

Polycab India Ltd.

22nd July 2024

Margin compression due to adverse sales mix

In Q1 FY25, Polycab India Ltd. (PIL) recorded a revenue growth of 21% on a YoY basis driven by strong growth in FMEG and projects business, along with a moderation in EBITDA margin. The export business continued its weaker-than-expected contribution in the second straight quarter because of PIL's ongoing switch to a distributor-led model in its key market of the USA. EBITDA margins stood at 12.4%, recording a compression of ~170 bps on a YoY basis. Performance in the FMEG segment improved on account of the growth momentum witnessed in key product categories. Additionally, the segment losses also came down on a YoY basis. The EPC business experienced more than a twofold increase on a YoY basis, attributed to the ongoing execution of government orders under the RDSS scheme.

Margin contraction in C&W business on account of Unfavourable Mix

EBITDA margins for PIL in Q1 FY25 came in at 12.4%, recording a contraction of 169 bps on a YoY basis and 120 bps on a sequential basis. This contraction was attributed to an unfavourable revenue mix at three levels during the quarter. Firstly, the contribution of higher-margin export business was lower than normal. Secondly, the domestic institutional business grew faster than the higher-margin domestic distribution business. Lastly, the strategic EPC business grew faster than the flagship C&W business.

New guidance expected to be shared in FY25

Initially, while announcing project LEAP, PIL was guided to attain a topline of Rs. 200 Bn by FY26. Given the Company's business trajectory from FY22 to FY24, it seems like PIL will be able to achieve the above-mentioned revenue target well ahead of time, most probably by FY25 itself. Taking note of this fact, management highlighted that they are currently in the process of recalibrating the new guidance and will share the same in FY25 itself.

Progressive steps to improve corporate governance

In Q1 FY25, to improve governance quality, PIL significantly changed the composition of its Audit Committee and its Nomination & Remuneration Committee. All the family members belonging to the promoter group have decided to step down from both committees. Going forward both committees will solely comprise independent board members. The management further highlighted that this is in line with the best practices followed by some of the large companies in the Indian listed space.

View & valuation

We continue to believe in the robust business outlook of PIL. However, the management commentary indicates the sales mix for FY25E to be relatively skewed towards the lower-margin EPC segment which may result in lower margins compared to FY24. Having said that, our belief in the Company's ability to maintain EBITDA margins in the range of 12-13% remains intact. Based on the above, our estimates indicate that the stock price continues to move well ahead of anticipated fundamental change. Therefore, based on our revised estimates, we maintain our REDUCE rating on Polycab India Ltd. with a target price of Rs. 5,828 (46x FY25E EPS).

REDUCE

CMP Rs. 6,300

TARGET Rs. 5,828 (-7.5%)

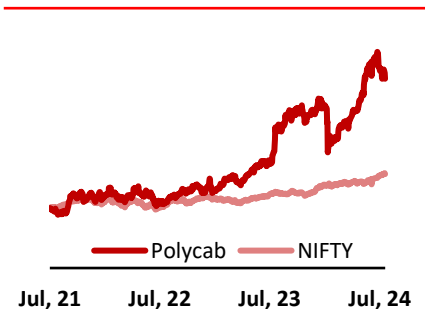
Company Data

Bloomberg Code	POLYCAB IN
MCAP (Rs. Mn)	9,46,489
O/S Shares (Mn)	150
52w High/Low	7,330 / 3,812
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Bn)	4.6

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	65.02	65.24	65.79
FIIIs	13.63	11.95	13.40
DIIIs	6.93	7.24	7.62
Non-Institutional	14.42	15.58	13.18

