

## Polycab India Ltd

No. of shares (m)	148.9
Mkt cap (Rs/\$m)	11909/1572
Current price (Rs/\$)	800/10.6
Price target (Rs/\$)	1099/14.5
52 W H/L (Rs.)	1182/525
Book Value (Rs/\$)	258/3.4
Beta	1.0
Daily NSE volume (avg. monthly)	377720
P/BV (FY21e/22e)	2.7/2.3
EV/EBITDA (FY21e/22e)	10.6/8.0
P/E (FY21e/22e)	18.2/13.1
EPS growth (FY20/21e/22e)	44.7/-13.8/38.8
OPM (FY20/21e/22e)	12.9/12.7/13.6
ROE (FY20/FY21e/22e)	22.9/15.9/19.0
ROCE(FY20/FY21e/22e)	22.9/15.8/18.7
D/E ratio (FY20/FY21e/22e)	0.0/0.1/0.0
BSE Code	542652
NSE Code	POLYCAB
Bloomberg	POLYCAB IN
Reuters	POLC.NS

## Shareholding pattern %

Promoters	68.6
MFs / Banks / FIs/Others	13.2
Foreign Portfolio Investors	4.9
Govt. Holding	0.0
Public& Others	13.3
<b>Total</b>	<b>100.0</b>

As on March 31, 2020.

## Recommendation

### BUY

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## Highlights

- The wires and cables market in India has grown decently in the past few years on the back of robust investments in the power and infrastructure sectors. The current manufacturing base is well established with a large number of organized players. Though the unorganized sector still constitutes a notable one-third of the industry, however, the market is dominated by few major players. A number of government initiatives like Integrated Power Development Scheme (IPDS) and Pradhan Mantri Sahaj Bijli Har Ghar Yojana have been undertaken that have helped create a positive market for cables and wires in the country.
- As has been the case for the last few years, subdued demand hasn't stopped Polycab from growing its topline consistently – absolute revenue has grown over 30% in the last 2 years while improving quality, profitability – operating margins have increased from 10.8% in FY18 to 12.9% in FY20 and debt has come down from over Rs. 800 cr to Rs. 157 cr. In house manufacturing of wires and cables ensures better quality and short duration of supply coupled with lower product returns. Constantly evolving product mix in the wires and cables as well as FMEG segment driven by a vast distribution network to institutional and retail customers has helped them establish in the B2C space.
- While maintaining leadership in the wires and cables business, Polycab has increased its share of FMEG business to over 9% of revenues, a business they entered just 6 years ago; although, the margins for the FMEG business are timid currently (FY20 EBIT margins – 2%), strong investment in branding and marketing have put it on a firm track to becoming a dominant B2C player. Polycab has maintained a stable market share of 18% in the organized market which has been expanding over the last few years. Recently, Polycab set up the Ryker Plant for backward integration to make steel rods – this gives them good control over quality.
- The stock currently trades at 18.2x FY21e EPS of Rs 44.02 and 13.1x FY22e EPS of Rs 61.08. Industry estimates show a transition of the Indian cables and wires industry away from the unorganized space towards the organized sector comprising pan-India branded players. After a drop, earnings are expected to vigorously revive (38%) next fiscal. Execution of Dangote order could act as a catalyst for their export business. Easing of liquidity stress in the economy could prop up free cash flows by the end of this fiscal. Weighing odds, we assign buy rating on the stock with target price of Rs 1099 based on 18x FY22e EPS of Rs 61.08 over a period of 9-12 months.

Consolidated (Rs crs)	FY18	FY19	FY20	FY21e	FY22e
Income from operations	6770.31	7985.55	8829.96	8089.00	9915.58
Other Income	64.44	63.78	92.79	83.4	130.84
EBITDA (other income included)	793.32	1016.54	1227.82	1110.04	1475.81
Consolidated Net Profit	354.91	498.31	760.05	655.37	909.38
EPS(Rs)	25.13	35.29	51.05	44.02	61.08
EPS growth (%)	52.6	40.4	44.7	-13.8	38.8

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## Company Overview

Polycab India, established in 1996, is engaged in the business of manufacturing and selling wires and cables and fast moving electrical goods (FMEG) under the "POLYCAB" brand. According to CRISIL, they are the largest manufacturer in the wires and cables industry in India, in terms of revenue from the wires and cables segment and provide one of the most extensive range of wires and cables in India. Polycab manufactures and sells a diverse range of wires and cables and its key products in the wires and cables segment to name some are power cables, control cables, instrumentation cables.

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, however its strategy with regards to EPC contracts is to undertake those that are an extension of its wires and cables segment and not individual EPC contracts. In 2014, they further diversified into the FMEG segment with key FMEG being electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories.

Polycab have 24 manufacturing facilities, including plants of joint ventures with Techno Electromech Pvt Ltd. and Trafigura (recently brought out, now a wholly owned subsidiary), located across the states of Gujarat, Maharashtra and Uttarakhand and the Union Territory of Daman and Diu. Three 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, they entered into a 50:50 joint venture with Trafigura, a commodity trading company, to set up a manufacturing facility in Waghodia, India to produce copper wire rods.

## Production capacities (owned and leased)

	Location	Capacity
Wires and cables	Halol (Gujarat), Daman	3.5 million km/year
Fans	Roorkee (Uttarakhand)	2.4 million units /year
Switches & switchgear	Nashik (Maharashtra)	6 million units/year
Lights and luminaires	Chhani (Vadodara, Gujarat)	18.2 million units/year
Others	Padana (Gujarat)	20,250 units/year
Copper rod/steel wire	Waghodia (Gujarat)	225,000 MT (copper) 60,000 MT (steel wire)

Source: Polycab India

## Certifications

Certification	Range of products applied	Issuing authority
NABL Certificate	1 kV to 220 kV power and control cables	NABL, India
QMS ISO 9001:2015	Complete range of products	DQS Inc, USA
Type Test Reports	1 kV to 220 kV power and control cables	CPRI, Bangalore, India
Type Test Reports	1 kV to 33 kV power and control cables	ERDA, Vadodara & CPRI, Bangalore, India
Type Test Reports	1 kV to 33 kV power and control cables	IPH, Berlin
Product Certification for BASEC	Complete range of products as per BS 5467 & BS 6724	BASEC, UK
Product Certification	Thermoplastic insulated wires and tray cables	UL, USA
CE marking Certification	Complete range of products	FQC, Istanbul

Source: Polycab India

## Segments

### Wires and Cables

Polycab's portfolio of wires and cables primarily comprise power cables, control cables, instrumentation cables, solar cables, building wires, flexible/single multi core cables and communication cables. It also manufactures wires and cables in accordance with various Indian and international standards in addition to producing customized products for customers, based on their requirements and specifications. This enables it to offer customers customized solutions based on their performance expectations. Power cables are principally used for power transmission and distribution systems (overhead, underground and submarine) in the power and other industries whereas control cables send signals to control the functioning of equipment and allow distribution of data or signals that have low voltage. Some of the wires they deal in are building wires, green wires etc. - wires make up roughly 45% of the revenues from the wires and cables segment while cables comprise the rest of 55%.

