

India

ADD (previously REDUCE)

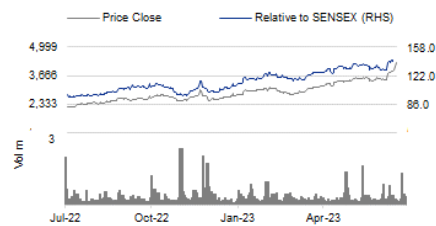
Consensus ratings*: Buy 17 Hold 9 Sell 5

Current price:	Rs4,309
Target price: ▲	Rs4,793
Previous target:	Rs3,126
Up/downside:	11.2%
InCred Research / Consensus:	31.9%
Reuters:	POLC.NS
Bloomberg:	POLYCAB IN
Market cap:	US\$8,896m Rs645,951m
Average daily turnover:	US\$17.1m Rs1244.7m
Current shares o/s:	149.3m
Free float:	34.0%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue up by 9.5%/11.7%.
- FY24F/25F EBITDA up by 17.9%/19.2%.
- FY24F/25F PAT up by 23.4%/22.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	22.1	37.3	91.4
Relative (%)	15.2	22.0	58.1

Major shareholders	% held
Promoter family	66.0
Anil Hariram Hariani	3.2
DSP Equity & Bond Fund	1.5

Analyst(s)



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Polycab India

Fourth consecutive quarter of earnings beat

- Polycab again beat our/Bloomberg consensus estimates, and this time more sharply by 25-50%. C&W sales volume grew 50%+ yoy, albeit on a low base.
- We raise revenue/EBITDA/PAT estimates by 10-25% for FY24F-25F. C&W enjoys very high domestic demand. Fourth consecutive quarter of EPS beat.
- Despite FMEG being a drag, C&W performance can extend the stock's P/E rerating. FCF will be similar to Havells over FY24F-25F. Upgrade to ADD rating.

Higher cable demand leads to extraordinary revenue/EBITDA growth

Polycab India's (Polycab) 1QFY24 revenue/EBITDA/PAT stood at Rs38.9bn/5.5bn/4bn, respectively, beating our/Bloomberg consensus estimates by 24-56%. Consolidated gross/EBITDA margins stood at 26.5%/14.1%, +152bp yoy and +274bp yoy, respectively. The cable & wire (C&W) segment's revenue was at Rs35.5bn, +47% yoy, beating our estimate by 27% led by healthy growth in retail, institutional & export sales. C&W sales volume grew 50-60% yoy in 1Q, albeit on a low base. C&W EBIT margin was at 14.8% (vs. 11.5% yoy) led by price revisions, favourable sales mix and better operating leverage. The FMEG segment's revenue stood at Rs3.1bn, +2% yoy/+3% qoq with EBIT loss at Rs57m. Exports grew ~2x to Rs3.5bn (8.9% of sales). Net working capital increased to 79 days of TTM sales (vs. 62 days qoq) due to higher-than-normal copper inventory (supplier factory maintenance shutdown expected going ahead). Higher working capital & dividend payment led to lower net cash (including equivalents) balance of Rs10.1bn at the end of Jun 2023.

C&W witnesses very high demand; fourth consecutive earnings beat

The cable and wire business is witnessing exceptionally high demand in India on the back of public & private capex budgets and consistent real estate offtake. As per Polycab's management, roads, railways, power transmission and distribution, port and airports are seeing massive investments, driving C&W demand. The export outlook has improved too. Management expects the momentum to continue in the rest of FY24F and maintained its FY26F revenue guidance of Rs200bn+, exports at 10% of sales and the FMEG segment's EBITDA margin at 10%+. This is the fourth consecutive quarter where Polycab has beaten our growth expectations. We raise our revenue/EBITDA/PAT estimates by 10-25% for FY24F-25F, largely due to the C&W segment's outperformance. We expect an EBITDA/PAT CAGR of 19% over FY23-25F and annual FCF of Rs15bn+ from FY25F.