Polycab vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY24	FY25E	FY26E
Revenue	180.4	212.8	244.8
EBITDA	24.9	27.0	31.8
Net Profit	17.8	18.5	21.7
Total Assets	120.8	140.6	162.3
ROCE (%)	25%	22%	22%
ROE (%)	24%	21%	21%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue	46,980	38,894	21%	55,919	-16%	1,80,394
COGS	35,415	28,581	24%	41,792	-15%	1,32,803
Gross Profit	11,565	10,313	12%	14,127	-18%	47,591
Gross Profit %	25%	27%	-190 bps	25%	-65 bps	26%
Employee Cost	1,539	1,349	14%	1,696	-9%	6,095
A&SP	240	263	-9%	377	-36%	1,989
Freight & forwarding	783	794	-1%	965	-19%	3,498
Other Operating Expense	3,169	2,422	31%	3,474	-9%	11,091
EBITDA	5,834	5,486	6%	7,615	-23%	24,918
EBITDA %	12.4%	14.1%	-169 bps	13.6%	-120 bps	13.8%
Depreciation	671	571	17%	657	2%	2,450
EBIT	5,163	4,914	5%	6,958	-26%	22,468
EBIT %	11%	13%	-165 bps	12%	-145 bps	12%
Finance Cost	413	249	66%	244	69%	1,083
Other Income	584	640	-9%	538	8%	2,209
PBT	5,334	5,305	1%	7,253	-26%	23,593
PBT %	11%	14%	-229 bps	13%	-162 bps	13%
Share of Profit from Associates & JVs	0	0	-	0	-	0
Tax	1,317	1,277	3%	1,718	-23%	5,564
Profit for the period	4,016	4,028	0%	5,535	-27%	18,029
EPS	26.34	26.64	-	36.26	-	118.49

Segment Highlights (Rs. Mn)

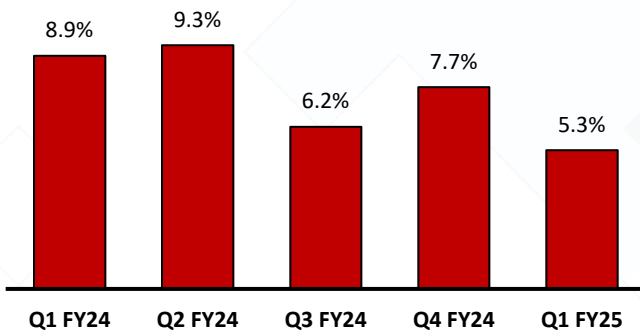
Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue						
Cables & Wires	39,421	35,338	12%	48,647	-19%	1,61,073
FMEG	3,855	3,145	23%	3,581	8%	12,988
Others	5,194	1,528	240%	5,022	3%	11,008
Operating Profit						
Cables & Wires	4,967	5,223	-5%	7,363	-33%	23,607
FMEG	-28	-57	-50%	-459	-94%	-942
Others	572	183	212%	446	28%	1,248
Operating Profit Margin %						
Cables & Wires	13%	15%	-218 bps	15%	-254 bps	15%
FMEG	-1%	-2%	-	-13%	-	-7%
Others	11%	12%	-98 bps	9%	215 bps	11%

Source: Company, Keynote Capitals Ltd.

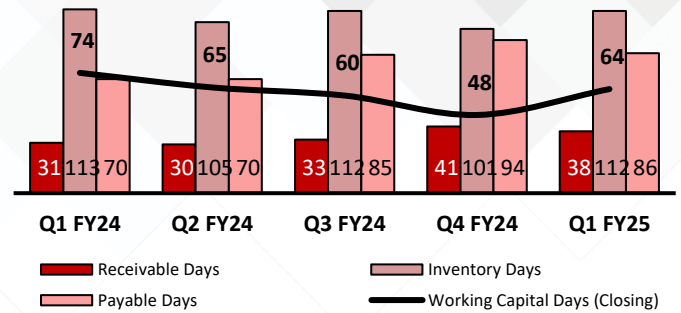
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Quarterly business progression

