

## B2B leader aiming for B2C dominance

We initiate coverage on Polycab India with a **BUY** recommendation with a **Target Price of Rs 898**. Polycab is a leading manufacturer of Cables & Wires (C&W) in India (18%/12% market share in organized/overall C&W segment respectively) and is rapidly expanding its footprint in the fast moving electrical goods (FMEG) segment which it entered in FY14. While the near term growth is expected to moderate in current challenging environment, Polycab being a leading C&W manufacturer is well placed to capture the growth in C&W segment led by housing for all, smart cities and ongoing infrastructure development projects. Further, FMEG segment is expected to drive substantial growth over the long term driven by revival in demand given the non-discretionary nature of FMEG products.

## Key Rationale

### Cables & Wires Growth led by infrastructure spends

The Indian Wires and cables industry has posted a 13%/22% value / volume CAGR between FY14-19. Governments increasing focus on infrastructure availability, affordable housing, thrust on rural electrification, 100% electrification of railway network by 2025, increasing metro rail to 25 cities by 2025 are expected to drive the demand for Cables & Wires.

### C&W demand to normalize post moderation in FY21

During FY14-FY20 Polycab's C&W revenues grew at ~12% CAGR led by ability to cater to client specific needs and focus on high growth areas like infrastructure, power, construction, power, telecom and automotive sectors. The C&W industry was expected to grow at CAGR of 14.5% from Rs 525 bn in FY18 to Rs 1033 bn by FY2023. However slowdown in infrastructure growth and uncertainty in real estate will lead to moderation in growth for C&W segment. Gradual resumption of normal economic activity and infrastructure projects will push recovery to H2FY21.

### FMEG growth to continue led by strong distribution network

Polycab manufactures and sells electric fans, lighting, switches, switchgears, solar products and conduits and accessories. It forayed into the FMEG segment in FY14 and in a short span of time its revenues have grown from Rs 6.4 cr in FY14 to Rs 836 cr in FY20 (up 29% y-o-y), led by successful launches across its product categories and strong dealer network. The segment margins are likely to remain low due to high competitive intensity, however the management remains confident of 100-150bps improvement in the medium term.

### Manufacturing facilities with high degree of backward integration

Polycab has 25 manufacturing units across Maharashtra, Gujarat, Uttarakhand, and Daman & Diu. The Company has set up large scale vertically integrated plants for manufacturing raw material for its products. Decades of experience and In-house R&D has led to differentiated offerings while In house manufacturing a) reduces dependence on third party vendors, b) lowers operational cost thus improving competitiveness and c) maintaining quality of its products.

## Outlook and Valuation

While we expect revenues to moderate in FY21E with anticipated gradual recovery in economic activity and re-start of infrastructure projects, we expect healthy revenue growth for FY22E driven by a) recovery in demand in C&W segment b) beneficiary of demand shift from unorganized to organized sector, being a leading player in C&W segment c) Focus on higher margin products like EHV cables & Optic Fiber, d) further penetration in FMEG segment by increasing offerings and improving product margins. We value Polycab at 18x FY22E EPS of Rs 49.9, arriving at a target price of Rs 898.

## Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20E	FY21E	FY22E
Net Sales	7,956	8,830	7,616	9,463
EBITDA	923	1,135	750	1,153
Net Profit	503	773	445	743
EPS (Rs)	35.6	51.9	29.9	49.9
PER (x)	21.5	15.1	25.5	15.2
RoE (%)	19.2	22.0	11.0	16.4
EV/EBITDA (x)	11.4	9.7	14.4	9.3
Debt/Equity (x)	0.07	0.03	0.03	0.03

Source: Company, Axis Research

CMP as of Jun 26, 2020)

CMP (Rs)	782
Upside /Downside (%)	15%
High/Low (Rs)	1,180/525
Market cap (Cr)	11,642
Avg. daily vol. (6m) Shrs.	3,16,681
No. of shares (Cr)	14.89

## Shareholding (%)

	Sep-19	Dec-19	Mar-20
Promoter	68.7	68.6	68.6
FIs	3.8	4.6	4.6
MFs / UTI	4.2	3.2	2.8
Banks / FIs	0.01	0.01	0.04
Others	23.3	23.6	23.9

## Financial & Valuations

Y/E Mar (Rs. Cr)	FY20	FY21E	FY22E
Net Sales	8,830	7,616	9,463
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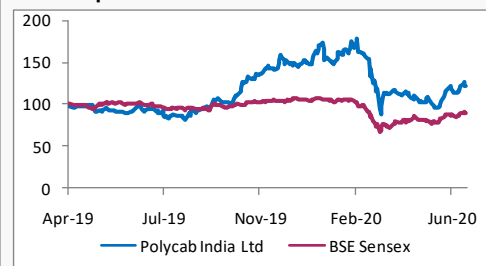
## Key Drivers (%) (Growth in %)

Y/E Mar	FY21E	FY22E
Net Sales	7,616	9,463
EBITDA	750	1,153
Net Profit	445	743

## Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	28	49.9
Consensus	37	50
<b>Mean Consensus TP (12M)</b>		<b>851</b>

