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Polycab India Limited

User industries traction to remain strong

Capital Goods	Sharekhan code: POLYCAB	Company Update

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. 1,280**	
Price Target: **Rs. 1,530**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

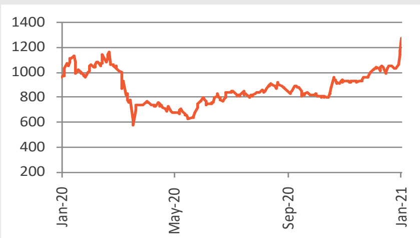
Company details

Market cap:	Rs. 19,080 cr
52-week high/low:	Rs. 1,300/572
NSE volume: (No of shares)	14.0 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.7 cr

Shareholding (%)

Promoters	68.5
FII	15.9
DII	2.7
Others	12.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	26	55	53	33
Relative to Sensex	20	35	22	16

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Polycab India Limited (Polycab) with a revised PT of Rs. 1,530, given the improvement in demand in underlying user-industries.
- Strong traction in new launches and demand from residential housing would drive the company's housing wires and FMEG businesses.
- Exports would aid revenue growth in cables & wires segment, for which global market is estimated at $140-150 billion with imports of $35-40 billion; company's addressable market remains at ~$15 billion.
- Company to deepen its presence in semi-urban and rural markets; focus on premiumisation and increasing share of FMEG sales in existing network to drive the business.

Polycab, being the market leader in wires & cables (W&C) segment, remains the major beneficiaries to reap benefit from a pick-up in real estate demand and a revival in government spends in power, infrastructure, railways and housing. The company has presence across segments like power cables, control cables, optic fiber cables, instrumentation cables and solar cables to cater to various requirement. A combination of low interest rates, tax benefits, lower stamp duty, attractive developer schemes and low property prices are positive for housing and housing-related products in the near to medium term. A gradual demand recovery across residential is being witnessed and can be substantiated from the fact that 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. Polycab's B2C segment (FMEG & housing wires) that fetches over ~35% of revenue is seeing better growth led by the strong housing sector. The government's thrust on the Atmanirbhar Bharat scheme will drive sustained capex across key sectors and private capex with more focus on automation from key industries should aid demand for power cables, along with other electrical products benefitting the company. On the FMEG front the company remains focused with its diverse product basket wherein the addressable market opportunity is huge for the company. The company targets to be in top five FMEG players and eventually in the top three. The same would be achieved through premiumisation of existing products, deepening penetration in semi-urban and rural markets, and increasing share of FMEG sales in existing network (currently ~18% 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 global cables & wires market is estimated at $140-150 billion with imports at $35-40 billion. The company's addressable market is estimated at ~$15 billion. The company has earlier stated that it 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 and increasing capacity in fans and de-bottlenecking. Polycab also has enough leeway in improving working capital cycle, as currently, 65% of C&W revenues is done through channel financing while 18-20% in FMEG. Both segments have the potential to reach 85%. Due to sustainable demand and growth across its FMEG business we expect Q3FY2021 to be better than Q2FY21. We believe the company is on a healthy growth trajectory owing to its leadership position and a strong product portfolio both in the wires & cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at a P/E of 23.9/21.6x its FY2022E/FY2023E EPS. We retain Buy on the stock with a revised price target (PT) of Rs. 1,530.

Our Call

Valuation –Retain Buy with a revised PT of Rs. 1,530: 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 the semi-urban and rural markets focus along with premiumisation of existing portfolio and increasing share of FMEG sales in existing network 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 & cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at a P/E of 23.9/21.6x its FY2022E/FY2023E EPS. We retain Buy on the stock with a revised price target (PT) of Rs. 1530.

Key Risks

Fluctuations in raw-material prices would affect margins sharply.

Valuation (Consolidated) Rs cr

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)	23.6	29.8	23.9	21.6
P/B (x)	5.0	4.3	3.8	3.3
EV/EBITDA (x)	15.4	17.4	14.3	12.3
RoNW (%)	22.9	15.5	16.9	16.2
RoCE (%)	30.5	21.2	22.4	22.2

