

# Polycab India Ltd

BUY

CMP Rs1,739

Target Rs2,012

Upside 15.7%

## Re-rating to continue on increasing visibility in B2C business; maintain BUY

### Result Highlights

- ✓ **Quarter summary** – Polycab delivered better than expected revenue growth of 43%, with strong growth across its B2C product portfolio. Gross margins contracted by 519bps yoy on higher commodity prices. Cost control measures have restricted contraction of EBITDA margins.
- ✓ **B2C business delivers strong growth** – B2C business delivered strong growth with FMEG registering growth of 89%, highest among peers. Wires, which is a B2C business has sustained its growth momentum delivering superior growth.
- ✓ **Market share** – Polycab now commands market share of 20-22% in wires and cables in the organized wires and cables market vs ~18% in FY19.
- ✓ **Working capital** – Net working capital has marginally deteriorated to 85 days vs 83 days in FY21. This increase is on account of higher inventory which has resulted due to higher copper price.

**Valuation and view** – 4Q saw growth across B2C product categories with FMEG registering strong growth which was the highest among peers, while housing wires continues its strong growth momentum from Q3. Contribution from B2C business has now reached 40.2% in FY21 from 32.6% in FY20 as Polycab has been focusing on enhancing its dealer/distributor network. Its dealer/distributor count has increased by 17% yoy, while its retail reach and influencer program has grown by 32% and 33% respectively.

Polycab is fast transforming itself into strong B2C player and expect the trend to continue in future as well with increase in its distribution presence. We expect strong growth momentum to continue in B2C followed by gradual recovery in B2B business; furthermore, it is looking at five-year vision Project Leap where it plans to double its revenue to Rs200bn by FY26E. We estimate the company to deliver FY21-23E revenue/EBITDA CAGR of 15%/16% respectively. Considering a strong execution track record, 5-year vision plan and increasing proportion of B2C business, we increase our target multiple to 28x from earlier 25x and maintain BUY with TP of Rs2,012. Polycab still trades at a significant discount to players like Havells, Crompton which should continue to narrow gradually.

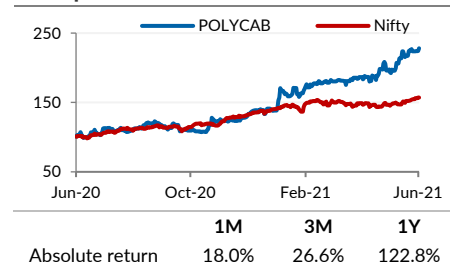
### Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	30,374	21,294	42.6%	27,988	8.5%
EBITDA	4213	3006	40.1%	3758	12.1%
EBITDAM (%)	13.9%	14.1%		13.4%	
Depreciation	489	422	15.9%	478	2.2%
Interest	166.4	159.3	4.5%	88.3	88.5%
Other income	274	465	-41.1%	345	-20.7%
PBT	3831	2889	32.6%	3536	8.3%
Tax	1006	680	48.0%	905	11.2%
Adjusted PAT	2832	2151	31.6%	2636	7.4%
Reported PAT	2832	2151	31.6%	2636	7.4%
PATM (%)	9.3%	10.1%		9.42%	
EPS (Rs)	19.0	14.4		17.7	

### Stock data (as on June 07, 2021)

Nifty:	15,670
52 Week h/l (Rs)	1725/705
Market cap (Rs/USD mn)	254,952/3,492
Outstanding Shares	149
6m Avg t/o (Rs mn):	617
Div yield (%):	0.6
Bloomberg code:	POLYCAB IN
NSE code:	POLYCAB

### Stock performance



### Shareholding pattern (As of Mar'21 end)

Promoter	68.4%
FII+DII	17.3%
Others	14.3%

### Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	89,265	104,932	118,751
YoY Growth	1.1%	17.6%	13.2%
EBIDTA	11,670	13,417	15,778
Margins (%)	13.1	12.8	13.3
PAT	8,859	8,975	10,711
YoY Growth	15.7%	1.3%	19.3%
ROE	20.4	17.5	17.9
ROCE	24.8	23.7	24.2
EPS	59.4	60.2	71.8
P/E	29.3	28.9	24.2
EV/EBITDA	22.2	19.1	15.8

### Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	59.4	60.2	71.8
EPS (Old)	59.4	59.9	69.0
% Change	NA	0.5	4.1

