

24<sup>th</sup> January 2023

CMP – ₹2,800.7/-

View – **ACCUMULATE**
**Q3FY23 Result Highlights**

- **Highest ever quarterly performamnce enabled by the wire & cables business** – Polycab reported highest ever quarterly performance with Revenue/EBITDA/PAT grew 10.2%/39.3%/~14% YoY and ~12%/~18%/~34% QoQ respectively led by strong performance in the wires and cables (W&C) division. EBITDA margin expanded 73bps QoQ to 13.6% on richer product mix towards domestic wires, pricing action and Operating leverage benefits, despite 40bps QoQ contraction in gross margin and a 4x jump in A&P spend. Lower finance costs and higher other income also boosted PAT. The company intends to use the net cash of ₹18.73bn, up ₹2.1bn QoQ, for capex/ M&A/ dividend payout/ buy-back.
- **Strong momentum in C&W likely to sustain** – Strong Q3FY23 C&W revenue (+11.4% YoY and +13.2% QoQ) was driven by ~18% YoY volume growth (+26% in 9MFy23) mainly in the domestic distribution business (also drove 201bps QoQ jump in EBIT margin to 13.7%). The merger of HDC and LDC verticals too helped. Management expects strong traction in the domestic C&W business to sustain on the back of healthy public and private capex. Subdued exports (₹2.2bn revenue, ~6% mix in Q3FY23) is also likely to revive to 8-10% of overall revenue on strong order book.
- **Foray into EHV cables segment** – Considering the ₹4-5bn market opportunity by FY26, Polycab plans to enter EHV cables segment in technical collaboration with Brook Cables, a Swiss company. With an initial capex of ~₹6bn in FY24, the Halol, Guajart plant is likely to be operational in FY25. This will complete its full offerings in C&W.
- **Muted FMEG performance likely to rebound in FY24 after re-organisation of sales channel** – Weak demand led to subdued revenue (flat YoY, +12% QoQ) while 4x QoQ rise in A&P spend (₹636mn) resulting in ₹24mn EBIT loss in Q3FY23 (Q2FY23 loss at ₹27mn). Fans business grew 24% YoY on channel restocking ahead of transition to the new BEE norms. While prices were cut in Q3FY23, management sees scope for hikes once BEE norms are implemented in Q4FY23. Switchgears also grew at a healthy pace, driven by influencer incentive program and will be the focus category due to better margins. Management expects the segment to witness strong rebound in FY24, as it is on the verge of completing the realignment in its distribution strategy (separate teams for different channels, sales channel realignment based on product end use) in FY23. The +10% segment margin guidance given under 'Project LEAP' are intact. Focus on in-house manufacturing, alternate channels, and portfolio expansion stays.
- **Focus towards high margin switches and switch gears** – For the FMEG business the management plans to reorient the current product mix (toward high margin switches and switchgears), product development and higher R&D on premium category products is essential to drive margins in the FMEG business. To this end, it has hired eligible talent, introduced a strategic framework and is improving its digital presence.
- **Exports** – The exports business has maintained traction in 9MFY23 and is seeing sustained demand from the oil & gas, renewables and infrastructure industries. The company has a strong order book, implying continued momentum in coming quarters. The shift from institutional project execution to expanding its distribution business led to higher exports and ultimately higher profitability.

**Important Statistics**

<b>MCAP (₹ bn)</b>	419.28
<b>52-week H/L (₹)</b>	3,025/2,045
<b>NSE Code</b>	POLYCAB
<b>BSE Code</b>	542652

**Shareholding Pattern (%) Dec'22**

<b>Promoter</b>	66.6
<b>DII</b>	10.4
<b>FII</b>	8.1
<b>Public &amp; Others</b>	14.9

