

## Capex cycle revival, FMEG key for future growth...

Polycab reported a 100% sales recovery in FY21E despite a 50% loss of revenue in Q1. Strong pent up demand and pick-up in infra spending post easing of lockdown restrictions helped the company cover up the loss of sales. Segment wise, fast moving electrical goods (FMEG) reported strong growth of 24% YoY in FY21E led by new product launches and dealer additions (3000 in FY21 vs. 1750 in FY20). Thus, segment revenue contribution in overall topline has also increased to 12% in FY21 vs. 9% in FY20. On the wire & cable (W&C) front, Polycab reported 100% sale recovery in FY21, better than 86% recovery of KEI Industries. Strong brand and leadership position of 'Polycab' in the W&C business (organised market share of 22%) helped in the fast recovery. On the margin front, EBITDA margin has seen marginal improvement in FY21 to 13.1% led by various cost optimisation measures. The balance sheet stayed strong with net cash position at ₹ 906 crore along with stringent working capital management. Over the long term, Polycab aims to achieve ₹ 20,000 crore of sales from present ~₹ 9000 crore through various strategic initiatives (new product launches in the premium category and expansion in newer geographies).

### Strong show in Q4FY21

Polycab reported strong revenue growth of 43% YoY in Q4FY21 led by 89% and 38% growth in the revenues of FMEG and W&C segment, respectively. While a favourable base and healthy pick-up in infra spending drove revenue of W&C segment, the FMEG segment revenue growth was driven by new product launches and dealer additions in new geographies. On the expenses front, savings in employee and other costs helped negate the adverse impact of higher raw material prices and limited the fall in EBITDA margin by 25 bps YoY. On the segment front, while EBIT margin of W&C declined ~200 bps YoY, the EBIT margin of FMEG increased notably to 7% in Q4FY21 vs. 0.1% in Q4FY20 through better operating leverage.

### Aims to double revenue by FY26

Polycab has set a target to achieve ₹ 20,000 crore revenues by FY26 (18% CAGR) through various strategic initiatives such as strengthening of its B2C product portfolio and maintaining leadership position in the B2B category. On the FMEG front, the company has set a target to expand dealers in top 300 cities growth and grow revenues by 3x in the next five years.

### Valuation & Outlook

We revise our revenue, PAT estimate downward by ~4% each in FY22 to factor in lockdown impact. We build in revenue, PAT CAGR of 18%, 16%, respectively, in FY21-23E considering a revival in government's infra spending along with focus on profitable growth of FMEG business. We believe strong brand and a healthy balance sheet would help it to attain its long term growth target. We reiterate **BUY** rating on the stock with a revised target price of ₹ 2025/share (earlier ₹ 1385), valuing the stock at 25x FY23E.

#### Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	(CAGR 21-23E)
Net sales	7956.0	8830.0	8926.5	10665.3	12457.3	18.1
EBITDA	923.2	1135.0	1167.0	1375.8	1669.3	19.6
EBITDA Margin(%)	11.6	12.9	13.1	12.9	13.4	
Net Profit	500.5	765.6	885.9	965.9	1185.3	15.7
EPS (₹)	35.4	51.4	59.4	64.8	79.5	
P/E(x)	48.4	33.3	28.9	26.5	21.6	
RoE (%)	17.6	20.0	18.5	17.8	18.6	
RoCE (%)	28.3	26.4	21.9	22.7	24.3	

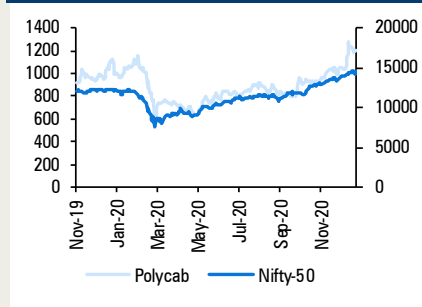
Source: Company, ICICI Direct Research



#### Particulars

Particular	Amount
Market Cap (₹ Crore)	25,559.0
Total Debt (FY21) (₹ Crore)	215.3
Cash & Inv (FY21) (₹ Crore)	531.3
EV (₹ Crore)	25,243.0
52 week H/L	1737/ 708
Equity capital (₹ Crore)	148.9
Face value (₹)	10.0

#### Price performance



#### Key risk to our call

- Delay in revival of core business (wires & cable) may restrict topline growth, going forward
- Delay in passing on higher input price may result in lower EBITDA margin, going forward

