

Polycab India (POLYCB)

Consumer Electricals | NBIE Conference Update

ACCUMULATE

CMP: Rs6,456 | Target Price (TP): Rs6,150 | Downside: 4%

June 05, 2024

High infrastructural spends to drive growth

Key Points

- We hosted Mr Chirayu Upadhyaya – Head of Investor Relations. He stated that growth in Renewable Energy (RE) capacities & infrastructure development are expected to boost demand for Cables (Domestic + Exports) while continued uptick in Residential Real Estate is expected to boost demand for Wires in India.
- Overall, ~3-4% is the cost of W&C in a project. Optical fibre entails ~25% of the total project cost, and Power & Transmission ~15-20% (all excluding land cost).
- Domestic Cables posted EBITDA margins of 9-10%, Domestic Wires 15-16%, and Export Cables over 15-16%.
- We maintain ACCUMULATE with a revised TP of Rs6,150 (37x PE on Mar'26E EPS). While we remain structurally positive about the company's long-term business prospects, in the short term, 1) the steep rise in copper prices could keep both demand and margins under check; and 2) we also await clarity from the tax department. We will revert to our original multiple once we see a revival in FMEG and derive adequate comfort on tax-related issues getting addressed. Nonetheless, we believe it is a long term compounder and therefore it should be accumulated at every dip.

Est Change	No Change
TP Change	Upward
Rating Change	No Change

Company Data and Valuation Summary

Reuters:	POLC.BO
Bloomberg:	POLYCB IN
Mkt Cap (Rsbn/US\$bn):	970.1 / 11.7
52 Wk H / L (Rs):	7,116 / 3,380
ADTV-3M (mn) (Rs/US\$):	3,074.9 / 36.9
Stock performance (%) 1M/6M/1yr:	10.7 / 20.9 / 81.8
Nifty 50 performance (%) 1M/6M/1yr:	(3.4) / (2.2) / 17.7

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	65.9	65.8	65.2
DILs	8.1	7.6	7.2
FII	12.4	13.4	12.0
Others	13.6	13.2	15.6
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rs mn)	FY23	FY24	FY25E	FY26E
Net Sales	1,41,078	1,80,394	2,10,074	2,43,767
Growth YoY%	15.6	27.9	16.5	16.0
Gross margin %	25.5	26.4	26.9	27.1
EBITDA	18,521	24,918	29,768	36,093
EBITDA margin %	13.1	13.8	14.2	14.8
Adj PAT	12,700	17,840	20,455	24,698
Adj PAT Margin	9.0	9.9	9.7	10.1
Growth YoY%	51.8	40.5	14.7	20.7
Adj EPS	84.5	118.7	136.2	164.4
RoCE	23.9	26.8	29.1	31.1
RoCE (Post-Tax)	18.0	20.5	21.8	23.3
RoE	19.2	21.8	22.6	24.0
P/E	76.4	54.4	47.4	39.3
EV/EBITDA	52.1	38.8	32.6	26.8
P/BV	14.6	11.8	10.7	9.4

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links – 4QFY24 Results | 4QFY24 Investor PPT

Upward triggers for Cables to drive growth in the medium to long term: 1)

Polycab has the largest set of SKU approvals (~90-50%). As a result, incremental orders by the govt. could give Polycab the first mover advantage. 2) Copper purity which Polycab sources is among the highest compared to domestic copper providers. Polycab imports copper from Japan currently. The company has also set up one of the largest R&D centres. 3) The company has implemented an advanced inventory management system, and replenishing the stock under 24 hours has given the distributors an ROI of ~30%. 4) In the export markets, certification is required for each geography + EPC contract approvals are required for bidding. Polycab currently has the approvals in place, and exports to 79 countries. 5) While the EPC business' revenue contribution is expected to remain in mid-to-high single digits, the order book of ~Rs 48bn (to be executed in the next 3-4yrs) is expected to boost organic Cables sales for Polycab.

EHV update: Current EHV market stands at ~Rs35bn, with two large players catering to ~50% of the demand. Gestation period to set up an EHV cable manufacturing plant is ~2-3 years, and Polycab has earmarked a total capex of ~Rs6-7bn, with an asset turnover of ~5-6x at peak capacities. Polycab's EHV cable plant will be commissioned by early-FY27. EBITDA margin for EHV cables is typically in high teens – a better margin profile vis-a-vis other cables. This margin difference could be ~300-400bps from normal power cables.

Other updates: Capex guidance stands at ~Rs10-11bn p.a. over FY25E-FY27E, with asset turnover at 5-6x. Most of this capex would be utilized for building the EHV manufacturing facility (expected to be commissioned by FY26-end and contribute to topline from FY27) + Special Purpose Cables + LT & HT Cables. This capex is expected to increase turnover by 5-6x at peak capacities.