## Relative performance



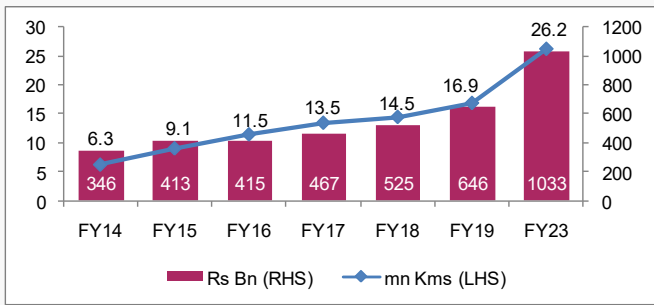
Source: Capitaline, Axis Securities

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## Story in Charts

Exhibit 1: Industry growth led by infra spends



Source: Company, CRISIL, Axis Securities, \* Finolex C & W revenue of FY19

Exhibit 2: Dominant Player in C&W segment at ~2 X peers

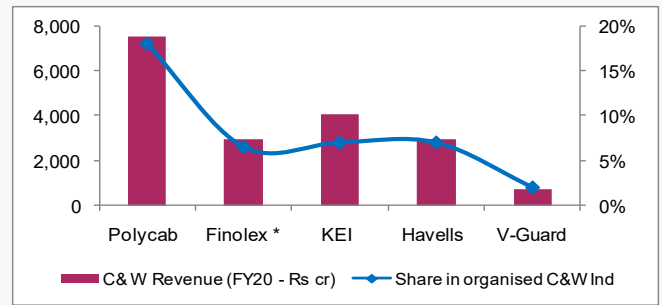
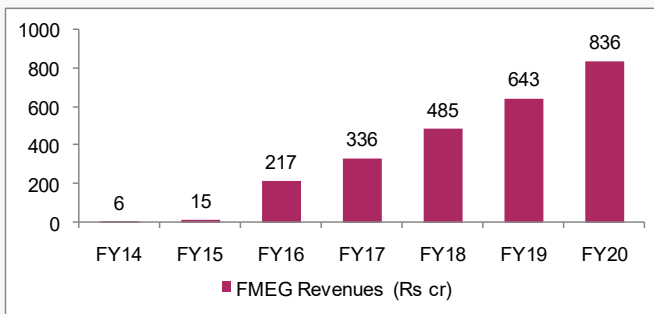
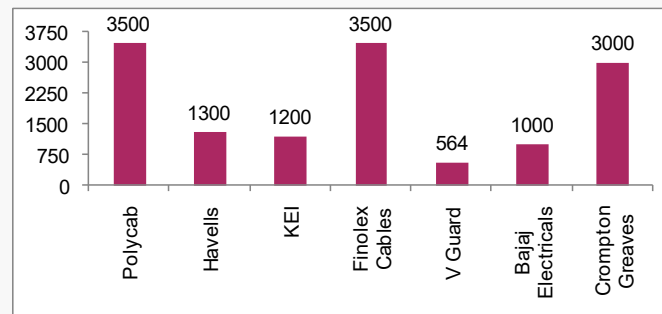


Exhibit 3: Rapid expansion in FMEG footprint



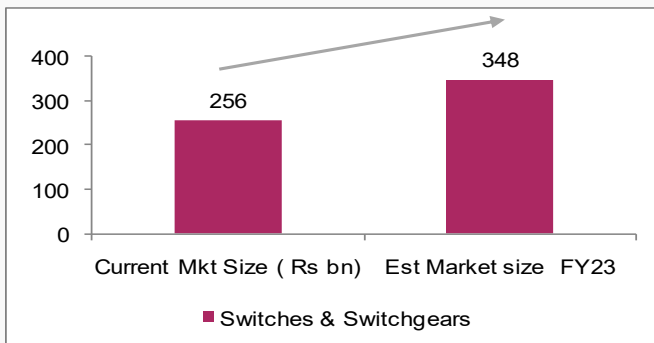
Source: Company, Axis Securities

Exhibit 4: With strong distribution network



## Entry into high growth segments

Exhibit 5: Switches & Switchgears



Source: Company, CRISIL, Axis Securities

Exhibit 6: Lighting

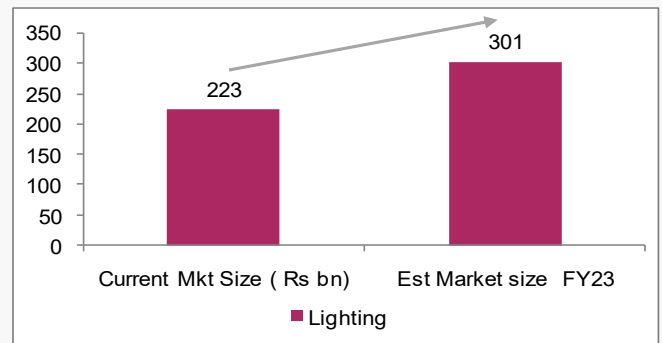
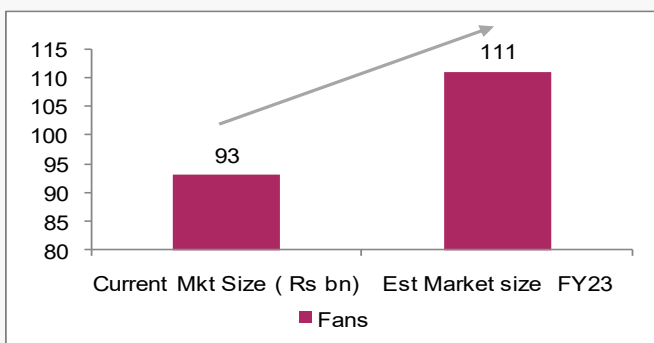
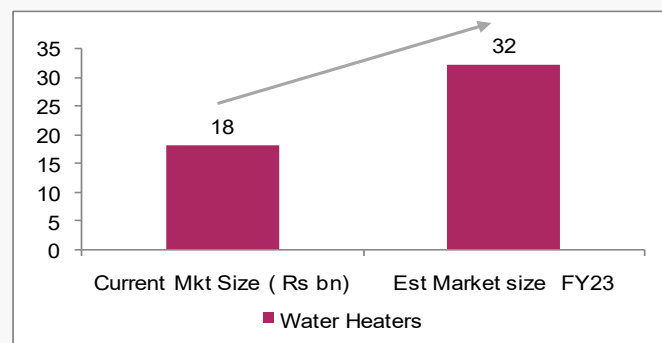