## FMEG

Polycab manufactures a range of FMEG products from electric fans, LED lighting and luminaires, switches and switchgears, solar products to conduits and accessories. It operates two manufacturing facilities located in Maharashtra and Uttarakhand for the production of switch gears and ceiling fans, respectively. Its joint venture with Techno allows it to secure a reliable supply of LED lighting and luminaire products and be better placed to take advantage of the growth opportunities in the LED industry. For all their other FMEG products, it has entered into arrangements with third-party manufacturers who manufacture products based on requirements - these products include fans, lighting and luminaire products, switchgears and pumps. These third-party manufacturers are evaluated based on certain criteria including the quality of products produced, reputation and delivery standards.

## EPC

EPC division provides electrical turnkey solutions comprising project management, onsite execution and resource management through specialized erectors and financial management. The solutions provided are largely for the transmission and distribution sectors involving projects in extra high voltage and high voltage levels for various government utilities in India. These projects typically require a large supply of cables, wires and conductors.

## Industry

### Wires and Cables

The global wires and cables market size was estimated at USD 164.94 billion in 2018 and is expected to expand at a CAGR of 4.9% over the forecast period ending 2025, according to Grand View Research. Increasing urbanization and rapidly growing building infrastructure are the major factors driving the growth. These have impacted the energy and power demand in residential, commercial, and industrial sectors. Increased investments in smart grids and upgrading power transmission and distribution systems are expected to further drive the market. Adoption of smart grid technology has fulfilled the rising need for grid interconnections, significantly resulting in rising investments in the new submarine and underground cables. In addition, growing offshore wind farms, high voltage direct current links, and grid interconnections are projected to fuel the growth of the market.

The buoyant demand for power, light, and communication (data and voice) has provided a fillip to India's wire and cable industry and electrical equipment business. Industry estimates point at an exciting increase in the share of the organized sector. The Indian wire and cable industry is transitioning away from the unorganized space with small players towards the organized sector consisting of pan-India branded players. The rapid growth of the organized sector has led to the expansion of the size of the market. With increasing propensity to spend, a steady rise in per capita income and growing urbanization as population rises betoken a bright future for the industry.

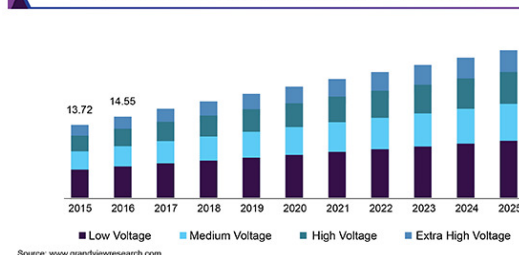
### India Wires and Cables Industry FY20

~ 500 – 550bn  
Market Size

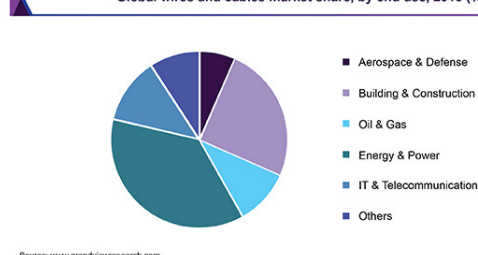
40–45% of the electrical  
equipment industry

Note: (1) Industry estimates, Polycab estimates;

U.S. wires and cables market size, by voltage, 2015 - 2025 (USD Billion)



Global wires and cables market share, by end use, 2018 (%)



According to Institute for Energy Economics and Financial Analysis (IEEFA), India's GDP will double over the next 10 years, growing at a rate of 7 per cent per annum. Over this period, the demand for electricity is expected to nearly double (annual growth rate of 7%). This growth rate will further push the growth of the wire and cable industry in India, which has already hit around Rs 53,000 crore.

The wire and cable market in India, which comprises nearly 40 per cent of the electrical industry, has grown decently over the years – thanks to the growth of the power and infrastructure sectors; however the industry shrunk sizeably last year. The recent policy and regulatory initiatives and government schemes like Ujwal Discom Assurance Yojana (UDAY), Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS) and Pradhan Mantri Sahaj Bijli Har Ghar Yojana have given the market a major boost. It may be mentioned that under DDUGJY, the government has envisaged the electrification of all villages. Besides, the Indian Railways' action plan to electrify 38,000 km route in five years from 2017-18 will further whips up demand for wires and cables.

In addition, the government's 'Smart City' project is expected to promote large-scale growth in infrastructure, telecom, power generation, T&D, engineering and automotive sectors. This is good news for the wire and cable industry because growth of the industry is directly linked to the growth and development taking place in other sectors. The wire and cable industry expects a spurt in manufacturing activity and capacity expansion in sectors like steel, cement, pharma, etc. Also, in line with Supreme Court's directive to reduce emissions as per BS-VI norms, petrochemical companies are expected to invest in plant modernization and expansion. This move will further stimulate the demand for cables.

India's housing market is likely to struggle throughout 2020 as sluggish demand and a weak economic outlook overpower recent government measures efforts to boost activity, a Reuters poll of market experts found in March 2020. House prices rose 5.7% on average in 2018, the weakest since comparable records began in 2010, and data available for last year suggest a much weaker market despite a succession of interest rate cuts from the Reserve Bank of India.

All respondents said a prolonged period of sub-par housing market activity followed by a recovery is more likely over the coming year. None chose 'an acceleration' or 'a slowdown' from the options provided. "While green shoots are visible, the sector is in for a further period of strife with slowly improving sales and the liquidity squeeze really turning on the screws on the developers, who are struggling with project completion deadlines," said Rohan Sharma, head of research at Cushman and Wakefield India.

