

India

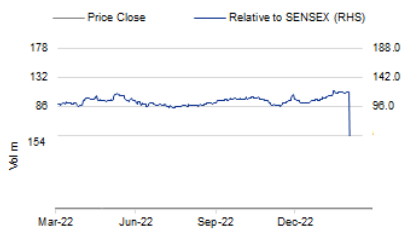
March 08, 2023 - 8:34 PM

REDUCE (no change)

Consensus ratings*: Buy 18 Hold 6 Sell 5	
Current price:	Rs3,066
Target price: ▶	Rs2,674
Previous target:	Rs2,674
Up/downside:	-12.8%
InCred Research / Consensus:	-12.7%
Reuters:	POLC.NS
Bloomberg:	POLYCAB IN
Market cap:	US\$6,321m Rs459,011m
Average daily turnover:	US\$14.9m Rs1079.4m
Current shares o/s:	149.3m
Free float:	33.5%
*Source: Bloomberg	

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	12,265	13,363	15,253
Core EPS (Rs)	81.81	89.13	101.74
Core EPS Growth	43.8%	9.0%	14.1%
FD Core P/E	37.47	34.39	30.13
Recurring ROE	20.4%	19.2%	19.0%
P/BV (x)	7.10	6.15	5.33
DPS (Rs)	20.00	22.50	25.00
Dividend Yield	0.65%	0.73%	0.81%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	3.4	13.3	35.9
Relative (%)	3.5	17.4	19.3

Major shareholders	% held
Promoter family	66.5
Anil Hariram Hariani	3.2
Dsp Equity & Bond Fund	1.6

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Polycab India

Management meet update

- Polycab’s management reiterates its focus on achieving Project Leap targets of Rs200bn+ in revenue and FMEG EBITDA margin of 9-10% by FY26F.
- Manufacturing capacity and distribution channel has been augmented to capture domestic market growth in C&W/FMEG. Export reach has expanded.
- Current valuation demands extremely high consensus estimates. We like the business, but not the price. FMEG faces hiccups; revival poses upside risk.

Short-term efforts to achieve long-term goals

- We interacted with Polycab’s management to understand how it’s handling B2C demand weakness in the electricals segment and what are the levers to enable the FMEG segment to grow faster than the current rate of growth to match consensus estimates.
- Management reiterated its stance of all efforts being made to achieve the stated targets under its Project Leap strategy. It is confident of delivering on each of the stated intent of a) consolidated revenue of Rs200bn+, b) exports at 10% of total business, c) B2C revenue share surpassing 50% of total business, and d) FMEG margin at 9-10%.
- C&W demand has held up well vs. durables, like in Jan-Feb 2023.
- FMEG product manufacturing and distribution channel rejig is close to completion. The company expects to deliver a superior performance starting FY24F, as guided earlier.

Market share gains likely across domestic and international markets

- Polycab has moved gradually and taken its time to adopt technology across functions. Most domestic distribution channels are now digital & capture real-time data and relevant corrective actions are aiding market share gains.
- Nearly 100% of stock-keeping units or SKUs are now manufactured in-house across C&W and FMEG segments. Ceiling and TPW fans (total capacity revenue potential: Rs10bn), switchgear/switches to see disproportionate benefits starting next fiscal year.
- Exports have made inroads into new markets like Europe, Africa & Asia from the existing meaningful B2B distribution presence in the US & the UK and B2C presence in Australia.
- Import substitution is a key focus area and entry into the Extra High Voltage (EHV) market in India is a step in this direction.
- In respect of a revival in the FMEG segment’s revenue growth, Polycab has spent most of its time, effort and capital on a) distribution channel rejig (lot of large C&W distributors/dealers have now started selling FMEG products), b) new product development (in-house manufacturing, automation, e-commerce line-up), c) products at every price points (launch of sub-brands, more SKUs within existing brands), d) influencer management (digital adoption, loyalty rewards, training and mind share), and e) branding (ICC 2023 partnership, advertisement budget 2x for FY24F). Management expects the FMEG segment’s revenue CAGR at 15-20% over the next three years and scale back to an EBITDA margin of 5-6% relatively faster.

