

Consumer Durable | Q4FY23 Result Update

Impressive C&W performance continues

- Polycab's Q4FY23 revenue was in line while EBITDA and PAT beat our estimates. C&W segment revenue increased 15.2% in Q4 led by high single digit volume growth, outperforming Havells C&W (+5.4%) and KEI (+9%).
- C&W segment delivered 290bps EBITDA margin expansion to 14.5% in Q4, was a positive surprise, driven by strong momentum in IB (+125% YoY) and higher margin orders in the cable business.
- Management has reiterated its target of Rs 200bn top-line by FY26E and annual margin guidance of 11-13% in C&W segment going ahead (13.1% in FY23). Judicious price increases, favourable product mix and improvement in FMEG profitability FY24E onwards should boost overall margin performance.
- To factor in strong Q4 performance, we have increased our FY24/25E EPS estimates by 4.3/5.5% to Rs 94/109 resp. We have estimated 13/13% revenue and PAT CAGR over FY23-25E underpinned by healthy demand environment. The stock has rallied ~20% since our last update. Maintain Accumulate with a revised TP of Rs 3,640 (33x FY25E earnings). Any correction in the stock price, should be an opportunity to Buy.

Revenue in line, strong margin performance

Revenue grew 8.9% YoY to Rs 43.2bn. While RM costs declined 300bps YoY, staff/Ad spends/other expenses increased 10/20/60bps resp. Consequently, EBITDA margin expanded 210bps YoY to 14.1%. EBITDA stood at Rs. 6.1bn, up 27.9% YoY. APAT jumped 31.7% YoY to Rs. 4.3bn in Q4FY23.

Expect gradual revival in FMEG

FMEG revenue de-grew 20% YoY in Q4FY23. Fans business was subdued due to heavy channel inventory at the end of Q3 ahead of the BEE regime change, and unseasonal rains in Mar'23. Switches business continued its strong traction growing 1.5x YoY, helped by in-house manufacturing. Operating loss stood at Rs 70mn, impacted mainly by higher A&SP spends, directed towards realignment of distribution channel and brand building. As distribution re-alignment is complete, FMEG business is expected to deliver improved performance FY24E onwards. Management is confident of delivering 10-12% EBITDA margin in this segment by FY26E, driven by operating leverage, strong backward integration, focus on high margin product categories and premiumization.

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	43,237	39,700	8.9	37,152	16.4
Total Expense	37,141	34,936	6.3	32,113	15.7
EBITDA	6,095	4,763	28.0	5,038	21.0
Depreciation	535	503	6.4	525	1.9
EBIT	5,561	4,261	30.5	4,514	23.2
Other Income	515	168	206.2	397	29.8
Interest	282	125	125.0	93	204.0
EBT	5,794	4,304	34.6	4,818	20.3
Tax	1,446	1,047	38.2	1,202	20.4
RPAT	4,284	3,253	31.7	3,608	18.7
APAT	4,284	3,253	31.7	3,608	18.7
			(bps)		(bps)
Gross Margin (%)	25.2	22.2	298	25.7	(54)
EBITDA Margin (%)	14.1	12.0	210	13.6	54
NPM (%)	9.9	8.2	171	9.7	20
Tax Rate (%)	25.0	24.3	64	24.9	2
EBIT Margin (%)	12.9	10.7	213	12.1	71

CMP	Rs 3,381
Target / Upside	Rs 3,640 / 8%
NIFTY	18,399

Scrip Details

Equity / FV	Rs 1,498mn / Rs 10
Market Cap	Rs 504bn
	USD 6.1bn
52-week High/Low	Rs 3,400/ 2,044
Avg. Volume (no)	314,893
Bloom Code	POLYCAB IN

Price Performance	1M	3M	12M
Absolute (%)	10	11	31
Rel to NIFTY (%)	4	9	15

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	68.0	68.0	66.2
MF/Banks/FIs	10.4	10.4	9.3
FIs	6.4	6.4	9.8
Public / Others	15.2	15.2	14.7

Valuation (x)