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

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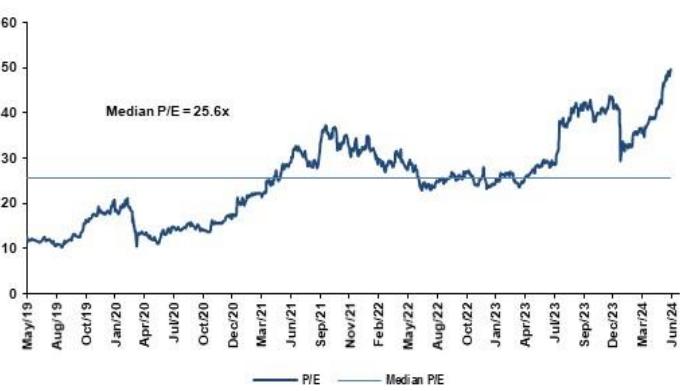
Exhibit 1: Change in Earnings Estimates

Description	FY25E			FY26E		
	(Rsmn)	Old	New	Change (%)	Old	New
Net Sales	2,08,473	2,10,074	0.8	2,41,058	2,43,767	1.1
EBITDA	29,201	29,768	1.9	34,701	36,093	4.0
EBITDA Margin (%)	14.0	14.2	16 bps	14.4	14.8	41 bps
Adj. PAT	20,076	20,455	1.9	23,970	24,698	3.0
Adj. EPS	133.6	136.2	1.9	159.5	164.4	3.1

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)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,22,038	1,41,078	1,80,394	2,10,074	2,43,767
% growth	38.8	15.6	27.9	16.5	16.0
RM Costs	94,657	1,05,109	1,32,803	1,53,564	1,77,706
Gross Profit	27,381	35,969	47,591	56,510	66,061
Gross Margin (%)	22.4	25.5	26.4	26.9	27.1
Staff Cost	4,066	4,568	6,095	6,302	7,313
Other Expenses	10,663	12,880	16,578	20,439	22,655
EBITDA	12,652	18,521	24,918	29,768	36,093
% growth	13.9	46.4	34.5	19.5	21.2
EBITDA Margin (%)	10.4	13.1	13.8	14.2	14.8
Other Income	899	1,333	2,209	1,891	1,950
Interest	352	598	1,083	1,200	1,250
Depreciation	2,015	2,092	2,450	2,923	3,588
Profit Before Tax	11,905	17,165	23,593	27,536	33,205
Tax	2,706	4,250	5,564	6,931	8,358
Reported Net Profit	9,086	12,700	17,840	20,455	24,698
Adj. Net Profit	8,365	12,700	17,840	20,455	24,698
Adj. PAT Margin	6.9	9.0	9.9	9.7	10.1
Adj. EPS (Rs)	55.7	84.5	118.7	136.2	164.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Cash Flow

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
EBIT	10,637	16,430	22,468	26,845	32,505
(Inc)/Dec in Working Capital	(5,758)	(530)	(7,327)	(3,400)	(4,422)
Cash Flow from Operations	4,879	15,899	15,140	23,445	28,083
Other Income	899	1,333	2,209	1,891	1,950
Depreciation	2,015	2,092	2,450	2,923	3,588
Tax Paid (-)	(2,853)	(4,113)	(5,558)	(6,931)	(8,358)
Net Cash from Operations	8,078	14,996	14,053	21,178	25,113
Capital Expenditure (-)	(6,084)	(4,763)	(7,670)	(10,716)	(11,000)
Net Cash After Capex	1,993	10,233	6,383	10,462	14,113
Interest Paid (-)	(352)	(598)	(1,083)	(1,200)	(1,250)
Dividends Paid (-)	(2,092)	(2,995)	(4,507)	(9,765)	(12,019)
Inc./Dec. in Total Borrowings	(1,095)	720	(654)	(100)	(250)
(Inc./Dec. in Investments	(1,383)	(5,772)	(5,482)	-	-
Cash from Financial Activities	(4,857)	(8,519)	(11,533)	(11,065)	(13,519)
Others	901	1,167	2,222	(2,222)	0
Opening Cash	5,313	4,071	6,952	4,024	1,199
Closing Cash	4,071	6,952	4,024	1,199	1,793
Change in Cash	(1,242)	2,881	(2,929)	(2,825)	594

