

## RETAIL EQUITY RESEARCH

## Polycab India Ltd.

Electrical Equipments

Sensx: 38,685

Nifty: 11,598

Subscribe

Price Range Rs. 533 – Rs. 538

04<sup>th</sup> April, 2019

## Scalable business... at fair valuation

Polycab India Ltd (Polycab) is one of the leading manufacturers of Cables & Wires, having ~18% market share of the organised industry. Polycab has a diverse range of wires and cables (contributes ~87% of revenue as of 9MFY19) and their key products are power and control cables, instrumentation cables, solar cables, building wires and flexible cables. Additionally, company manufactures and sells FMEG (Fast moving electrical goods-LED, Fans, Switch gears & solar products contributing ~8% of overall revenues. Further, Polycab undertakes EPC (Engineering, Procurement and Construction) business which contributes 4% to total revenues. From a pure B2B (Business to Business) player, the company started catering to B2C (Business to consumer) to tap emerging opportunities in this segment. During FY15-18, revenue and EBITDA grew at robust CAGR of 13% & 19% respectively while PAT grew at a CAGR of 31%. The strong financial performance showcased its growing strength in the industry. Strong balance sheet with debt/equity ratio of 0.4x and its focus to reduce debt by using IPO proceeds will strengthen its balance sheet further. With its quality and diversified products and rising demand in each of its business verticals provides ample scope for further scale-up in operations. At upper price band of Rs 538, Polycab is available at an attractive P/E of 21.5x on FY18 EPS (Post IPO dilution) compared to its industry peers. With better prospects in hand, we recommend "Subscribe" to the issue with a medium to long term perspective.

## Purpose of IPO

At the upper price band, total issue size stands at Rs 1,346cr comprising fresh issue of Rs 400cr and an offer for sale of Rs 946cr. From the fresh issue of Rs 400cr, Rs80cr will be used for reducing debt and Rs240cr will be utilised to fund the incremental working capital requirements of the company.

## Key Risks...

- Heavily dependent on the performance of the wires and cables segment.
- Fluctuation in raw material prices pose a key challenge to cable and wires industry and might impact profitability of the company.
- Exchange rate fluctuation for imported raw materials can severely affect the cost, thereby impacting margins.

## Peer Valuation...

Company	MCap (Rs cr)	Revenue (Rs cr)	Sales CAGR (%) (FY15-18)	EBITDA Margin (%)	EV/EBITDA	RoE (%)	P/E	D/E
Polycab India Ltd	7,997	6,779	13	10.9	11.9	17	21.5	0.4
KEI Industries Ltd	3,256	3,465	19	9.8	11.5	27	22.9	1.2
V-Guard Industries Ltd	9,292	2,312	10	8.1	44.5	19	71.0	0.0
Finolex Cables Ltd	7,264	2,815	5	15.0	13.3	18	20.1	0.0

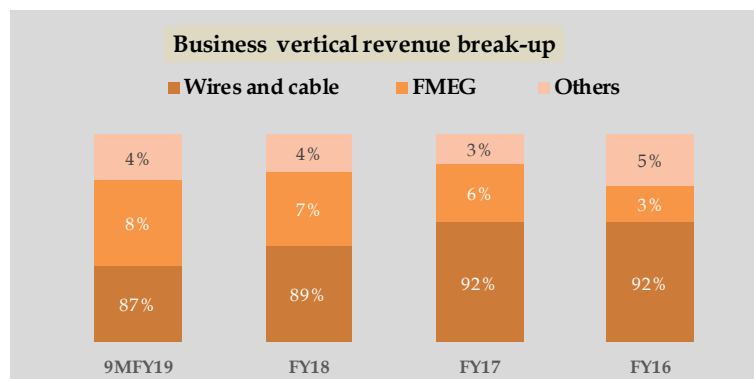
Source: Geojit Research, Bloomberg; Note: Valuations of Polycab are based on upper end of the price band, Financials as per FY18

