



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 999	
Price Target: Rs. 1,200	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

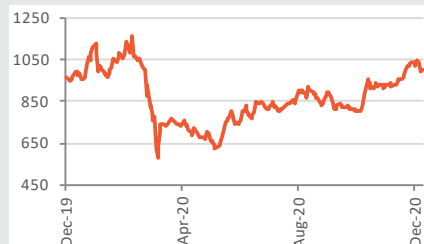
## Company details

Market cap:	Rs. 14,892 cr
52-week high/low:	Rs. 1,180 / 572
NSE volume: (No of shares)	14.9 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.68 cr

## Shareholding (%)

Promoters	68.5
FII	15.6
DII	2.1
Others	13.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7	18	24	5
Relative to Sensex	3	-3	-8	-6

Sharekhan Research, Bloomberg

## Polycab India Limited

## Strong traction in underlying user-industries

## Capital Goods

## Sharekhan code: POLYCAB

## Company Update

## Summary

- We retain Buy on Polycab India Limited (Polycab) with a revised PT of Rs. 1,200, given the improvement in demand in underlying user-industries.
- Strong traction seen in new launches and sales in pan-India residential market is expected to drive the company's housing wires and FMEG segments.
- Multiple price hike undertaken by the company led by a rise in copper prices to drive C&W revenues along with underlying healthy demand. Copper volatility is a natural hedge unaffected margin profile.
- The company to deepen its presence in semi-urban and rural markets to drive FMEG business. Exports to remain focus area to aid C&W revenue growth.

We interacted with the management of Polycab for business update about the current and the outlook of the company and the industry. The company is expecting better Q3FY2021 compared to Q2FY2021. We expect its Cables division (~55% of revenues) to be driven by sharp price hikes undertaken (in tandem with almost 20% rise in copper prices since Q2FY2021) along with good demand (company sees underlying demand trend barring channel stocking). However, in cables, 20-25% institutional demand has been weak and would take another six months to recover. The company is not affected by volatility in copper prices as it procures copper (85% comes from Japan) at provisional price which is eventually passed on to the vendor at the rate it is finally sold to distributors/retailers. Its B2C segment (FMEG & housing wires) comprising ~35%+ revenue share is seeing much better growth led by the growth in housing sector. The pan-India residential segment (comprising seven major cities) has seen a steep rise in new launches and sales during Q3FY2021 by 62% q-o-q and 72% q-o-q respectively. Further, registration of documents in Mumbai and Maharashtra rose by 166% q-o-q and 52% q-o-q respectively. In FMEG, the company would be launching IoT based, technology driven app based new products having voice command feature in next month. It is targeting to be in top five FMEG players and eventually in top three. The same would be achieved through the premiumization of existing portfolio, deepening penetration in semi-urban and rural markets, and increasing share of FMEG sales in existing network (currently ~18% out of 3,650 dealer/distributors cater to FMEG). On the export front, Polycab is witnessing good traction in developed geographies (US, Australia, Asia, and Middle East). It has been receiving orders from CIS, Russia, south Asian countries. The cables & wires global market size is estimated at \$140-150 billion with imports at about \$35-40 billion. The company's addressable market is estimated at ~\$15 billion. The company is targeting double digit contribution from exports over next two to three years. The company would be incurring Rs. 250-300 crore capex in FY2021. Going ahead, it would be incurring Rs. 300-350 crore capex per year. The capex would be done for exports growth in C&W (Cables & Wires) and increasing capacity in Fans and de-bottlenecking. Polycab also has enough leeway in improving working capital as currently, 65% of C&W revenues is done through channel financing while 18-20% in FMEG. Both the segment has the potential to reach 85%. We believe the company is on a healthy growth trajectory owing to its leadership position and a strong product portfolio both in wires and cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at a P/E of 18.6x/16.8x its FY2022E/FY2023E EPS. We retain Buy on the stock with a revised price target (PT) of Rs. 1200.

