

# Polycab India (Polycab)

Consumer Electricals | NBIE Conference Update

**ACCUMULATE**

**CMP: Rs5,208 | Target Price (TP): Rs5,335 | Upside: 2.5%**

**September 04, 2023**

## High infra spend to aid long term growth

### Key Points

- We hosted Mr Chirayu Upadhyaya – Head (Investor Relations). He stated that growth in installed renewable power capacities and infrastructure developments are expected to boost demand for Cables (on both Domestic and Export fronts) while continued uptick in residential real estate segment is expected to boost demand for Wires in the domestic market.
- Post the rejig of distribution channel in the FMEG portfolio and continued investments in brand promotion, the FMEG segment is expected to start showing healthy growth FY24 onwards.
- While we have downgraded Polycab to ACCUMULATE, we maintain our TP of Rs5,335, valuing it at 40x on June'2025E EPS. We remain structurally positive on the company's long-term business outlook due to tailwinds in the W&C business, management's superior execution capabilities and continued growth momentum in the high-margin Cable exports business.

### Capacities in place to support strong growth anticipated in Cables:

Strong domestic B2B demand (due to infra spending by govt), continued thrust on private capex, favorable growth in Real Estate sector, shift towards renewables in export markets and prospective project wins in Bharat Net Phase 3 are expected to keep demand for Cables elevated. Furthermore, due to timely capex for expanding capacities where there are capacity constraints for both domestic and international players, Polycab stands to win and execute larger orders vis-a-vis peers.

**FMEG growth to kick in from FY24:** Factors that are expected to drive growth in the FMEG segment are: (1) Positive traction due to rejig done in distribution by tying up with larger dealers & distributions and simultaneously connecting smaller dealers with larger ones (2) Dedicated spending on brand promotion to improve visibility (ad & promotional spend pegged at 3-5% of B2C topline; 2.7% of B2C topline in FY23) (3) Product innovation (now present across all price categories vs only in the mid-value segment 2 years ago) and (4) On-boarding influencers such as electricians & interior decorators, and continuously engaging with them to spread product awareness.

**Efficient RM sourcing – a big advantage vs peers:** Polycab books its sales with vendors based on provisional prices while actual pricing is decided once quarter ends – based on average pricing within a stated band and timeframe. This gives them margin enhancement when copper prices are falling and margin protection of 11-13% when copper prices are rising (effective hedging + quick pass-through of price increases). Comparatively, peers have more volatility in their margins. This advantage is predominantly because of its massive procurement of copper vs that of peers.

Est Change	No Change
TP Change	No Change
Rating Change	Downward

### Company Data and Valuation Summary

Reuters:	POLC.BO
Bloomberg:	POLYCAB IN
Mkt Cap (Rsbn/US\$bn):	781.2 / 9.5
52 Wk H / L (Rs):	5,220 / 2,441
ADTV-3M (mn) (Rs/US\$):	3,206.9 / 39.0
Stock performance (%) 1M/6M/1yr:	12.5 / 67.2 / 109.7
Nifty 50 performance (%) 1M/6M/1yr:	(1.6) / 4.5 / 10.8

Shareholding	2QFY23	3QFY23	4QFY23
Promoters	68.0	66.6	66.2
DII's	10.4	10.1	9.4
FII's	6.4	8.1	9.8
Others	15.2	15.2	14.7
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
Net Sales	122,038	141,078	168,310	192,761
Growth YoY%	38.8	15.6	19.3	14.5
Gross margin %	22.4	25.5	26.5	27.0
EBITDA	12,652	18,521	23,886	28,187
EBITDA margin %	10.4	13.1	14.2	14.6
Adj PAT	8,365	12,700	16,233	19,087
Adj PAT Margin	6.9	9.0	9.6	9.9
Growth YoY%	(0.2)	51.8	27.8	17.6
Adj EPS	55.9	84.8	108.4	127.4
RoCE	18.7	23.9	26.8	27.2
RoCE (Post-Tax)	14.5	18.0	20.1	20.4
RoE	15.1	19.2	21.0	21.1
P/E	93.2	61.4	48.1	40.9
EV/EBITDA	61.4	41.8	32.2	27.0
P/BV	14.1	11.8	10.1	8.6

