

Polycab India

HOLD
Maintained

Benefits of distribution restructuring to be visible
in FY24-FY25

Rs3,389

Q4FY23 result review and earnings/TP revision

White Goods & Durables

Target price Rs3,400

Earnings revision

(%)	FY24E	FY25E
Sales	↑ 1.6	↑ 1.3
EBITDA	↑ 6.9	↑ 6.1
EPS	↑ 9.8	↑ 5.9

Target price revision

Rs3,400 from Rs2,700

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	68.0	66.6	66.2
Institutional investors	15.2	19.2	19.2
MFs and others	7.3	7.3	6.7
FIs/Bank	0.1	1.6	0.3
Insurance Cos.	1.4	1.1	1.1
FII	6.4	9.3	11.1
Others	16.8	14.1	14.6

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	37.2	44.7	7.5
Environment	2.8	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

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We believe Polycab is on a strong footing to report healthy earnings CAGR of 18.8% over FY23-25 as (1) distribution rejig is over and benefits will likely be realized in FY24-25, (2) commodity prices have corrected and it will potentially lead to better margins, (3) there is strong revival in International business and (4) commencement of Halol plant for fans and launch of multiple variants of BLDC fans to drive premiumization. We note Polycab's share of voice is higher in FMEG sector than its peers and we model Polycab to gain market share over FY24-FY25.

We raise FY24-25 earnings estimates to factor in strong Q4FY23 and correction in commodity prices. We remain positive on Polycab due to its competitive advantages and growth opportunity in consumer durables. However, we see limited stock price upside at current valuations (28.2x FY25E). Maintain **HOLD** with a DCF-based TP of Rs3,400 (implied P/E: 28x FY25E EPS; Earlier TP: Rs2,700).

- **Q4FY23 performance:** Polycab reported revenue, EBITDA and PAT growth of 8.9%, 28% and 33.5% YoY, respectively. Gross margin expanded 300bps YoY led by carry-over of price hikes and correction in raw material prices. Ad-spends increased 47% YoY. EBITDA margin expanded 210bps YoY to 14.1%.
- **Segment-wise performance:** Segment-wise YoY revenue growth rates were as follows: Wires and cables 15.2%, FMEG -19.5% and others (incl EPC business) 28.1%. While EBIT margin for C&W business grew 290bps, FMEG reported loss. International business revenues grew 125% YoY. Market share in Domestic organized cables expanded to 22-24% in FY23 from 18% in FY19.
- **Benefits of distribution realignment in FY24:** The distribution restructuring as part of project LEAP was completed in FY23. Launch of ratings on fans and distribution rejig impacted FMEG segment in FY23. We model the benefits of distribution restructuring in FY24. We also model strong growth in fans due to launch of 40 new SKUs and commencement of production of Halol plant.
- **Maintain HOLD:** We model Polycab to report PAT CAGR of 18.8% over FY23-FY25E and RoCE upwards of 24% over FY24-FY25E. We remain positive on the company's business model due to strong moats and growth opportunities. However, at current valuations, we believe the upside is capped. Maintain **HOLD** with an unchanged DCF-based target price of Rs3,400 (implied P/E 28x FY25E).

Market Cap	Rs508bn/US\$6.2bn			
Reuters/Bloomberg	POLC.BO / POLYCAB IN			
Shares Outstanding (mn)	149.8			
52-week Range (Rs)	3389/2080			
Free Float (%)	33.8			
FII (%)	11.1			
Daily Volume (US\$'000)	12,895			
Absolute Return 3m (%)	13.5			
Absolute Return 12m (%)	40.3			
Sensex Return 3m (%)	2.3			
Sensex Return 12m (%)	18.5			
Year to March	FY22	FY23P	FY24E	FY25E
Revenue (Rs mn)	1,22,038	1,41,078	1,65,728	1,89,641
Adj. Net Profit (Rs mn)	8,365	12,699	15,624	17,925
Dil. Rec. EPS (Rs)	56.1	85.2	104.8	120.2
% Chg YoY	(0.2)	51.8	23.0	14.7
P/E (x)	60.4	39.8	32.3	28.2
CEPS (Rs)	69.6	99.2	124.1	142.6
EV/EBITDA (x)	38.5	26.3	22.4	19.3
Dividend Yield (%)	0.4	0.6	0.6	0.7
RoCE (%)	19.5	25.9	25.0	24.6
RoE (%)	16.1	20.7	21.4	20.8

