

22nd July 2024

CMP – ₹6334.8/-

View – ACCUMULATE

Q1FY25 Result Highlights

- **Strong Topline in Q1FY25 on the back of 10%/12% volume/revenue growth in W&C business** – Polycab reported Revenue/EBITDA growth of 20.8%/6.3% YoY to ₹46.98bn/₹5.83bn respectively led by strong performance in the Wires & Cables business which registered 10%/~12% volume/revenue growth. PAT remained flat YoY and declined 27.5% QoQ to ₹3.96bn. EBITDA margin contracted 169bps/120bps YoY/QoQ to 12.4% due to shift in mix towards low margin EPC/domestic institutional business, as well as lower contribution of high margin International business. Management is confident of achieving EBITDA Margin of ~12-14% owing to better operating leverage. With stability in commodity prices, channel inventories have reverted to normalised levels, implying better sales performance. Higher interest costs (at ₹413mn, +66% YoY and 69% QoQ) during the quarter was associated with procurement of raw materials as Least Cost Selection (LCS) is an interest-bearing facility. Material change in acceptances YoY has resulted in increase in material cost.
- The wires and cables (W&C) division which grew 11.6% YoY and declined 19% QoQ due to higher base, sharp commodity prices surge in Apr-May'24 and 28% decline in International business. EBIT margin declined 218bps to 12.6% due to lower contribution from high margin IB and domestic distribution business. Current capacity utilisation was at ~70-75% in Q1FY25, cables were at higher end of the range. Cable-Wires split were 75-25% during the quarter, similar to Q1FY24. Domestic cables fetch ~9-11% margins, while domestic wires ~15-16%. The company expects wires contribution to increase going ahead. Domestically, institutional business outpaced distribution as channel demand was affected by sharp correction in commodity prices in the later part of the quarter. However, commodity prices are now stable, and channel inventories at normalised levels. ~70% of demand for wires comes from the real estate market. Cables were driven by infrastructure led demand. Management has retained ~11-13% margin guidance range for W&C.
- International Business (IB) declined 28% YoY in Q1FY25 (5.3% contribution) mainly on account of transition to distribution led model in the US (Polycab's largest geography overseas) coupled with demand slowdown. IB contribution declined from 8.9% in Q1FY24 to 5.3% in Q1FY25. Being a high margin business, muted performance impacted margins. Elevated freight cost compressed margins further. Normalisation in fixed costs should help margins going ahead. The transition is expected to take few more quarters to stabilize, during which the US business will continue to remain soft. Polycab will continue to add new geographies to its export business, thereby targeting 10% contribution by FY26.
- **FMEG business grew 22.6%/7.6% YoY/QoQ to ₹3.86bn, primarily due to seasonal demand for summer products like fans** on account of heatwave across several parts of the country. Fans business posted highest quarterly growth. This segment was supported by higher contribution from high-margin products such as switchgears and conduit pipes and fittings product segments. Fans and lights contribute ~50-55% of FMEG topline, Switches & Switchgears and conduit pipes & fitting were both in high teens each. FMEG EBIT was at loss of ₹28mn v/s loss of ₹57mn/₹459mn YoY/QoQ. Switches & Switchgears and Conduit Pipes & Fittings continued with their growth momentum, enabled by strong real-estate uptick and better availability through in-house manufacturing. Lighting and luminaires were

Important Statistics

Nifty	24,489
Sensex	80,444
MCAP (₹bn)	952.5
52-week H/L (₹)	7,331/3,783
NSE Code	POLYCAB
BSE Code	542652
Bloomberg Code	POLYCAB:IN

