

23<sup>rd</sup> October 2023

**CMP – ₹5,177/-**

View – **ACCUMULATE**
**Q2FY24 Result Highlights**

- **Strong Q2FY24 on the back of strong domestic volume growth –** Polycab reported Revenue/EBITDA/PAT growth of ~27%/42.4%/~59% YoY and 8.4%/11%/~7% QoQ to ₹42.2bn/₹6.1bn/₹4.3bn respectively led by strong performance in the wires and cables (W&C) division in Q2FY24. The Wires & Cables segment carried forward its strong momentum as revenue rose ~29% YoY to ₹38bn driven by a 36% YoY jump in domestic revenues, which contributed 90.7% of the quarter's segmental revenues. In contrast, exports fell 11% YoY (albeit up 13% QoQ) to ₹3.9bn, or 9.3% of the quarter's W&C revenues. Domestic volume growth was +36%, with price increases contributing only low single digits to revenue growth. W&C's EBIT margins remained robust at 14.6% (+285 bps YoY) due to better operating leverage and favorable business mix. In the W&C segment, special purpose cables enjoy better margins than traditional products. The primary driver for the volume growth was the defense sector (special purpose cables), which contributed more than 20% of W&C revenues for 1H FY24. Additionally, margins on wires continue to be higher than those on cables. Management stated that the institutional business also performed well. Geographically, the Northern region, especially UP, Delhi and Haryana, contributed the maximum to revenues, while the Southern region recorded the highest growth rate of 90% YoY in Q2FY24. Other sectors that contributed to the demand generation are transportation, renewables, water and the hydrocarbons industry. The company witnessed strong demand from government infrastructure, private capex and real estate sectors. Capacity utilization in W&C stands at around 65-70% with the max peak which the company can reach is 95%.
- **Drivers of domestic growth in W&C –** 100% of the business in backward integrated. By Aug-Sep'23, the Ministry of Road Transport and Highways has utilized 46% of its full-year budget (₹2.58tn) and the Railways have consumed 59% of their budget (₹2.4tn), signaling a strong progress in capacity creation. The large public sector enterprises such as IOC, ONGC, NTPC, HPCL and BPCL have consumed 42.5% of their targets by Sep'23. At the state level, the combined capital expenditure of 17 major states has increased 45%, reaching ₹1.7tn by Aug'23. The central government has provided ₹400bn out of the sanctioned ₹850bn in 50-year capex loans to the states to boost state-level capex. The real estate sector showed strong growth momentum in Q2FY24, with large cities witnessing 23% YoY growth in the number of residential project launches. Land acquisitions have also picked up pace, boosting wire sales. Management expects healthy volume growth to continue in the near future.
- **Drivers of exports in W&C –** The company registered 14% QoQ (-11% YoY) growth in exports, which contributed around ~9% of the quarter's revenues. Polycab has expanded into four more countries and has a footprint now covering 76 countries (compared to 72 in Q1FY24). According to management, it expects to see a significant increase in revenues from exports in the medium to long term.
- **FMEG grew due to channel realignment –** FMEG business grew 8.1%/4.9% YoY/QoQ to ₹3.3bn owing to channel realignment, new product development and in-house capacity development. Management is optimistic about consumer demand in the upcoming quarters. FMEG EBIT margin remained at -1.8% v/s -0.9% YoY and -1.8% QoQ on account of fixed costs in the absence of scale. Management hopes to improve margins by shifting the product mix toward more profitable products such as switchgears and switches, which face less competition.

**Important Statistics**

<b>MCAP (₹bn)</b>	777.0
<b>52-week H/L (₹)</b>	5,493/2,500
<b>NSE Code</b>	POLYCAB
<b>BSE Code</b>	542652

**Shareholding Pattern (%) Sep'23**

<b>Promoter</b>	66.0
<b>DII</b>	9.7
<b>FII</b>	9.7
<b>Public &amp; Others</b>	14.6

**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	60.8
P/E (x)	100.7	92.1	85.2
EV/EBITDA (x)	68.4	69.8	61.2
P/BV (x)	20.1	16.2	13.9
RoE (%)	22.9	19.5	16.2
RoCE (%)	23.3	19.2	18.8

