

Polycab India

BSE SENSEX
80,234

S&P CNX
24,275

CMP: INR7,044

TP: INR8,340 (+18%)

Buy

Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



POLYCAB

Bloomberg	POLYCAB IN
Equity Shares (m)	150
M.Cap.(INRb)/(USDb)	1059.4 / 12.5
52-Week Range (INR)	7607 / 3801
1, 6, 12 Rel. Per (%)	9/-3/11
12M Avg Val (INR M)	4169
Free float (%)	36.9

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	217.2	249.9	287.6
EBITDA	26.8	32.3	39.4
Adj. PAT	18.8	22.7	27.4
EBITDA Margin (%)	12.3	12.9	13.7
Cons. Adj. EPS (INR)	125.0	151.4	182.2
EPS Gr. (%)	5.3	21.1	20.4
BV/Sh. (INR)	640.0	756.3	903.5

Ratios

Net D:E	(0.0)	(0.1)	(0.1)
RoE (%)	19.5	20.0	20.2
RoCE (%)	20.7	21.3	21.4
Payout (%)	24.0	23.1	19.2

Valuations

P/E (x)	56.4	46.5	38.7
P/BV (x)	11.0	9.3	7.8
EV/EBITDA (x)	39.3	32.4	26.4
Div Yield (%)	0.5	0.6	0.6
FCF Yield (%)	0.4	0.9	1.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	63.1	65.0	65.9
DII	9.4	6.9	8.1
FII	13.5	13.6	12.4
Others	14.1	14.4	13.6

FII includes depository receipts

Robust demand and strong strategies driving growth

Set to achieve Project Leap goals a year ahead; awaiting the next five-year guidance

We met with the management of Polycab India (POLYCAB) to get an update on the demand for Cables and Wires (C&W), key demand drivers, RM price trends, and competitive intensity in the industry.

- The management reiterated strong demand momentum in the domestic C&W segment, complemented by growth in the international business. Going forward, major demand drivers are expected to be power Transmission and Distribution (T&D), growth in private capex, and continuous demand from the real estate sector. Meanwhile, the demand growth from railway and road projects is estimated to be moderate due to a higher base impact.
- In the first week of Oct'24, the industry implemented a 4-8% price hike for cables to pass on the impact of higher copper and aluminum prices. Competitive intensity is higher in the wires segment due to excess capacity. In the cables segment, despite ongoing capacity additions, the demand momentum is expected to remain strong, potentially outpacing the industry's available capacity. In the FMEG segment, the company experienced healthy growth during the festive season, aided by a low base and various initiatives, such as the introduction of products across various price points, brand-building activities, and a rejig in its FMEG business leadership team.
- The company is currently working on its next five-year guidance, which will be communicated soon. We maintain our earnings estimates and reiterate our BUY rating on the stock.

Domestic C&W demand remains strong; outlook optimistic

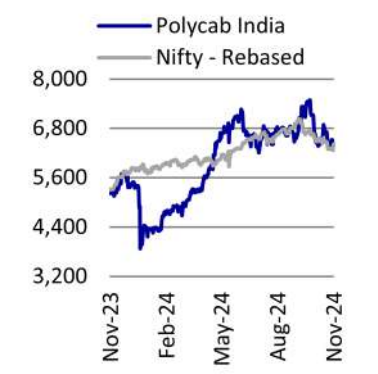
- The management expressed its positive outlook on the domestic demand for C&W. Despite general elections, it has not seen any demand slowdown in the domestic markets. However, exports were muted in 1HFY25 due to a shift to the distribution-led business model in the US and global headwinds (disruptions in trade routes, higher freight, etc.) due to war situations.
- Earlier, key drivers of the C&W industry included railway, road, airport, and port projects, along with strong demand from the real estate segment. Currently, the industry's demand is driven by power T&D, growth in private capex, and continuous demand from the real estate segment. Moreover, growth shares from railway and road projects are estimated to moderate.
- In India an investment of INR9.2t is projected in power transmission infrastructure by FY32, which will require high-voltage power cables. The company is also setting up a greenfield EHV manufacturing plant in Halol, Gujarat. The plant is expected to be operational by FY26-end and begin commercial production in FY27E. Hence, the company will benefit from EHV cable supplies from FY27 onwards.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Stock Performance (one-year)

