

Polycab India

22 January, 2023

Reuters: POLC.BO; Bloomberg: POLYCB IN

Strong quarter aided by margin expansion; Enters High-Voltage Cables

Despite a high base, softening commodity prices and a burgeoning inflation, Polycab India reported its highest-ever third quarter topline of Rs37.2bn for 3QFY23, up 10.2% YoY (2%/5.5% above NBIE/Consensus estimates) on the back of healthy volume growth in Wires & Cables (W&C) business. Topline was above our/consensus estimates by 2%/5.5%. While the W&C segment's revenue grew by 11.4% YoY to Rs33.4bn (87.7% of total sales), the FMEG segment's revenue was flat YoY at Rs3.4bn (9% of total sales). Gross margin expanded by 310bps YoY to 25.7%. EBITDA jumped by 39.6% YoY to Rs5bn. EBITDA margin expanded by 290bps YoY to 13.6% (160bps/190bps above NBIE/Consensus Est.), led by strong growth in exports, better operating leverage and judicious price revisions. EBIT margin for the W&C segment improved by 340bps YoY to 13.7% while the FMEG segment's EBIT margin came in at (0.7%) vs 1.8% YoY. Adjusted PAT jumped by 44.7% YoY to Rs3.6bn. The bottom-line was above our/consensus estimate by 22.3%/27.4%. Polycab plans to enter the HV/EHV Cables segment and will set up a state-of-the-art EHV facility for the same. The company has set a topline target of Rs200bn by FY26-end under project LEAP. While outlook for the W&C segment remains strong, we expect FMEG segment sales to pick up in FY24 post distribution revamp. We have marginally tweaked our numbers and have maintained an ACCUMULATE rating on Polycab with a target price (TP) of Rs3,015 (vs Rs2,775 earlier), valuing it at 28x Sept'24E EPS.

W&C segment update: This segment delivered a strong performance in 3QFY23 on the back of a robust demand environment. Volume growth in 3QFY23 stood at 18-20% YoY. The management attributed this outperformance to benefits realized through the merger of HDC and LDC verticals during FY22. Exports grew by 32% YoY. Exports' contribution stood at 5.9% of 3QFY23 revenue vs 8.1% in 3QFY22. The management expects exports to contribute ~8-10% to FY23 consolidated revenue. The management highlighted that margin for this segment improved sequentially on the back of change in product mix and judicious price revisions.

FMEG segment update: The management highlighted that while Oct'22 and Nov'22 were stronger months compared to the same months of 2QFY23, demand picked up considerable pace in Dec'22. It further highlighted that the Fans business saw good growth as distributors started restocking ahead of transition to the new BEE norms. Switchgears business witnessed healthy growth. Pipes & Fittings and Switches businesses too posted decent growth. Profitability for the segment declined largely on account of higher A&P spends. The management highlighted that work on realignment of distribution channel, brand building, new product development, premiumization of offerings and influencer management program are progressing well. It expects these initiatives to drive revenue growth and margin expansion for the FMEG business. The management has maintained 10% EBITDA margin guidance for the FMEG segment by FY26-end under project LEAP.

Other Key Concall Highlights: (1) Capex for CY23 has been pegged at Rs6bn. Capex split for W&C:FMEG segment is expected to be at 75%:25%. (2) Wires:Cables mix stood at 40%:60% in 3QFY23 vs 30%:70% in 2QFY23. The management expects Wires business 'contribution to increase gradually. (3) Fans & Lighting contribute 66% to FMEG sales. Going forward, Polycab will focus on changing product mix towards Switches & Switchgears (high margin products). (4) Ad-spends stood at 1.7% of sales vs 1.3% of sales in 3QFY22. (5) The management highlighted that the Fans segment witnessed an industry wide price cut in 3QFY23. Polycab plans to take a price hike in the Fans segment in 4QFY23. (6) B2B:B2G Cables sales mix stood at 85%:15%. (6) Polycab expects to reach B2B:B2C sales mix of 50%:50% by FY26-end.

Working capital position: Net working capital in 3QFY23 increased by 15 days QoQ to 59 days. This was due to increase/increase/decrease in inventory days/receivable days/payable days by 12 days/1 day/3 days QoQ to 94 days/29 days/63 days.

Outlook: We expect 15.6%/27.2% revenue/earnings CAGR over FY22-FY25E. Market leadership in the W&C segment, strong brand equity, robust scale-up prospects in FMEG products, improving margin profile and strengthening balance sheet & cash position will support Polycab's valuation.