Particulars	FY23	FY24E	FY25E
<b>Revenue</b>	<b>141,078</b>	<b>174,991</b>	<b>202,798</b>
<i>Wires &amp; Cables</i>	<i>127,775</i>	<i>157,492</i>	<i>180,490</i>
<i>% of Revenue</i>	<i>90.6</i>	<i>90.0</i>	<i>89.0</i>
<i>FMEG</i>	<i>12,607</i>	<i>13,999</i>	<i>15,210</i>
<i>% of Revenue</i>	<i>8.9</i>	<i>8.0</i>	<i>7.5</i>
<b>EBITDA</b>	<b>18,521</b>	<b>22,933</b>	<b>27,227</b>
<b>EBITDA Margin (%)</b>	<b>13.1</b>	<b>13.1</b>	<b>13.4</b>
<b>Net Profit</b>	<b>12,700</b>	<b>15,998</b>	<b>18,994</b>
EPS (₹)	84.8	106.8	126.7
P/E (x)	61.1	48.5	40.8
EV/EBITDA (x)	41.7	30.9	27.6
P/BV (x)	11.6	10.0	8.5
RoE (%)	19.0	22.1	22.4
RoCE (%)	24.2	23.6	25.6

Source: Company, Way2Wealth

**Relative Performance**

Return (%)	1 Yr	3Yr	5 Yr
<b>POLYCAB</b>	<b>87.2</b>	<b>487.5</b>	<b>NA</b>
<b>Nifty 50</b>	10.3	63.3	94.2
<b>Sensex</b>	9.6	60.4	95.7

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- The fans category registered a revenue decline due to continued weakness in consumer demand and changes in energy norms consequent to new BEE regulations. The company introduced three new ranges of fans, with two in the premium category and one in the BLDC category.
- The switchgears business exhibited a robust performance due to cross-selling benefits arising out of product bundling at wire distributors. The switches category doubled its revenues yoy for Q2FY24, leveraging on in-house manufacturing capabilities. The conduit pipes and fittings business also grew by tapping into the strong demand from the real estate sector. The southern region was the main source of revenues for this business.
- The luminaires business benefited from the setup of its separate GTM vertical. Due to a 25% drop in the prices of LED lights, the lighting business saw a decline in its performance, with a 10-12% downward adjustment to prices in Q2FY24. Management is optimistic of a recovery in demand during the festive season in Q3FY24.
- **The EPC business grew 92% YoY to Rs2,015mn with margin at 11%.** The annual sustainable operating margin in this business is expected to be in the high single digits in the long term as per the management.
- A&P could be ~1.5% of company sales (3-5% of B2C sales) in FY24. As these costs are period costs, these are accounted for in the period when they occur. For ICC sponsorship, some amount is accounted in Q2FY24 and the rest will be accounted for in the next quarter.
- The capex guidance for FY24 and FY25 is ₹6-7bn per year. This will include capex on a new EHV plant at Halol and expansion of the existing facility for special purpose cables. Aside from this, there is a regular ₹3-4bn of capital expenditure on capacity expansion, of which W&C accounts for 75% and FMEG for the rest.
- The company expects to revise its revenue growth outlook in the coming quarters. It is confident of reaching the ₹200bn goal well before FY26. It maintains its margin outlook for W&C at 11-13%. Management expects margins in the FMEG business to improve owing to brand positioning, new product development, influencer management and premiumisation.

## View

Polycab India reported strong earnings for Q2FY24, driven by continued strength in domestic demand for cables, amid the government's infrastructure spending push. Management's continued optimism remains based on government's thrust on India's infrastructure development—seen by them as a multi-decade story—along with buoyancy in private sector capex and a cyclical upturn in real estate, which is believed to be in the early stages of a typical 6-8 year industry cycle. The growth opportunity in the much larger export market is an added reason for optimism, although management sounded somewhat guarded on this front for this quarter, perhaps given that export revenues fell 11% YoY in Q2FY24, albeit off a high base. The change in product mix in FMEG yielded better growth for the company indicating signs of recovery. Growth was broad based across regions with higher growth in North India. Revival in fans business is likely in 2HFY24 as inventory of non-rated fans is almost over in trade. There is no sign of a demand slowdown yet. A concern, though, is the sustainability of such high levels of public and private sector capex activity, amid the approaching elections, fiscal pressures on the government and global economic pressures, especially on industrial sectors such as chemicals. **Hence, we continue to maintain our ACCUMULATE stance on the stock (P/E – 40.8x FY25E with EPS of ₹126.7).**