**Financials**

(₹ mn)			
Particulars	FY20	FY21	FY22
<b>Revenue</b>	88,300	87,922	122,038
<i>Wires &amp; Cables</i>	75,192	75,911	107,938
% of Revenue	85.2	86.3	88.4
<i>FMEG</i>	8,536	10,341	12,544
% of Revenue	9.7	11.6	10.3
<b>EBITDA</b>	11,350	11,111	12,652
<b>EBITDA Margin (%)</b>	<b>12.9</b>	<b>12.6</b>	<b>10.4</b>
<b>Net Profit</b>	7,656	8,380	8,365
EPS (₹)	51.4	56.2	56.0
P/E (x)	54.5	49.8	50.0
EV/EBITDA (x)	551.0	33.8	32.8
P/BV (x)	10.9	8.8	7.5
RoE (%)	22.9	19.5	16.2
RoCE (%)	23.3	19.2	16.7

Particulars	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>139,612</b>	<b>156,786</b>	<b>175,982</b>
<i>Wires &amp; Cables</i>	124,063	132,549	149,481
% of Revenue	88.9	84.5	84.9
<i>FMEG</i>	13,881	21,661	24,061
% of Revenue	9.9	13.8	13.7
<b>EBITDA</b>	<b>17,718</b>	<b>19,812</b>	<b>22,171</b>
<b>EBITDA Margin (%)</b>	<b>12.7</b>	<b>12.6</b>	<b>12.6</b>
<b>Net Profit</b>	<b>11,684</b>	<b>13,596</b>	<b>15,656</b>
EPS (₹)	78.2	91.0	104.8
P/E (x)	35.8	30.8	26.7
EV/EBITDA (x)	22.5	20.0	17.3
P/BV (x)	6.4	5.4	4.6
RoE (%)	18.5	19.1	19.9
RoCE (%)	26.3	27.7	28.4

Source: Company, Way2Wealth


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 View – **ACCUMULATE**

- **Margins** – Management aims to maintain W&C EBIT margins in the 11-13% range and FMEG margins at 10%+ in the long term.
- **Raw Material sourcing** – The copper used in the W&C business is mostly sourced overseas with minor supplies coming from the domestic market, whereas aluminum is sourced from both the domestic and overseas markets. The steel requirements are typically fulfilled from the domestic market.
- The company aims to incur capex of ₹6-7bn for CY23, of which ~75% will be spent towards the W&C vertical (a majority to build the EHV plant), with the balance being allocated to the FMEG business.

**View**

As per management, both private and public capex are improving. Additionally, the real estate sector has maintained its momentum which bodes well for the business. Government's infra push has been a key growth driver for C&W over the last few years. Any slowdown in government spending on infra could significantly impact company's growth, especially given its huge investment in capacity and branding. Volatility in commodity prices remains a near term challenge ,but a resilient performance in the W&C business augurs well. We have a positive outlook on the company given its leadership position in the core W&C business with structural growth opportunities from infrastructure development and a growing FMEG segment on consumption led opportunities based on its large pan-India manufacturing base, distribution reach, professional management driving the business, strong promoter family and focus on cashflows. Hence, we continue to maintain our **ACCUMULATE** stance on the stock (*P/E-26.7x FY25E with EPS of ₹104.8*).

