

India

ADD (no change)

Consensus ratings*: Buy 18 Hold 7 Sell 5

Current price:	Rs5,297
Target price:	▲ Rs6,354
Previous target:	Rs4,793
Up/downside:	20.0%
InCred Research / Consensus:	19.7%
Reuters:	POLC.NS
Bloomberg:	POLYCAB IN
Market cap:	US\$9,547m Rs794,704m
Average daily turnover:	US\$31.7m Rs2640.8m
Current shares o/s:	149.3m
Free float:	34.0%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue up by 3.4%/4.9%.
- FY24F/25F EBITDA up by 7.5%/5.1%.
- FY24F/25F PAT up by 8.4%/6.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.2	12.3	99.9
Relative (%)	2.0	15.6	80.4

Major shareholders	% held
Promoter family	66.0
Anil Hariram Hariani	3.2
DSP Flexi Cap Fund	1.6

Analyst(s)



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Polycab India

Growth rate to normalize; remain positive

- Polycab's 2Q EBITDA/PAT beat Incred/consensus estimates by 9-12%. C&W sales volume grew +30% yoy. The EBITDA margin was at 14.4%, +160bp yoy.
- Company gave guidance of a strong 2HFY24F yoy & C&W demand sustaining in FY25F-26F. We see revenue growth in mid-20s vs. mid-30s going ahead.
- Stock price up 23% since rating upgrade in Jul 2023. Despite weak FMEG, sustainable growth in C&W to drive a further P/E rerating. Retain ADD rating.

C&W sustains strong demand momentum; FMEG yet to recover

Polycab India's (PIL) 2QFY24 revenue/EBITDA/PAT stood at Rs42.1bn/Rs6.1bn/Rs4.3bn respectively. Revenue was in line, but EBITDA/PAT beat our/Bloomberg consensus estimates by 9-12%. Consol. gross/EBITDA margins were at 27.1%/14.4%, +102bp/+160bp yoy, respectively. The cable & wire or C&W segment's revenue was at Rs38.1bn, +29% yoy and 8% qoq, led by government capex and robust real estate off-take. North India sales saw the highest growth in 2Q. Cable sales volume grew 30% yoy while wire sales rose 20% yoy. The C&W segment's EBIT margin stood at 14.6% (vs. 11.7% yoy) led by improvement in the product mix and operating leverage benefits. The FMEG segment's revenue was at Rs3.3bn, +8% yoy/ +5% qoq, with EBIT loss at Rs60m. Fan and lighting sales fell yoy while switches, switchgear & conduit pipe/fittings sales grew strongly. Exports stood at Rs3.9bn (9.3% of sales).

Growth rate to taper off to mid-20s from mid-30s currently

Management highlighted a diversified customer base comprising roadways, railways, power transmission and distribution, industrial, defence and real estate companies that contributed to exceptionally high domestic C&W sales growth over the past 12 months. C&W sales grew 30%/37% yoy in 2Q/1HFY24, respectively. We expect C&W sales to grow by 23% yoy in 2HFY24F and ~15% over FY25F-26F. Energy efficiency ratings for ceiling fans from Jan 2023 and a sharp fall in global LED prices (down 20-25% yoy) over the past 12-15 months led to fan and lighting sales decline in 1HFY24. We expect fan/lighting sales to recover along with continued growth in switches/switchgear sales in 2HFY24F (+19% yoy). Management gave guidance of a sustainable EBITDA margin range of 11-13%. Given a better sales mix, we expect the margins to sustain at 13%+ over FY25F-26F assuming stable copper prices. The expected capex is Rs6.5bn/year over FY24F-25F. The EHV cable facility may be completed by 4QFY26F.

Estimate 20% EPS CAGR over FY23-26F; P/E rerating to continue

We raise EBITDA/PAT estimates by 5-8%/6-9% for FY24F-25F and introduce FY26F. Polycab to outgrow Havells' (trades at 52x FY25F EPS) PAT in FY24F and sustain higher EPS/OCF growth over FY23-26F. Given healthy EPS growth (FY23-26F: 20% CAGR) and superior FCF (FY23-26F: Rs33bn), we expect the P/E rerating to continue. Retain ADD rating with a higher target price of Rs6,354 (Rs4,793 earlier) based on a higher exit P/E of 50x FY25F EPS. Downside risks: Volatile copper prices & delayed FMEG sales growth.