	FY23A	FY24E	FY25E
P/E	39.3	35.7	31.0
EV/EBITDA	26.2	23.8	20.5
ROE (%)	21.1	19.6	19.4
RoACE (%)	21.5	19.9	19.6

Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	141.1	161.1	181.3
EBITDA	18.5	20.3	23.2
PAT	12.8	14.1	16.3
EPS (Rs.)	86.0	94.2	108.7

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International Business gains traction

International business grew 50% to Rs 13.8bn in FY23. Revenue contribution has increased 220bps from 7.6% in FY22 to 9.8% in FY23. Polycab aims for +10% contribution from IB in next few years. Operating margins in the export business vary depending on product category with 300-400bps higher margins in some categories. Polycab exports to nearly 70 countries and will continue to add more export locations every year as approvals and certifications are awarded. Most recently, Polycab received approvals for the US (50% contri currently). Traditionally, the export business involved supplying to institutions and EPC projects directly, this is however gradually shifting towards distribution and has acquired a warehouse in the US for the same purpose.

Exhibit 1: Segmental performance

Revenues (Rs mn)	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)
Wires and Cables	40783	35400	15.2	33418	22.0
FMEG	3052	3792	(19.5)	3420	(10.8)
Others	1338	1044	28.1	1260	6.2
Total	45173	40237	12.3	38098	18.6
EBIT (Rs mn)					
Wires and Cables	5,896	4,106	43.6	4,593	28.4
FMEG	-70	105	(166.5)	-24	191.3
Others	82	139	(41.2)	152	(46.1)
Total	5,908	4,349	35.8	4,721	25.1
EBIT margins %			bps		bps
Wires and Cables	14.5	11.6	286	13.7	71
FMEG	-2.3	2.8	-505	-0.7	-158
Others	6.1	13.3	-720	12.1	-594

Source: Company, DART

Exhibit 2: Q4FY23 Actual v/s DART estimates

Particulars (Rs mn)	Actual	DART est.	Var (%)	Comments
Sales	43,237	42,757	1.1	
EBITDA	6,095	5,130	18.8	
EBITDA margins %	14.1	12.0	210bps	Variation as RM costs was lower than our estimate
PAT	4,284	3,499	22.5	Cascading effect of higher revenue and EBITDA

Source: Company, DART

Exhibit 3: Change in Estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Old	Var %	New	Old	Var %
Sales	1,61,104	1,60,509	0.4	1,81,285	1,81,038	0.1
EBITDA	20,299	20,096	1.0	23,204	22,630	2.5
EBITDA margins %	12.6	12.5	10 bps	12.8	12.5	30 bps
APAT	14,112	13,496	4.6	16,274	15,389	5.8
EPS (Rs)	94.2	90.3	4.3	108.7	103.0	5.5

Source: DART

We have maintained our revenue estimates for FY24/25E. In order to factor in Q4/FY23 performance, we have increased our EBITDA and PAT estimates for FY24/25E. We have marginally increased EBITDA margin estimate for FY24/25E to factor in expected scale up and focus on high margin categories in FMEG, better traction in exports and judicious price increases.

Earning call KTAs

Cables & Wires (~89% of sales in FY23)

- The segment witnessed robust growth in the quarter driven by high-single digits volume growth through distribution channel, and traction in the international business. Integration of the HDC and LDC verticals in FY22 resulted in a 21% growth in cables volumes in FY23, while wires remained flat YoY.
- In Q4FY23, price hikes in the cables & wires category were in line with the increase in input costs in the range of mid-single digits.
- Of cables sales (~70% of segment revenue), ~88-90% sales are through the dealer-distributor network and ~10-12% are direct institutional sales. The company aims to improve the contribution of wires (~30% of segment revenues) and has introduced Etira to access the economy segment of the wires market and re-introduced green-wires to tap the premium segment.
- Target mix for FY26E is a 50-50 contribution of B2B (cables & EPC) and B2C (wires & FMEG) categories.
- Industry leading growth in Polycab is attributed to i) large distribution channel comprised of channel partners with entrenched relationships with the company, ii) Complete cables & Wires portfolio and newly added FMEG segment, iii) low turnaround time to dealers/customers of under 24 hours.
- Present capacity utilization in C&W is ~70%.
- MS in domestic W&C business increased from 18% in FY19 to 22-24% in FY23.
- EBITDA margins in cables stand at 10-11% range while wires operate at ~14-15%. In FY23, product mix was in favour of cables rather than wires. Despite this, margins improved by ~330 bps led by judicious price revisions and strong growth in international business. Margins remained in the previously guided range of 11-13% and are expected to sustain within the range.

