

Polycab India

3Q investor call takeaways

FMEG delivers stellar growth, high input cost affects Gross margins

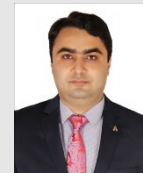
- ✓ **Our View** – We believe strong cash generation and sustainable improvement in working capital are key catalysts in multiple re-rating for the stock apart from increasing B2C business. We believe multiple re-rating for Polycab is likely to continue as company is able to deliver sustainable improvement in return ratios with continued market share gains.
- ✓ **Macro Indicators** - Broad based recovery across regions, B2C demand has sharply recovered with sentiment improvement, construction activity has picked up, private sector investment has picked up resulting in pickup in B2B business.
- ✓ **Business updates** – B2C categories continued to see strong traction, while B2B has seen improvement on QoQ basis. A&P Spends were higher on IPL related expenses. Commodity price increase continue to post challenges.
- ✓ **Wires and Cables** – Grew 6% yoy, domestic wires post double digit growth, while cables business remained flat. Instructional business was muted. Distribution led business continued to see handsome growth. Export business declined on high base of Dangote order. Margins in wires and Cables is likely to remain in range of 11-13%
- ✓ **FMEG** – FMEG continued its growth trajectory. It faced high competition, unavailability of product, supply and logistics issues in Q3. Demand of lighting product remained upbeat on back of festive season. Switchgear and switches have seen growth on back of home improvement. FMEG has seen margin improvement on back of change in product mix and cost rationalization. Company is on track to achieve high single digit margin in next 2 years. East has seen higher growth, with market share gains in Fans.
- ✓ **HOHM** – HOHM is the new brand of Polycab which consist of premium IOT based products will be available on online platform from next month. Margins are expected to be better than the base products. All these products will be manufactured in-house.
- ✓ **Working capital** – Working capital has seen improvement on higher channel financing and increasing in payables. Company is confident of further improving its working capital by reducing inventory levels and keeping payable at optimal level. Reduction in working capital has led to strong cash generation.
- ✓ **Gross Margin** – Gross margins have impacted on back of rising commodity prices. Complete cost of commodity price increase have not been passed on, it is likely to be passed on in calibrated manner.
- ✓ **Distribution** – Company has 4000 dealers/distributors catering to 1,50,000 retailers and distribution enhancement program is on track. Focus will be on increasing experience centers
- ✓ **Cash Generation** – Cash generation will be used as company required capex for getting into Defense and Railway sector. It will be also used to improve capability for getting more exports orders.
- ✓ **New product category** – Company will continue to focus on existing product categories as there is huge scope of increasing share in FMEG.

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- ✓ **Market share** – Market share gains have been across the board. Company is confident of continued market share gains in medium term over next 5 years.
- ✓ **New launches** – Looking to enter new product categories, will let market and investors know as and when things materialize.

Polycab India 3QFY21 Results

- ✓ **Result summary** – Revenue growth was slight ahead with estimates, while gross margins contracts on higher commodity price. Revenue/EBITDA/PAT grew by 11.6%/10.8%/19.1%
- ✓ **Cables and wires:** Cables and wires delivered in-line revenue growth with wires growing faster than cables. Exports revenue stood at Rs2.9bn declining 33% yoy due to high base of dangote order. Excluding Dangote order exports posted 29% growth. Business from distribution channel saw healthy double -digit growth however institutional business continues to face headwinds.
- ✓ **FMEG:** FMEG business saw strong growth of 41% yoy. Growth has been broad based across the categories and regions. Fans grew strongly gaining leadership position in few geographical clusters . Overall demand for Lighting products remained upbeat led by festive season . Switches, Switchgears and Pumps posted healthy growth. Margins in FMEG improved on back of improved product mix and calibrated pricing actions.
- ✓ **Others:** Others which comprises of EPC business declined 47% yoy on account of stronger base. Annual sustainable operating margin in this business is expected to be in high single digit over mid to long term.
- ✓ **Margins** - Gross margins contracted 319bps yoy to 24.3% while cost saving initiatives led to flattish EBITDA margin on yoy basis.
- ✓ **Other Highlights:** Net working capital has seen sustained reduction to 37 days vs 48 days in FY20. Company's net cash positioned has doubled to Rs13.3bn vs Rs6.4bn in 3QFY20.
- ✓ **Near-term outlook** – Company's B2C portfolio has seen strong growth in Q3, we expect similar trend to continue in Q4 as well. We now expect its B2B side of the business to pick up as economy gathers steam and contribute meaningfully in revenue from Q4 onwards.

Exhibit 1: Result summary

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Net Sales	25,073	21,137	27,988	11.6	32.4
Raw Material	18190	15128	21196	16.5	40.1
as % of sales	72.5	71.6	75.7		
Employee Cost	915	897	897	(2.0)	(0.0)
as % of sales	3.6	4.2	3.2		
Other operating expenses	2577	1987	2138	(17.1)	7.6
as % of sales	10.3	9.4	7.6		
Total Expenditure	21682	18012	24231	11.8	34.5
EBITDA	3391	3125	3758	10.8	20.3
EBITDA Margin	13.5	14.8	13.4		
Other Income	3	327	345	9,863.9	5.3
EBIDT	3395	3452	4102	20.9	18.8
Depreciation	407	456	478	17.6	4.9
Interest	85.8	113.8	88.3	2.9	(22.4)
PBT	2902	2882	3536	21.8	22.7
Share of profit/(loss) of JV	-2.3	-2.6	4.9		

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Exceptional	0.0	0.0	0.0		
PBT After Exceptional	2900	2880	3541	22.1	23.0
Tax	686	664	905	32.0	36.2
ETR	23.6	23.1	25.6		
PAT	2214	2216	2636	19.1	19.0

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Wires and Cables	21,696	18,268	24,073	11.0	31.8
FMEG	2,166	2,440	3,055	41.0	25.2
Copper	0	1,303	2,327	NA	78.5
Others	1,510	709	795	(47.4)	12.1
Less: Intersegment	-398	-1,342	-2,011	405.6	49.9
Net Sales	24,975	21,379	28,238	13.1	32.1
PBIT					
Wires and Cables	2583	2541	3074	19.0	21.0
PBIT %	11.9	13.9	12.8		
FMEG	14	196	182	1,201.1	(7.4)
PBIT %	0.6	8.0	5.9		
Copper	0	123	252	NA	104.6
PBIT %	NA	9.4	10.8		
Others	338	100	98	(71.1)	(2.3)
PBIT %	22.4	14.1	12.3		
Less: Intersegment	-50	-50	-76	52.2	52.3
Total PBIT	2,886	2,911	3,530	22.3	21.3
Other income	102	85	95	(6.9)	11.3
Interest Expense	86	114	88	2.9	(22.4)
PBT	2902	2882	3536	21.9	22.7

PBIT Margins (%)				(bps)	(bps)
Wires and Cables	11.9	13.9	12.8	86	(114)
FMEG	0.6	8.0	5.9	530	(210)
Copper	NA	9.4	10.8	NA	138
Others	22.4	14.1	12.3	(1,011)	(182)
Total PBIT	11.6	13.6	12.5	94	(112)

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