

Polycab India Ltd.

14th May 2024

Gearing up for significant CAPEX owing to a strong outlook

In Q4 FY24, Polycab India Ltd. (PIL) recorded a revenue growth of 29% on a YoY basis driven by strong growth across segments, along with a slight moderation in EBITDA margin. Higher growth was witnessed in cables compared to wires. Exports recorded a weaker-than-expected contribution on account of PIL switching to a distributor-led model in its key market of the USA. EBITDA margins stood at 13.6%, recording a minor compression of ~48 Bps on a YoY basis. Performance in the FMEG segment improved on account of the growth momentum witnessed in key product categories. However, the widening of segment losses was also witnessed in Q4 FY24 on a YoY basis. On the back of bright macro prospects and the Company's preparedness, PIL's growth prospects continue to be promising.

Growth and margin expansion in C&W business continues

In Q4 FY24, PIL witnessed a 19% revenue growth on a YoY basis in the C&W segment, primarily fueled by robust volume growth. The operating margins saw further enhancement, widening by 68 basis points on a YoY basis. This improvement in margins can be attributed to increased operating leverage and an improved product mix. Notably, during the quarter, the proportion of LDC cable was higher than normal, and there was a significant export of products with higher margins. Despite these record margins, PIL maintains a long-term sustainable operating margin guidance of 12-13%.

Constant business growth initiatives have resulted in market share gains

Through sustained strategic initiatives, PIL has fortified its market presence significantly. Between FY23 and FY24, PIL's market augmented its market share by 200-300 bps, positioning itself with a commanding share of 25-26% within the domestic organized C&W industry. Observing from a broader scope, since FY19, PIL's market share has witnessed an expansion of 700-800 bps, underscoring the Company's growing influence and strategic success in the industry.

Lining up for a significant CAPEX

PIL anticipates that its C&W segment is positioned to witness robust demand over the next 4-5 years, primarily driven by the substantial capital expenditure initiatives undertaken by the Government of India in the Power Transmission & Distribution space. In anticipation of this promising demand forecast, PIL has planned a significant capital investment, estimated to be ~Rs 10-11 Bn, over the coming 2-3 years. The Company maintains a positive outlook, asserting that despite the widespread CAPEX across the industry, all the players are expected to achieve optimal capacity utilization bolstered by the strong momentum within the industry.

View & Valuation

We continue to believe in the robust business outlook of PIL, along with the Company's ability to maintain EBITDA margins in the range of 12-13%. However, our estimates indicate that the recent significant surge in price has resulted in stock moving well ahead of fundamentals. Therefore, based on our revised estimates, we change our rating on Polycab India Ltd. from NEUTRAL to REDUCE with a target price of Rs. 5,768 (45x FY25E EPS).

REDUCE

CMP Rs. 6,330

TARGET Rs. 5,768 (-8.9%)

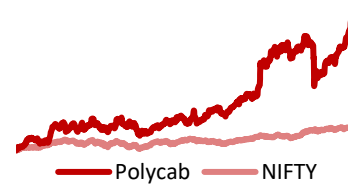
Company Data

Bloomberg Code	POLYCAB IN
MCAP (Rs. Mn)	9,51,069
O/S Shares (Mn)	150
52w High/Low	6,364 / 3,200
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	2,673

Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	65.24	65.79	65.91
FIIIs	11.95	13.40	12.40
DIIIs	7.24	7.62	8.09
Non-Institutional	15.58	13.18	13.59

Polycab vs Nifty



May, 21 May, 22 May, 23 May, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY23	FY24	FY25E
Revenue	141.1	180.4	212.8
EBITDA	18.5	24.9	27.0
Net Profit	12.9	17.8	18.5
Total Assets	94.3	120.8	140.6
ROCE (%)	23%	25%	22%
ROE (%)	21%	24%	21%

Source: Company, Keynote Capitals Ltd.