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**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	3037.4	2129.4	42.6	2798.8	8.5	Favourable base and strong demand recovery in both wire & cable and FMEG business drove topline growth
Other Income	27.4	46.5	NM	34.5	-21	
Raw Material Exp	2264.4	1476.9	53.3	2119.6	6.8	Sharp rise in input prices and delay in passing on of the same resulted in ~520 bps decline in gross margin
Employee cost	99.7	89.9	11.0	89.6	11.3	
Adevertisement Exp	14.4	18.5	-22.0	37.2	-61.2	
Freight and forwarding Exp	70.5	49.9	41.3	52.5	34.4	
Other Expenditure	167.1	193.6	-13.7	124.0	34.7	Various cost optimisation measures resulted in saving in other costs
Total Expenditure	2616.2	1828.8	43.1	2423.0	8.0	
EBITDA	421.3	300.6	40.1	375.8	12.1	
EBITDA Margin (%)	13.9	14.1	-25 bps	13.4	44 bps	Decline in gross margin offset by saving in other costs
Depreciation	48.9	42.2	15.9	47.8	2.2	
Interest	16.6	15.9	4.5	8.8	88.5	
PBT	383.1	288.9	32.6	353.6	8.3	
Total Tax	100.6	68.0	48.0	90.5	11.2	
PAT	283.2	215.1	31.6	263.6	7.4	
<b>Key Metrics*</b>						
Wires & Cables	2,544.2	1,860.5	36.7	2,407.3	5.7	Healthy pick-up in infra and industrial activities and price hikes helped drive demand of wire & cable sales
FMEG	346.8	183.3	89.3	305.5	13.5	Increased distribution, price hikes and better mix drive growth
Copper	155.0	0.0	NA	232.7	-33.4	The company started to report revenue from Ryker from Q1FY21
Others	96.0	159.2	-39.7	79.5	20.7	Unlocking of markets, pick-up in infra activities helped 21% QoQ growth in segment revenue

Source: Company, ICICI Direct Research, \*Including inter segment revenue

**Exhibit 2: Change in estimates**

(₹ crore)	FY22E			FY23E			Comments
	Old	Actual	% Chg	Old	New	% Chg	
Revenue	11,058.8	10,665.3	(3.6)	12,641.3	12,457.3	(1.5)	We marginally tweak our revenue estimate downward for FY22 considering the lockdown impact in Q1FY22
EBITDA	1,426.6	1375.8	(3.6)	1,681.3	1669.3	(0.7)	
EBITDA Margin (%)	12.9	12.9	0bps	13.3	13.4	10bps	We largely keep our margin estimates unchanged, considering price hike and some cost optimisation measures would continue in near future
PAT	1001.0	965.9	(3.5)	1186.2	1185.3	(0.1)	
EPS (₹)	67.2	64.8	(3.5)	79.6	79.5	(0.1)	

Source: Company, ICICI Direct Research

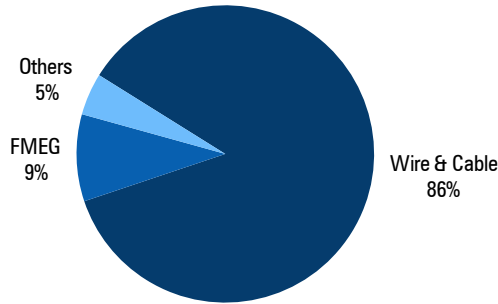
**Exhibit 3: Assumptions**

	Current (%)					Previous		Comments
	FY19	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Wire & Cable	14.0	8.6	0.2	16.0	15.0	22.3	14.0	We believe a revival in government expenditure and pick-up in real estate would help drive demand of wires & cable business, going forward
FMEG	34.6	30.7	23.8	27.0	30.0	35.0	25.0	Low base coupled with new product launches and addition of new dealers would help drive growth in the FMEG segment
Copper			NA	32.0	13.0	50.0	13.0	
Others	92.5	29.8	(49.7)	30.0	20.0	50.0	25.0	Pick-up in infra activities would help in recovery in EPC business