Exhibit 7: Fans



Source: Company, CRISIL, Axis Securities

Exhibit 8: Water Heaters



### Expected increasing share of organized players

Exhibit 9: Wires &cables

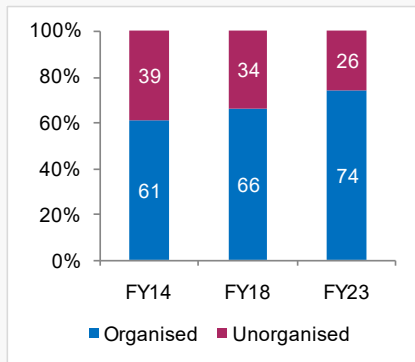


Exhibit 10: Switches

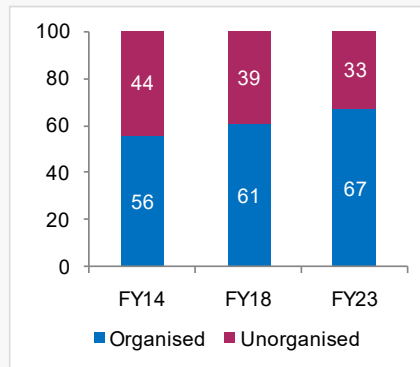
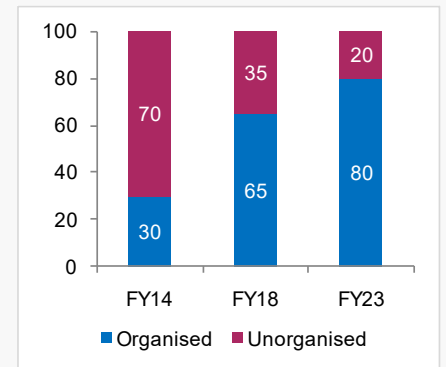


Exhibit 11: Lighting



Source: Company, CRISIL, Axis Securities

Exhibit 12: Fans

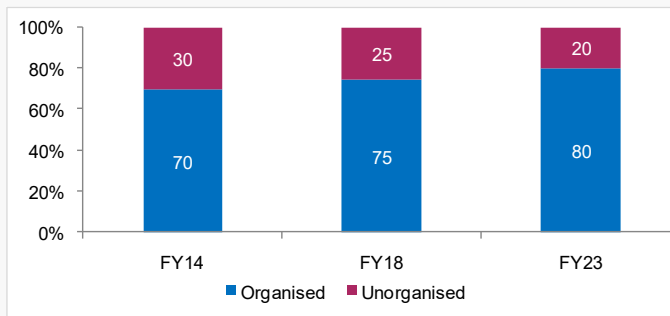
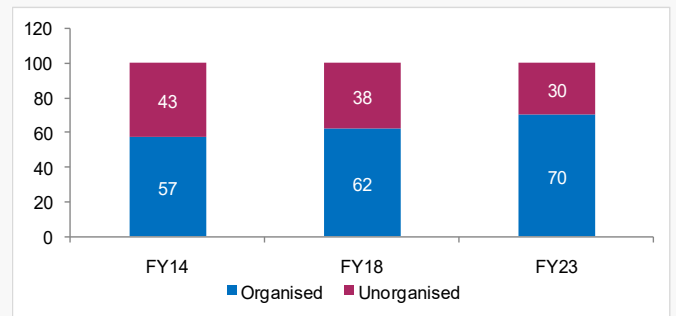


Exhibit 13: Water Heaters



Source: Company, CRISIL, Axis Securities

## C & W– Growth recovery beyond H2FY21

- Strong growth in C&W industry (13/22% value/volume CAGR between FY14-19) has been led by government's thrust on infrastructure. Cables & Wires segment contributed 84% of FY20 revenues; Polycab has maintained its highest market share among the organized players at 18% in the 'B2B' cables and wires industry, due to extensive offerings, developing products in collaboration with the customers and customized offering. Polycab's marquee customers include L&T, Konkan Railways and government clients.
- Demand drivers for the domestic C&W industry at CAGR of 14.5% CAGR between FY19-FY23:
  - ✓ **Power Cables:** Investments in power transmission and distribution (~ 42% growth in FY19- FY23)
  - ✓ **Building Wires:** Affordable housing, investments in commercial & residential infra (~35% growth in FY19-FY23)
  - ✓ **Elastomeric and flexible cables/ wires:** increasing investments in railways for electrification, household appliances and automobiles, increased construction activity due to infra growth
  - ✓ **Control & Instrumentation Cables:** Investment expenditure by Indian Railways and in other mass transit systems
  - ✓ **Switchboard and telecom cables:** Increasing internet penetration estimated to reach 60% households by FY23
  - ✓ Collective Investment of Rs 45,419 bn between FY19-23 in construction sector (Vs.33,867 cr in FY14-18)
  - ✓ In February 2020 the government has allocated Rs 6000 cr for the BharatNet programme to enhance broadband connectivity in rural areas

### Extensive product range along with leading market share an advantage

	Polycab	V-Guard	Finolex Cables	Havells	KEI Industries	RR Kabel
Power & Power control cables (LT/HT)	✓	✓	✓	✓	✓	✓
Power cables (EHV)	✓	✗	✓	✗	✓	✗
Control & Instrumentation cables	✓	✗	✓	✓	✓	✓
Housing wires	✓	✓	✓	✓	✓	✓
Flexible & Industrial incl. specialty cables	✓	✓	✓	✓	✓	✓

Source: Company, Axis Securities

- Polycab has increased its revenues from existing customers and added new customers through
  - ✓ Working with major clients in power utilities, IT parks, oil & gas , cement , agriculture, construction metro rail and EPC companies for supplying W&C - Increased offerings and **customized products i.e made to order specifications**
  - ✓ Differentiated and innovative offerings (in-house R&D) like **lead-free cables, green cables, flame retardant low-smoke PVC insulated cable**
  - ✓ Backward integration through JV's ensuring steady RM supplies while in-house manufacturing assuring quality products with longer useful life of products
  - ✓ **Ensuring availability of wide product range** at its dealers and working with distributors for quick delivery of products.
- Export opportunities:** In 2019, the company had won ~Rs 950 cr export order from Dangote Group of Africa to supply cables, to be executed over 2 years. The company has already executed order up to Rs 750 cr, while balance Rs 200 cr will be executed over next few months. Moreover, Polycab plans to further expand its presence overseas and has recently set up unit in US to procure orders on its behalf. The company expects exports to contribute ~10% to the revenues in the medium term.

