

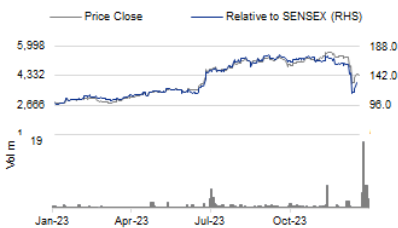
India

ADD (no change)

Consensus ratings*: Buy 20 Hold 6 Sell 4	
Current price:	Rs4,335
Target price:	Rs5,465
Previous target:	Rs6,354
Up/downside:	26.1%
InCred Research / Consensus:	3.6%
Reuters:	POLC.NS
Bloomberg:	POLYCAB IN
Market cap:	US\$7,838m
	Rs651,042m
Average daily turnover:	US\$58.6m
	Rs4868.5m
Current shares o/s:	149.3m
Free float:	34.0%
*Source: Bloomberg	

Key changes in this note

- FY25F/26F revenue cut by 4-5%.
- FY25F/26F EBITDA cut by 4%.
- FY25F/26F EPS cut by 4-4.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(21.1)	(17.1)	57.0
Relative (%)	(21.5)	(24.1)	33.3

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

Research Analyst(s)

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Polycab India

Growth rate normalizes; we remain positive

- 3Q sales/PAT were largely in line with expectations. Margins were a tad lower due to lower exports and higher ad spends. C&W sales volume grew 18% yoy.
- B2B sales are likely to stay healthy while B2C may recover over the next 12 months. FMEG remains weak. Capex guidance raised to Rs8-9bn for FY24F.
- We await clarity on the IT search outcome to take a firm view on the corporate governance standards at Polycab. Retain ADD with a lower TP of Rs5,465.

Cable sales outpace wire sales again; one-off ad spends cut margin

Polycab India's (PIL) 3QFY24 revenue/EBITDA/PAT stood at Rs43.4bn/Rs5.7bn/Rs4.1bn, +17%/13%/15% yoy, respectively. Revenue/PAT largely in line, but EBITDA was below our/Bloomberg consensus estimates by 6-9%. Consol. gross/EBITDA margins stood at 26.6%/14.1%, +128bp/ down 44bp yoy, respectively. Higher ad spends relating to cricket match sponsorships led to lower margins. The cable & wire or C&W segment's revenue was at Rs45.4bn, +17% yoy, led by continued robust real estate offtake and public/private capex. C&W volume growth was equal to value growth. 3Q cable sales (20%+ yoy) continued to grow faster than wire sales (10%+ yoy). C&W EBIT margin was at 14% (vs. 13.7% yoy). The FMEG segment's sales fell to Rs3bn, down 13% yoy, with EBIT loss at Rs366m. Continued weak consumer demand in the festive season and one-time higher ad spends (~Rs300m) booked in 3Q hit FMEG margin. Fan (high base) & lighting products (LED price decline) sales fell yoy while switches/switchgear did well. C&W exports stood at Rs2.7bn (6% of sales), +22% yoy. The transition to distribution-led sales channel in the US and Houthi rebels' attacks in the Red Sea hampering vessel traffic to Europe led to lower-than-expected exports. Net working capital cycle was stable at 64 days of TTM sales.

4Q is fine; medium-term sales CAGR at 15%; FMEG under transition

Management is confident of achieving the highest revenue/EBITDA/PAT ever in the history of Polycab in FY24F. We expect revenue/EBITDA/PAT growth of 13%/14%/11% yoy, respectively, in 4QFY24F. However, revenue growth (FY24F-26F C&W sales CAGR: 15%; FMEG: 12.5%) would normalize on a very high base going ahead. The FMEG segment is undergoing senior management and internal operational changes that would postpone the anticipated recovery in sales growth and margins. The capex guidance stands raised to Rs8-9bn for FY24F while maintaining Rs6-7bn for FY25F, including EHV cable expansion.