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

### Key Links – [Annual Report FY23](#)

[1QFY24 Results](#)

[1QFY24 Investor PPT](#)

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

## Key highlights of the meeting:

### ▪ Wires & Cables:

- Demand environment continues to remain strong on the back of strong B2B demand. Industry volume for Cables usually hovers ~1.5x-2x of real GDP.
- Industry is witnessing robust domestic demand, supported by govt measures, improving private capex and strong Real Estate off-take. Real Estate growth is usually for 6-7 years and therefore growth in Wires is expected to be good for the next 4-5 years.
- Volume growth in Cables stood at 50%+ in 1QFY24 and Cables growth continues to outperform Wires growth. Polycab accounts for ~50% of the entire copper consumption in India.
- Exports' contribution stood at 9% of sales in 1QFY24. Demand for Cables from the US continues to remain strong.
  - Four years ago, contribution from exports stood at ~3-4% and now it is at ~10%, with exports reaching 72 countries – the US being the largest market.
  - Global Cables market currently stands at ~US\$250bn, of which the US market alone is worth ~US\$50bn (~20% of overall global Cables market).
  - As per the trend seen in the US, demand is outpacing supply. This, coupled with the 'China +1' strategy is helping India in terms of orders shifting here.
  - International geographies have strict certificate requirements in terms of selling cables and usually it takes ~18-24 months to get certificates for each type of cables. Polycab started applying for these certificates 3-4 years back and therefore it is now in a position to sell most types of cables to the US markets.
  - Even other geographies such as Europe and Australia are generating healthy demand for cables, predominantly on the back of investments in renewable energy.
  - Internationally, a lot of Polycab's peers have been facing capacity constraints, whereas the company has always invested ahead of time in terms of capacity expansion. This has helped it in winning more orders internationally.
  - Current capacity utilization stands at 50-70% depending upon different types of cables.
- Polycab operates in the W&C segment through a distribution-led model.
- Polycab has submitted bids for 4 packages for the Bharat Net Phase 3 project. Orders span in the range of Rs20-30bn. The project is spread over 10 years, wherein Cables is required for the first 3 years and then implementation of the project is expected to happen over the next 7 years.
- OFC contribution is less than 5% of sales. Margins in OFC cables are similar to other cables.
- EHV Cables are used in power transmission. Management expects EHV Cables market to grow on account of increasing per capita consumption of electricity and shift of overhead transmission lines to underground cables. The margins in EHV Cables are expected to be higher than margins in normal Cables. Capex for greenfield capacity in EHV Cables is in the pipeline and revenue is expected to flow in by FY26-end.
- Copper prices are expected to rise over the long term on the back of strong demand, both domestically as well as internationally. However, margins are expected to remain range-bound (and see lower volatility) due to its efficient hedging mechanism + the ability to pass on any increase in copper prices on an immediate basis.

## ▪ FMEG:

- Historically, the rejig in its distribution strategy had led to tepid growth in topline as well as bottomline performance. However, the same is now complete and Polycab has tied up with big dealers & distributors to enhance the reach for its FMEG products.
- Brand positioning for FMEG products remains a top priority and therefore ad & promotional spend is pegged at 3-5% of B2C topline (2.7% of B2C topline in FY23).
- Product innovation continues to remain one of the important pillars in driving FMEG demand. Earlier, Polycab was only present in mid-price range but now – as a result of continued innovation – it is present across all price categories (low, mid and premium).
- The company has also been continuously engaging with influencers – mainly electricians and interior decorators – across geographies to capture the opportunities in the FMEG space. The idea is to educate them about the products and engage them on a frequent basis (weekly or fortnightly).
- Polycab manufactures almost all products in-house. This gives them backward integration advantage + helps them in maintaining high quality products.
- As per Project LEAP, EBITDA margin in the FMEG segment is expected to be above 10% by FY26-end.
  - In 2014, Polycab was a new entrant in FMEG and since market was already flooded with many players, bigger distributors were unwilling to on-board Polycab. Post 2021, since FMEG has become a sizable business (above Rs10bn of revenue), bigger dealers & distributors now want to sell Polycab's FMEG products.
  - As a result, Polycab gradually started increasing supply to bigger distributors and simultaneously decreased inventory with small dealers & distributors. At the same time, it also started convincing smaller dealers to tie up with larger distributors.
  - Because of all this rejig + brand promotion + influencer management, we are expected to see both topline as well as bottom line growth happening FY24 onwards.
    - ❖ Fans – rejig in Fans portfolio + BEE-rated volatility impacted the Fans portfolio. Furthermore, margins were muted due to RM cost headwinds, lower operating leverage and higher competitive intensity.
    - ❖ For Lighting, shift to DOB technology led to value erosion (prices of LED reduced by 10-12%).
    - ❖ Since ~65% of the FMEG revenue comes from Fans & Lighting, the topline as well as bottomline got impacted in the last couple of years.
    - ❖ Going ahead, Polycab plans to focus on new product introduction, premiumization, higher ad-spends and improving distribution reach.
- Since the company is doing a lot of in-house manufacturing, it has set up ample capacities and depreciation for the same has started to flow in and therefore the impact has been seen in the bottom line.

