



IPO Note- POLYCAB INDIA LIMITED

05 April 2019

Incorporated in 1996, Polycab India Ltd (Polycab) is the largest manufacturer of cables and wires in India. It also has presence in FMEG segment, offering products like fans, LED lightings, switches, switch gears, solar equipment, luminaires etc. It operates under brand “POLYCAB”. It is a market leader in wire and cable industry with 18% market share in organized market and 12% of overall industry. It reported revenue of ₹68bn which has grown at a CAGR of 14% over FY16-18 while its EBITDA and PAT has grown at a CAGR of ~23% and ~42% respectively over FY16-18 at ₹7.4bn and ₹3.7bn respectively. Company is coming with an IPO of ₹13.5bn out of which ₹4bn is primary issue and rest is OFS. The proceeds of the primary issue will be partially used for working capital management.

Key Investment Rationale

- Leadership position in the industry and tailwind in organized sector act as indicators of sustainable growth:**

Indian cable and wire industry has grown at a CAGR of 11% over FY13-18 to ₹525bn and is expected to grow at a CAGR of 12% over FY18-23E on the back of focus on electrification of rural areas (as per CRISIL research). **Polycab dominates the industry with 12% market share of the overall market and 18% share of the organized market.** The growth in the past (FY14-18) has been in favour of organized market (13% vs 7% in unorganized market) and is expected to lead the growth going ahead too (17% over FY18-21E vs 8% for unorganized market). Polycab manufactures wide range of cables and wires which caters to most of the consumer needs viz construction, mining, infrastructure, metals, cement etc. It has also **ventured into FMEG in 2014**, manufacturing products like fans, LED lighting, switches & switch gears, luminaries, solar equipment etc. which contributed 8-9% to the total revenue of the company. This segment is also expected to do well, given Polycab's long standing relation with the distributors and strong brand recognition.

- Owned production facilities and high degree of backward integration leading to timely availability of quality products and cost control:**

Polycab **manufactures its products in its own manufacturing facility** which is spread across 24 facilities leading to high degree of product innovation, better quality control and ensuring product availability. It also operates two facilities for switch gears & fans and has arrangement with third party manufacturers for manufacturing of FMEG. Company has entered in a 50:50 JV with Techno, a Gujarat based LED manufacturer, enabling seamless supply of LED lighting. It **also produce substantial portion of its key input material focusing on backward integration and leading to seamless production and control of input cost.** As far as pricing is concerned, company has policy of passing any volatility in input cost to customers through price revision on 1st of every month.

Rating SUBSCRIBE

Issue Details

Issue Opens	05-Apr-2019
Issue Closes	09-Apr-2019
Equity Offerings (In MN shares)	~25.0
Face Value	10
Price Band (₹)	533-538
Employee Discount (₹)	53
Bid Lot	27
Issue Size (₹bn)	~13.5
Maximum Application for Retail Investor (₹)	2,00,000.0
Issue Type	100% Book Building
Listing	NSE/BSE
BRLMs	Kotak, Axis, CITI, Edelweiss, IIFL, YES
Registrar	Karvy

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	79.9%	68.3%
Non Promoter	21.1%	31.7%

Issue Structure (In mn no. of shares)

Issue size	25.0
OFS	17.6
Break-up of net issue to public:	
QIB's portion (%)	50.0
Non-institutional portion (%)	15.0
Retail Portion (%)	35.0

Source: ABML Research, RHP

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- Widespread network of distributors – Region wise and product wise:**

Polycab has a **wide spread network of ~2800 authorised dealers and distributors** spread across geographies. The distribution network is spread PAN India with East constituting 22%, North 26%, South 31% and West 21%. Company has low sales from south so it has increased its distribution penetration in south to push sales. Around 35% of the network caters to cables and wires segment, ~48% of the network caters to the FMEG segment which is relatively newer segment for the company and balance are the common distributors.

