

24th January 2024

CMP – ₹4,165.5/-

View – **ACCUMULATE**
Q3FY24 Result Highlights

- **Respectable Q3FY24 on the back of strong volume growth, institutional business growth ahead of distribution business, and demand momentum due to continued public and private capex** – Polycab reported Revenue/EBITDA/PAT growth of ~17%/13%/15.4% YoY to ₹43.4bn/₹5.7bn/₹4.13bn respectively led by strong performance in the wires and cables (W&C) division which grew ~17%/~3% YoY/QoQ on the back of strong volume growth, institutional business growth ahead of distribution business and demand momentum due to continued public and private capex. FMEG business declined 13% YoY in Q3, largely due to weakness in consumer demand, a high base effect in the fans segment and continuing price erosion in the lighting segment. Increased A&P spends and the absence of economies of scale resulted in significant segmental EBIT loss to ₹366mn (v/s a ₹24mn loss in Q3FY23). Overall EBITDA margin contracted by 44bps YoY and 132bps QoQ, largely due to increased promotional expenses and lower exports, which stood at 2.1% of revenue. EBITDA margin has expanded by 117 bps YoY in 9MFY24 to 13.9%, which can be attributed to a favourable product mix and strategic pricing revisions.
- The A&P spends expanded to 2.1% of revenue in Q3FY24 v/s 1% in Q2 on account of advertising during the Cricket World Cup and a brand revamp. Management reiterated that A&P spends will remain between 3-5% of B2C sales (~30% of overall sales) on an annual basis.
- **No new statement on I-T search.** The income tax (I-T) department recently carried out searches at various premises of Polycab. However, the company reiterated that it is yet to receive any official communication regarding the outcome of the searches and refrained from commenting further on the matter.
- **The Wires & Cables segment grew ~17% YoY in Q3FY24 on the back of strong, broad-based volume growth, with institutional business outpacing distribution business.** Management views sustained demand visibility in the short and medium-term due to the capex cycle and real estate growth. Domestic W&C volumes grew 20% YoY, with stronger growth in cables and single-digit growth in wires. The growth in wires has slowed in some states due to elections, along with the high base effect of last year which saw peak sales. The management stated that the utilisation for the quarter stood at 70-75% for wires and cables. This can go up to 95%, but Polycab intends to incur new capex as and when demand arises.
- **Revenue from international business grew 22% YoY to ₹2.7bn and contributed 6.2% to consolidated revenue for the quarter.** The company expects exports to be in line with the 10% contribution target by FY26 under Project Leap. In FY21, Polycab had set a target of achieving ₹200bn in revenue by FY26 under Project Leap, an implied CAGR of 18%. The company has retained this target for now and will revisit it after the current fiscal year.
- **FMEG business declined 13%/10.2% YoY/QoQ to ₹2.96bn, primarily because of sustained weakness in consumer demand.** Higher A&P spends and a lack of economies of scale led to a fall in bottomline. Revenue from fans slipped YoY due to a high base in Q3FY23 owing to stock liquidation activities prior to the change in energy rating norms. The company launched 29 new SKUs in the premium BLDC and exhaust fan range during the quarter and plans to launch 28 SKUs in Q4FY24. The **lighting** category

Important Statistics

| | |
|------------------------|-------------|
| Nifty | 21,267 |
| Sensex | 70,470 |
| MCAP (₹ bn) | 625.5 |
| 52-week H/L (₹) | 5,723/2,737 |
| NSE Code | POLYCAB |
| BSE Code | 542652 |
| Bloomberg Code | POLYCAB:IN |

Shareholding Pattern (%) Dec'23

| | |
|----------------------------|------|
| Promoter | 65.9 |
| DII | 8.1 |
| FII | 12.4 |
| Public & Others | 13.6 |

Financials

| | (₹ mn) | | |
|---------------------------|---------------|----------------|----------------|
| Particulars | FY21 | FY22 | FY23 |
| Revenue | 87,922 | 122,038 | 141,078 |
| <i>Wires & Cables</i> | <i>75,911</i> | <i>107,938</i> | <i>127,775</i> |
| <i>% of Revenue</i> | <i>86.3</i> | <i>88.4</i> | <i>90.6</i> |
| <i>FMEG</i> | <i>10,341</i> | <i>12,544</i> | <i>12,607</i> |
| <i>% of Revenue</i> | <i>11.6</i> | <i>10.3</i> | <i>8.9</i> |
| EBITDA | 11,111 | 12,652 | 18,521 |
| EBITDA Margin (%) | 12.6 | 10.4 | 13.1 |
| Net Profit | 8,380 | 8,365 | 12,700 |
| EPS (₹) | 56.2 | 60.8 | 84.8 |
| P/E (x) | 74.1 | 68.5 | 49.1 |
| EV/EBITDA (x) | 56.2 | 49.3 | 33.5 |
| P/BV (x) | 13.1 | 11.2 | 9.4 |
| RoE (%) | 19.5 | 16.2 | 19.0 |
| RoCE (%) | 19.2 | 18.8 | 24.2 |

