

## Higher input cost delays recovery in EBITDA margin...

**About the stock:** Polycab is the largest manufacturer of wire & cable in India. It also entered the fast moving electrical goods (FMEG) space in 2014 and has recorded strong segment revenue CAGR of 43% in the last five years.

- Polycab is the market leader in the wire & cable business with organised market share of 23%. In the FMEG segment, it is growing through new product launches & dealer addition across India. The company has ~4100 dealers, serving 65 lakh retail outlets
- Robust b/s with RoE, RoCE of 19%, 26%, respectively, (three-year average)

### Q1FY22 Results: Higher input costs delayed recovery in the EBITDA margin

- Reported revenue growth of 93% YoY to ₹ 1880.5 crore (down 38% QoQ)
- Better operating leverage helped drive EBITDA margin up by 152 bps YoY to 7.8%. However, the same is still lower than its pre-Covid-19 level range of 11-13% due to a sharp decline in gross margin (~400 bps YoY)
- Lower other income (down 25% YoY) and tax benefits in the base quarter impacted profitability with PAT coming in at ₹ 75 crore (down 36% YoY)

**What should investors do?** Polycab's share price has grown by ~3x over the past two years (from ~₹ 588 in July 2019 to ~₹ 1,890 levels in July 2021).

- We revise our rating on the stock from BUY to HOLD

**Target Price and Valuation:** We value Polycab at ₹ 2100 i.e. 27x P/E on FY23E EPS

### Key triggers for future price performance:

- Set a target to achieve ₹ 20,000 crore revenues by FY26 (18% CAGR)
- Beneficiary of government's plans to invest ~ ₹ 111 lakh crore in FY20-25 under its National Infrastructure pipeline
- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration level will give a significant boost to demand for home appliances
- Model revenue, earnings CAGR of 20%, 14%, respectively, in FY21-23E

**Alternate Stock Idea:** Apart from Polycab, we also like Havells in the same space

- Trigger for Havells' future revenue growth would be revival in the Lloyds revenues and improvement in margin.
- BUY with target price of ₹ 1345



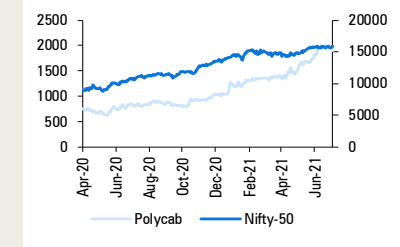
### Particulars

Particular	Amount
Market Cap (₹ Crore)	28,183.5
Total Debt (FY21) (₹ Crore)	215.3
Cash & Inv (FY21) (₹ Crore)	531.3
EV (₹ Crore)	27,867.5
52 week H/L	2034/ 795
Equity capital (₹ Crore)	148.9
Face value (₹)	10.0

### Shareholding pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	68.6	68.6	68.5	68.4	68.4
FII	4.9	4.5	6.1	7.0	6.4
DII	13.2	12.9	12.2	10.3	9.9
Others	13.3	14.0	13.2	14.3	15.3

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Delay in revival of cable business (ii) Delay in passing on high input prices

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### Key Financial Summary

₹ Crore	FY19	FY20	FY21	5Year CAGR (FY16-21)	FY22E	FY23E	2Year CAGR (FY21-23E)
Net sales	7956.0	8830.0	8926.5	11%	10940.9	12775.4	19.6%
EBITDA	923.2	1135.0	1167.0	19%	1269.1	1635.2	18.4%
EBITDA Margin(%)	11.6	12.9	13.1		11.6	12.8	
Net Profit	500.5	765.6	885.9	37%	883.4	1158.5	14.4%
EPS (₹)	35.4	51.4	59.4		59.2	77.7	
P/E(x)	53.3	36.8	31.8		31.9	24.3	
RoE (%)	17.6	20.0	18.5		16.5	18.5	
RoCE (%)	28.3	26.4	21.9		21.1	24.2	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Lower gross margin amid steep rise in input price