Change in our view; upgrade to ADD rating; P/E rerating to continue

We have upgraded Polycab's rating to ADD (from REDUCE) with a higher target price of Rs4,793 (Rs3,126 earlier) based on an exit P/E of 40x FY25F EPS. Given consecutive earnings beat, consistent market share gains, rising return on capital and solid free cash generation (almost equal to that of Havells), we feel the stock can trade at a P/E-G of 2-3x. Our exit P/E multiple of 40x implies a P/E-G of 2.1x & a P/E of mean+2SD since listing. Despite FMEG being a drag, the C&W segment's outperformance warrants a rerating. Downside risks: Sharp fall in copper prices and delay in FMEG recovery beyond FY24F.

Financial Summary

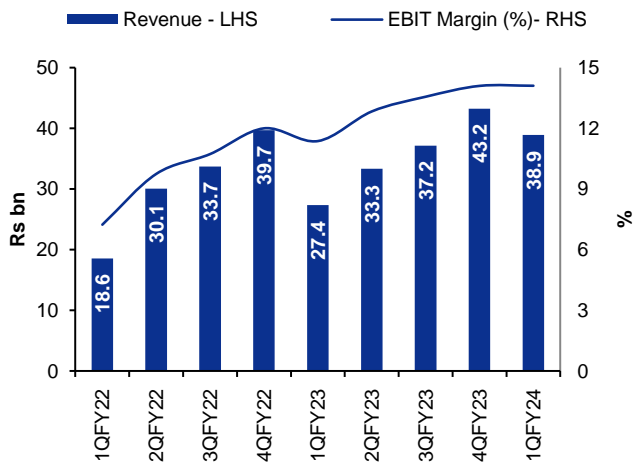
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	87,922	122,038	141,078	174,897	199,780
Operating EBITDA (Rsm)	11,111	12,652	18,521	23,443	26,549
Net Profit (Rsm)	8,821	9,086	12,607	16,045	17,928
Core EPS (Rs)	56.5	56.9	84.6	107.2	119.8
Core EPS Growth	10.8%	0.7%	48.8%	26.7%	11.7%
FD Core P/E (x)	73.08	71.10	51.19	40.18	35.96
DPS (Rs)	10.0	14.0	20.0	25.0	30.0
Dividend Yield	0.23%	0.32%	0.46%	0.58%	0.70%
EV/EBITDA (x)	57.22	50.22	33.84	26.57	23.07
P/FCFE (x)	1,727.93	1,272.97	263.16	144.52	57.36
Net Gearing	(19.0%)	(19.5%)	(28.4%)	(28.4%)	(35.6%)
P/BV (x)	13.56	11.65	9.73	8.20	7.00
ROE	19.7%	16.6%	20.8%	22.1%	21.0%
% Change In Core EPS Estimates				23.52%	22.64%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call takeaways

