

19 July 2023

India | Equity Research | Q1FY24 results review

Polycab India

White Goods

Strong B2B demand; Model strong growth momentum in FY24-25

Polycab reported strong Q1FY24 with revenue and PAT growth of 42.1% and 80%, respectively YoY. Key drivers were (1) strong institutional demand due to revival in infrastructure, real estate and capex cycle, (2) 88% growth in exports and (3) distribution rejig. We model Polycab to maintain strong earnings CAGR of 24.3% over FY23-25E led by healthy demand from B2B sectors and correction in commodity prices. We also model FMEG segment to revive in H2FY24. Improving maturity of value-for-money brand 'Etira' and premium brand 'Hohm' are likely to be DCF accretive events. We raise FY24-FY25 earnings estimates by ~9% to factor in strong Q1FY24 and commodity price correction. We maintain HOLD with DCF-based revised TP of INR4,100 (implied P/E: 31.4x FY25E; Earlier TP: INR3,400).

Q1FY24 performance

Strong earnings momentum continued for Polycab in Q1FY24 as it posted revenue, EBITDA and PAT growth of 42.1%, 76.3% and 80%, respectively YoY. EBITDA margins improved 270bps YoY due to weaker commodity prices and prudent price revisions.

Cables and wires outperform; FMEG remains muted

Cables and Wires reported 46.9% revenue growth YoY whereas FMEG reported muted revenue growth of 2.1% YoY. Weak consumer demand impacted performance of FMEG. Others segment grew 53% YoY due to revival in infrastructure, real estate and capex. Exports reported healthy growth of 88% YoY due to strong order book and geographical expansion.

Strong institutional demand to drive growth

We model growth momentum in domestic business to remain strong due to (1) distribution rejig, (2) strong institutional demand and (3) likely revival in FMEG in H2FY24. We also model revival in fans business as the inventory of non-rated fans is largely over in trade. We also model value-for-money brand 'Etira' and premium brand 'Hohm' to be value drivers with improving maturity of these brands.

Retain HOLD

We model Polycab to report PAT CAGR of 24.3% over FY23-FY25E and RoCE > 20% over FY24-FY25E. We revise our DCF-based TP to INR4,100 (implied P/E 31.4x FY25E) to factor in strong Q1FY24. We believe the stock price upside is limited at current valuations (31.4x FY25E). Maintain HOLD.

Financial Summary

| Y/E March (Rs mn) | FY22A | FY23A | FY24E | FY25E |
|-------------------|----------|----------|----------|----------|
| Net Revenue | 1,22,038 | 1,41,078 | 1,77,228 | 2,02,636 |
| EBITDA | 12,652 | 18,521 | 23,749 | 27,457 |
| EBITDA Margin (%) | 10.4 | 13.1 | 13.4 | 13.6 |
| Net Profit | 8,365 | 12,699 | 17,124 | 19,612 |
| EPS (Rs) | 56.1 | 85.2 | 114.8 | 131.5 |
| EPS % Chg YoY | (0.2) | 51.8 | 34.8 | 14.5 |
| P/E (x) | 73.6 | 48.5 | 35.9 | 31.4 |
| EV/EBITDA (x) | 47.7 | 32.2 | 25.1 | 21.3 |
| RoCE (%) | 14.9 | 19.6 | 20.9 | 20.2 |
| RoE (%) | 16.2 | 20.8 | 23.3 | 22.1 |

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Market Data

| | |
|---------------------|---------------|
| Market Cap (INR) | 619bn |
| Market Cap (USD) | 7,541mn |
| Bloomberg Code | POLYCAB IN |
| Reuters Code | POLC.BO |
| 52-week Range (INR) | 4,149 / 2,132 |
| Free Float (%) | 31.0 |
| ADTV-3M (mn) (USD) | 16 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| Absolute | 34.1 | 50.8 | 92.8 |
| Relative to Sensex | 12.6 | 10.3 | 24.1 |

| ESG Disclosure | 2021 | 2022 | Change |
|----------------|------|------|--------|
| ESG score | 37.2 | 44.7 | 7.5 |
| Environment | 2.7 | 22.2 | 19.5 |
| Social | 30.0 | 33.2 | 3.1 |
| Governance | 78.6 | 78.6 | 0.0 |