## FMEG

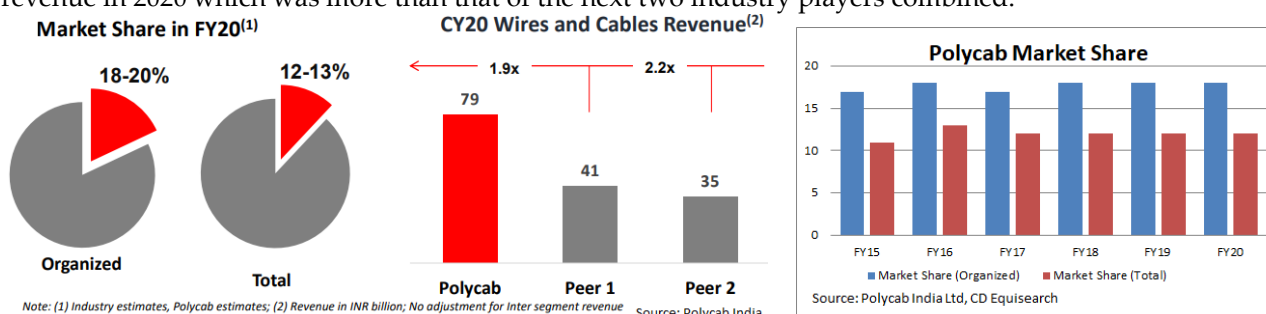
Indian fans industry is forecast to grow by 11.5% annually for the forecast period ending FY26 according to business wire driven majorly by increased electrification of rural India, housing sector expansion, and energy-saving technologies. It also indicated towards the dwindling share of the unorganized sector, given the increasing preference for branded products.

CRISIL Research estimates the switches industry to be at Rs. 40 billion as of 2018, having experienced a CAGR of approximately 8% over the past five years. Despite the impact of the real estate sector slowdown, the industry has grown in value with an increasing demand for modular switches with higher price points. CRISIL expects the switches industry to grow to Rs. 62 billion by 2023 at a CAGR of approximately 9%, driven by modular switches with higher realisations. Although, these assumptions were made before the impact of the pandemic was taken into consideration.

## Investment Thesis

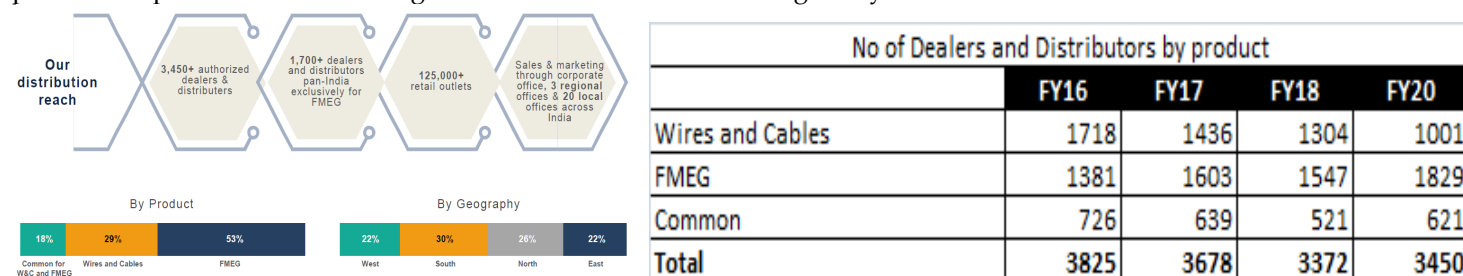
### Market Leader in Wires and Cables

Polycab has the most extensive portfolio of Wires and Cables to cater to the needs of institutional and retail customers in different industries. Its products are either made-to-stock, produced based on demand forecasts from customers and/or company sales team, or made-to-order, where it works closely with customers to develop customized products that are in line with their needs. Polycab has an approximate share of 18-20% of the organized market, and roughly 12-13% of the total wires and cables market and has shown the firepower necessary over the last half decade with a revenue growth of 11% (compounded annually) in its wires and cables division. An example of its dominance would be its absolute wires and cables revenue in 2020 which was more than that of the next two industry players combined.



### Strong distribution network

Polycab has a strong distribution network to back its leadership in wires and cables as well as FMEG with over 3450 authorized dealers and distributors. Polycab supplies its products directly to authorized dealers and distributors who in turn sell the products to over 125,000 retail outlets in India. Further, it supplies its portfolio of products to direct customers including EPC companies and government companies through direct sales. Dealer rationalization has happened over the years – total count at 3450 in FY20 from 3825 in FY16 not least due to its increased focus on courting larger distributors and discontinuing relationships with smaller direct dealers. FMEG dominates dealer network - presumably due to its large portfolio of products – constituting 53% of the total dealers catering solely to the FMEG business.



Further, it has implemented in two of its warehouses in Halol an automatic storage and retrieval system (ASRS), which are computer-controlled warehouse management systems designed to automate the placing and retrieving of loads, thereby making order fulfillment and delivery more efficient and reducing costs of operation.



## Backward Integration

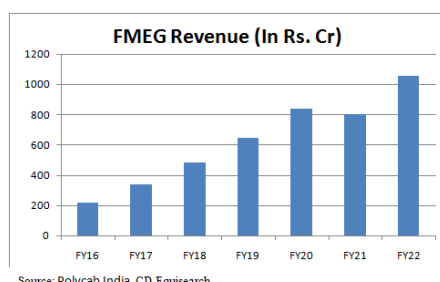
Polycab's competitive edge lies in product innovation, quality and availability; hence, Polycab has a strong focus on backward integration in its manufacturing process. It has developed systems across the production process to ensure the quality and reliability of products. Its production capabilities, including the amount of capital and technology investment, operational expertise and industry knowledge accumulated to deliver products which are further enhanced by the assistance from research and development facilities, constitute a high barrier to entry that is difficult for other companies to emulate.

In 2016, it entered into a 50:50 joint venture with Trafigura to set up the Ryker Plant (Polycab purchased the entire stake from Ryker in May 2020 for around Rs. 30 cr) that will, once fully operational, fulfill demand for copper wire rods and have extra capacity (total capacity of Ryker Plant at 225000 MT). Apart from the Ryker Plant, it has existing manufacturing facilities producing other key raw materials used in the manufacturing of wires and cables and FMEGs. These key raw materials include aluminum rods (for aluminum conductor), higher size of copper rods (for required size of copper conductors for manufacturing cables and wires) and various grades of PVC etc. Producing own raw materials also reduces reliance and risks of procuring raw materials from domestic and international markets by ensuring a consistent and reliable supply of quality raw materials. Such backward integration also helps to maintain control of the supply chain and lower costs of operations and sell products at competitive prices.