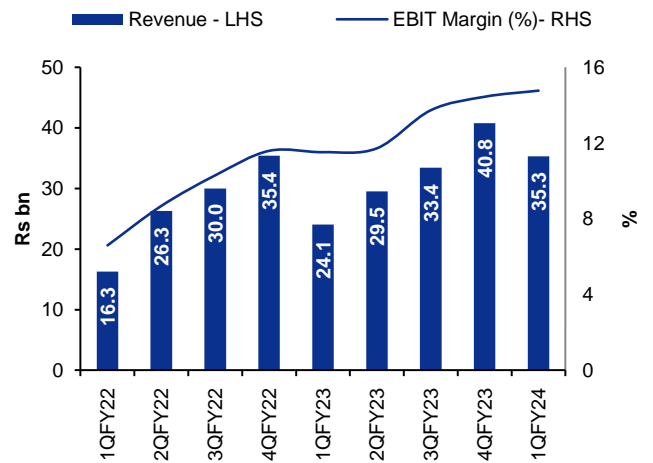
- **Industry tailwinds:** The Government of India has an ambitious infrastructure capex target of Rs10tr for FY24F. Government bodies have been moving swiftly and are on track to achieve this spending target within the stipulated time. Private capex too has been robust and nearly Rs5tr of capex has been incurred in 1QFY24. Sectors like transport, chemicals and renewables have been driving domestic sales volume growth. Moreover, there have been consistent real estate offtake and new launches in the Top-8 cities of India, and the highest-ever in 1HCY23.
- **Market share:** The company has gained 1.5% market share in the domestic market during the quarter and expects to continue doing so.
- **Project LEAP:** Polycab maintained its FY26F target under its flagship program – Project Leap of achieving Rs200bn+ sales, export sales of 10%+ and the FMEG segment's EBITDA margin at 10%+.
- **Sales mix and growth guidance:** Cable revenue mix increased to 72% of total C&W sales in 1QFY24 vs. 70% in FY23. C&W sales volume growth was robust at 50-60% yoy in 1QFY24. Cable business grew higher than wire business during the quarter. B2B sales stood at 55% of the topline. The manufacturing of switches has been shifted in-house completely, which supported 4x revenue growth yoy, albeit on a low base. Old non-rated BEE fan inventory was completely disposed and 1QFY24 witnessed sales of new BEE-rated fans. Despite muted consumer sentiment during the quarter, management is confident of a revival in demand in 2HFY24F.
- **Exports:** International sales stood at Rs3.4bn, +88% yoy, representing 8.9% of total sales. The company has launched 80 new stock-keeping units or SKUs in the fan category and additionally 20 new SKUs are in the pipeline for the year. The premium wire segment i.e., green wire is performing well. The newly introduced 6KA MCB launched last quarter is performing well and contributed 20% to incremental sales of the segment during the quarter. Management expects export sales growth to continue and expects it to rise to 11% of sales and move to mid-teens as a share of total sales over the medium term. Cable business will be the primary focus area in order to cater to international markets for Polycab. The international wire market is highly competitive.
- **Advertisement spending:** Advertisement and sales promotion expenses stood at 0.7% of sales i.e., Rs263m during the quarter vs. 0.6% of sales qoq. The company intends to maintain higher spending, at 3-5% of its B2C revenue potential over the next two-to-three years.
- **Capex:** The current overall capacity utilization stands at 60-70% and there is enough scope for Polycab to cater to exceptionally high demand over the next 2-3 years. The company maintained its guidance of Rs6bn for FY24F. The company is setting up a new EHV facility (in partnership with Bruggs Kabel) to enter the high-potential extra-high voltage cable segment.
- **Working capital:** Polycab is the largest consumer of copper in the country and the sourcing is mostly from overseas suppliers. Two of the largest smelters of copper are about to go for their annual maintenance and hence, Polycab has stocked a higher quantity of copper, the raw material. This implies a higher inventory level at 84 days of TTM sales vs. 76 days qoq and 72 days yoy. This, in turn, led to adverse net working capital at 79 days of TTM sales vs. 62 days qoq. Channel financing is now availed for 83% of the C&W segment's sales and 91% in case of the FMEG segment which, in turn, led to a sharp decline in debtor days over the past two-three years. Management termed it as an one-off event and expects the working capital cycle to normalize to 50-60 days of consolidated sales.
- **Cash and cash equivalents:** Net cash (including equivalents) stood at Rs10.1bn vs. Rs5.9bn yoy.

Figure 1: Polycab's quarterly revenue and margin trend



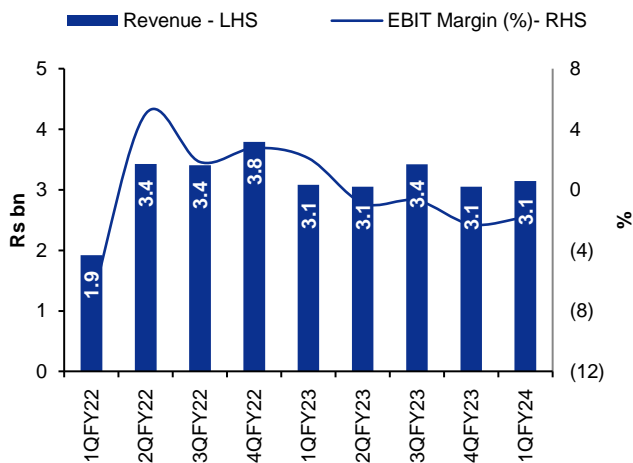
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly C&W revenue and margin trend