### Change in Rating and TP

	Rating	TP
New	BUY	2,012
Old	BUY	1,725

#### HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 99209 15754



#### AAKASH FADIA

aakash.fadia@ysil.in

AMAR AMBANI, Sr. President, Head of Research

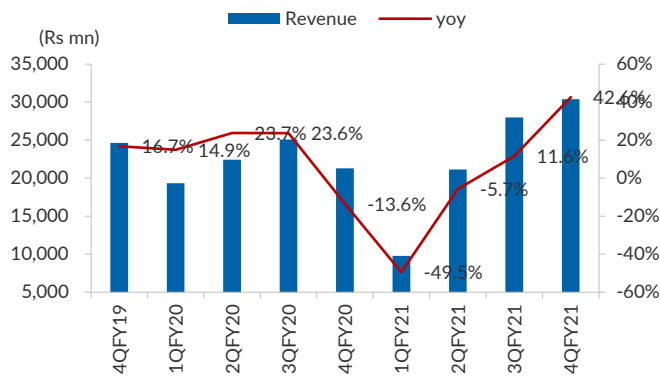
amar.ambani@ysil.in

## CONCALL TAKEAWAYS

- ✓ **Demand trends** – Demand trends remained supportive as pandemic related disruption across all facets of economy was relatively minimal in Q4. Infrastructure and construction activities picked up in full swing. Central and State government as well as private project activity showed an uptick and private sector investment has been evidently higher.
- ✓ **Rural and E-comm channels** – Annual A&P spends are likely to be in the tune of Rs1.5 billion to 2 billion for FY22.
- ✓ **Increased B2C contribution** – B2C contribution rising sharply from 32.6% in the FY20 to about 40.2% in FY21 on a standalone basis, adjusting for a large export order it would have increased further.
- ✓ **FMEG** – Lighting products business nearly doubled led by better demand and supply situation. Switches and switchgears grew 2.5x while other categories also witnessed strong uptake. Profitability continued to move in an upward trajectory despite input cost inflation, helped by pricing intervention, premiumization, better working capital management and cost optimization.
- ✓ **EPC and Copper**– EPC business witnessed a decline with a severe impact of pandemic and higher base of last year. The copper segment as disclosed in the financial results, largely reflects that, which is a part of backward integration initiatives.
- ✓ **Dealers and Distributors** – Authorized dealers and distributors count as of March 2021 grew by about 17% yoy to 4,100. Retail outlet reach increased by about 32% yoy to over 165,000, while influencer program grew by about 33% yoy to over 180,000.
- ✓ **Project leap** – Polycab has launched Project Leap which is 5-year plan where it aims to double its revenue to Rs200bn in next 5 years.
- ✓ **Market share gains** – Polycab now commands 22% share of the organized wires and cables market vs 18% earlier.
- ✓ **FMEG** – Fans constitute 35% to 40% of FMEG revenue followed by lighting, which would be around 25% to 30% followed by switches and switch were around 15% and pipe would have touched almost double digit.