## In-House FMEG Production

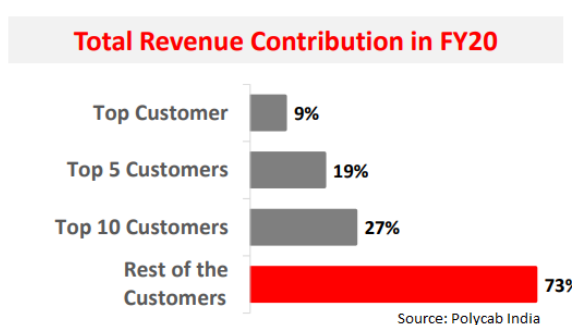
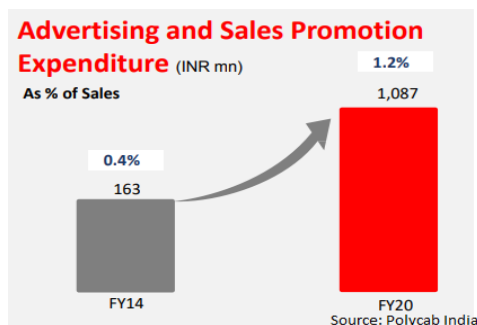
Polycab owns and operate two manufacturing facilities located in the states of Maharashtra and Uttarakhand for the production of switchgears and ceiling fans, respectively. The two facilities have a total production capacity of over 8 million units. Polycab entered into a 50:50 joint venture with Techno, a Gujarat-based manufacturer of LED products - through the joint venture with Techno, it is able to secure a reliable supply of LED lighting and luminaire products and be better placed to take advantage of the growth opportunities seen in the LED industry. For all other FMEG products, it has entered into arrangements with third-party manufacturers who manufacture products based on requirements. These products include fans, lighting and luminaire products, switchgears and switches and pumps, for which it conducts spontaneous quality checks to ensure standards.

The growth in FMEG segment has been very robust over the last few years – an increase of over 70% in 2 years, yet, its margins have consistently failed to impress, clocking EBIT margins of just 2% in FY20 calling into question the high investment in the segment to produce in-house – ROCE for FY20 was at a mere 3.3%. Despite seemingly great business opportunities in this business it has shown little 'velocity' in last few years, raising doubt about scope of sturdy revival any time soon.



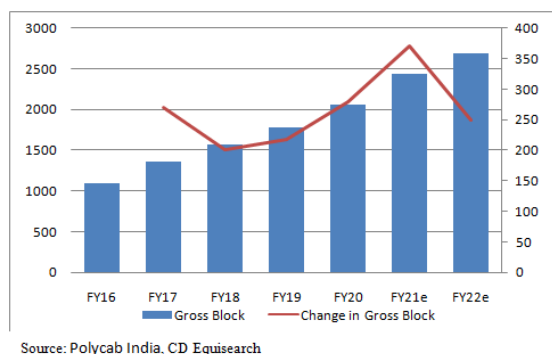
## Strong Brand

In addition to good relationships with its dealers coupled with incentives and regular interaction, Polycab has taken a multi pronged approach to increasing its brand awareness through social media, conventional media like television, print and internet as well as in-store promotions such as sales promotion, retail pop-ups and visual merchandising. Rise in its advertisement expenses from merely 16 cr in FY14 to Rs. 109 cr in FY20 is an indication of its effort to reach out to clients and create a strong brand. It also sells directly to customers including power utilities and institutional customers such as developers of residential and commercial building projects and OEMs, pursuant to direct contractual arrangements with such customers. Some of its institutional customers include Reliance, ONGC, SAIL, L&T Construction, Bharat Petroleum, Vedanta, Honeywell and government clients such as Indian Railways, NPCIL etc.



## Capex

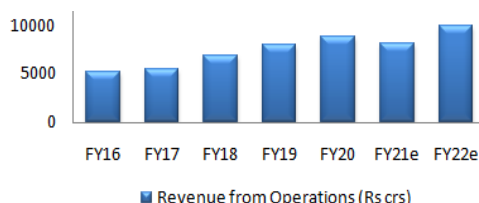
Polycab has heavily invested in increasing capacities over the last 5-6 years with capex being in the range of Rs. 200-300 cr annually. Until Q3FY20, Polycab had guided a capex target for Rs. 250 cr but this was before the company factored in the benefits of tax break. After considering the tax break, the company incurred almost Rs. 300 cr in FY20 – the company does not plan to undertake any major capex this fiscal. Large part of its future capex will be channelized in cables and wires business which would include backward integration, capacity enhancement and de-bottlenecking exercises. In consumer business it would predominantly be in the product categories, where there is higher capacity utilization, for example, fans.



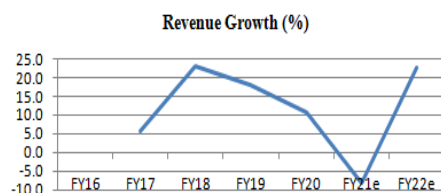
## Financials & Valuation

Revenue for FY20 increased by 10.6% despite losing out on sales for their most lucrative part of March (due to country wide lockdowns implemented by Government of India on account of COVID-19) on the back of robust growth of almost 30% (Revenue – Rs. 836 cr vs Rs. 643 cr in FY19) in the FMEG division which albeit a small contributor to the topline has been constantly increasing in proportion. The wires and cables division, its primary contributor to revenues, also showed no smallish growth in excess of 7% during the same period to Rs. 7589.84 cr.

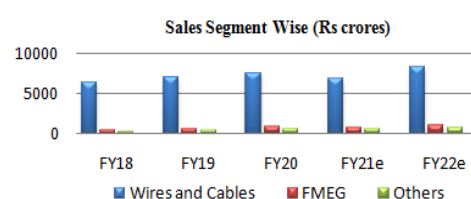
Green wire campaign which was launched across over 40 national and regional TV channels in Q3 has garnered good response from customers while improving overall brand awareness across geographies. For FY20 capacity utilization hovered around 65-70% in Cables and Wires business, where almost everything is getting manufactured in-house. In FMEG, it ranges between 60% and 80%. For example, the fan factory utilization is comparatively higher because it is the largest contributor to the FMEG business.