Export contribution as a % of overall revenue

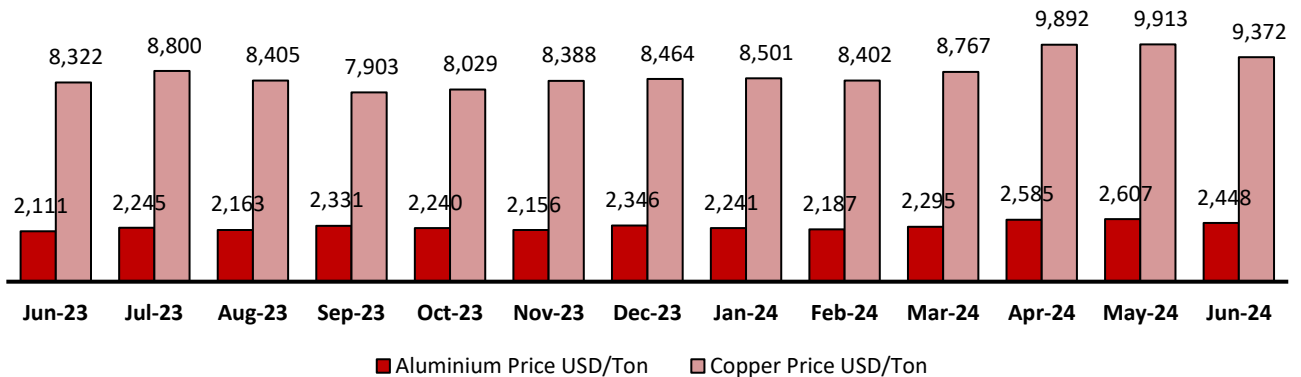


Working capital cycle



Source: Company, Keynote Capitals Ltd.

Significant volatility was observed in Aluminium and Copper prices during Q1 FY25

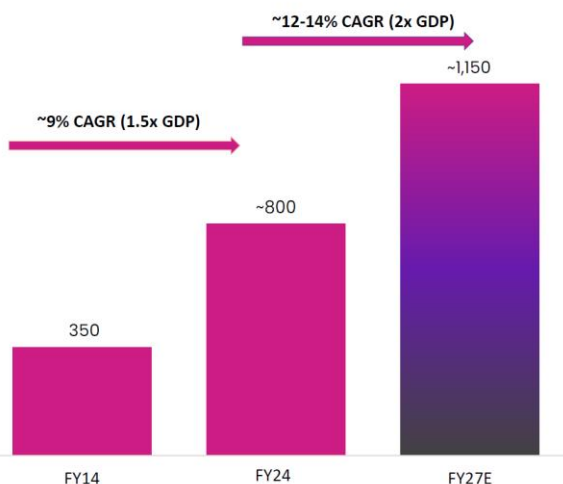


Source: Bloomberg, Keynote Capitals Ltd.
Prices taken are for the respective month ended

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

Progress Under Project LEAP



PIL will probably be able to meet its topline guidance initially shared under project LEAP well ahead of FY26. In line with this situation, the Company is expected to share its REVISED guidance in FY25

Source: Company, Keynote Capitals Ltd.

Q1 FY25 Conference Call Takeaways

General Highlights

- The operating cash flow was adversely impacted due to: 1) Higher than necessary inventory level because of slow demand owing to decline in raw material prices. 2) Increase in the EPC and institution business that are not supported by channel financing, affecting inventory days.
- Looking ahead, commodity prices are projected to stabilize.
- In Q1 FY25, PIL executed a CAPEX of Rs. 2.8 Bn and remains on track to meet its projected CAPEX of Rs. 10-11 Bn, with expectations to reach the higher end of this range. Current capacity utilization stands at ~70-75%.
- PIL is poised to achieve or surpass its Rs. 200 Bn revenue target for FY26 ahead of schedule. The Company plans to unveil new revenue guidance during the course of FY25.
- PIL's ad spend will consistently account for 3-5% of its B2C topline.

C&W segment

- The domestic cables and wires business recorded ~10% volume growth. However, the volatility in commodity prices during the quarter significantly impacted channel sales, resulting in a negative performance in terms of value. This adverse effect was also due to the high base from the previous year.

