

18 October 2024

India | Equity Research | Q2FY25 results review

Polycab India

White Goods

Capex led strong revenue growth momentum to continue

Takeaways: (1) Polycab reported robust broad-based revenue growth YoY led by favourable demand tailwinds. All segments reported strong double digit revenue growth YoY. (2) EBITDA margin at 11.5% (-295bps YoY) was at two-year low. We reckon high volatility in commodity prices and inferior product mix weighed on margins. Revival in contribution of high margin domestic wires and cables led by reduction in low margin EPC business may lead to EBITDA margin expansion in FY26. (3) FMEG segment reported strong revenue growth at the cost of margins. We reckon the trend may continue in near term as the company aims to expand its market share. (4) Capex intensity has remained high. Polycab is on track to spend INR 10-11bn in FY25, highlighted by INR 5.8bn on capex until Sep'24.

We believe the strong revenue growth trajectory may continue in FY25E led by favourable demand tailwinds. Maintain **HOLD**.

Q2FY25 result review

Polycab reported 30.4%/3.7%/3.3 revenue/EBITDA/PAT growth YoY, respectively. Gross/EBITDA margin contracted 355bps/295bps YoY. Margin contraction was largely due to (1) change in product mix and (2) intensified competition. Other income grew 115.6%/30.4% YoY/QoQ, respectively. EPC segment registered stellar revenue growth (+190.4% YoY) led by strong orderbook execution. APAT remained flat (+3.3% YoY) as strong revenue growth benefits were offset by higher depreciation/finance cost, up 19.5%/69.1% YoY.

Segment-wise performance

All segments registered strong double digit revenue growth YoY. Cables and wires reported 24.1% revenue growth YoY; FMEG reported revenue growth of 20.5% YoY. Others (EPC) segment posted 190.4% revenue growth YoY. EBIT margin for wires and cables contracted 231bps while expanded 65bps for others segment YoY. FMEG segment incurred losses at EBIT level.

Capex remains on track

Polycab had earmarked INR 10-11bn in FY25 for capacity expansion. It has spent INR 5.8bn as of Sep'24 (INR 2.8bn in Q1FY25). Expansion of production capacities augurs well to cater to favourable demand tailwinds.

Financial Summary

| Y/E March (INR mn) | FY24A | FY25E | FY26E | FY27E |
|--------------------|----------|----------|----------|----------|
| Net Revenue | 1,80,394 | 2,20,820 | 2,58,279 | 3,00,436 |
| EBITDA | 24,918 | 29,259 | 35,772 | 41,610 |
| EBITDA Margin (%) | 13.8 | 13.3 | 13.9 | 13.9 |
| Net Profit | 17,841 | 20,844 | 26,123 | 30,380 |
| EPS (INR) | 118.8 | 138.7 | 173.9 | 202.2 |
| EPS % Chg YoY | 39.3 | 16.8 | 25.3 | 16.3 |
| P/E (x) | 60.0 | 51.3 | 41.0 | 35.2 |
| EV/EBITDA (x) | 42.0 | 35.6 | 28.9 | 24.5 |
| RoCE (%) | 22.3 | 20.9 | 21.0 | 20.0 |
| RoE (%) | 23.9 | 22.9 | 23.5 | 22.4 |

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Market Data

| | |
|---------------------|--------------|
| Market Cap (INR) | 1,071bn |
| Market Cap (USD) | 12,739mn |
| Bloomberg Code | POLYCAB IN |
| Reuters Code | POLC.BO |
| 52-week Range (INR) | 7,607 /3,801 |
| Free Float (%) | 31.0 |
| ADTV-3M (mn) (USD) | 36.6 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|-----|------|------|
| Absolute | 7.4 | 35.2 | 30.2 |
| Relative to Sensex | 7.1 | 24.1 | 8.3 |

| Earnings Revisions (%) | FY25E | FY26E |
|------------------------|-------|-------|
| Revenue | 3.0 | 3.7 |
| EBITDA | (2.9) | 2.2 |
| EPS | (3.0) | 2.9 |

Previous Reports

19-07-2024: [Q1FY25 results review](#)

13-05-2024: [Q4FY24 results review](#)

Strong growth momentum in EPC segment has continued

Others (EPC) segment is witnessing strong traction as the segment recorded revenue growth of 190.4% YoY. While the segment is witnessing strong revenue growth since Jun'21, we note, the pace of growth has accelerated since Mar'24. We reckon robust orderbook execution amidst favourable business environment has led to high growth.