Source: Polycab India, CD Equiresearch

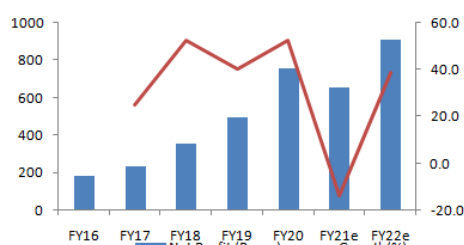


Source: Polycab India, CD Equiresearch

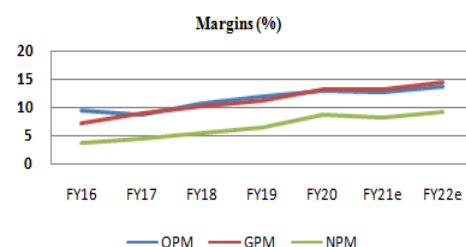


Source: Polycab India, CD Equiresearch

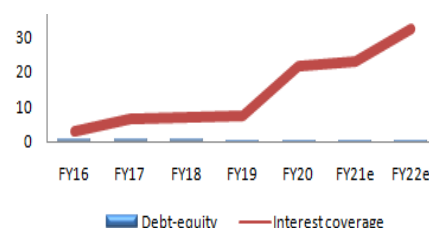
Operating profits jumped a massive 19.3%, just marginally propelled the operating margin which rose marginally by 96 bps to 12.9% for FY20 partially contributed by lower raw material costs – raw material costs as a percentage of sales (excluding projects bought out) declined from 71.5% to 68.5% in FY20; EBIT margin for the wires division was higher on year-on-year basis due to lower copper prices. Profit before tax grew by a humungous 34.7% year-on-year driven by decreased finance cost which declined by Rs. 67 cr to Rs. 49.54 cr in FY20, reflecting the lower borrowings compared to previous year (average borrowings – Rs. 215 cr in FY20 vs Rs. 536.36 cr in FY19). The company used Rs. 80 cr of its IPO proceeds to repay debt, Rs. 240 cr to fund working capital needs and Rs. 62.58 cr for general corporate purpose (excluding IPO expenses) – the issue price for the IPO was Rs. 538. Profits after tax increased by 52.5% in FY20 partially aided by lower tax expenses on account of the tax break given by the Government of India.



Source: Polycab India, CD Equiresearch



Source: Polycab India, CD Equiresearch



Source: Polycab India, CD Equiresearch

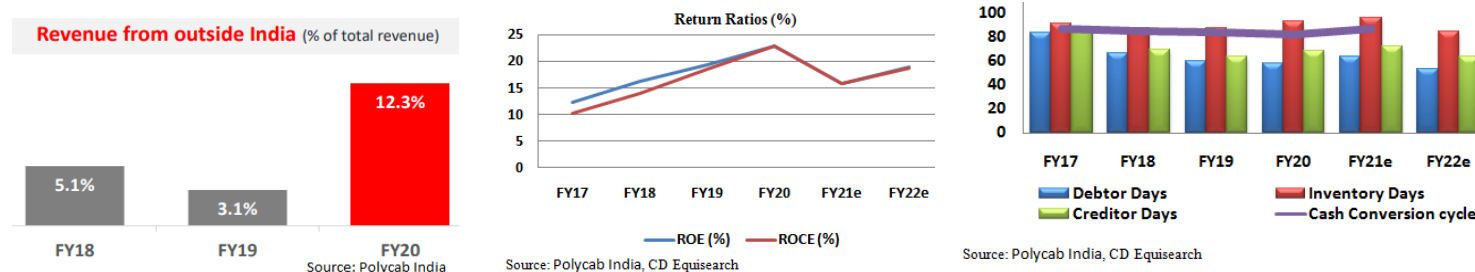
Polycab has been working on an export order from Dangote totaling around Rs. 950 cr of which, Rs. 750 cr has been executed for the year ended March 2020 (total exports were at Rs. 1100 cr in FY20); Dangote is an order led business, however, the company is more inclined to get into distribution led business rather than order led business. The FMEG business enjoys considerable economies of scale with the raw materials used in FMEG similar to cables and wires and strong distribution advantage, directionally the company expects an improvement in the EBIT margin close to 100 basis points annually in the FMEG business.



# CD Equiresearch Pvt Ltd

COVID-19 will have a major impact on the economy as a whole as well as the company in the current year, hurting revenues as well as profitability – revenues are expected to go down by 8.4% having an impact on profit after tax which would see a serious decline of 13.8% to Rs. 655.37 cr in FY21 harming return ratios - ROE and ROCE are expected to fall to 15.9% and 15.8% respectively from 22.9% for both in FY20.

The company recently terminated its 50:50 JV with Trafigura for the Ryker Plant buying out the share for around Rs. 30 cr; the plant was set up to manufacture copper rods with a capacity of 225000 MT, enough to meet its requirements for copper as of now. This gives them better operational efficiency and better product quality.



The stock currently trades at 18.2x FY21e EPS of Rs 44.02 and 13.1x FY22e EPS of Rs 61.08. Revenues are expected to decline by 8.4% in FY21 and then rise by 22.6% in FY22. The pandemic has cost us an arm and a leg and the shortfall is there for everyone to see. Operating profits are expected to fall to Rs. 1027 cr in FY21e from Rs. 1136 cr in FY20, although, margins are expected to hold almost steady at 12.7% in FY21e. Liquidity stress impacted its recovery of receivables somewhat last fiscal and the stress is not expected to subside in the next few quarters. Weighing odds, we assign buy rating on the stock with target price of Rs 1099 based on 18x FY22e EPS of Rs 61.08 over a period of 9-12 months.

## Risks and Concerns

### Commodity Risk

Raw material costs are affected by the cost of primary raw materials for production, which are copper, aluminum, PVC compounds and steel. The prices of copper and aluminum are linked to the prices on the London Metal Exchange and the price of PVC compounds depends on the price of crude oil. Accordingly, the price paid for these raw materials can fluctuate due to volatility in the commodity markets and in exchange rates. Generally the company is able to pass on changes in the cost of primary raw materials to customers, they may not be able to do so immediately or fully, and hence rapid fluctuations in the prices of these raw materials could affect operating results.

### Working Capital Requirements

The business requires significant amounts of working capital primarily for raw material purchases and manufacturing products before receipt of payments from customers. Working capital requirements tend to increase in case terms of sale or contractual agreements do not include advance payments (In case of Dangote, Polycab received advanced payment of Rs. 400 cr in FY19). Undertaking large orders without any advance payments would result in considerable increases in working capital requirements. Growth in EPC business would also result in additional burden on working capital requirements due to high requirements and longer duration of projects.