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View – ACCUMULATE

## FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
<b>Revenue</b>	<b>37,152</b>	<b>33,720</b>	<b>10.2</b>	<b>33,324</b>	<b>11.5</b>	<b>97,841</b>	<b>82,338</b>	<b>18.8</b>
Operating Exps	27,603	26,095	5.8	24,625	12.1	72,752	63,765	14.1
% of Sales	74.3	77.4	(309)	73.9	40	74.4	77.4	(309)
Gross Profit	9,548	7,625	25.2	8,699	9.8	25,089	18,573	35.1
% of Sales	25.7	22.6	309	26.1	(40)	25.6	22.6	309
Employee Cost	1,132.29	1,025	10.4	1,148	(1.4)	3,381	3,016	12.1
% of Sales	3.0	3.0	1	3.4	(40)	3.5	3.7	(21)
Other Expenses	3,378	2,983	13.3	3,275	3.2	9,282	7,669	21.0
% of Sales	9.1	8.8	25	9.8	(73)	9.5	9.3	17
<b>EBITDA</b>	<b>5,038</b>	<b>3,617</b>	<b>39.3</b>	<b>4,276</b>	<b>17.8</b>	<b>12,426</b>	<b>7,889</b>	<b>57.5</b>
<b>% EBITDA Margin</b>	<b>13.6</b>	<b>10.7</b>	<b>284</b>	<b>12.8</b>	<b>73</b>	<b>12.7</b>	<b>9.6</b>	<b>312</b>
Other Income	396.8	216	83.3	(22.2)	1,890.6	818	731	11.9
Depreciation	525	511	2.6	523	0.4	1,557	1,513	2.9
EBIT	4,911	3,322	47.8	3,732	31.6	11,687	7,107	64.4
Interest	93	78	18.5	139	(33.4)	316	227	39.3
PBT	4,818	3,244	48.5	3,593	34.1	11,371	6,880	65.3
Tax	1,202	763	57.5	880	36.6	2,804	1,659	68.9
JV/ Associates	(8)	3	(405.7)	(8)	0.1	(29)	(22)	32.5
Non-Controlling Interest	32	16	93.5	27	19.9	86	55	56.3
<b>Net Profit</b>	<b>3,576</b>	<b>3,145</b>	<b>13.7</b>	<b>2,678</b>	<b>33.6</b>	<b>8,452</b>	<b>5,864</b>	<b>44.1</b>
EPS (₹)	23.9	21.1	13.7	17.9	33.4	56.6	39.3	44.1
<b>Adjus.Net Profit</b>	<b>3,576</b>	<b>1,789</b>	<b>99.9</b>	<b>2,678</b>	<b>33.6</b>	<b>8,452</b>	<b>5,144</b>	<b>64.3</b>
Adjus.EPS (₹)	23.9	12.0	99.9	17.9	33.6	56.6	34.4	64.3

Source: Company, Way2Wealth

## SEGMENTAL PERFORMANCE

(₹ mn)

Revenue	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
<b>Wires &amp; Cables</b>	<b>33,418</b>	<b>29,988</b>	<b>11.4</b>	<b>29,517</b>	<b>13.2</b>	<b>86,992</b>	<b>72,538</b>	<b>19.9</b>
<b>FMEG</b>	<b>3,420</b>	<b>3,404</b>	<b>0.5</b>	<b>3,054</b>	<b>12.0</b>	<b>9,555</b>	<b>8,752</b>	<b>9.2</b>
Others (EPC)	1260	989	27.4	1,051	19.9	3,309	2,657	24.5
Inter-segment	(827)	(553)	49.4	(505)	63.9	(1,781)	(1,237)	44.0
<b>TOTAL</b>	<b>37,271</b>	<b>33,827</b>	<b>10.2</b>	<b>33,117</b>	<b>12.5</b>	<b>98,076</b>	<b>82,710</b>	<b>18.6</b>
<b>EBIT (₹ mn)</b>								
Wires & Cables	4,593	3,089	48.7	3,463	32.7	10,828	6,439	68.2
EBIT Margin (%)	13.7	10.3	344	11.7	201	12.4	8.9	357
FMEG	(24)	63	(138.2)	(27)	10.8	14	91	(85.0)
EBIT Margin (%)	(0.7)	1.8	(254)	(0.9)	18	0.1	1.0	(90)
Others (EPC)	152	126	20.3	159	(4.2)	435	360	20.9
EBIT Margin (%)	12.1	12.8	(71)	15.1	(304)	13.2	13.5	(39)
Inter-segment	(88)	(65)	34.6	(47)	85.4	(174)	(142)	22.3
<b>TOTAL</b>	<b>4,633</b>	<b>3,213</b>	<b>44.2</b>	<b>3,547</b>	<b>30.6</b>	<b>11,103</b>	<b>6,748</b>	<b>64.5</b>
<b>EBIT Margin (%)</b>	<b>12.4</b>	<b>9.5</b>	<b>293</b>	<b>10.7</b>	<b>172</b>	<b>11.3</b>	<b>8.2</b>	<b>316</b>