## Our Call

**Valuation –Retain Buy with a revised PT of Rs. 1,200:** Polycab is expected to maintain healthy performance led by strong traction in housing segment, input cost led price hikes undertaken in C&W segment, rising exports and scaling up of FMEG business with new product launches. The company has also strong growth tailwinds in terms of rising infrastructure investments and revival in private capital expenditure. Polycab's strategy of deepening penetration in semi-urban and rural markets bodes well in providing sustainable long term growth. Overall, we believe the company is on a healthy growth trajectory owing to its leadership position and a strong product portfolio both in wires and cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at a P/E of 18.6x/16.8x its FY2022E/FY2023E EPS. We retain Buy on the stock with a revised price target (PT) of Rs. 1200.

## Key Risks

Fluctuations in raw-material prices would affect margins.

## Valuations (Consolidated)

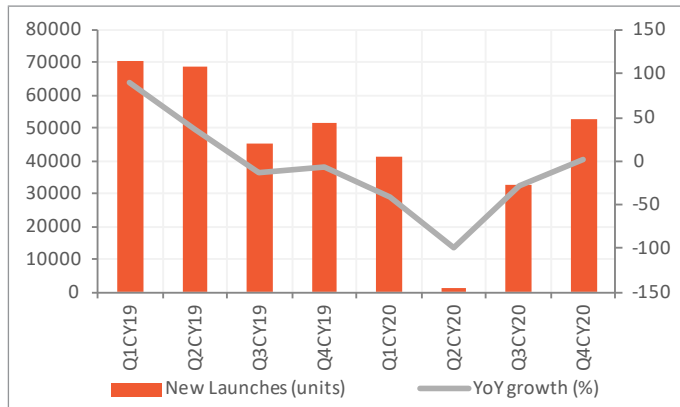
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	8,830	8,304	9,570	10,531
OPM (%)	12.9	11.6	12.1	12.4
Adjusted PAT	766	639	798	883
% YoY growth	53.0	(16.5)	24.9	10.6
Adjusted EPS (Rs.)	54.2	42.9	53.6	59.3
P/E (x)	18.4	23.3	18.6	16.8
P/B (x)	3.9	3.4	2.9	2.5
EV/EBITDA (x)	12.0	13.5	11.1	9.4
RoNW (%)	22.9	15.5	16.9	16.2
RoCE (%)	30.5	21.2	22.4	22.2

Source: Company; Sharekhan estimates

## Sharp surge in residential market to aid in B2C segment growth

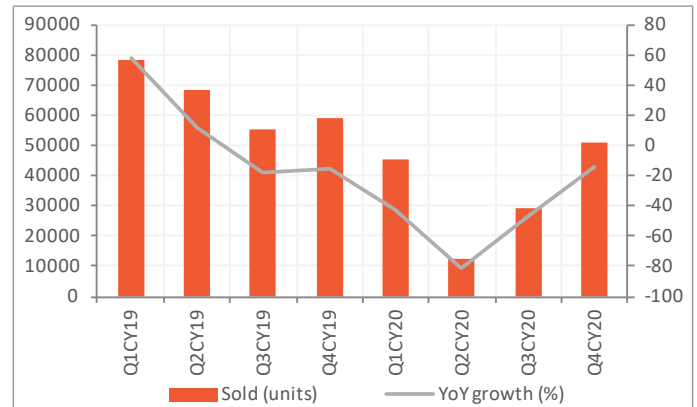
Pan-India residential market (seven major cities) have seen strong traction in new launches and sales coming out of Covid led lockdown. The pan-India new launches during Q4CY2020 grew 62.4% q-o-q (up 1.9% y-o-y) to 52,830 units while sales rose 72.4% q-o-q (down 14% y-o-y). Further, the number of documents registered as conveyance sales in Mumbai during Q3FY2021 saw a steep rise of 62.6% y-o-y (up 165.8% q-o-q) while in Maharashtra it saw a rise of 46% y-o-y (up 51.6% q-o-q) led by a fillip given by state government through reduction of stamp duty. The sharp improvement in residential market bodes well for Polycab's B2C segment (housing wire sales and FMEG businesses) which is over 35% of overall revenues.