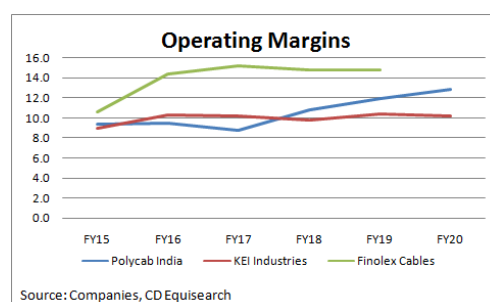
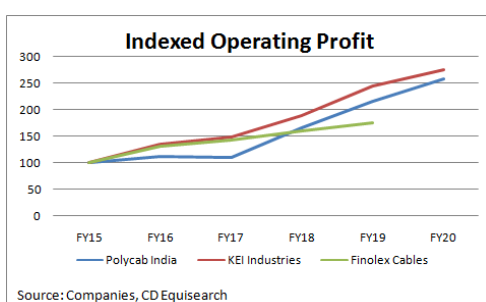
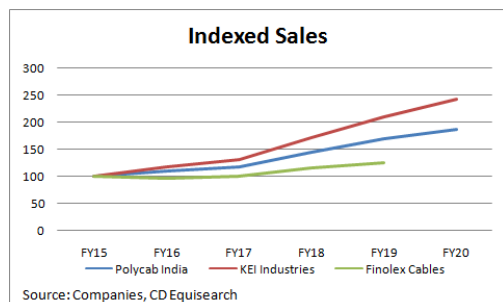
## Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Polycab India	149	800	11909	8830	760	12.9	8.8	21.6	22.9	1.3	3.1	15.7
KEI Industries	18	352	3149	4888	256	10.2	5.2	3.5	22.5	0.6	2.1	12.3
Finolex Cables	31	308	4706	3049	454	14.8	11.7	466.8	16.3	1.5	1.6	10.4

\*figures in crores; calculations on ttm basis

National lockdown in March disrupted revenue from operations for KEI, which witnessed no uptick in Q4FY20 (Revenues flat at Rs.1258.53 cr). Cables business, which contributes over 70% to the topline, grew by 6% y-o-y to Rs. 1033.23 cr. EPC segment declined by 4.2% y-o-y during the same period to settle at Rs. 370 cr. Despite a minor decline in raw material costs (excluding sub-contracting costs for EPC projects) – raw materials as a percentage of sales fell from 71.8% in Q4FY19 to 68.2% in Q4FY20, operating profit failed to hold steady, declining by 10.3% y-o-y to Rs. 121.83 cr. PBT declined 7.3% in the last quarter of FY20, partially due to lower operating profit and higher depreciation (up 58.9%). PAT rose tepidly by 5.2% on the back of lower tax liability.

Despite robust volume growth of 17% in automotive wires and 5% in electrical wires, revenues declined 6.3% to Rs. 702.36 cr in Q3FY20 partially contributed by lower commodity prices leading to lower realizations. It was also affected by the overall slowdown in the economy and more specifically the power, industrial and communication sector. Difficulties in the telecom industry continued for both private as well as public players, with fibre optic cables being among the worst affected with a contraction in excess of 30% with low investment. Operating profits fell 8.9% in correspondence to the decline in revenues while profit after tax showed decent improvement to reach 102.72 cr during the third quarter of FY20 from Rs. 93.27 cr.



## Financials

### Consolidated Quarterly Results

Figures in Rs crs

	Q4FY20	Q4FY19	% chg	FY20	FY19	% chg
<b>Income From Operations (net of tax)</b>	<b>2129.38</b>	<b>2463.64</b>	<b>-13.6</b>	<b>8829.96</b>	<b>7985.55</b>	<b>10.6</b>
Other Income	46.46	21.70	114.1	92.79	63.78	45.5
<b>Total Income</b>	<b>2175.84</b>	<b>2485.34</b>	<b>-12.5</b>	<b>8922.75</b>	<b>8049.33</b>	<b>10.9</b>
Total Expenditure	1828.81	2220.13	-17.6	7694.93	7032.79	9.4
<b>EBITDA (other income included)</b>	<b>347.03</b>	<b>265.21</b>	<b>30.9</b>	<b>1227.82</b>	<b>1016.54</b>	<b>20.8</b>
Interest	15.93	26.21	-39.2	49.54	116.71	-57.6
Depreciation	42.18	34.31	22.9	160.89	141.45	13.7
<b>PBT</b>	<b>288.92</b>	<b>204.69</b>	<b>41.2</b>	<b>1017.40</b>	<b>758.39</b>	<b>34.2</b>
Tax	68.00	66.80	1.8	244.37	255.76	-4.5
<b>PAT</b>	<b>220.93</b>	<b>137.89</b>	<b>60.2</b>	<b>773.03</b>	<b>502.63</b>	<b>53.8</b>
Minority Interest	1.21	-0.21	-673.9	6.56	0.60	987.9
Share of Associate	-5.78	2.28	-353.6	-7.41	-2.33	218.5
<b>PAT after MI and Associate</b>	<b>213.94</b>	<b>140.38</b>	<b>52.4</b>	<b>759.06</b>	<b>499.70</b>	<b>51.9</b>
Extraordinary Item	-	-	-	-0.99	1.39	-171.4
<b>Adjusted Net Profit</b>	<b>213.94</b>	<b>140.38</b>	<b>52.4</b>	<b>760.05</b>	<b>498.31</b>	<b>52.5</b>
EPS(Rs)	14.37	9.94	44.5	51.05	35.29	44.7

### Segment Results

Figures in Rs crs

	Q4FY20	Q4FY19	% chg	FY20	FY19	% chg
<b>Segment Revenue</b>						
Wires and Cables	1860.54	2121.60	-12.3	7589.84	7064.31	7.4
FMEG	183.27	195.34	-6.2	835.58	643.29	29.9
Others	159.15	218.37	-27.1	596.49	463.74	28.6
Inter segmental elimination	36.18	58.42	-38.1	144.07	134.80	6.9
<b>Total Income*</b>	<b>2166.78</b>	<b>2476.89</b>	<b>-12.5</b>	<b>8877.84</b>	<b>8036.54</b>	<b>10.5</b>
<b>Segment EBIT</b>						
Wires and Cables	282.71	207.95	36.0	930.89	835.06	11.5
FMEG	0.11	1.43	-92.1	16.83	7.45	125.8
Others	16.51	13.08	26.2	90.31	19.79	356.3
Inter segmental elimination	3.55	-	-	15.99	-	-
<b>Total</b>	<b>295.79</b>	<b>222.46</b>	<b>33.0</b>	<b>1022.03</b>	<b>862.31</b>	<b>18.5</b>
Finance Income	9.06	8.44	7.3	44.91	12.79	251.1
Finance Cost	15.93	26.21	-39.2	49.54	116.71	-57.6
<b>PBT</b>	<b>288.92</b>	<b>204.69</b>	<b>41.2</b>	<b>1017.40</b>	<b>758.39</b>	<b>34.2</b>

\*Excluding finance income (as reported by Polycab)