- POLYCAB has a comprehensive and diversified product portfolio with 11,000+ SKUs (probably the largest in the industry). Its offering includes LV, MV power cables, EHV power cables, optical-fiber cables, solar cables, and various specialized cables catering to various sectors, such as power, construction, oil & gas, chemical, telecom, and transport. It has also started the production of Optical Ground Wire (OPGW) cables, which provide a two-in-one solution for dependable power transmission and high-speed data communication. Moreover, the company is expanding its presence in EV charging cables. In future, it aims to develop new products, such as HVDC cables and deep-sea cables.
- The company has secured large contracts under the BharatNet initiative (Phase III), which is worth INR56.5b so far. The contracts include the supply of cable for the initial period of three years (recognitions will be based on the milestone achievement) and maintenance work for the next 10 years (major part will be recognized in the EPC segment, except for the supply of cables during this period, if any). It expects the margin in this business to be within 12-14%.
- POLYCAB brings relevant expertise, having executed few projects under Phase I & II of BharatNet. The company will require to supply optical fiber cables. It has already secured long-term contracts for the supply of optical fiber at fixed prices. Currently, its EPC book has major orders from the RDSS scheme. We will review our assumptions and earnings once the company shares more details.
- The management believes that the incremental demand in the segment will surpass the incremental supply. Further, it expects export demand to improve. Though the company has experienced a slowdown in the US market, it is witnessing healthy demand from other geographies. Currently, it is supplying in 80 countries and will continue to expand its exports business.
- The wires segment continues to witness growth, supported by strong demand from real estate. POLYCAB is gaining market share from larger players as well as unorganized players. The contribution of Etira wires, launched to target unorganized markets, is steadily increasing. The other wires categories – Green wires, Suprema wires, Maxima+, Optima+, and Primma – are also performing well.
- In the wires segment, the west region is the largest revenue contributor for the company, followed by north, south, and east. In the cables segment, the west region remains the largest, followed by south, north, and east.

Strategic changes in the FMEG segment to bolster growth

- In the first seven years, POLYCAB reported robust growth (revenue CAGR was at ~43%). Post FY21, it set a target to become among the top three FMEG companies. It has taken various initiatives to bolster growth and improve operational efficiencies, which are as follows:
 - 1) The company has changed its distribution policy and partnered with large dealers and distributors (completed in Mar'24). This initiative helped the company enhance its scalability and achieve higher sales volume. It will also enable the company to improve utilization and gain positive operating leverage.
 - 2) The company expanded its product portfolio through innovation and R&D. It is introducing products across various price points to fill the gaps in its product

portfolio. With this initiative, the company aims to increase its total addressable market.

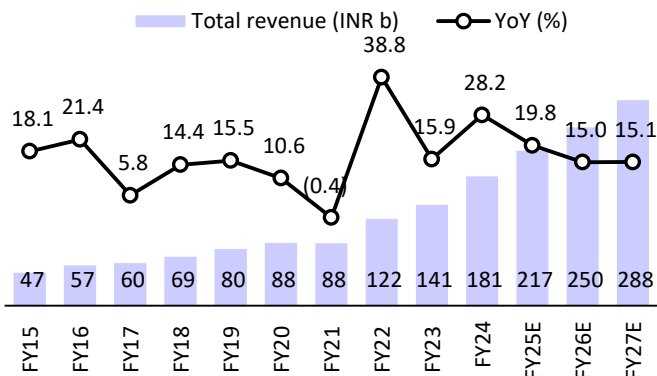
- 3) The company is placing greater focus on branding activities and A&P spending. It is scaling up its structured influencer program through frequent engagements, organizing workshops to educate dealers and distributors, and incentivizing its marketing initiatives.
- 4) There was a rejig in its FMEG business leadership team, with the company appointing a unified business unit head for the B2C business vertical. This promotes decentralization of decision-making within that business. Further, the company appointed deputy business heads, each overseeing specific product categories. It has also established a separate sales team to enhance market penetration, build brand recognition, and leverage synergies.
- With these initiatives, the company has improved its product mix. The fans' contribution reduced from ~60% to 50-55%, while the switches' contribution increased to high teens from single digits. In the switchgear business, it is leveraging synergies within its existing wires business.