- Revenue saw a healthy recovery on a YoY basis (up 92% YoY to ~₹ 1880 crore) led by cable & wire business, which was up 97%. The FMEG business was up 39% to ₹ 192 crore
- The gross margin was down 400 bps YoY, mainly due to a steep rise in raw material prices. As a result, EBITDA margin expansion was limited to 7.4%
- Lower operating leverage, higher advertisement costs and high raw material prices drags FMEG's profitability to loss of ₹ 1.5 crore (vs. EBIT profit of ~₹ 24 crore)
- The management has guided for further price hikes in the coming periods to offset inflationary pressure

### Q1FY22 Earnings Conference Call highlights

- **Demand Outlook:**  
Revival in the private/government spends on infra products will help drive demand for wire & cable business and FMEG business. The company maintained its long term revenue growth guidance of 18% from FY21-26 (₹ 20,000 crore revenues by FY26)
- **Margins:**  
The commodity cost pressure during Q1FY22 was 14-15%. Polycab managed to mitigate the pressure by taking price hikes in the range of 10-11%. The company further plans to take a price hike if raw material prices remain firm. This will help Polycab to restore its normal gross margin, going forward
- **Capex:**  
It has planned a capex of ₹ 300 crore/annum for FY22E-FY23E
- **Distribution reach and channel financing:**
  - The company has around 4,000 dealers & distributors at country level & around 1,65,000-1,70,000 retailers
  - In terms of channel financing in cable & wires, ~70% dealers (of its existing dealers) are covered under channel financing. In FMEG, there has been progress and the company covered 25-30% of its total dealers under the scheme

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	1880.5	976.6	92.6	3037.4	-38.1	Favourable base and strong demand recovery in both wire & cable and FMEG business drove topline growth
Other Income	25.3	33.6	-24.8	27.4	-8	One time interest income in base period
Raw Material Exp	1439.9	709.7	102.9	2264.4	-36.4	Sharp rise in input prices and delay in passing of the same resulted in ~390 bps decline in gross margin
Employee cost	95.9	81.2	18.0	99.7	-3.9	
Adevertisement Exp	7.8	3.2	147.0	14.4	-45.7	
Freight and forwarding Exp	40.1	26.5	51.7	70.5	-43.1	
Other Expenditure	157.4	98.5	59.8	167.1	-5.8	Various cost optimisation measures result in saving in other costs
Total Expenditure	1741.2	919.1	89.4	2616.2	-33.4	
EBITDA	139.3	57.5	142.4	421.3	-66.9	
EBITDA Margin (%)	7.4	5.9	152 bps	13.9	-646 bps	Decline in gross margin was offset by saving in other costs
Depreciation	52.1	44.3	17.8	48.9	6.7	
Interest	12.2	16.3	-25.4	16.6	-26.9	
PBT	100.3	40.3	149.3	383.1	-73.8	
Total Tax	22.9	-78.5	-129.2	100.6	-77.2	One time tax benefits in the base period
PAT	75.3	117.6	-36.0	283.2	-73.4	
<b>Key Metrics*</b>						
Wires & Cables	1,626.9	825.2	97.2	2,544.2	-36.1	Healthy pick-up in cable business drives segment performance
FMEG	192.0	137.8	39.3	346.8	-44.6	Increased distribution and new launches helped drive revenue
Copper	66.6	15.0	344.6	155.0	-57.0	
Others	71.8	53.4	34.4	96.0	-25.2	Pick-up in infra activities helped drive segment revenue

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ crore)	FY22E			FY23E			Comments
	Old	Actual	% Chg	Old	New	% Chg	
Revenue	10,665.3	10,940.9	2.6	12,457.3	12,775.4	2.6	We marginally tweak our revenue estimate upward for FY22 considering the strong growth in Q1FY22 revenues
EBITDA	1,375.8	1269.1	(7.8)	1,669.3	1635.2	(2.0)	
EBITDA Margin (%)	12.9	11.6	-130bps	13.4	12.8	-60bps	We revise our margin estimate downwards for FY22E considering higher input costs and delay in price hikes
PAT	965.9	883.4	(8.5)	1185.3	1158.5	(2.3)	
EPS (₹)	64.7	59.2	(8.5)	79.5	77.7	(2.3)	

