

27th October 2021

CMP – ₹2,298.3/-

View – **POSITIVE**
Quarterly Result Highlights

- **Broad based topline growth with demand recovery; Cost inflation impacted margins** – Polycab witnessed broad based growth across segments and markets with revenue growth of 48% YoY ending the first half year with a 62% YoY growth to ₹31.3bn. This was on the back of strong demand recovery across product categories. Margins were affected in this quarter due to continued raw material price inflation and higher logistical costs offset by favorable operating leverage. Inflation in raw materials was in mid-single digits whereas blended price hike was low single digits. Gross margin contracted 690bps YoY at 21.5%. EBITDA margin was at 9.7% down by 514bps YoY leading to EBITDA at ₹3bn v/s ₹3.1bn last year. The **Wires & Cables** business witnessed a sequential and YoY growth of ~61% and ~44% respectively generating revenue of ₹26.28bn. This was more of a value growth for the business rather than volume led by rising prices. The wires & cables business earned EBIT margins of around 8.8% as compared to 13.9% in Q2FY21 and 6.6% in Q1FY22. Wires & cables both witnessed a uniform growth; however, cables continued to witness higher competitive intensity due to slightly suboptimal demand environment. While the domestic distribution driven business sustained its healthy growth momentum, the Institutional business continues to remain subdued. Favorable reforms focused on higher investments in infra and construction projects will aid demand over the near to medium term. Export contribution further increased to 8% from 6% of the total revenues sequentially led by 12% YoY growth in Q2FY22.
- **FMEG segment** – The FMEG business recovered this quarter with improvement in the demand scenario. The segments revenue grew by 40.6% YoY/78.7% QoQ to ₹3.43bn. The growth was more balanced with both value and volume growth. EBIT margin at 1248bps improved QoQ on account of improved operating leverage, pricing actions and premiumisation from a loss of ₹143mn in last quarter to profit of ₹172mn. However, on YoY basis the margins contracted to 5% from 7.5% mainly led by rise in A&P spends and input cost inflation. Raw Material price increases in the FMEG segment have completely been passed on; new capacity of fans will be operational in current year, will help company become 3rd largest player. Seasonality factor has affected the performance of Fans business while Lights, Switches, Conduit Pipes and Pumps business posted healthy growth. Other businesses including Switchgears, Solar and Water heaters were about 2x on last year's base. Polycab saw good market share gains across category, will focus on aggressive market share gain as opposed to margin improvement. As per the management In W&C, channel financing was ~60-70% whereas in FMEG channel financing is ~35%, which will be 50% by the end of FY22. Secondary sales tracking has improved to 60% in B2B segment and 40% in B2C segment
- **Business Outlook** – Secondary sales tracking has improved to 60% in B2B segment and 40% in B2C segment. The acquisition of Silvan innovation labs and a growing e-commerce channel will help the company improve its premiumisation in B2C businesses. Management guided for EBITDA margins at the lower end of 11-13% in 2HFY22 due to RM inflation. It expects 10-12% EBIT margins in FMEG over next four years.

Important Statistics

MCAP (₹bn)	343.16
52-week H/L (₹)	2,647/900
NSE Code	POLYCAB
BSE Code	542652

Financials

	(₹ mn)			
Particulars	FY19	FY20	FY21	1HFY22
Revenue	79,856	88,300	89,265	50,093
<i>Wires and Cables</i>	69,295	75,898	76,035	42,250
<i>% of Revenue</i>	86.8	85.2	85.2	84.9
<i>FMEG</i>	6,433	8,536	10,341	5,348
<i>% of Revenue</i>	8.1	9.7	11.6	10.7
EBITDA	9,528	11,350	11,670	4,422
<i>EBITDA Margin (%)</i>	11.9	12.9	12.9	8.8
Net Profit	5,003	7,590	8,820	2,719
EPS (₹)	33.6	50.9	59.2	18.2
P/E (x)	68.4	44.7	38.9	
EV/EBITDA (x)	23.1	23.1	27.7	
P/BV (x)	11.4	8.9	7.2	
RoE (%)	19.3	22.9	20.2	
RoCE (%)	20.0	23.3	20.7	