Source: Company, ICICI Direct Research

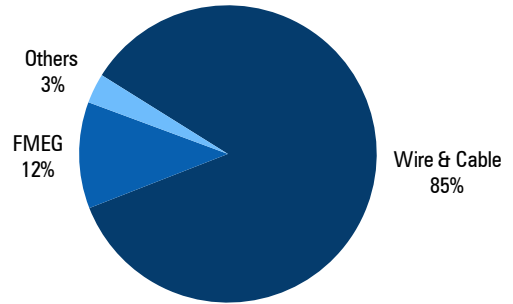
Financial story in charts

Exhibit 4: Segment wise revenue contribution in FY20



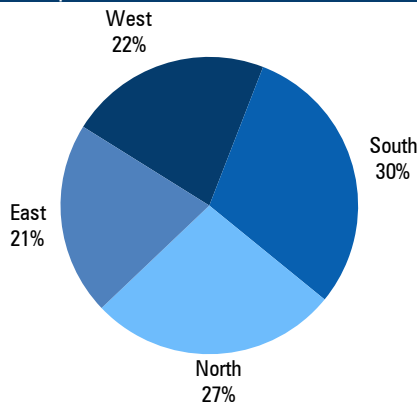
Source: Company, ICICI Direct Research

Exhibit 5: Segment wise revenue contribution in FY21



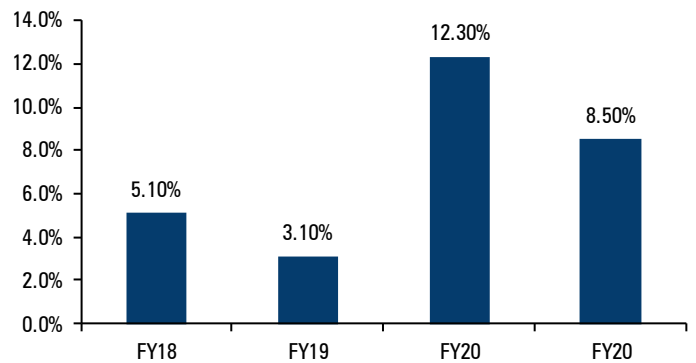
Source: Company, ICICI Direct Research

Exhibit 6: Well-spread distribution network



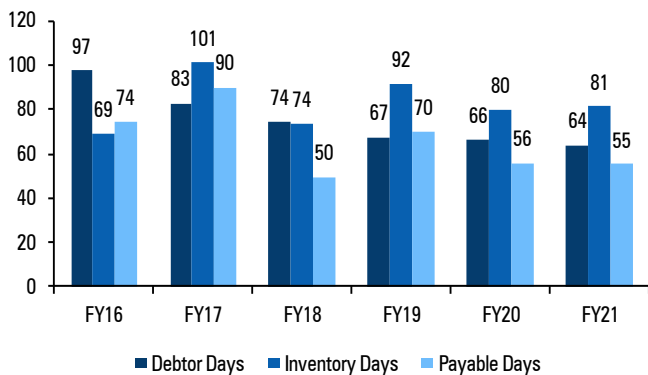
Source: Company, ICICI Direct Research

Exhibit 7: Export revenue contribution in topline



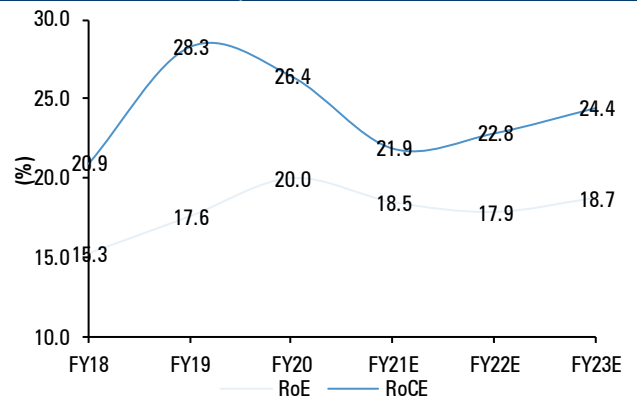
Source: Company, ICICI Direct Research