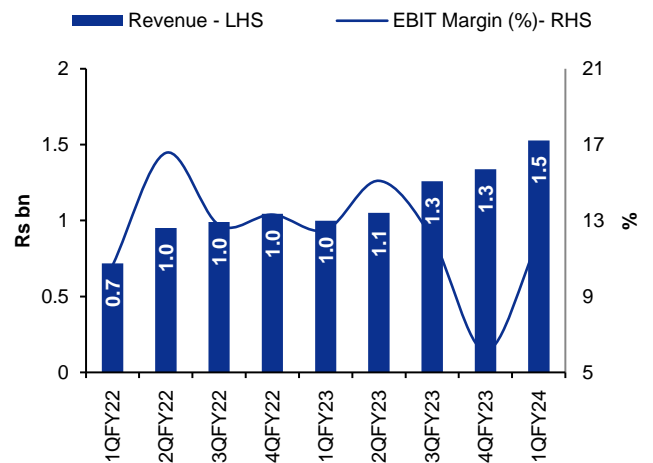
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly FMEG segment's revenue and margin trend



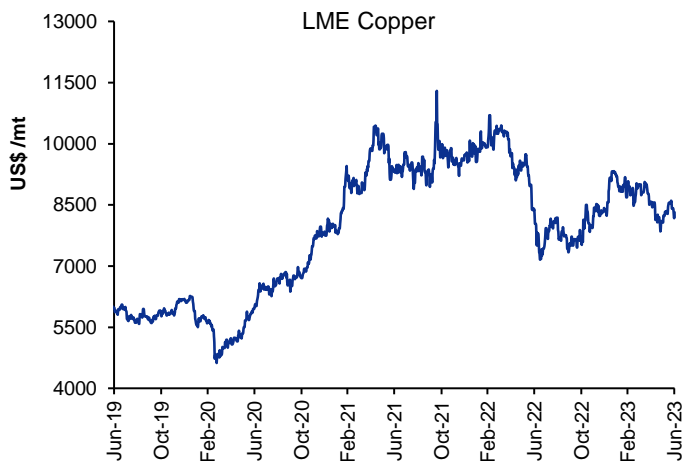
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly other segments' (mostly EPC) revenue and margin trend



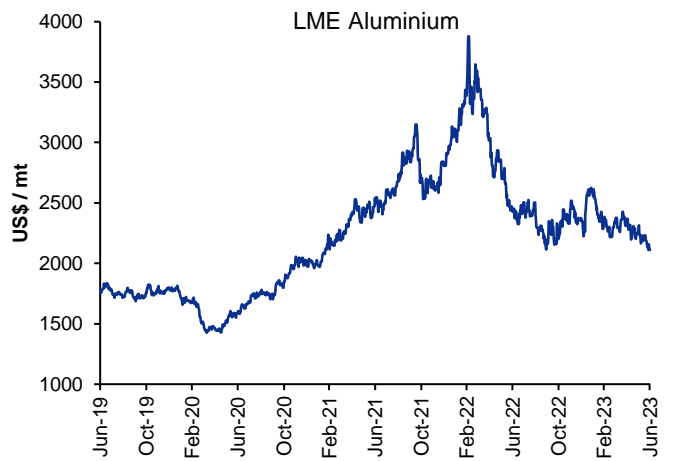
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 6: Aluminum price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 1QFY24 results snapshot

Rs m	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	38,894	27,366	42.1	43,237	(10.0)
EBITDA	5,486	3,111	76.3	6,095	(10.0)
EBITDA margin (%)	14.1	11.4	274 bp	14.1	1 bp
Adj. PAT	3,993	2,198	81.7	4,247	(6.0)
Diluted EPS (Rs)	26.7	14.7		28.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 1QFY24 segmental results snapshot

	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue (Rs m)					
Wire and cable	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
Less: Inter-segmental revenue	-781	-450		-1,784	
Total	39,230	27,688	41.7	43,389	(9.6)
EBIT (Rs m)					
Wire and cable	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
Total	5,349	2,962	80.6	5,908	(9.5)
EBIT margin (%)					
Wire and cable	14.8	11.5	325 bp	14.5	32 bp
FMEG	-1.8	2.1	-389 bp	-2.3	48 bp
Other	12.0	12.5	-50 bp	6.1	588 bp
Total	13.6	10.7	294 bp	13.6	2 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	38,894	31,490	23.5
EBITDA	5,486	3,747	46.4
EBITDA margin (%)	14.1	11.9	220 bp
Adj. PAT	3,993	2,559	56.0