ACCUMULATE

Sector: Consumer Electricals

CMP: Rs2,761

Target Price: Rs3,015

Upside: 9.2%

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Key Data

Current Shares O/S (mn)	149.7
Mkt Cap (Rsbn/US\$bn)	423.5/5.2
52 Wk H / L (Rs)	3,025/2,044
Daily Vol. (3M NSE Avg.)	451,392

Price Performance (%)

	1 M	6 M	1 Yr
Polycab India	3.6	25.7	6.6
Nifty Index	(1.5)	9.6	2.0

Source: Bloomberg

Y/E March (Rsmn)	3QFY20	3QFY22	2QFY23	3QFY23	YoY % (3QFY20)	YoY %	QoQ %
Revenues	25,073	33,720	33,324	37,152	48.2	10.2	11.5
Raw material	18,190	26,095	24,625	27,603	51.8	5.8	12.1
Staff costs	915	1,025	1,148	1,132	23.8	10.4	(1.4)
Advertising and Sales Promotion	376	436	168	636	69.1	45.9	279.0
Frieght and forwarding expenses	526	859	894	819	55.7	(4.7)	(8.4)
Other expenses	1,676	1,688	2,213	1,923	14.8	13.9	(13.1)
Total expenditure	21,682	30,103	29,047	32,113	48.1	6.7	10.6
EBITDA	3,391	3,617	4,276	5,038	48.6	39.3	17.8
EBITDA margin (%)	13.5	10.7	12.8	13.6	-	-	-
Interest	86	78	139	93	7.9	18.4	(33.4)
Depreciation	407	511	523	525	28.9	2.6	0.4
Other income	3	216	(22)	397	11,368.2	83.3	NA
Exceptional items	-	678	-	-	-	-	-
PBT	2,902	3,922	3,593	4,818	66.0	22.8	34.1
Tax	686	763	880	1,202	75.2	57.5	36.6
Adjusted PAT	2,188	2,467	2,678	3,576	63.5	45.0	33.5
Adjusted PAT margin (%)	8.7	7.3	8.0	9.6	-	-	-
Adjusted EPS (Rs)	14.7	16.5	17.9	23.9	62.3	44.7	33.5

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary (Consolidated)

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues	87,922	122,038	145,544	168,613	188,848
EBITDA	11,111	12,652	18,447	21,483	24,532
Adjusted Net Profit	8,380	8,365	12,671	14,989	17,231
Adjusted EPS (Rs)	56.0	55.9	84.7	100.2	115.2
EPS growth (%)	10.4	(0.2)	51.5	18.3	15.0
EBITDA margin (%)	12.6	10.4	12.7	12.7	13.0
P/E (x)	49.3	49.4	32.6	27.6	24.0
P/BV (x)	8.7	7.5	6.4	5.4	4.5
EV/EBITDA (x)	36.9	32.4	21.5	18.2	15.6
Dividend yield (%)	0.4	0.5	0.5	0.6	0.6
RoCE (%)	18.7	18.7	25.0	24.4	23.5
RoIC (%)	24.3	23.6	39.7	39.5	40.9

Source: Company, Nirmal Bang Institutional Equities Research

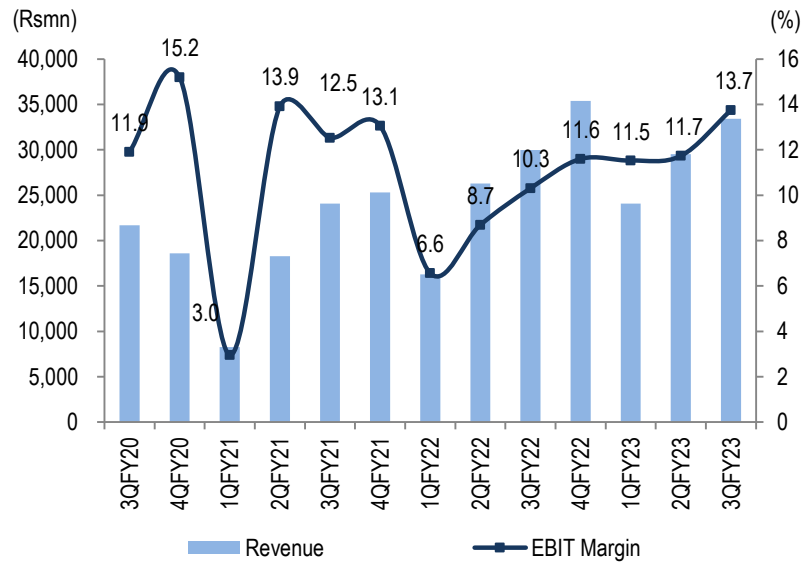
Entry into High Voltage Cables Space: Polycab plans to enter HV/EHV Cables segment and will set up a state-of-the-art EHV facility in Halol, Gujarat. It expects the project to be completed and commence production by FY25. Polycab plans to enter 440KV & 550KV Cables categories. It has tied up with Swiss company Brugg Cables for design, testing, production & technology installation up to 550KV voltage system. Polycab expects HV Cables market in India to reach a size of Rs40-50bn by FY26-end.

Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	3QFY20	3QFY22	2QFY23	3QFY23	YoY % (3QFY20)	YoY %	QoQ %
Revenues							
Wires and Cables	21,696	29,988	29,517	33,418	54.0	11.4	13.2
FMEG	2,166	3,404	3,054	3,420	57.9	0.5	12.0
EPC + Others	1,510	989	1,051	1,260	(16.6)	27.4	19.9
Revenue mix (%)							
Wires and Cables	63.1	87.2	87.8	87.7	-	-	-
FMEG	6.3	9.9	9.1	9.0	-	-	-
EPC + Others	4.4	2.9	3.1	3.3	-	-	-
EBIT (Rsmn)							
Wires and Cables	2,583	3,089	3,463	4,593	77.8	48.7	32.7
FMEG	14	63	(27)	(24)	NA	NA	NA
EPC + Others	338	126	159	152	(55.1)	20.3	(4.2)
EBIT margin (%)							
Wires and Cables	11.9	10.3	11.7	13.7	-	-	-
FMEG	0.6	1.8	(0.9)	(0.7)	-	-	-
EPC + Others	22.4	12.8	15.1	12.1	-	-	-

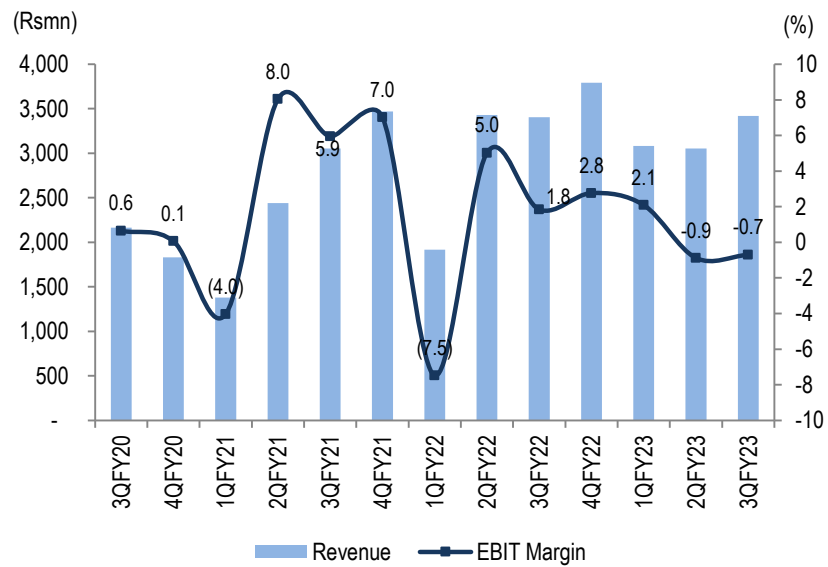
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Wires & Cables revenue and EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: FMEG revenue and EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates

3QFY23 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	37,152	36,417	2.0	35,218	5.5
EBITDA	5,038	4,370	15.3	4,122	22.2
EBITDA Margin (%)	13.6	12.0	-	11.7	-
PAT	3,576	2,925	22.3	2,808	27.4

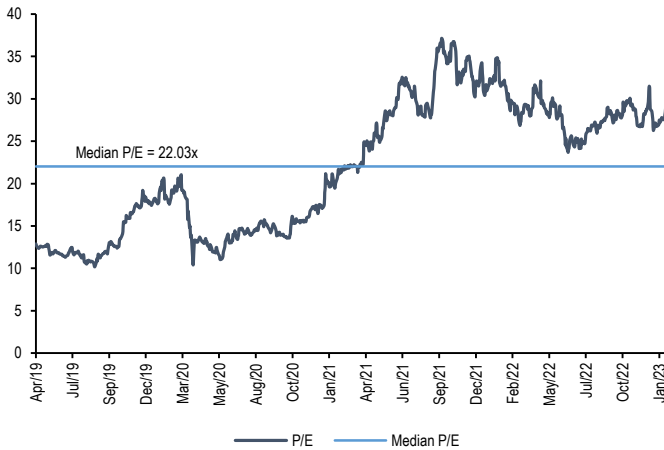
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