Financial Summary

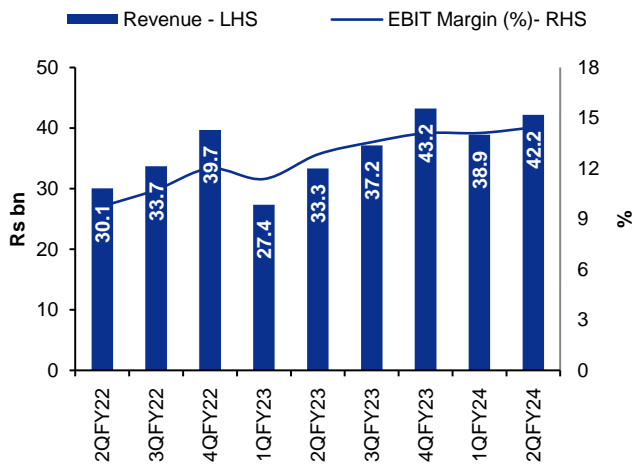
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	122,038	141,078	180,851	209,564	237,014
Operating EBITDA (Rsm)	12,652	18,521	25,192	27,906	31,515
Net Profit (Rsm)	9,086	12,607	17,391	19,017	21,828
Core EPS (Rs)	56.9	84.6	116.2	127.1	145.9
Core EPS Growth	0.7%	48.8%	37.3%	9.3%	14.8%
FD Core P/E (x)	87.41	62.93	45.57	41.68	36.31
DPS (Rs)	14.0	20.0	30.0	35.0	40.0
Dividend Yield	0.26%	0.38%	0.57%	0.66%	0.76%
EV/EBITDA (x)	61.93	41.84	30.70	27.50	24.02
P/FCFE (x)	1,564.90	323.51	161.64	100.89	62.30
Net Gearing	(19.5%)	(28.4%)	(24.7%)	(27.8%)	(33.1%)
P/BV (x)	14.33	11.96	10.01	8.52	7.28
ROE	16.6%	20.8%	23.9%	22.1%	21.6%
% Change In Core EPS Estimates			8.39%	6.07%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY24 earning-call takeaways

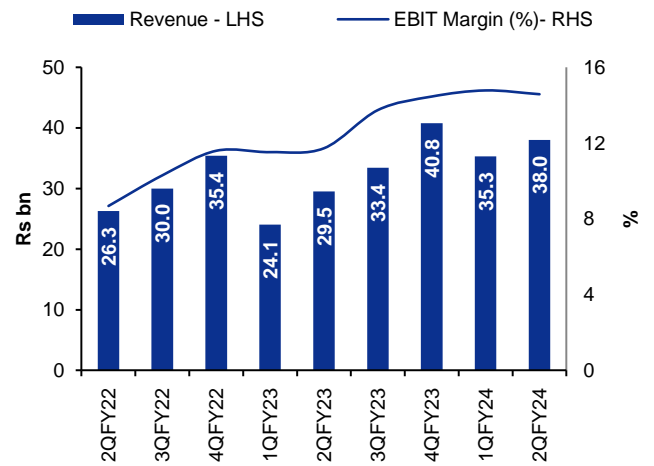
- **Volume-driven growth:** The revenue growth was primarily driven by sales volume growth of 30% yoy for cables and 20% yoy for wires in 2QFY24. Cable sales growth outperformed wires for the third consecutive quarter coupled with a superior product mix aiding margins.
- **Early success of Project Leap:** Polycab had an aspiration to surpass consolidated revenue target of Rs200bn by FY26F. Given the extraordinary C&W revenue growth over the past one year, management is reworking its growth forecast and is expected to revise its guidance upwards. We expect a revenue CAGR of 19% over FY23-26F and consolidated revenue at ~Rs240bn in FY26F.
- **Sales mix and margin guidance:** Cables accounted for ~75% of total C&W revenue in 2QFY24. North India C&W revenue growth was the highest from leading states such as Haryana, Uttar Pradesh and the Delhi-NCR region in 2QFY24. As regards FMEG sales, West and South India regions' revenue grew both yoy and qoq. Management expects the sustainable consolidated EBITDA margin to be in the range of 11-13% over the long term.
- **Exports:** Total export revenue stood at Rs3.9bn, +14% qoq while down 11% yoy, accounting for 9.3% of total sales. For 1HFY24, export revenue stood at Rs7.4bn, +18% yoy. Management expects the company to sustain export revenue at 10% of total sales by FY26F.
- **Brand refresh and logo change:** Polycab refreshed its brand identity during 2Q. The company updated its brand tagline from the existing positioning of 'Connection Zindagi Ka' to 'Ideas. Connected.', which reflects the vision for a future where innovative products simplify lives.
- **Advertising and sales promotion spending:** Polycab spent Rs446m (1.1% of total sales) and Rs709m (0.9% of total sales) on advertising and sales promotion in 2Q and 1HFY24, respectively. This implies a spending of 2.5-3% of its B2C sales. The company intends to increase advertising expenses to 3.5-5% of B2C sales going ahead. Polycab is one of the lead co-sponsors of the ongoing ICC cricket world championship in India. The associated costs of cricket sponsorship have been expensed as and when they are incurred.
- **Capex and capacity utilization:** The capacity utilization stood at 65-70% in 2Q, and there is enough capacity headroom to support sales volume growth of mid-20's going ahead. The company maintained its capex guidance of Rs6bn-7bn for FY24F and FY25F. The EHV facility, in partnership with Bruggs Kabel, is on track and it is likely to start commercial production by the end of FY26F. Nearly 75% of the capex is directed towards C&W manufacturing capacity while the remaining 25% will be for FMEG capacity expansion.
- **Debt and cash balance:** Gross debt stood at Rs1.6bn (the same as of Mar 2023-end). Net cash and equivalents stood at Rs15.3bn vs. Rs10bn qoq.