| Particulars | FY24E | FY25E | FY26E |
|---------------------------|----------------|----------------|----------------|
| Revenue | 171,735 | 197,997 | 223,151 |
| <i>Wires & Cables</i> | <i>154,562</i> | <i>176,217</i> | <i>198,604</i> |
| <i>% of Revenue</i> | <i>90.0</i> | <i>89.0</i> | <i>89.0</i> |
| <i>FMEG</i> | <i>13,739</i> | <i>14,850</i> | <i>16,736</i> |
| <i>% of Revenue</i> | <i>8.0</i> | <i>7.5</i> | <i>7.5</i> |
| EBITDA | 24,826 | 27,782 | 31,114 |
| EBITDA Margin (%) | 14.5 | 14.0 | 13.9 |
| Net Profit | 16,724 | 18,991 | 22,674 |
| EPS (₹) | 111.6 | 126.7 | 151.3 |
| P/E (x) | 37.3 | 32.9 | 27.5 |
| EV/EBITDA (x) | 25.2 | 22.5 | 20.1 |
| P/BV (x) | 7.8 | 6.6 | 5.5 |
| RoE (%) | 23.2 | 21.9 | 21.1 |
| RoCE (%) | 24.3 | 21.3 | 20.6 |

Source: Company, Way2Wealth

Relative Performance

| Return (%) | 1 Yr | 3Yr | 5 Yr |
|-------------------|-------------|--------------|-------------|
| POLYCAB | 48.7 | 249.9 | NA |
| Nifty 50 | 17.4 | 49.4 | 96.0 |
| Sensex | 15.6 | 45.8 | 94.7 |

Jayakanth Kasthuri
jayakanthk@way2wealth.com

Ph:022-4019 2914


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 View – **ACCUMULATE**

continued to witness price erosion. Volume growth in the category was also subdued. **Switches and switchgears** product category fared well during the quarter. The company merged the FMEG and power business (wires, switches & switchgears) verticals and placed them under a unified business unit head.

- **The others which primarily consist of EPC business grew 96.4% YoY to ₹2,475mn with margin at 15.9%.** The management expects steady high-single-digit margins over the medium- to long-term.
- Polycab had a working capital cycle of 51 days in Q3, in line with its normalised target of 50-60 days. The cycle has improved YoY by 9 days largely due to improved payable days. Capex for the quarter stood at ₹2.8bn (₹6.4bn in 9MFY24). Management expects to incur ₹8bn-9bn for FY24, with a ₹6bn-7bn target for FY25.

View

Polycab India reported reasonable earnings for Q3FY24, considering the news regarding the I-T searches carried out from Dec'23. The company is driven by continued strength in domestic demand for cables, amid the government's infrastructure spending push. The outlook for the W&C business remains positive due to continued public and private capex. Further, Polycab has the highest market share and also compares well with peers in terms of financial parameters as it commands 16% share of the organised market while all its peers continue to have single-digit market share. We advise investors to be cautious till pending the outcome of the I-T search. **Hence, we maintain our ACCUMULATE stance on the stock (P/E – 27.5x FY26E with EPS of ₹151.3).**

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 View – **ACCUMULATE**
FINANCIAL PERFORMANCE

(₹ mn)

