



Choice

Nurturing Financial Excellence

IPO REPORT

**“SUBSCRIBE” to
Polycab India Ltd.**

Reasonably priced, decent returns is anticipated in mid-to-long term

Salient features of the IPO:

- Polycab India Ltd. (PIL)**, manufacturer of wires & cables and fast-moving electrical goods (FMEG), is planning to raise up to Rs. 13,460mn through an IPO, which will close on 9th Apr. 2019. The price band is Rs. 533 - 538 per share.
- Issue is a combination of fresh issue and OFS. The company will not receive any proceeds from the OFS part. While, of the net proceeds from fresh issue - around Rs. 800mn would be utilized for the repayment of certain borrowings availed by the company and around Rs. 2,400mn would be used for meeting the incremental working capital requirement. Rest of the funds would be utilized for general corporate purposes.

Key competitive strengths:

- Market leader in wires and cables in India
- Diverse suite of electrical products with varied applications across a diverse customer base
- Strong distribution network
- Manufacturing facilities with high degree of backward integration
- Strong brand in the electrical industry
- Experienced and committed management team

Risk and concerns:

- Subdued economic expansion
- Unfavorable sales-mix and margins
- Inability to pass on the rise in the raw material prices
- Working capital intensive business
- Competition

Peer comparison and valuation: At the higher price band of Rs. 538 per share, PIL's share is valued at a TTM P/E multiple of 14.6x (to its restated TTM EPS of Rs. 36.8), which is at a discount to its peer average of 20.1x.

Below are few key observations of the issue: (continued in next page)

- In FY18, wires & cables sector was around 40-45% of the electrical equipment industry and contributed 8% to the manufacturing industry in terms of value. Moreover, it contributed 1.5% to the national GDP in FY18. According to Crisil Research, the wires & cables sector reported a 23% CAGR rise in the production over FY14-18. However, in term of value, the sector grew by 11% CAGR to Rs. 525bn in FY18. The growth by volume was on account of factors such as electrification of rural villages & households; modernization and improved efficiencies in transmission & distribution systems; increased demand from renewable power generation; infrastructure development initiatives taken by the Indian government such as Smart Cities Mission and mass transit systems; and improved life-style and consumer spending. Product pricing is more dependent on the LME prices of key raw materials like copper and aluminum and also the pricing of the crude oil derivatives. During FY14-18, the decrease in the realization was offset by the increase in the sales volume. Going forward, according to Crisil Research, the wires & cables sector is expected to report a volume growth of 12% over FY18-23, while in value terms, the sector is projected to grow by 15% CAGR over the same period to reach at Rs. 1,033bn in FY23E.
- In term of sales-mix, the wires & cables sector is more inclined to organized players. With the increase in technological & product complexities and increased awareness of branded products, the industry is already witnessing a shift from unorganized to organized market. The organized players share has increased from 61% in FY14 to 66% in FY18 and is projected to improve further to 74% by FY23E. The key drivers for the expansion in the organized market share would be the implementation of GST, brand awareness among the customers, improvement in the cost efficiencies and pan-India distribution network. Thus, a dominant organized player like PIL is expected to benefit from the growth in the sector and shift from unorganized to organized market in long run.
- In terms of revenue from wires & cables segment and wide extensive range of wires & cables (i.e. from 1kv to 220kv), PIL is the largest manufacturer in the wires & cables sector in India. In FY18, the company had a market share of approximately 18% in the organized wires & cables sector and approximately 12% of the total wires & cables sector in India. Moreover, PIL's wires & cables business is around 2.2x and 2.3X to the second and third largest player, respectively, in the sector. It claims to be one of the fastest growing manufacturers in the organized wires & cables sector in India over FY14-18.
- In 2009, it diversified into the engineering, procurement and construction (EPC) business, which includes the design, engineering, supply, execution and commissioning of power distribution and rural electrification projects. In 2014, the company further diversified in the manufacturing and sales of FMEGs such as electric fans, LED lighting & luminaires, switches & switchgears, solar products and conduits & accessories.

Recommendation	SUBSCRIBE
Price Band (Rs.)	Rs. 533 - 538 per Share
Face Value (Rs.)	Rs. 10
Shares for Fresh Issue (mn)	7.43 - 7.50mn Shares
Shares for OFS (mn)	17.58mn Shares
Fresh Issue Size (Rs. mn)	Rs. 4,000mn
OFS Issue Size (Rs. mn)	Rs. 9,371.2 - 9,459.1mn
Total Issue Size (Rs. mn)	25.02 - 25.09mn Shares (Rs. 13,371.2 - 13,459.1mn)
Bidding Date	05 th Apr. - 09 th Apr. 2019
Reservation for MHL's Employees	0.18mn Shares
Net Offer for Sales (mn Shares)	24.84 - 24.91mn Shares (Rs. 13,277.9 - 13,365mn)
MCAP at Higher Price Band	Rs. 79,969mn
Enterprise Value at Higher Price Band	Rs. 83,865mn

Kotak Mahindra Capital Company Ltd., Axis Capital Ltd., Citigroup Global Markets India Pvt. Ltd., Edelweiss Financial Services Ltd., IIFL Holdings Ltd. and YES Securities (India) Ltd.