## ▪ Others:

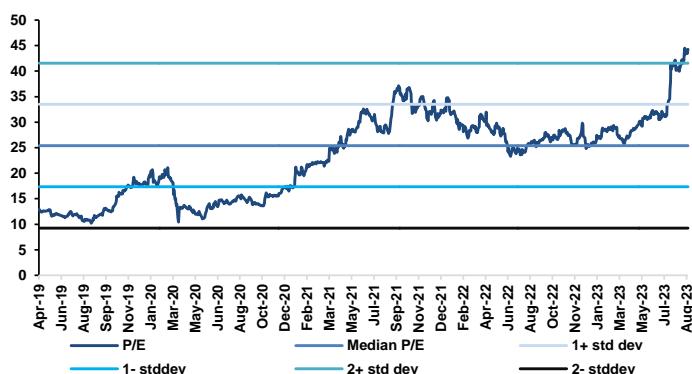
- B2B (Cables + EPC):B2C (Wires + FMEG) mix stood at 65%:35% in FY23. Going forward – under Project LEAP – the mix is expected to reach 50:50 by FY26-end.
  - Channel Financing stood at 83% at the end of 1QFY24.
- The management highlighted that Polycab has optimized its supply chain and it can now supply across India within 24 hours. This has led to lower stocking of inventory by dealers & distributors and consequently helped them in maintaining their own cash flows better.

**Exhibit 1: Change in earnings estimates**

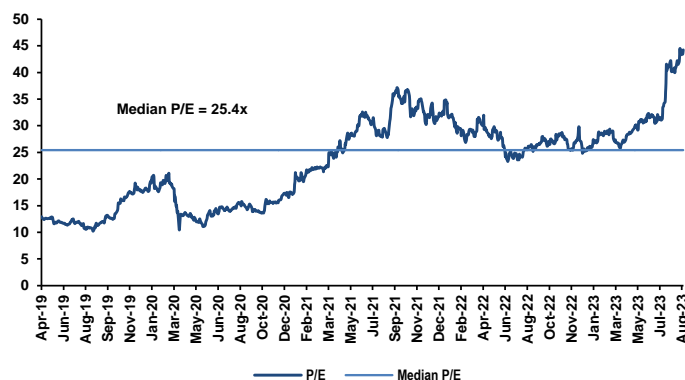
Description (Rs Mn)	FY24E			FY25E		
	Old	New	Change (%)	Old	New	Change (%)
Net Sales	168,310	168,310	-	192,761	192,761	-
EBITDA	23,886	23,886	-	28,187	28,187	-
<b>EBITDA Margin (%)</b>	<b>14.2</b>	<b>14.2</b>	<b>0 bps</b>	<b>14.6</b>	<b>14.6</b>	<b>0 bps</b>
Adj. PAT	16,233	16,233	-	19,087	19,087	-
Adj. EPS	108.4	108.4	-	127.4	127.4	-