Source: ICICI Direct Research

**Exhibit 3: Assumptions**

	Current (%)					Previous		Comments
	FY19	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Wire & Cable	14.0	8.6	0.2	20.0	15.0	16.0	15.0	We believe revival in government expenditure and pick-up in real estate would help drive demand for wires & cable business, going forward
FMEG	34.6	30.7	23.8	27.0	30.0	27.0	30.0	Low base coupled with new product launches and addition of new dealers would help drive growth in the FMEG segment
Copper			NA	22.0	13.0	32.0	13.0	
Others	92.5	29.8	(49.7)	23.0	20.0	30.0	20.0	Pick-up in infra activities would help in recovery in EPC business

Source: ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>8,830.0</b>	<b>8,926.5</b>	<b>10,940.9</b>	<b>12,775.4</b>
Growth (%)	11.0	1.1	22.6	16.8
Raw material expense	5,626.6	5,860.1	7,330.4	8,431.7
Employee expenses	365.7	360.4	404.8	434.4
Advertisement & Prom	108.7	68.3	76.6	89.4
Marketing expenses	189.7	196.7	284.5	268.3
Other expenses	662.2	527.7	678.3	894.3
Total Operating Exp	7,694.9	7,759.5	9,671.8	11,140.1
<b>EBITDA</b>	<b>1,135.0</b>	<b>1,167.0</b>	<b>1,269.1</b>	<b>1,635.2</b>
Growth (%)	22.9	2.8	8.8	28.8
Depreciation	160.9	186.6	207.9	232.5
Interest	49.5	53.1	30.0	24.0
Other Income	92.8	128.2	131.3	166.1
PBT	1,017.4	1,065.2	1,162.5	1,544.8
Total Tax	244.4	179.1	279.0	386.2
<b>PAT</b>	<b>765.6</b>	<b>885.9</b>	<b>883.4</b>	<b>1,158.5</b>
Growth (%)	53.0	15.7	-0.3	31.1
EPS (₹)	51.4	58.9	59.2	77.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	765.6	885.9	883.4	1158.5
Add: Depreciation	160.9	186.6	207.9	232.5
(Inc)/dec in Current Assets	-152.3	149.9	-891.2	-856.4
Inc/(dec) in CL and Provisions	-608.8	27.5	359.1	349.0
Others	49.5	53.1	30.0	24.0
<b>CF from operating activities</b>	<b>214.9</b>	<b>1303.0</b>	<b>589.3</b>	<b>907.6</b>
(Inc)/dec in Investments	-40.0	-583.1	-20.0	-20.0
(Inc)/dec in Fixed Assets	-355.4	-489.9	-350.0	-450.0
Others	9.7	-21.5	5.0	5.0
<b>CF from investing activities</b>	<b>-385.8</b>	<b>-1,094.5</b>	<b>-365.0</b>	<b>-465.0</b>
Issue/(Buy back) of Equity	7.7	0.2	0.0	0.0
Inc/(dec) in loan funds	-39.7	63.0	-30.0	-50.0
Dividend paid & dividend tax	-104.5	-149.0	-178.9	-268.4
Others	271.2	127.2	-131.0	-24.0
<b>CF from financing activities</b>	<b>134.6</b>	<b>41.4</b>	<b>-340.0</b>	<b>-342.4</b>
Net Cash flow	-36.2	249.9	-115.7	100.2
Opening Cash	317.6	281.4	531.3	415.6
Closing Cash	281.4	531.3	415.6	515.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	148.9	149.1	149.1	149.1
Reserve and Surplus	3,687.5	4,604.8	5,208.3	6,098.4
Total Shareholders funds	3,836.4	4,753.9	5,357.4	6,247.5
Total Debt	152.3	215.3	185.3	135.3
Other non current liabilities	49.6	94.7	99.7	104.7
<b>Total Liabilities</b>	<b>4,038.3</b>	<b>5,064.0</b>	<b>5,642.4</b>	<b>6,487.5</b>
<b>Assets</b>				
Gross Block	2,093.1	2,725.1	3,075.1	3,525.1
Less: Acc Depreciation	671.2	857.8	1,065.7	1,298.2
Total Fixed Assets	1,663.1	1,966.4	2,108.5	2,326.0
Investments	40.0	623.1	643.1	663.1
Inventory	1,925.0	1,987.9	2,458.0	2,835.1
Debtors	1,599.7	1,564.1	1,917.1	2,275.1
Loans and Advances	29.8	20.8	25.5	29.8
Other CA	345.6	177.2	240.7	357.7
Cash	281.4	531.3	415.6	515.8
Total Current Assets	4,181.4	4,281.4	5,056.9	6,013.5
Creditors	1,353.7	1,348.0	1,648.6	1,925.1
Provisions	49.4	48.7	59.5	69.5
Other CL	520.2	554.1	601.8	664.3
Total Current Liabilities	1,923.3	1,950.8	2,309.9	2,658.9
Net current assets	2,258.1	2,330.7	2,747.0	3,354.6
Other non current assets	77.1	143.8	143.8	143.8
<b>Total Assets</b>	<b>4,038.3</b>	<b>5,064.0</b>	<b>5,642.4</b>	<b>6,487.5</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	51.4	59.4	59.2	77.7
Cash EPS	62.2	71.9	73.2	93.3
BV	257.7	318.8	359.3	419.0
DPS	7.0	10.0	12.0	18.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.9	13.1	11.6	12.8
PAT Margin	8.7	9.8	8.1	9.1
Asset Turnover	4.2	3.3	3.6	3.6
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	16.5	18.5
RoCE	26.4	21.9	21.1	24.2
RoIC	24.7	23.2	21.4	24.4
<b>Valuation Ratios (x)</b>				
P/E	36.8	31.8	31.9	24.3
EV / EBITDA	24.7	23.3	21.5	16.6
EV / Net Sales	3.2	3.1	2.5	2.1
Market Cap / Sales	3.2	3.2	2.6	2.2
Price to Book Value	7.3	5.9	5.3	4.5
<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 8: ICICI Direct Consumer Discretionary universe