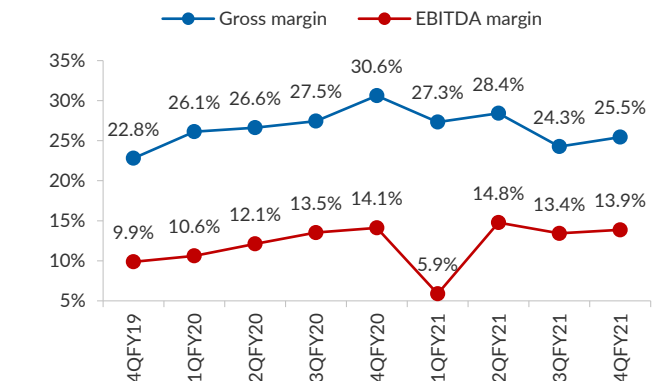
## CHARTS

**Exhibit 2: Strong performance across B2C business have led to revenue growth**



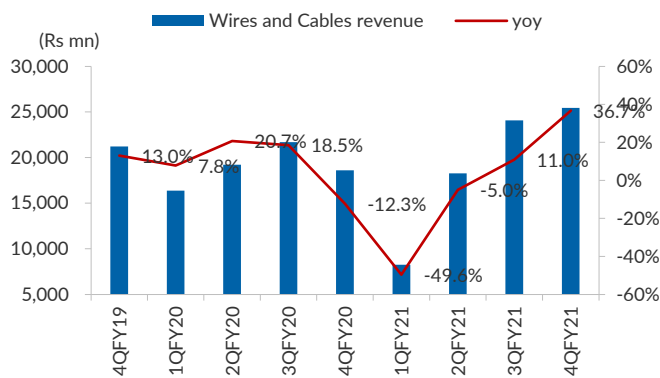
Source: Company, YES Sec - Research

**Exhibit 3: Commodity cost escalations have led to gross margin contraction**



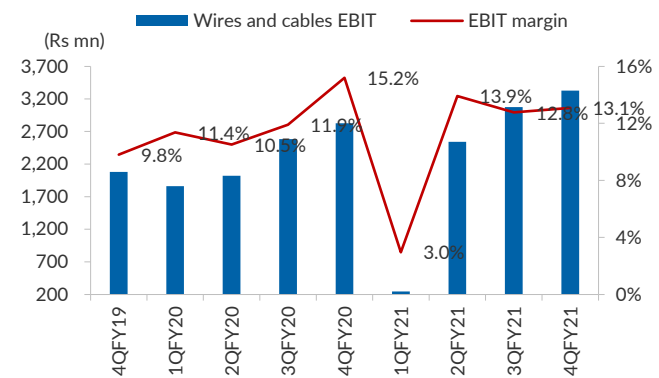
Source: Company, YES Sec - Research

**Exhibit 4: Cables and wires growth have been led by housing wires**



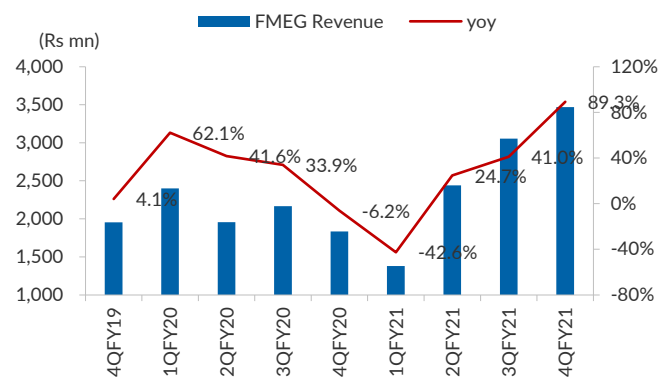
Source: Company, YES Sec - Research

**Exhibit 5: EBIT margin in wires and Cables have been healthy**



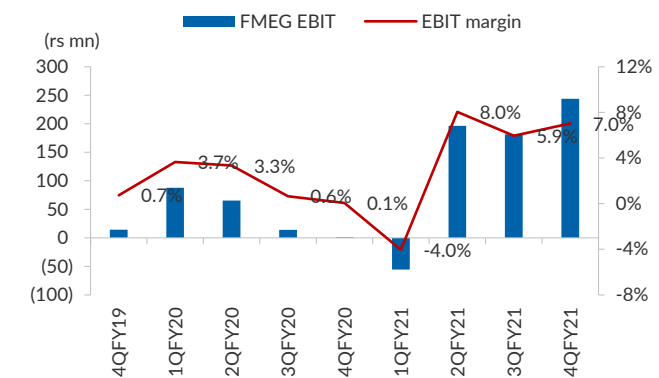
Source: Company, YES Sec - Research

**Exhibit 6: Revenue growth have been broad based across all product categories**



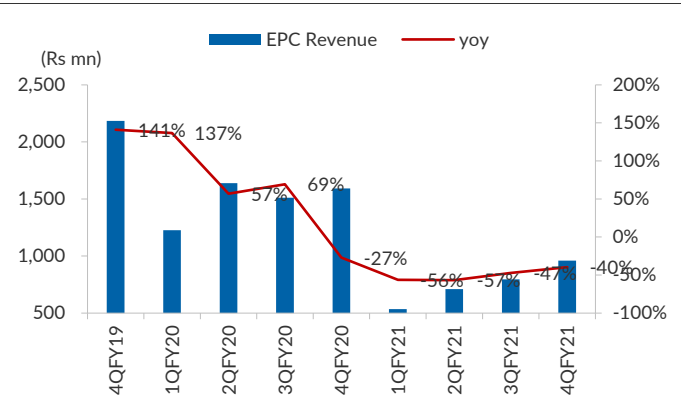
Source: Company, YES Sec - Research

**Exhibit 7: Lower costs have driven improvement in margin**



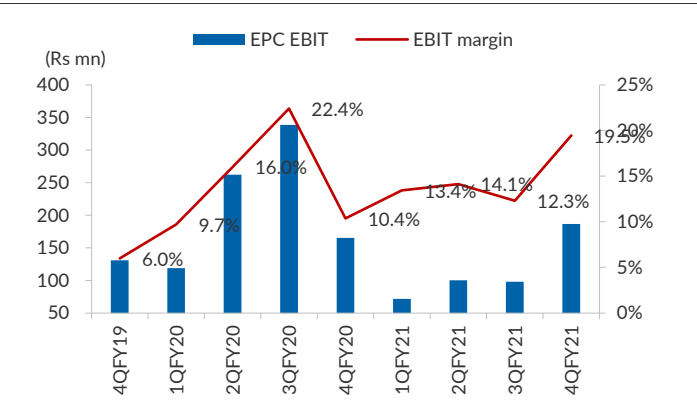
Source: Company, YES Sec - Research

**Exhibit 8: EPC business continues to see gradual recovery**



Source: Company, YES Sec – Research

**Exhibit 9: Increased efficiencies have led to improvement in margins**



Source: Company, YES Sec – Research

**Exhibit 10: Revenue and Margin Assumptions**

Revenue (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Wires and Cables	63,170	70,643	75,898	76,035	87,440	97,933
% yoy growth	12%	12%	7%	0%	15%	12%
FMEG	4,853	6,433	8,356	10,341	13,237	15,884
% yoy growth	43%	33%	30%	24%	28%	20%
Others	2,491	4,637	5,965	2,998	3,597	4,137
% yoy growth	45%	86%	29%	-50%	20%	15%
Copper	-	-	-	5,330	6,023	6,806
% yoy growth	-	-	-	-	13%	13%
Intersegment	(747)	(1,348)	(1,441)	(4,665)	(5,365)	(6,009)
% yoy growth	911%	80%	7%	224%	15%	12%
Total Revenue	69,766	80,365	88,778	90,038	104,932	118,751
% yoy growth	14%	15%	10%	1%	17%	13%

EBIT (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Wires and Cables	6,407	8,351	9,309	9,187	10,405	12,046
% margin	10%	12%	12%	12%	12%	12%
FMEG	88	75	168	566	794	1,144
% margin	2%	1%	2%	5%	6%	7%
Others	81	198	903	456	540	621
% margin	3%	4%	15%	15%	15%	15%
Copper	-	-	-	560	632	715
% margin	-	-	-	11%	11%	11%
Intersegment	-	-	(160)	(192)	(221)	(259)