Issue Details			
Date of Opening	05 <sup>th</sup> April, 2019		
Date of Closing	09 <sup>th</sup> April, 2019		
Total no. of Shares offered(cr)	2.5		
Post Issue No. of shares (cr)	14.8		
Price Band	Rs. 533- 538		
Face Value	Rs. 10		
Bid Lot	27 shares		
Minimum application for retail (upper price band for 1 lot)	Rs 14,256		
Maximum application for retail (upper price band for 13 lot)	Rs 1,88,838		
Listing	BSE & NSE		
Lead Manager	Yes Securities, Kotak Investment Banking , Axis Capital, Citi Group, Edelweiss Capital, IIFL Holdings		
Registrars	Karvy computershare Pvt Ltd		
Issue size (upper price)			
Fresh Issue	400		
OFS	946		
<b>Total Issue</b>	<b>1,346</b>		
Shareholding (%)	Pre Issue	Post Issue	
Promoters	79	68	
Others	21	32	
Total	100	100	
Issue structure	Allocation %	Size	Rs.cr
Retail	35	471	
Non Institutional	15	202	
QIB	50	673	
<b>Total</b>	<b>100</b>	<b>1,346</b>	
Y.E March (Rs cr)	FY17	FY18	9MFY19
Sales	5,500	6,779	5,507
Growth (%)	6	23	8*
EBITDA	480	741	925*
Margin%	8.7	10.9	12.6
PAT Adj	233	371	358
Growth (%)	26.2	59.3	29*
EPS	16	25	24
DPS	1.3	1.2	-
P/E (x)	34.2	21.5	17*
EV/EBITDA	18.5	11.9	12.5
P/BV (x)	4.0	3.4	2.9

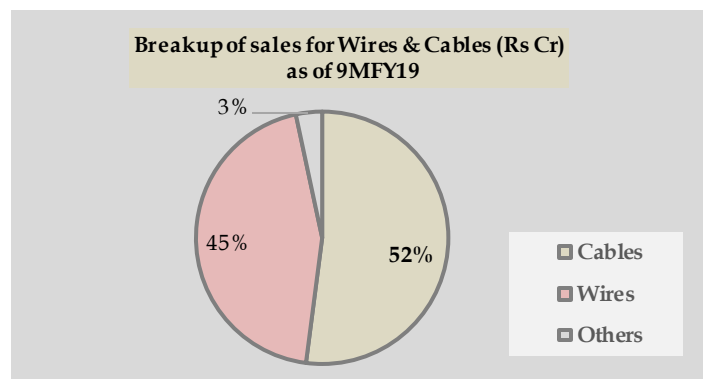
\*Annualised

## Company Description

**Polycab India Ltd** is primarily engaged in the production and sales of a variety of wires and cables and fast moving electrical goods (FMEG) under the “POLYCAB” brand. As of FY18, the company is the largest manufacturer in the wires and cables industry in India with a market share of ~18% in the organised sector and enjoys ~12% of the total wires and cables industry in India. The company has 24 manufacturing facilities, including two joint ventures with Techno Electromech Pvt Ltd and Trafigura Pte Ltd. The company exports its products to over 40 countries (as of FY18) with export revenue contributing ~3.4% of total segment revenue as of 9MFY19. The company’s products are used in various industries including mining, oil and gas, shipping, power, renewable, infra, construction, automotive, telecommunication and agriculture etc apart from household and institutional segments. Key customers includes institutional clients such as L&T Construction and government clients such as Konkan Railway Corporation.



Source: RHP, Geojit Research



## Key Products and Targeted sectors:

- ❖ **Wires and Cables** accounts for ~87% of revenue as of 9MFY19. Key products in the wires and cables segment include Power cables, control cables, instrumentation cables, solar cables, building wires, flexible cables, flexible/single multi core cables, communication cables and others including welding cables, submersible flat and round cables, rubber cables, overhead conductors, railway signalling cables, specialty cables and green wires. The wires and cable products are used in various industries including mining, oil and gas, shipping, power, renewable, infrastructure, construction, automotive, telecommunication and agriculture etc. apart from household and institutional segments.
- ❖ **FMEG segment** accounts for 8% of revenue and comprise of products such as electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories.
- ❖ **EPC division** (accounts for 4% of revenue) provides electrical turnkey solutions comprising project management, onsite execution and resource management.