## Consolidated Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
<b>Income From Operations</b>	<b>6770.31</b>	<b>7985.55</b>	<b>8829.96</b>	<b>8089.00</b>	<b>9915.58</b>
Growth (%)	23.1	17.9	10.6	-8.4	22.6
Other Income	64.44	63.78	92.79	83.40	130.84
<b>Total Income</b>	<b>6834.74</b>	<b>8049.33</b>	<b>8922.75</b>	<b>8172.40</b>	<b>10046.42</b>
Total Expenditure	6041.43	7032.79	7694.93	7062.36	8570.61
<b>EBITDA (other income included)</b>	<b>793.32</b>	<b>1016.54</b>	<b>1227.82</b>	<b>1110.04</b>	<b>1475.81</b>
Interest	93.68	116.71	49.54	40.20	38.84
Depreciation	132.95	141.45	160.89	189.28	216.62
<b>PBT</b>	<b>566.68</b>	<b>758.39</b>	<b>1017.40</b>	<b>880.56</b>	<b>1220.36</b>
Tax	208.23	255.76	244.37	221.64	307.16
<b>PAT</b>	<b>358.46</b>	<b>502.63</b>	<b>773.03</b>	<b>658.92</b>	<b>913.20</b>
Minority Interest	0.55	0.60	6.56	5.25	5.51
Share of Associate	0.11	-2.33	-7.41	1.70	1.70
<b>PAT after MI and Associates</b>	<b>358.01</b>	<b>499.70</b>	<b>759.06</b>	<b>655.37</b>	<b>909.38</b>
Extraordinary Item	3.10	1.39	-0.99	0.00	0.00
<b>Net Profit</b>	<b>354.91</b>	<b>498.31</b>	<b>760.05</b>	<b>655.37</b>	<b>909.38</b>
EPS (Rs)	25.13	35.29	51.05	44.02	61.08

## Segment Results

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
<b>Segment Revenue</b>					
Wires and Cables	6316.97	7064.31	7589.84	6830.86	8265.33
FMEG	485.29	643.29	835.58	800.76	1055.72
Others	249.07	463.74	596.49	593.51	774.00
Inter segmental elimination	74.68	134.80	144.07	136.13	179.47
<b>Total Income*</b>	<b>6976.65</b>	<b>8036.54</b>	<b>8877.84</b>	<b>8089.00</b>	<b>9915.58</b>
<b>Segment EBIT</b>					
Wires and Cables	640.72	835.06	930.89	819.70	1074.49
FMEG	8.83	7.45	16.83	20.02	36.95
Others	8.08	19.79	90.31	59.35	92.88
Inter segmental elimination	0.00	0.00	15.99	16.02	21.11
<b>Total</b>	<b>657.62</b>	<b>862.31</b>	<b>1022.03</b>	<b>883.06</b>	<b>1183.21</b>
Finance Income	2.74	12.79	44.91	37.70	75.99
Finance Cost	93.68	116.71	49.54	40.20	38.84
<b>PBT</b>	<b>566.68</b>	<b>758.39</b>	<b>1017.40</b>	<b>880.56</b>	<b>1220.36</b>

## Consolidated Balance Sheet

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
<b>Sources of Funds</b>					
Share Capital	141.21	141.21	148.88	148.88	148.88
Reserves	2206.41	2705.75	3687.54	4342.91	5148.08
<b>Total Shareholders' Funds</b>	<b>2347.62</b>	<b>2846.96</b>	<b>3836.42</b>	<b>4491.79</b>	<b>5296.96</b>
Minority Interest	4.05	8.43	15.00	20.25	25.76
Long Term Debt	158.95	88.93	10.66	10.66	10.66
<b>Total Liabilities</b>	<b>2510.62</b>	<b>2944.31</b>	<b>3862.07</b>	<b>4522.70</b>	<b>5333.38</b>
<b>Application of Funds</b>					
Gross Block	1567.53	1785.90	2066.38	2437.55	2687.55
Less: Accumulated Depreciation	370.40	510.32	644.36	833.65	1050.26
<b>Net Block</b>	<b>1197.13</b>	<b>1275.58</b>	<b>1422.01</b>	<b>1603.91</b>	<b>1637.29</b>
Capital Work in Progress	135.99	193.00	241.18	150.00	150.00
Investments	31.55	29.39	65.48	857.18	1158.88
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	1365.70	1995.79	1924.95	1779.58	2181.43
Trade Receivables	1290.82	1334.32	1433.64	1361.96	1498.16
Cash and Bank	10.64	316.65	281.31	479.78	344.70
Short term loans	19.24	20.74	24.44	24.09	25.55
Other Assets	239.51	256.69	345.58	349.54	384.28
<b>Total CA &amp; LA</b>	<b>2925.91</b>	<b>3924.18</b>	<b>4009.92</b>	<b>3994.95</b>	<b>4434.12</b>
Current Liabilities	1816.78	2598.07	1985.31	2168.18	2150.70
Provisions-Short term	37.63	20.87	23.78	25.86	29.34
<b>Total Current Liabilities</b>	<b>1854.42</b>	<b>2618.94</b>	<b>2009.09</b>	<b>2194.04</b>	<b>2180.04</b>
Net Current Assets	1071.49	1305.24	2000.83	1800.91	2254.09
Net Deferred Tax	-55.34	-23.10	-16.48	-23.36	-25.86
Net long term assets	129.80	164.20	149.06	134.07	158.99
<b>Total Assets</b>	<b>2510.62</b>	<b>2944.31</b>	<b>3862.07</b>	<b>4522.70</b>	<b>5333.38</b>



## Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
<b>Growth Ratios (%)</b>					
Revenue	23.1	17.9	10.6	-8.4	22.6
EBITDA	42.0	28.7	21.2	-9.7	33.0
Net Profit	52.6	40.4	52.5	-13.8	38.8
EPS	52.6	40.4	44.7	-13.8	38.8
<b>Margins (%)</b>					
Operating Profit Margin	10.8	11.9	12.9	12.7	13.6
Gross profit Margin	10.3	11.2	13.4	13.2	14.5
Net Profit Margin	5.2	6.3	8.8	8.1	9.2
<b>Return (%)</b>					
ROCE	13.8	18.6	22.9	15.8	18.7
ROE	16.4	19.4	22.9	15.9	19.0
<b>Valuations</b>					
Market Cap/ Sales	-	-	1.3	1.5	1.2
EV/EBITDA	-	-	8.9	10.6	8.0
P/E	-	-	14.5	18.2	13.1
P/BV	-	-	2.9	2.7	2.3
<b>Other Ratios</b>					
Interest Coverage	7.0	7.5	21.6	22.9	32.4
Debt Equity	0.3	0.1	0.0	0.1	0.0
Current Ratio	1.6	1.5	2.0	2.1	2.4
<b>Turnover Ratios</b>					
Fixed Asset Turnover	5.8	6.5	6.5	5.3	6.1
Total Asset Turnover	2.9	3.0	2.6	2.0	2.1
Debtors Turnover	5.5	6.1	6.4	5.8	6.9
Inventory Turnover	4.2	4.2	3.9	3.8	4.3
Creditor Turnover	5.3	5.8	5.4	5.0	5.8
<b>WC Ratios</b>					
Debtor Days	66.4	60.0	57.2	63.1	52.6
Inventory Days	87.2	87.2	93.0	95.7	84.3
Creditor Days	68.8	63.4	68.2	72.3	63.0
Cash Conversion Cycle	84.8	83.8	82.0	86.5	73.9