Book Running Lead Manager

Registrar	Karvy Fintech Pvt. Ltd.
Sector/Industry	Other Elect.Equip./ Prod.
Promoters	Mr. Inder T. Jaisinghani, Mr. Ajay T. Jaisinghani, Mr. Ramesh T. Jaisinghani and Mr. Girdhari T. Jaisinghani

Pre and post - issue shareholding pattern

	Pre - Issue	Post - Issue
Promoter and Promoter Group	78.94%	68.69%
Public	21.06%	31.31%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of Shares per Lot	27
Application Money	Rs. 14,526 per Lot
Employee Discount	Rs. 53 per Share on the Offer Price

Analyst

Rajnath Yadav
Research Analyst (022 - 6707 9999; Ext: 912)
Email: rajnath.yadav@choiceindia.com

Peer comparison and valuation (Contd...):

Company Name	Face Value (Rs.)	CMP (Rs.)	MCAP (Rs. mn)	EV (Rs. mn)	Stock Return (%)				TTM Total Operating Revenue (Rs. mn)	TTM EBITDA (Rs. mn)	TTM PAT (Rs. mn)	TTM EBITDA Margin (%)	TTM PAT Margin (%)
					1M	3M	6M	1Y					
Polycab India Ltd.	10	538	79,969	83,865					75,962.0	10,410.0	5,471.2	13.7%	7.2%
Finolex Cables Ltd.	2	466	71,270	63,112	12.5%	3.6%	-9.4%	-31.5%	30,506.7	4,405.9	3,409.5	14.4%	11.2%
KEI Industries Ltd.	2	420	33,149	37,860	20.2%	17.7%	12.7%	4.8%	39,985.9	4,056.9	1,715.0	10.1%	4.3%
Average												12.3%	7.7%

Company Name	TTM EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt Equity Ratio	Fixed Asset Turnover Ratio	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning Yield (x)
Polycab India Ltd.	36.8	185.2	1.0	0.3	5.6	19.9%	29.3%	14.6	2.9	1.1	8.1	1.1	6.8%
Finolex Cables Ltd.	22.3	150.1	4.0	0.0	7.3	14.9%	17.4%	20.9	3.1	2.1	14.3	2.3	4.8%
KEI Industries Ltd.	21.7	85.0	1.0	0.8	8.8	25.6%	31.2%	19.3	4.9	0.9	9.3	0.8	5.2%
Average			2.5	0.4	8.1	20.2%	24.3%	20.1	4.0	1.5	11.8	1.6	5.0%

Note: All financials and ratio based on TTM data; Source: Choice Broking Research

- In FY18, the wires & cables segment contributed 89.4% to the consolidated gross revenue, while the FMEG and Others (including EPC) segment contributed 7.1% and 3.6%, respectively. The wires & cables segment reported 8.9% CAGR rise in the business over FY16-18, while the FMEG reported 57.9% CAGR rise in business.
- As of 31st Dec. 2019, PIL had 24 manufacturing facilities, including two joint ventures with Techno Electromech Pvt. Ltd. (Techno; a Gujarat-based manufacturer of LED products) and Trafigura Pte. Ltd. (Trafigura; a commodity trading company), located across the states of Gujarat, Maharashtra and Uttarakhand and the union territory of Daman and Diu. Four of these 24 manufacturing facilities are for the production of FMEG, including a 50:50 joint venture with Techno. In 2016, the company entered into a 50:50 joint venture with Trafigura, to set up a manufacturing facility with an estimated annual capacity of 0.23mn tonnes for the production of copper wire rods (Ryker Plant). According to the management, the Ryker Plant is expected to commence commercial operations by the end of FY19. Once operational, this plant would strengthen the backward integration of PIL's manufacturing process (i.e. to meet the substantial part of copper wire rods demand). As of 31st Dec. 2018, the company has a wires & cables installed manufacturing capacity of 3.5mn kms, fans installed capacity of 2.4mn units, 6mn units for switched & switchgears and 18.2mn units for lighting & luminaries. It outsources around 20% of the FMEG production to third party manufacturers. Currently, its plants are operating at 70-85% capacity utilization.
- The company has an established pan-India supply chain network comprising of authorized dealers, distributors and retailers. As of 31st Dec. 2018, its distribution network in India comprised over 2,800 authorized dealers & distributors and 30 warehouses. The company supplies its products directly to its authorized dealers & distributors who in turn supply products to over 100,000 retail outlets in India.
- PIL has a diverse customer base comprising of governmental authorities, retailers, distributors, dealers and industrial & institutional customers in a range of industries including power, oil & gas, construction, IT parks, infrastructure, metal & non-metal, cement, agriculture and real estate industries. Although India remains to be its largest market, the company also exported its products to over 40 countries. As of FY18 and 9M FY19, exports revenue contributed 5.1% and 3.4%, respectively, to the consolidated revenue. Around 65% of the export business is from UK & Euro region, while 20% is from UAE. All the products manufactured by PIL are sold under "POLYCAB" brand. The company derives around 58% of the business through B2B mode, while the rest is through B2C mode. Its wires & cables and FMEG have around 1,400 and 2,000 SKUs, respectively.
- The company's business is highly working capital intensive. Over FY14-18, working capital cycle increased from 73 days in FY14 to 100 days in FY18. This was mainly due to higher inventory days, primarily arising due to the strategy of the management to keep availability of the finished goods on demand. With prudent measures, debtor days have declined from 79 days in FY14 to 68 days in FY18. The management has indicated that increased use of channel financing, debtor days would further reduce to around 50-55 days level by FY20E. According to the management, around 50% of the distributors are covered under channel financing. Also, creditors days are guided to be at 40 days in FY20E as against 66 days in FY18. Such control over the working capital management would reduce the cost towards the payables and improve the free cash flow in future.
- PIL has a proven track record of financial performance. Over FY14-18, the company has reported a 12% CAGR rise in consolidated revenue to Rs. 69,239.2mn in FY18. TTM consolidated revenue stood at Rs. 75,962mn. Consolidated EBITDA increased by 25.4% CAGR to Rs. 7,408.2mn in FY18. EBITDA margin improved from 6.8% in FY14 to 10.7% in FY18. TTM EBITDA stood at Rs. 10,410mn with an EBITDA margin of 13.7%. Reported PAT increased by 42.7% CAGR over FY14-18 to Rs. 3,703.7mn in FY18. PAT margin expanded from 2% in FY14 to 5.3% in FY18. TTM reported PAT stood at Rs. 5,471.2mn with a margin of 7.2%. Cash flow from operations was positive over FY14-18 and increased by 4.1% CAGR. Average annual operating cash flow during the period stood at around Rs. 2.7bn. Return on invested capital (RoIC) increased from 9.8% in FY14 to 15.6% in FY18. Average RoIC over the period stood at 13%. RoE improved from 6% in FY14 to 15.7% in FY18, while RoCE improved from 15.1% to 22.8% during the period.
- Going forward, we are estimating a 13.5% rise in revenue in FY19E to Rs. 78,570.7mn. EBITDA and PAT margin are expected at 11.4% and 5.9%, respectively, in FY19E as against respective margins of 10.7% and 5.3% in FY18. Similarly, FY20E top-line is forecasted to be at Rs. 89,337.6mn (a growth of 13.7% over FY19E), while EBITDA and PAT margin are anticipated to be at 12.1% and 6.5%, respectively.