Description (Rsmn)	Old			New			Variation (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	138,697	161,038	180,374	145,544	168,613	188,848	4.9	4.7	4.7
EBITDA	17,091	20,246	23,431	18,447	21,483	24,532	7.9	6.1	4.7
EBITDA Margin (%)	12.3	12.6	13.0	12.7	12.7	13.0	35 bps	17 bps	0 bps
PAT	11,509	13,723	15,902	12,671	14,989	17,231	10.1	9.2	8.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: One-year forward P/E charts



Source: NSE, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 8: Income statement

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Net sales	87,922	122,038	145,544	168,613	188,848
% growth	(0.4)	38.8	19.3	15.9	12.0
Raw material costs	65,171	94,657	107,703	123,931	137,859
Staff costs	3,537	4,066	5,094	5,901	6,610
Other overheads	8,102	10,663	14,300	17,298	19,847
Total expenditure	76,811	109,386	127,097	147,130	164,316
EBITDA	11,111	12,652	18,447	21,483	24,532
% growth	(2.1)	13.9	45.8	16.5	14.2
EBITDA margin (%)	12.6	10.4	12.7	12.7	13.0
Other income	1,193	899	1,164	1,686	2,077
Interest costs	427	352	387	426	468
Depreciation	1,762	2,015	2,116	2,491	2,847
Profit before tax	10,557	11,905	17,109	20,252	23,294
Tax	1,703	2,706	4,277	5,063	5,824
Share of Associate Profit	6	(26)	(40)	(50)	(60)
Minority Interest	38	87	120	150	180
PAT after minority interest	8,821	9,086	12,671	14,989	17,231
Adjusted Net Profit	8,380	8,365	12,671	14,989	17,231
PAT margin (%)	9.5	6.9	8.7	8.9	9.1
Adjusted EPS (Rs)	56.0	55.9	84.7	100.2	115.2
% growth	10.4	(0.2)	51.5	18.3	15.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,491	1,494	1,496	1,496	1,496
Reserves	46,048	53,943	62,749	75,195	89,882
Net worth	47,539	55,437	64,245	76,691	91,378
Minority Interest	188	251	251	251	251
Short Term Loans	890	802	602	502	402
Long Term Loans	1,037	30	0	0	0
Borrowings	1,927	831	602	502	402
Deferred tax liabilities	418	272	272	272	272
Total liabilities	50,072	56,791	65,369	77,715	92,302
Net block	18,696	16,751	18,635	22,145	22,798
Capital Work in Progress	991	3,755	3,755	3,755	3,755
Investments	6,349	7,733	7,733	7,733	7,733
Inventories	19,879	21,996	25,081	28,521	31,349
Debtors	15,641	13,763	11,963	14,783	18,109
Cash	5,313	4,071	16,496	21,961	31,533
Other current assets	3,278	6,049	10,188	11,634	14,164
Total current assets	44,111	45,880	63,728	76,898	95,154
Creditors	13,480	12,175	19,180	22,409	25,306
Other current liabilities & provisions	6,595	5,152	9,303	10,406	11,832
Total current liabilities	20,075	17,328	28,482	32,816	37,137
Net current assets	24,036	28,552	35,246	44,083	58,017
Total assets	50,072	56,791	65,369	77,715	92,302

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
EBIT	9,350	10,637	16,331	18,992	21,685
(Inc.)/dec. in working capital	1,077	(5,758)	5,732	(3,372)	(4,362)
Cash flow from operations	10,427	4,879	22,063	15,620	17,323
Other income	1,193	899	1,164	1,686	2,077
Depreciation	1,762	2,015	2,116	2,491	2,847
Tax paid (-)	(1,450)	(2,853)	(4,277)	(5,063)	(5,824)
Minority Interest (-)	(32)	(113)	(160)	(200)	(240)
Net cash from operations	11,899	8,078	20,906	14,533	16,184
Capital expenditure (-)	(4,816)	(6,084)	(4,000)	(6,000)	(3,500)
Net cash after capex	7,083	1,993	16,906	8,533	12,684
Interest paid (-)	(427)	(352)	(387)	(426)	(468)
Dividends paid (-)	(1,491)	(2,092)	(2,244)	(2,543)	(2,543)
Inc./(dec.) in short term borrowings	(225)	(88)	(200)	(100)	(100)
Inc./(dec.) in long term borrowings	930	(1,007)	(30)	-	-
Inc./(dec.) in total borrowings	706	(1,095)	(230)	(100)	(100)
Inc./(dec.) in investments	(5,695)	(1,383)	-	-	-
Minority Interest	38	62	-	-	-
Equity Issue (Buyback)	2	3	2	-	-
Cash from financial activities	(6,866)	(4,857)	(2,859)	(3,069)	(3,112)
Others	1,940	901	(1,622)	0	(0)
Opening cash balance	2,813	5,313	4,071	16,496	21,961
Closing cash balance	5,313	4,071	16,496	21,961	31,533
Change in cash balance	2,500	(1,242)	12,425	5,464	9,573