## Snapshot of Market share trends:

	FY2014	FY2015	FY2016	FY2017	FY2018
Total Industry (in Rs bn)	346	413	415	467	525
Organised Industry (in Rs bn)	211	256	262	299	346
Share of Polycab Wire Limited in total cables and wires industry (%)	12%	11%	13%	12%	12%
Share of Polycab Wire Limited in organised cables and wires industry (%)	19%	17%	18%	17%	18%

Source: RHP, Geojit Research

## Enjoys market leader position in wires and cables in India...

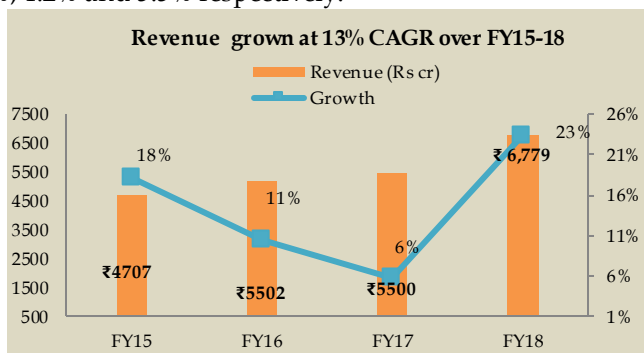
The company is the largest wires and cables manufacturer in India, in terms of segment revenue, with a market share of ~18% of the organised wires and cables industry and ~12% of the total wires and cables industry as of FY18. Polycab has strong relationship with established clients including institutional clients such as L&T Construction and Konkan Railway Corporation Ltd and other global leading brand companies.

## Strong brand in the electrical industry with extensive portfolios of wires and cables...

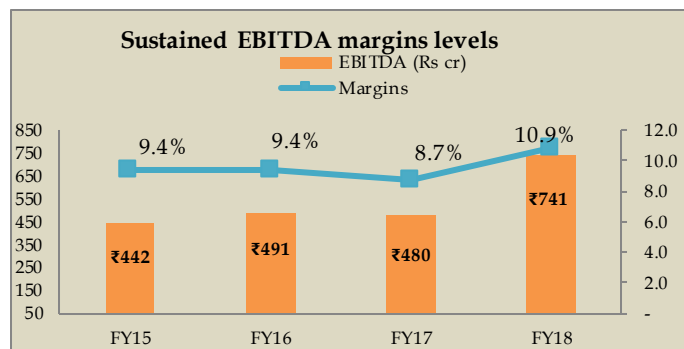
The company has a strong brand and comprehensive product range and diversified product offering for various customer base across industries. Polycab supplies diverse range of wires and cables and key products in the wires and cables segment are power cables, control cables, instrumentation cables, solar cables, building wires, flexible cables, flexible/single multi core cables, communication cables and others including welding cables, submersible flat and round cables, rubber cables, overhead conductors, railway signaling cables, specialty cables and green wires. Company’s products are either (i) made-to-stock, produced based on demand forecasts from customers or company sales team, or (ii) made-to-order.

## Strong financial track record...

From FY15 to FY18, company's Revenue grew at a CAGR of 13% while EBITDA and PAT grew at a CAGR of 19% and 31% respectively. For FY16, FY17 and FY18, EBITDA margin was healthy at 9.4%, 8.7% and 10.9% respectively while PAT margin was at 3.5%, 4.2% and 5.5% respectively.



Source: RHP, Geojit Research



## Well integrated manufacturing facilities...

Cables and Wires								
City	Leased/Owned	Constructed Area (Sq.foot)	Annual Installed Capacity 9MFY19 (kms)	Actual FY18 Production (kms)	Capacity utilisation 9MFY19	Capacity utilisation FY18	Capacity utilisation of FY17	Capacity utilisation of FY16
Halol	Owned	56,48,268	21,24,115	9,43,758	67%	66%	84%	83%
Daman	Owned/leased	17,42,550	14,12,148	7,42,392	69%	79%	75%	72%