Coming to the valuation, based on the higher price band, PIL is demanding a P/E valuation of 14.6x (to its TTM EPS of Rs. 36.8), which is at a discount to its peer average of 20.1x. Based on FY19E and FY20E EPS, the stock is valued at P/E multiple of 17.2x and 13.8x, respectively, which again is available at discount to peer average. Thus, considering the above observations we feel that the issue is reasonably priced, thereby providing a "SUBSCRIBE" rating.

About the issue:

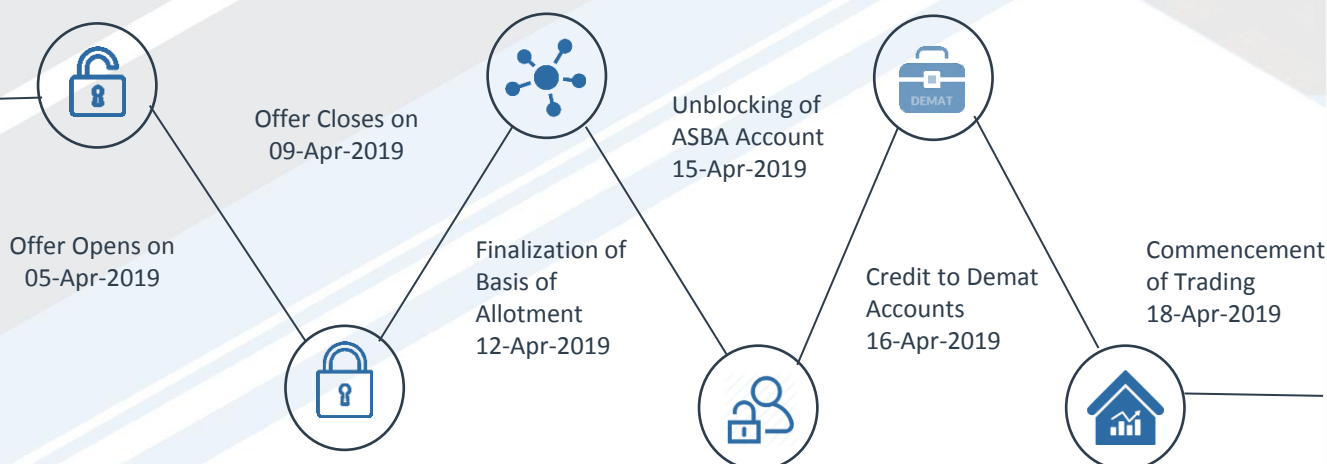
- PIL is coming up with an initial public offering (IPO) with around 25.1mn shares (fresh issue: 7.5; OFS shares: 17.6mn shares) in offering. The offer represents around 16.8% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 13,371.2 - 13,459.1mn.
- The issue will open on 05th Apr. 2019 and close on 09th Apr. 2019.
- The issue is through book building process with a price band of Rs. 533 - 538 per share.
- 0.18mn shares are reserved for PIL's employees, thus the net issue size is around 25mn shares (Rs. 13,277.9 - 13,365mn).
- Issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part. While, of the net proceeds from fresh issue - around Rs. 800mn would be utilized for the repayment of certain borrowings availed by the company and around Rs. 2,400mn would be used for meeting the incremental working capital requirement. Rest of the funds would be utilized for general corporate purposes.
- 50% of the net issue shall be allocated on a proportionate basis to qualified institutional buyers, while rest 15% and 35% is reserved for non-institutional bidders and retail investors, respectively.
- Promoter holds 78.94% stake in the company and post-IPO this will come down to 68.69%. Public holding will increase from current 21.06% to 31.31%.