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Q4 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue	55,919	43,237	29%	43,405	29%	1,80,394	1,41,078	28%
COGS	41,792	32,357	29%	31,692	32%	1,32,803	1,05,109	26%
Gross Profit	14,127	10,880	30%	11,713	21%	47,591	35,969	32%
Gross Profit %	25%	25%	10 Bps	27%	-172 Bps	26%	25%	89 Bps
Employee Cost	1,696	1,187	43%	1,494	14%	6,095	4,568	33%
A&SP	377	245	54%	904	-58%	1,989	1,244	60%
Freight & forwarding	965	879	10%	876	10%	3,498	3,146	11%
Other Operating Expense	3,474	2,473	40%	2,745	27%	11,091	8,490	31%
EBITDA	7,615	6,095	25%	5,695	34%	24,918	18,521	35%
EBITDA %	13.6%	14.1%	-48 Bps	13.1%	50 Bps	13.8%	13.1%	68 Bps
Depreciation	657	535	23%	619	6%	2,450	2,092	17%
EBIT	6,958	5,561	25%	5,076	37%	22,468	16,430	37%
EBIT %	12%	13%	-42 Bps	12%	75 Bps	12%	12%	81 Bps
Finance Cost	244	282	-13%	322	-24%	1,083	598	81%
Other Income	538	515	5%	710	-24%	2,209	1,333	66%
PBT	7,253	5,794	25%	5,464	33%	23,593	17,165	37%
PBT %	13%	13%	-43 Bps	13%	38 Bps	13%	12%	91 Bps
Share of Associates	0	-64	-	0	-	0	-93	-
Tax	1,718	1,444	19%	1,299	32%	5,564	4,242	31%
Profit for the period	5,535	4,287	29%	4,165	33%	18,029	12,831	41%
EPS	36.26	28.31	-	27.40	-	118.49	84.66	-

Segment Highlights (Rs. Mn)

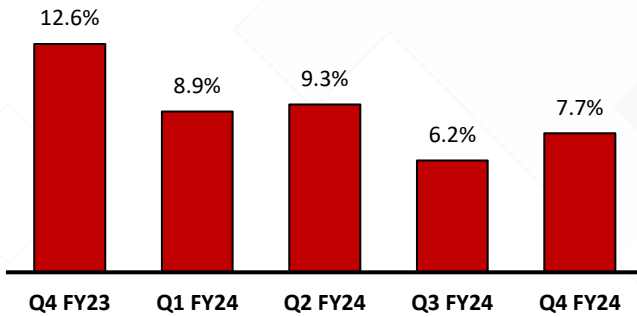
Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue								
Cables & Wires	48,647	40,783	19%	39,041	25%	1,61,073	1,27,775	26%
FMEG	3,581	3,052	17%	2,962	21%	12,988	12,607	3%
Others	5,022	1,338	275%	2,475	103%	11,008	4,647	137%
Operating Profit								
Cables & Wires	7,363	5,896	25%	5,474	35%	23,607	16,724	41%
FMEG	-459	-70	558%	-366	25%	-942	-56	1581%
Others	446	82	445%	394	13%	1,248	517	141%
Operating Profit Margin %								
Cables & Wires	15%	14%	68 Bps	14%	111 Bps	15%	13%	157 Bps
FMEG	-13%	-2%	-1053 Bps	-12%	-46 Bps	-7%	0%	-681 Bps
Others	9%	6%	276 Bps	16%	-705 Bps	11%	11%	21 Bps

Source: Company, Keynote Capitals Ltd.