### EPC & Others (~7% of FY20 Revenues) – Strategic focus

- Polycab entered into EPC segment with a strategic focus to capture the growth in C & W segment. The company undertakes only those projects where it is bundled with supply of major portion of C & W for its clients. For FY20 EPC business witnessed healthy top-line growth of 29% with higher operating profitability (EBIT margins of ~14.8%). We expect EPC revenues in the range of 5-7% of overall revenues going forward.

## FMEG – Rapid expansion + Large Opportunity

- Polycab diversified into FMEG in FY14 and in a short span of 4 years crossed the Rs 500 cr revenues mark by FY19 through successful launches in high growth categories including fans, lighting, switches, switchgears, water heaters. FMEG contributed ~9% to FY20 revenues and is expected to drive substantial growth going forward.
- Polycab manufactures switchgears and ceiling fans at its own manufacturing facilities at Maharashtra and Uttarakhand and LED lighting through JV with Gujarat based Techno Electromech. For all other FMEG products it enters into agreement with third-party manufacturers.
- Polycab has successfully developed sub-brands like Levana-premium switches and Polyshield –Switchgear. Currently only 16% of the distributors are common between C&W and FMEG, while increase in the distributors will bode well for growth in FMEG segment.
- Increasing its FMEG presence by initiatives:
  - ✓ **Project Josh** implemented at ~123 locations to identify market positioning, gaps in customer segments
  - ✓ **Bandhan** : obtaining useful end consumer data by incentivizing registered electricians (38,000+) & retailers (115,000+), which has helped optimize resource allocation, new product development and undertake targeted marketing.
  - ✓ **Investment in CRM tools**: The Company uses Field Assist, a mobile app to track secondary sales, which in turn aids inventory management.

### Presence across major categories with high growth potential

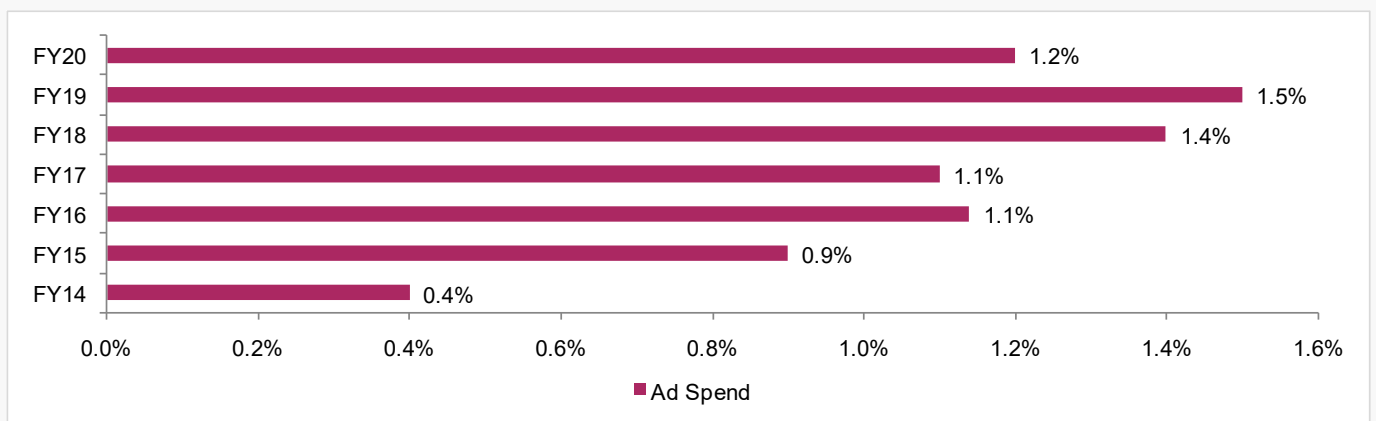
	Fans	Lighting	Switches	Switchgears	Water Heater	Home App.	Kitchen App.
Polycab	Y	Y	Y	Y	Y	N	N
Bajaj Electricals	Y	Y	N	N	Y	Y	Y
Crompton Greaves Cons.	Y	Y	N	N	Y	Y	Y
Finolex Cables	Y	Y	Y	Y	Y	N	N
Havells India	Y	Y	Y	Y	Y	Y	Y
Orient Electric	Y	Y	N	Y	Y	Y	Y
Philips India	N	Y	N	N	N	Y	Y
Schneider Electric India	Y	Y	Y	Y	N	N	N
Surya Roshni	Y	Y	N	N	Y	Y	Y
TTK Prestige	N	N	N	N	N	Y	Y
Usha International	Y	N	N	N	Y	Y	Y
V-Guard Industries	Y	N	N	Y	Y	Y	Y

Source: Company, Axis Securities

- Polycab's FMEG revenues have grown at fast pace as compared to peers. FMEG revenues crossed Rs 500 cr in period of 4 years while peers like V-Guard & Havells have achieved the same milestone in 11 & 8 years respectively.
- While FMEG revenues witnessed strong growth over FY14-20, as it entered high growth product categories the margins have remained subdued (vis-à-vis peers in FMEG space) as it focuses is expanding its presence through distributors, increased ad spends and brand building.
- Currently Polycab's FMEG revenues at Rs 837 cr are just ~1.3% of the Rs 650 bn FMEG market. Improved product mix and distribution initiatives have aided strong growth in FY20; however COVID-19 impacted growth in Q4FY20.
- The company is constantly evaluating new product categories to further penetrate the FMEG segment.