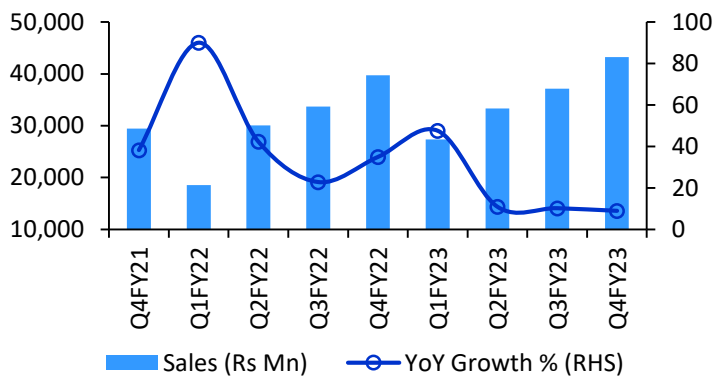
FMEG (~9% of sales in FY23)

- Growth in the segment was subdued on account of channel realignment activities. Revenues were flat in FY23, mainly due to slowdown in fans portfolio. Segment profitability was impacted on account of higher A&P spends, staff costs and input costs. This realignment has now concluded and margins in the range of 10-12% expected by FY26E.
- In line with the company's premiumization goal, ~60% of new BEE rated fan launches were in the premium and super premium categories. The revamped portfolio included price hikes in the range of low to high single digits across the category. Non-compliant stock in the channel is nearly exhausted.
- Benefitting from in-house manufacturing, switches business continued healthy growth momentum and grew 1.7x YoY and 1.9x QoQ. In Q4FY23, economy segment brand Etira has been launched in the switches segment as well.
- The Halol facility recently turned operational in FY23, adding 6mn units to the Company's capacity. The facility will produce TPW fans in addition to ceiling fans.
- Revenue Split: Fans & lighting (60%), switches & switchgears (15-16%), pipes & fittings (15%) and balance from solar, agro-pumps etc.
- Capacity utilization in switchgears stands at ~65-70% at present, implying ample room for scale up.

Other Highlights

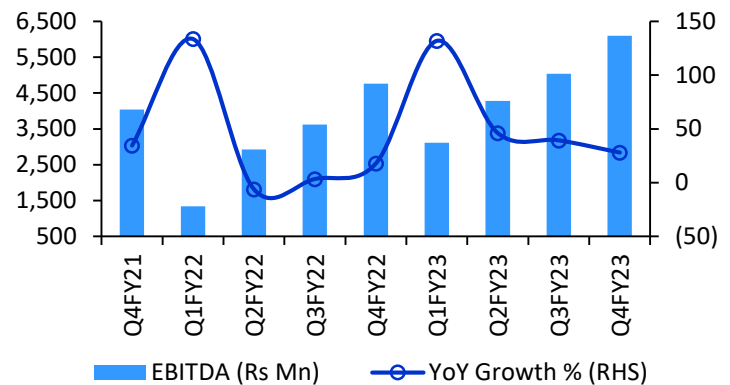
- Capex of Rs 6-7bn has been earmarked for CY23.
- Distribution in the North & South regions stands at 30% each, while East and West contributed 22% and 18% respectively.
- Channel Financing and advances stood at 83% in FY23 from 75% in FY22.
- Net Cash position improved to Rs 18.9bn in March'23 vs Rs11bn in March'22.
- At the company level, copper and aluminium consumption is 50:50.