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

| Earnings Revisions (%) | FY24E | FY25E |
|------------------------|-------|-------|
| Revenue | 6.9 | 6.9 |
| EBITDA | 9.0 | 8.9 |
| EPS | 9.5 | 9.3 |

Previous Reports

15-05-2023: [Q4FY23 results review](#)

21-01-2023: [Q3FY23 results review](#)

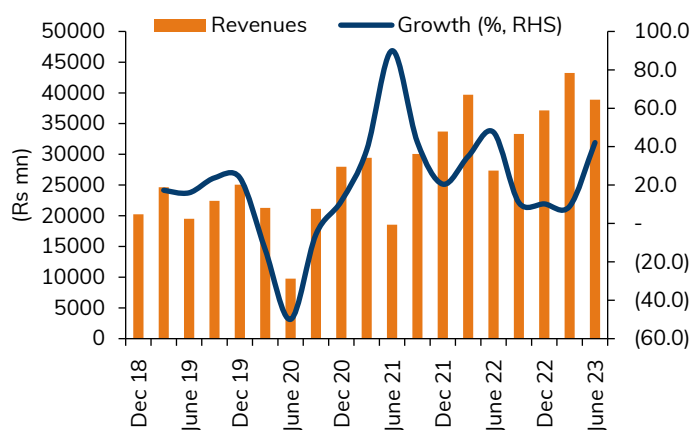
Key performance highlights

Exhibit 1: Q1FY24 financial performance

| Y/e March (INRmn) | Q1FY24 | Q1FY23 | YoY gr. | Q4FY23 | QoQ gr. |
|----------------------|---------------|---------------|-------------|---------------|---------------|
| Revenue | 38,894 | 27,366 | 42.1 | 43,237 | (10.0) |
| Expenditure | | | | | |
| Raw materials | 28,581 | 20,524 | 39.3 | 32,357 | (11.7) |
| % of revenue | 73.5 | 75.0 | | 74.8 | |
| Employee cost | 1,349 | 1,101 | 22.6 | 1,187 | 13.7 |
| % of revenue | 3.5 | 4.0 | | 2.7 | |
| Other expenditure | 3,478 | 2,630 | 32.3 | 3,598 | (3.3) |
| % of revenue | 8.9 | 9.6 | | 8.3 | |
| Total expenditure | 33,408 | 24,255 | 37.7 | 37,141 | (10.1) |
| EBITDA | 5,486 | 3,111 | 76.3 | 6,095 | (10.0) |
| EBITDA margin | 14.1 | 11.4 | | 14.1 | |
| Other income | 640 | 443 | 44.3 | 515 | 24.2 |
| PBDIT | 6,126 | 3,554 | 72.3 | 6,611 | (7.3) |
| Depreciation | 571 | 510 | 12.1 | 535 | 6.9 |
| PBIT | 5,554 | 3,045 | 82.4 | 6,076 | (8.6) |
| Interest | 249 | 84 | 195.6 | 282 | (11.5) |
| PBT | 5,305 | 2,960 | 79.2 | 5,794 | (8.4) |
| Prov for tax | 1,277 | 722 | 76.9 | 1,446 | (11.7) |
| % of PBT | 24.1 | 24.4 | | 25.0 | |
| Adjusted PAT | 4,028 | 2,238 | 80.0 | 4,348 | (7.4) |
| Extra ordinary items | (131) | (84) | 56.7 | (66) | 98.4 |
| Minority Interest | 35 | 41 | (13.1) | 100 | (64.8) |
| Reported PAT | 3,862 | 2,114 | 82.7 | 4,181 | (7.6) |