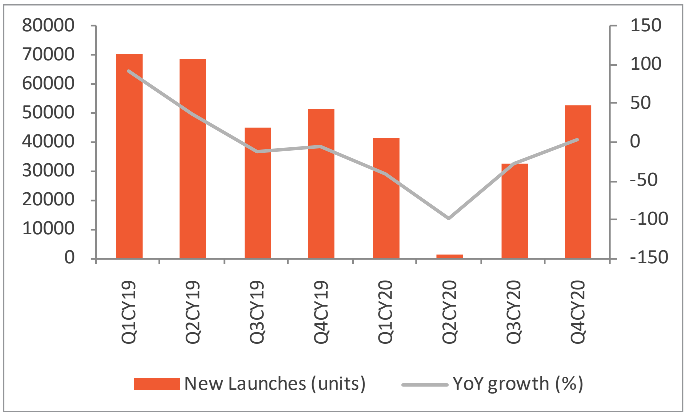
Source: Company; Sharekhan estimates

Business gaining momentum: Polycab, being the market leader in wires & cables (W&C) segment, remains the major beneficiaries to benefit from a pick-up in real estate demand and a revival in government spends in power, infrastructure, railways and housing. The company has a presence across segments like power cables, control cables, optic fiber cables, instrumentation cables and solar cables. A combination of low interest rates, tax benefits, lower stamp duty, attractive developer schemes and low property prices are positive for housing and housing-related products in the near to medium term. A gradual demand recovery across residential is being witnessed and can be substantiated from the fact that 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 property in Mumbai and Maharashtra rose by 166% q-o-q and 52% q-o-q respectively. Polycab's B2C segment (FMEG & housing wires) that fetches over ~35% of revenue is seeing better growth led by the strong housing sector. The government's thrust on the Atmanirbhar Bharat scheme will drive sustained capex across key sectors and private capex with more focus on automation from key industries should aid demand for cables, along with other electrical products benefitting the company. On the FMEG front the company remains focused with its diverse product basket wherein the addressable market opportunity is huge for the company. The company targets to be in top five FMEG players and eventually in the top three. The same would be achieved through premiumisation of existing products, deepening penetration in semi-urban and rural markets, and increasing share of FMEG sales in existing network (currently ~18% of 3,650 dealer/distributors cater to FMEG).

Sharp surge in residential realty to drive B2C business

The pan-India residential real estate market (seven major cities) have seen strong traction in new launches and sales coming out of Covid led lockdown. 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. A 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 launches