**Pan-India Residential launchtrend**



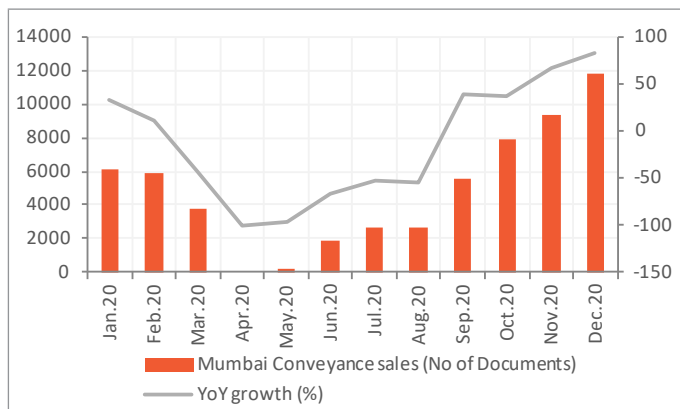
Source: Anarock; Sharekhan Research

**Pan-India Residential Sales trend**



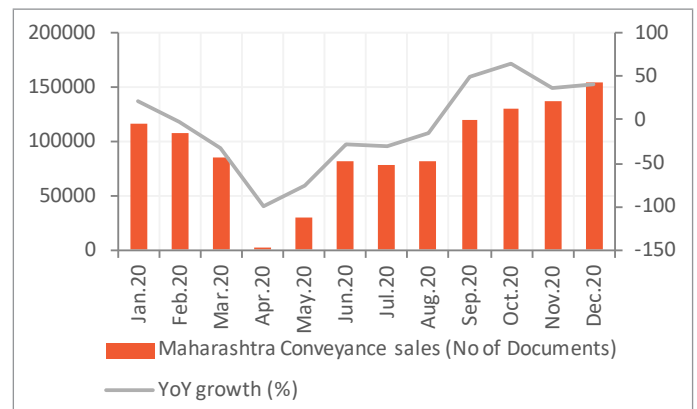
Source: Anarock; Sharekhan Research

**Mumbai Property Registration trend**



Source: Industry; Sharekhan Research

**Maharashtra Property Registration trend**



Source: Industry; Sharekhan Research

**Business gaining momentum:** The company is expecting better Q3FY2021 compared to Q2FY2021. We expect its Cables division (~55% of revenues) to be driven by sharp price hikes undertaken (in tandem with almost 20% rise in copper prices since Q2FY2021) along with good demand (company sees underlying demand trend barring channel stocking). However, in cables, 20-25% institutional demand has been weak and would take another six months to recover. The company is not affected by volatility in copper prices as it procures copper (85% comes from Japan) at provisional price which is eventually passed on to the vendor at the rate it is finally sold to distributors/retailers. Its B2C segment (FMEG & housing wires) comprising ~35%+ revenue share is seeing much better growth led by the growth in housing sector. The pan-India residential segment (comprising seven major cities) has seen a steep rise in new launches and sales during Q3FY2021 by 62% q-o-q and 72% q-o-q respectively. Further, registration of documents in Mumbai and Maharashtra rose by 166% q-o-q and 52% q-o-q respectively. In FMEG, the company would be launching IoT based, technology driven app based new products having voice command feature in next month. It is targeting to be in top five FMEG players and eventually in top three. The same would be achieved through the premiumization of existing portfolio, deepening penetration in semi-urban and rural markets, and increasing share of FMEG sales in existing network (currently ~18% out of 3,650 dealer/distributors cater to FMEG).