Valuation and view

- We are structurally positive on POLYCAB due to its leadership position in the cables and wires segment, strong growth trajectory, and healthy return ratios. We estimate a CAGR of 16%/15% in EBITDA/EPS over FY24-27. POLYCAB has benefitted from continuous capacity expansions and strategic initiatives toward margin expansion (the margin in the cables & wires segment expanded to 13.1%/14.7% in FY23/FY24 from 9.9% in FY22 and ~12% over FY18-21). We estimate the EBIT margin of this segment to slightly moderate to ~12.9%/13.3% in FY25/FY26, attributed to higher RM prices and a lower margin in the wires segment due to higher competitive intensity. The margin is estimated to stand at ~14% in FY27, aided by an increase in contribution from the newly added EHV capacity and growth in exports business.
- The company has consistently generated free cash flows over the years despite higher capex (due to continuous capacity expansions in the C&W segment and a focus on in-house manufacturing). Its cumulative OCF is expected to stand at INR57.5b over FY25-27, whereas cumulative capex is likely to stand at INR30.0b in the same period. Cumulative FCF generation over FY25-27 will be at INR27.5b, which will further improve its liquidity position.
- RoE and RoIC are expected to be at 20% and 27% in FY27 vs. an average of 16% and 17% over FY15-24. We expect the company to maintain its premium valuations. **We reiterate our BUY rating on POLYCAB with a TP of INR8,340 (based on 50x Sep'26E EPS).**