Pre and post issue shareholding pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	78.94%	68.69%
Public (%)	21.06%	31.31%

Source: Choice Equity Broking

Indicative IPO process time line:



Company introduction:

PIL is engaged in the business of manufacturing and selling wires & cables and FMEG under the “POLYCAB” brand. According to CRISIL Research, in terms of revenue - it is the largest manufacturer in the wires & cables industry in India. In FY18, PIL had a market share of approximately 18% in the organized wires & cables industry and approximately 12% in the total wires & cables industry in India, estimated at Rs. 525bn based on manufacturers realization (Source: CRISIL Research).

According to CRISIL Research, the wires & cables industry in India, in value terms, has grown at 11% CAGR in the last five years to reach Rs. 525bn in FY18. It also expects the industry to expand at 15% CAGR in value terms to reach at around Rs. 1,033bn by FY23.

The company provides one of the most extensive range of wires & cables in India. Its key products in the wires & 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 & round cables, rubber cables, overhead conductors, railway signaling cables, specialty cables and green wires.

In 2009, PIL diversified into the engineering, procurement and construction business, which includes the design, engineering, supply, execution & commissioning of power distribution and rural electrification projects.

Additionally, the company manufactures and sells FMEG such as electric fans, LED lighting & luminaires, switches & switchgears, solar products & conduits and accessories.

PIL has 24 manufacturing facilities, including two joint ventures with Techno and Trafigura, located across the states of Gujarat, Maharashtra and Uttarakhand and the union territory of Daman and Diu. Four of these 24 manufacturing facilities are for the production of FMEG, including a 50:50 joint venture with Techno, a Gujarat-based manufacturer of LED products.

In 2016, the company entered into a 50:50 joint venture with Trafigura, a commodity trading company, to set up a manufacturing facility in Waghodia, to produce copper wire rods (the Ryker Plant). The company expects the Ryker Plant to commence commercial operations by the end of FY19, with an estimated annual capacity of 0.225mn tonnes of copper wire rods. The Ryker Plant would strengthen the backward integration of PIL's manufacturing process as this would meet a substantial part of its demand for copper wire rods for the manufacturing of wires & cables and FMEG.

Most of the company's manufacturing facilities are accredited with quality management system certificates for compliance with ISO 9001, ISO 14001 and OHSAS 18001 requirements. PIL's central quality and test laboratory in Halol is accredited by NABL and its central test laboratory, also located in Halol, for all flexible wires & cables is approved by Underwriters Laboratories. Certain products of the company are also certified to be compliant with various national and international quality standards including Bureau of Indian Standards, British Approvals Service for Cables, UL and international electrotechnical commission.

PIL has an established supply chain comprising a network of authorized dealers, distributors and retailers. Its distribution network in India comprised over 2,800 authorized dealers and distributors and 30 warehouses as of 31st Dec. 2018. The company supplies its products directly to its authorized dealers and distributors, who in turn supply products to over 100,000 retail outlets in India. The company manages its sales and marketing activities through corporate office, three regional offices and 20 local offices in various parts of India.

The company works closely with major power utilities, oil and gas, IT parks, metro rail, infrastructure, metal and non-metal, cement and EPC companies that operate in India and abroad. Its customers include institutional clients such as L&T Construction and government clients such as Konkan Railway Corporation Ltd.

Company introduction (Contd...):

Geographical break-up of dealers & distributors:

	Nine months period ended December 31, 2018 ⁽¹⁾	Fiscal 2018	Fiscal 2017	Fiscal 2016
East	646	684	787	782
North	750	912	875	921
South	881	1,057	1,145	1,187
West	596	719	871	935
Total	2,873	3,372	3,678	3,825

Source: Company RHP

Product wise revenue break-up:

	Nine months period ended December 31, 2018		Nine months period ended December 31, 2017		Fiscal 2018		Fiscal 2017		Fiscal 2016	
	(₹ in million)	(% of total income)	(₹ in million)	(% of total income)	(₹ in million)	(% of total income)	(₹ in million)	(% of total income)	(₹ in million)	(% of total income)
Wires and cables external sales	48,633.81	87.45%	43,988.38	90.17%	62,400.73	89.32%	56,082.03	91.60%	52,633.86	91.58%
FMEG external sales	4,479.55	8.06%	3,168.54	6.50%	4,942.53	7.07%	3,383.83	5.53%	1,980.86	3.45%
Others external sales	2,453.70	4.41%	1,585.45	3.25%	2,490.72	3.57%	1,720.19	2.81%	2,825.02	4.91%
Financial income	43.46	0.08%	39.94	0.08%	27.40	0.04%	39.35	0.06%	33.75	0.06%
Total income	55,610.52	100.00%	48,782.31	100.00%	69,861.38	100.00%	61,225.40	100.00%	57,473.49	100.00%