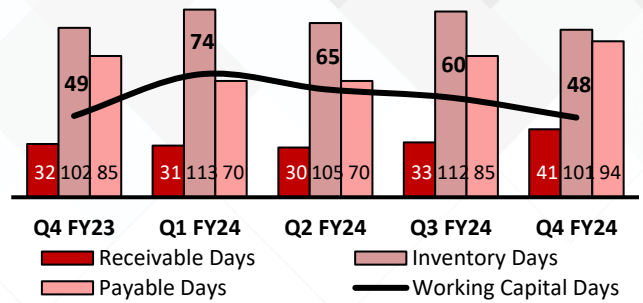
Polycab India Ltd | Quarterly Update

Quarterly business progression

Export contribution as a % of overall revenue

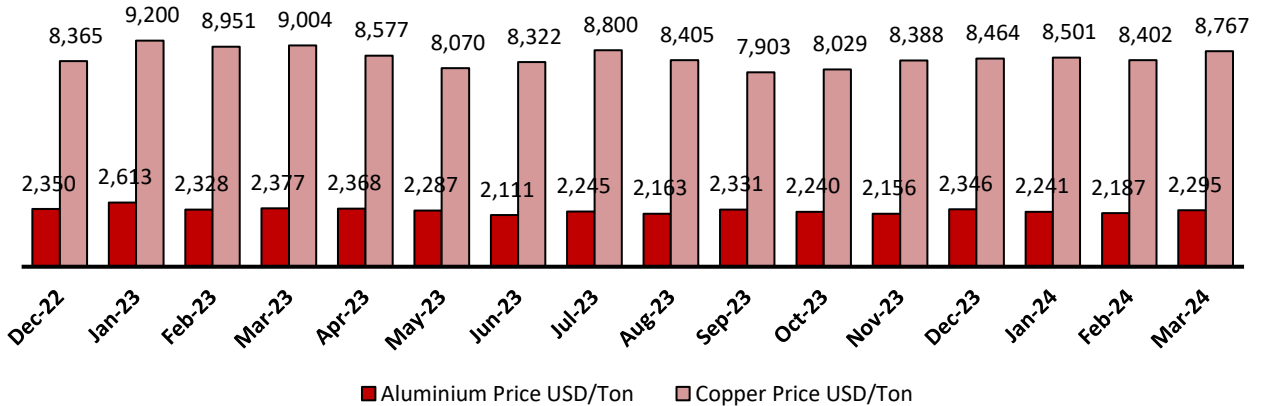


Working capital cycle



Source: Company, Keynote Capitals Ltd.

In Q4 FY24, Aluminium prices fell by 2.2% and Copper prices surged by 3.6% on a QoQ basis, respectively

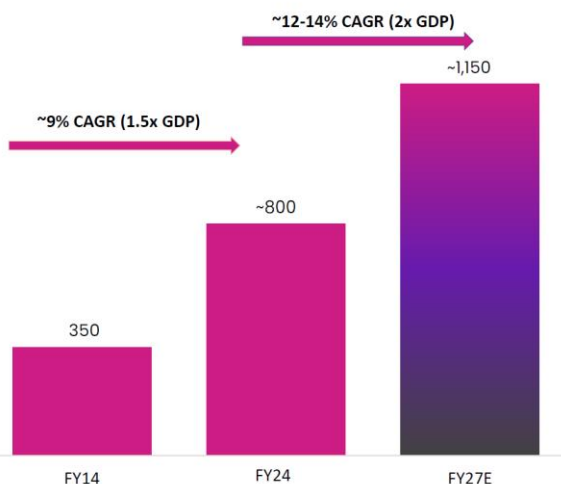


Source: Bloomberg, Keynote Capitals Ltd.
Prices taken are for the respective month ended

Growth Momentum for the Indian Cable & Wire Industry is Expected to Continue

Indian Cable & Wire Industry projected to grow near ~2x GDP (vs ~1.5x GDP historically)

Indian Cable & Wire Market (₹ Bn):



Source: Industry Reports; Company Estimates

Source: Company, Keynote Capitals Ltd.

Key Demand Drivers:

Robust Domestic Demand

- Government's thrust on infrastructure
- Energy transition boosting demand for power transmission
- Real estate upcycle
- High demand from sunrise industries (Data Centers, EV, Railways, Metro, etc.)