FMEG – focus on revenue growth than profitability

Polycab's FMEG segment has reported strong double digit revenue growth in the past three quarters. Growth is largely attributable to (1) distribution expansion, and (2) restructuring of product portfolio. However, we note the company has consistently incurred losses at EBIT level since embarking its FMEG business. Losses are attributable to higher (1) ad-spends and (2) fixed cost. We reckon the trend of aggressive topline growth at the cost of margins may continue in near term as the company aims to expand its market share in the FMEG industry.

EBITDA margin impacted by product mix change

Polycab's Q2FY25 EBITDA margin at 11.5% was below the two-year average of 13.3%. We reckon it dipped 295bps YoY due to (1) high volatility in commodity prices, (2) inferior product mix. We believe higher contribution of low margin EPC business and decline in contribution of high margin domestic W&C business have primarily led to contraction of EBITDA margin.

Maintain HOLD

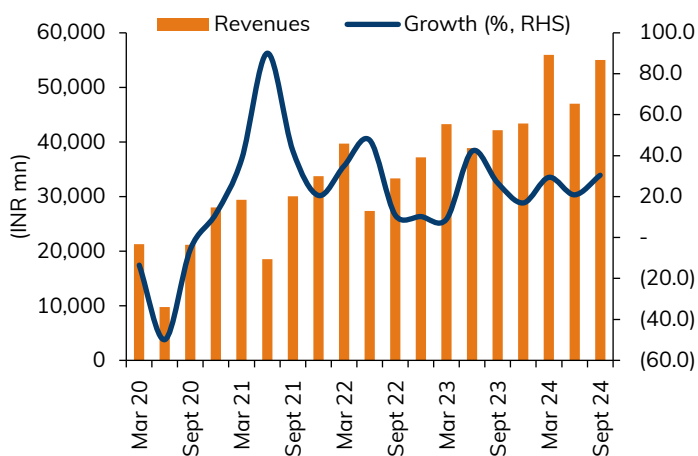
We model Polycab to report revenue/PAT CAGR of 18.5%/19.4% over FY24–27E and RoCE of 20% in FY27E. Maintain **HOLD** with DCF-based revised TP of INR 6,790 (earlier: INR 6,400; implied P/E of 39x FY26E EPS).

Exhibit 1: Q2FY25 financial performance

| Y/e March INR mn | Q2FY25 | Q2FY24 | YoY % chg. | Q1FY25 | QoQ % chg. | H1FY25 | H1FY24 | YoY % chg. |
|---------------------------------------|---------------|---------------|-------------|---------------|-------------|-----------------|---------------|-------------|
| Revenue | 54,984 | 42,177 | 30.4 | 46,980 | 17.0 | 1,01,965 | 81,071 | 25.8 |
| Expenditure | | | | | | | | |
| Raw materials | 42,025 | 30,739 | 36.7 | 35,415 | 18.7 | 77,440 | 59,319 | 30.5 |
| % of revenue | 76.4 | 72.9 | | 75.4 | | 75.9 | 73.2 | |
| Employee cost | 1,803 | 1,557 | 15.8 | 1,539 | 17.2 | 3,342 | 2,906 | 15.0 |
| % of revenue | 3.3 | 3.7 | | 3.3 | | 3.3 | 3.6 | |
| Other expenditure | 4,841 | 3,792 | 27.7 | 4,192 | 15.5 | 9,033 | 7,271 | 24.2 |
| % of revenue | 8.8 | 9.0 | | 8.9 | | 8.9 | 9.0 | |
| Total expenditure | 48,669 | 36,088 | 34.9 | 41,146 | 18.3 | 89,815 | 69,496 | 29.2 |
| EBITDA | 6,316 | 6,089 | 3.7 | 5,834 | 8.3 | 12,149 | 11,575 | 5.0 |
| EBITDA margin | 11.5 | 14.4 | | 12.4 | | 11.9 | 14.3 | |
| Other income | 762 | 353 | 115.6 | 584 | 30.4 | 1,346 | 993 | 35.5 |
| PBDIT | 7,077 | 6,442 | 9.9 | 6,418 | 10.3 | 13,495 | 12,568 | 7.4 |
| Depreciation | 721 | 603 | 19.5 | 671 | 7.4 | 1,392 | 1,174 | 18.5 |
| PBIT | 6,356 | 5,839 | 8.9 | 5,747 | 10.6 | 12,103 | 11,394 | 6.2 |
| Interest | 453 | 268 | 69.1 | 413 | 9.7 | 866 | 517 | 67.5 |
| PBT | 5,903 | 5,572 | 6.0 | 5,334 | 10.7 | 11,237 | 10,876 | 3.3 |
| Prov. for tax | 1,451 | 1,274 | 13.9 | 1,317 | 10.2 | 2,769 | 2,547 | 8.7 |
| % of PBT | 24.6 | 22.9 | | 24.7 | | 24.6 | 23.4 | |
| PAT | 4,452 | 4,298 | 3.6 | 4,016 | 10.9 | 8,468 | 8,329 | 1.7 |
| Minority Interest/share of associates | 54 | 42 | 28.3 | 57 | (5.0) | 111 | 77 | 43.2 |
| Adjusted PAT | 4,398 | 4,256 | 3.3 | 3,959 | 11.1 | 8,358 | 8,252 | 1.3 |
| Extra ordinary items | (9) | 71 | - | (92) | - | (100) | (60) | - |
| Reported PAT | 4,390 | 4,327 | 1.4 | 3,868 | 13.5 | 8,257 | 8,192 | 0.8 |