Figure 1: Polycab's quarterly revenue and margin trend



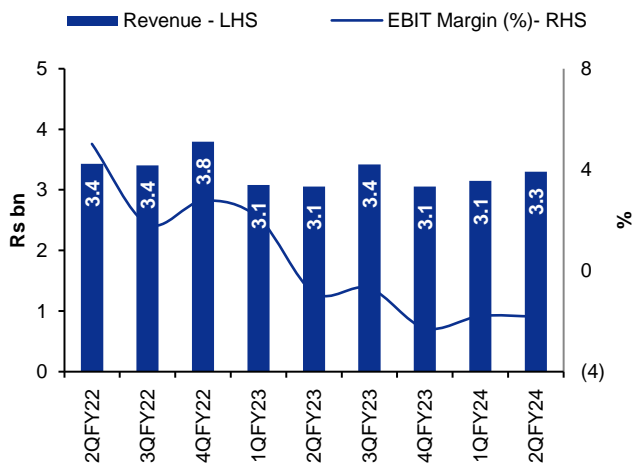
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly C&W revenue and margin trend



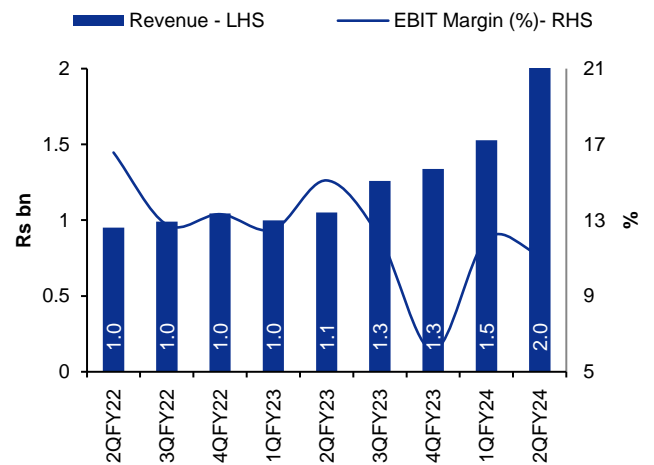
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly FMEG revenue and margin trend