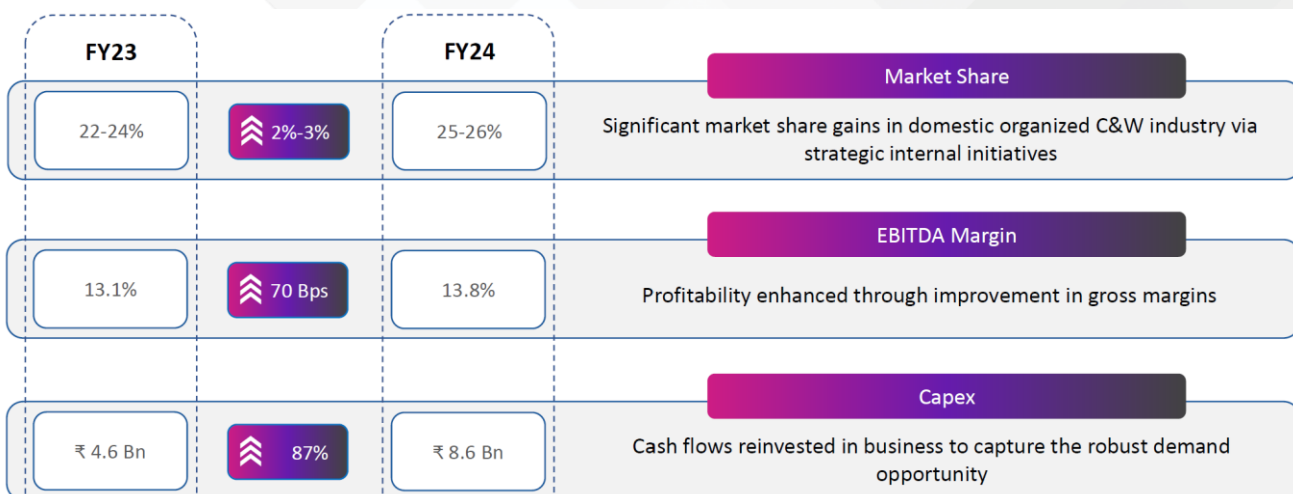
Exports Opportunity

- China + 1 supply alternative
- Global C&W is ~\$250Bn market, growing at 7%+ CAGR, driven by Renewables, Power, Oil & Gas
- Global annual grid capex is expected to rise from \$290 Bn in 2022 to \$645 Bn in 2030 to replace ageing infrastructure

Organized Players To Dominate

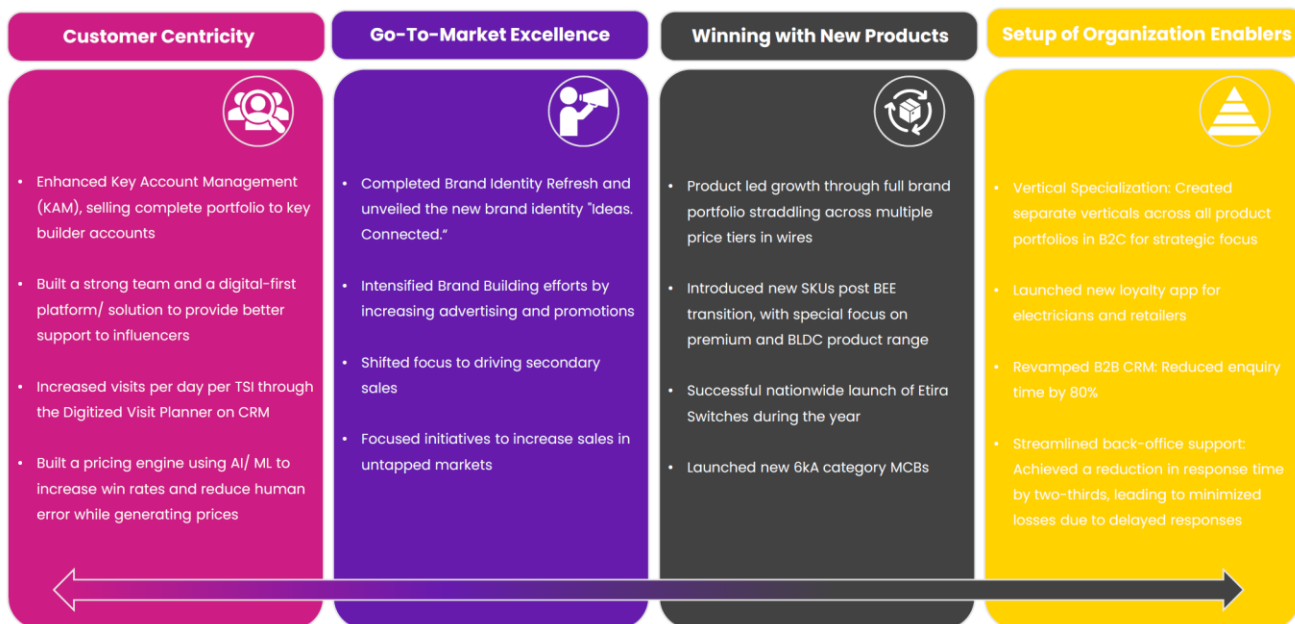
- Focus on safety, GST regime, complex C&W applications to drive shift towards organized players
- Shift towards higher voltage products to benefit large players

Major Highlights for FY24



Source: Company, Keynote Capitals Ltd.

Progress Under Project LEAP



Source: Company, Keynote Capitals Ltd.