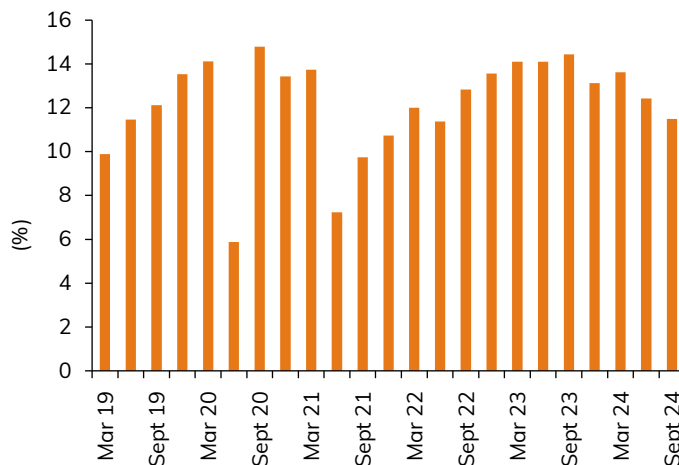
Source: Company data, I-Sec research

Exhibit 2: Revenue growth trend



Source: Company data, I-Sec research

Exhibit 3: EBITDA margin trend



Source: Company data, I-Sec research

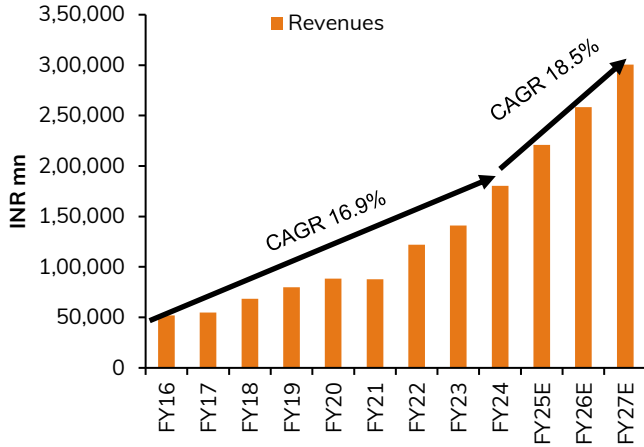
Exhibit 4: Segment-wise performance

| Particulars | Q2FY25 | Q2FY24 | YoY % chg. | Q1FY25 | QoQ % chg. | H1FY25 | H1FY24 | YoY % chg. |
|--------------------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|---------------|
| Revenues (INR mn) | | | | | | | | |
| Wires and cables | 47,200 | 38,047 | 24.1% | 39,421 | 19.7% | 86,621 | 73,385 | 18.0% |
| FMEG | 3,975 | 3,300 | 20.5% | 3,855 | 3.1% | 7,830 | 6,445 | 21.5% |
| Other | 5,852 | 2,015 | 190.4% | 5,194 | 12.7% | 11,046 | 3,543 | 211.7% |
| Intersegment | (1,591) | (1,074) | 48.1% | - | 23.4% | (2,880) | (1,855) | - |
| Total | 55,436 | 42,288 | 31.1% | 47,182 | 17.5% | 1,02,618 | 81,518 | 25.9% |