Source: Company RHP

Revenue break-up of wire & cables segment:

	Nine months period ended December 31, 2018		Nine months period ended December 31, 2017		Fiscal 2018		Fiscal 2017	
	(₹ in million)	(% of total wire and cable external sales)	(₹ in million)	(% of total wire and cable external sales)	(₹ in million)	(% of total wire and cable external sales)	(₹ in million)	(% of total wire and cable external sales)
Wires and cables external sales								
Cables	25,310.84	52.05%	23,507.55	53.44%	34,080.49	54.62%	27,991.03	49.91%
Wires	21,692.29	44.60%	17,485.45	39.75%	24,363.24	39.04%	20,504.49	36.56%
Others ⁽¹⁾	1,630.68	3.35%	1,548.91	3.52%	2,510.53	4.02%	2,117.60	3.78%
Excise duty ⁽²⁾	-	-	1,446.47	3.29%	1,446.47	2.32%	5,468.91	9.75%
Total wires and cables external sales	48,633.81	100.00%	43,988.38	100.00%	62,400.73	100.00%	56,082.03	100.00%

Source: Company RHP

Competition: The electrical industry is highly competitive, and PIL faces intense competition both domestically and internationally. The key factors of competition are availability of products, range, quotation response time, post sales services, quality, cost, delivery, development and management. According to CRISIL, some of its competitors include:

- Wires & cables segment: Apar Industries Ltd, Finolex Cables Ltd., KEI Industries Ltd., Havells India Ltd., Gupta Power Infrastructure Ltd., KEC International Ltd., R R Kabel Ltd. and V-Guard Industries Ltd.; and
- Consumer electric durables segment: Bajaj Electricals Ltd., Crompton Greaves Consumer Electricals Ltd., Finolex Cables Ltd., Havells India Ltd., Orient Electric Ltd., Surya Roshni Ltd., Usha International Ltd. and V-Guard Industries Ltd.

Company introduction (Contd...):

Financial performance: PIL has a proven track record of financial performance. Over FY14-18, the company has reported a 12% CAGR rise in consolidated revenue to Rs. 69,239.2mn in FY18. Wires & cables segment reported 8.9% CAGR rise in business, while FMEG reported a 196.4% CAGR rise in business. FMEG business was started in FY14. For the 9M FY19, consolidated revenue increased by 14.5% Y-o-Y. TTM consolidated revenue stood at Rs. 75,962mn.

Cost of raw materials, which forms an average of 70% of the top-line increased by 12.9% CAGR during FY14-18. Employee benefit expenses and other expenses increased by 18.6% and 7.5% CAGR, respectively, during the period. As a result, total operating expenditure increased by 10.8% CAGR, thereby leading to a 25.4% CAGR rise in consolidated EBITDA over FY14-18 to Rs. 7,408.2mn in FY18. EBITDA margin improved from 6.8% in FY14 to 10.7% in FY18. In 9M FY19, consolidated EBITDA increased by 54.4% with 446bps Y-o-Y expansion in margin to 12.6%. TTM EBITDA stood at Rs. 10,410mn with an EBITDA margin of 13.7%.

With an expansion in capacities, depreciation & amortization charges increased by 17% CAGR over FY14-18. Finance charge was flat during the period, while other income increased by 67.1% CAGR. Consequently, the company reported a 42.7% CAGR rise in reported PAT over FY14-18 to Rs. 3,703.7mn in FY18. PAT margin expanded from 2% in FY14 to 5.3% in FY18. 9M FY19, reported PAT increased by 59.2% Y-o-Y with 275bps expansion in margin to 6.5%. TTM reported PAT stood at Rs. 5,471.2mn with a margin of 7.2%.

Cash flow from operations was positive over FY14-18 and increased by 4.1% CAGR. Average annual operating cash flow during the period stood at around Rs. 2.7bn. Return on invested capital (RoIC) increased from 9.8% in FY14 to 15.6% in FY18. Average RoIC over the period stood at 13%. RoE improved from 6% in FY14 to 15.7% in FY18, while RoCE improved from 15.1% to 22.8% during the period.