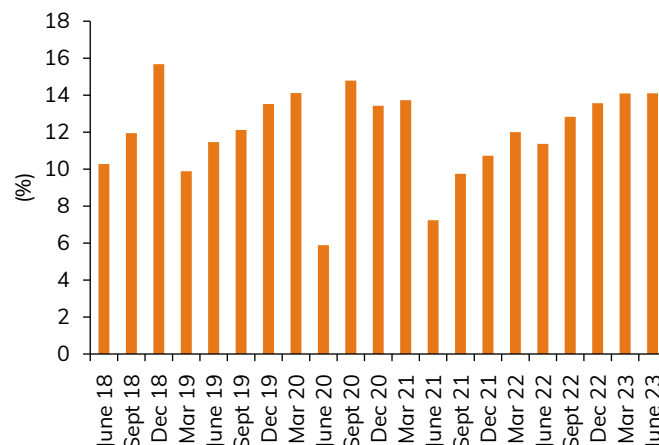
Source: Company data, I-Sec research

Exhibit 2: Revenue growth trend



Source: Company data, I-Sec research

Exhibit 3: EBITDA margin trend



Source: Company data, I-Sec research

Exhibit 4: Segment-wise performance

| Particulars | Q1FY24 | Q1FY23 | YoY gr. | Q4FY23 | QoQ gr. |
|--------------------------|---------------|---------------|--------------|---------------|--------------|
| Revenues (INR mn) | | | | | |
| Wires and cables | 35,338 | 24,057 | 46.9% | 40,783 | -13.4% |
| FMEG | 3,145 | 3,082 | 2.1% | 3,052 | 3.1% |
| Other | 1,528 | 999 | 53.0% | 1,338 | 14.2% |
| Intersegment | (781) | (450) | 73.7% | (1,784) | -56.2% |
| Total | 39,230 | 27,688 | 41.7% | 43,389 | -9.6% |
| EBIT (INR mn) | | | | | |
| Wires and cables | 5,223 | 2,773 | 88.4% | 5,896 | -11.4% |
| FMEG | (57) | 64 | -188.0% | (70) | -18.7% |
| Other | 183 | 125 | 46.9% | 82 | 124.2% |
| Intersegment | (99) | (39) | 153.0% | (195) | -49.4% |
| Total | 5,251 | 2,923 | 79.6% | 5,713 | -8.1% |
| EBIT margin (%) | | | | | |
| Wires and cables | 14.8 | 11.5 | | 14.5 | |
| FMEG | (1.8) | 2.1 | | (2.3) | |
| Other | 12.0 | 12.5 | | 6.1 | |
| Intersegment | 12.6 | 8.7 | | 10.9 | |
| Total | 13.4 | 10.6 | | 13.2 | |

Source: Company data, I-Sec research

Valuation and risks:

We model Polycab to report revenue and PAT CAGRs of 19.8% and 24.3% over FY23-FY25E and RoCE to move to 20.2% in FY25E from 19.6% in FY23. At our DCF-based revised target price of INR4,100, implied P/E works out to 31.4x FY25E EPS. Maintain HOLD.

Exhibit 5: DCF-based valuation

| Particulars | Amt (INR) |
|-------------------------------|--------------|
| Cost of Equity | 10.9% |
| Terminal growth rate | 5.0% |
| Discounted interim cash flows | 1,80,629 |
| Discounted terminal value | 4,30,759 |
| Total equity value | 6,11,388 |
| Value per share (INR) | 4,100 |

Source: Company data, I-Sec research

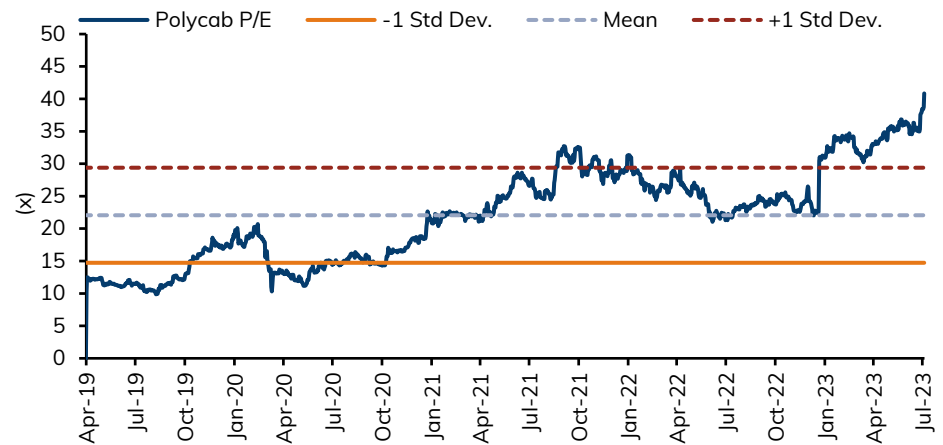
Risks:**Inflation in input prices & competitive pressures**

Sharp rise in input prices and/or increase in competitive pressures may result in downside to our estimates.

Faster than expected economic growth

Faster than expected economic growth is an upside risk to our estimates.