| EBIT (INR mn) | | | | | | | | |
| Wires and cables | 5,793 | 5,547 | 4.4% | 4,967 | 16.6% | 10,760 | 10,769 | -0.1% |
| FMEG | (252) | (60) | 319.6% | (28) | 797.8% | (281) | (117) | 140.1% |
| Other | 691 | 225 | 207.4% | 572 | 20.7% | 1,264 | 408 | 209.5% |
| Intersegment | (185) | (114) | - | (147) | - | (332) | (213) | - |
| Total | 6,047 | 5,597 | 8.0% | 5,364 | 12.7% | 11,411 | 10,848 | 5.2% |
| EBIT margin (%) | | | | | | | | |
| Wires and cables | 12.3 | 14.6 | | 12.6 | | 12.4 | 14.7 | |
| FMEG | (6.4) | (1.8) | | (0.7) | | (3.6) | (1.8) | |
| Other | 11.8 | 11.2 | | 11.0 | | 11.4 | 11.5 | |
| Intersegment | 11.6 | 10.7 | | 11.4 | | 11.5 | 11.5 | |
| Total | 10.9 | 13.2 | | 11.4 | | 11.1 | 13.3 | |

Source: Company data, I-Sec research

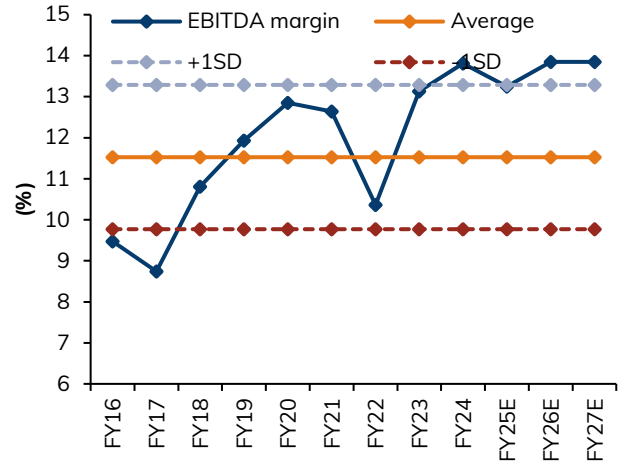
Key highlights – annual

Exhibit 5: Revenue growth trend



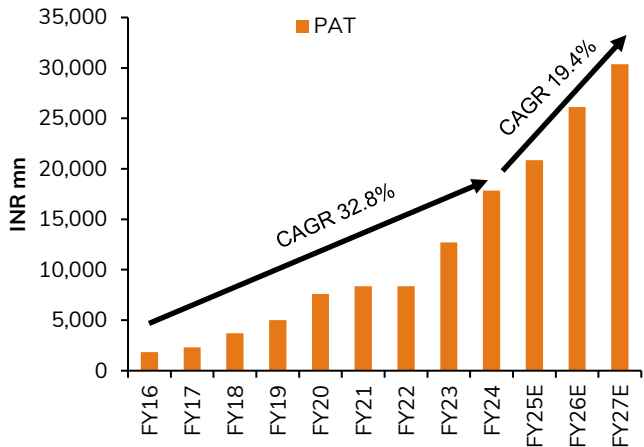
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin trend