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance Sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	1,494	1,498	1,502	1,502	1,502
Reserves	53,943	64,814	80,369	88,837	1,01,516
Net Worth	55,437	66,311	81,871	90,339	1,03,018
Minority Interest	251	374	562	562	562
Total Loans	831	1,551	898	798	548
Deferred Tax Liability Net	272	409	415	415	415
Total Liabilities	56,791	68,646	83,746	92,114	1,04,543
Net Block	16,751	20,669	22,612	30,689	38,101
Capital Work-in-Progress	3,755	2,508	5,784	5,500	5,500
Long-term Investments	7,733	13,505	18,987	18,987	18,987
Inventories	21,996	29,514	36,751	40,810	46,252
Debtors	13,763	12,992	21,662	22,446	24,711
Cash	4,071	6,952	4,024	1,199	1,793
Other Current Assets	6,049	8,101	10,840	11,974	13,895
Total Current Assets	45,880	57,559	73,276	76,430	86,650
Creditors	12,175	20,326	28,633	29,871	33,594
Other Current Liabilities	5,152	5,269	8,281	9,620	11,102
Total Current Liabilities	17,328	25,596	36,914	39,492	44,696
Net Current Assets	28,552	31,964	36,362	36,938	41,954
Total Assets	56,791	68,646	83,746	92,114	1,04,543

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per Share (Rs)					
EPS	55.7	84.5	118.7	136.2	164.4
Book Value	369.0	441.4	545.0	601.3	685.7
Valuation (x)					
P/E	115.9	76.4	54.4	47.4	39.3
P/BV	17.5	14.6	11.8	10.7	9.4
EV/EBITDA	76.4	52.1	38.8	32.6	26.8
EV/Sales	7.9	6.8	5.4	4.6	4.0
Return Ratio (%)					
RoCE	18.7	23.9	26.8	29.1	31.1
RoCE (Post-Tax)	14.5	18.0	20.5	21.8	23.3
RoE	15.1	19.2	21.8	22.6	24.0
RoIC	23.6	34.1	37.0	37.3	38.8
Profitability Ratio (%)					
EBITDA Margin	10.4	13.1	13.8	14.2	14.8
EBIT Margin	8.7	11.6	12.5	12.8	13.3
PAT Margin	6.9	9.0	9.9	9.7	10.1
Turnover Ratio					
Fixed Asset Turnover Ratio (x)	4.7	4.4	5.0	4.4	4.2
Debtor Days	41	34	44	39	37
Inventory Days	85	102	101	97	95
Creditors Days	47	71	79	71	69
Solvency Ratio (x)					
Debt-Equity	0.01	0.02	0.01	0.01	0.01
Net-Debt Equity	(0.06)	(0.08)	(0.04)	(0.00)	(0.01)
Interest Coverage	30.2	27.5	20.7	22.4	26.0

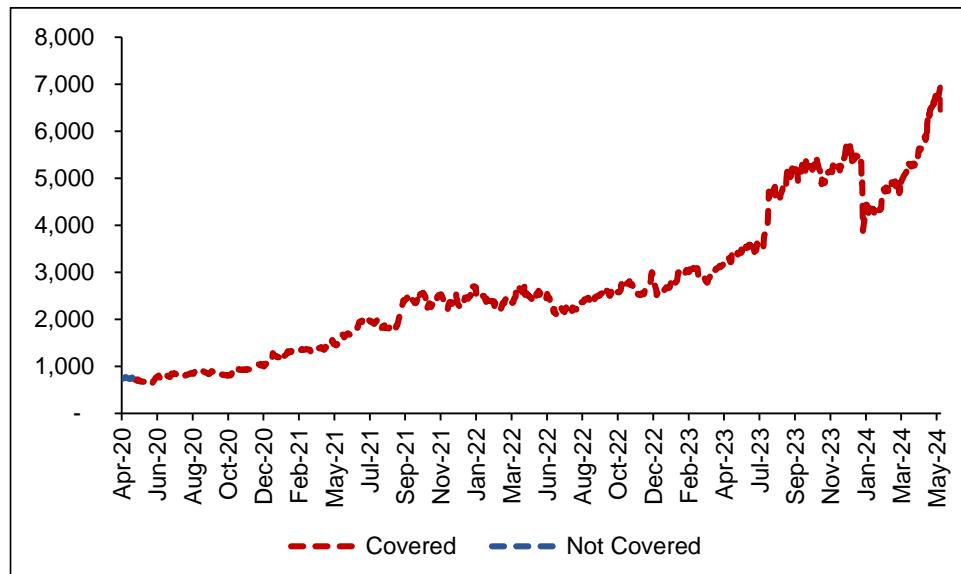
Source: Company, Nirmal Bang Institutional Equities Research

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
4 September 2023	Accumulate	5,208	5,335
19 October 2023	Accumulate	5,297	5,625
24 November 2023	Accumulate	5,226	5,625
19 January 2024	Buy	4,423	5,255
19 February 2024	Accumulate	4,769	5,255
10 May 2024	Accumulate	6,156	5,905
05 June 2024	Accumulate	6,456	6,150

Coverage was transferred to Natasha Jain with effect from 1st July 2020

Rating Track Graph



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