Exhibit 8: Working capital cycle



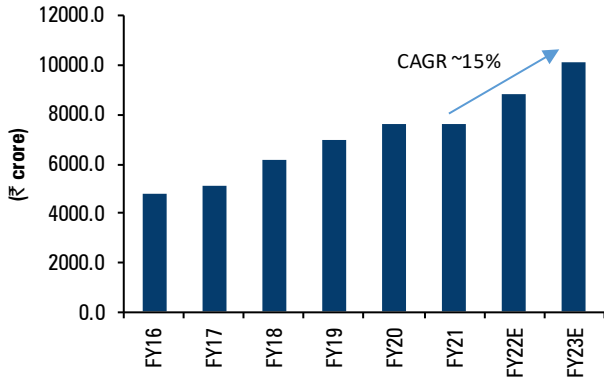
Source: Company, ICICI Direct Research

Exhibit 9: Return ratio profile



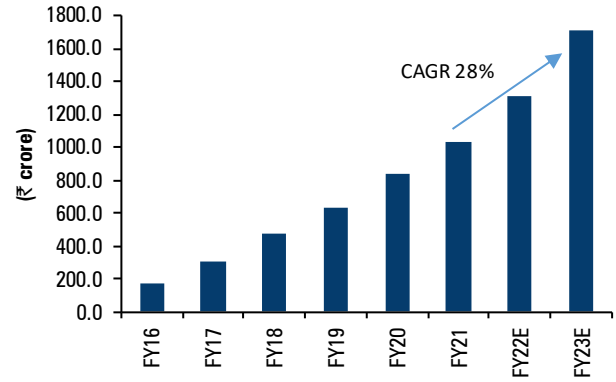
Source: Company, ICICI Direct Research

Exhibit 10: Wire & cable segment growth trend



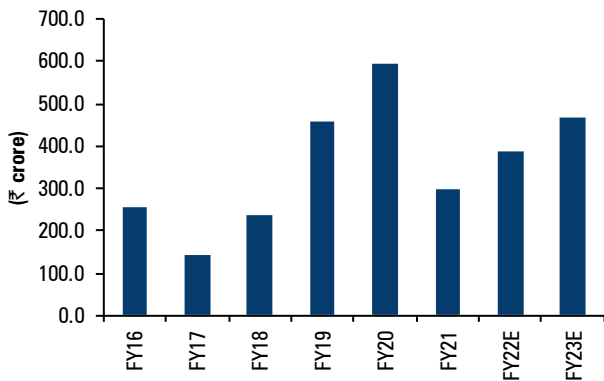
Source: Company, ICICI Direct Research

Exhibit 11: FMEG segment growth trend



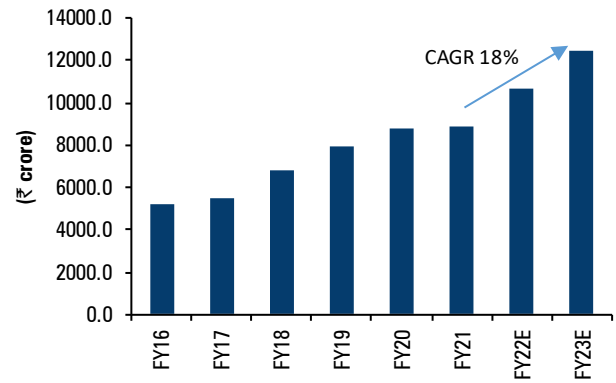
Source: Company, ICICI Direct Research

Exhibit 12: Other segment (largely EPC business) growth trend



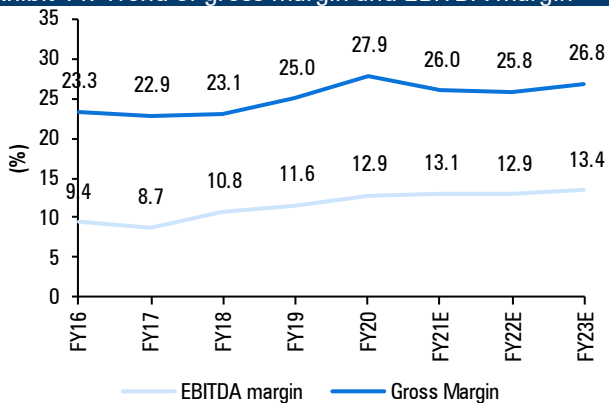
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated revenue growth trend