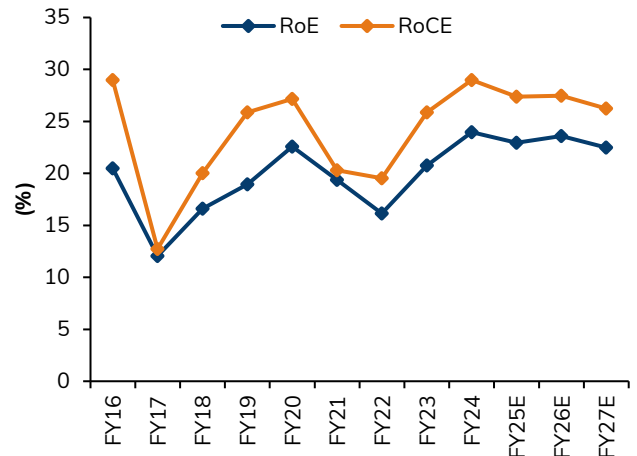
Source: Company data, I-Sec research

Exhibit 7: PAT growth trend



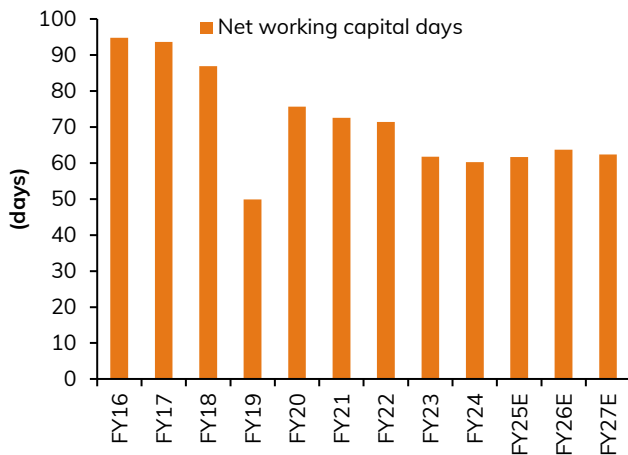
Source: Company data, I-Sec research

Exhibit 8: Return ratios trend



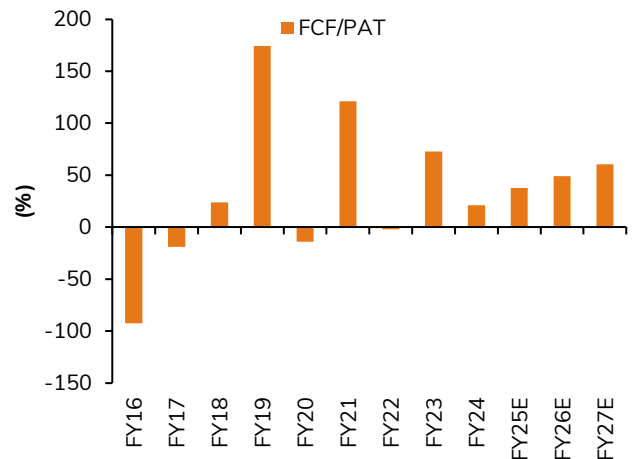
Source: Company data, I-Sec research

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: FCF/PAT



Source: Company data, I-Sec research

Valuation and risks

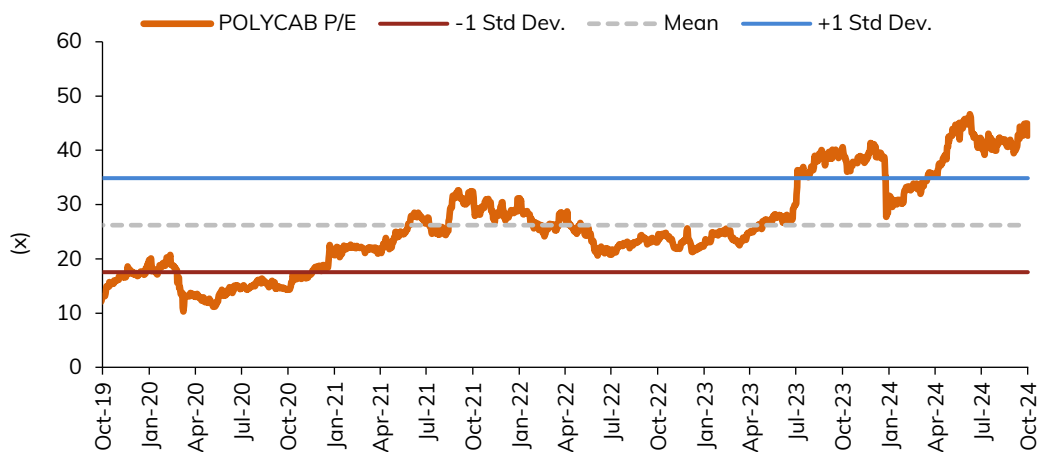
We model Polycab to report revenue/PAT CAGR of 18.5%/19.4% over FY24–27E and RoCE of 20% in FY27E. At our DCF-based revised target price of INR 6,790, implied P/E works out to 39x FY26E EPS. Maintain **HOLD**.