- Strong distribution network
  - ✓ Polycab's distributes its products through a robust network of ~3500+ authorized dealers and distributors, which in turn sell products to 1,25,000+ retail outlets. With ~16% of distributors being common for C & W and FMEG products, it gives the company an opportunity to cross sell products and enables faster introduction of new products giving it an edge over its competitors
  - ✓ Product-wise 34% of the dealers cater to C & W, 50% to FMEG segment while 16% are common for both segments
  - ✓ Region-wise 31% /23%/25%/21% are present in South/West/North/East respectively
  - ✓ Polycab aims to double the number of dealers & distributors to ~6800 while aiming to cater to 2.4 lakh retail outlets by 2024
- Creating a strong brand while increasing the ad spends
  - ✓ Polycab has increased its ad spends to create awareness and strong brand presence
  - ✓ Polycab plans to spend ~5% of the total retail sales by FY22

Exhibit 14: Ad spends as % of Revenues



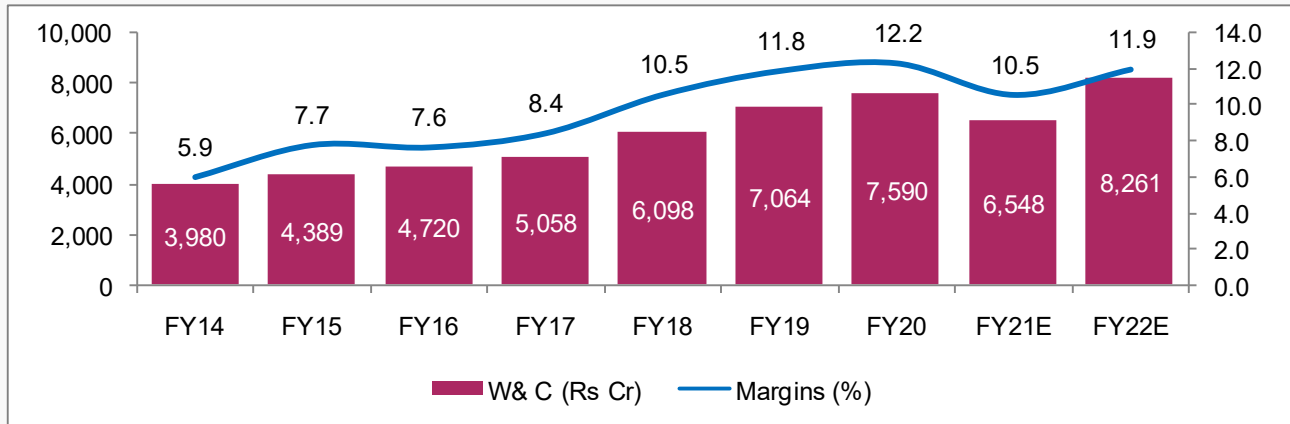
Source: Company, Axis Securities

- Backward integrated facilities:
  - ✓ Polycab had entered into 50:50 JV with Trafigura in 2016, through which it has set up Ryker plant with a capacity of 2.25 MT for production of copper wire rods. It will meet major part of Polycab's demand for copper wire rods used in C & W and FMEG products.
  - ✓ The plant had become operational in Q1FY20. Recently the company has acquired the balance 50% in the JV for ~Rs 30 cr with an aim to strengthen backward integration of its operations and improve quality of its key input (copper).
  - ✓ Polycab entered into JV with Techno Electromech for manufacturing LED lighting products

## Financial Commentary

- ✓ While we expect FY21E revenues in C&W segment to moderate due to the impact of lockdown and gradual resumption of projects, we expect growth to recover in FY22E (24% y-o-y) driven by revival in industrial capex, demand from government projects due to thrust on infrastructure; high growth expected in EHV cables and optic fiber cables.
- ✓ Being the leader in C&W segment Polycab is well positioned to benefit from increasing share of organized players which is expected to touch ~74% by FY22E.

Exhibit 15: C&W margins trend

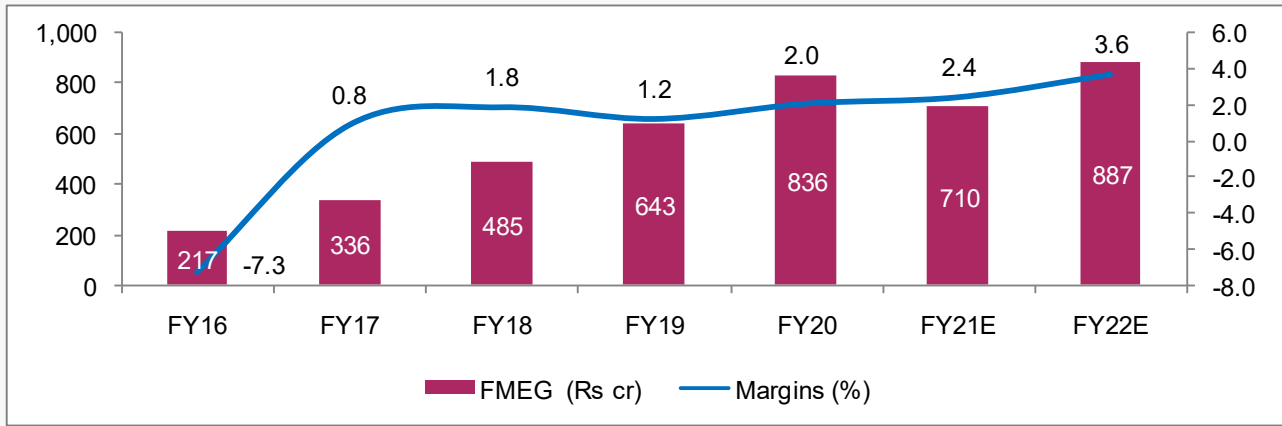


Source: Company, Axis Securities

- ✓ While the Cables & Wires margins have grown as Polycab has increased the number of offerings with focus on higher margin products we expect the margins in FY21E to moderate due to negative operating leverage and recover to ~11.9% by FY22E on expected normalization of operations.