Too much cash can also be a problem

- Polycab had Rs18.7bn of surplus cash and liquid investments as at end-Dec 2022.
- The company continues to look for small M&A targets in the FMEG R&D-focused segment. At the upper end, capex to average at Rs5-6bn/year over the next three fiscals.
- We expect an additional Rs20bn of FCF over FY24F-25F.
- In our view, future dividend payouts can increase meaningfully.

Current valuation demands a perfect performance

- 3QFY23 showed a clear outperformance versus our expectation on the C&W segment.
- FMEG business has been stagnant over six quarters now with a very low profit margin. We feel this is the key reason why Polycab’s stock is priced perfectly.
- Further P/E multiple rerating is likely only if the FMEG segment exceeds expectations.
- We like the company’s business, but not its share price. We see more downside than upside in the current valuation for Polycab. The risk-reward ratio is unfavourable.
- Retain REDUCE rating on the stock with a target price of Rs2,674. The FMEG sector’s revival is key upside risk.

Figure 1: Our understanding of segment-wise revenue CAGRs over the next three years

Revenue segment	FY23F	FY26F	CAGR (%)
C&W	117	160	11.2
FMEG	13	20	15.4
Exports	11	20	24.0
Total	140	200	12.6

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Polycab reiterates its initiative called Project Leap – a five-year growth plan