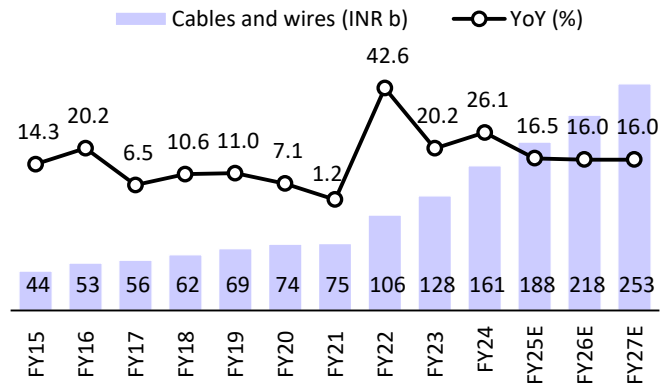
Story in charts

Exhibit 1: Estimate revenue CAGR of 17% over FY24-27



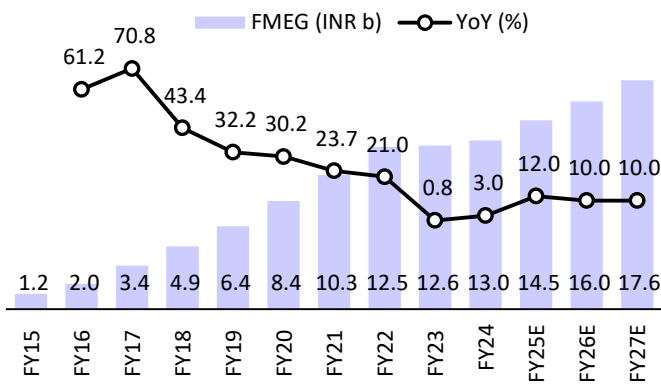
Source: MOFSL, Company

Exhibit 2: Cables & Wires to clock ~16% CAGR over FY24-27



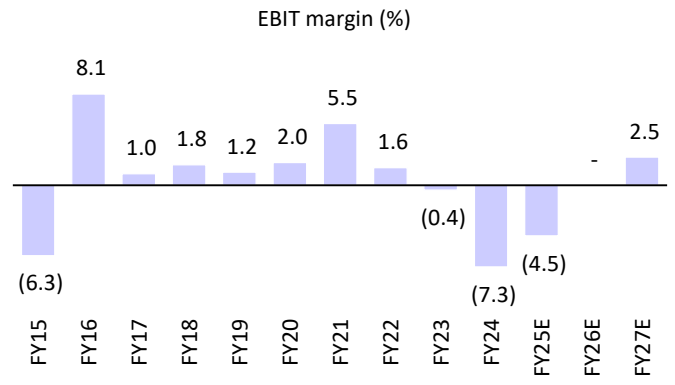
Source: MOFSL, Company

Exhibit 3: Estimate ~11% revenue CAGR in FMEG over FY24-27



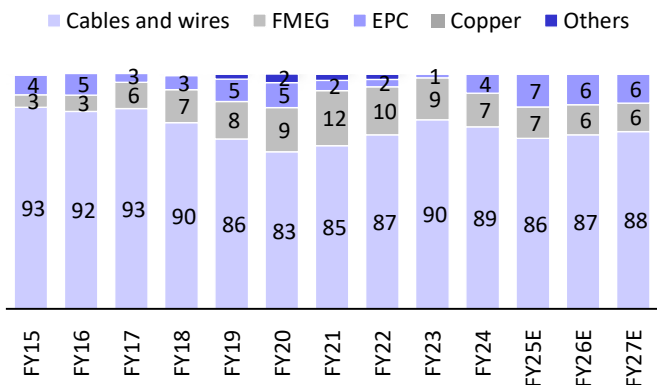
Source: MOFSL, Company

Exhibit 4: FMEG segment to break-even in FY26



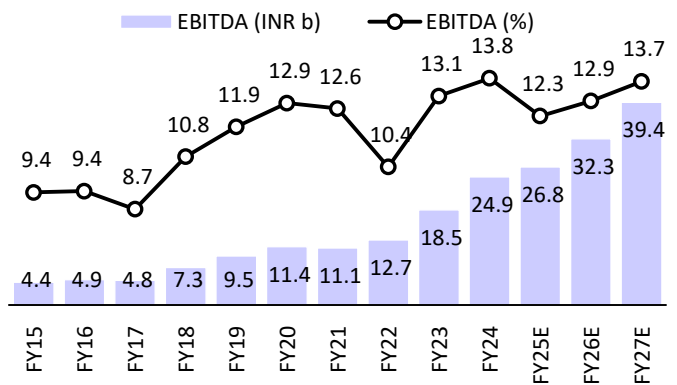
Source: MOFSL, Company

Exhibit 5: Revenue share from C&W to remain over 85%



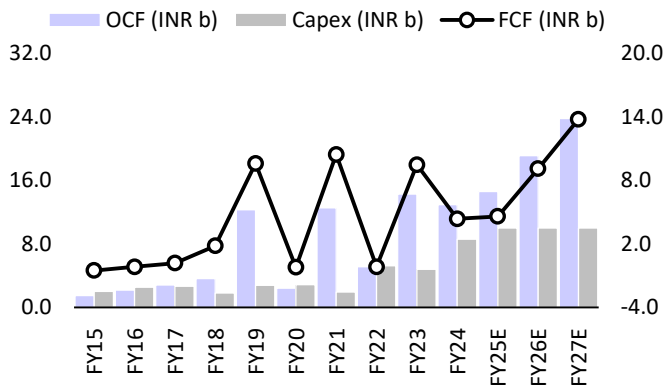
Source: MOFSL, Company

Exhibit 6: Estimate EBITDA CAGR of ~16% over FY24-27



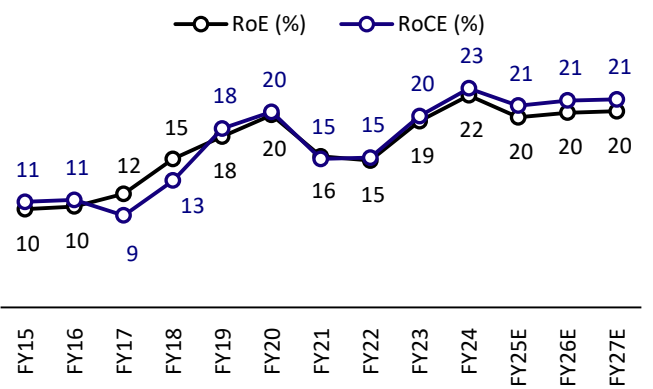
Source: MOFSL, Company

Exhibit 7: Higher OCF continues to support the capex plan



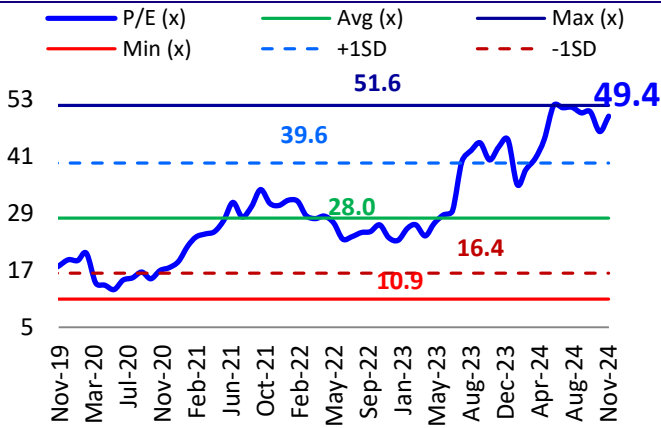
Source: MOFSL, Company

Exhibit 8: ROE/ROCE should be higher than the historical average



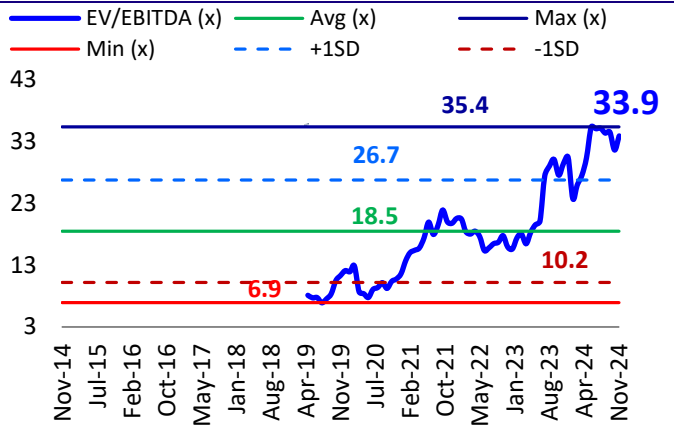
Source: MOFSL, Company

Exhibit 9: One-year forward P/E chart



Source: MOFSL, Company

Exhibit 10: One-year forward EV/EBITDA chart



Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement								(INR M)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	88,300	87,922	1,22,038	1,41,078	1,80,394	2,17,226	2,49,907	2,87,633