## FMEG

Exhibit 16: FMEG Revenue & Margins



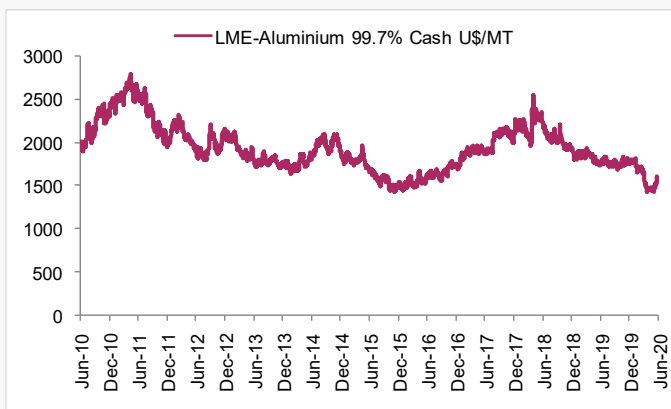
Source: Company, Axis Securities

- We expect revenues to moderate in FY21E led by deferment of demand in the short to medium term while demand recovery is expected from H2FY21 leading to strong growth in FY22E. We expect FY22E Revenues to grow at ~25% led by leveraging on the strong brand and distribution network further, penetration in the rural markets and increasing the number of product offerings.
- We expect margins to gradually increase to 3.6% by FY22E aided by product premiumization and by superior quality offerings.

## Margin improvement notwithstanding fluctuating RM prices

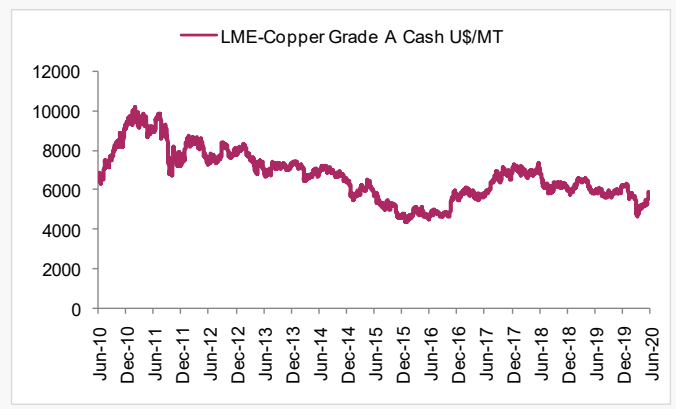
- Copper & Aluminum together constitute ~75% of RM costs. Polycab has constantly improved its margins despite volatility in RM prices due to economies of scale in procuring RM, increasing number of products and customized offerings to cater to customer specific needs.

Exhibit 17: Copper price trends



Source: Company, Axis Securities

Exhibit 18: Aluminum price trends

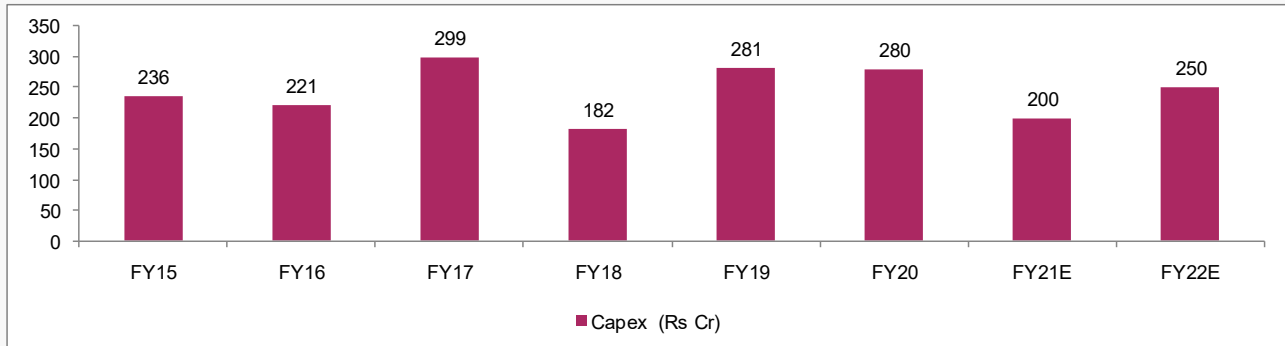




## Capex

- Polycab has invested over Rs 1,200 cr in capex in order to increase its capacity while it expands its product offerings in C&W and FMEG. It has further plans to invest between Rs 200 cr to Rs 250 cr annually in next 2 years.