Source: Nirmal Bang Institutional Equities Research

**Exhibit 2: 1-year forward PE trend**



Source: Bloomberg, Nirmal Bang Institutional Equities Research



Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 3: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>87,922</b>	<b>1,22,038</b>	<b>1,41,078</b>	<b>1,68,310</b>	<b>1,92,761</b>
% growth	(0.4)	38.8	15.6	19.3	14.5
RM Costs	65,171	94,657	1,05,109	1,23,708	1,40,716
Gross Profit	22,751	27,381	35,969	44,602	52,046
<b>Gross Margin (%)</b>	<b>25.9</b>	<b>22.4</b>	<b>25.5</b>	<b>26.5</b>	<b>27.0</b>
Staff cost	3,537	4,066	4,568	5,218	5,783
Other expenses	8,102	10,663	12,880	15,499	18,076
<b>EBITDA</b>	<b>11,111</b>	<b>12,652</b>	<b>18,521</b>	<b>23,886</b>	<b>28,187</b>
% growth	(2.1)	13.9	46.4	29.0	18.0
<b>EBITDA margin (%)</b>	<b>12.6</b>	<b>10.4</b>	<b>13.1</b>	<b>14.2</b>	<b>14.6</b>
Other income	1,193	899	1,333	1,515	1,735
Interest	427	352	598	896	1,076
Depreciation	1,762	2,015	2,092	2,555	3,005
Profit Before Tax	10,557	11,905	17,165	21,949	25,841
Tax	1,703	2,706	4,250	5,466	6,504
Reported net profit	8,821	9,086	12,700	16,233	19,087
<b>Adj. net profit</b>	<b>8,380</b>	<b>8,365</b>	<b>12,700</b>	<b>16,233</b>	<b>19,087</b>
Adj. PAT margin	9.5	6.9	9.0	9.6	9.9
<b>Adj. EPS (Rs)</b>	<b>56.0</b>	<b>55.9</b>	<b>84.8</b>	<b>108.4</b>	<b>127.4</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,491	1,494	1,498	1,498	1,498
Reserves	46,048	53,943	64,814	75,805	88,901
Net worth	47,539	55,437	66,311	77,302	90,398
Minority Interest	188	251	374	374	374
Total Loans	1,927	831	1,551	1,451	1,351
Deferred Tax Liability Net	418	272	409	409	409
<b>Total Liabilities</b>	<b>50,072</b>	<b>56,791</b>	<b>68,646</b>	<b>79,537</b>	<b>92,533</b>
Net Block	18,696	16,751	20,669	24,633	27,628
Capital work-in-progress	991	3,755	2,508	2,000	1,800
Long-term Investments	6,349	7,733	13,505	13,505	13,505
Inventories	19,879	21,996	29,514	33,215	36,239
Debtors	15,641	13,763	12,992	16,139	18,484
Cash	5,313	4,071	6,952	12,710	21,575
Other Current assets	3,278	6,049	8,101	9,762	11,180
Total Current assets	44,111	45,880	57,559	71,826	87,478
Creditors	13,480	12,175	20,326	24,064	27,372
Other current liabilities	6,595	5,152	5,269	8,363	10,506
Total current liabilities	20,075	17,328	25,596	32,427	37,878
Net current assets	24,036	28,552	31,964	39,399	49,600
<b>Total Assets</b>	<b>50,072</b>	<b>56,791</b>	<b>68,646</b>	<b>79,537</b>	<b>92,533</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
EBIT	9,350	10,637	16,430	21,331	25,182
(Inc)/Dec in working capital	1,077	(5,758)	(530)	(1,678)	(1,336)
<b>Cash flow from operations</b>	<b>10,427</b>	<b>4,879</b>	<b>15,899</b>	<b>19,653</b>	<b>23,846</b>
Other income	1,193	899	1,333	1,515	1,735
Depreciation	1,762	2,015	2,092	2,555	3,005
Tax paid (-)	(1,450)	(2,853)	(4,113)	(5,466)	(6,504)
<b>Net cash from operations</b>	<b>11,899</b>	<b>8,078</b>	<b>14,996</b>	<b>18,006</b>	<b>21,831</b>
Capital expenditure (-)	(4,816)	(6,084)	(4,763)	(6,011)	(5,800)
<b>Net cash after capex</b>	<b>7,083</b>	<b>1,993</b>	<b>10,233</b>	<b>11,996</b>	<b>16,031</b>
Interest paid (-)	(427)	(352)	(598)	(896)	(1,076)
Dividends paid (-)	(1,491)	(2,092)	(2,995)	(5,242)	(5,991)
Inc./(dec.) in total borrowings	706	(1,095)	720	(100)	(100)
(Inc.)/Dec. in investments	(5,695)	(1,383)	(5,772)	-	-
<b>Cash from Financial Activities</b>	<b>(6,866)</b>	<b>(4,857)</b>	<b>(8,519)</b>	<b>(6,238)</b>	<b>(7,166)</b>
Others	1,940	901	1,167	(0)	(0)
Opening cash	2,813	5,313	4,071	6,952	12,710
Closing cash	5,313	4,071	6,952	12,710	21,575
Change in cash	2,500	(1,242)	2,881	5,757	8,865