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	38,894	31,272	24.4
EBITDA	5,486	3,995	37.3
EBITDA margin (%)	14.1	12.8	133 bp
Adj. PAT	3,993	2,689	48.5

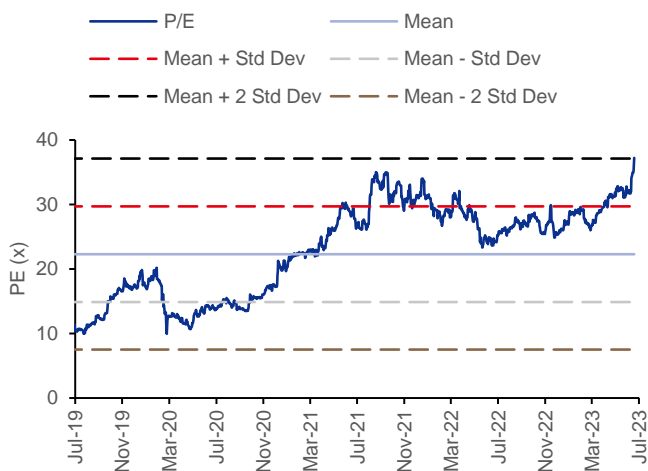
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates (Rsm)

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,74,897	1,99,780	1,59,793	1,78,800	9.5	11.7
EBITDA	23,443	26,549	19,883	22,279	17.9	19.2
Adjusted consol. PAT	16,045	17,928	13,001	14,631	23.4	22.5
EPS	107.2	119.8	86.8	97.7	23.5	22.6
EBITDA margin (%)	13.4	13.3	12.4	12.5	96 bp	83 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E standard deviation (since listing)



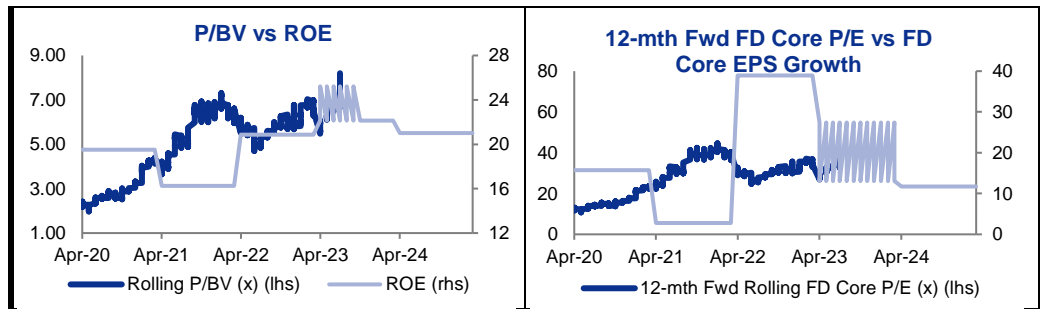
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	87,922	122,038	141,078	174,897	199,780
Gross Profit	22,751	27,381	35,969	45,131	52,121
Operating EBITDA	11,111	12,652	18,521	23,443	26,549
Depreciation And Amortisation	(1,762)	(2,015)	(2,092)	(2,463)	(2,802)
Operating EBIT	9,350	10,637	16,430	20,981	23,747
Financial Income/(Expense)	(85)	(83)	(398)	(710)	(670)
Pretax Income/(Loss) from Assoc.	6	(26)	(93)		
Non-Operating Income/(Expense)	851	630	1,133	1,360	1,088
Profit Before Tax (pre-EI)	10,122	11,158	17,073	21,630	24,165
Exceptional Items	441	721	(93)		
Pre-tax Profit	10,563	11,879	16,980	21,630	24,165
Taxation	(1,703)	(2,706)	(4,250)	(5,444)	(6,082)
Exceptional Income - post-tax					
Profit After Tax	8,859	9,173	12,730	16,186	18,083
Minority Interests	(38)	(87)	(123)	(141)	(156)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,821	9,086	12,607	16,045	17,928
Recurring Net Profit	8,451	8,529	12,676	16,045	17,928
Fully Diluted Recurring Net Profit	8,451	8,529	12,676	16,045	17,928