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)	3,160	3,665	Buy	3,03,044	33.4	39.5	50.4	94.5	80.0	62.7	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,046	1,915	Hold	30,825	20.3	21.8	29.3	100.7	94.0	69.9	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	3,015	3,130	Buy	9,481	24.7	45.7	88.2	122.0	65.9	34.2	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,066	1,280	Buy	12,119	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)	856	835	Hold	83,135	7.4	9.3	12.3	115.5	92.4	69.7	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	475	480	Buy	29,783	9.8	9.2	11.9	48.3	51.9	40.0	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,595	4,635	Buy	26,903	27.3	54.8	95.8	168.5	83.9	48.0	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	250	275	Hold	7,888	7.7	9.2	11.4	32.3	27.1	21.9	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,151	1,345	Buy	71,811	16.7	18.8	24.3	69.1	61.3	47.4	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	624	655	Buy	33,629	9.9	12.1	14.4	63.3	51.5	43.4	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLPLA)	522	600	Buy	1,447	16.5	20.8	28.0	31.7	25.1	18.7	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	2,315	2,035	Hold	1,17,556	22.2	26.3	31.8	104.4	88.0	72.8	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,890	2,100	Hold	28,138	59.4	59.2	77.7	31.8	31.9	24.3	23.3	21.5	16.6	21.9	21.1	24.2	18.5	16.5	18.5
Supreme Indus (SUPIND)	2,098	2,450	Buy	26,650	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	1,084	1,345	Hold	7,583	15.3	28.5	39.5	70.9	38.1	27.4	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	250	320	Buy	10,707	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)	1,048	1,150	Buy	34,661	16.0	21.2	28.9	65.5	49.5	36.3	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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