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Per share (Rs)</b>					
EPS	56.0	55.9	84.8	108.4	127.4
Book value	317.4	370.2	442.8	516.2	603.6
<b>Valuation (x)</b>					
P/E	93.1	93.2	61.4	48.1	40.9
P/BV	16.4	14.1	11.8	10.1	8.6
EV/EBITDA	69.9	61.4	41.8	32.2	27.0
EV/Sales	8.8	6.4	5.5	4.6	3.9
<b>Return ratio (%)</b>					
RoCE	18.7	18.7	23.9	26.8	27.2
RoCE (Post-Tax)	15.7	14.5	18.0	20.1	20.4
RoE	17.6	15.1	19.2	21.0	21.1
RoIC	24.3	23.6	34.1	40.0	43.8
<b>Profitability ratio (%)</b>					
EBITDA margin	12.6	10.4	13.1	14.2	14.6
EBIT margin	10.6	8.7	11.6	12.7	13.1
PAT margin	9.5	6.9	9.0	9.6	9.9
<b>Turnover ratio</b>					
Fixed Asset turnover ratio (x)	3.3	4.7	4.4	4.3	4.3
Debtor days	65	41	34	35	35
Inventory days	111	85	102	98	94
Creditors days	75	47	71	71	71
<b>Solvency ratio (x)</b>					
Debt-equity	0.04	0.01	0.02	0.02	0.01
Interest coverage	21.9	30.2	27.5	23.8	23.4

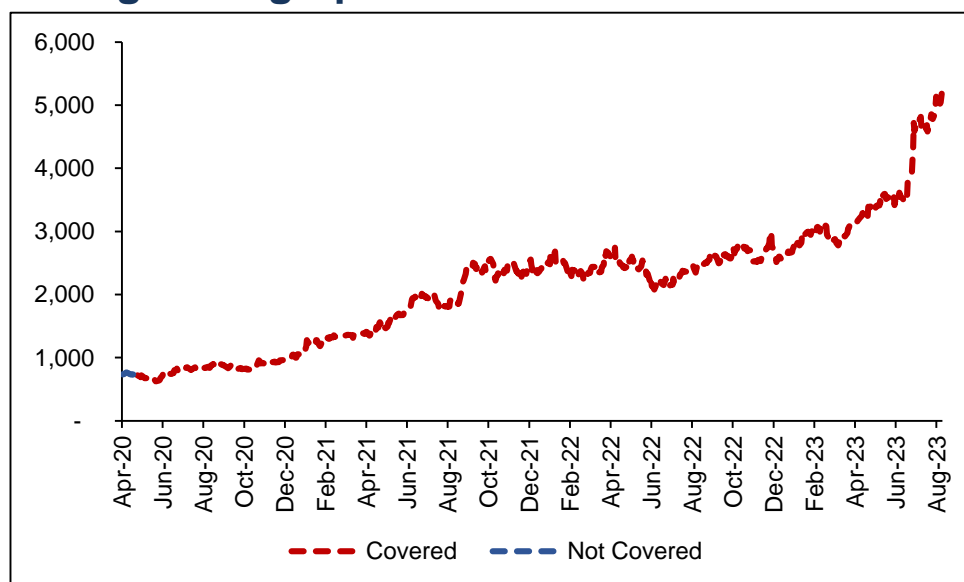
Source: Company, Nirmal Bang Institutional Equities Research

## 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
22 March 2023	Accumulate	2,864	3,065
15 May 2023	Accumulate	3,381	3,415
7 June 2023	Accumulate	3,538	3,415
20 July 2023	Buy	4,308	5,335
04 September 2023	Accumulate	5,208	5,335

Coverage was transferred to Natasha Jain with effect from 1<sup>st</sup> July 2020

## Rating track graph





## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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