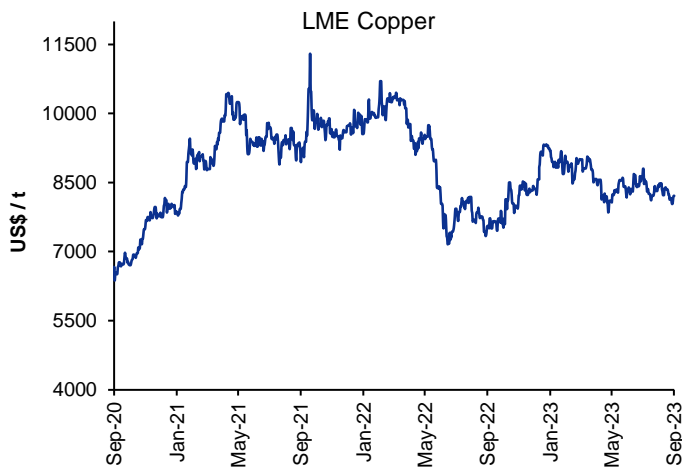
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



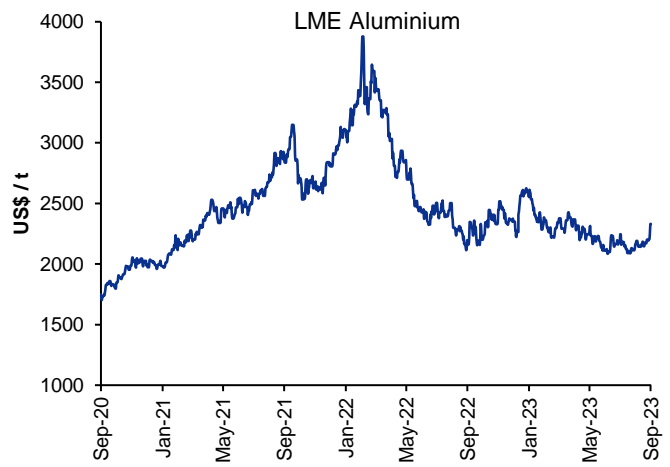
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 6: Aluminum price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 2QFY24 results snapshot

Rs m	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
Revenue	42,177	33,324	26.6	38,894	8.4	81,071	60,689	33.6
EBITDA	6,089	4,276	42.4	5,486	11.0	11,575	7,387	56.7
EBITDA margin (%)	14.4	12.8	160 bps	14.1	33 bps	14.3	12.2	17.3
Adj. PAT	4,256	2,678	58.9	3,993	6.6	8,248	4,876	69.2
Diluted EPS (Rs)	28.4	17.9		26.7		55.1	32.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 2QFY24 segmental results snapshot

	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
Revenue (Rs m)								
Wire and cable	38,047	29,517	28.9	35,338	7.7	73,385	53,574	37.0
FMEG	3,300	3,054	8.1	3,145	4.9	6,445	6,135	5.1
Other	2,015	1,051	91.8	1,528	31.8	3,543	2,049	72.9
Less: Intersegmental	-1,074	-505		-781		-1,855	-954	94.4
Total	42,288	33,117	27.7	39,230	7.8	81,518	60,804	34.1
EBIT (Rs m)								
Wire and cable	5,547	3,463	60.2	5,223	6.2	10,769	6,235	72.7
FMEG	-60	-27	124.3	-57	6.1	-117	38	(410.8)
Other	225	159	41.8	183	22.6	408	283	44.0
Total	5,712	3,594	58.9	5,349	6.8	11,061	6,556	68.7
EBIT margin (%)								
Wire and cable	14.6	11.7	285 bp	14.8	-20 bp	14.7	11.6	304 bp
FMEG	-1.8	-0.9	-95 bp	-1.8	-2 bp	-1.8	0.6	-243 bp
Other	11.2	15.1	-394 bp	12.0	-84 bp	11.5	13.8	-231 bp
Total	13.5	10.9	265 bp	13.6	-13 bp	13.6	10.8	279 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var(%)
Revenue	42,177	41,195	2.4
EBITDA	6,089	5,581	9.1
EBITDA margin (%)	14.4	13.5	89 bps
Adj. PAT	4,256	3,810	11.7

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	2QFY24	2QFY24C	Var(%)
Revenue	42,177	40,719	3.6
EBITDA	6,089	5,612	8.5
EBITDA margin (%)	14.4	13.8	66 bps
Adj. PAT	4,256	3,923	8.5