Source: Company, Way2Wealth

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Particulars	FY18	FY19	FY20	FY21	FY22	9MFY22	9MFY23	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>82,338</b>	<b>97,841</b>	<b>18.8</b>
<b>Wires and Cables</b>	62,423	69,295	75,192	75,911	107,938	72,538	86,992	19.9
% of Revenue	92.2	86.8	85.2	86.3	88.4	88.1	88.9	
<b>FMEG</b>	4,853	6,433	8,536	10,341	12,544	8,752	9,555	9.2
% of Revenue	7.2	8.1	9.7	11.8	10.3	10.6	9.8	
<b>EBITDA</b>	<b>7,289</b>	<b>9,528</b>	<b>11,350</b>	<b>11,111</b>	<b>12,652</b>	<b>7,889</b>	<b>12,426</b>	<b>57.5</b>
EBITDA Margin (%)	10.8	11.9	12.9	12.6	10.4	9.6	12.7	
<b>Net Profit</b>	<b>3,586</b>	<b>5,003</b>	<b>7,656</b>	<b>8,380</b>	<b>8,365</b>	<b>5,864</b>	<b>8,452</b>	<b>44.1</b>
EPS (₹)	24.1	33.6	51.4	56.2	56.0	39.3	56.6	

Source: Company, Way2Wealth

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>79,856</b>	<b>88,300</b>	<b>87,922</b>	<b>122,038</b>	<b>139,612</b>	<b>156,786</b>	<b>175,982</b>
% YoY Growth	18.0	10.6	(0.4)	38.8	14.4	12.3	12.2
<b>Wires and Cables</b>	69,295	75,192	75,911	107,938	124,063	132,549	149,481
% of Revenue	86.8	85.2	86.3	88.4	88.9	84.5	84.9
% YoY Growth	11.0	8.5	1.0	42.2	14.9	6.8	12.8
<b>FMEG</b>	6,433	8,536	10,341	12,544	13,881	21,661	24,061
% of Revenue	8.1	9.7	11.8	10.3	9.9	13.8	13.7
% YoY Growth	32.6	32.7	21.1	21.3	10.7	56.0	11.1
<b>EBITDA</b>	<b>9,528</b>	<b>11,350</b>	<b>11,111</b>	<b>12,652</b>	<b>17,718</b>	<b>19,812</b>	<b>22,171</b>
EBITDA Margin (%)	11.9	12.9	12.6	10.4	12.7	12.6	12.6
% YoY Growth	30.7	19.1	(2.1)	13.9	40.0	11.8	11.9
<b>Net Profit</b>	<b>5,003</b>	<b>7,656</b>	<b>8,380</b>	<b>8,365</b>	<b>11,684</b>	<b>13,596</b>	<b>15,656</b>
% YoY Growth	39.5	53.0	9.5	(0.2)	39.7	16.4	15.2
EPS (₹)	33.6	51.4	56.2	56.0	78.2	91.0	104.8
P/E (x)	83.4	54.5	49.8	50.0	35.8	30.8	26.7
EV/EBITDA (x)	470.4	551.0	33.8	32.8	22.5	20.0	17.3
P/BV (x)	13.9	10.9	8.8	7.5	6.4	5.4	4.6
RoE (%)	19.3	22.9	19.5	16.2	18.5	19.1	19.9
RoCE (%)	20.0	23.3	19.2	16.7	26.3	27.7	28.4
Debtor Days	67	60	59	59	57	56	56
Inventory Days	91	80	82	66	88	80	79
Creditors Days	69	56	56	56	60	59	58
Cash balances	3,176	2,813	5,313	4,071	6,021	7,311	9,984
FCF	8,658	(887)	9,981	1,993	7,981	9,374	11,801

Source: Company, Way2Wealth

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## Disclosure of Interest Statement Polycab India Ltd. as on 24 January 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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