Exhibit 6: Mean P/E and standard deviations



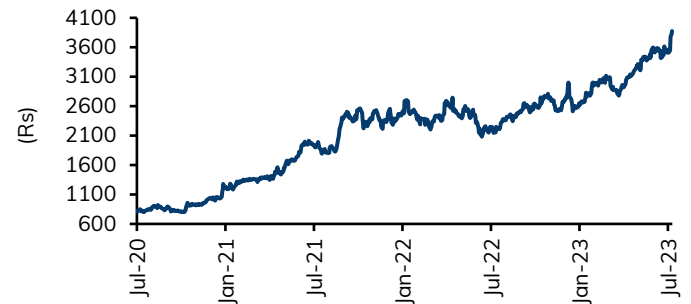
Source: Bloomberg, I-Sec research

Exhibit 7: Shareholding pattern

| % | Dec'22 | Mar'22 | Jun'23 |
|-------------------------|--------|--------|--------|
| Promoters | 66.6 | 66.6 | 66.0 |
| Institutional investors | 19.2 | 19.2 | 19.4 |
| MFs and others | 7.3 | 6.7 | 8.2 |
| FIs/Bank | 1.6 | 0.3 | 0.3 |
| Insurance Cos. | 1.1 | 1.1 | 1.1 |
| FIIIs | 9.3 | 11.1 | 9.7 |
| Others | 14.1 | 14.6 | 14.6 |

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(Rs mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|-----------------|-----------------|-----------------|-----------------|
| Net Sales | 1,22,038 | 1,41,078 | 1,77,228 | 2,02,636 |
| Operating Expenses | 1,09,386 | 1,22,557 | 1,53,479 | 1,75,179 |
| EBITDA | 12,652 | 18,521 | 23,749 | 27,457 |
| EBITDA Margin (%) | 10.4 | 13.1 | 13.4 | 13.6 |
| Depreciation & Amortization | 2,015 | 2,092 | 2,864 | 3,314 |
| EBIT | 10,637 | 16,430 | 20,885 | 24,143 |
| Interest expenditure | 352 | 598 | 187 | 179 |
| Other Non-operating Income | 899 | 1,333 | 1,835 | 1,842 |
| Recurring PBT | 11,184 | 17,165 | 22,532 | 25,806 |
| Profit / (Loss) from Associates | 26 | 93 | - | - |
| Less: Taxes | 2,706 | 4,250 | 5,408 | 6,193 |
| PAT | 8,478 | 12,915 | 17,124 | 19,612 |
| Less: Minority Interest | 87 | 123 | - | - |
| Extraordinaries (Net) | - | - | - | - |
| Net Income (Reported) | 8,452 | 12,823 | 17,124 | 19,612 |
| Net Income (Adjusted) | 8,365 | 12,699 | 17,124 | 19,612 |

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(Rs mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|
| Total Current Assets | 44,570 | 55,583 | 80,288 | 99,498 |
| of which cash & cash eqv. | 4,071 | 6,952 | 6,041 | 15,346 |
| Total Current Liabilities & Provisions | 16,612 | 24,756 | 38,104 | 43,567 |
| Net Current Assets | 27,958 | 30,826 | 42,184 | 55,931 |
| Investments | 9,043 | 15,482 | 16,482 | 17,482 |
| Net Fixed Assets | 16,705 | 20,623 | 24,517 | 25,703 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 3,755 | 2,508 | - | - |
| Total Intangible Assets | 46 | 46 | 46 | 46 |
| Other assets | - | - | - | - |
| Deferred Tax assests | - | - | - | - |
| Total Assets | 57,507 | 69,485 | 83,229 | 99,162 |
| Liabilities | | | | |
| Borrowings | 1,547 | 2,391 | 2,291 | 2,191 |
| Deferred Tax Liability | 272 | 409 | 409 | 409 |
| provisions | - | - | - | - |
| other Liabilities | - | - | - | - |
| Equity Share Capital | 1,494 | 1,498 | 1,498 | 1,498 |
| Reserves & Surplus | 53,943 | 64,814 | 78,658 | 94,691 |
| Total Net Worth | 55,437 | 66,311 | 80,155 | 96,188 |
| Minority Interest | 251 | 374 | 374 | 374 |
| Total Liabilities | 57,507 | 69,485 | 83,229 | 99,162 |