## Cumulative Financial Data

Rs crs	FY17-19	FY20-22e
Income from operations	20256	26835
Operating profit	2162	3508
EBIT	1956	3248
PBT	1680	3120
PAT after MI & AP	1086	2325
OPM (%)	10.7	13.1
NPM (%)	5.4	8.7
Interest coverage	7.1	25.3
Debt-equity*	0.1	0.0
ROE (%)	15.8	19.4
ROCE (%)	15.0	19.4
Fixed asset turnover	6.0	6.1
Debtors turnover	5.1	6.3
Creditors turnover	4.7	5.1
Inventory turnover	4.1	3.7
Debtor days	71.9	57.8
Inventory days	90.1	98.0
Creditor days	78.0	71.3
Cash Conversion	84.0	84.6

FY17-19 implies three year period ending fiscal 19

\*as on terminal year

Struck by no smallish effect of virus, Polycab India will doubtlessly struggle regaining lost revenue in the first quarter of current fiscal post reopening of lockdown in May - a no small quarter since it contributes over 20% to annual revenues. Cumulative revenues in FY20-22e period would thus grow by a third from that in the preceding period (see table). Operating efficiencies coupled with better product mix and higher realizations would help galvanize margins to 13.1% from 10.7% in combined period FY20-22e.

Post tax earnings, which rose in FY20 due to lower finance cost and tax cut, is expected to grow by a massive 114%. ROCE is expected to improve from 15% to 19.4% in FY20-22e not least due to large gains obtained in FY20. Improvement in receivables is expected to aid working capital requirements but cash conversion is barely expected to nudge from FY17-19 levels.

## Financial Summary- US Dollar denominated

million \$	FY18	FY19	FY20	FY21e	FY22e
Equity capital	21.7	20.4	19.7	19.7	19.7
Shareholders' funds	360.9	404.2	508.9	579.5	685.9
Total debt	123.0	39.4	20.8	42.0	15.9
Net fixed assets (inc CWIP)	205.0	212.3	220.6	231.7	236.1
Investments	4.8	4.2	8.7	113.2	153.1
Net current assets	164.7	181.3	265.4	224.1	284.0
Total assets	386.0	418.3	512.3	583.6	690.7
Revenues	1050.5	1142.6	1245.8	1068.4	1309.7
EBITDA	122.3	145.2	173.4	146.6	194.9
PBDT	107.8	128.5	166.4	141.3	189.8
PBT	87.2	108.2	143.7	116.3	161.2
Profit after MI & EO	55.1	71.3	107.2	86.6	120.1
EPS (\$)	0.39	0.50	0.72	0.58	0.81
Book Value (\$)	2.56	2.86	3.42	3.89	4.61

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 75.71/\$).  
All dollar denominated figures are adjusted for extraordinary items.

## Recommendation

Burgeoning demand for electricity on the backdrop of robust economic growth, fast paced urbanization and rise in per capita consumption, has stimulated India to strengthen and expand its existing generation and transmission & distribution capabilities. T&D segment is poised to experience robust growth as the demand for energy rises. T&D accounts for a major share in the demand for power cables. Polycab has undertaken a large amount of capital expenditure over the last 5 years, including most recently in FY20 when it spent almost Rs. 300 cr majority of which went into the wires and cables business.

Polycab has expanded its business portfolio to include FMEG segment thereby increasing share of non wires and cables business to almost 16% from a measly 10% just 2 years ago. Although, wires and cables segment continues to dominate a chunk of its revenues and profits, the addition of FMEG segment was a natural extension of its wires and cables business, primarily due to high correlation of raw materials requirement in FMEG and their primary business. Due to their philosophy of in-house manufacturing, a lot of FMEG products, including fans are being manufactured in-house. To integrate further, they set up a copper plant, which is their main raw material, to improve quality. India has become a net exporter of wires and cables; Polycab has increased its export presence with its most recent order from Dangote amounting to Rs. 950 cr, and they are on the lookout for more such orders to diversify their portfolio.

Polycab has evolved from a largely B2B play to a fast-growing B2C brand. Driving this growth as a powerhouse in India's consumer electricals market have been their investments in branding and marketing with good results. Polycab's initial strategy was to focus on strengthening not only above-the-line but also below-the-line and through-the-line communication. This ensured not only top-of-mind recall for the brand but similar recognition at point-of-sale and post-purchase satisfaction.

Polycab's revenues have grown over 14% between FY16-20, although looking closely at the numbers, its primary business has shown sub 10% increase over the last couple of years (last few days of FY20 were impacted due to the pandemic) and our estimates suggest, that it will not reach FY20 levels in terms of revenue for atleast another couple of years. The FMEG business margins are another cause of concern – At the EBIT level, it is just at 2%, contributing Rs. 16.8 cr which is a cause for concern, more so when the capital employed in this business is almost Rs 400 crs.

The stock currently trades at 18.2x FY21e EPS of Rs 44.02 and 13.1x FY22e EPS of Rs 61.08. Although demand prospects are barely disappointing, fluctuation in raw material prices poses a key challenge. Realization and profitability depend of copper and aluminum commodity prices. Polycab's market share of the total market has been stable at 18% over the last 3 years while its distribution network has grown to cover over 125000 from over 100000 retailers in FY19 despite reduced numbers of authorized dealers at 3450. Polycab won an order from Dangote worth Rs. 950 cr to supply wires and cables to the African company for its oil and gas projects which is expected to be completed by Q1FY21. Weighing odds, we advise buy rating on the stock with target price of Rs 1099 based on 18x FY22e EPS of Rs 61.08 over a period of 9-12 months.

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buy: >20%    accumulate: >10% to ≤20%    hold: ≥-10% to ≤10%    reduce: ≥-20% to <-10%    sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY15	FY16	FY17	FY18	FY19	FY20
Average	61.15	65.46	67.09	64.45	69.89	70.88
Year end	62.59	66.33	64.84	65.04	69.17	70.39

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.