Change (%)	10.6	(0.4)	38.8	15.6	27.9	20.4	15.0	15.1
Raw Materials	63,686	65,171	94,657	1,05,109	1,32,803	1,63,354	1,85,681	2,11,123
Staff Cost	3,657	3,537	4,066	4,568	6,095	7,010	8,412	10,094
Other Expenses	9,606	8,102	10,663	12,880	16,578	20,039	23,489	27,035
EBITDA	11,350	11,111	12,652	18,521	24,918	26,823	32,325	39,381
% of Net Sales	12.9	12.6	10.4	13.1	13.8	12.3	12.9	13.7
Depreciation	1,609	1,762	2,015	2,092	2,450	2,887	3,148	3,748
Interest	495	427	352	598	1,083	1,812	2,209	2,525
Other Income	928	1,193	899	1,333	2,209	3,000	3,400	3,400
Profit of share of associates/JVs	(74)	6	(26)	(93)	-	-	-	-
PBT	10,100	10,122	11,159	17,073	23,593	25,124	30,368	36,509
Tax	2,444	2,703	2,706	4,242	5,564	6,155	7,440	8,945
Rate (%)	24.2	26.7	24.3	24.8	23.6	24.5	24.5	24.5
MI	66	38	87	123	189	189	189	189
Extra-ordinary Inc.(net)	-	(1,000)	-	-	-	-	-	-
Reported PAT	7,591	6,380	8,365	12,708	17,841	18,780	22,740	27,375
Change (%)	51.9	(16.0)	31.1	51.9	40.4	5.3	21.1	20.4
Adjusted PAT	7,591	7,380	8,365	12,708	17,841	18,780	22,740	27,375
Change (%)	51.9	(2.8)	13.4	51.9	40.4	5.3	21.1	20.4

Balance Sheet								(INR M)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	1,489	1,491	1,494	1,498	1,502	1,502	1,502	1,502
Reserves	36,875	46,048	53,943	64,874	80,369	94,642	1,12,123	1,34,240
Net Worth	38,364	47,539	55,437	66,372	81,871	96,144	1,13,626	1,35,743
Loans	1,571	2,487	831	730	898	798	698	598