Q4 FY24 Conference Call Takeaways

General Highlights

- Considering the growth opportunity, PIL has increased its CAPEX target from Rs. 6-7 Bn per annum to Rs. 11-12 Bn per annum for the coming 2-3 years.
- Most of this CAPEX will be targeted towards the C&W segment. Additionally, the newly installed assets will be able to generate asset turns of 5-6x at peak capacity.
- PIL has now merged its complete B2C business under one head.

C&W segment

- In Q4 FY24, export business degrowth was due to the ongoing transition in PIL's key export market, the USA. According to the management, stabilization will still take 4-5 quarters. However, will continue to add more geographies.
- The export business from the Middle East experienced strong growth during the quarter. In addition, there is strong product demand from geographies like Europe and Australia. PIL now has a presence in 79 countries.
- The newly launched product range of Eitra, green wires, etc., is performing well and has already started contributing materially to PIL's topline.
- PIL is planning a significant capacity expansion in its C&W segment. Capacity expansion will take place for products like EHV Cables, special cables and low- & high-tension cables.
- PIL witnessed a 30-40% volume growth during Q4 FY24. In line with the recent trend, cables growth continued outpacing that of wires. There is a possibility of some growth contribution on account of an increase in copper prices but the same is not material.
- The Company is also in the process of establishing an India-like distribution in the USA. Currently, PIL is engaging with distributors and is confident that it will achieve its target of improving exports to 10% of its overall C&W business by FY26.
- Currently, 90% of PIL's sales come from distributors, and the rest comes from direct sales to customers.
- In terms of utilization, PIL operated at a 70% capacity utilization in Q4 FY24. The sales mix has moved further in favour of cables.

FMEG segment

- In Q4 FY24, the fans business recorded an encouraging performance. Premium fans, along with BLDC, contributed to the tune of 28% to PIL's fans' business.
- Currently, the team of Silvan is working along with PIL's R&D team to help it with new product launches as well as identifying and filling product gaps.
- Due to weakness in the lighting business, the contributions from fans and lights have reduced from ~60% to ~50%. Going forward, PIL aims to increase the contribution of switches and switchgears to its FMEG topline.
- In Q4 FY24, price erosion in the lighting business continued. This trend might persist given the external environment. The Company aims to increase the contribution of premium lights going forward.
- The FMEG segment's move towards profitability will be a function of improvement in scale, as the Company is not able to utilize its production facilities to their optimal level right now. According to management, profitability may take 2-3 years time to emerge.

Other segment

- Currently, PIL has a strong open order book worth ~Rs 50 Bn on account of GOI's ongoing RDSS scheme. This scheme is aimed to improve electricity generation and distribution capabilities of India.
- These orders will be executed over the course of the next 2-3 years.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,22,038	1,41,078	1,80,394	2,12,865	2,51,181
Growth %	-	16%	28%	18%	18%
Raw Material Expenses	91,530	1,01,218	1,32,803	1,57,520	1,85,874
Employee Expenses	4,066	4,568	6,095	7,025	8,038
Other Expenses	13,939	16,802	16,578	21,286	24,616
EBITDA	12,502	18,490	24,918	27,034	32,653
Growth %	-	48%	35%	8%	21%
Margin%	10%	13%	14%	13%	13%
Depreciation	2,015	2,092	2,450	3,139	3,889
EBIT	10,487	16,398	22,468	23,894	28,764
Growth %	-	56%	37%	6%	20%
Margin%	9%	12%	12%	11%	11%
Interest Paid	352	598	1,083	941	941
Other Income & exceptional	1,049	1,364	2,209	2,319	2,435
PBT	11,184	17,165	23,593	25,272	30,258
Tax	2,706	4,250	5,563	6,318	7,564
PAT	8,478	12,915	18,030	18,954	22,693
Others (Minorities, Associates)	-113	-216	-189	-189	-189
Net Profit	8,365	12,700	17,841	18,765	22,505
Shares (Mn)	149.4	149.8	149.8	149.8	149.8
EPS	60.80	84.80	118.49	127.82	152.78