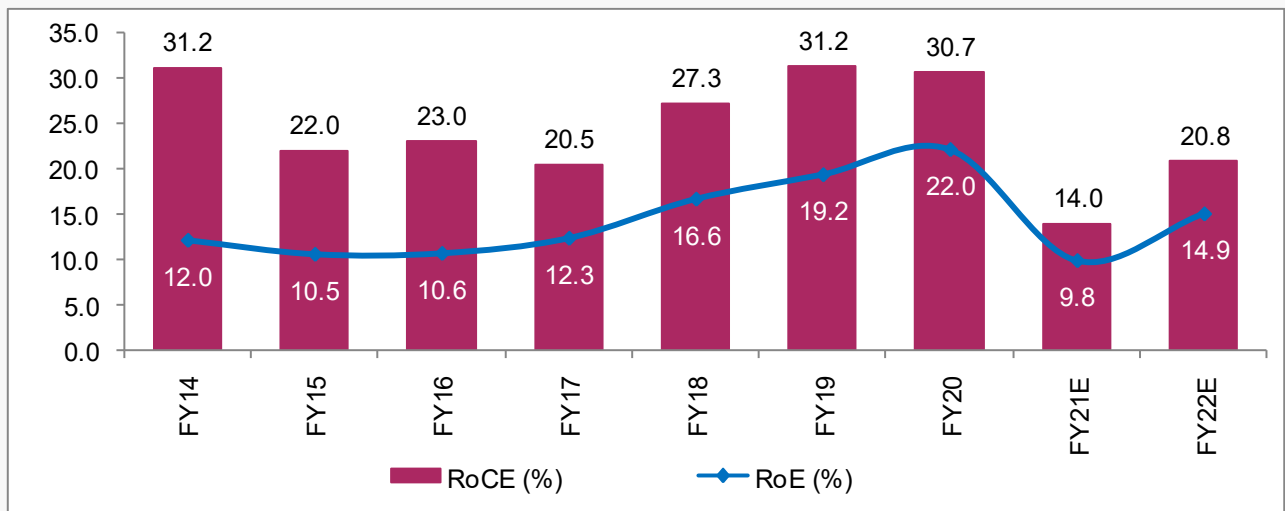
Exhibit 19: Capex



Source: Company, Axis Securities

## Return Ratios

Exhibit 20: RoCE & ROE



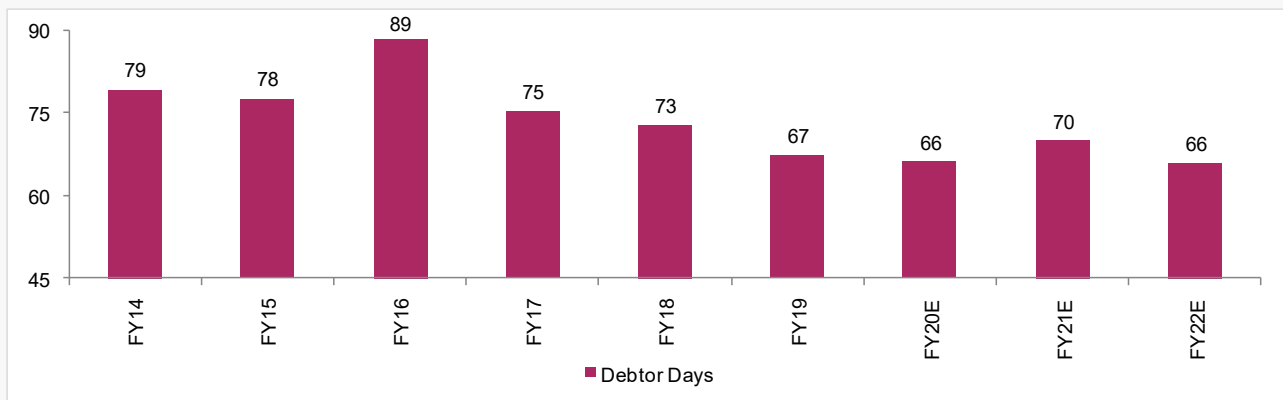
Source: Company, Axis Securities

- Polycab's return ratios have improved led by strong revenue growth across segments and improving margins. While a down tick in return ratios is expected in FY21E, we expect healthy return ratios in FY22E led by higher revenue and margin growth.

## Working Capital management

- Channel Financing has aided judicious working capital management
  - ✓ Channel financing now covers ~65% of sales in the C & W and ~15% in FMEG segment.
  - ✓ Polycab has increased the use of channel financing whereby, it has reduced the debtor days and improved working capital management. However, in the current uncertain scenario due to COVID-19 we expect delayed payments from debtors resulting in higher debtor days in FY21E, followed by normalized levels by FY22E.

Exhibit 21: Improvement in Debtor days



Source: Company, Axis Securities

## Resumption of operations

- Polycab has partially resumed operations at its plants, while business at large metros continue to be under pressure. The management expects normalcy over next 1-2 quarters.

## Outlook & Valuation

- Polycab's revenues / profits grew at CAGR of 12.5%/ 41.3% respectively between FY14-FY19, led by increasing market share in C&W and fast growth in FMEG segment. While we expect revenues to moderate in FY21E with anticipated gradual recovery in economic activity and re-start of infrastructure activity, we expect healthy revenue growth for FY22E driven by a) recovery in demand in C&W segment b) beneficiary of demand shift from unorganized to organized sector, being a leading player C&W segment c) Focus on higher margin products like EHV cables & Optic Fiber, d) further penetration in FMEG segment by increasing offerings and improving product margins. **We value Polycab at 18x FY22E EPS of Rs 49.9, arriving at a target price of Rs 898.**

## Key risks

- Price volatility in key raw materials i.e copper, aluminum, steel and PVC
- Foreign exchange fluctuation risk
- Slowdown in infrastructure activity and retail consumption in current uncertain times

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Net sales</b>	<b>7,956</b>	<b>8,830</b>	<b>7,616</b>	<b>9,463</b>
Other operating income	0.0	0.0	0.0	0.0
<b>Total income</b>	<b>7,956</b>	<b>8,830</b>	<b>7,616</b>	<b>9,463</b>
Cost of goods sold	7,033	7,695	6,866	8,310
Contribution (%)	11.6%	12.85%	9.84%	12.19%
<b>Operating Profit</b>	<b>923</b>	<b>1,135</b>	<b>750</b>	<b>1,153</b>
Other income	93	93	69	85
<b>PBIDT</b>	<b>1,017</b>	<b>1,228</b>	<b>818</b>	<b>1,239</b>
Depreciation	141	161	182	201
Interest & Fin Chg.	117	50	42	45
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>758</b>	<b>1,017</b>	<b>594</b>	<b>992</b>
Tax provision	256	244	150	250
<b>Profit After Tax</b>	<b>503</b>	<b>773</b>	<b>445</b>	<b>743</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Total assets</b>	<b>3,177</b>	<b>4,072</b>	<b>4,390</b>	<b>5,102</b>
Net Block	1,276	1,422	1,511	1,554
CWIP	193.0	241.2	170.0	175.0
Investments	29.4	25.5	25.5	25.5
Wkg. cap. (excl cash)	1,291	2,045	2,087	2,654
Cash / Bank balance	317.6	281.3	552.6	641.4
Misc. Assets	70.1	57.0	44.3	51.3
<b>Capital employed</b>	<b>3,177</b>	<b>4,072</b>	<b>4,390</b>	<b>5,102</b>
Equity capital	141.2	148.9	148.9	148.9
Reserves	2,706	3,688	4,013	4,637
Long Term Borrowings	89	11	11	11
Def tax Liabilities	23.1	17.5	17.5	17.5
Other Liabilities & Provisions	217	207	185	273