Exhibit 4: Sales & YoY Growth (%)



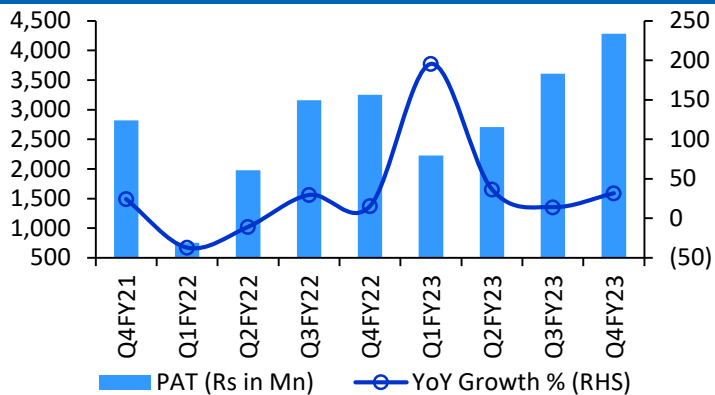
Source: Company, DART

Exhibit 5: EBITDA & YoY Growth (%)



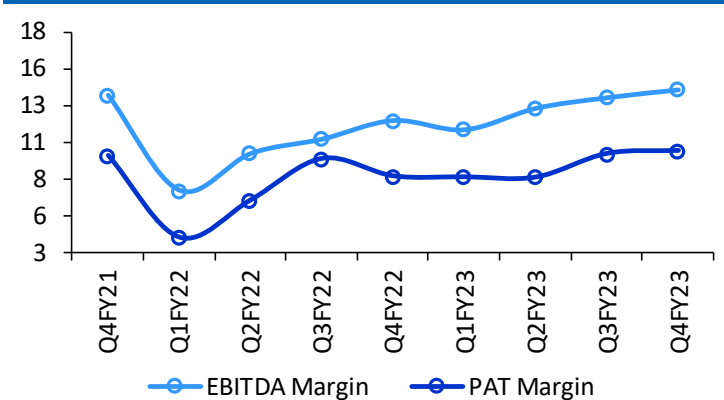
Source: Company, DART

Exhibit 6: PAT & YoY Growth (%)



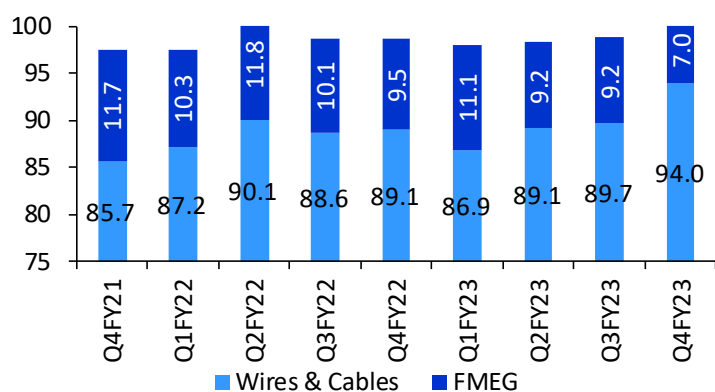
Source: Company, DART

Exhibit 7: Margin Trends (%)



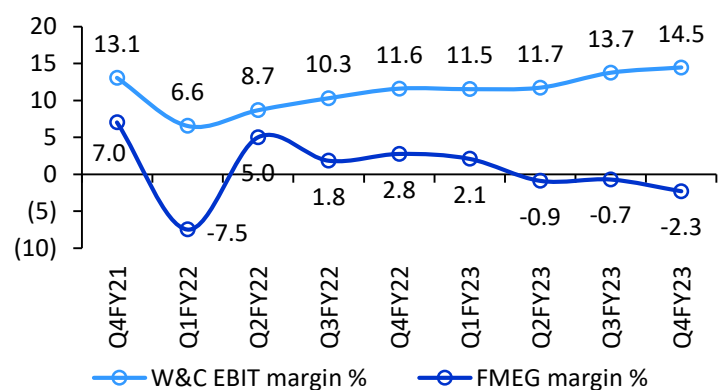
Source: Company, DART

Exhibit 8: Quarterly revenue contribution (%)



Source: Company, DART

Exhibit 9: Quarterly Segment margins (%)