Deferred Tax Liability	165	418	272	409	415	415	415	415
Minority Interest	150	188	251	374	562	751	939	1,128
Capital Employed	40,250	50,633	56,791	67,885	83,746	98,108	1,15,678	1,37,883
Gross Fixed Assets	20,664	26,989	27,059	33,069	37,462	47,462	57,462	67,462
Less: Depreciation	6,444	8,293	10,308	12,400	14,850	17,737	20,885	24,633
Net Fixed Assets	14,220	18,696	16,751	20,669	22,612	29,725	36,577	42,829
Capital WIP	2,412	991	3,755	2,508	6,547	6,547	6,547	6,547
Investments	655	6,349	7,733	13,505	18,224	18,224	18,224	18,224
Current Assets	42,319	44,111	45,880	57,559	73,276	86,315	1,03,458	1,26,828
Inventory	19,250	19,879	21,996	29,514	36,751	44,255	50,913	58,598
Debtors	15,997	15,641	13,763	12,992	21,662	23,806	27,387	31,521
Cash & Bank Balance	2,813	5,313	4,071	6,952	4,024	5,202	10,141	19,424
Loans & Advances	298	123	127	103	106	128	147	169
Other Current Assets	3,962	3,155	5,922	7,997	10,733	12,925	14,869	17,114
Current Liab. & Prov.	19,356	19,514	17,328	26,356	36,914	42,704	49,129	56,545
Creditors	13,537	13,480	12,175	20,326	28,633	32,733	37,657	43,342
Other Liabilities	5,325	5,547	4,634	5,312	7,365	8,869	10,203	11,743
Provisions	494	487	518	717	916	1,103	1,269	1,460
Net Current Assets	22,963	24,597	28,552	31,203	36,362	43,611	54,329	70,282
Application of Funds	40,250	50,633	56,791	67,885	83,746	98,108	1,15,678	1,37,883

Financials and valuations (Consolidated)

