

Robust Volume Growth Led by Strong Demand Environment

Est. Vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA Margin – **MISS**; PAT – **BEAT**
Change in Estimates post Q4FY24

FY25E/FY26E: Revenue 7.3%/10.5%; EBITDA 0.1%/4.6%; PAT -0.9%/1.4%

Recommendation Rationale

- **Growth outlook for C&W remains strong:** The company witnessed strong growth in the C&W segment led by sustained demand in the domestic markets, favourable government measures, and improvement in private and real estate Capex. The management expects demand momentum to broaden given higher infra spends by the government, increasing private Capex announcements, and higher contribution from exports.
- **Healthy growth in the Cables & Wires segment continues:** Polycab's C&W segment grew 19% YoY, driven by healthy volume growth, especially in FY24. The management has guided 30-40% YoY volume growth in the C&W segment. The international business contributed 8% of the consolidated revenue in Q4FY24. The C&W segment's EBIT margin improved slightly by 60bps YoY to 15.1%, led by better product mix and better capacity utilisation.
- **Outlook for FMEG:** The growth in the FMEG segment improved by 17% YoY to Rs 358 Cr in Q4FY24, led by the seasonal increase in demand for the fan products on account of the low base in the last year. Switches and switchgear segments witnessed robust YoY growth during the quarter. The company has planned to launch Silenco – a new premium fans range and BLDC fans SKUs in FY24.

Sector Outlook: Positive

Company Outlook & Guidance: The management expects strong traction in the domestic Cables & Wires segment, increasing contribution from exports, and robust demand led by government spends.

Current Valuation: 38X FY26E of Rs 173 (**Earlier Valuation:** 30X FY26E of Rs 149)

Current TP: Rs 6,588/share (Earlier TP: Rs 4,499/share)

Recommendation: We maintain our HOLD rating on the stock.

Financial Performance

The company reported revenue growth of 29% YoY to Rs 5,592 Cr, which stood 17% above our estimates. Wires & Cables segment grew by 19% YoY to Rs 4,865 Cr, thanks to favourable industry demand and robust volume growth. Higher execution in project business resulted in EPC (Others) segment's growth of 275% YoY to Rs 502 Cr. The FMEG segment also reported robust growth of 17% YoY to Rs 358 Cr, backed by seasonal demand from the fan segment during the quarter. Gross margins were also above our estimates by 250bps at 30.5% backed by strategic price revision and favourable product mix. Despite increase in absolute operating profit, Polycab's operating margins declined by 50bps YoY at 13.6% vs. AxisSec estimate of 14.8%. The decline was majorly led by sharp increase in employee expense. PAT stood at Rs 553 Cr vs Rs 428 Cr YoY, up 30% YoY (17% above our estimates)

Outlook

Polycab has maintained the leadership position in the organized C&W segment with a market share of 25-26% in FY24 backed by a strong distribution network and a strong brand recall. The company continues to gain market share in the Wires & Cables segment. The management expects strong traction in domestic Cables & Wires, increasing contribution from exports and strong demand, led by government spends. Simultaneously, increasing contribution from EPC orders will further aid in company's profitability.

Valuation & Recommendation:

We expect Revenue/PAT CAGR of 20%/21% CAGR over FY25-26E with EBITDA margins to marginally improve to 14.2% in FY26E. However, with recent developments and some clarity with regards to the IT search operations outcome we value the company at 38x FY26E EPS of Rs 173 to arrive at a target price of Rs 6,588/share which gives an upside of 7% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	5,592	29.3%	28.8%	4,799	16.5%
Operating Profit	762	25%	34%	709	7.5%
Operating Profit Margin	13.6%	-50bps	50bps	14.8%	-120bps
Net Profit	553	29%	33%	476	16.2%
EPS (Rs)	37	29%	33%	32	16.6%

Source: Company, Axis Research

(CMP as of 10 May 2024)