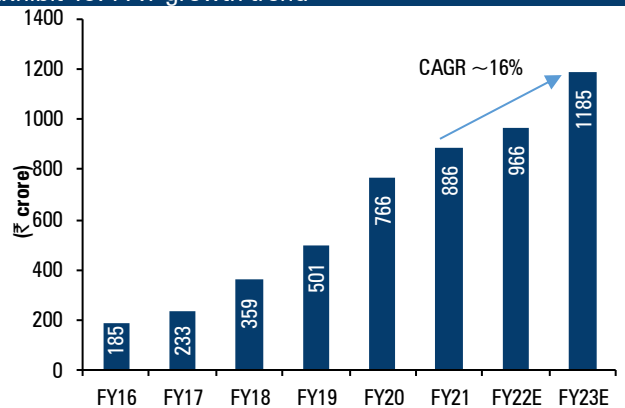
Source: Company, ICICI Direct Research

Exhibit 14: Trend of gross margin and EBITDA margin



Source: Company, ICICI Direct Research

Exhibit 15: PAT growth trend



Source: Company, ICICI Direct Research

## Conference call highlights

- **Demand Outlook:** The demand situation is better compared to last year. The management is positive that the performance will significantly improve in the coming quarters given the relaxation of lockdowns in several states.
  - **B2B (Institutional)** - Polycab expects its B2B business (~40% of topline) to grow given the overall recovery in the economy also aided by higher exports
  - **B2C (Retail):** Polycab plans to grow its B2C business (~60% of topline) by improving its distribution network by onboarding new dealers & distributors and opening new retail outlets
- **Margins:** Despite the sharp increase in input prices, Polycab has guided at maintaining its margins by taking price hikes and through cost optimisation measures. On a long term basis, the company aims to improve its margins given higher contribution from its B2C business
- **Capex:** The company plans to spend ~₹ 300 crore in FY22 on capex. Total 35% of the capex will be directed towards its FMEG segment while the rest will be used for the wires & cables business, backward integration and maintenance costs
- **Project Leap:**
  - Polycab launched its new project called "Project Leap" in which it aims to achieve revenue of >₹ 20,000 crore by FY26
  - Higher focus will be directed towards its B2C business, which will help drive up EBITDA margins and also to increase its exports by adding new geographies and consolidating existing ones

## Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Revenue</b>	<b>8,830.0</b>	<b>8,551.8</b>	<b>11,058.8</b>	<b>12,641.3</b>	
Growth (%)	11.0	-3.2	29.3	14.3	
Raw material expens	5,626.6	5,473.1	6,989.2	7,964.0	
Employee expenses	365.7	352.3	420.2	493.0	
Advertisement & Pror	108.7	94.1	132.7	151.7	
warding expenses	189.7	188.1	232.2	265.5	
Other expenses	662.2	521.7	774.1	884.9	
Total Operating Exp	7,694.9	7,416.1	9,632.3	10,960.0	
<b>EBITDA</b>	<b>1,135.0</b>	<b>1,135.7</b>	<b>1,426.6</b>	<b>1,681.3</b>	
Growth (%)	22.9	0.1	25.6	17.9	
Depreciation	160.9	179.6	201.3	230.1	
Interest	49.5	45.9	38.6	32.6	
Other Income	92.8	111.2	132.7	164.3	
PBT	1,017.4	1,031.1	1,319.4	1,583.0	
Total Tax	244.4	166.1	316.7	395.7	
<b>PAT</b>	<b>765.6</b>	<b>862.0</b>	<b>1,001.0</b>	<b>1,186.2</b>	

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	765.6	862.0	1001.0	1186.2	
Add: Depreciation	160.9	179.6	201.3	230.1	
(Inc)/dec in Current Assets	-152.3	-844.9	-573.0	-414.6	
Inc/(dec) in CL and Provisions	-608.8	37.6	417.8	340.4	
Others	49.5	45.9	38.6	32.6	
<b>CF from operating activities</b>	<b>214.9</b>	<b>280.2</b>	<b>1085.7</b>	<b>1374.6</b>	
(Inc)/dec in Investments	-40.0	0.0	-320.0	-470.0	
(Inc)/dec in Fixed Assets	-355.4	-180.0	-250.0	-350.0	
Others	9.7	2.0	5.0	5.0	
<b>CF from investing activities</b>	<b>-385.8</b>	<b>-178.0</b>	<b>-565.0</b>	<b>-815.0</b>	
Issue/(Buy back) of Equity	7.7	0.0	0.0	0.0	
Inc/(dec) in loan funds	-39.7	120.0	-30.0	-50.0	
Dividend paid & dividend tax	-104.5	-71.5	-446.6	-535.9	
Others	265.8	38.9	-38.6	-32.6	
<b>CF from financing activities</b>	<b>129.2</b>	<b>87.4</b>	<b>-515.2</b>	<b>-618.5</b>	
Net Cash flow	-41.6	189.7	5.5	-58.9	
Opening Cash	317.6	276.0	465.6	471.2	
Closing Cash	276.0	465.6	471.2	412.2	