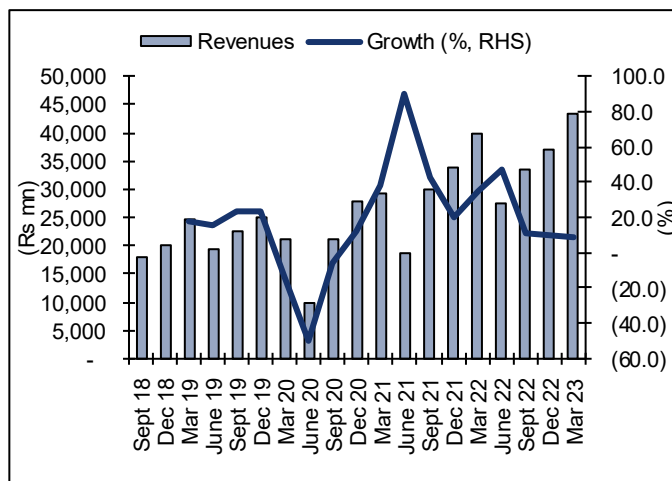
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Table 1: Q4FY23 financial performance*(Rs mn, year ending March 31)*

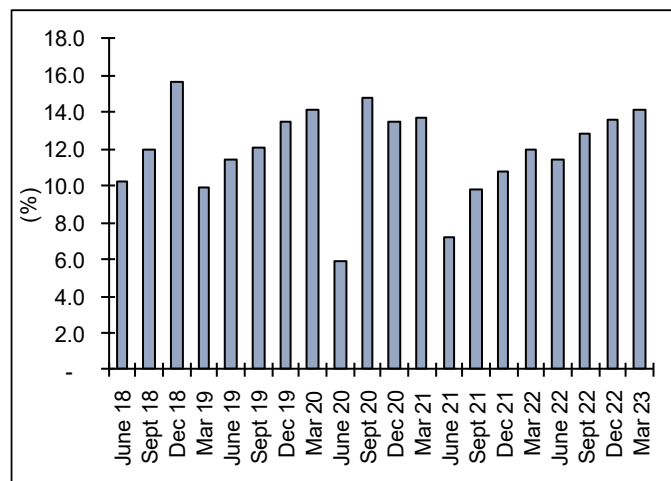
	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.
Revenue	43,237	39,700	8.9	37,152	16.4
Expenditure					
Raw materials	32,357	30,892	4.7	27,603	17.2
% of revenue	74.8	77.8		74.3	
Employee cost	1,187	1,050	13.0	1,132	4.8
% of revenue	2.7	2.6		3.0	
Other expenditure	3,598	2,994	20.2	3,378	6.5
% of revenue	8.3	7.5		9.1	
Total expenditure	37,141	34,936	6.3	32,113	15.7
EBITDA	6,095	4,763	28.0	5,038	21.0
EBITDA margin	14.1	12.0		13.6	
Other income	515	168	206.2	397	29.8
PBDIT	6,611	4,932	34.0	5,435	21.6
Depreciation	535	503	6.4	525	1.9
PBIT	6,076	4,429	37.2	4,911	23.7
Interest	282	125	125.0	93	204.0
PBT	5,794	4,304	34.6	4,818	20.3
Prov for tax	1,446	1,047	38.2	1,202	20.4
% of PBT	25.0	24.3		24.9	
Adjusted PAT	4,348	3,257	33.5	3,616	20.2
Extraordinary items	(66)	(23)	187.2	133	(149.6)
Minority Interest	100	32	216.4	40	151.5
Reported PAT	4,181	3,202	30.6	3,710	12.7