Total PBIT	6,576	8,623	10,380	10,769	12,372	14,524
% margin	9%	11%	12%	12%	12%	12%

Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1,412	1,489	1,491	1,491	1,491
Reserves	27,057	36,875	46,048	53,767	62,978
Net worth	28,470	38,364	47,539	55,258	64,469
Debt	2,724	1,571	1,926	2,083	2,220
Deferred tax liab (net)	231	175	418	418	418
Other non current liabilities	504	879	1,007	1,086	1,191
Total liabilities	31,928	40,989	50,891	58,845	68,299
Fixed Asset	14,686	16,294	19,346	20,329	21,089
Investments	294	655	6,349	6,349	6,349
Other Non-current Assets	2,052	2,568	2,957	3,532	3,912
Net Working Capital	13,106	19,751	19,861	22,878	25,486
Inventories	19,958	19,250	19,879	23,368	26,445
Sundry debtors	13,343	14,336	14,358	16,877	19,100
Loans and Advances	2,288	2,778	3,317	3,384	3,443
Sundry creditors	15,202	13,537	13,480	15,846	17,933
Other current liabilities	8,944	4,852	5,541	6,467	7,336
Cash & equivalents	1,791	1,722	2,378	5,756	11,463
Total Assets	31,928	40,989	50,891	58,845	68,299

### Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	79,856	88,300	89,265	104,932	118,751
Operating profit	9,528	11,350	11,670	13,417	15,778
Depreciation	1,414	1,609	1,866	2,096	2,320
Interest expense	1,167	495	531	652	705
Other income	638	928	1,282	1,328	1,564
Profit before tax	7,584	10,174	10,555	11,997	14,318
Taxes	2,558	2,444	1,791	3,020	3,604
Minorities and other	23	74	2	3	3
Adj. profit	5,003	7,656	8,762	8,975	10,711
Exceptional items	-	-	(97)	-	-
Net profit	5,003	7,656	8,859	8,975	10,711

## Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	8,751	10,669	11,086	12,649	15,022
Depreciation	1,414	1,609	1,866	2,096	2,320
Tax paid	(2,558)	(2,444)	(1,791)	(3,020)	(3,604)
Working capital Δ	3,938	(7,045)	(5,942)	(3,017)	(2,609)
Other operating items					
Operating cashflow	11,545	2,790	5,220	8,709	11,130
Capital expenditure	(2,769)	(3,217)	(4,917)	(3,080)	(3,080)
Free cash flow	8,776	(427)	303	5,629	8,050
Equity raised	412	3,529	1,807	-	-
Investments	24	39	137	-	-
Debt financing/disposal	(5,279)	(1,154)	356	156	138
Interest paid	(1,167)	(495)	(531)	(652)	(705)
Dividends paid	(422)	(1,290)	(1,491)	(1,256)	(1,500)
Net Δ in cash	1,708	(69)	656	3,378	5,706