Cut EPS estimates by 4-4.5% over FY25F-26F; retain ADD rating

We alter C&W/FMEG growth/margin and capex, leading to EBITDA/PAT cut of 4% over FY25F-26F. We estimate revenue/EBITDA/CAGR at 15%/12%/11%, respectively, over FY24F-26F. Given lower revenue/margin growth rates ahead, we value Polycab at Rs5,465 based on a lower target P/E of 45x (mean+2SD vs. 50x earlier) FY25F EPS. Retain ADD rating. We await clarity on the IT department's search outcome to take a firm view on Polycab's corporate governance. Downside risk: Adverse IT department's search outcome, lower-than-expected C&W growth/margin and volatile raw material prices.

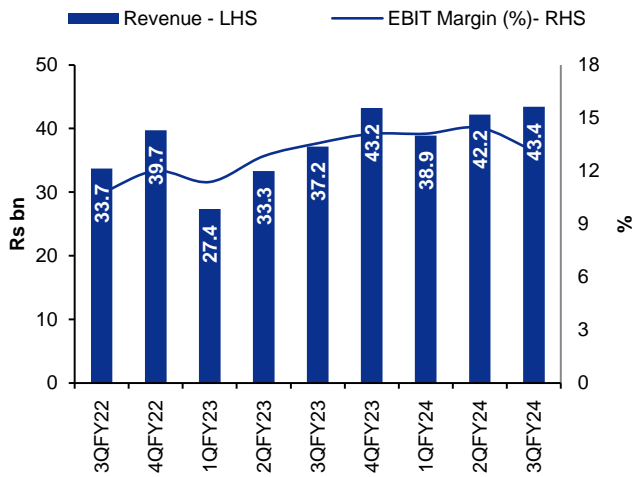
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	122,038	141,078	173,460	198,514	227,468
Operating EBITDA (Rsm)	12,652	18,521	24,198	26,726	30,298
Net Profit (Rsm)	8,819	12,315	17,094	18,222	21,028
Core EPS (Rs)	55.1	82.7	114.1	121.5	140.2
Core EPS Growth	1.4%	49.9%	38.0%	6.5%	15.4%
FD Core P/E (x)	75.18	53.79	38.77	36.41	31.55
DPS (Rs)	14.0	20.0	25.0	30.0	35.0
Dividend Yield	0.32%	0.45%	0.57%	0.68%	0.79%
EV/EBITDA (x)	51.57	34.77	26.62	23.88	20.76
P/FCFE (x)	1,306.60	270.11	159.45	65.72	77.52
Net Gearing	(19.5%)	(28.4%)	(23.9%)	(27.6%)	(32.1%)
P/BV (x)	11.96	9.99	8.32	7.11	6.08
ROE	16.1%	20.3%	23.4%	21.1%	20.8%
% Change In Core EPS Estimates			(1.84%)	(4.43%)	(3.92%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earning-call takeaways