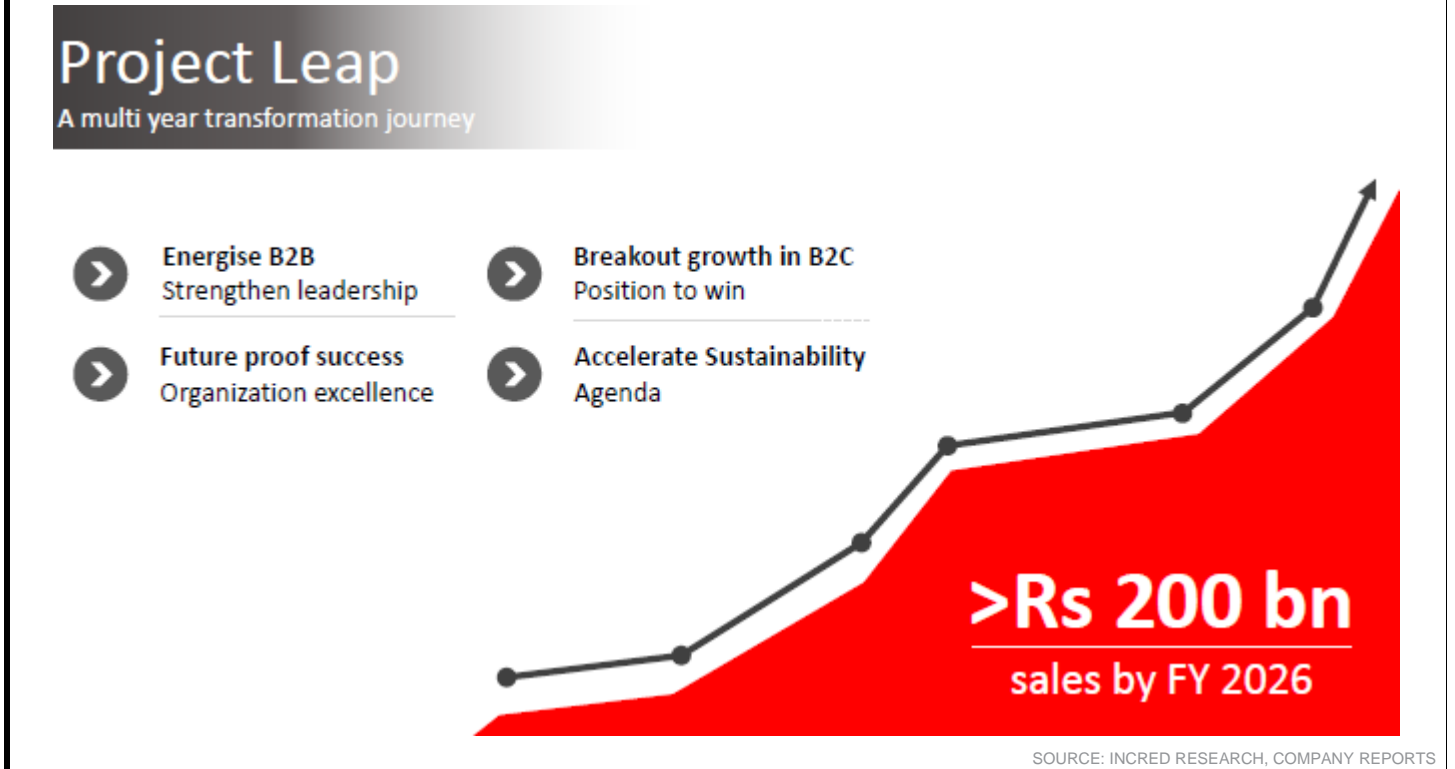


Figure 3: Polycab targets superior growth vs. industry in the B2C segment (2x in FMEG and 1.5x in retail wires)