Source: RHP, Geojit Research

Cables and wires manufacturing capacities of Players	
Players	Manufacturing installed capacity of cables and wires
Apar Industries Ltd	24,000 MT Aluminium and 6,000 MT Copper of cables & wires
Finolex Cables Ltd	Copper Rod: 60,000 T
Havells India Ltd	11,50,000 kms (domestic and industrial cables)- AR14-15
KEC International	<ul style="list-style-type: none"> <li>❖ Power cables (~40,000 Km per annum)</li> <li>❖ Control &amp; instrumentation cables (3,600 km per annum)</li> <li>❖ copper cables and optic fiber cables (6 lakh fiber km per annum)</li> </ul>
Polycab India Limited	32,94,463 kms of cables and wires
V-Guard Industries Ltd	30,000 km of multicore round & flat cables per annum

Source: RHP, Geojit Research

As of Dec 31, 2018, the company has 24 manufacturing facilities, four of these 24 manufacturing facilities are for the production of FMEG, including a joint venture with Techno to manufacture LED products. Capacity utilization decreased from FY16 to FY18 largely due to increased capacity arising from the additional production facilities built. The company has strong focus on backward integration in its manufacturing process and produce a substantial portion of its raw materials and source the remaining from third-party suppliers. In 2016, Polycab entered into a 50:50 joint venture with Trafigura to set up the Ryker Plant that will, once fully operational, fulfil a substantial part of demand for copper wire rods. Apart from the Ryker Plant, the company also produce in its existing manufacturing facilities other key raw materials. Backward integration helps the company to maintain control of the supply chain, lower costs of operations and sell products at competitive prices.

## Transforming from B2B to B2C player with improving retail penetration...

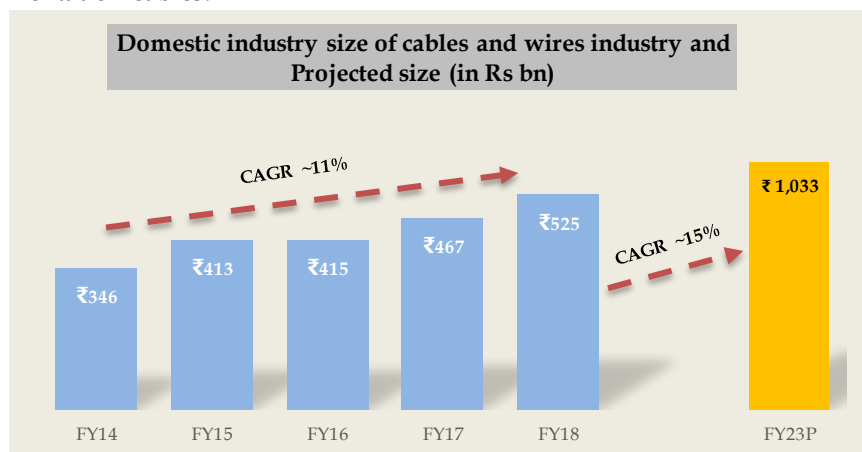
In 2014, the company diversified into the FMEG segment and transformed its business from a pure B2B company into a B2B and B2C (Business-to-customer) company. Company's FMEG external sales increased at a CAGR of 58% from FY16 to FY18. As of Dec 18, Polycab's distribution network comprised of 2,800 authorized dealers and distributors. The number of dealers and distributors decreased from FY2016 to FY2018 as the company discontinued relationships with some of its smaller direct dealers and increased their focus on larger distributors, who also started catering to some of these smaller direct dealers.

## Heightened focus to expand FMEG business...

The switches industry in India is expected to grow at a CAGR of approximately 9% to Rs62bn by FY23, driven by modular switches that have higher realizations. The Lighting and luminaire industry in India is expected to grow at a CAGR of ~7% to reach an estimated market size of Rs301bn by FY23 largely due to a decline in LED chip prices, government policies to encourage LEDs and increasing consumer awareness for energy efficient technologies such as LED lighting. The company aims to grow its market share in existing FMEG product segments with a focus on expanding distribution reach, increasing rural penetration and greater retail expansion.