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**FINANCIAL PERFORMANCE**

(₹ mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
<b>Revenue</b>	<b>42,177</b>	<b>33,324</b>	<b>26.6</b>	<b>38,894</b>	<b>8.4</b>	<b>81,071</b>	<b>60,689</b>	<b>33.6</b>
Operating Exps	30,739	24,625	24.8	28,581	7.6	59,319	45,148	31.4
% of Sales	72.9	73.9	(102)	73.5	(60)	73.2	74.4	(122)
Gross Profit	11,438	8,699	31.5	10,313	10.9	21,752	15,541	40.0
% of Sales	27.1	26.1	102	26.5	60	26.8	25.6	122
Employee Cost	1,557	1,148	35.6	1,349	15.4	2,906	2,249	29.2
% of Sales	3.7	3.4	25	3.5	22	3.6	3.7	(12)
Other Expenses	3,792	3,275	15.8	3,478	9.0	7,271	5,904	23.1
% of Sales	9.0	9.8	(83)	8.9	5	9.0	9.7	(76)
<b>EBITDA</b>	<b>6,089</b>	<b>4,276</b>	<b>42.4</b>	<b>5,486</b>	<b>11.0</b>	<b>11,575</b>	<b>7,387</b>	<b>56.7</b>
% EBITDA Margin	14.4	12.8	160	14.1	33	14.3	12.2	210
Other Income	353.2	(22.2)	1,694.0	640	44.8	993	421	135.7
Depreciation	603	523	15.4	571	5.5	1,174	1,033	13.7
EBIT	5,839	3,732	56.5	5,554	5.1	11,393	6,776	68.1
Interest	268	139	92.7	249	7.5	517	223	131.5
PBT	5,572	3,593	55.1	5,305	5.0	10,876	6,553	66.0
Tax	1,274	880	44.8	1,277	(0.2)	2,547	1,599	59.3
JV/ Associates	-	(8)	(100.0)	-	-	-	(21)	(100.0)
Non-Controlling Interest	42	27	57.9	35	18.6	77	54	42.0
<b>Net Profit</b>	<b>4,256</b>	<b>2,678</b>	<b>58.9</b>	<b>3,993</b>	<b>6.6</b>	<b>8,252</b>	<b>4,879</b>	<b>69.1</b>
EPS (₹)	28.4	17.9	58.3	26.6	6.6	55.0	32.6	68.7

Source: Company, Way2Wealth

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## SEGMENTAL PERFORMANCE

(₹ mn)

Revenue	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
<b>Wires &amp; Cables</b>	<b>38,047</b>	<b>29,517</b>	<b>28.9</b>	<b>35,338</b>	<b>7.7</b>	<b>73,385</b>	<b>53,574</b>	<b>37.0</b>
<b>FMEG</b>	<b>3,300</b>	<b>3,054</b>	<b>8.1</b>	<b>3,145</b>	<b>4.9</b>	<b>6,445</b>	<b>6,135</b>	<b>5.1</b>
Others (EPC)	2,015	1,051	91.8	1,528	31.8	3,543	2,049	72.9
Inter-segment	(1,074)	(505)	112.8	(781)	37.5	(1,855)	(954)	94.4
<b>TOTAL</b>	<b>42,288</b>	<b>33,117</b>	<b>27.7</b>	<b>39,230</b>	<b>7.8</b>	<b>81,518</b>	<b>60,804</b>	<b>34.1</b>
<b>EBIT (₹mn)</b>								
Wires & Cables	5,547	3,463	60.2	5,223	6.2	10,769	6,235	72.7
EBIT Margin (%)	14.6	11.7	285	14.8	(20)	14.7	11.6	304
FMEG	(60)	(27)	124.3	(57)	6.1	(117)	38	(410.8)
EBIT Margin (%)	(1.8)	(0.9)	(95)	(1.8)	(2)	(1.8)	0.6	(243)
Others (EPC)	1,051	159	562	183	473.0	408	283	44.0
EBIT Margin (%)	52.1	15.1	3,704	12.0	4,014	11.5	13.8	(231)
Inter-segment	(505)	(47)	966.9	(99)	411.9	(213)	(86)	146.9
<b>TOTAL</b>	<b>6,033</b>	<b>3,547</b>	<b>70.1</b>	<b>5,251</b>	<b>14.9</b>	<b>10,848</b>	<b>6,470</b>	<b>67.7</b>
EBIT Margin (%)	14.3	10.7	356	13.4	88	13.3	10.6	267