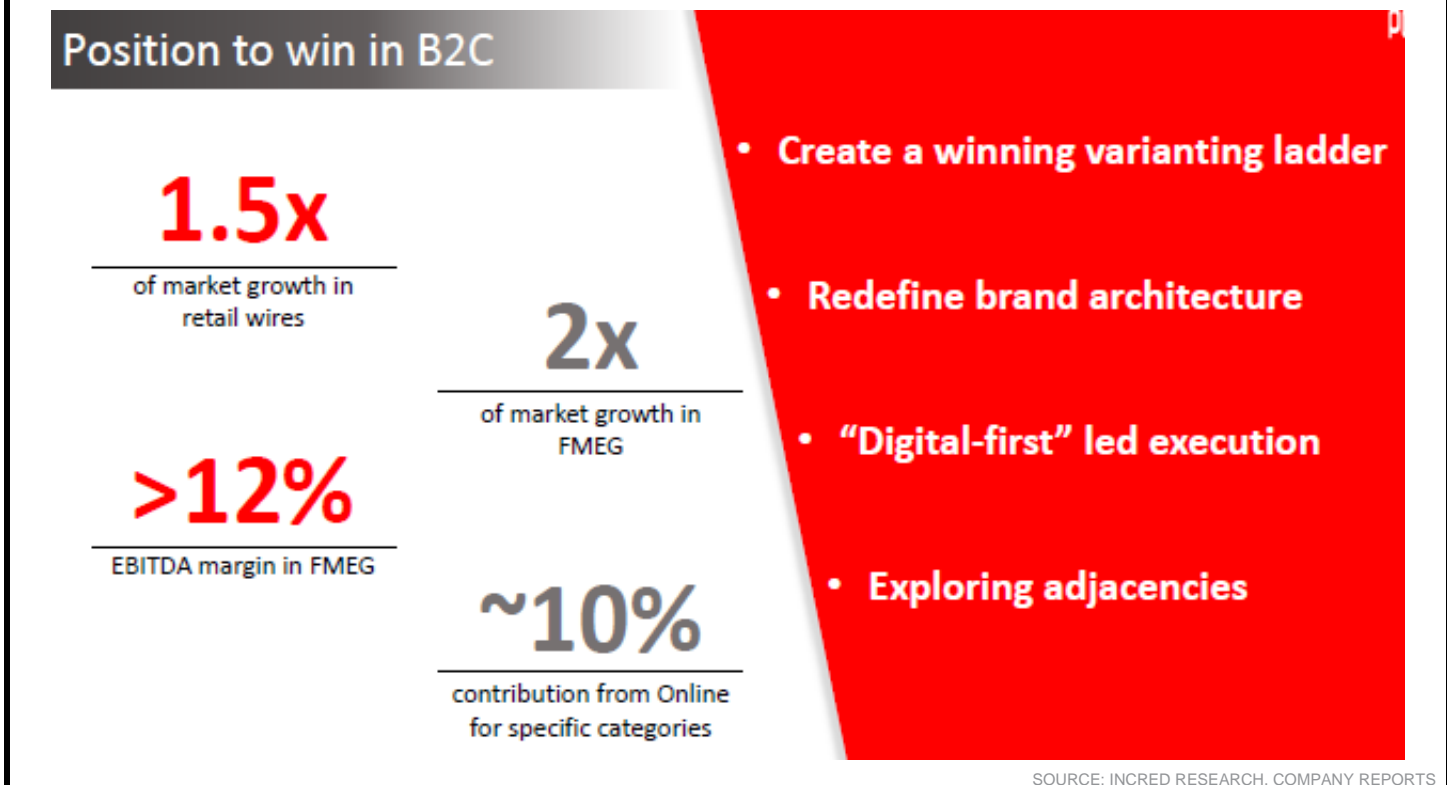


Figure 4: Polycab to be in a stronger position in the B2B segment by FY26F