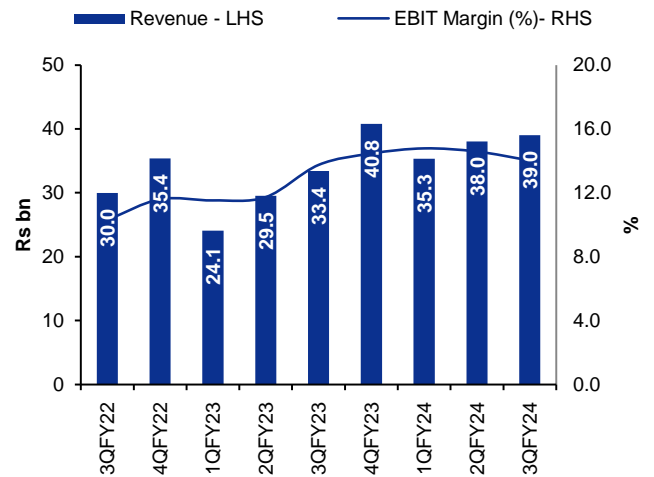
- **Income-tax department's search operations:** The income-tax (IT) department initiated a search operation between 22-30 Dec 2023 at some offices and plants of Polycab. Thereafter, on 10 Jan 2024, the Press Information Bureau issued a press release (*PIB press release*) without disclosing the name of the company in question about the initial findings of the IT searches in the case of a group engaged in cables and wires, assumed widely to be the Polycab Group. Polycab issued a press release to stock exchanges denying the rumours circulating in the media relating to tax evasion and stating that there were no financial implications likely on Polycab. The company is awaiting communication from the IT department with regard to the outcome of the search operation.
- **Volume-driven growth:** The revenue growth was primarily driven by sales volume growth of 20%+ yoy in the case of cables and sub-10% yoy in the case of wires in 3QFY24. Cable sales growth has outperformed wire sales growth for over a year now coupled with a superior product mix aiding margin. C&W exports (9MFY24: 8% of total sales) earn a relatively higher margin vs. domestic C&W sales contributing to the C&W EBIT margin of 14% in 3QFY24.
- **Sales mix and margin guidance:** Overall B2C sales accounted for 30% of total sales in 3QFY24. Cables accounted for ~72-75% of total C&W revenue in 3QFY24 owing to strong B2B domestic cable demand and healthy exports. Management maintained its sustainable consolidated EBITDA margin guidance at 11-13% over the medium term.
- **Fan business update:** Polycab introduced 29 new stock-keeping units or SKUs of premium and BLDC fans in 3QFY24 and plans to launch another 28 new SKUs in 4QFY24F. BLDC fans accounted for 18% of total fan sales in 3Q. The silent BLDC fans saw a good customer response in the six states where they were launched. The company has planned pan-India introduction in 4QFY24F.
- **Lighting products update:** LED lighting product prices declined by a further 5-6% over and above the 20-25% yoy fall over the past 12-15 months.
- **Internal business unit merger:** Polycab merged the FMEG and the power businesses (wires, switches and switchgear) under a unified business unit head, effective 3QFY24. The B2C vertical (FMEG + power) is headed by Mr. Ishwinder Singh Khurana while the B2B (cables) vertical is headed by Mr. Bhushan Sawhney.
- **Exports:** Polycab is shifting to a distributor-led sales channel in the US market, leading to a temporary slowdown in sales. The Houthi rebels' attacks in the Red Sea have disrupted vessel traffic to the European markets, delaying export shipments from India. Despite this, management expects a healthy 4QFY24F for exports and is on track to meet its medium-term target of ~10% of total sales from the international market.
- **Advertising and sales promotion (A&P) spending:** Management intends to maintain A&P spending at 3-5% of B2C sales over the medium term. The ICC one-day International Cricket World Cup matches concluded in Nov 2023 for which Polycab was one of the lead sponsors. A one-time sponsorship cost of ~Rs300m (0.7% of sales) impacted margins in 3Q. Overall ad spending stood at Rs904m, +42% yoy, accounting for 2.1% of total sales in 3QFY24.
- **Other income:** Forex fluctuation gains relating to hedging of copper purchases stood at Rs320m in 3QFY24, boosting the other income to Rs710m, +79% yoy.
- **Capex and capacity utilization:** The capacity utilization stood at 70-75% in 3Q. Polycab raised its capex guidance to Rs8bn-9bn for FY24F, maintaining its FY25F guidance at Rs6-7bn. The EHV facility, in partnership with Bruggs Kabel, is underway and is likely to be completed by Mar 2026F.
- **Debt and cash balance:** Gross debt declined to Rs932m from Rs1.6bn qoq. Net cash and equivalents stood at Rs18.3bn at the end of Dec 2023.