Exhibit 11: DCF-based valuation

| Particulars | |
|--|--------------|
| Cost of Equity (%) | 10.9% |
| Terminal growth rate (%) | 5.0% |
| Discounted interim cash flows (INR mn) | 3,75,441 |
| Discounted terminal value (INR mn) | 6,44,662 |
| Total equity value (INR mn) | 10,20,103 |
| Value per share (INR) | 6,790 |

Source: Company data, I-Sec research

Exhibit 12: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Inflation in input prices and competitive pressures

Sharp rise in input prices and/or increase in competitive pressures may result in a downside to our estimates.

Faster than expected economic growth

Faster than expected economic growth is an upside risk to our estimates.

Exhibit 13: Shareholding pattern

| % | Mar'24 | Jun'24 | Sep'24 |
|-------------------------|--------|--------|--------|
| Promoters | 65.2 | 65.0 | 63.1 |
| Institutional investors | 19.2 | 20.5 | 22.9 |
| MFs and others | 5.4 | 5.3 | 7.7 |
| FIs/Banks | 0.0 | 0.8 | 0.7 |
| Insurance | 0.7 | 0.8 | 1.0 |
| FIIIs | 13.1 | 13.6 | 13.5 |
| Others | 15.6 | 14.5 | 14.0 |

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|--|-----------------|-----------------|-----------------|-----------------|
| Net Sales | 1,80,394 | 2,20,820 | 2,58,279 | 3,00,436 |
| Operating Expenses | 1,55,476 | 1,91,562 | 2,22,508 | 2,58,826 |
| EBITDA | 24,918 | 29,259 | 35,772 | 41,610 |
| EBITDA Margin (%) | 13.8 | 13.3 | 13.9 | 13.9 |
| Depreciation & Amortization | 2,450 | 3,552 | 4,574 | 5,414 |
| EBIT | 22,468 | 25,706 | 31,197 | 36,196 |
| Interest expenditure | 1,083 | 319 | 176 | 176 |
| Other Non-operating Income | 2,209 | 2,289 | 3,615 | 4,217 |
| Recurring PBT | 23,593 | 27,676 | 34,636 | 40,237 |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | 5,564 | 6,642 | 8,313 | 9,657 |
| PAT | 18,029 | 21,034 | 26,323 | 30,580 |
| Less: Minority Interest | 189 | 190 | 200 | 200 |
| Extraordinaries (Net) | (102) | - | - | - |
| Net Income (Reported) | 17,738 | 20,844 | 26,123 | 30,380 |
| Net Income (Adjusted) | 17,841 | 20,844 | 26,123 | 30,380 |

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|--|---------------|-----------------|-----------------|-----------------|
| Total Current Assets | 68,915 | 83,496 | 96,280 | 1,20,112 |
| of which cash & cash eqv. | 4,024 | 3,810 | 1,587 | 11,046 |
| Total Current Liabilities & Provisions | 35,107 | 42,398 | 49,590 | 57,684 |
| Net Current Assets | 33,808 | 41,099 | 46,690 | 62,428 |
| Investments | 22,585 | 26,585 | 38,085 | 43,085 |
| Net Fixed Assets | 22,566 | 34,561 | 39,987 | 45,572 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 6,547 | - | - | - |
| Total Intangible Assets | 46 | 46 | 46 | 46 |
| Other assets | - | - | - | - |
| Deferred Tax assets | - | - | - | - |
| Total Assets | 85,553 | 1,02,291 | 1,24,808 | 1,51,132 |
| Liabilities | | | | |
| Borrowings | 2,704 | 2,204 | 2,204 | 2,204 |
| Deferred Tax Liability | 415 | 415 | 415 | 415 |
| provisions | - | - | - | - |
| other Liabilities | - | - | - | - |
| Equity Share Capital | 1,502 | 1,502 | 1,502 | 1,502 |
| Reserves & Surplus | 80,369 | 97,607 | 1,20,124 | 1,46,448 |
| Total Net Worth | 81,871 | 99,109 | 1,21,627 | 1,47,950 |
| Minority Interest | 562 | 562 | 562 | 562 |
| Total Liabilities | 85,553 | 1,02,291 | 1,24,808 | 1,51,132 |