Shareholding Pattern (%) Jun'24

Promoter	65.0
DII	6.9
FII	13.6
Public & Others	14.4

Financials

Particulars	₹ mn		
	FY21	FY22	FY23
Revenue	87,922	122,038	141,078
<i>Wires & Cables</i>	<i>75,911</i>	<i>107,938</i>	<i>127,775</i>
<i>% of Revenue</i>	<i>86.3</i>	<i>88.4</i>	<i>90.6</i>
<i>FMEG</i>	<i>10,341</i>	<i>12,544</i>	<i>12,607</i>
<i>% of Revenue</i>	<i>11.6</i>	<i>10.3</i>	<i>8.9</i>
EBITDA	11,111	12,652	18,521
EBITDA Margin (%)	12.6	10.4	13.1
Net Profit	8,380	9,086	12,708
EPS (₹)	55.8	60.5	84.6
DPS (₹)	10.0	14.0	20.0
P/E (x)	113.6	104.7	74.9
EV/EBITDA (x)	85.6	75.1	51.1
P/BV (x)	19.9	17.1	14.2
RoE (%)	19.5	16.2	19.1
RoCE (%)	19.2	20.3	26.1

Particulars	₹ mn		
	FY24	FY25E	FY26E
Revenue	180,394	221,264	258,007
<i>Wires & Cables</i>	<i>161,073</i>	<i>196,925</i>	<i>229,626</i>
<i>% of Revenue</i>	<i>89.3</i>	<i>89.0</i>	<i>89.0</i>
<i>FMEG</i>	<i>15,985</i>	<i>16,374</i>	<i>19,351</i>
<i>% of Revenue</i>	<i>7.4</i>	<i>7.4</i>	<i>7.5</i>
EBITDA	24,918	28,973	34,967
EBITDA Margin (%)	13.8	13.1	13.6
Net Profit	17,840	20,604	25,342
EPS (₹)	118.7	137.1	168.7
DPS (₹)	30.0	35.0	40.0
P/E (x)	53.3	46.2	37.6
EV/EBITDA (x)	38.1	32.1	26.4
P/BV (x)	11.5	10.1	8.6
RoE (%)	21.6	23.2	24.5
RoCE (%)	29.0	23.9	24.8

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
POLYCAB	36.1	238.6	985.2
Nifty 50	31.4	54.7	116.5
Sensex	21.4	52.2	111.9

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View – ACCUMULATE

under pressure due to cost deflation and weak consumer demand. At present, utilisation level in this segment is low. Over time, margins will be supported by economies of scale and growing premiumisation of product categories, Currently, FMEG segment has a distribution stronghold in the West region of India and is actively working towards increasing its dealer network from 2,900 numbers currently.

- **The others which primarily consist of EPC business grew 4x YoY and 3.4% QoQ to ₹5.19bn with margin at 11%.** Contribution of EPC increased from 3% in Q1FY24 to 10% in Q1FY25. Current quarterly run-rate for the business is expected in the forthcoming quarters, as it continues to execute its robust EPC order book (led by RDSS order book) contributing in mid-to-high single digits to revenues with long-term margins in high single digits. Normally, component of cable supply in EPC projects ranges in low single digits (~3-4%). However, RDSS scheme is for revamping the power distribution infrastructure where the component of cable supply is higher.
- Working capital days was at 64, higher than comfortable levels due to Finished Goods inventory build-up at the end of the quarter. This is expected to normalise to ~40-55 days. Within this, inventory days will be ~100, receivable at ~30 and payables at ~80 days.
- Recently, the promoter family sold 2% stake (~₹20bn). No further stake sale expected by the promoter.
- POLYCAB has not received any tax demand notice or any other order from the IT authority. The company is fully cooperating with the income tax authorities as far as their procedure is concerned.
- Board has reconstituted the audit and nomination remuneration committees. Both these committees will now fully comprise of independent directors in-line with globally accepted best governance practices. However, previous composition was also in-line with legal stipulations.

View

Polycab India reported strong Q1FY25, driven by continued strength in domestic demand for cables. EBITDA margin contracted due to shift in mix towards low margin EPC/domestic institutional business, as well as lower contribution of high margin International business. Elevated freight cost compressed margins further. Normalisation in fixed costs should help margins going ahead. The transition is expected to take few more quarters to stabilize, during which the US business will continue to remain soft. Management stated that it will continue to add new geographies to its export business, thereby targeting 10% contribution. The outlook for the W&C business remains positive as growth prospects remain promising given strong demand in C&W led by public & private capex and uptick in real estate. Further, with expectation of normal monsoon and revival of consumption demand, **we maintain our ACCUMULATE stance on the stock(P/E – 37.6x FY26E with EPS of ₹168.7).**