## Industry Outlook

The cables and wires industry in India has seen many improvements in the last decade. On the basis of the production data, CRISIL Research estimates the total domestic cables and wires industry to have grown by ~23% CAGR from 6.3mn kms to 14.5mn kms between FY14-18. In terms of value, the Indian cables and wires industry have grown at a CAGR of ~11% in the last five years to reach Rs525bn in FY18. The growth by volume was on account of factors such as the electrification of rural villages and households, investments in transmission and distribution systems for modernisation and increasing efficiencies, increased demand from renewable power generation, and improved life-style and consumer spending. Moreover, robust growth in the industrial sector has resulted in increased demand for flexible cables and wires and control and instrumentation cables.



Source: RHP, Geojit Research

Going forward, domestic cables and wires industry is expected to expand by ~12% CAGR and reach an estimated 26.2mn kms by FY2023. In terms of value, the industry is expected to grow by ~15% CAGR and reach an estimated Rs1,033 bn by FY2023. Govt. schemes such as “Saubhagya” (Pradhan Mantri Sahaj Bijli Har Ghar Yojana) and Power for All which focus on electrification of rural households and T&D efficiencies are expected to spur demand for building wires and power cables. Growth in renewable energy capacities will drive demand for solar cables and elastomeric cables used in windmill applications. Demand for HFFR grade solar power cables is expected to be boosted by 40-41 GW of solar capacity additions under the government’s National Solar Mission whereas emphasis on underground cables network for power distribution is expected to increase demand for Low-Voltage (LV) power cables.

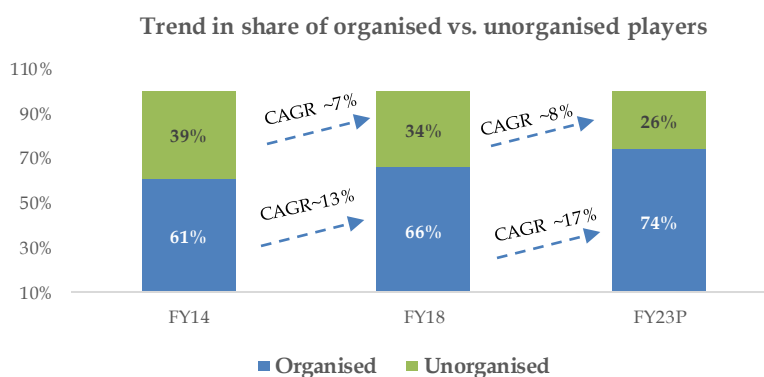
All of the below drivers indicate growth in the domestic cables and wires industry in the medium to long term .

Factors driving growth across various categories of the cables and wires Industry in India	
Power Cables	❖ Investments in power transmission and distribution (approximately 42% growth in FY19-FY23)
	❖ Capacity addition in solar and wind energy
	❖ Smart Cities Mission
Building Wires	❖ Affordable housing scheme
	❖ Growing nuclearisation of families
	❖ Investments in commercial and residential infrastructure (approximately 35% growth in FY19-FY23)
Elastomeric and Flexible Cables/ Wires	❖ Automobile industry growth and increasing investments in railways for electrification
	❖ Growing demand for household appliances and automobiles due to revival in per capita income
	❖ Increased construction activity supported by growing infrastructure projects
Control and Instrumentation Cables	❖ Industrial capex rising across industries such as auto, steel, oil and gas, and power.
	❖ Investment expenditure by Indian Railways and in other mass transit systems
	❖ Increased focus on automation in manufacturing and processing to monitor and control quality
Switchboard and telecom	❖ Service and industrial sector growth increasing the need for data cables
	❖ Intercom and Security system penetration in residential buildings
	❖ Smart cities project
	❖ Surge in internet users, with internet penetration as a percentage of total households reaching 60% by FY23.

Source: RHP, Geojit Research

### Increasing proportion of organised players in the sector...

Rise in technological and product complexities, increase in marketing and branding activities by leading cable manufacturers and the entry of new players have led to an increase in the proportion of the industry's revenue generated by the organised sector. The shift from unorganised to organized is more prominent in specific categories such as LV power cables and building wires. At an overall level, the organised players accounted for ~66% share of the cables and wires industry's production in FY18. Going forward, the share of organised players is expected to increase to ~74% by FY2023 on account of GST implementation, improving efficiency and cost structure, thereby reducing the price gap between organised and unorganised sectors.