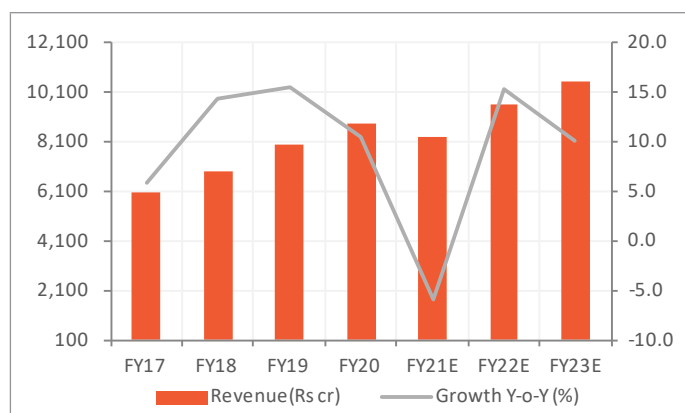
**Exports looking up:** On the export front, Polycab is witnessing good traction in developed geographies (US, Australia, Asia, and Middle East). It has been receiving orders from CIS, Russia, south Asian countries. The cables & wires global market size is estimated at \$140-150 billion with imports at about \$35-40 billion. The company's addressable market is estimated at ~\$15 billion.

### Key Conference Call Takeaways:

- ♦ B2C segment: The company's B2C segment comprising ~35%+ revenue share (FMEG & housing wires) is seeing much better growth led by the growth in housing sector.
- ♦ Housing wire growth: The company has seen strong traction in housing wire segment led by improvement in sales velocity in housing segment during Q3FY2021.
- ♦ Distribution & direct institutional business: The business through distributors (over 80% revenue mix) is still growing. However, direct Institutional business (~12% of revenues) will take another six months to recover.
- ♦ Metros, Tier I, II and below cities: The sales from metros contribute ~50% of the revenues. The company has strong direct distribution reach in Tier I & II cities. Below Tier II, the direct distribution is weak. The company has seen Tier II & below cities still growing at much faster pace.
- ♦ Deepening penetration: The company has launched a pilot project in semi-urban & rural markets (two each in West and South) assigning super distributor which would sell products to long arm salesman to develop retail channel in FMEG space. This would help strengthening its presence in semi-urban & rural markets once the pilot project is successful and implemented pan-India. The company wants to expand distribution reach for FMEG business through new retailer additions and increasing contribution from its own network (~18% of 3650 C&E dealer/distributors is used in FMEG). It has potential to double its 1.4 lakh retail touch points.
- ♦ FMEG strategy: The company would be getting into higher price points in its existing FMEG products. It would be launching new product portfolio by next month which would be IoT, technologically, app based driven with voice command feature. The new products would be having better margin profile. It wants to get into top five and top three in FMEG space. In Fans, currently, it is in top six nationally.
- ♦ Export opportunities: The company have been receiving global certification of products for exports and have been incorporating subsidiaries overseas. It has been receiving orders from CIS, Russia, south asian countries. The key focus geographies would be USA, Australia, UK, part of Middle East. The cables & wires global market size is estimated at \$140-150 billion. About \$35-40 billion is getting imported. The company's addressable market is ~\$15 billion. The company is targeting double digit contribution from exports over the next two to three years.
- ♦ Capex: The company would be incurring Rs. 250-300 crore capex in FY2021. Going ahead, it would be incurring Rs. 300-350 crore capex per year. The capex would be done for exports growth in C&W and increasing capacity in Fans and de-bottlenecking.
- ♦ Channel financing: Currently, 65% of C&W revenues is done through channel financing while 18-20% in FMEG. Both the segment has the potential to reach 85% providing enough leeway for improving working capital.
- ♦ Copper price rise: Copper prices have risen ~20% since Q2FY2021 end which has led to multiple price hikes by the company and the industry. The company is not affected by volatility in copper prices as it procures copper (85% comes from Japan) at provisional price which is eventually passed on to the vendor at the rate it is finally sold to distributors/retailers.
- ♦ Market share gain: The company's internal assessment highlights that they may have gained market share during the current quarter. However, they would await for the industry body to report the exact numbers. Currently, it has 12-13% market share in C&W overall and 18-20% in organized market. In FMEG, it has overall 1.5-2% market share in its categories with fans comprising 5-6% share nationally.
- ♦ Inventory: The company's inventory of 130 days as of Q2FY2021 can be bifurcated to 47 days inventory in Finished goods and balance in raw materials & work-in-progress.