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FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	46,980	38,894	20.8	55,919	(16.0)	180,394	141,078	27.9
Operating Exps	35,415	28,581	23.9	41,792	(15.3)	132,803	105,109	26.3
% of Sales	75.4	73.5	190	74.7	65	73.6	74.5	(89)
Gross Profit	11,565	10,313	12.1	14,127	(18.1)	47,591	35,969	32.3
% of Sales	24.6	26.5	(190)	25.3	(65)	26.4	25.5	89
Employee Cost	1,539	1,349	14.1	1,696	(9.2)	6,095	4,568	33.4
% of Sales	3.3	3.5	(19)	3.0	24	3.4	3.2	14
Other Expenses	4,192	3,478	20.5	4,816	(12.9)	16,578	12,880	28.7
% of Sales	8.9	8.9	(2)	8.6	31	9.2	9.1	6
EBITDA	5,834	5,486	6.3	7,615	(23.4)	24,918	18,521	34.5
% EBITDA Margin	12.4	14.1	(169)	13.6	(120)	13.8	13.1	68
Other Income	584	640	(8.7)	538	8.5	2,209	1,333	65.7
Depreciation	671	571	17.5	657	2.1	2,450	2,092	17.2
EBIT	5,747	5,554	3.5	7,497	(23.3)	24,676	17,763	38.9
Interest	413	249	65.7	244	69.3	1,083	598	81.3
PBT	5,334	5,305	0.5	7,253	(26.5)	23,593	17,165	37.4
Tax	1,317	1,277	3.2	1,718	(23.3)	5,564	4,242	31.2
JV/ Associates	-	-	-	-	-	-	(93)	(100.0)
Non-Controlling Interest	57	35	60.1	75	(24.2)	189	123	53.4
Net Profit	3,960	3,993	(0.8)	5,460	(27.5)	17,840	12,708	40.4
EPS (₹)	26.4	26.6	(1.1)	36.3	(27.5)	118.7	84.9	39.9

Source: Company, Way2Wealth

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SEGMENTAL PERFORMANCE

(₹ mn)								
Revenue	Q1FY25	Q1FY24	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Wires & Cables	39,421	35,338	11.6	48,647	(19.0)	161,073	127,775	26.1
FMEG	3,855	3,145	22.6	3,581	7.6	12,988	12,607	3.0
Others (EPC)	5,194	1,528	239.9	5,022	3.4	11,008	4,647	136.9
Inter-segment	(1,289)	(781)	65.0	(1,121)	15.0	(3,677)	(3,565)	3.1
TOTAL	47,182	39,230	20.3	56,130	(15.9)	181,392	141,465	28.2
EBIT (₹mn)								
Wires & Cables	4,967	5,223	(4.9)	7,363	(32.5)	23,607	16,724	41.2
<i>EBIT Margin (%)</i>	<i>12.6</i>	<i>14.8</i>	<i>(218)</i>	<i>15.1</i>	<i>(254)</i>	<i>14.7</i>	<i>13.1</i>	<i>157</i>
FMEG	(28)	(57)	(50.4)	(459)	(93.9)	(942)	(56)	1,580.6
<i>EBIT Margin (%)</i>	<i>(0.7)</i>	<i>(1.8)</i>	<i>107</i>	<i>(12.8)</i>	<i>1,209</i>	<i>(7.3)</i>	<i>(0.4)</i>	<i>(681)</i>
Others (EPC)	572	183	212	446	28.4	1,248	517	141
<i>EBIT Margin (%)</i>	<i>11.0</i>	<i>12.0</i>	<i>(98)</i>	<i>8.9</i>	<i>215</i>	<i>11.3</i>	<i>11.1</i>	<i>21</i>
Inter-segment	(147)	(99)	49.5	(181)	(18.4)	(447)	(369)	21.3
TOTAL	5,364	5,251	2.2	7,169	(25.2)	23,465	16,817	39.5
<i>EBIT Margin (%)</i>	<i>11.4</i>	<i>13.4</i>	<i>(202)</i>	<i>12.8</i>	<i>(140)</i>	<i>12.9</i>	<i>11.9</i>	<i>105</i>