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	11,111	12,652	18,521	23,443	26,549
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2,458	(4,974)	(1,058)	(4,841)	(1,901)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	474	695	213	650	418
Net Interest (Paid)/Received	85	83	303	710	670
Tax Paid	(2,409)	(3,340)	(3,704)	(5,444)	(6,082)
Cashflow From Operations	11,719	5,116	14,275	14,519	19,654
Capex	(1,846)	(5,200)	(4,965)	(6,500)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(304)	1,348			
Other Investing Cashflow	(7,971)	(418)	(7,062)	(3,555)	(4,415)
Cash Flow From Investing	(10,121)	(4,270)	(12,026)	(10,055)	(8,415)
Debt Raised/(repaid)	(1,226)	(339)	205		
Proceeds From Issue Of Shares	84	133	128	(1)	
Shares Repurchased					
Dividends Paid		(1,492)	(2,094)	(3,741)	(4,489)
Preferred Dividends					
Other Financing Cashflow	(463)	(309)	(476)	(1,155)	(1,255)
Cash Flow From Financing	(1,605)	(2,007)	(2,238)	(4,897)	(5,744)
Total Cash Generated	(7)	(1,161)	11	(434)	5,495
Free Cashflow To Equity	372	507	2,454	4,463	11,240
Free Cashflow To Firm	1,171	494	1,651	3,308	9,984

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	11,544	11,712	20,457	24,024	34,519
Total Debtors	14,358	12,964	12,466	16,771	18,062
Inventories	19,879	21,996	29,514	35,938	39,956
Total Other Current Assets	1,945	4,739	6,650	7,291	8,314
Total Current Assets	47,726	51,411	69,087	84,023	100,851
Fixed Assets	18,261	16,170	20,104	24,149	26,847
Total Investments	118	93			
Intangible Assets	94	230	203	203	203
Total Other Non-Current Assets	3,947	6,215	4,846	4,839	3,339
Total Non-current Assets	22,421	22,708	25,154	29,191	30,389
Short-term Debt	890	802	1,509	1,509	1,509
Current Portion of Long-Term Debt					
Total Creditors	13,480	12,175	20,326	26,354	30,104
Other Current Liabilities	5,104	4,331	4,291	4,792	5,473
Total Current Liabilities	19,474	17,308	26,127	32,655	37,087
Total Long-term Debt	1,597	30	42	42	42
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	931	821	1,236	1,236	1,236
Total Non-current Liabilities	2,528	851	1,278	1,278	1,278
Total Provisions	418	272	152	152	152
Total Liabilities	22,419	18,431	27,556	34,085	38,516
Shareholders Equity	47,539	55,437	66,311	78,614	92,053
Minority Interests	188	251	374	515	671
Total Equity	47,728	55,688	66,685	79,129	92,724

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(0.4%)	38.8%	15.6%	24.0%	14.2%
Operating EBITDA Growth	(2.1%)	13.9%	46.4%	26.6%	13.2%
Operating EBITDA Margin	12.6%	10.4%	13.1%	13.4%	13.3%
Net Cash Per Share (Rs)	60.54	72.57	126.23	150.18	220.33
BVPS (Rs)	317.75	369.77	442.73	525.39	615.20
Gross Interest Cover	21.90	30.23	27.49	18.16	18.92
Effective Tax Rate	16.1%	22.8%	25.0%	25.2%	25.2%
Net Dividend Payout Ratio	17.8%	25.0%	23.5%	23.3%	25.0%
Accounts Receivables Days	59.56	40.86	32.90	30.51	31.82
Inventory Days	109.57	80.74	89.44	92.05	93.80
Accounts Payables Days	75.66	49.46	56.43	65.65	69.78
ROIC (%)	24.9%	26.7%	35.9%	42.7%	40.9%
ROCE (%)	21.3%	20.3%	26.6%	28.7%	27.8%
Return On Average Assets	13.1%	11.8%	15.7%	16.3%	15.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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