Figure 1: Polycab's quarterly revenue and margin trend



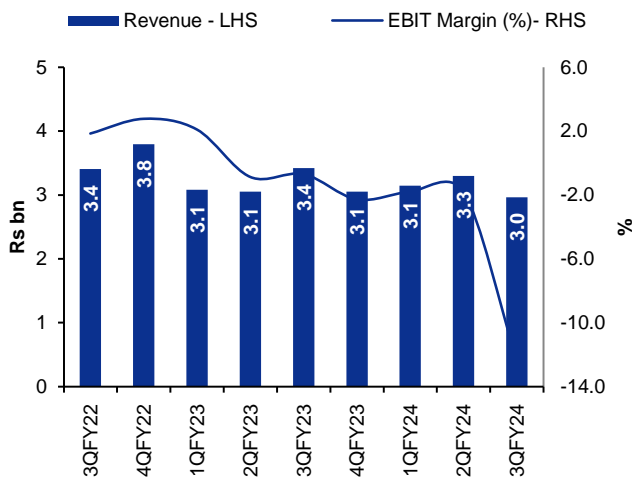
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly C&W revenue and margin trend



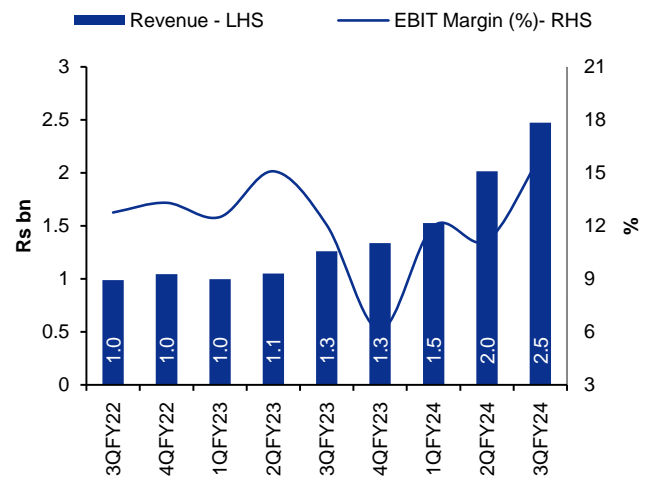
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



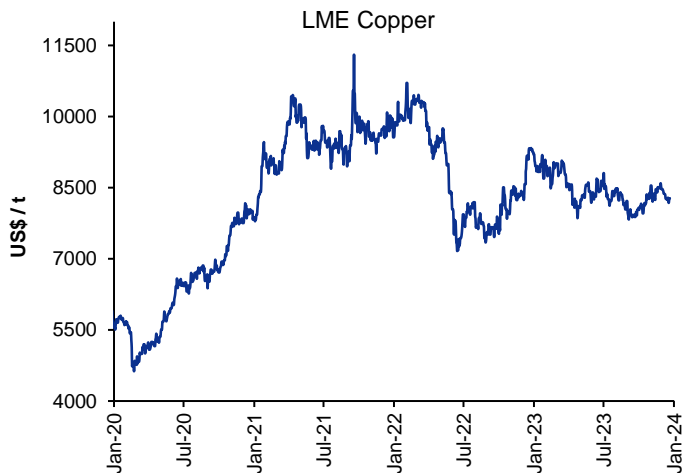
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



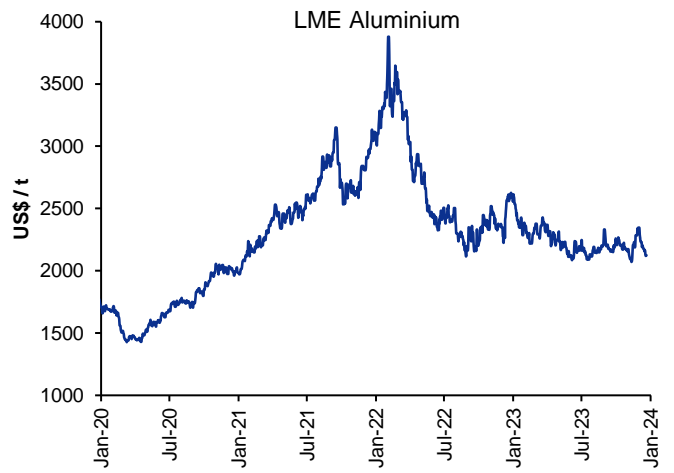
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 6: Aluminium price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 3QFY24 results snapshot

