)	(93)	(26)	262.5
Non-Controlling Interest	35	28	26.9	37	(3.5)	123	87	41.3
Net Profit	3,993	2,198	81.7	4,248	(6.0)	12,700	9,086	39.8
EPS (₹)	26.6	14.7	81.2	28.4	(6.1)	84.8	60.8	39.5
Adjus.Net Profit	3,993	2,198	81.7	4,248	(6.0)	12,700	8,365	51.8
Adjus.EPS (₹)	26.6	14.7	81.2	28.4	(6.1)	84.8	56.0	51.5

Source: Company, Way2Wealth

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View – **ACCUMULATE**
SEGMENTAL PERFORMANCE

(₹ mn)

Revenue	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Wires & Cables	35,338	24,057	46.9	40,783	(13.4)	127,775	107,938	18.4
FMEG	3,145	3,082	2.1	3,052	3.1	12,607	12,544	0.5
Others (EPC)	1,528	999	53.0	1,338	14.2	4,647	3,702	25.5
Inter-segment	(781)	(450)	73.7	(1,784)	(56.2)	(3,565)	(1,744)	104.4
TOTAL	39,230	27,688	41.7	43,389	(9.6)	141,465	122,440	15.5
EBIT (₹mn)								
Wires & Cables	5,223	2,773	88.4	5,896	(11.4)	16,724	10,545	58.6
EBIT Margin (%)	14.8	11.5	325	14.5	32	13.1	9.8	332
FMEG	(57)	64	(188.0)	(70)	18.7	(56)	196	(128.6)
EBIT Margin (%)	(1.8)	2.1	(389)	(2.3)	48	(0.4)	1.6	(201)
Others (EPC)	183	125	46.9	82	124.2	517	499	3.6
EBIT Margin (%)	12.0	12.5	(50)	(4.6)	1,658	(14.5)	13.5	(2,799)
Inter-segment	(99)	(39)	153.0	(195)	(49.4)	(369)	(201)	83.6
TOTAL	5,251	2,923	79.6	5,713	(8.1)	16,817	11,039	52.3
EBIT Margin (%)	13.4	10.6	283	13.2	22	11.9	9.0	287

Source: Company, Way2Wealth

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24	YoY(%)
Revenue	67,703	79,856	88,300	87,922	122,038	141,078	27,366	38,894	42.1
Wires and Cables	62,423	69,295	75,192	75,911	107,938	127,775	24,057	35,338	46.9
% of Revenue	92.2	86.8	85.2	86.3	88.4	90.6	87.9	90.9	
FMEG	4,853	6,433	8,536	10,341	12,544	12,607	3,082	3,145	2.1
% of Revenue	7.2	8.1	9.7	11.8	10.3	8.9	11.3	8.1	
EBITDA	7,289	9,528	11,350	11,111	12,652	18,521	3,111	5,486	76.3
EBITDA Margin (%)	10.8	11.9	12.9	12.6	10.4	13.1	11.4	14.1	
Net Profit	3,586	5,003	7,656	8,380	9,086	12,700	2,198	3,993	81.7
EPS (₹)	24.1	33.6	51.4	56.2	60.8	84.8	14.7	26.6	

Source: Company, Way2Wealth

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 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	79,856	88,300	87,922	122,038	141,078	167,998	189,135
% YoY Growth	18.0	10.6	(0.4)	38.8	15.6	19.1	12.6
Wires and Cables	69,295	75,192	75,911	107,938	127,775	151,841	166,792
% of Revenue	86.8	85.2	86.3	88.4	90.6	90.4	88.2
% YoY Growth	11.0	8.5	1.0	42.2	18.4	18.8	9.8
FMEG	6,433	8,536	10,341	12,544	12,607	13,873	19,903
% of Revenue	8.1	9.7	11.8	10.3	8.9	8.3	10.5
% YoY Growth	32.6	32.7	21.1	21.3	0.5	10.0	43.5
EBITDA	9,528	11,350	11,111	12,652	18,521	23,487	26,654
EBITDA Margin (%)	11.9	12.9	12.6	10.4	13.1	14.0	14.1
% YoY Growth	30.7	19.1	(2.1)	13.9	46.4	26.8	13.5
Net Profit	5,003	7,656	8,380	8,365	12,700	15,971	17,908
% YoY Growth	39.5	53.0	9.5	(0.2)	51.8	25.8	12.1
EPS (₹)	33.6	51.4	56.2	60.8	84.8	106.6	119.5
P/E (x)	132.6	86.7	79.3	73.3	52.5	41.8	37.3
EV/EBITDA (x)	70.2	58.8	60.0	52.6	35.8	28.2	25.1
P/BV (x)	22.1	17.3	14.0	12.0	10.0	8.5	7.1
RoE (%)	19.3	22.9	19.5	16.2	19.0	21.2	22.7
RoCE (%)	20.0	23.3	19.2	18.8	24.2	21.6	20.5
Debtor Days	67	60	59	41	32	37	36
Inventory Days	91	80	82	66	76	72	73
Creditors Days	69	56	56	49	63	61	60
Cash balances	3,176	2,813	5,313	4,071	6,952	16,825	29,104
FCF	8,658	(887)	9,981	(149)	9,501	12,084	15,155

Source: Company, Way2Wealth

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Disclosure of Interest Statement Polycab India Ltd. as on 20 July 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

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