CMP (Rs)	6,153
Upside /Downside (%)	7%
High/Low (Rs)	6,469 / 3,239
Market cap (Cr)	94,205
Avg. daily vol. (6m) Shrs.	959
No. of shares (Cr)	15

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	65.9	65.8	65.2
FIs	12.4	13.4	12.0
MFs / UTI	6.1	5.3	5.5
Banks / FIs	0.0	0.0	0.0
Others	15.6	15.5	17.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24	FY25E	FY26E
Net Sales	14,108	18,039	21,734	26,067
EBITDA	1,852	2,492	3,054	3,689
Net Profit	1,288	1,784	2,172	2,604
EPS (Rs)	86	119	145	173
PER (x)	71	51	42	35
EV/ EBITDA (x)	49	37	30	25
P/BV (x)	14	11	9	8
ROE (%)	21.1	24.2	23.9	23.5

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	7.3%	10.5%
EBITDA	0.1%	4.6%
PAT	-0.9%	1.4%

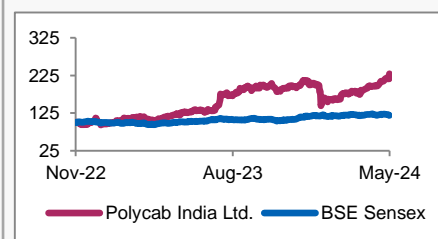
ESG disclosure Score**

Environmental Disclosure	22.2
Social Disclosure Score	33.2
Governance Disclosure Score	78.6
Total ESG Disclosure Score	44.7
Sector Average	41.6

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Ace Equity, Axis Securities

Akshay Mokashe

Sr. Research Analyst

Email: akshay.mokashe@axissecurities.in

Other Key Highlights

- **Cables & Wires segment:** The Cables segment demonstrated strong performance during the quarter, recording a growth of 19% YoY. This growth was primarily driven by volume expansion, supported by government spending on infrastructure, increasing private Capex, growth in real estate, and heightened traction from the institutional business. The company also improved its market share from 22-24% in FY23 to 25-26% in FY24 in the organized Cables and Wires industry. Additionally, the contribution of cables to the wire segment marginally increased from a 70:30 ratio to a 71:29 ratio in FY24. Furthermore, the company has successfully expanded its presence to 79 countries.
- **FMEG Segment:** The Fans segment experienced robust growth attributed to seasonal demand and a lower base. In the Switchgear segment, POLYCAB's newly launched ETIRA brand and 6Kva switchgear made significant contributions to segmental growth. The management anticipates profitable growth driven by the introduction of new models, premiumization, and effective distributor management strategies.
- **Others segment:** The Others segment, primarily EPC, demonstrated robust growth of 2.75 times for the quarter, supported by the company's participation in the government's RDSS scheme, which primarily involves the upgrading of power distribution infrastructure.
- **Capex:** Over the next 2-3 years, the company plans to invest between Rs. 1,000 Cr to Rs. 1,200 Cr, primarily to increase the capacity of the Cables and Wires segment, with some allocation for enhancing the switches and switchgear manufacturing facility.
- **Income Tax search operations:** The Income Tax department conducted a search on some of Polycab's premises and plants. The management highlighted that no order has been received by the company from the regulatory authorities.

Key Risks to our Estimates and TP

- A delay in private Capex and any slowdown in government infrastructure spending could potentially postpone the growth in the Cables & Wires segment.
- Slower growth in the Fast Moving Electrical Goods (FMEG) segment due to a sluggish pick-up in consumer sentiment may affect overall revenue growth in the medium to long term.
- Volatility in raw material prices may impact profitability. However, the company follows a prudent hedging policy for its Forex exposure.