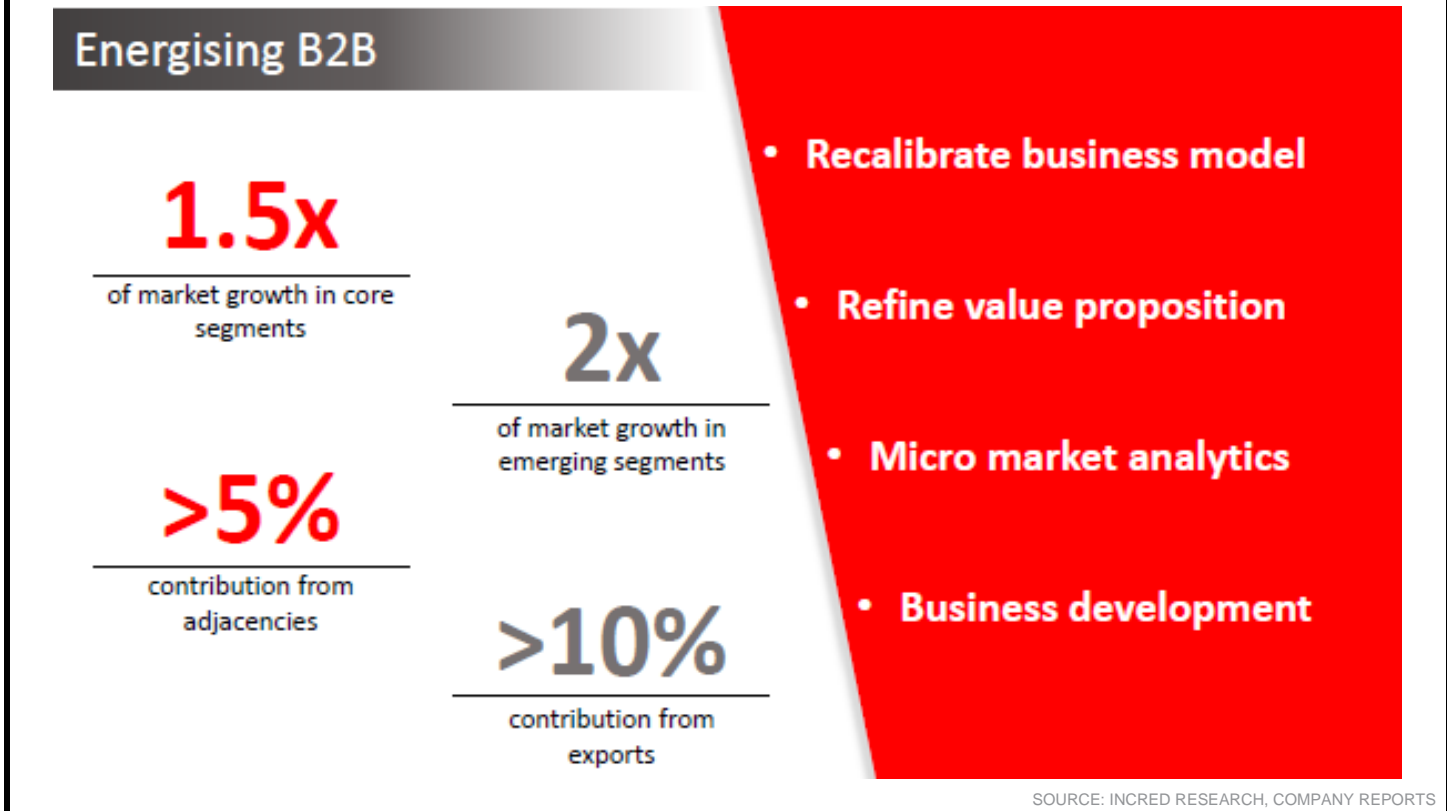


Figure 5: Project LEAP is a multi-year