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- In institutional orders, the Company benefits from back-to-back pricing, insulating it from commodity price fluctuations. Conversely, distributors speculate on future copper prices. During Q1 FY25, heightened volatility led distributors to destock inventory, which resulted in a slowdown in channel sales. Consequently, institutional sales growth outpaced general sales.
- The international business faced softness in PIL's key market, leading to weaker performance compared to the previous year. Once the transition to a distributor-led model is complete, sales are expected to normalize. The target to make exports reach a topline contribution of 10% by FY26 remains intact.
- The current revenue mix is 75% cables and 25% wires. Demand for wires is expected to remain robust due to the ongoing real estate upcycle. Consequently, wire growth is expected to accelerate, potentially shifting the revenue mix towards wires over the next 3-4 years.
- Domestically, wires generate an EBITDA margin of 15-16%, while cables achieve 9-11%. Export margins surpass those of wires, indicating even higher profitability.

FMEG segment

- Demand for fans was very strong, making this the best quarter on record.
- PIL's strategic roadmap focuses on four key areas: expanding reach, accelerating new product development, enhancing brand positioning, and optimizing influencer management. The Company aims to execute these strategies effectively to drive growth and strengthen its market position.
- Segment profitability will improve as a result of shifting focus from fans and lights to high-margin categories like switches and switchgears and by emphasizing premiumization and expanding its product range.
- In the FMEG portfolio, 50-55% is derived from fans and lights, while switches and switchgears contribute a high-teen percentage. Conduit pipes and fittings also account for a similar high-teen percentage. The remaining businesses are relatively small but synergistic.
- With 2,900 dealers and distributors, PIL has considerable room for growth compared to market leaders who boast over 16,000 dealers and distributors. The Company has a strong presence in the western region and plans to expand pan-India, which could open up significant growth potential.

Other segment

- In the EPC business, PIL primarily undertakes RDSS orders. The RDSS scheme focuses on revamping power transmission and distribution infrastructure, with a significant component dedicated to the supply of cables and wires. Here, the Company has a robust order book.
- In Q1 FY25, the EPC business contributed 10% to the Company's revenue primarily due to lower growth in the cables and wires segment. PIL expects this division to contribute a mid to high single-digit percentage to the topline, with sustainable long-term margins in the high single digits.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1,41,078	1,80,394	2,12,865	2,44,795	2,76,619
Growth %		28%	18%	15%	13%
Raw Material Expenses	1,01,218	1,26,181	1,57,520	1,81,148	2,04,698
Employee Expenses	4,568	6,095	7,025	7,833	8,575
Other Expenses	16,802	23,200	21,287	23,990	27,109
EBITDA	18,490	24,918	27,034	31,823	36,237
Growth %		35%	8%	18%	14%
Margin%	13.1%	13.8%	12.7%	13.0%	13.1%
Depreciation	2,092	2,450	3,006	3,687	4,246
EBIT	16,398	22,468	24,028	28,136	31,991
Growth %		37%	7%	17%	14%
Margin%	12%	12%	11%	11%	12%
Interest Paid	598	1,083	1,425	1,425	1,425
Other Income & exceptional	1,364	2,209	2,319	2,435	2,557
PBT	17,165	23,593	24,923	29,147	33,123
Tax	4,250	5,564	6,231	7,287	8,281
Others (Minorities, Associates)	-216	-281	-189	-189	-189
Net Profit	12,700	17,748	18,503	21,671	24,654
Shares (Mn)	149.8	150.2	150.2	150.2	150.2
EPS	84.80	118.75	125.67	146.76	166.61