Rs m	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	43,405	37,152	16.8	42,177	2.9	1,24,475	97,841	27.2
EBITDA	5,695	5,038	13.0	6,089	(6.5)	17,270	12,426	39.0
EBITDA margin (%)	13.1	13.6	-44 bp	14.4	-132 bp	13.9	12.7	117 bp
Adj. PAT	4,129	3,576	15.4	4,256	(3.0)	12,377	8,452	46.4
Diluted EPS (Rs)	27.5	23.9		28.4		82.5	56.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 3QFY24 segmental results snapshot

	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue (Rs m)								
Wire and cable	39,041	33,418	16.8	38,047	2.6	1,12,426	86,992	29.2
FMEG	2,962	3,420	(13.4)	3,300	(10.2)	9,407	9,555	(1.6)
Other	2,475	1,260	96.4	2,015	22.8	6,018	3,309	81.9
Less: Inter-segmental Revenue	-701	-827	(15.2)	-1,074	(34.7)	2,556	1,781	43.5
Total	43,777	37,271	17.5	42,288	3.5	1,30,407	1,01,638	28.3
EBIT (Rs m)								
Wire and cable	5,474	4,593	19.2	5,547	(1.3)	16,244	10,828	50.0
FMEG	-366	-24	NM	-60	508.3	-483	14	NM
Other	394	152	159.6	225	75.3	802	435	84.4
Total	5,502	4,721	16.5	5,712	(3.7)	16,563	11,277	46.9
EBIT margin (%)								
Wire and cable	14.0	13.7	28 bp	14.6	-56 bp	14.4	12.4	200 bp
FMEG	-12.4	-0.7	-1,166 bp	-1.8	-1,053 bp	-5.1	0.1	-528 bp
Other	15.9	12.1	388 bp	11.2	477 bp	13.3	13.2	18 bp
Total	12.6	12.7	-10 bp	13.5	-94 bp	13.0	10.6	233 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	3QFY24A	3QFY24F	Var (%)
Revenue	43,405	44,629	(2.7)
EBITDA	5,695	6,248	(8.9)
EBITDA margin (%)	13.1	14.0	-88 bp
Adj. PAT	4,129	4,338	(4.8)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	3QFY24A	3QFY24C	Var (%)
Revenue	43,405	43,768	(0.8)
EBITDA	5,695	6,061	(6.0)
EBITDA margin (%)	13.1	13.8	-73 bp
Adj. PAT	4,129	4,177	(1.2)

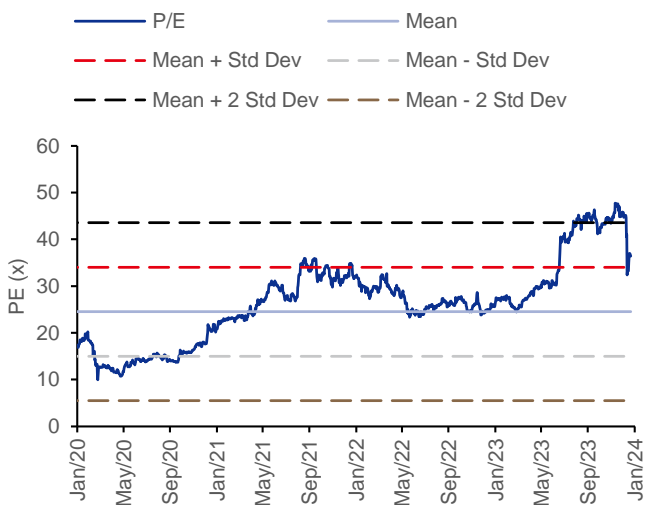
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates (Rs m)