(Rs. mn)	FY14	FY15	FY16	FY17	FY18	9M FY18	9M FY19	TTM	CAGR (%)	Y-o-Y (%)	9M Y-o-Y (%)
Revenue from Operations	44,078.7	51,127.9	57,142.4	60,470.1	69,239.2	48,344.2	55,067.0	75,962.0	12.0%	14.5%	13.9%
EBITDA	2,991.4	4,417.1	4,907.8	4,799.5	7,408.2	3,938.6	6,940.4	10,410.0	25.4%	54.4%	76.2%
EBIT	2,282.7	3,441.7	3,796.6	3,520.6	6,078.7	2,947.2	5,869.0	9,000.6	27.7%	72.7%	99.1%
Reported PAT	893.0	1,643.1	1,847.9	2,327.0	3,703.7	1,806.6	3,574.1	5,471.2	42.7%	59.2%	97.8%
Restated Adjusted EPS	6.0	11.1	12.4	15.7	24.9	12.2	24.0	36.8	42.7%	59.2%	97.8%
Cash Flow from Operating Activities	3,096.7	1,503.2	2,208.3	2,964.0	3,631.9	(1,772.9)	5,216.8	5,216.8	4.1%	22.5%	-394.2%
NOPLAT	1,431.0	2,349.5	2,642.1	2,269.9	3,910.9	1,878.1	3,849.5	5,882.9	28.6%	72.3%	105.0%
Free Cash Flow		1,300.7	191.8	(373.5)	(71.6)		175.3	2,546.8		-80.8%	
RoIC (%)	9.8%	14.7%	14.5%	10.6%	15.6%	8.0%	14.1%	21.5%	578 bps	497 bps	615 bps
Revenue Growth Rate (%)		16.0%	11.8%	5.8%	14.5%		13.9%				
EBITDA Growth Rate (%)		47.7%	11.1%	-2.2%	54.4%		76.2%				
EBITDA Margin (%)	6.8%	8.6%	8.6%	7.9%	10.7%	8.1%	12.6%	13.7%	391 bps	276 bps	446 bps
Adjusted PAT Growth Rate (%)		84.0%	12.5%	25.9%	59.2%		97.8%				
Adjusted PAT Margin (%)	2.0%	3.2%	3.2%	3.8%	5.3%	3.7%	6.5%	7.2%	332 bps	150 bps	275 bps
Inventories Turnover Ratio (x)	7.3	5.7	5.8	4.0	5.1	2.9	2.4	3.3	-8.8%	27.4%	-17.5%
Trade Receivable Turnover Ratio (x)	4.6	4.7	4.2	5.0	5.4	4.4	5.1	7.1	4.0%	6.8%	16.6%
Accounts Payable Turnover Ratio (x)	6.7	5.3	5.4	4.5	7.5	5.5	3.6	5.0	3.0%	68.2%	-34.5%
Fixed Asset Turnover Ratio (x)	5.1	5.1	5.1	4.6	5.1	3.6	3.8	5.3	-0.1%	11.3%	5.7%
Total Asset Turnover Ratio (x)	1.6	1.5	1.5	1.3	1.6	1.0	1.0	1.4	-0.6%	18.0%	-2.6%
Current Ratio (x)	1.5	1.4	1.4	1.4	1.6	1.5	1.5	1.5	2.7%	21.4%	3.1%
Debt to Equity (x)	0.3	0.3	0.4	0.4	0.3	0.6	0.2	0.2	2.4%	-20.7%	-60.4%
Net Debt to EBITDA (x)	1.4	1.2	1.5	1.7	1.1	3.1	0.9	0.6	-6.0%	-38.0%	-71.3%
RoE (%)	6.0%	10.1%	10.3%	11.7%	15.7%	8.3%	13.1%	20.1%	971 bps	408 bps	483 bps
RoA (%)	3.2%	5.0%	4.8%	5.1%	8.3%	3.9%	6.6%	10.2%	510 bps	325 bps	271 bps
RoCE (%)	15.1%	20.8%	19.7%	15.4%	22.8%	11.7%	19.7%	30.2%	771 bps	739 bps	799 bps

Source: Choice Equity Broking



Competitive strengths:

- Market leader in wires and cables in India
- Diverse suite of electrical products with varied applications across a diverse customer base
- Strong distribution network
- Manufacturing facilities with high degree of backward integration
- Strong brand in the electrical industry
- Experienced and committed management team

Business strategy:

- Enhance and strengthen the leadership position in wires & cables
- Continue to expand the FMEG business
- Expand distribution reach
- Continue to invest in technology to improve operational efficiencies, customer satisfaction and sales
- Strengthen brand recognition



Risk and concerns:

- Subdued economic expansion
- Unfavorable sales-mix and margins
- Inability to pass on the rise in the raw material prices
- Volatility in forex rates
- Working capital intensive business
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. mn)