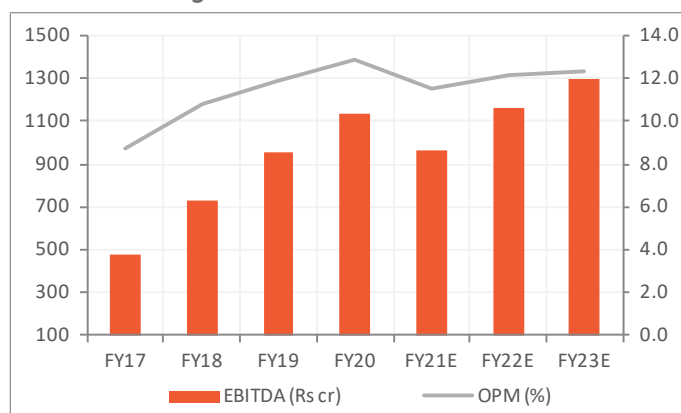
## Financials in charts

### Revenue trend



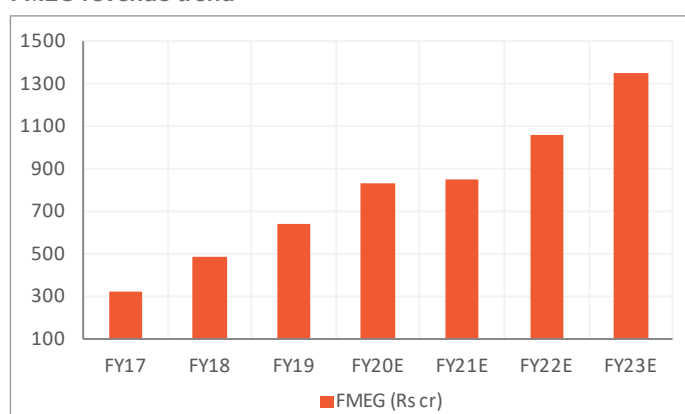
Source: Company, Sharekhan Research

### EBITDA and Margin Trend



Source: Company, Sharekhan Research

### FMEG revenue trend



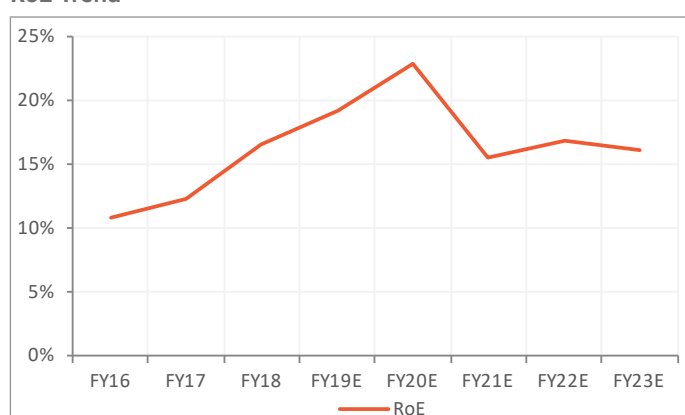
Source: Company, Sharekhan Research

### PAT trend



Source: Company, Sharekhan Research

### RoE Trend



Source: Company, Sharekhan Research

### RoCE Trend



Source: Company, Sharekhan Research

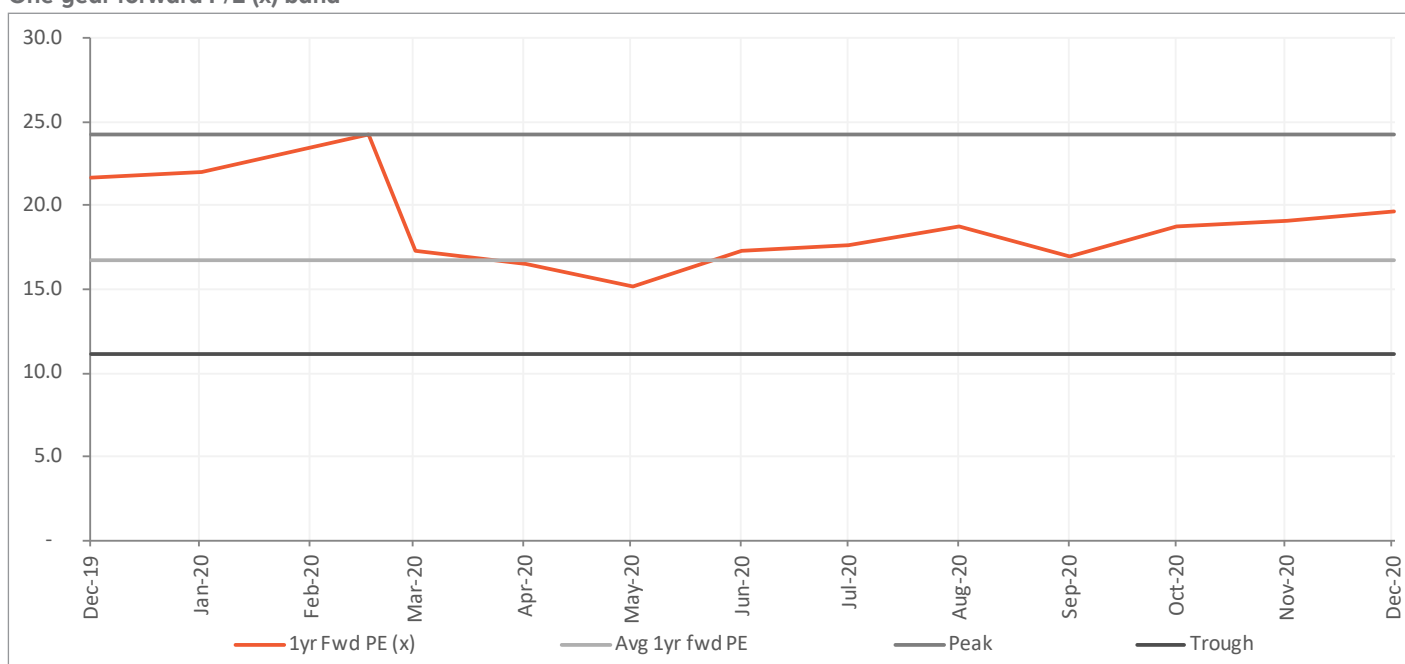
## Outlook and Valuation

■ **Sector View – Ample levers offers scope for growth:** Domestic demand side is improving with unlocking, infrastructure, and construction back in action with labour issues largely resolved, which provides a positive outlook ahead. The wires and cables industry contributes 40%-45% to India's electrical equipment industry. In terms of volumes, the Indian wires and cables industry (including exports) has grown from 6.3mn kms in FY2014 to 14.5million kms in FY2018, posting a ~23% CAGR over the period. The industry registered an ~11% CAGR in value terms, from Rs. 34,600 crore in FY2014 to Rs. 52,500 crore in FY2018. The C&W industry was expected to register a CAGR of 14.5% from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. However, a slowdown in infrastructure growth and uncertainty in real estate will lead to moderation in growth for the C&W segment. Gradual resumption of normal economic activity and infrastructure projects will push recovery to H2FY2021. The government has envisaged Rs.111 lakh crore capital expenditure in infrastructure sectors in India during FY2020 to FY2025. Sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected infrastructure investment. The continued thrust of the government on infrastructure investment is expected to improve the demand environment for the W&C industry. The Indian FMEG industry has many growth opportunities led by macro drivers such as evolving consumer aspirations, increasing awareness, rising income, rural electrification, urbanisation, and digital connectivity. Products such as energy-efficient fans, modular switches, building and home automation, and LED lights are riding an ever-increasing wave of consumer demand. There is also a rising demand for various electrical appliances.