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	148.9	148.9	148.9	148.9	
Reserve and Surplus	3,682.1	4,557.5	5,111.9	5,762.1	
Total Shareholders funds	3,831.0	4,706.4	5,260.7	5,911.0	
Total Debt	152.3	272.3	242.3	192.3	
Other non current liabilities	49.6	51.6	56.6	61.6	
<b>Total Liabilities</b>	<b>4,032.9</b>	<b>5,030.3</b>	<b>5,559.6</b>	<b>6,164.9</b>	
<b>Assets</b>					
Gross Block	2,093.1	2,273.1	2,523.1	2,873.1	
Less: Acc Depreciation	671.2	850.8	1,052.1	1,282.1	
Total Fixed Assets	1,663.1	1,663.5	1,712.3	1,832.2	
Investments	40.0	40.0	360.0	830.0	
Inventory	1,925.0	2,624.1	2,726.8	3,117.0	
Debtors	1,599.7	1,757.2	2,120.9	2,078.0	
Loans and Advances	29.8	28.8	37.3	42.6	
Other CA	345.6	334.7	432.8	494.7	
Cash	276.0	465.6	471.2	412.2	
Total Current Assets	4,176.0	5,210.5	5,789.0	6,144.6	
Creditors	1,353.7	1,405.8	1,666.4	1,904.9	
Provisions	49.4	51.3	60.8	69.5	
Other CL	520.2	503.8	651.5	744.7	
Total Current Liabilities	1,923.3	1,960.9	2,378.7	2,719.1	
Net current assets	2,252.7	3,249.6	3,410.3	3,425.6	
Other non current assets	77.1	77.1	77.1	77.1	
<b>Total Assets</b>	<b>4,032.9</b>	<b>5,030.3</b>	<b>5,559.6</b>	<b>6,164.9</b>	

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios		FY20	FY21	FY22E	FY23E
(Year-end March)					
<b>Per share data (₹)</b>					
EPS		51.4	59.4	64.8	79.5
Cash EPS		62.2	71.9	78.4	94.7
BV		257.7	318.8	364.8	426.3
DPS		7.0	10.0	12.0	18.0
<b>Operating Ratios (%)</b>					
EBITDA Margin		12.9	13.1	12.9	13.4
PAT Margin		8.7	9.8	9.1	9.5
Asset Turnover		4.2	3.3	3.5	3.5
Inventory Days		79.6	81.3	82.0	81.0
Debtor Days		66.1	64.0	64.0	65.0
Creditor Days		56.0	55.1	55.0	55.0
<b>Return Ratios (%)</b>					
RoE		20.0	18.5	17.8	18.6
RoCE		26.4	21.9	22.7	24.3
RoIC		24.7	23.2	24.0	25.5
<b>Valuation Ratios (x)</b>					
P/E		33.3	28.9	26.5	21.6
EV / EBITDA		22.4	21.1	17.8	14.6
EV / Net Sales		2.9	2.8	2.3	2.0
Market Cap / Sales		2.9	2.9	2.4	2.1
Price to Book Value		6.7	5.4	4.7	4.0
<b>Solvency Ratios</b>					
Debt / Equity		0.0	0.0	0.0	0.0
Current Ratio		2.8	2.7	2.7	2.8
Quick Ratio		1.4	1.3	1.3	1.3

Source: Company, ICICI Direct Research

**Exhibit 19: ICICI Direct Coverage Universe (Consumer Discretionary)**

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,905	2,970	Buy	2,78,590	33.4	36.7	45.4	86.9	79.1	64.0	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnic (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,730	3,130	Buy	8,585	24.7	45.7	88.2	110.5	59.7	30.9	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,080	1,280	Buy	12,279	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	794	835	Hold	77,113	7.4	9.3	12.3	107.1	85.7	64.6	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	398	480	Buy	24,955	9.8	9.2	11.9	40.5	43.5	33.5	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTE)	3,996	4,635	Buy	23,396	27.3	54.8	95.8	146.5	72.9	41.7	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,714	2,025	Buy	25,518	59.4	64.8	79.5	28.9	26.5	21.6	21.1	17.8	14.6	21.9	22.7	24.3	18.5	17.8	18.6
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	82	100	Buy	1,854	4.8	8.5	10.8	17.2	9.6	7.6	6.3	5.1	4.3	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	278	320	Buy	11,906	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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