	FY14	FY15	FY16	FY17	FY18	9M FY18	9M FY19	TTM	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)	9M Y-o-Y (%)
Revenue from Operations	44,079	51,128	57,142	60,470	69,239	48,344	55,067	75,962	12.0%	14.5%	13.9%
Cost of Material Consumed	(30,682)	(33,721)	(35,595)	(41,577)	(47,747)	(35,134)	(40,025)	(52,638)	11.7%	14.8%	13.9%
Purchase of Traded Goods	(912)	(2,167)	(3,065)	(1,946)	(2,412)	(1,525)	(2,356)	(3,243)	27.5%	24.0%	54.5%
Change in Inventories of Finished Goods, Traded Goods and Work-in-Progress	316	1,193	587	2,195	(675)	545	2,997	1,777		-130.7%	449.6%
Excise Duty	(4,219)	(4,053)	(5,118)	(5,469)	(1,446)	(1,446)		0	-23.5%	-73.6%	-100.0%
Project Bought Out and Other Cost		(1,406)	(1,815)	(1,104)	(1,247)	(791)	(1,259)	(1,715)		12.9%	59.2%
Employee Benefits Expense	(1,312)	(1,619)	(2,061)	(2,291)	(2,593)	(1,905)	(2,358)	(3,046)	18.6%	13.2%	23.8%
Other Expenses	(4,278)	(4,938)	(5,167)	(5,479)	(5,711)	(4,149)	(5,126)	(6,687)	7.5%	4.2%	23.5%
EBITDA	2,991	4,417	4,908	4,799	7,408	3,939	6,940	10,410	25.4%	54.4%	76.2%
Depreciation and Amortization Expense	(709)	(975)	(1,111)	(1,279)	(1,330)	(991)	(1,071)	(1,409)	17.0%	4.0%	8.1%
EBIT	2,283	3,442	3,797	3,521	6,079	2,947	5,869	9,001	27.7%	72.7%	99.1%
Finance Costs	(938)	(1,085)	(1,474)	(659)	(937)	(549)	(905)	(1,293)	0.0%	42.0%	65.0%
Other Income	80	50	331	755	622	438	544	728	67.1%	-17.6%	24.1%
Share of Profit/(Loss) for JVs (Net of Tax)				(3)	1	3	(46)	(48)		-132.2%	-1500.0%
PBT	1,425	2,407	2,654	3,613	5,765	2,840	5,462	8,387	41.8%	59.6%	92.3%
Tax Expenses	(532)	(764)	(807)	(1,284)	(2,056)	(1,030)	(1,879)	(2,905)	40.2%	60.2%	82.4%
PAT Before Minority Interest	893	1,643	1,847	2,330	3,709	1,810	3,582	5,482	42.8%	59.2%	97.9%
Minority Interest			1	(3)	(5)	(3)	(8)	(10)		115.7%	155.2%
Reported PAT	893	1,643	1,848	2,327	3,704	1,807	3,574	5,471	42.7%	59.2%	97.8%

Consolidated balance sheet statement (Rs. mn)

	FY14	FY15	FY16	FY17	FY18	9M FY18	9M FY19		CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)	9M Y-o-Y (%)
Equity Share Capital	706	1,412	1,412	1,412	1,412	1,412	1,412		18.9%	0.0%	0.0%
Other Equity	14,119	14,891	16,416	18,525	22,083	20,334	25,750		11.8%	19.2%	26.6%
Minority Interest			28	31	40	34	67			32.7%	98.1%
Long Term Borrowings	0	0	1,009	1,967	2,316	2,335	1,741			17.7%	-25.4%
Long Term Provisions	39	63	71	90	95	117	123		25.2%	5.4%	5.2%
Deferred Tax Liabilities (Net)	283	220	211	657	553	657	504		18.3%	-15.8%	-23.2%
Other Non Current Liabilities			103	195	182	228	162			-6.4%	-29.0%
Short Term Borrowings	4,577	5,455	6,948	6,590	5,687	10,184	4,464		5.6%	-13.7%	-56.2%
Trade Payables	6,599	9,632	10,566	13,543	9,221	8,817	15,339		8.7%	-31.9%	74.0%
Other Current Financial Liabilities	0	0	597	706	606	544	1,045			-14.1%	92.1%
Other Current Liabilities	985	874	1,072	1,474	1,036	898	1,153		1.3%	-29.7%	28.4%
Short Term Provisions	322	593	243	289	376	308	369		4.0%	30.0%	19.6%
Current Tax Liability (Net)			73	309	824	188	1,731			166.9%	821.0%
Total Liabilities	27,629	33,139	38,747	45,788	44,433	46,055	53,859		12.6%	-3.0%	16.9%
Property, Plant and Equipment	7,487	8,174	9,784	11,224	11,944	11,456	12,705			12.4%	6.4%
Intangible Assets	12	51	67	60	27	34	14			21.5%	-55.2%
Capital Work-in-Progress	1,157	1,794	1,381	1,649	1,360	1,592	1,434			4.1%	-17.5%
Investment in JV				327	314	306	267				-4.0%
Goodwill on Consolidation	1									-100.0%	
Long Term Investments	0	0	1	1	1	1				62.7%	22.8%
Non Current Trade Receivables	457	603	352	483	880	677	1,170			17.8%	82.1%
Other Non Current Financial Assets			39	60	61	66	639				2.5%
Non Current Income Tax Assets (Net)			125	573	311	306	82				-45.6%
Deferred Tax Assets (Net)				1	0	0					-85.7%
Other Non Current Assets	67	13	482	349	312	445	561			46.9%	-10.6%
Inventories	6,022	9,040	9,804	15,198	13,657	16,698	23,055			22.7%	-10.1%
Trade Receivables	9,578	10,810	13,534	11,992	12,862	10,953	10,699			7.6%	7.3%
Cash and Bank Balances	499	270	507	302	106	415	78			-32.1%	-64.7%
Short Term Loans and Advances	2,225	2,190	10	15	153	258	144			-48.8%	890.5%
Other Current Financial Assets			59	211	185	337	271				-12.6%
Current Income Tax Assets (Net)			33	0							-100.0%
Other Current Assets	121	196	2,563	3,335	2,255	2,503	2,740			107.8%	-32.4%
Assets Classified as Held for Disposal			7	7	3	7					-63.8%
Total Assets	27,629	33,139	38,747	45,788	44,433	46,055	53,859		12.6%	-3.0%	

Source: Choice Equity Broking

Financial statements:

Consolidated cash flow statement (Rs. mn)

Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18	9M FY18	9M FY19	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)	9M Y-o-Y (%)
Cash Flow Before Working Capital Changes	3,539	4,888	5,512	5,709	8,643	4,905	7,680	25.0%	51.4%	56.6%
Change in Working Capital	(103)	(2,787)	(2,116)	(1,729)	(3,612)	(5,787)	(1,676)	143.1%	108.8%	-71.0%
Cash Flow from Operating Activities	3,097	1,503	2,208	2,964	3,632	(1,773)	5,217	4.1%	22.5%	-394.2%
Purchase of Property , Plant & Equipment	(1,052)	(2,036)	(2,493)	(2,792)	(1,992)	(1,436)	(2,092)	17.3%	-28.6%	45.6%
Cash Flow from Investing Activities	(1,093)	(1,730)	(2,543)	(2,898)	(1,881)	(1,449)	(2,555)	14.5%	-35.1%	76.4%
Cash Flow from Financing Activities	(1,960)	146	455	(98)	(1,903)	3,381	(2,668)	-0.7%	1833.5%	-178.9%
Net Cash Flow	44	(81)	120	(32)	(152)	159	(6)		374.8%	-103.9%
Opening Balance of Cash and Bank Balances	231	275	196	266	234	234	82	0.4%	-12.0%	-64.9%
Closing Balance of Cash and Bank Balances	275	194	316	234	82	394	76	-26.0%	-64.9%	-80.7%

Consolidated financial ratios

Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18	9M FY18	9M FY19	TTM
Revenue Growth Rate (%)		16.0%	11.8%	5.8%	14.5%		13.9%	
EBITDA Growth Rate (%)		47.7%	11.1%	-2.2%	54.4%		76.2%	
EBITDA Margin (%)	6.8%	8.6%	8.6%	7.9%	10.7%	8.1%	12.6%	13.7%
EBIT Growth Rate (%)		50.8%	10.3%	-7.3%	72.7%		99.1%	
EBIT Margin (%)	5.2%	6.7%	6.6%	5.8%	8.8%	6.1%	10.7%	11.8%
Adjusted PAT Growth Rate (%)		84.0%	12.5%	25.9%	59.2%		97.8%	
Adjusted PAT Margin (%)	2.0%	3.2%	3.2%	3.8%	5.3%	3.7%	6.5%	7.2%

Liquidity ratios

Current Ratio	1.5	1.4	1.4	1.4	1.6	1.5	1.5	1.5
Debt Equity Ratio	0.3	0.3	0.4	0.4	0.3	0.6	0.2	0.2
Net Debt to EBITDA	1.4	1.2	1.5	1.7	1.1	3.1	0.9	0.6

Turnover ratios

Inventories Days	70.3	95.1	94.0	134.2	98.1	124.8	158.1	155.5
Debtor Days	79.3	77.2	86.5	72.4	67.8	61.2	52.5	51.4
Payable Days	(77.0)	(101.3)	(101.3)	(119.6)	(66.2)	(65.9)	(105.2)	(103.5)
Cash Conversion Cycle	72.6	70.9	79.1	87.0	99.7	120.1	105.4	103.5
Fixed Asset Turnover Ratio (x)	5.1	5.1	5.1	4.6	5.1	3.6	3.8	5.3
Total Asset Turnover Ratio (x)	1.6	1.5	1.5	1.3	1.6	1.0	1.0	1.4

Return ratios

RoE (%)	6.0%	10.1%	10.3%	11.7%	15.7%	8.3%	13.1%	20.1%
RoA (%)	3.2%	5.0%	4.8%	5.1%	8.3%	3.9%	6.6%	10.2%
RoCE (%)	15.1%	20.8%	19.7%	15.4%	22.8%	11.7%	19.7%	30.2%

Per share data

Restated Reported EPS (Rs.)	6.0	11.1	12.4	15.7	24.9	12.2	24.0	36.8
Restated DPS (Rs.)	0.0	0.9	1.7	1.0	1.0	0.0	0.0	0.0
Restated BVPS (Rs.)	99.7	109.7	120.1	134.3	158.3	146.5	183.2	183.2
Restated Operating Cash Flow Per Share (Rs.)	20.8	10.1	14.9	19.9	24.4	(11.9)	35.1	35.1
Restated Free Cash Flow Per Share (Rs.)		8.8	1.3	(2.5)	(0.5)		1.2	17.1
Dividend Payout Ratio	0.0%	8.6%	13.4%	6.1%	3.8%	0.0%	0.0%	0.0%

Note: Ratios calculated on pre-issue data; Source: Company RHP

Disclaimer

This is solely for information of clients of Choice Broking and does not construe to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Choice Broking its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Choice Broking or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. This report is based on the fundamental analysis with a view to forecast future price. The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Choice Broking has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Choice Broking makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for stock market investment purposes. The recommendations are valid for the day of the report and will remain valid till the target period. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment.

POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report) Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.



+91-022-6707 9999



www.choicebroking.in



+91-022-6707 9959

Choice Equity Broking Pvt. Ltd.

Choice House, Shree Shakambhari Corporate Park, Plot No: -156-158,
J.B. Nagar, Andheri (East), Mumbai - 400 099.