Source: Company, Way2Wealth

Shareholding pattern (%)	Sep'21
Promoter	68.4
DII	8.6
FII	7.0
Public & Others	16.0


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View

Polycab has grown its revenues both sequentially and year on year with all the businesses contributing positively. The wires & cables business is growing constantly on the back of strong distribution network and increase in B2C revenues. The FMEG business is also scaling up quickly with expanding distribution reach underpinned by strategic interventions, and improving demand environment. Input cost pressure has affected the company's margins this quarter which will result in full year lower margin for the company. The management expects to end the year with a margin in range of 10-11% as compared to 13%. Even though Polycab's main priority for this year will be on gaining more market share, the company will maintain a fine balance between growth and margins. The FMEG margins are expected to expand throughout the year with increasing focus on premiumisation. The new Fans manufacturing plant will get commissioned in current year resulting in higher growth. We expect the second half of the current year to witness higher growth in both topline and bottomline. Hence, we continue to maintain our **POSITIVE** stance on the stock (**P/E32x FY23E EPS of ₹78**), 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 even though in the short term, raw material is likely to depress the margins.

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Financial Performance

(₹ mn)								
Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue	31,288	21,137	48.0	18,805	66.4	50,093	30,903	62.1
Operating Exps	24,554	15,128	62.3	14,399	70.5	38,953	22,225	75.3
% of Sales	78.5	71.6		76.6		77.8	71.9	
Gross Profit	6,735	6,009	12.1	4,406	52.8	11,141	8,677	28.4
% of Sales	21.5	28.4		23.4		22.2	28.1	
Employee Cost	1,071	897	19.5	959	11.8	2,030	1,710	18.7
% of Sales	3.4	4.2		5.1		4.1	5.5	
Other Expenses	2,635	1,987	32.6	2,054	28.3	4,689	3,268	43.5
% of Sales	8.4	9.4		10.9		9.4	10.6	
EBITDA	3,028	3,125	(3.1)	1,393	117.3	4,422	3,700	19.5
% EBITDA Margin	9.7	14.8	(511)	7.4	227	8.8	12.0	(314)
Other Income	264	327	(19.3)	253	4.4	517	664	(22.1)
Depreciation	538	456	17.9	521	3.2	1059	899	17.8
EBIT	2,755	2,996	(8.1)	1,125	144.9	3,880	3,464	12.0
Interest	88	114	(22.6)	122	(27.4)	210	277	(24.2)
PBT	2,666	2,882	(7.5)	1,003	165.7	3,670	3,285	11.7
Tax	658	664	(0.9)	229	186.9	887	(120)	836.6
JV/ Associates	(3)	-3	2.0	(21)	(85.7)	(24)	(14)	70.9
Non-Controlling Interest	26	10	159.5	13	103.6	39	9.6	306.0
Net Profit	1,979	2,205	(10.2)	740	167.5	2,719	3,382	(19.6)
EPS (₹)	13.3	14.8	(10.4)	5.0	167.0	18.2	22.7	(19.7)