## Exhibit 14: Du-pont analysis

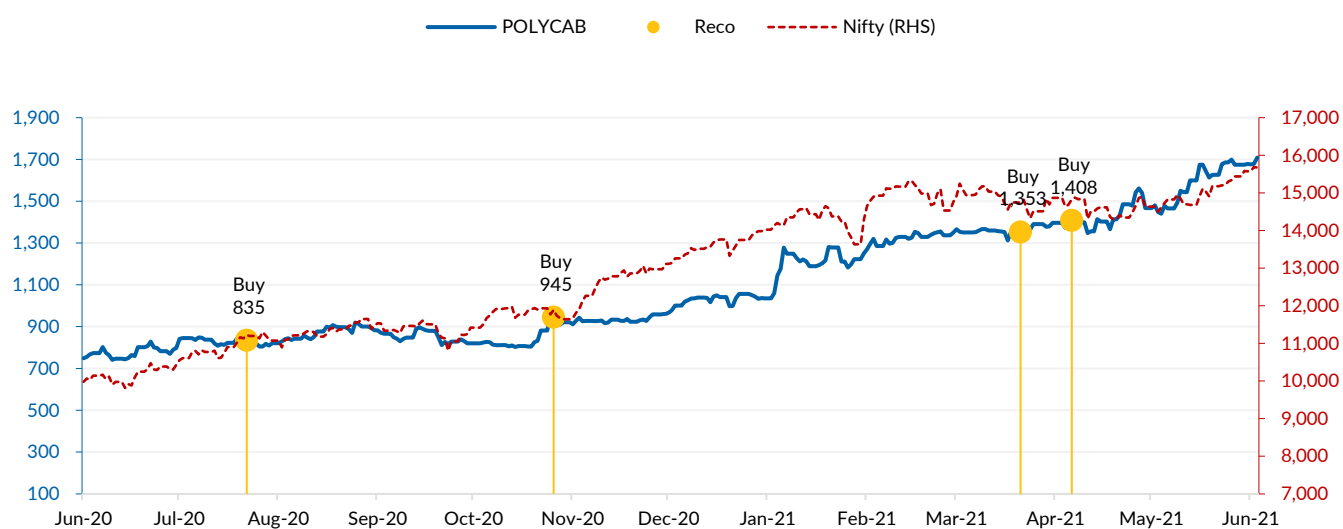
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.66	0.75	0.83	0.75	0.75
Interest burden (x)	0.87	0.95	0.95	0.95	0.95
EBIT margin (x)	0.11	0.12	0.12	0.12	0.13
Asset turnover (x)	1.59	1.52	1.38	1.38	1.35
Financial leverage (x)	1.94	1.73	1.51	1.47	1.46
RoE (%)	19.3	22.9	20.4	17.5	17.9

## Exhibit 15: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Revenue growth	18	11	1.1	17.6	13.2
Op profit growth	31	19	2.8	15.0	17.6
EBIT growth	33	22	3.9	14.1	18.8
Net profit growth	40	53	14.4	2.4	19.3
<b>Profitability ratios (%)</b>					
OPM	11.9	12.9	13.1	12.8	13.3
EBIT margin	11.0	12.1	12.4	12.1	12.7
Net profit margin	6.3	8.7	9.8	8.6	9.0
RoCE	27.9	30.0	24.8	23.7	24.2
RoNW	19.3	22.9	20.4	17.5	17.9
RoA	9.9	13.2	13.5	11.8	12.2
<b>Per share ratios</b>					
EPS	35.4	51.4	59.4	60.2	71.8
Dividend per share	2.5	7.2	10.0	8.4	10.1
Cash EPS	45.4	62.2	71.3	74.2	87.4
Book value per share	201.6	257.7	318.8	370.6	432.3
<b>Valuation ratios</b>					
P/E	49.1	33.8	29.3	28.9	24.2
P/CEPS	38.1	27.7	24.2	23.4	19.9
P/B	8.6	6.7	5.5	4.7	4.0
EV/EBIDTA	25.9	22.8	22.2	19.1	15.8
<b>Payout (%)</b>					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	8	17	17.0	14.0	14.0
Tax payout	34	24	17.0	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	61	59	58.7	58.7	58.7
Inventory days	91	80	81.3	81.3	81.3
Creditor days	69.5	56.0	55.1	55.1	55.1

## Recommendation tracker



Source: Company, YES Sec – Research

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### YES Securities (India) Limited

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

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**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

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