Source: RHP, Geojit Research

**The switches industry in India** is expected to grow at a CAGR of ~9% to Rs62bn by FY23, driven by modular switches that have higher realizations. **The lighting and luminaire industry in India** is expected to grow at a CAGR of 7% to reach an estimated market size of Rs301bn by FY23 largely due to a decline in LED chip prices, government policies to encourage LEDs and increasing consumer awareness for energy efficient technologies such as LED lighting. **The electric fans industry in India** is expected to grow at a CAGR of 7% to Rs111bn by FY23 largely due to government initiatives, the introduction of value added products by major fan manufacturers, replacement demand in urban areas, rise in rural penetration and improving economic factors

### Promoter and promoter group

Promoters and Promoter Group hold, in aggregate, 111,472,029 Equity Shares, representing 79% of the issued and paid-up equity share capital of the company. After this offer, promoter and promoter group shall hold 68% of the post-offer paid up equity share capital of the company.

### Brief Biographies of Directors

- ❖ **Inder T. Jaisinghani**, is the Chairman and Managing Director of Company. He has been working with Company since its inception. He was appointed as a Chairman and Director of Company on December 20, 1997 and was subsequently reappointed as Chairman and Managing Director of Company with effect from August 28, 2014.
- ❖ **Ajay T. Jaisinghani**, is a Whole-Time Director of Company. He was appointed as a Director of Company on September 11, 2006 and was subsequently reappointed as the Whole-Time Director of Company with effect from August 28, 2014. He has worked in different areas of Sales, Marketing, Production and other support services and has played a major role in leadership of the Company.
- ❖ **Ramesh T. Jaisinghani**, is a Whole-Time Director of Company. He has been working with Company since its inception as a director. He has completed his education up to secondary school certificate level. He was subsequently reappointed as a Whole-Time Director of Company with effect from August 28, 2014. He has worked in different areas of Sales, Marketing, Production and other support services and has played a major role in leadership of Company.
- ❖ **Shyam Lal Bajaj**, is the Chief Financial Officer and Whole-Time Director of Company. He holds a bachelor's degree in commerce from Rajasthan University and is a qualified Chartered Accountant. He was appointed as a Whole-Time Director of Company with effect from December 15, 2016 and as Chief Financial Officer on September 25, 2018. Prior to joining Company, he served as the Director Finance at Vedanta Limited (including at Sesa Sterlite Limited now merged with Vedanta Limited). He has also served as the Chief Financial Officer of Hindustan Zinc Limited, served as Chief Financial Officer and Vice President of Finance at Sterlite Technologies Limited (formerly called Sterlite Optical Technologies Limited) and Senior General Manager at Sterlite Industries (India) Limited now Vedanta Limited.



## Consolidated Financials

### Profit & Loss Account

Y.E March (Rscr)	FY16	FY17	FY18	9MFY19
<b>Sales</b>	<b>5,502</b>	<b>5,500</b>	<b>6,779</b>	<b>5,507</b>
% change	10.5	6	23	8*
<b>EBITDA</b>	<b>491</b>	<b>480</b>	<b>741</b>	<b>925*</b>
% change	11	-2.2	54	25*
Depreciation	111	128	133	107
EBIT	380	352	608	587
Interest	147	66	94	90
Other Income	33	75	62	54
<b>PBT</b>	<b>265</b>	<b>361</b>	<b>576</b>	<b>546</b>
% change	10	36	60	26
Tax	81	128	206	188
Tax Rate (%)	30.4	35.5	35.7	34.4
<b>Reported PAT</b>	<b>184</b>	<b>233</b>	<b>371</b>	<b>358</b>
Adj	-	-	-	-
<b>Adj PAT</b>	<b>184</b>	<b>233</b>	<b>371</b>	<b>358</b>
% change	12.4	26.2	59.3	29*
No. of shares (cr)	14.8	14.8	14.8	14.8
<b>Adj EPS (Rs)</b>	<b>12</b>	<b>16</b>	<b>25</b>	<b>24</b>
% change	12.4	26.2	59.3	29*