Source: Company, Way2Wealth

Segmental Performance

(₹ mn)								
Revenue	Q2FY22	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	1HFY22	1HFY21	YoY (%)
Wires & Cables	26,281	18,268	43.9	16,269	61.5	42,550	26,521	60.4
FMEG	3,429	2,440	40.6	1,919	78.7	5,348	3,818	40.1
Copper	2,262	1,303	73.5	667	239.3	2,929	1,453	101.5
Others	950	709	34.0	718	32.4	1,668	1,243	34.2
Inter-segment	(1,477)	(1,342)	10.1	(640)	130.8	(2,117)	(1,766)	19.9
TOTAL	31,445	21,379	47.1	18,933	66.1	50,378	31,268	61.1
EBIT (₹mn)								
Wires & Cables	2,305	2,541	(9.3)	1,073	114.7	3,379	2,785	21.3
EBIT Margin (%)	8.8	13.9	(514)	6.6	217	7.9	10.5	(256)
FMEG	172	196	(12.3)	(143)	220.0	29	141	(79.6)
EBIT Margin (%)	5.0	8.0	(303)	(7.5)	1,248	0.5	3.7	(315)
Copper	68	123	(44.8)	44	53.5	112	121	(7.0)
EBIT Margin (%)	3.0	9.4	(644)	6.6	(363)	3.8	8.3	(447)
Others	157	100.15	57.2	76	106.4	234	172	36.0
EBIT Margin (%)	16.6	14.1	245	10.6	594	14.0	13.8	19
Inter-segment	(55)	(50)	10.0	(51)	6.7	(106)	(52)	
TOTAL	2,648	2,911	(9.0)	1,000	164.9	3,647	3,166	15.2
EBIT Margin (%)	8.4	13.6		5.3		7.2	10.1	

Source: Company, Way2Wealth

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							(₹ mn)
Particulars	FY18	FY19	FY20	FY21	1HFY22	1HFY21	YoY (%)
Revenue	67,703	79,856	88,300	89,265	50,093	30,903	62.1
Wires and Cables	62,423	69,295	75,192	76,035	42,550	26,521	60.4
% of Revenue	92.2	86.8	85.2	85.2	84.9	85.8	
FMEG	4,853	6,433	8,536	10,341	5,348	3,818	40.1
% of Revenue	7.2	8.1	9.7	11.6	10.7	12.4	
EBITDA	7,289	9,528	11,350	11,670	4,422	3,700	19.5
EBITDA Margin (%)	10.8	11.9	12.9	13.1	8.8	12.0	
Net Profit	3,586	5,003	7,590	8,820	2,719	3,382	(19.6)
EPS (₹)	24.1	33.6	50.9	59.2	18.2	22.7	

Source: Company, Way2Wealth

							(₹ mn)
Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	
Revenue	67,703	79,856	88,300	89,265	117,321	132,365	
% YoY Growth	10.6	18.0	10.6	1.1	31.4	12.8	
Wires and Cables	62,423	69,295	75,192	76,035	97,963	112,113	
% of Revenue	92.2	86.8	85.2	85.2	83.5	84.7	
% YoY Growth	11.3	11.0	8.5	1.1	28.8	14.4	
FMEG	4,853	6,433	8,536	10,341	15,369	20,119	
% of Revenue	7.2	8.1	9.7	11.6	13.1	15.2	
% YoY Growth	43.4	32.6	32.7	21.2	48.6	30.9	
EBITDA	7,289	9,528	11,350	11,670	13,378	16,548	
EBITDA Margin (%)	10.8	11.9	12.9	13.1	11.4	12.5	
% YoY Growth	51.9	30.7	19.1	2.8	14.6	23.7	
Net Profit	3,586	5,003	7,656	8,820	8,965	11,657	
% YoY Growth	54.2	39.5	53.0	15.2	1.6	30.0	
EPS (₹)	24.1	33.6	51.4	59.2	60.1	78.2	
P/E (x)	95.4	68.4	44.7	38.9	38.2	29.4	
EV/EBITDA (x)	2.7	23.1	23.1	27.7	23.1	18.2	
P/BV (x)	13.8	11.4	8.9	7.2	6.3	5.4	
RoE (%)	16.5	19.3	22.9	20.2	21.1	23.2	
RoCE (%)	15.0	20.0	23.3	20.7	21.7	24.6	
Inventory Days	94	91	80	81	91	88	
Debtor Days	69	67	66	64	65	64	
Creditors Days	68	69	56	55	55	59	

Source: Company, Way2Wealth

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Disclosure of Interest Statement Polycab India Ltd. as on 27 October 2021

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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