

25th January 2022

CMP – ₹2,491/-

View – **POSITIVE**
Quarterly Result Highlights

- **Health demand witnessed in B2B and institutional business on private capex improvement** – Polycab witnessed topline growth of ~23% YoY and 12.2% QoQ to ₹33.7bn as there was strong demand recovery across segment. There was some weakness in B2C in later half of Q3FY22 while B2B demand was robust on improved traction from end-user industries. The management expects Q4FY22 to see demand pickup led by private capex and infra. EBDITA margins expanded by 98 bps sequentially to 10.7% but contracted by 200 bps on YoY basis to 10.7% partially offset by higher-than-expected other expenses. Margins continued to be under pressure due to input cost inflation across majority of the raw materials and higher ad spends which the company overcame through calibrated price hikes. The company strategically divested its 100% stake in Ryker plant for a consideration of ₹1,778.9mn to Hindalco, however, it made sure that there will be no impact on the high quality copper availability. Expanded dealer network to +4,100 with presence across 165K+ retail touch points.
- The **Cables & Wires (C&W)** business witnessed a sequential and YoY growth of ~25% and 14.1% respectively generating revenue of ₹29.98bn. Most of the growth has been value driven while volume growth was low-to-mid single digit levels. Within products, HDC and LDC witnessed highest volume growth. The institutional business bounced back strongly recording around 150% growth led by good uptick in private investments across industries. The domestic distribution business continued to grow healthily with a broad based demand growth. Cables grew at a much faster pace in this quarter than the wires led by volatility in the copper prices and fear of lockdown in the month of Dec'21. The exports (8% of C&W revenues) contributed around 8.1% this quarter which saw a decline due to a large order inflow in the base year. However, excluding that on a normalized basis, the exports grew by ~24% yoy witnessing a strong traction with higher repeat order inflow led by Africa, Asia and Australia. The management expects over the next 3-5 yrs, exports to contribute ~10% of C&W revenue. W&Cs EBIT margin saw a sequential improvement of 162 bps led by price hikes and positive operating leverage, however, it is still lower than Q3FY21 margins of ~12.5%. The company is confident of achieving the higher margin band of 13% in the near future with calibrated price hikes and better product mix. Demand environment is robust with increasing private capex, booming real estate sector and government infrastructure spends.
- **FMEG segment** – The FMEG business started the quarter with a strong momentum, however, with the onset of newer variant in the latter half of the quarter the sentiments were impacted. The business grew by 11.4% YoY to ₹3.4bn but sequentially it remained flat as the demand for their major product category of Fans remains subdued. The other products categories such as lights, pumps and conduit pipes business continued healthy growth momentum. Switchgears and Solar was higher by about 1.5x on last year base. Premiumisation trend witnessed in fans and lighting through launch of several value added products – management expects increase in contribution from Hohm and SIL by 2HFY23. With Project Leap, the company is on path towards distribution expansion, portfolio optimization, brand architecture and augmenting influencer management program. EBIT margins for this quarter were at 1.8% as compared to 5% in Q2FY22 and 5.9% in Q3FY21. The margins were lower this quarter mainly due to higher A&P spends to increase the product reach. Management has guided structural margin improvement over next 3-5 years driven by product mix improvement, calibrated pricing actions and improving utilization levels. e.g. its existing facility manufacturing fans is running at full utilization levels. Company is in the process of setting up another facility by Q1FY23.

Important Statistics

MCAP (₹bn)	371.97
52-week H/L (₹)	2,771/1,146
NSE Code	POLYCAB
BSE Code	542652

Financials

	(₹mn)			
Particulars	FY19	FY20	FY21	9MFY22
Revenue	79,856	88,300	89,265	82,388
<i>Wires and Cables</i>	69,295	75,898	76,035	72,538
% of Revenue	86.8	85.2	85.2	88.1
<i>FMEG</i>	6,433	8,536	10,341	8,752
% of Revenue	8.1	9.7	11.6	10.6
EBITDA	9,528	11,350	11,670	7,889
<i>EBITDA Margin (%)</i>	11.9	12.9	12.9	9.6
Net Profit	5,003	7,590	8,820	5,864
EPS (₹)	33.6	50.9	59.2	39.3
P/E (x)	74.1	48.5	42.1	
EV/EBITDA (x)	58.4	68.4	31.1	
P/BV (x)	12.3	9.7	7.8	
RoE (%)	19.3	22.9	20.2	
RoCE (%)	20.0	23.3	20.7	

Source: Company, Way2Wealth

Shareholding pattern (%)	Dec'21
Promoter	68.4
DII	8.7
FII	6.9
Public & Others	16.0