Source: Company, Axis Securities

**Cash Flow Statement**

(RsCr)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Sources</b>	<b>556</b>	<b>1,162</b>	<b>479</b>	<b>821</b>
Cash profit	761	983	669	989
(-) Dividends	0	126	119	119
Retained earnings	761	858	550	870
Issue of equity	0.0	7.7	0.0	0.0
Change in Oth. Reserves	4.4	427.8	0.0	0.0
Borrowings	(70)	(78)	0	0
Others	(140)	(53)	(70)	(48)
<b>Applications</b>	<b>556</b>	<b>1,162</b>	<b>479</b>	<b>821</b>
Capital expenditure	255.4	356.1	185.3	253.0
Investments	(0.1)	40.0	0.0	0.0
Net current assets	(6.7)	801.8	22.7	479.5
Change in cash	306.9	(36.3)	271.3	88.8

Source: Company, Axis Securities

**Ratios**

(%)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Sales growth</b>	<b>15.1</b>	<b>11.0</b>	<b>(13.7)</b>	<b>24.3</b>
<b>OPM</b>	<b>11.6</b>	<b>12.9</b>	<b>9.8</b>	<b>12.2</b>
Oper. profit growth	26.7	22.9	(34.0)	53.9
COGS / Net sales	88.4	87.1	90.2	87.8
Depreciation / G. block	7.9	7.8	7.8	7.8
Effective interest rate	76.2	68.7	120.8	129.6
Net wkg.cap / Net sales	0.17	0.21	0.31	0.30
Net sales / Gr block (x)	4.5	4.3	3.3	3.7
<b>Core RoCE</b>	<b>34.0</b>	<b>33.3</b>	<b>16.5</b>	<b>23.8</b>
Debt / equity (x)	0.07	0.03	0.03	0.03
Effective tax rate	33.7	24.0	25.2	25.2
<b>RoE</b>	<b>19.2</b>	<b>22.0</b>	<b>11.0</b>	<b>16.4</b>
Payout ratio (Div/NP)	0.0	16.8	26.8	16.0
<b>EPS (Rs.)</b>	<b>35.6</b>	<b>51.9</b>	<b>29.9</b>	<b>49.9</b>
EPS Growth	(35.0)	45.9	(42.5)	67.0
CEPS (Rs.)	45.4	61.1	42.1	63.4
DPS (Rs.)	0.0	7.0	7.0	7.0

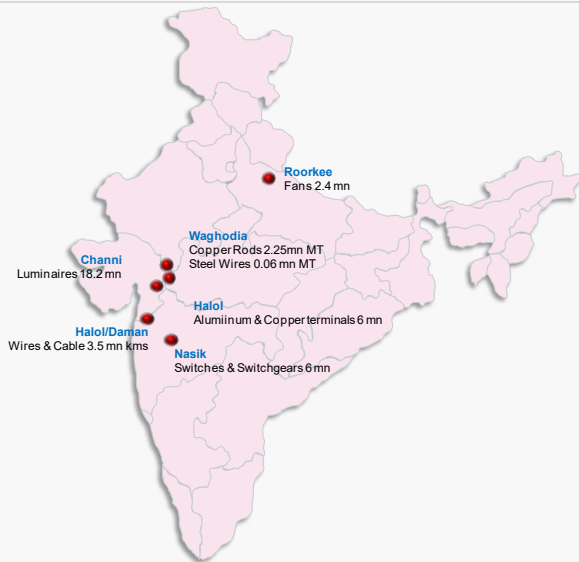
Source: Company, Axis Securities

## Appendix

### About the company

Polycab India is a leading manufacturer of cables & wires with a diverse product range catering to industrial and household segments. In 2009 the company diversified into EPC business to strategically cater to the Cables & Wires requirement of large infrastructure EPC projects. In 2014 the company entered into the high growth FMEG segment manufacturing fans, switches & switchgears, LED lighting, solar products and accessories. Polycab has 25 manufacturing units across Maharashtra, Gujarat, Uttarakhand, and Daman & Diu.

#### Manufacturing Facilities

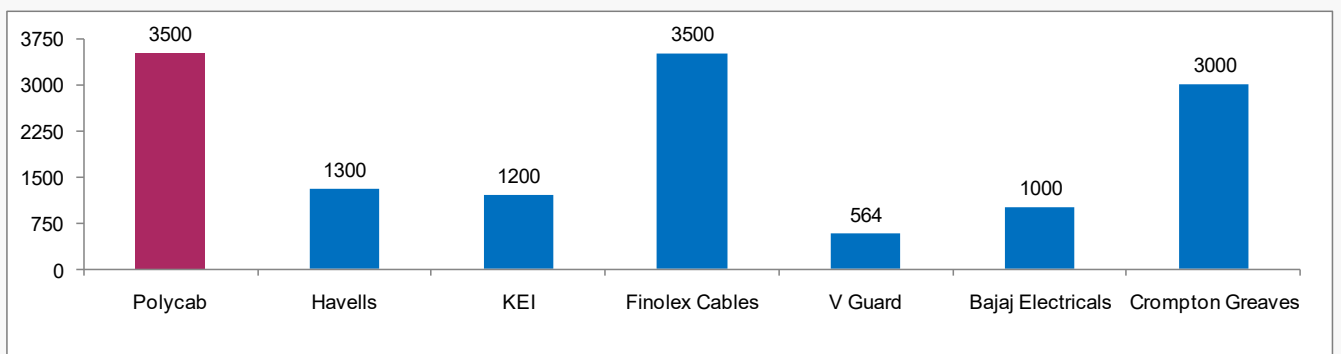


Source: Company, Axis Securities

#### In house Manufacturing with high backward integration

Plant	Product	Annual Capacity
Roorke	Fans	2.4 mn
Waghodia	Copper Rods & Steel Wires	2.25 mn MT / 0.06 mn MT
Chhani	Lighting	18.2 mn
Halol	Wires & Cables	3.53 mn Kms
Daman	Aluminium & Copper Terminals	0.6 mn
Nashik	Switches & Switchgears	6 mn

#### Exhibit 9: Peer Comparison of Distribution network



Source: Company, Axis Securities

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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
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