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

| | Sep-22 | Dec-22 | Mar-22 | Jun-23 |
|---------------------|--------|--------|--------|--------|
| Net Sales | 33,824 | 37,152 | 43,237 | 38,894 |
| % growth (YOY) | 10.8 | 10.2 | 8.9 | 42.1 |
| EBITDA | 4,276 | 5,038 | 6,095 | 5,486 |
| Margin % | 12.8 | 13.6 | 14.1 | 14.1 |
| Other Income | (22) | 397 | 515 | 640 |
| Extraordinaries | 50 | 133 | (66) | (131) |
| Adjusted Net Profit | 2,728 | 3,710 | 4,181 | 3,862 |

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(Rs mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|----------------|----------------|----------------|----------------|
| Operating Cashflow | 5,039 | 13,999 | 7,719 | 18,484 |
| Working Capital Changes | (4,974) | (1,058) | (12,269) | (4,442) |
| Capital Commitments | (5,267) | (4,795) | (4,250) | (4,500) |
| Free Cashflow | (228) | 9,205 | 3,469 | 13,984 |
| Other investing cashflow | 765 | (7,432) | (1,000) | (1,000) |
| Cashflow from Investing Activities | (4,502) | (12,226) | (5,250) | (5,500) |
| Issue of Share Capital | 133 | 128 | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | (339) | 205 | (100) | (100) |
| Dividend paid | (1,492) | (2,094) | (3,281) | (3,579) |
| Others | - | - | - | - |
| Cash flow from Financing Activities | (1,698) | (1,762) | (3,381) | (3,679) |
| Chg. in Cash & Bank balance | (1,160) | 11 | (911) | 9,305 |
| Closing cash & balance | 1,217 | 1,228 | 6,041 | 15,346 |

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 56.1 | 85.2 | 114.8 | 131.5 |
| Adjusted EPS (Diluted) | 56.1 | 85.2 | 114.8 | 131.5 |
| Cash EPS | 69.6 | 99.2 | 134.0 | 153.7 |
| Dividend per share (DPS) | 10.0 | 14.0 | 22.0 | 24.0 |
| Book Value per share (BV) | 371.8 | 444.7 | 537.5 | 645.0 |
| Dividend Payout (%) | 17.8 | 16.5 | 19.2 | 18.2 |
| Growth (%) | | | | |
| Net Sales | 38.8 | 15.6 | 25.6 | 14.3 |
| EBITDA | 13.9 | 46.4 | 28.2 | 15.6 |
| EPS (INR) | (0.2) | 51.8 | 34.8 | 14.5 |
| Valuation Ratios (x) | | | | |
| P/E | 73.6 | 48.5 | 35.9 | 31.4 |
| P/CEPS | 59.3 | 41.6 | 30.8 | 26.9 |
| P/BV | 11.1 | 9.3 | 7.7 | 6.4 |
| EV / EBITDA | 47.7 | 32.2 | 25.1 | 21.3 |
| P / Sales | 5.0 | 4.4 | 3.5 | 3.0 |
| Dividend Yield (%) | 0.2 | 0.3 | 0.5 | 0.6 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 22.4 | 25.5 | 26.0 | 26.3 |
| EBITDA Margins (%) | 10.4 | 13.1 | 13.4 | 13.6 |
| Effective Tax Rate (%) | 24.2 | 24.8 | 24.0 | 24.0 |
| Net Profit Margins (%) | 6.9 | 9.2 | 9.7 | 9.7 |
| NWC / Total Assets (%) | 96.4 | 95.4 | 96.3 | 97.0 |
| Net Debt / Equity (x) | (0.2) | (0.3) | (0.3) | (0.3) |
| Net Debt / EBITDA (x) | (0.9) | (1.1) | (0.9) | (1.1) |
| Profitability Ratios | | | | |
| RoCE (%) | 14.9 | 19.6 | 20.9 | 20.2 |
| RoE (%) | 16.2 | 20.8 | 23.3 | 22.1 |
| RoIC (%) | 14.9 | 19.6 | 20.9 | 20.2 |
| Fixed Asset Turnover (x) | 4.6 | 4.8 | 5.0 | 4.9 |
| Inventory Turnover Days | 76 | 82 | 89 | 86 |
| Receivables Days | 48 | 35 | 65 | 62 |
| Payables Days | 57 | 68 | 85 | 82 |

Source Company data, I-Sec research

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