transformational journey

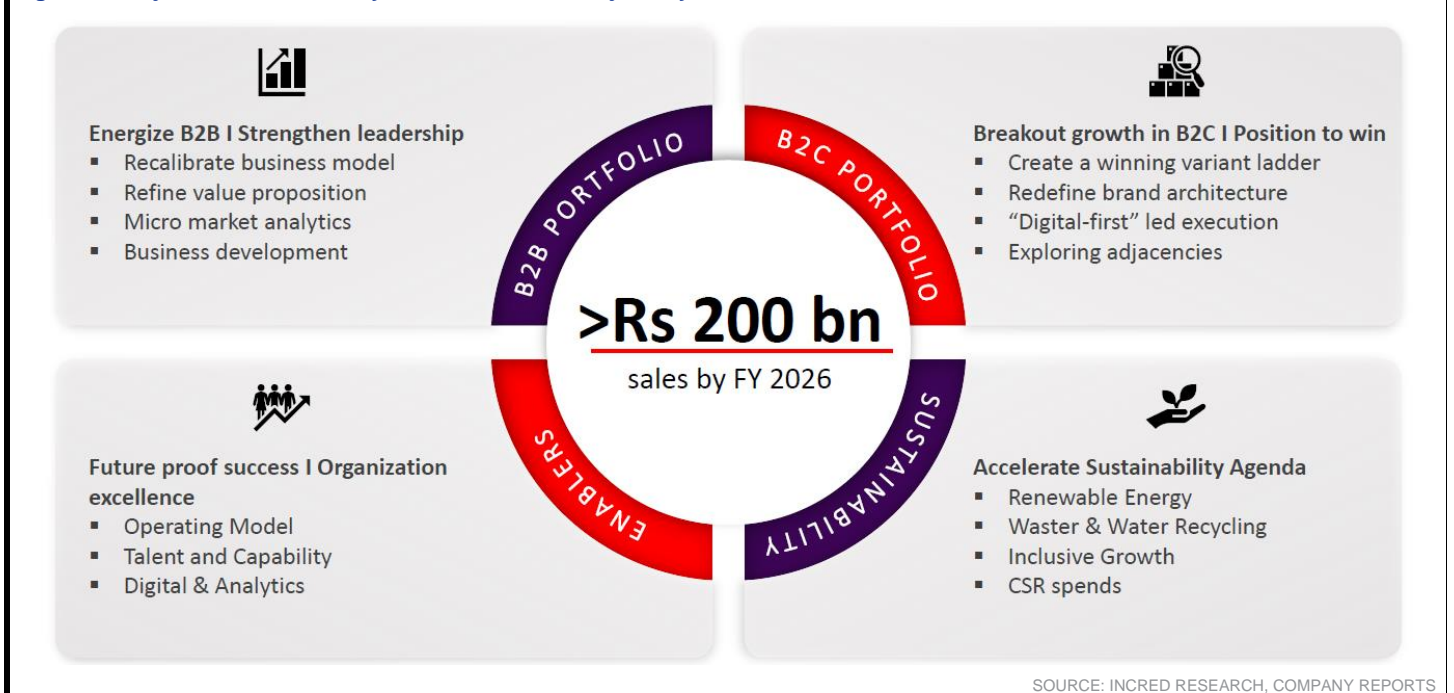
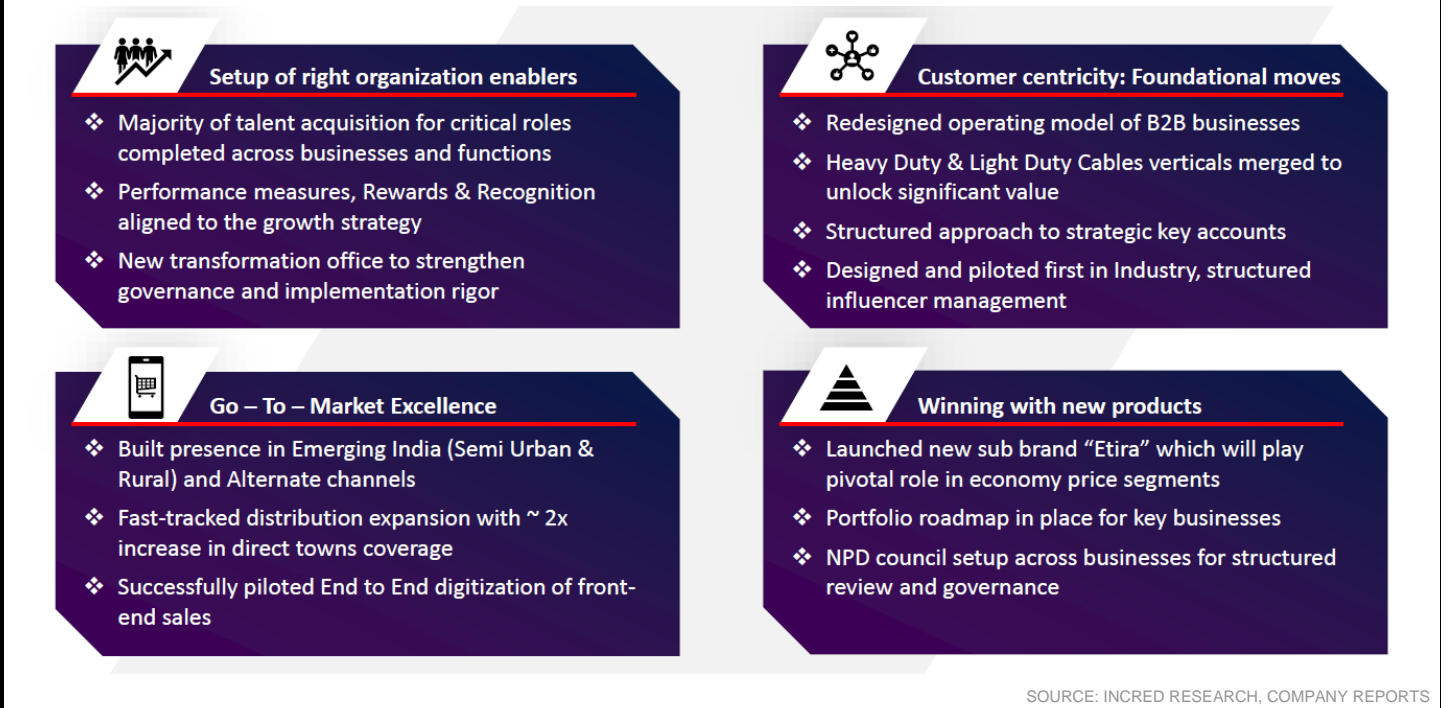