- Brand Building – A Stepping stone towards next leg of growth:**

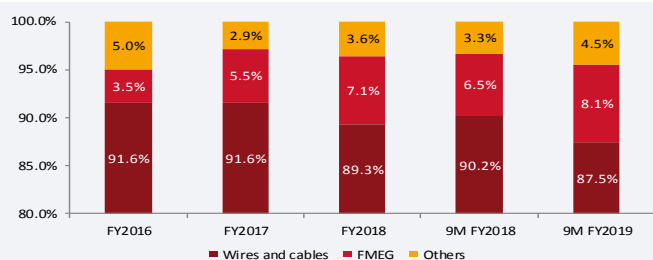
Polycab has over past 3Ys **increased its focus on advertisement and brand building** using various media like social media, conventional media, print, internet etc. which is visible in increased advertising expenses from ~₹58cr in FY16 to ~₹94cr in FY18. It has introduced project “**Josh**” in 2015 as a strategic **initiative to enhance its market share in FMEG products**. Under this project, the company aims at achieving the following objectives – i) focus on pull marketing, ii) market oriented products, iii) leading the industry through innovation and anticipation, iv) empowering leadership among staff, and v) building long lasting relationships with customers. This strategy should help the company to develop a robust eco-system for FMEG segment.

- Prudent allocation of capital:**

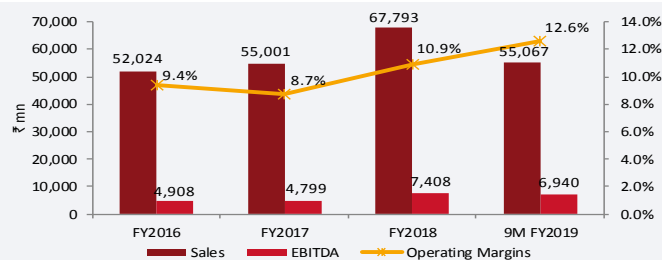
Polycab has over the years made prudent investment in terms of building a **robust manufacturing ecosystem**. It has invested into building **long standing relationship with the distributors** across India. As far as procurement is concerned, it is completely integrated. It has entered into 50:50 JV with Trafigura, a multinational commodity trading company, to produce copper wire rods. These has resulted in creation of strong backend system to deliver sustainable growth with sound profitability as visible in **improving return ratios – ROE for FY18 15.8% vs 10.3% for FY16**.

Revenue constitution changing with diversification in FMEG goods..

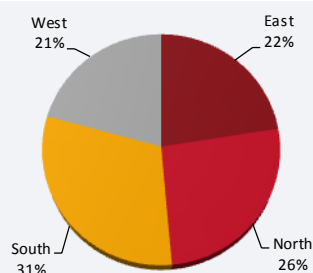
Sales breakup – increasing share of FMEG..



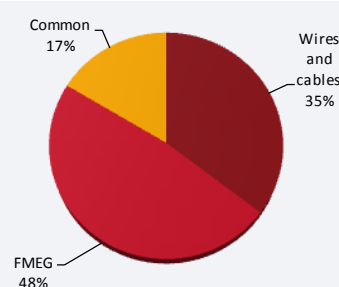
Strong Sales and EBITDA growth..



PAN India distribution of network..



With increasing focus on FMEG..



Source: ABML Research, RHP

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Outlook & Valuation

Started as a trading business back in 1964, Polycab has transformed itself into the largest player in cables and wires industry which demonstrates promoters vision in identifying opportunity and addressing the same. Polycab being the largest player in cable and wire industry is a well-known brand in the industry with long standing relationships with suppliers as well as customers. It has also ventured into FMEG segment so as to leverage its brand and relationships developed over years and introduced “Josh” project which is aimed at scaling FMEG business. Its revenue, EBITDA and PAT has grown at a CAGR of 14.2%, 22.9% and 41.6% respectively over FY16-18 with its operating margins improving from 9.4% in FY16 to 10.9% in FY18 and 12.6% in 9M FY19. Its ROE has improved from 10.4% in FY16 to 15.8% in FY18. It is valued at ~₹80bn on post issue basis implying PE of ~16.8x on annualized profits of 9MFY19 which is at ~15% discount to other listed players. We have **SUBSCRIBE** rating on the issue from **Short Term** perspective.

Risks & concerns

- **Input Cost Volatility:** Significant value of the raw materials include commodities like copper, aluminium, steel, polyvinyl chloride/ polyethylene etc. which are sensitive to global factors. Any major increase in cost of these commodities could make it difficult for the company to pass on the price to the customers, thereby adversely impacting its profitability.
- **High dependence on cables and wires market:** Polycab derives ~90% of its revenue from cables and wires. Any adverse impact affecting the demand for cables and wires can hamper company's growth.
- **Availability of capital:** Polycab manufactures its products in its own facility. It needs high capex to set up its facilities and will continue to require capital inflow to sustain its growth. Inability to fund the capital could impact company's future growth.