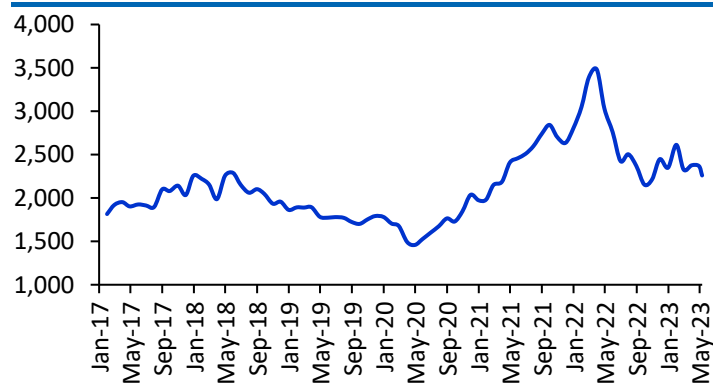
Source: Company, DART

Exhibit 10: Trend in Copper Prices (US\$/MT)



Source: Bloomberg, DART

Exhibit 11: Trend in Aluminum Prices (US\$/MT)



Source: Bloomberg, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Revenue	122,038	141,078	161,104	181,285
Total Expense	109,386	122,557	140,805	158,080
COGS	94,657	105,109	120,667	135,239
Employees Cost	4,066	4,568	5,639	6,708
Other expenses	10,663	12,880	14,499	16,134
EBIDTA	12,652	18,521	20,299	23,204
Depreciation	2,015	2,092	2,446	2,676
EBIT	10,637	16,430	17,854	20,529
Interest	352	598	510	499
Other Income	899	1,333	1,530	1,722
Exc. / E.O. items	721	0	0	0
EBT	11,905	17,165	18,874	21,752
Tax	2,706	4,250	4,662	5,373
RPAT	9,173	12,823	14,112	16,274
Minority Interest	26	93	100	105
Profit/Loss share of associates	0	0	0	0
APAT	8,452	12,823	14,112	16,274

Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Sources of Funds				
Equity Capital	1,494	1,498	1,498	1,498
Minority Interest	251	374	374	374
Reserves & Surplus	53,942	64,814	75,900	88,846
Net Worth	55,436	66,312	77,397	90,344
Total Debt	831	1,551	1,379	1,347
Net Deferred Tax Liability	272	423	423	423
Total Capital Employed	56,790	68,660	79,573	92,488

Applications of Funds

Net Block	16,751	20,670	24,324	25,248
CWIP	3,755	2,508	2,608	2,708
Investments	93	0	0	0
Current Assets, Loans & Advances	53,521	71,078	78,224	93,178
Inventories	21,996	29,514	30,019	34,270
Receivables	13,763	12,992	14,566	17,880
Cash and Bank Balances	4,071	6,952	8,881	13,867
Loans and Advances	127	103	103	103
Other Current Assets	5,923	8,011	10,649	12,552
Less: Current Liabilities & Provisions	17,329	25,596	25,583	28,646
Payables	12,175	20,326	21,628	24,337
Other Current Liabilities	5,153	5,269	3,955	4,310
<i>sub total</i>				
Net Current Assets	36,192	45,482	52,641	64,532
Total Assets	56,790	68,660	79,573	92,488