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenue and revenue growth

Source: Company data, I-Sec research

Chart 2: EBITDA margin

Source: Company data, I-Sec research

Table 2: Segment-wise performance*(Rs mn, year ending March 31)*

Particulars	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.
Revenues (Rs mn)					
Wires and cables	40,783	35,400	15.2%	33,418	22.0%
FMEG	3,052	3,792	-19.5%	3,420	-10.8%
Other	1,338	1,044	28.1%	1,260	6.2%
Intersegment	(1,784)	(507)	251.7%	(827)	115.8%
Total	43,389	39,730	9.2%	37,271	16.4%
EBIT (Rs mn)					
Wires and cables	5,896	4,106	43.6%	4,593	28.4%
FMEG	(70)	105	-166.5%	(24)	191.3%
Other	82	139	-41.2%	152	-46.1%
Intersegment	(195)	(59)	232.3%	(88)	122.3%
Total	5,713	4,291	33.1%	4,633	23.3%
EBIT margin (%)					
Wires and cables	14.5	11.6		13.7	
FMEG	(2.3)	2.8		(0.7)	
Other	6.1	13.3		12.1	
Intersegment	10.9	11.6		10.6	
Total	13.2	10.8		12.4	

Source: Company data, I-Sec research

Valuation and risks

We model Polycab to report revenue and PAT CAGRs of 15.9% and 18.8% over FY23-FY25E and RoCE to move to 24.6% in FY25E from 25.9% in FY23. At our DCF-based revised target price of Rs3,400, implied P/E works out to 28x FY25E EPS. Maintain **HOLD**.

Table 3: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	10.6
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	1,41,922
Discounted terminal value (Rs mn)	3,65,083
Total equity value (Rs mn)	5,07,005
Value per share (Rs)	3,400

Source: Company data, I-Sec research

Risks

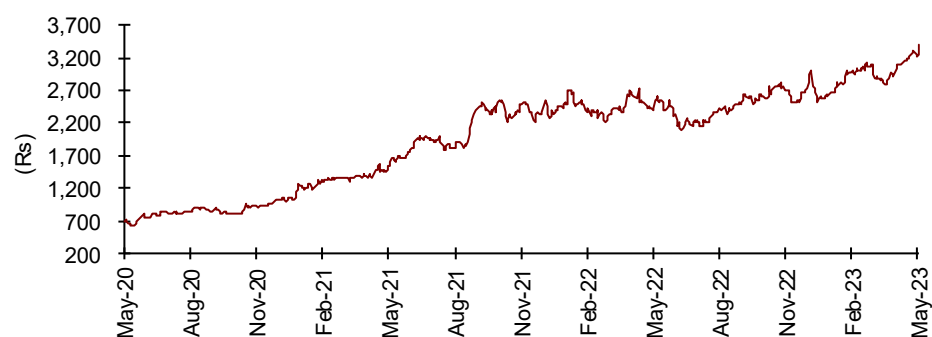
Sharp increase in input prices and competitive pressures

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

Faster than expected economic recovery

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

Price chart



Source: Bloomberg

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23P	FY24E	FY25E
Net Sales	1,22,038	1,41,078	1,65,728	1,89,641
Operating Expenses	1,07,946	1,20,557	1,41,615	1,61,764
EBITDA	12,652	18,521	21,793	25,222
% margins	10.4	13.1	13.2	13.3
Depreciation & Amortisation	2,015	2,092	2,882	3,333
Gross Interest	352	598	187	179
Other Income	899	1,333	1,835	1,875
Recurring PBT	11,184	17,165	20,558	23,586
Less: Taxes	2,706	4,250	4,934	5,661
Less: Minority Interest	113	216	-	-
Net Income (Reported)	8,365	12,699	15,624	17,925
Extraordinaries (Net)	721	34	-	-
Recurring Net Income	9,086	12,733	15,624	17,925