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	4,071	6,952	4,024	6,715	12,355
Current Investments	7,641	13,505	18,224	18,224	18,224
Debtors	12,964	12,466	20,471	23,415	27,630
Inventory	21,996	29,514	36,751	44,106	52,045
Short Term Loans & Advances	3,990	6,068	0	0	0
Other Current Assets	749	582	7,670	7,670	7,670
Total Current Assets	51,411	69,087	87,140	1,00,129	1,17,923
Net Block & CWIP	20,506	23,177	29,160	36,020	42,131
Long Term Investments	93	0	0	0	0
Other Non-current Assets	2,109	1,977	4,490	4,490	4,490
Total Assets	74,119	94,241	1,20,789	1,40,639	1,64,543
Creditors	12,175	20,326	28,634	32,975	38,763
Provision	413	616	314	314	314
Short Term Borrowings	765	1,483	672	672	672
Other Current Liabilities	4,059	3,840	6,160	6,160	6,160
Total Current Liabilities	17,413	26,266	35,779	40,121	45,908
Long Term Debt	30	42	226	226	226
Deffered Tax Liabilities	272	409	544	544	544
Other Long Term Liabilities	716	839	1,807	1,807	1,807
Total Non Current Liabilities	1,018	1,291	2,576	2,576	2,576
Paid-up Capital	1,494	1,498	1,502	1,502	1,502
Reserves & Surplus	53,943	64,814	80,369	95,689	1,13,617
Shareholders' Equity	55,437	66,311	81,871	97,191	1,15,119
Non Controlling Interest	251	374	562	751	939
Total Equity & Liabilities	74,119	94,241	1,20,789	1,40,639	1,64,543

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	11,184	17,165	23,593	25,272	30,258
Adjustments	1,292	1,872	3,202	1,762	2,396
Change in Working Capital	-4,974	-1,058	-8,090	-5,957	-6,366
Total Tax Paid	-3,340	-3,704	-5,743	-6,318	-7,564
Cash flow from operating Activities	4,163	14,275	12,962	14,759	18,723
Net Capital Expenditure	-5,200	-4,584	-8,580	-10,000	-10,000
Change in investments	-762	-7,665	616	0	0
Other investing activities	1,693	223	445	2,319	2,435
Cash flow from investing activities	-4,270	-12,026	-7,519	-7,681	-7,565
Equity raised / (repaid)	0	0	193.95	0	0
Debt raised / (repaid)	-168	332	194	0	0
Dividend (incl. tax)	-1,492	-2,094	-2,997	-3,446	-4,576
Other financing activities	-347	-508	-1,265	-941	-941
Cash flow from financing activities	-2,007	-2,271	-3,874	-4,387	-5,518
Net Change in cash	-2,114	-22	1,569	2,691	5,640

Valuation Ratios

	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	61	85	118	128	153
Growth %	-	39%	40%	8%	20%
Book Value Per Share	371	443	550	654	775
Return Ratios					
Return on Assets (%)	12%	15%	17%	15%	15%
Return on Equity (%)	16%	21%	24%	21%	21%
Return on Capital Employed (%)	15%	23%	25%	22%	22%
Turnover Ratios					
Asset Turnover (x)	1.7	1.7	1.7	1.6	1.6
Sales / Gross Block (x)	4.5	4.8	5.2	5.1	4.8
Working Capital / Sales (%)	25%	27%	26%	26%	26%
Receivable Days	41	33	33	38	37
Inventory Days	83	93	91	94	94
Payable Days	50	55	67	68	68
Working Capital Days	74	71	57	63	64
Liquidity Ratios					
Current Ratio (x)	3.0	2.6	2.4	2.5	2.6
Interest Coverage Ratio (x)	32.8	29.7	22.8	27.8	33.1
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	0.0	-0.1	-0.1
Valuation					
PE (x)	38.9	34.0	24.3	22.5	18.9
Earnings Yield (%)	3%	3%	4%	4%	5%
Price to Sales (x)	2.9	3.1	2.4	2.0	1.7
Price to Book (x)	6.4	6.5	5.3	4.4	3.7
EV/EBITDA (x)	28.0	23.0	17.1	15.8	13.0
EV/Sales (x)	2.9	3.0	2.4	2.0	1.7

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
22 nd August 2022	BUY	2,350	+15%
20 th October 2022	BUY	2,648	+16%
20 th January 2023	BUY	2,757	+10%
15 th May 2023	NEUTRAL	3,379	+3%
19 th July 2023	REDUCE	4,309	-2%
19 th October 2023	REDUCE	5,292	-7%
23 rd January 2024	NEUTRAL	4,379	+6%
14 th May 2024	REDUCE	6,330	-9%

Source: Company, Keynote Capitals Ltd. estimates

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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