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View – **POSITIVE**

- **Focus on Project Leap** – Polycab has been focused on achieving all the objectives under this project with an ultimate aim to higher topline (FY26-+₹200bn) and strong bottomline. In consultation with Boston Consulting Group, the company has taken certain strategic decisions and hirings of reputed key people to pave the way for this journey. Key people have been hired from top managements of companies such as Tata, Panasonic, Havells and Crompton to spearhead the Project Leap. Management has made its priority to use all its resources towards achieving the targets of this project and we believe that the company can achieve that with continued focus. Core working capital was 52 days same as in Q2FY22 with inventory/debtor/creditor days at 97/39/84 days compared to 93/37/77 days in Q2FY22. 9MFY22 CFO generation was negative ₹ 1.9 bn compared to ₹15.5 bn in 9MFY21 largely due to working capital release. 9MFY22 capex spend at ₹ 2.4 bn – in line with FY22 capex guidance of ~₹ 3 bn. Net cash position of ₹ 6.7 bn as of 9MFY22 end compared to ₹ 13.4 bn last year.
- **Business Outlook** – The management expects Q4FY22 to register healthy sequential growth on improvement in demand from key end user industries backed by government spends on infra, better traction pick-up in private capex and real estate upcycle even as Q3FY22 was a mixed bag as B2C products demand was encouraging during festive period but Omicron scare added some headwind towards improving B2C sentiments while healthy demand was witnessed in B2B and institutional business on better traction in private capex. Polycab has embarked on a 5-year transformational plan – “**Project Leap**” – under which it targets ₹ 200 bn+ sales with strong margin improvement (FMEG margin to be +12%) by FY26.

View

Polycab is likely to be in leadership position in C&W with scope for further consolidation aided by an extensive product suite, strong brand and wide distribution reach, commendable scale-up of FMEG business with considerable growth headroom and strong earnings growth, return ratios and FCF profile (comparable to Havells). It has been in a journey over the past few years with multiple projects to boost the topline and improve efficiency across the product range, supply chain and operations. The journey is being carried forward with Project Leap to achieve market leadership across segments both in the domestic and international geographies. Q3FY22 was another consecutive quarter with record high topline mainly led by a broad based demand recovery across sectors. Institutional business which suffered heavily during the last few quarters witnessed a strong bounce back while the growth momentum under the distribution business was maintained. The management expects to end the year with a margin in range of 9-11% as compared to 13%. Inhouse manufacturing, backward integration and single-minded focus on its transformational programs give Polycab an edge in its go to market strategy, Even though overall FY22 inflation impact should impact margins, FY23 provides big potential for the business to grow as the new fan manufacturing plant will get commissioned in Q1FY23 resulting in higher growth. Hence, we continue to maintain our **POSITIVE** stance on the stock (**P/E-23.3x FY24E with EPS of ₹107**), as in the medium to long term, its product categories (current and planned), strong business model, superior reach, brand recall, balance sheet and a shrinking unorganised market offer investors comfort especially in a competitive economic environment to deliver strong performance.

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Financial Performance

(₹mn)								
Particulars	Q3FY22	Q3FY21	YoY (%)	Q2FY21	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	33,720	27,463	22.8	30,066	12.2	82,338	58,495	40.8
Operating Exps	26,095	20,880	25.0	23,474	11.2	63,765	43,315	47.2
% of Sales	77.4	76.0	136	78.1	(69)	77.4	74.0	339
Gross Profit	7,625	6,584	15.8	6,592	15.7	18,573	15,180	22.4
% of Sales	22.6	24.0	(136)	21.9	69	22.6	26.0	(339)
Employee Cost	1,025	881	16.4	1,052	(2.5)	3,016	2,561.3	17.8
% of Sales	3.0	3.2	(17)	3.5	(46)	3.7	4.4	(72)
Other Expenses	2,983	2,204	35.3	2,611	14.2	7,669	5,548	38.2
% of Sales	8.8	8.0	82	8.7	16	9.3	9.5	(17)
EBITDA	3,617	3,499	3.4	2,930	23.5	7,889	7,071	11.6
% EBITDA Margin	10.7	12.7	(201)	9.7	98	9.6	12.1	(251)
Other Income	216	325	(33.4)	275	(21.2)	731	961	(24.0)
Depreciation	511	450	13.7	509	0.5	1,513	1,301	16.3
EBIT	3,322	3,375	(1.5)	2,696	23.2	7,107	6,731	5.6
Interest	78	65	19.6	51	53.5	227	295	(23.1)
PBT	3,244	3,309	(2.0)	2,645	22.7	6,880	6,437	6.9
Tax	763	864	(11.7)	664	15.0	1,659	728	128.0
JV/ Associates	3	5	(46.3)	(3)	(186.3)	(22)	(1)	1,565.6
Non-Controlling Interest	16	11	47.7	26	(36.7)	55	20.7	166.9
Net Profit	3,145	2,625	19.8	1,979	58.9	5,864	6,007	(2.4)
EPS (₹)	21.1	17.6	19.8	13.3	58.9	39.3	40.2	(2.4)