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

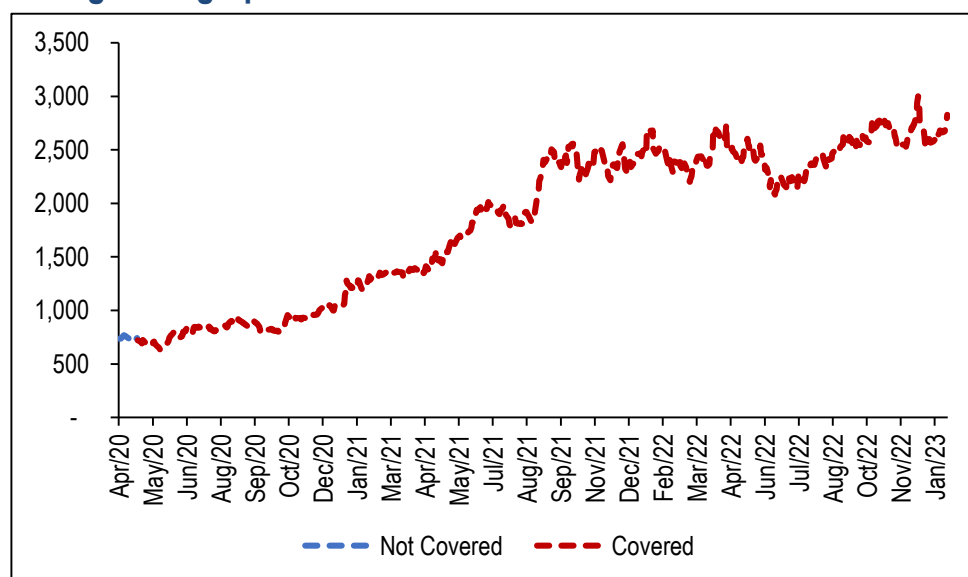
Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
EPS	56.0	55.9	84.7	100.2	115.2
Book value	317.8	370.6	429.4	512.6	610.8
Valuation (x)					
P/E	49.3	49.4	32.6	27.6	24.0
P/BV	8.7	7.5	6.4	5.4	4.5
EV/EBITDA	36.9	32.4	21.5	18.2	15.6
EV/sales	4.7	3.4	2.7	2.3	2.0
Return ratios (%)					
RoCE	18.7	18.7	25.0	24.4	23.5
RoE	17.6	15.1	19.7	19.5	18.9
RoIC	24.3	23.6	39.7	39.5	40.9
Profitability ratios (%)					
EBITDA margin	12.6	10.4	12.7	12.7	13.0
EBIT margin	10.6	8.7	11.2	11.3	11.5
PAT margin	9.5	6.9	8.7	8.9	9.1
Turnover ratios					
Fixed asset turnover ratio (x)	3.3	4.7	4.8	4.7	4.8
Debtor days	65	55	30	32	35
Inventory days	111	100	85	84	83
Creditor days	75	70	65	66	67
Solvency ratio (x)					
Debt-Equity	0.04	0.01	0.01	0.01	0.00

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
24 April 2021	Accumulate	1,479	1,620
24 May 2021	Accumulate	1,677	1,700
23 July 2021	Accumulate	1,910	1,865
26 September 2021	Accumulate	2,413	2,500
25 October 2021	Accumulate	2,348	2,600
22 January 2022	Accumulate	2,511	2,600
21 February 2022	Accumulate	2,380	2,650
12 May 2022	Accumulate	2,428	2,625
20 July 2022	Buy	2,199	2,625
1 September 2022	Accumulate	2,485	2,625
19 September 2022	Accumulate	2,645	2,845
19 October 2022	Accumulate	2,707	2,775
5 December 2022	Accumulate	2,528	2,775
22 January 2023	Accumulate	2,761	3,015

Rating track graph



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