Figure 6: Project LEAP made significant strides towards achieving its vision



Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	122,038	140,788	155,527	171,629
Gross Profit	27,381	35,723	39,557	44,188
Operating EBITDA	12,652	18,124	19,650	22,219
Depreciation And Amortisation	(2,015)	(2,102)	(2,358)	(2,600)
Operating EBIT	10,637	16,022	17,291	19,619
Financial Income/(Expense)	(83)	(1)	188	375
Pretax Income/(Loss) from Assoc.	(26)	(43)	(48)	(53)
Non-Operating Income/(Expense)	630	550	578	606
Profit Before Tax (pre-EI)	11,158	16,528	18,010	20,548
Exceptional Items	721			
Pre-tax Profit	11,879	16,528	18,010	20,548
Taxation	(2,706)	(4,143)	(4,514)	(5,150)
Exceptional Income - post-tax				
Profit After Tax	9,173	12,385	13,495	15,398
Minority Interests	(87)	(120)	(132)	(145)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	9,086	12,265	13,363	15,253
Recurring Net Profit	8,529	12,265	13,363	15,253
Fully Diluted Recurring Net Profit	8,529	12,265	13,363	15,253

Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	11,712	22,809	29,028	39,188
Total Debtors	12,964	11,572	11,931	12,226
Inventories	21,996	27,000	28,975	31,034
Total Other Current Assets	4,739	4,755	5,240	5,769
Total Current Assets	51,411	66,137	75,174	88,218
Fixed Assets	16,170	20,573	22,215	26,614
Total Investments	93	93	93	93
Intangible Assets	230	230	230	230
Total Other Non-Current Assets	6,215	4,461	6,461	3,461
Total Non-current Assets	22,708	25,356	28,998	30,397
Short-term Debt	802	994		
Current Portion of Long-Term Debt				
Total Creditors	12,175	19,286	21,305	23,511
Other Current Liabilities	4,331	4,996	5,520	6,091
Total Current Liabilities	17,308	25,277	26,825	29,602
Total Long-term Debt	30	37		
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	821	821	821	821
Total Non-current Liabilities	851	858	821	821
Total Provisions	272	272	272	272
Total Liabilities	18,431	26,407	27,918	30,695
Shareholders Equity	55,437	64,715	74,720	86,241
Minority Interests	251	371	503	648
Total Equity	55,688	65,086	75,223	86,889

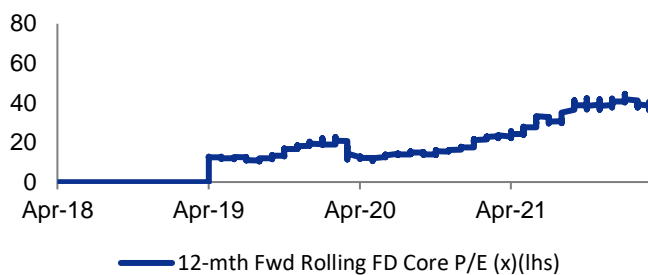
Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	12,652	18,124	19,650	22,219
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(4,974)	4,148	(276)	(106)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	695	505	718	929
Net Interest (Paid)/Received	83	1	(188)	(375)
Tax Paid	(3,340)	(4,143)	(4,514)	(5,150)
Cashflow From Operations	5,116	18,636	15,389	17,517
Capex	(5,200)	(4,750)	(6,000)	(4,000)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	1,348			
Other Investing Cashflow	(418)	(4,568)	(4,352)	(4,147)
Cash Flow From Investing	(4,270)	(9,318)	(10,352)	(8,147)
Debt Raised/(repaid)	(339)	200		
Proceeds From Issue Of Shares	133	(2)		
Shares Repurchased				
Dividends Paid	(1,492)	(2,985)	(3,359)	(3,732)
Preferred Dividends				
Other Financing Cashflow	(309)	(433)	(460)	(478)
Cash Flow From Financing	(2,007)	(3,220)	(3,818)	(4,209)
Total Cash Generated	(1,161)	6,098	1,219	5,160
Free Cashflow To Equity	507	9,518	5,037	9,369
Free Cashflow To Firm	494	8,885	4,577	8,892

Key Ratios

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	38.8%	15.4%	10.5%	10.4%
Operating EBITDA Growth	13.9%	43.3%	8.4%	13.1%
Operating EBITDA Margin	10.4%	12.9%	12.6%	12.9%
Net Cash Per Share (Rs)	72.57	145.26	193.62	261.39
BVPS (Rs)	369.77	431.66	498.39	575.23
Gross Interest Cover	30.23	37.02	37.62	41.08
Effective Tax Rate	22.8%	25.1%	25.1%	25.1%
Net Dividend Payout Ratio	25.0%	24.3%	25.1%	24.5%
Accounts Receivables Days	40.86	31.80	27.58	25.69
Inventory Days	80.74	85.11	88.09	85.94
Accounts Payables Days	49.46	54.65	63.88	64.18
ROIC (%)	26.7%	35.0%	39.0%	40.7%
ROCE (%)	20.3%	26.7%	25.3%	25.2%
Return On Average Assets	11.8%	15.0%	13.6%	13.5%

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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