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
Adjusted EPS	51.0	49.5	56.0	84.9	118.8	125.0	151.4	182.2
Growth (%)	44.1	-2.9	13.1	51.6	40.0	5.3	21.1	20.4
Cash EPS	61.8	61.3	69.5	98.8	135.1	144.2	172.3	207.2
Book Value	257.7	318.8	371.0	443.2	545.0	640.0	756.3	903.5
DPS	7.0	10.0	14.0	20.0	30.0	35.0	40.0	40.0
Payout (incl. Div. Tax.)	13.7	20.2	25.0	23.6	16.8	24.0	23.1	19.2
Valuation (x)								
P/Sales	11.9	11.9	8.6	7.5	5.9	4.9	4.2	3.7
P/E	138.2	142.3	125.8	83.0	59.3	56.4	46.5	38.7
Cash P/E	114.0	114.9	101.4	71.3	52.2	48.8	40.9	34.0
EV/EBITDA	92.3	94.3	83.0	56.6	42.3	39.3	32.4	26.4
EV/Sales	11.9	11.9	8.6	7.4	5.8	4.9	4.2	3.6
Price/Book Value	27.3	22.1	19.0	15.9	12.9	11.0	9.3	7.8
Dividend Yield (%)	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.6
Profitability Ratios (%)								
RoE	19.8	15.5	15.1	19.1	21.8	19.5	20.0	20.2
RoCE	20.1	15.3	15.4	19.7	22.5	20.7	21.3	21.4
RoIC	20.1	17.6	17.9	26.0	27.9	24.2	25.2	26.8
Turnover Ratios								
Debtors (Days)	66	65	41	34	44	40	40	40
Inventory (Days)	80	83	66	76	74	74	74	74
Creditors. (Days)	56	56	36	53	58	55	55	55
Asset Turnover (x)	2.2	1.7	2.1	2.1	2.2	2.2	2.2	2.1
Leverage Ratio								
Debt/Equity (x)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(0.1)

Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
(INR M)								
PBT before EO Items	10,100	10,122	11,159	17,073	23,593	25,124	30,368	36,509
Add: Depreciation	1,609	1,866	2,088	2,092	2,450	2,887	3,148	3,748
Interest	495	531	352	598	1,083	1,812	2,209	2,525
Less: Direct Taxes Paid	3,012	2,409	3,340	3,704	5,743	6,155	7,440	8,945
(Inc)/Dec in WC	6,221	(2,600)	4,974	1,058	8,090	6,070	5,779	6,671
Others	(279)	(325)	(169)	(725)	(331)	(3,000)	(3,400)	(3,400)
CF from Operations	2,692	12,385	5,116	14,275	12,962	14,598	19,106	23,766
(Inc)/Dec in FA	(2,891)	(1,935)	(5,267)	(4,795)	(8,585)	(10,000)	(10,000)	(10,000)
Free Cash Flow	(199)	10,450	(151)	9,481	4,377	4,598	9,106	13,766
(Pur)/Sale of Investments	(35)	(5,664)	997	(7,232)	1,066	3,000	3,400	3,400
Others								
CF from Investments	(2,926)	(7,599)	(4,270)	(12,026)	(7,519)	(7,000)	(6,600)	(6,600)
(Inc)/Dec in Net Worth	4,000	-	-	-	-	-	-	-
(Inc)/Dec in Debt	(1,194)	(1,217)	(168)	332	194	(100)	(100)	(100)
Less: Interest Paid	433	463	309	476	1,017	1,812	2,209	2,525
Dividend Paid	1,793	-	1,492	2,094	2,997	4,507	5,258	5,258
Others	(709)	(68)	(38)	(32)	(32)	-	-	-
CF from Fin. Activity	(129)	(1,748)	(2,007)	(2,271)	(3,852)	(6,419)	(7,567)	(7,883)
Inc/Dec of Cash	(363)	3,038	(1,160)	(22)	1,592	1,179	4,939	9,283
Add: Beginning Balance	3,176	4,658	5,231	6,974	2,454	4,024	5,202	10,141
Closing Balance	2,813	7,696	4,071	6,952	4,024	5,202	10,141	19,424

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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