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	6,952	4,024	5,366	10,953	21,647
Current Investments	13,505	18,224	18,224	18,224	18,224
Debtors	12,466	20,471	23,415	26,927	30,428
Inventory	29,514	36,751	44,106	50,722	57,315
Short Term Loans & Advances	6,068	6,914	6,914	6,914	6,914
Other Current Assets	582	755	755	755	755
Total Current Assets	69,087	87,140	98,781	1,14,496	1,35,284
Net Block & CWIP	23,177	29,160	37,154	43,466	47,221
Long Term Investments	0	0	0	0	0
Other Non-current Assets	1,977	4,361	4,361	4,361	4,361
Total Assets	94,241	1,20,660	1,40,295	1,62,323	1,86,865
Creditors	20,326	28,633	32,975	37,553	42,258
Provision	616	440	440	440	440
Short Term Borrowings	1,483	624	624	624	624
Other Current Liabilities	3,840	6,082	6,082	6,082	6,082
Total Current Liabilities	26,266	35,779	40,121	44,699	49,404
Long Term Debt	42	226	226	226	226
Deffered Tax Liabilities	409	415	415	415	415
Other Long Term Liabilities	839	1,807	1,807	1,807	1,807
Total Non Current Liabilities	1,291	2,448	2,448	2,448	2,448
Paid-up Capital	1,498	1,502	1,502	1,502	1,502
Reserves & Surplus	64,814	80,369	95,474	1,12,735	1,32,383
Shareholders' Equity	66,311	81,871	96,976	1,14,238	1,33,885
Non Controlling Interest	374	562	751	940	1,128
Total Equity & Liabilities	94,241	1,20,660	1,40,295	1,62,323	1,86,865

Cash Flow Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	17,165	23,593	24,923	29,147	33,123
Adjustments	1,872	3,110	2,111	2,677	3,114
Change in Working Capital	-1,058	-8,090	-5,957	-5,550	-5,389
Total Tax Paid	-3,704	-5,743	-6,231	-7,287	-8,281
Cash flow from operating Activities	14,275	12,870	14,846	18,986	22,567
Net Capital Expenditure	-4,584	-8,580	-11,000	-10,000	-8,000
Change in investments	-7,665	616	0	0	0
Other investing activities	223	445	2,319	2,435	2,557
Cash flow from investing activities	-12,026	-7,519	-8,681	-7,565	-5,443
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	332	194	0	0	0
Dividend (incl. tax)	-2,094	-2,997	-3,399	-4,410	-5,006
Other financing activities	-508	-1,071	-1,425	-1,425	-1,425
Cash flow from financing activities	-2,271	-3,874	-4,823	-5,834	-6,431
Net Change in cash	-22	1,477	1,342	5,587	10,693

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	85	119	126	147	167
Growth %		40%	6%	17%	14%
Book Value Per Share	443	545	650	767	899
Return Ratios					
Return on Assets (%)	15%	17%	14%	15%	14%
Return on Equity (%)	21%	24%	21%	21%	20%
Return on Capital Employed (%)	23%	25%	22%	22%	21%
Turnover Ratios					
Asset Turnover (x)	1.7	1.7	1.6	1.6	1.6
Sales / Gross Block (x)	4.8	5.2	5.0	4.6	4.4
Working Capital / Sales (%)	27%	26%	26%	26%	28%
Receivable Days	33	33	38	38	38
Inventory Days	93	96	94	96	96
Payable Days	55	67	68	69	69
Working Capital Days	71	62	63	65	65
Liquidity Ratios					
Current Ratio (x)	2.6	2.4	2.5	2.6	2.7
Interest Coverage Ratio (x)	29.7	22.8	18.5	21.5	24.3
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	0.0	0.0	-0.1	-0.2
Valuation					
PE (x)	34.0	43.2	50.5	43.3	38.1
Earnings Yield (%)	3%	2%	2%	2%	3%
Price to Sales (x)	3.1	4.3	4.5	3.9	3.5
Price to Book (x)	6.5	9.4	9.8	8.4	7.1
EV/EBITDA (x)	23.0	30.8	35.2	29.9	26.3
EV/Sales (x)	3.0	4.3	4.5	3.9	3.4

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%
22 nd July 2024	REDUCE	6,300	-8%

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
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