| Particulars | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) | 9MFY24 | 9MFY23 | YoY (%) |
|--------------------------|---------------|---------------|-------------|---------------|--------------|----------------|---------------|-------------|
| Revenue | 43,405 | 37,152 | 16.8 | 42,177 | 2.9 | 124,475 | 97,841 | 27.2 |
| Operating Exps | 31,692 | 27,603 | 14.8 | 30,739 | 3.1 | 91,011 | 72,752 | 25.1 |
| % of Sales | 73.0 | 74.3 | (128) | 72.9 | 13 | 73.1 | 74.4 | (124) |
| Gross Profit | 11,713 | 9,548 | 22.7 | 11,438 | 2.4 | 33,464 | 25,089 | 33.4 |
| % of Sales | 27.0 | 25.7 | 128 | 27.1 | (13) | 26.9 | 25.6 | 124 |
| Employee Cost | 1,494 | 1,132 | 31.9 | 1,557 | (4.1) | 4,400 | 3,381 | 30.1 |
| % of Sales | 3.4 | 3.0 | 39 | 3.7 | (25) | 3.5 | 3.5 | 8 |
| Other Expenses | 4,524 | 3,378 | 33.9 | 3,792 | 19.3 | 11,795 | 9,282 | 27.1 |
| % of Sales | 10.4 | 9.1 | 133 | 9.0 | 143 | 9.5 | 9.5 | (1) |
| EBITDA | 5,695 | 5,038 | 13.0 | 6,089 | (6.5) | 17,270 | 12,426 | 39.0 |
| % EBITDA Margin | 13.1 | 13.6 | (44) | 14.4 | (132) | 13.9 | 12.7 | 117 |
| Other Income | 709.9 | 396.8 | (78.9) | 353.2 | (101.0) | 1,703 | 818 | (108.2) |
| Depreciation | 619 | 525 | 18.0 | 603 | 2.6 | 1,793 | 1,557 | 15.2 |
| EBIT | 5,786 | 4,911 | 17.8 | 5,839 | (0.9) | 17,180 | 11,687 | 47.0 |
| Interest | 322 | 93 | 247.9 | 268 | 20.3 | 839 | 316 | 165.7 |
| PBT | 5,464 | 4,818 | 13.4 | 5,572 | (1.9) | 16,340 | 11,371 | 43.7 |
| Tax | 1,299 | 1,202 | 8.1 | 1,274 | 2.0 | 3,846 | 2,798 | 37.5 |
| JV/ Associates | - | (8) | (100.0) | - | - | - | (29) | (100.0) |
| Non-Controlling Interest | 37 | 32 | 14.9 | 42 | (12.8) | 114 | 86 | 32.0 |
| Net Profit | 4,129 | 3,576 | 15.4 | 4,256 | (3.0) | 12,380 | 8,457 | 46.4 |
| EPS (₹) | 27.5 | 23.9 | 15.1 | 28.4 | (3.1) | 82.4 | 56.5 | 45.9 |

Source: Company, Way2Wealth

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View – ACCUMULATE

SEGMENTAL PERFORMANCE

| | (₹ mn) | | | | | | | |
|---------------------------|---------------|---------------|----------------|---------------|----------------|----------------|---------------|------------------|
| Revenue | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) | 9MFY24 | 9MFY23 | YoY (%) |
| Wires & Cables | 39,041 | 33,418 | 16.8 | 38,047 | 2.6 | 112,426 | 86,992 | 29.2 |
| FMEG | 2,962 | 3,420 | (13.4) | 3,300 | (10.2) | 9,407 | 9,555 | (1.6) |
| Others (EPC) | 2,475 | 1260 | 96.4 | 2,015 | 22.8 | 6,018 | 3,309 | 81.9 |
| Inter-segment | (701) | (827) | (15.2) | (1,074) | (34.7) | (2,556) | (1,781) | 43.5 |
| TOTAL | 43,777 | 37,271 | 17.5 | 42,288 | 3.5 | 125,295 | 98,076 | 27.8 |
| EBIT (₹mn) | | | | | | | | |
| Wires & Cables | 5,474 | 4,593 | 19.2 | 5,547 | (1.3) | 16,244 | 10,828 | 50.0 |
| EBIT Margin (%) | 14.0 | 13.7 | 28 | 14.6 | (56) | 14.4 | 12.4 | 200 |
| FMEG | (366) | (24) | 1,429.5 | (60) | 508.3 | (483) | 14 | (3,632.5) |
| EBIT Margin (%) | (12.4) | (0.7) | (1,166) | (1.8) | (1,053) | (5.1) | 0.1 | (528) |
| Others (EPC) | 394 | 152 | 160 | 225 | 75.3 | 802 | 435 | 84 |
| EBIT Margin (%) | 15.9 | 12.1 | 388 | 11.2 | 477 | 13.3 | 13.2 | 18 |
| Inter-segment | (54) | (88) | (38.5) | (505) | (89.3) | (267) | (174) | 53.5 |
| TOTAL | 5,448 | 4,633 | 17.6 | 5,207 | 4.6 | 16,296 | 11,103 | 46.8 |
| EBIT Margin (%) | 12.4 | 12.4 | 1 | 12.3 | 13 | 13.0 | 11.3 | 169 |