Source: Company, Way2Wealth

(₹ mn)									
Particulars	FY19	FY20	FY21	FY22	FY23	FY24	Q1FY24	Q1FY25	YoY(%)
Revenue	79,856	88,300	87,922	122,038	141,078	180,394	38,894	46,980	20.8
Wires and Cables	69,295	75,192	75,911	107,938	127,775	161,073	35,338	39,421	11.6
<i>% of Revenue</i>	<i>86.8</i>	<i>85.2</i>	<i>86.3</i>	<i>88.4</i>	<i>90.6</i>	<i>89.3</i>	<i>90.9</i>	<i>83.9</i>	
FMEG	6,433	8,536	10,341	12,544	12,607	12,988	3,145	4,967	57.9
<i>% of Revenue</i>	<i>8.1</i>	<i>9.7</i>	<i>11.8</i>	<i>10.3</i>	<i>8.9</i>	<i>7.2</i>	<i>8.1</i>	<i>10.6</i>	
EBITDA	9,528	11,350	11,111	12,652	18,521	24,918	5,486	5,834	6.3
<i>EBITDA Margin (%)</i>	<i>11.9</i>	<i>12.9</i>	<i>12.6</i>	<i>10.4</i>	<i>13.1</i>	<i>13.8</i>	<i>14.1</i>	<i>12.4</i>	
Net Profit	5,003	7,656	8,380	9,086	12,708	17,840	3,993	3,960	(0.8)
EPS (₹)	33.3	51.0	55.8	60.5	84.6	118.7	26.6	26.4	

Source: Company, Way2Wealth

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FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	79,856	88,300	87,922	122,038	141,078	180,394	221,264	258,007
% YoY Growth	18.0	10.6	(0.4)	38.8	15.6	27.9	22.7	16.6
Wires and Cables	69,295	75,192	75,911	107,938	127,775	161,073	196,925	229,626
% of Revenue	86.8	85.2	86.3	88.4	90.6	89.3	89.0	89.0
% YoY Growth	11.0	8.5	1.0	42.2	18.4	26.1	22.3	16.6
FMEG	6,433	8,536	10,341	12,544	12,607	12,988	16,374	19,351
% of Revenue	8.1	9.7	11.8	10.3	8.9	7.2	7.4	7.5
% YoY Growth	32.6	32.7	21.1	21.3	0.5	3.0	26.1	18.2
EBITDA	9,528	11,350	11,111	12,652	18,521	24,918	28,973	34,967
EBITDA Margin (%)	11.9	12.9	12.6	10.4	13.1	13.8	13.1	13.6
% YoY Growth	30.7	19.1	(2.1)	13.9	46.4	34.5	16.3	20.7
Net Profit	5,003	7,656	8,380	9,086	12,708	17,840	20,604	25,342
% YoY Growth	39.5	53.0	9.5	8.4	39.9	40.4	15.5	23.0
EPS (₹)	33.3	51.0	55.8	60.5	84.6	118.7	137.1	168.7
DPS (₹)	3.0	7.0	10.0	14.0	20.0	30.0	35.0	40.0
P/E (x)	190.2	124.3	113.6	104.7	74.9	53.3	46.2	37.6
EV/EBITDA (x)	100.0	83.9	85.6	75.1	51.1	38.1	32.1	26.4
P/BV (x)	31.4	24.6	19.9	17.1	14.2	11.5	10.1	8.6
RoE (%)	19.3	22.9	19.5	16.2	19.1	21.6	23.2	24.5
RoCE (%)	20.0	23.3	19.2	20.3	26.1	29.0	23.9	24.8
Debtor Days	67	60	59	41	32	41	43	42
Inventory Days	91	80	82	66	102	101	100	98
Creditors Days	69	56	56	63	85	94	95	92
Cash balances	3,176	2,813	5,313	4,071	6,952	4,024	8,273	12,652
FCF	8,658	(887)	9,981	(149)	9,501	4,433	3,998	11,113

Source: Company, Way2Wealth

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Disclosure of Interest Statement Polycab India Ltd. as on 22 July 2024

Name of the Security	Polycab India Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained Financial Interest	NIL
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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