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

| | Dec-23 | Mar-24 | Jun-24 | Sep-24 |
|---------------------|--------|--------|--------|--------|
| Net Sales | 43,405 | 55,919 | 46,980 | 54,984 |
| % growth (YOY) | 16.8 | 29.3 | 20.8 | 30.4 |
| EBITDA | 5,695 | 7,615 | 5,834 | 6,316 |
| Margin % | 13.1 | 13.6 | 12.4 | 11.5 |
| Other Income | 710 | 538 | 584 | 762 |
| Extraordinaries | (23) | (20) | (92) | (9) |
| Adjusted Net Profit | 4,128 | 5,460 | 3,959 | 4,398 |

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|--|---------------|----------------|-----------------|----------------|
| Operating Cashflow | 12,393 | 16,892 | 22,882 | 29,516 |
| Working Capital Changes | (8,090) | (7,504) | (7,815) | (6,278) |
| Capital Commitments | (8,585) | (9,000) | (10,000) | (11,000) |
| Free Cashflow | 3,808 | 7,892 | 12,882 | 18,516 |
| Other investing cashflow | 619 | (4,000) | (11,500) | (5,000) |
| Cashflow from Investing Activities | (7,966) | (13,000) | (21,500) | (16,000) |
| Issue of Share Capital | 194 | - | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | (55) | (500) | - | - |
| Dividend paid | (2,997) | (3,606) | (3,606) | (4,056) |
| Others | - | - | - | - |
| Cash flow from Financing Activities | (2,858) | (4,106) | (3,606) | (4,056) |
| Chg. in Cash & Bank balance | 1,569 | (214) | (2,223) | 9,460 |
| Closing cash & balance | 2,764 | 3,810 | 1,587 | 11,046 |

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 118.8 | 138.7 | 173.9 | 202.2 |
| Adjusted EPS (Diluted) | 118.8 | 138.7 | 173.9 | 202.2 |
| Cash EPS | 135.1 | 162.4 | 204.3 | 238.3 |
| Dividend per share (DPS) | 20.0 | 24.0 | 24.0 | 27.0 |
| Book Value per share (BV) | 545.0 | 659.7 | 809.6 | 984.8 |
| Dividend Payout (%) | 16.8 | 17.3 | 13.8 | 13.4 |
| Growth (%) | | | | |
| Net Sales | 27.9 | 22.4 | 17.0 | 16.3 |
| EBITDA | 34.5 | 17.4 | 22.3 | 16.3 |
| EPS (INR) | 39.3 | 16.8 | 25.3 | 16.3 |
| Valuation Ratios (x) | | | | |
| P/E | 60.0 | 51.3 | 41.0 | 35.2 |
| P/CEPS | 52.7 | 43.8 | 34.8 | 29.9 |
| P/BV | 13.1 | 10.8 | 8.8 | 7.2 |
| EV / EBITDA | 42.0 | 35.6 | 28.9 | 24.5 |
| P / Sales | 5.9 | 4.8 | 4.1 | 3.6 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.3 | 0.4 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 26.4 | 26.0 | 26.5 | 26.5 |
| EBITDA Margins (%) | 13.8 | 13.3 | 13.9 | 13.9 |
| Effective Tax Rate (%) | 23.6 | 24.0 | 24.0 | 24.0 |
| Net Profit Margins (%) | 10.0 | 9.5 | 10.2 | 10.2 |
| NWC / Total Assets (%) | 34.8 | 36.5 | 36.1 | 34.0 |
| Net Debt / Equity (x) | (0.3) | (0.3) | (0.3) | (0.3) |
| Net Debt / EBITDA (x) | (1.0) | (1.0) | (1.0) | (1.2) |
| Profitability Ratios | | | | |
| RoCE (%) | 22.3 | 20.9 | 21.0 | 20.0 |
| RoE (%) | 23.9 | 22.9 | 23.5 | 22.4 |
| RoC (%) | 32.7 | 30.1 | 30.4 | 30.3 |
| Fixed Asset Turnover (x) | 5.2 | 5.0 | 4.5 | 4.4 |
| Inventory Turnover Days | 83 | 84 | 87 | 86 |
| Receivables Days | 46 | 46 | 45 | 45 |
| Payables Days | 79 | 76 | 75 | 75 |

Source Company data, I-Sec research

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ANALYST CERTIFICATION

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