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23P	FY24E	FY25E
Assets				
Total Current Assets	44,570	55,583	76,334	93,554
of which cash & cash eqv.	4,071	6,952	6,457	14,340
Total Current Liabilities & Provisions	16,612	24,756	35,632	40,773
Net Current Assets	27,958	30,826	40,702	52,781
Investments	9,089	15,528	16,528	17,528
Net Fixed Assets	16,705	20,623	24,499	25,666
Capital Work-in-Progress	3,755	2,508	-	-
Total Assets	57,507	69,485	81,729	95,975
Liabilities				
Borrowings	1,547	2,391	2,291	2,191
Deferred Tax Liability	272	409	409	409
Minority Interest	251	374	374	374
Equity Share Capital	1,494	1,498	1,498	1,498
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	53,943	64,814	77,158	91,504
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	55,437	66,311	78,655	93,001
Total Liabilities	57,507	69,485	81,729	95,975

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	June 22	Sept 22	Dec 22	Mar 23
Net sales	27,366	33,324	37,152	43,237
% growth (YoY)	47.5	10.8	10.2	8.9
EBITDA	3,111	4,276	5,038	6,095
Margin (%)	11.4	12.8	13.6	14.1
Other income	443	(22)	397	515
Extraordinaries (Net)	(84)	50	133	(66)
Adjusted Net profit	2,114	2,728	3,710	4,181

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23P	FY24E	FY25E
Operating Cashflow	10,013	15,057	18,507	21,258
Working Capital Changes	(4,974)	(1,058)	(10,372)	(4,196)
Capital Commitments	(5,200)	(4,584)	(4,250)	(4,500)
Free Cashflow	(278)	9,415	3,885	12,562
Cashflow from Investing Activities	815	(7,642)	(1,000)	(1,000)
Issue of Share Capital	133	128	-	-
Inc (Dec) in Borrowings	(339)	205	(100)	(100)
Dividend paid	(1,492)	(2,094)	(3,281)	(3,579)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	(1,160)	11	(496)	7,883

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY22	FY23P	FY24E	FY25E
Per Share Data (Rs)				
EPS	56.1	85.2	104.8	120.2
Cash EPS	69.6	99.2	124.1	142.6
Dividend per share (DPS)	14.0	20.0	22.0	24.0
Book Value per share (BV)	373.6	447.4	530.2	626.4
Growth (%)				
Net Sales	38.8	15.6	17.5	14.4
EBITDA	13.9	46.4	17.7	15.7
PAT	(0.2)	51.8	23.0	14.7
DPS	2.4	42.5	25.1	14.9
Valuation Ratios (x)				
P/E	60.4	39.8	32.3	28.2
P/CEPS	48.7	34.2	27.3	23.8
P/BV	9.1	7.6	6.4	5.4
EV / EBITDA	38.5	26.3	22.4	19.3
EV / Sales	4.0	3.5	2.9	2.6

Operating Ratios

Raw Material / Sales (%)	77.6	74.5	74.3	74.0
Employee cost / Sales (%)	3.3	3.2	3.8	3.9
SG&A / Sales (%)	0.7	0.9	1.0	1.0
Other Income / PBT (%)	8.0	7.8	8.9	8.0
Effective Tax Rate (%)	24.2	24.8	24.0	24.0
Working Capital (days)	19.6	16.9	20.7	20.3
Inventory Turnover (days)	65.8	76.4	80.3	80.3
Receivables (days)	41.2	32.3	58.4	58.4
Payables (days)	48.9	63.4	76.7	76.7
Net D/E (x)	(0.2)	(0.3)	(0.2)	(0.3)

Profitability Ratios (%)

Net Income Margins	6.9	9.2	9.4	9.5
RoACE	19.5	25.9	25.0	24.6
RoAE	16.1	20.7	21.4	20.8
Dividend Payout	25.0	23.5	21.0	20.0
Dividend Yield	0.4	0.6	0.6	0.7
EBITDA Margins	10.4	13.1	13.2	13.3

Source: Company data, I-Sec research

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