\*Annualised

### Balance Sheet

Y.E March (Rscr)	FY16	FY17	FY18	9MFY19
Cash	31	23	8	8
Accounts Receivable	1,353	1,199	1,286	1,070
Inventories	980	1,520	1,366	2,306
Other Cur. Assets	258	336	241	289
Investments	64	115	147	235
Net Fixed Assets	978	1,122	1,194	1,271
CWIP	138	165	136	143
Intangible Assets	7	6	3	1
Other Assets	49	35	31	55
<b>Total Assets</b>	<b>3,875</b>	<b>4,579</b>	<b>4,443</b>	<b>5,386</b>
Current Liabilities	1,164	1,502	1,026	1,649
Provisions	42	57	65	65
Debt Funds	855	926	861	725
<b>Minority Interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Def. Tax</b>	<b>29</b>	<b>97</b>	<b>138</b>	<b>223</b>
<b>Equity Capital</b>	<b>141</b>	<b>141</b>	<b>141</b>	<b>141</b>
<b>Reserves &amp; Surplus</b>	<b>1,642</b>	<b>1,852</b>	<b>2,208</b>	<b>2,575</b>
<b>Shareholder's Fund</b>	<b>1,783</b>	<b>1,994</b>	<b>2,350</b>	<b>2,716</b>
<b>Total Liabilities</b>	<b>3875</b>	<b>4579</b>	<b>4443</b>	<b>5386</b>
<b>BVPS (Rs)</b>	<b>121</b>	<b>135</b>	<b>159</b>	<b>184</b>

### Cash flow

Y.E March (Rscr)	FY16	FY17	FY18	9MFY19
PBT	265	361	576	546
Non-cash adj.	286	210	288	222
Changes in W.C	(330)	(257)	(501)	(246)
<b>C.F.O</b>	<b>221</b>	<b>296</b>	<b>363</b>	<b>522</b>
Capital exp.	(246)	(278)	(184)	(205)
Change in inv.	(11)	(15)	6	(56)
Sale of investment	0	0	0	0
Other invest.CF	3	4	(10)	5
<b>C.F- investing</b>	<b>(245)</b>	<b>(290)</b>	<b>(188)</b>	<b>(256)</b>
Issue of equity	3	0	0	5
Issue/repay debt	217	75	(78.9)	(174)
Dividends paid	(26)	(18)	(17)	(3)
Other finance.CF	(149)	(67.0)	(94)	(92)
<b>C.F- Financing</b>	<b>45</b>	<b>(10)</b>	<b>(190)</b>	<b>(267)</b>
Chg. in cash	11	(3)	(15)	0.1
Closing cash	31	23	8	8

### Ratios

Y.E March	FY16	FY17	FY18	9MFY19
<b>Profitab. &amp; Return</b>				
EBITDA margin (%)	9.4	8.7	10.9	12.6
EBIT margin (%)	7.3	6.4	9.0	10.7
Net profit mgn.(%)	3.5	4.2	5.5	6.5
ROE (%)	10.8	12	17.1	14.1
ROCE (%)	11.9	10	14.1	12.6
<b>W.C &amp; Liquidity</b>				
Receivables (days)	86	85	67	57
Inventory (days)	90	110	104	165
Payables (days)	106	118	91	113
Current ratio (x)	2.2	2.1	2.8	2.3
Quick ratio (x)	1.2	0.8	1.3	0.7
<b>Turnover &amp; Lev.</b>				
Net asset T.O (x)	5.8	5.2	5.9	4.6
Total asset T.O(x)	1.4	1.3	1.5	1.1
Int. covge. ratio (x)	2.6	5.3	5.4	6.5
Adj. debt/equity (x)	0.5	0.5	0.4	0.3
<b>Valuation ratios</b>				
EV/Sales (x)	1.7	1.6	1.3	1.6
EV/EBITDA (x)	18	18.5	11.9	12.5
P/E (x)	43	34	21.5	17*
P/BV (x)	4.5	4.0	3.4	2.9

\*Annualised

## Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

## General Disclosures and Disclaimers

### CERTIFICATION

We, Laxmi Priya and Rajeev T, authors of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

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