Change in Estimates

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	21734	26067	20261	23583	7.3%	10.5%
EBITDA	3054	3689	3050	3527	0.1%	4.6%
PAT	2172	2604	2191	2567	-0.9%	1.4%

Source: Company, Axis Securities

Results Review

Rs Cr	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	% YoY	% QoQ
Revenue	4324	3889	4218	4340	5592	29.3%	28.8%
Gross profit	1128	1060	1184	1283	1707	51.3%	33.1%
Gross Margin (%)	26.1%	27.3%	28.1%	29.6%	30.5%	443.7	97.1
Operating Profit	610	548	609	570	762	24.9%	33.7%
OPM (%)	14.1%	14.1%	14.4%	13.1%	13.6%	-47.9	49.7
Other Income	52	64	35	71	54	4.5%	-24.2%
EBITDA	661	612	644	641	815	23.3%	27.3%
EBITDA Margin (%)	15.3%	15.7%	15.3%	14.8%	14.6%	-70.8	-17.6
Interest Cost	28	25	27	32	24	-13.3%	-24.3%
Depreciation	53	57	60	62	66	22.9%	6.2%
PBT	579	530	557	546	725	25.2%	32.7%
Tax	145	128	127	130	172	18.8%	32.3%
Adj PAT	428	403	430	417	553	29.2%	32.9%
Adj EPS	29	27	29	28	37	28.7%	33.3%

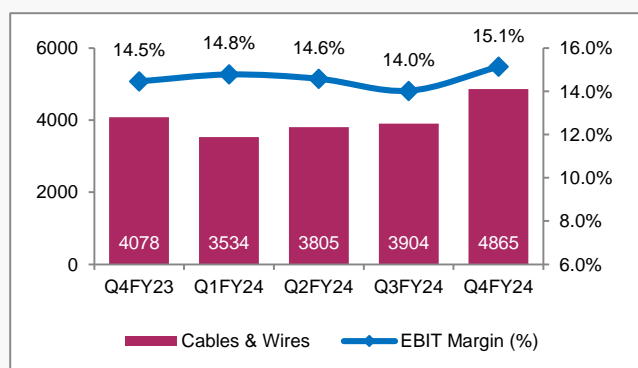
Source: Company, Axis Securities

Segmental Revenue

Segment Revenue	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	% YoY	% QoQ
Wires & Cables	4078	3534	3805	3904	4865	19.3%	24.6%
FMEG	305	315	330	296	358	17.3%	20.9%
Others	134	153	202	248	502	275.4%	102.9%
Less: Inter Segment revenue	178	78	107	70	112	-37.2%	59.9%
Total Revenue	4339	3923	4229	4378	5613	29.4%	28.2%

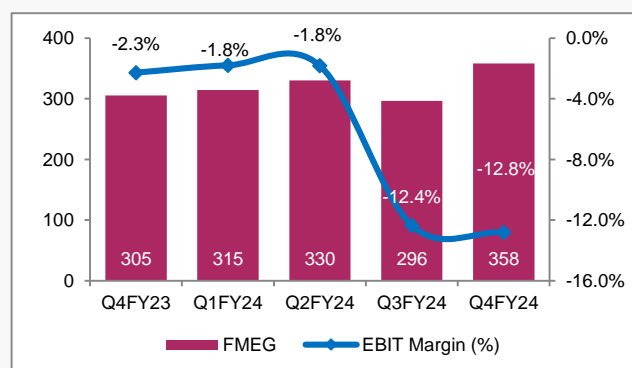
Source: Company, Axis Securities

Exhibit 1: Wires & Cables Rev Vs EBIT Margin (%)



Source: Company, Axis Securities

Exhibit 2: FMEG rev Vs EBIT Margin (%)



Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net Sales	14,108	18,039	21,734	26,067
Growth (%)	15.6	27.9	20.5	19.9
Other Operating Income	0	0	0	0
Total Income	14,108	18,039	21,734	26,067
Raw Material Expense	10,376	12,806	15,355	18,417
Employee Expense	457	610	778	907
Power & Fuel Expense	0	0	0	0
Other Operating Expense	1,423	2,132	2,547	3,054
Operating Profit	1,852	2,492	3,054	3,689
Growth (%)	36	35	23	21
Operating Margin (%)	13.1	13.8	14.1	14.2
Other Income	133	221	231	241
EBITDA	1,985	2,713	3,285	3,930
Growth (%)	35.4	36.6	21.1	19.6
EBITDA Margin (%)	14.1	15.0	15.1	15.1
Depreciation	209	245	269	311
EBIT	1,776	2,468	3,016	3,618
Interest Cost	60	108	95	121
Profit Before Tax	1,717	2,359	2,921	3,498
Tax	425	556	730	874
Profit After Tax	1,292	1,803	2,191	2,623
Growth (%)	34.6	39.6	21.5	19.7
Share of Profit of an associate/OCI	-3	-19	-19	-19
Net Profit (Adjusted)	1,288	1,784	2,172	2,604
EPS	86	119	145	173

Source: company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Equity Share Capital	150	150	150	150
Reserves & Surplus	6,525	8,093	9,911	12,160
Net Worth	6,675	8,243	10,061	12,311
Borrowings	73	90	289	315
Other Liabilities	2,678	3,746	4,608	5,430
Total Liabilities	2,751	3,836	4,897	5,744
Total Equity & Liability	9,425	12,079	14,958	18,055
APPLICATION OF FUNDS				
Cash & Bank Balance	695	402	593	1,575
Investments	1,350	1,822	1,822	1,822
Advances	186	374	374	374
Fixed & Other Assets	7,193	9,480	12,168	14,283
Total Assets	9,425	12,079	14,958	18,055

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
PBT	1,707	2,359	2,921	3,498
Depreciation & amortization	209	245	269	311
Interest expense	60	108	95	121
Interest / Dividend Recd	-30	-33	-231	-241
Other Adjustments	-43	0	0	0
(Inc)/Dec in working capital	-106	-809	-702	-327
Tax paid	-370	-574	-730	-874
CF from operating activities	1,428	1,296	1,622	2,488
Capital expenditure	-458	-858	-1,278	-1,278
(Purchase) / Sale of Investments	-767	0	0	0
Income from investments and others	22	106	212	222
CF from investing activities	-1,203	-752	-1,066	-1,056
Inc/(Dec) in share capital	0	0	0	0
Inc/(Dec) in debt	33	14	199	26
Dividends & Interest paid	-257	-401	-449	-475
Other Financial Activities	-3	0	0	0
CF from financing activities	-227	-387	-250	-449
Net cash flow	-2	157	306	982
Opening balance	122	119	288	593
Other Bank Balance	0	0	0	0
Closing balance	119	276	593	1,575