E – Estimates

Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	22.4	25.5	25.1	25.4
EBIDTA Margin	10.4	13.1	12.6	12.8
EBIT Margin	8.7	11.6	11.1	11.3
Tax rate	22.7	24.8	24.7	24.7
Net Profit Margin	7.5	9.1	8.8	9.0
(B) As Percentage of Net Sales (%)				
COGS	77.6	74.5	74.9	74.6
Employee	3.3	3.2	3.5	3.7
Other	8.7	9.1	9.0	8.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	30.2	27.5	35.0	41.2
Inventory days	66	76	68	69
Debtors days	41	34	33	36
Average Cost of Debt	21.2	50.2	34.8	36.6
Payable days	36	53	49	49
Working Capital days	71	57	52	56
FA T/O	7.3	6.8	6.6	7.2
(D) Measures of Investment				
AEPS (Rs)	56.7	86.0	94.2	108.7
CEPS (Rs)	70.2	100.0	111.0	127.1
DPS (Rs)	10.0	14.0	16.0	18.0
Dividend Payout (%)	17.6	16.3	16.9	16.5
BVPS (Rs)	371.8	444.7	519.0	605.9
RoANW (%)	17.8	21.1	19.6	19.4
RoACE (%)	16.4	21.5	19.9	19.6
RoAIC (%)	21.7	28.7	27.0	27.5
(E) Valuation Ratios				
CMP (Rs)	3381	3381	3381	3381
P/E	59.7	39.3	35.7	31.0
Mcap (Rs Mn)	503,799	503,799	503,799	503,799
MCap/ Sales	4.1	3.6	3.1	2.8
EV	492,918	484,893	482,292	476,774
EV/Sales	4.0	3.4	3.0	2.6
EV/EBITDA	39.0	26.2	23.8	20.5
P/BV	9.1	7.6	6.5	5.6
Dividend Yield (%)	0.3	0.4	0.5	0.5
(F) Growth Rate (%)				
Revenue	38.8	15.6	14.2	12.5
EBITDA	13.9	46.4	9.6	14.3
EBIT	13.8	54.5	8.7	15.0
PBT	12.8	44.2	10.0	15.3
APAT	0.4	51.7	10.1	15.3
EPS	0.4	51.7	10.1	15.3

E – Estimates

Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
Profit before tax	10,637	16,430	17,854	20,529
Depreciation & w.o.	2,015	2,092	2,446	2,676
Net Interest Exp	899	1,333	1,530	1,722
Direct taxes paid	(3,339)	(3,704)	(4,662)	(5,373)
Change in Working Capital	(5,197)	(1,058)	(4,730)	(6,405)
Non Cash	75	(818)	(730)	(737)
(A) CF from Operating Activities	5,090	14,275	11,708	12,412
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(5,200)	(4,584)	(6,200)	(3,700)
Free Cash Flow	(110)	9,691	5,508	8,712
(Inc.)/ Dec. in Investments	833	(4,574)	(500)	(500)
Other	0	0	0	0
(B) CF from Investing Activities	(4,367)	(9,158)	(6,700)	(4,200)
Issue of Equity/ Preference	3	3	0	0
Inc./(Dec.) in Debt	(168)	332	(172)	(32)
Interest exp net	(309)	(476)	(510)	(499)
Dividend Paid (Incl. Tax)	(1,492)	(2,094)	(2,396)	(2,696)
Other	0	0	0	0
(C) CF from Financing	(1,965)	(2,236)	(3,079)	(3,226)
Net Change in Cash	(1,242)	2,881	1,929	4,986
Opening Cash balances	5,313	4,071	6,952	8,881
Closing Cash balances	4,071	6,952	8,881	13,867

E – Estimates

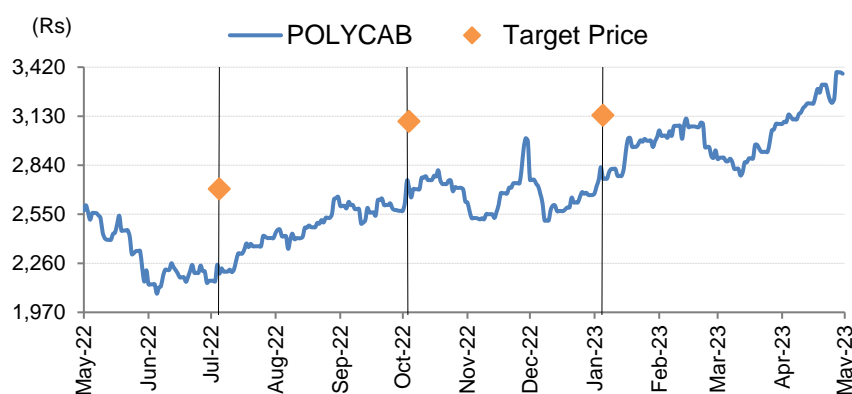
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-22	BUY	2,700	2,199
Oct-22	Accumulate	3,100	2,707
Jan-23	Accumulate	3,136	2,761

*Price as on recommendation date

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