Objects of the issue

- Partial payment of borrowings.
- Funding working capital.
- OFS proceed to go to the selling shareholders.

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Income Statement (In ₹ mn)	FY2016	FY2017	FY2018	9M FY2018	9M FY2019
Income from Operations	52024.4	55001.2	67792.7	46897.8	55067.0
YoY (%)	-	5.7%	23.3%	-	17.4%
Total expenses	47116.6	50201.7	60384.5	42959.1	48126.6
EBIDTA	4907.8	4799.5	7408.2	3938.6	6940.4
YoY (%)	-	-2.2%	54.4%		76.2%
EBIDTA (%)	9.4%	8.7%	10.9%	8.4%	12.6%
Depreciation & Ammor	1111.2	1278.8	1329.5	991.5	1071.4
EBIT	3796.6	3520.6	6078.7	2947.2	5869.0
Other income	331.1	755.3	622.2	438.1	543.5
Interest	1473.5	659.5	936.8	548.5	904.9
PBT	2654.2	3616.5	5764.1	2836.8	5507.6
Tax Expense	807.1	1283.6	2056.0	1030.3	1879.3
PAT before MI and Associate Profit	1847.0	2332.9	3708.1	1806.5	3628.3
Share in Profit/Loss from Joint Venture	0.0	-3.3	1.1	3.3	-46.1
Minority Interest	-0.9	2.5	5.5	3.2	8.1
PAT attributable to the shareholders of the company	1847.9	2327.0	3703.7	1806.6	3574.1

Source: ABML Research, RHP

Balance Sheet (In ₹ mn)	FY2016	FY2017	FY2018	9M FY2018	9M FY2019
Equity capital	1412.1	1412.1	1412.1	1412.1	1412.1
Reserves & Surplus	16415.9	18525.5	22083.1	20333.9	25749.9
Networth	17827.9	19937.6	23495.2	21746.0	27162.0
Minority Interest	28.0	30.5	40.5	33.7	66.8
Total Debt	7956.5	8208.0	7276.9	11845.6	5401.8
Other Non Current Liabilities	385	942	831	1001	789
Total liabilities	26197.4	29118.3	31643.3	34626.6	33419.3
Asset Block (Net)	9783.7	11223.6	11944.3	11455.8	12705.0
Intangible assets	66.6	60.3	27.0	33.6	14.1
Capital WIP	1380.8	1648.8	1359.9	1591.9	1434.2
Other Non Current Assets	998.4	1793.9	1880.6	1801.8	2718.6
Current assets	26517.9	31061.5	29220.8	31171.7	36987.2
Current liabilities	12550.1	16669.8	12789.2	11428.2	20439.8
Net current assets	13967.9	14391.7	16431.6	19743.5	16547.4
Total assets	26197.4	29118.3	31643.3	34626.6	33419.3

Source: ABML Research, RHP

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Cash Flow Statement (In ₹ mn)	FY16	FY17	FY18	9M FY18	9M FY19
Cash Flow from Operations	2208.3	2964.0	3631.9	-1772.9	5216.8
Cash Flow from Investing	-2543.1	-2897.7	-1881.2	-1448.8	-2555.1
Cash Flow from Financing	454.9	-98.4	-1902.8	3381.1	-2668.0
Net increase / (decrease) in cash	120.1	-32.0	-152.1	159.3	-6.3
Cash and cash equivalents at the end	316.3	234.4	82.3	393.7	76.1

Ratios	FY16	FY17	FY18	9M FY18	9M FY19
EBITDA Margin	9.4%	8.7%	10.9%	8.4%	12.6%
PAT Margin	3.6%	4.2%	5.5%	3.9%	6.5%
Debt-equity (x)	0.4	0.4	0.3	0.5	0.2
ROCE	14.7%	12.5%	19.8%	11.7%	24.0%
ROE	10.4%	11.7%	15.8%	11.1%	17.5%
EPS - Basic (₹) based on closing no of shares	13.1	16.5	26.2	12.8	25.3
Book value (₹)	126.3	141.2	166.4	154.0	192.4

Source: ABML Research, RHP

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ABML research is also accessible in Bloomberg at ABMR

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