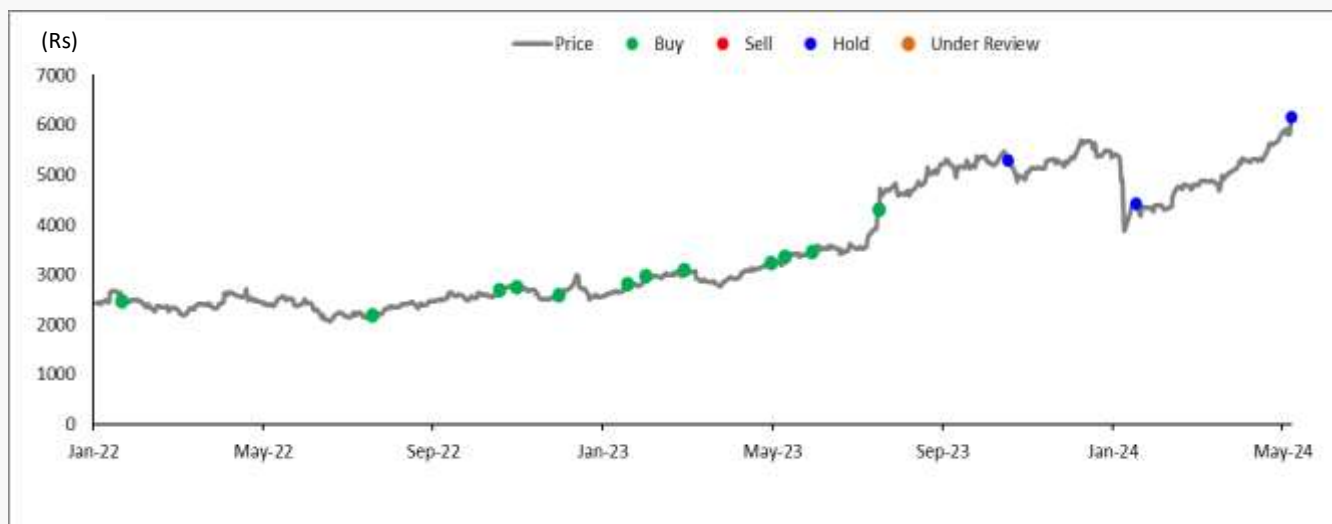
Source: Company, Axis Securities

Ratio Analysis
(x) / (%)

Y/E Dec	FY23	FY24	FY25E	FY26E
Per share data				
No. of shares (Cr)	15.0	15.0	15.0	15.0
BVPS (INR)	445.7	548.7	669.7	819.4
CEPS (INR)	100.2	136.3	163.7	195.3
DPS (INR)	20.0	20.0	20.0	20.0
Financial Ratios				
RoE (%)	21.1	24.2	23.9	23.5
RoCE (%)	28.5	32.5	32.1	31.4
Debt/Equity (x)	0.0	0.0	0.0	0.0
EBIT/Interest (x)	29.7	22.8	31.9	30.0
Turnover Ratios				
Asset turnover (x)	2.1	2.2	2.1	2.1
Sales/Net FA (x)	6.1	6.2	5.4	5.2
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	33.2	43.2	35.0	34.0
Inventory days	108.7	104.5	102.0	98.0
Payable days	94.5	102.4	86.0	85.0
Working capital days	47.4	45.4	51.0	47.0
Liquidity Ratios				
Current ratio (x)	2.2	2.0	2.0	2.1
Quick ratio (x)	1.1	1.0	0.8	1.0
Interest cover (x)	26.1	19.9	27.0	25.3
Net debt/Equity (x)	-0.1	-0.0	-0.0	-0.1
Valuation (x)				
PE	71.4	51.3	42.2	35.2
PEG (x) YoY growth	1.4	1.3	2.0	1.8
P/BV	13.8	11.2	9.2	7.5
EV/EBITDA	49.4	37.0	30.2	24.7
EV/Sales	6.5	5.1	4.2	3.5
EV/EBIT	51.5	37.3	30.6	25.2

Source: Company, Axis Securities

Polycab India Price Chart and Recommendation History



Date	Reco	TP	Research
24-Jan-22	BUY	2,771	Result Update
21-Jul-22	BUY	2,771	Result Update
20-Oct-22	BUY	3,080	Result Update
01-Nov-22	BUY	3,080	Top Picks
01-Dec-22	BUY	3,080	Top Picks
01-Jan-23	BUY	3,080	Top Picks
23-Jan-23	BUY	3,225	Result Update
01-Feb-23	BUY	3,300	Top Picks
01-Mar-23	BUY	3,390	Top Picks
01-Apr-23	BUY	3,390	Top Picks
02-May-23	BUY	3,515	Top Picks
12-May-23	BUY	3,515	Result Update
01-Jun-23	BUY	3,780	Top Picks
01-Jul-23	BUY	3,905	Top Picks
20-Jul-23	BUY	4,876	Result Update
20-Oct-23	HOLD	5,509	Result Update
20-Jan-24	HOLD	4,499	Result Update
13-May-24	HOLD	6,588	Result Update

Source: Axis Securities

About the analyst



Analyst: Akshay Mokashe

Contact Details: akshay.mokashe@axissecurities.in

Sector: Capital Goods, Building Materials and Consumer Durables

Analyst Bio: Akshay Mokashe is B.E Mechanical Engineer with over 5 years of experience in Equity Research

About the analyst

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