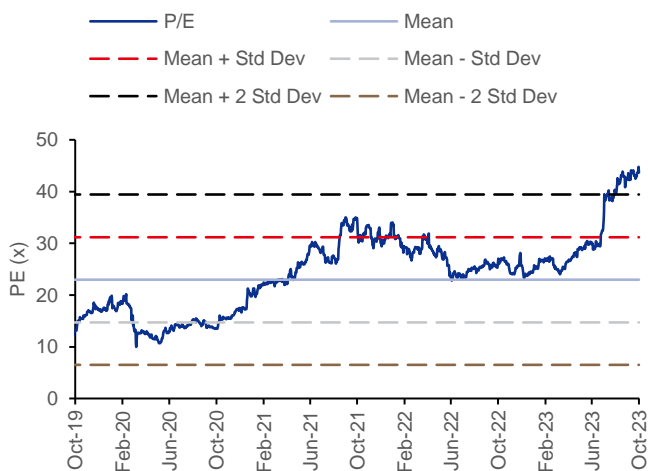
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates (Rs m)

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	1,80,851	2,09,564	2,37,014	1,74,897	1,99,780	NA	3.4	4.9	NA
EBITDA	25,192	27,906	31,515	23,443	26,549	NA	7.5	5.1	NA
Adjusted consol. PAT	17,391	19,017	21,828	16,045	17,928	NA	8.4	6.1	NA
EPS	116.2	127.1	145.9	107.2	119.8	NA	8.4	6.1	NA
EBITDA margin (%)	13.9	13.3	13.3	13.4	13.3	NA	53 bp	3 bp	NA

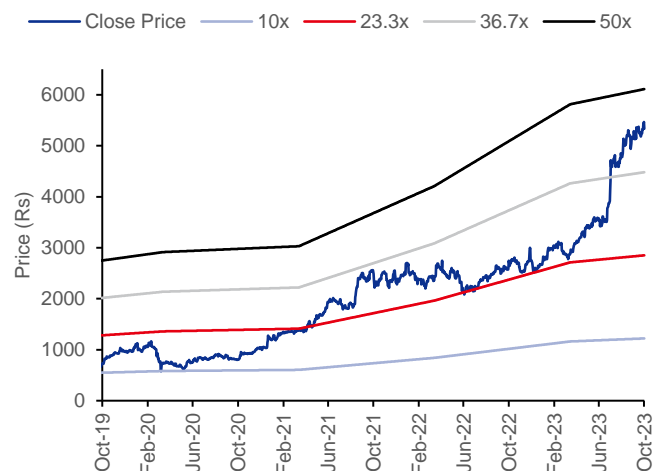
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



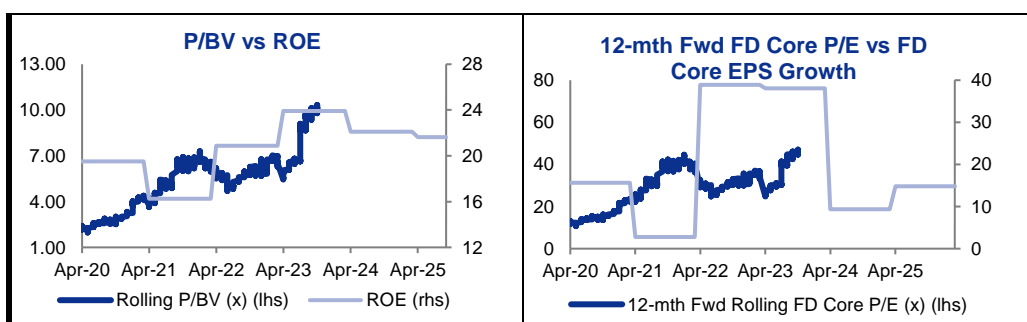
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	122,038	141,078	180,851	209,564	237,014
Gross Profit	27,381	35,969	47,346	55,673	63,156
Operating EBITDA	12,652	18,521	25,192	27,906	31,515
Depreciation And Amortisation	(2,015)	(2,092)	(2,506)	(2,857)	(3,044)
Operating EBIT	10,637	16,430	22,686	25,049	28,471
Financial Income/(Expense)	(83)	378	2	91	434
Pretax Income/(Loss) from Assoc.	(26)	(93)			
Non-Operating Income/(Expense)	630	357	750	500	525
Profit Before Tax (pre-EI)	11,158	17,073	23,437	25,639	29,430
Exceptional Items	721	(93)			
Pre-tax Profit	11,879	16,980	23,437	25,639	29,430
Taxation	(2,706)	(4,250)	(5,899)	(6,453)	(7,407)
Exceptional Income - post-tax					
Profit After Tax	9,173	12,730	17,539	19,186	22,023
Minority Interests	(87)	(123)	(148)	(170)	(195)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,086	12,607	17,391	19,017	21,828
Recurring Net Profit	8,529	12,676	17,391	19,017	21,828
Fully Diluted Recurring Net Profit	8,529	12,676	17,391	19,017	21,828