■ **Company outlook – Improving business environment:** Domestic demand witnessed bounce back with improving business environment. Post easing of the lockdown, the company is witnessing demand from tier 2 and tier 3 cities and rural India. The company is gradually bouncing and expected to improve ahead owing to its leadership position and a strong product portfolio both in wires and cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The company is expecting better Q3FY2021 compared to Q2FY2021. Strong traction seen in new launches and sales in pan-India residential market is expected to drive the company's housing wires and FMEG segments. The company to deepen its presence in semi-urban and rural markets to drive FMEG business. Exports to remain focus area to aid C&W revenue growth.

■ **Valuation – Retain Buy with a revised PT of Rs. 1,200:** Polycab is expected to maintain healthy performance led by strong traction in housing segment, input cost led price hikes undertaken in C&W segment, rising exports and scaling up of FMEG business with new product launches. The company has also strong growth tailwinds in terms of rising infrastructure investments and revival in private capital expenditure. Polycab's strategy of deepening penetration in semi-urban and rural markets bodes well in providing sustainable long term growth. Overall, we believe the company is on a healthy growth trajectory owing to its leadership position and a strong product portfolio both in wires and cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at a P/E of 18.6x/16.8x its FY2022E/FY2023E EPS. We retain Buy on the stock with a revised price target (PT) of Rs. 1200.

### One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Polycab manufactures and sellswires and cables and FMEGs, besides executing a few EPC projects. The company has 25 manufacturing facilities, including two joint ventures with Techno and Trafigura, located across Gujarat, Maharashtra, Uttarakhand, and the union territory of Daman and Diu. Polycab strives to deliver customised and innovative products with speed and quality service.

## Investment theme

Polycab is the market leader in the wires and cables space with an extensive product portfolio and distribution reach coupled with accelerated growth in the FMEG space, which augurs well for growth visibility. The company's market position and success are driven by its robust distribution network, wide range of product offerings, efficient supply chain management, and strong brand image. Revenue from the wires and cable segment has been growing at a decent pace. Further, increasing market share of organised players, augurs well for the industry leader and government initiatives like housing for all and national infrastructure policy bodes well for the company.

## Key Risks

- ♦ **Fluctuations in raw-material prices pose a key challenge:** Any sharp increase or decrease in the prices of key raw material (copper and aluminium) will impact margins.
- ♦ **Currency risk:** Polycab faces forex risks as a significant portion of its raw-material purchases, particularly aluminum, copper, and PVC compound, are priced with reference to benchmarks quoted in US Dollar terms. Hence, expenditure is largely influenced by the value of US Dollar.

## Additional Data

### Key management personnel

Inder T. Jaisinghani	Chairman and Managing Director
Ajay T. Jaisinghani	Whole-Time Director
R. Ramakrishnan	Chief Executive Officer
Bharat A. Jaisinghani	Director – FMEG Business (Non-board member)
Manoj Verma	Executive President & Chief Operating Officer (CE)
Gandharv Tongia	Deputy Chief Financial Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jaisinghani Inder	14.41
2	Jaisinghani Girdhari T	14.34
3	Jaisinghani Ajay T	14.29
4	Jaisinghani Ramesh T	14.29
5	IFC	9.48
6	International Finance Corp	9.48
7	Jaisinghani Kunal	3.91
8	Jaisinghani Bharat	3.68
9	Jaisinghani Nikhil	3.68
10	Hariani Anil	3.57

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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