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	1,73,460	1,98,514	2,27,468	1,80,851	2,09,564	2,37,014	-4.1	-5.3	-4.0
EBITDA	24,198	26,726	30,298	25,192	27,906	31,515	-3.9	-4.2	-3.9
Adjusted consol. PAT	17,094	18,222	21,028	17,391	19,017	21,828	-1.7	-4.2	-3.7
EPS	114.1	121.5	140.2	116.2	127.1	145.9	-1.8	-4.4	-3.9
EBITDA margin (%)	14.0	13.5	13.3	13.9	13.3	13.3	2 bp	15 bp	2 bp

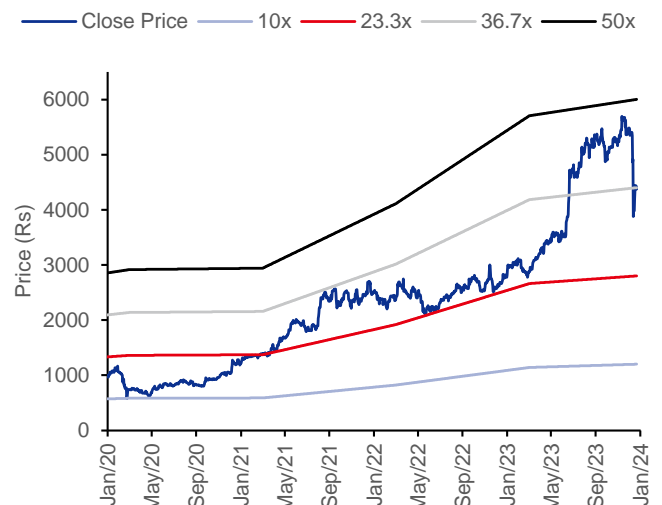
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



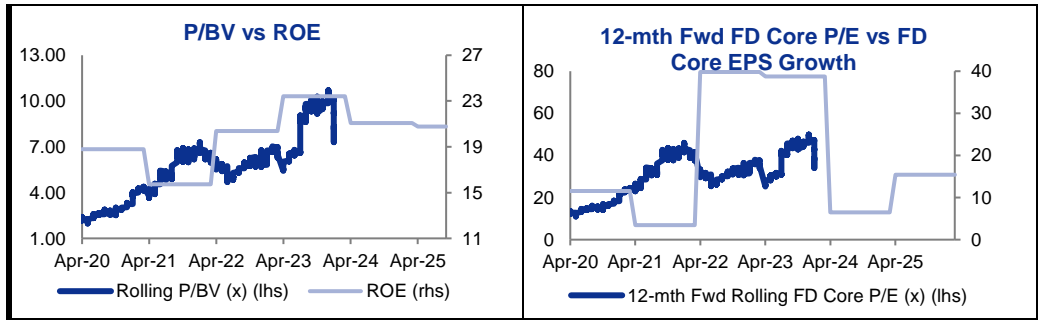
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	122,038	141,078	173,460	198,514	227,468
Gross Profit	27,381	35,969	46,488	52,632	59,983
Operating EBITDA	12,652	18,521	24,198	26,726	30,298
Depreciation And Amortisation	(2,015)	(2,092)	(2,455)	(2,773)	(2,917)
Operating EBIT	10,637	16,430	21,743	23,953	27,382
Financial Income/(Expense)	(83)	378	51	33	360
Pretax Income/(Loss) from Assoc.	(26)	(93)			
Non-Operating Income/(Expense)	364	65	900	600	630
Profit Before Tax (pre-EI)	10,892	16,781	22,694	24,587	28,372
Exceptional Items	721	(93)			
Pre-tax Profit	11,613	16,688	22,694	24,587	28,372
Taxation	(2,706)	(4,250)	(5,447)	(6,188)	(7,141)
Exceptional Income - post-tax					
Profit After Tax	8,907	12,438	17,247	18,399	21,231
Minority Interests	(87)	(123)	(154)	(177)	(203)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,819	12,315	17,094	18,222	21,028
Recurring Net Profit	8,267	12,384	17,094	18,222	21,028
Fully Diluted Recurring Net Profit	8,267	12,384	17,094	18,222	21,028