Source: Company, Way2Wealth

Segmental Performance

(₹mn)								
Revenue	Q3FY22	Q3FY21	YoY (%)	Q2FY21	QoQ (%)	9MFY22	9MFY21	YoY (%)
Wires & Cables	29,988	24,073	24.6	26,281	14.1	72,538	50,593	43.4
FMEG	3,404	3,055	11.4	3,429	(0.8)	8,752	6,873	27.3
Others	989	795	24.5	950	4.1	2,657	2,038	30.4
Inter-segment	(553)	(230)	140.2	(436)	27.0	(1,237)	(454)	172.6
TOTAL	33,827	27,692	22.2	30,225	11.9	82,710	59,050	40.1
EBIT (₹mn)								
Wires & Cables	10.3	12.5	(223)	8.7	162	8.9	11.4	(251)
EBIT Margin (%)	63	182	(65.5)	172	63.5	91	322	(71.6)
FMEG	1.8	5.9	(410)	5.0	(317)	1.0	4.7	(364)
EBIT Margin (%)	29,988	24,073	24.6	26,281	14.1	72,538	50,593	43.4
Others	126	97.82	29.1	157	(19.8)	360	270	33.5
EBIT Margin (%)	12.8	12.3	45	16.6	(381)	13.5	13.2	31
Inter-segment	(65)	(17)	277.4	(32)	101.5	(142)	(30)	378.8
TOTAL	3,213	3,278	(2.0)	2,580	24.5	6,748	6,325	6.7
EBIT Margin (%)	9.5	11.8		8.5		8.2	10.7	

Source: Company, Way2Wealth

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Particulars	FY18	FY19	FY20	FY21	9MFY22	9MFY21	YoY (%)
Revenue	67,703	79,856	88,300	89,265	82,338	58,495	40.8
Wires and Cables	62,423	69,295	75,192	76,035	72,538	50,593	43.4
% of Revenue	92.2	86.8	85.2	85.2	88.1	86.5	
FMEG	4,853	6,433	8,536	10,341	8,752	6,873	27.3
% of Revenue	7.2	8.1	9.7	11.6	10.6	11.7	
EBITDA	7,289	9,528	11,350	11,670	7,889	7,071	11.6
EBITDA Margin (%)	10.8	11.9	12.9	13.1	9.6	12.1	
Net Profit	3,586	5,003	7,590	8,820	5,864	6,007	(2.4)
EPS (₹)	24.1	33.6	50.9	59.2	39.3	40.2	

Source: Company, Way2Wealth

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	67,703	79,856	88,300	89,265	119,466	138,545	159,339
% YoY Growth	10.6	18.0	10.6	1.1	33.8	16.0	15.0
Wires and Cables	62,423	69,295	75,192	76,035	103,186	118,863	134,788
% of Revenue	92.2	86.8	85.2	85.2	86.4	85.8	84.6
% YoY Growth	11.3	11.0	8.5	1.1	35.7	15.2	13.4
FMEG	4,853	6,433	8,536	10,341	11,895	16,876	21,044
% of Revenue	7.2	8.1	9.7	11.6	10.0	12.2	13.2
% YoY Growth	43.4	32.6	32.7	21.2	15.0	41.9	24.7
EBITDA	7,289	9,528	11,350	11,670	12,178	15,548	20,118
EBITDA Margin (%)	10.8	11.9	12.9	13.1	10.2	11.2	12.6
% YoY Growth	51.9	30.7	19.1	2.8	4.4	27.7	29.4
Net Profit	3,586	5,003	7,656	8,820	8,897	11,566	15,964
% YoY Growth	54.2	39.5	53.0	15.2	0.9	30.0	38.0
EPS (₹)	24.1	33.6	51.4	59.2	59.7	77.6	107.1
P/E (x)	103.4	74.1	48.5	42.1	41.7	32.1	23.3
EV/EBITDA (x)	7.1	58.4	68.4	31.1	30.2	21.7	16.4
P/BV (x)	15.0	12.3	9.7	7.8	6.6	5.6	4.5
RoE (%)	16.5	19.3	22.9	20.2	16.5	20.1	21.7
RoCE (%)	15.0	20.0	23.3	20.7	21.3	25.8	27.2
Inventory Days	94	91	80	81	86	85	85
Debtor Days	69	67	66	64	65	64	64
Creditors Days	68	69	56	55	55	59	55

Source: Company, Way2Wealth

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Disclosure of Interest Statement Polycab India Ltd. as on 25 January 2022

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
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