Source: Company, Way2Wealth

(₹mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	1HFY23	1HFY24	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>60,689</b>	<b>81,071</b>	<b>33.6</b>
<b>Wires and Cables</b>	62,423	69,295	75,192	75,911	107,938	127,775	53,574	73,385	37.0
% of Revenue	92.2	86.8	85.2	86.3	88.4	90.6	88.3	90.5	
<b>FMEG</b>	4,853	6,433	8,536	10,341	12,544	12,607	6,235	6,445	3.4
% of Revenue	7.2	8.1	9.7	11.8	10.3	8.9	10.3	7.9	
<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>7,387</b>	<b>11,575</b>	<b>56.7</b>
EBITDA Margin (%)	10.8	11.9	12.9	12.6	10.4	13.1	12.2	14.3	
<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>4,876</b>	<b>8,252</b>	<b>69.2</b>
EPS (₹)	24.1	33.6	51.4	56.2	60.8	84.8	32.6	55.0	

Source: Company, Way2Wealth

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**FINANCIALS & VALUATIONS**

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23	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>174,991</b>	<b>202,798</b>
% YoY Growth	18.0	10.6	(0.4)	38.8	15.6	24.0	15.9
<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>157,492</b>	<b>180,490</b>
% of Revenue	86.8	85.2	86.3	88.4	90.6	90.0	89.0
% YoY Growth	11.0	8.5	1.0	42.2	18.4	23.3	14.6
<b>FMEG</b>	<b>6,433</b>	<b>8,536</b>	<b>10,341</b>	<b>12,544</b>	<b>12,607</b>	<b>13,999</b>	<b>15,210</b>
% of Revenue	8.1	9.7	11.8	10.3	8.9	8.0	7.5
% YoY Growth	32.6	32.7	21.1	21.3	0.5	11.0	8.6
<b>EBITDA</b>	<b>9,528</b>	<b>11,350</b>	<b>11,111</b>	<b>12,652</b>	<b>18,521</b>	<b>22,933</b>	<b>27,227</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>13.1</b>	<b>13.4</b>
% YoY Growth	30.7	19.1	(2.1)	13.9	46.4	23.8	18.7
<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>15,998</b>	<b>18,994</b>
% YoY Growth	39.5	53.0	9.5	(0.2)	51.8	26.0	18.7
EPS (₹)	33.6	51.4	56.2	60.8	84.8	106.8	126.7
P/E (x)	154.1	100.7	92.1	85.2	61.1	48.5	40.8
EV/EBITDA (x)	81.6	68.4	69.8	61.2	41.7	30.9	27.6
P/BV (x)	25.6	20.1	16.2	13.9	11.6	10.0	8.5
RoE (%)	19.3	22.9	19.5	16.2	19.0	22.1	22.4
RoCE (%)	20.0	23.3	19.2	18.8	24.2	23.6	25.6
Debtor Days	67	60	59	41	32	36	35
Inventory Days	91	80	82	66	76	71	72
Creditors Days	69	56	56	49	63	60	59
Cash balances	3,176	2,813	5,313	4,071	6,952	9,938	21,468
FCF	8,658	(887)	9,981	(149)	9,501	6,680	15,033

Source: Company, Way2Wealth

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## Disclosure of Interest Statement Polycab India Ltd. as on 23 October 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
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