Source: Company, Way2Wealth

| | (₹ mn) | | | | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|----------------|--------------|
| Particulars | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | 9MFY23 | 9MFY24 | YoY(%) |
| Revenue | 67,703 | 79,856 | 88,300 | 87,922 | 122,038 | 141,078 | 97,841 | 124,475 | 27.2 |
| Wires and Cables | 62,423 | 69,295 | 75,192 | 75,911 | 107,938 | 127,775 | 86,992 | 112,426 | 29.2 |
| % of Revenue | 92.2 | 86.8 | 85.2 | 86.3 | 88.4 | 90.6 | 88.9 | 90.3 | |
| FMEG | 4,853 | 6,433 | 8,536 | 10,341 | 12,544 | 12,607 | 9,555 | 9,407 | (1.6) |
| % of Revenue | 7.2 | 8.1 | 9.7 | 11.8 | 10.3 | 8.9 | 9.8 | 7.6 | |
| EBITDA | 7,289 | 9,528 | 11,350 | 11,111 | 12,652 | 18,521 | 12,426 | 17,270 | 39.0 |
| EBITDA Margin (%) | 10.8 | 11.9 | 12.9 | 12.6 | 10.4 | 13.1 | 12.7 | 13.9 | |
| Net Profit | 3,586 | 5,003 | 7,656 | 8,380 | 9,086 | 12,700 | 8,457 | 12,380 | 46.4 |
| EPS (₹) | 24.1 | 33.6 | 51.4 | 56.2 | 60.8 | 84.8 | 56.5 | 82.7 | |

Source: Company, Way2Wealth

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View – ACCUMULATE

FINANCIALS & VALUATIONS

(₹ mn)

| Particulars | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 79,856 | 88,300 | 87,922 | 122,038 | 141,078 | 171,735 | 197,997 | 223,151 |
| % YoY Growth | 18.0 | 10.6 | (0.4) | 38.8 | 15.6 | 21.7 | 15.3 | 12.7 |
| Wires and Cables | 69,295 | 75,192 | 75,911 | 107,938 | 127,775 | 154,562 | 176,217 | 198,604 |
| % of Revenue | 86.8 | 85.2 | 86.3 | 88.4 | 90.6 | 90.0 | 89.0 | 89.0 |
| % YoY Growth | 11.0 | 8.5 | 1.0 | 42.2 | 18.4 | 21.0 | 14.0 | 12.7 |
| FMEG | 6,433 | 8,536 | 10,341 | 12,544 | 12,607 | 13,739 | 14,850 | 16,736 |
| % of Revenue | 8.1 | 9.7 | 11.8 | 10.3 | 8.9 | 8.0 | 7.5 | 7.5 |
| % YoY Growth | 32.6 | 32.7 | 21.1 | 21.3 | 0.5 | 9.0 | 8.1 | 12.7 |
| EBITDA | 9,528 | 11,350 | 11,111 | 12,652 | 18,521 | 24,826 | 27,782 | 31,114 |
| EBITDA Margin (%) | 11.9 | 12.9 | 12.6 | 10.4 | 13.1 | 14.5 | 14.0 | 13.9 |
| % YoY Growth | 30.7 | 19.1 | (2.1) | 13.9 | 46.4 | 34.0 | 11.9 | 12.0 |
| Net Profit | 5,003 | 7,656 | 8,380 | 8,365 | 12,700 | 16,724 | 18,991 | 22,674 |
| % YoY Growth | 39.5 | 53.0 | 9.5 | (0.2) | 51.8 | 31.7 | 13.6 | 19.4 |
| EPS (₹) | 33.6 | 51.4 | 56.2 | 60.8 | 84.8 | 111.6 | 126.7 | 151.3 |
| P/E (x) | 124.0 | 81.0 | 74.1 | 68.5 | 49.1 | 37.3 | 32.9 | 27.5 |
| EV/EBITDA (x) | 65.7 | 55.1 | 56.2 | 49.3 | 33.5 | 25.2 | 22.5 | 20.1 |
| P/BV (x) | 20.6 | 16.1 | 13.1 | 11.2 | 9.4 | 7.8 | 6.6 | 5.5 |
| RoE (%) | 19.3 | 22.9 | 19.5 | 16.2 | 19.0 | 23.2 | 21.9 | 21.1 |
| RoCE (%) | 20.0 | 23.3 | 19.2 | 18.8 | 24.2 | 24.3 | 21.3 | 20.6 |
| Debtor Days | 67 | 60 | 59 | 41 | 32 | 36 | 35 | 34 |
| Inventory Days | 91 | 80 | 82 | 66 | 76 | 71 | 73 | 71 |
| Creditors Days | 69 | 56 | 56 | 49 | 63 | 60 | 61 | 60 |
| Cash balances | 3,176 | 2,813 | 5,313 | 4,071 | 6,952 | 15,876 | 22,681 | 37,601 |
| FCF | 8,658 | (887) | 9,981 | (149) | 9,501 | 11,344 | 11,887 | 17,058 |

Source: Company, Way2Wealth

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View – **ACCUMULATE**

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Disclosure of Interest Statement Polycab India Ltd. as on 24 January 2024

| | |
|--|--------------------|
| 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 |
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