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	12,652	18,521	25,192	27,906	31,515
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,974)	(1,058)	(8,297)	(3,965)	(4,738)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	695	213	752	591	959
Net Interest (Paid)/Received	83	303	(2)	(91)	(434)
Tax Paid	(3,340)	(3,704)	(5,899)	(6,453)	(7,407)
Cashflow From Operations	5,116	14,275	11,746	17,988	19,895
Capex	(5,200)	(4,965)	(6,500)	(6,500)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	1,348				
Other Investing Cashflow	(418)	(7,062)	(840)	(3,631)	(3,172)
Cash Flow From Investing	(4,270)	(12,026)	(7,340)	(10,131)	(7,172)
Debt Raised/(repaid)	(339)	205	500		
Proceeds From Issue Of Shares	133	128	(1)		
Shares Repurchased					
Dividends Paid	(1,492)	(2,094)	(4,489)	(5,237)	(5,985)
Preferred Dividends					
Other Financing Cashflow	(309)	(476)	(1,158)	(1,278)	(1,394)
Cash Flow From Financing	(2,007)	(2,238)	(5,148)	(6,515)	(7,379)
Total Cash Generated	(1,161)	11	(742)	1,341	5,344
Free Cashflow To Equity	507	2,454	4,906	7,856	12,723
Free Cashflow To Firm	494	1,651	3,248	6,578	11,329

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	11,712	20,457	21,715	28,056	38,400
Total Debtors	12,964	12,466	15,855	17,224	19,481
Inventories	21,996	29,514	37,161	43,061	48,701
Total Other Current Assets	4,739	6,650	7,536	8,716	9,844
Total Current Assets	51,411	69,087	82,267	97,057	116,426
Fixed Assets	16,170	20,104	24,606	26,999	29,705
Total Investments	93				
Intangible Assets	230	203	203	203	203
Total Other Non-Current Assets	6,215	4,846	4,339	5,589	3,839
Total Non-current Assets	22,708	25,154	29,148	32,791	33,747
Short-term Debt	802	1,509	1,996	1,996	1,996
Current Portion of Long-Term Debt					
Total Creditors	12,175	20,326	22,297	25,837	29,221
Other Current Liabilities	4,331	4,291	5,946	6,890	7,792
Total Current Liabilities	17,308	26,127	30,238	34,722	39,009
Total Long-term Debt	30	42	56	56	56
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	821	1,236	1,236	1,236	1,236
Total Non-current Liabilities	851	1,278	1,291	1,291	1,291
Total Provisions	272	152	152	152	152
Total Liabilities	18,431	27,556	31,681	36,165	40,452
Shareholders Equity	55,437	66,311	79,212	92,992	108,834
Minority Interests	251	374	521	691	886
Total Equity	55,688	66,685	79,734	93,683	109,720

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	38.8%	15.6%	28.2%	15.9%	13.1%
Operating EBITDA Growth	13.9%	46.4%	36.0%	10.8%	12.9%
Operating EBITDA Margin	10.4%	13.1%	13.9%	13.3%	13.3%
Net Cash Per Share (Rs)	72.57	126.23	131.41	173.79	242.92
BVPS (Rs)	369.77	442.73	529.38	621.47	727.35
Gross Interest Cover	30.23	27.49	19.59	19.60	20.43
Effective Tax Rate	22.8%	25.0%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	25.0%	23.5%	25.8%	27.5%	27.4%
Accounts Receivables Days	40.86	32.90	28.58	28.81	28.26
Inventory Days	80.74	89.44	91.14	95.14	96.32
Accounts Payables Days	49.46	56.43	58.27	57.08	57.79
ROIC (%)	26.7%	35.9%	46.1%	40.8%	41.2%
ROCE (%)	20.3%	27.8%	31.7%	29.7%	29.2%
Return On Average Assets	11.8%	14.8%	17.1%	15.8%	15.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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