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	12,652	18,521	24,198	26,726	30,298
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,974)	(1,058)	(6,981)	(3,374)	(4,998)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	695	213	951	633	990
Net Interest (Paid)/Received	83	303	(51)	(33)	(360)
Tax Paid	(3,340)	(3,704)	(5,447)	(6,188)	(7,141)
Cashflow From Operations	5,116	14,275	12,671	17,765	18,790
Capex	(5,200)	(4,965)	(8,750)	(6,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	1,348				
Other Investing Cashflow	(418)	(7,062)	234	(1,176)	(5,730)
Cash Flow From Investing	(4,270)	(12,026)	(8,516)	(7,676)	(10,230)
Debt Raised/(repaid)	(339)	205			
Proceeds From Issue Of Shares	133	128	3		
Shares Repurchased					
Dividends Paid	(1,492)	(2,094)	(3,751)	(4,501)	(5,251)
Preferred Dividends					
Other Financing Cashflow	(309)	(476)	(1,184)	(1,291)	(1,409)
Cash Flow From Financing	(2,007)	(2,238)	(4,932)	(5,792)	(6,660)
Total Cash Generated	(1,161)	11	(777)	4,297	1,899
Free Cashflow To Equity	507	2,454	4,155	10,089	8,560
Free Cashflow To Firm	494	1,651	2,971	8,798	7,150

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	20,681	27,478	36,877
Total Debtors	12,964	12,466	15,207	16,316	18,696
Inventories	21,996	29,514	35,643	40,790	46,740
Total Other Current Assets	4,739	6,650	7,232	8,262	9,451
Total Current Assets	51,411	69,087	78,763	92,846	111,765
Fixed Assets	16,170	20,104	24,657	26,384	32,217
Total Investments	93				
Intangible Assets	230	203	203	203	203
Total Other Non-Current Assets	6,215	4,846	6,589	8,589	4,339
Total Non-current Assets	22,708	25,154	31,449	35,176	36,759
Short-term Debt	802	1,509	1,509	1,509	1,509
Current Portion of Long-Term Debt					
Total Creditors	12,175	20,326	21,386	24,474	28,044
Other Current Liabilities	4,331	4,291	5,703	6,526	7,478
Total Current Liabilities	17,308	26,127	28,598	32,510	37,032
Total Long-term Debt	30	42	42	42	42
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	1,278	1,278	1,278
Total Provisions	272	152	152	152	152
Total Liabilities	18,431	27,556	30,027	33,940	38,461
Shareholders Equity	55,437	66,311	79,657	93,378	109,155
Minority Interests	251	374	528	704	908
Total Equity	55,688	66,685	80,184	94,082	110,063

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	38.8%	15.6%	23.0%	14.4%	14.6%
Operating EBITDA Growth	13.9%	46.4%	30.7%	10.4%	13.4%
Operating EBITDA Margin	10.4%	13.1%	14.0%	13.5%	13.3%
Net Cash Per Share (Rs)	72.57	126.23	127.67	172.81	235.46
BVPS (Rs)	369.77	442.73	531.65	622.40	727.56
Gross Interest Cover	30.23	27.49	18.37	18.55	19.43
Effective Tax Rate	23.3%	25.5%	24.0%	25.2%	25.2%
Net Dividend Payout Ratio	25.8%	24.1%	21.9%	24.7%	25.0%
Accounts Receivables Days	40.86	32.90	29.12	28.98	28.09
Inventory Days	80.74	89.44	93.65	95.62	95.38
Accounts Payables Days	49.46	56.43	59.95	57.37	57.23
ROIC (%)	26.7%	35.9%	44.2%	38.4%	39.4%
ROCE (%)	20.3%	27.8%	30.6%	28.5%	28.1%
Return On Average Assets	11.5%	14.4%	16.8%	15.4%	15.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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