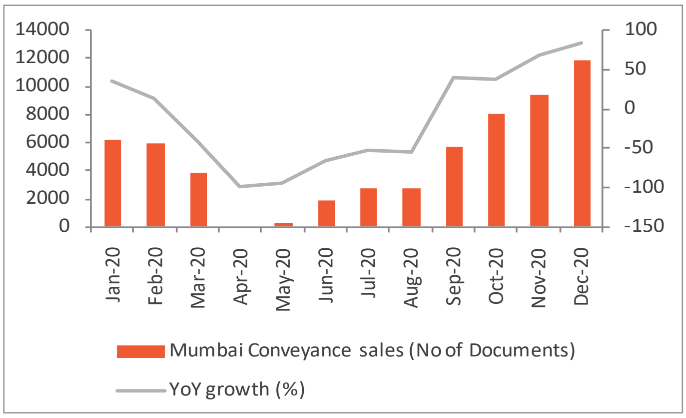


Source: Anarock; Sharekhan Research

Pan-India Residential Sales trend

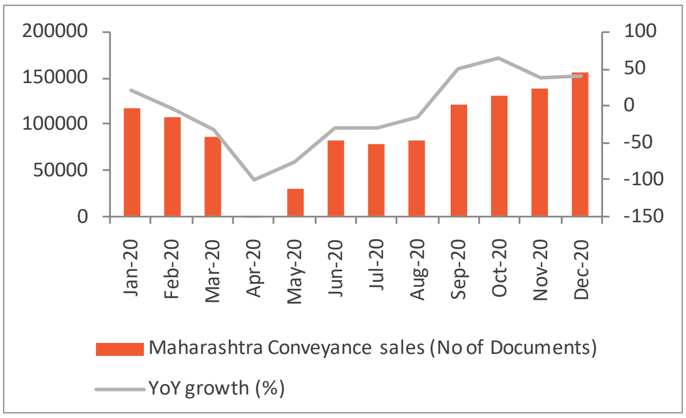
Source: Anarock; Sharekhan Research

Mumbai Property Registration trend



Source: Industry; Sharekhan Research

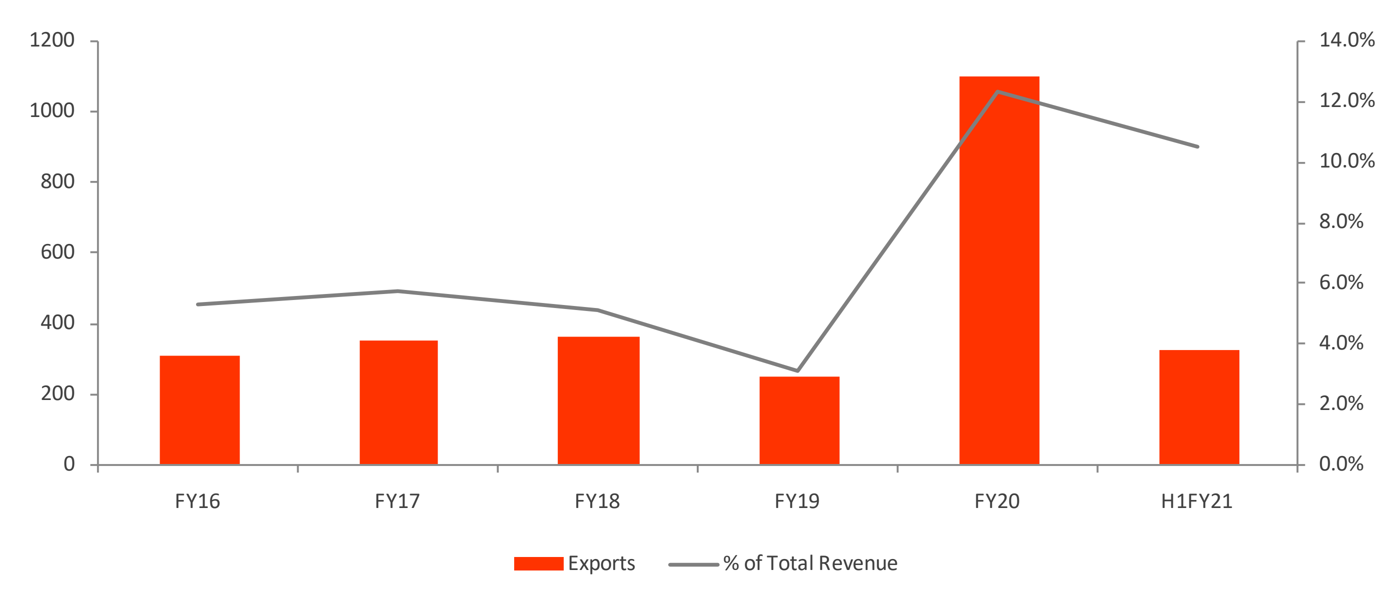
Maharashtra Property Registration trend



Source: Industry; Sharekhan Research

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 global cables & wires market is estimated at $140-150 billion with imports at $35-40 billion. The company's addressable market is estimated at ~$15 billion. Exports revenues in H1FY2021 stood at Rs325 crore (10.5% of total sales). The company has earlier stated that it is targeting double-digit contribution from exports over next 2-3 years.

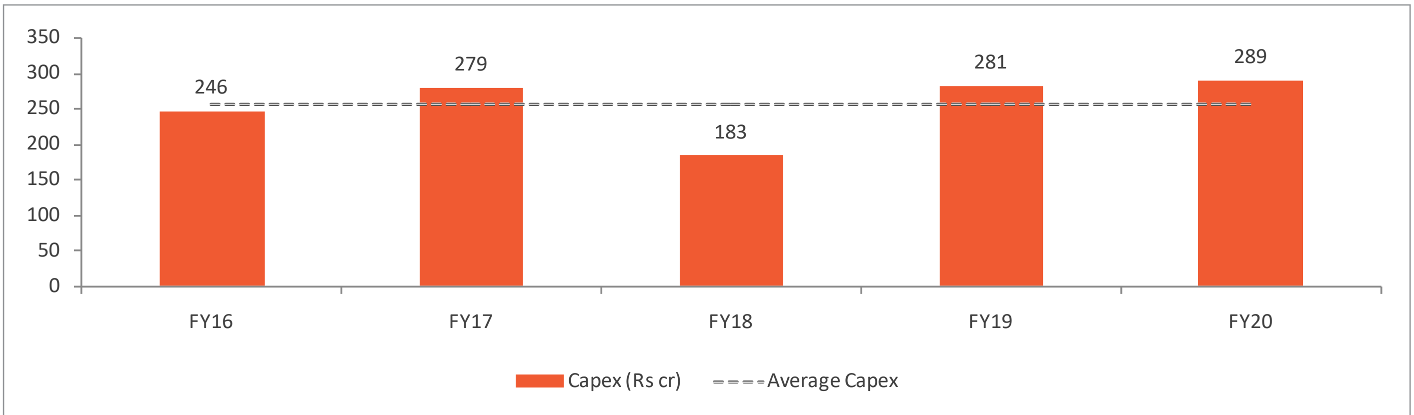
Exports trend



Source: Company, Sharekhan Research

Sustained annual capex for exports growth in C&W and increasing capacity in fans and de-bottlenecking: Polycab is the largest manufacturer of cables and wires in India with capacity to manufacture 3.7 million km of C&W and has widely spread 25 manufacturing facilities in operation. Polycab has built strong manufacturing capabilities in the W&C and FMEG segments. This has been possible owing to its strategy of sustained investments (average Rs 256 crore over the past five years) in capacity expansion each year. Its regular investment in ramping up capacity ahead of peers to stay up the curve has helped it grab the largest pie of the industry. Large-scale operations and manufacturing experience enable it to bid for large projects and execute them well on time. The company would be incurring a capex of Rs. 250-300 crore 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.

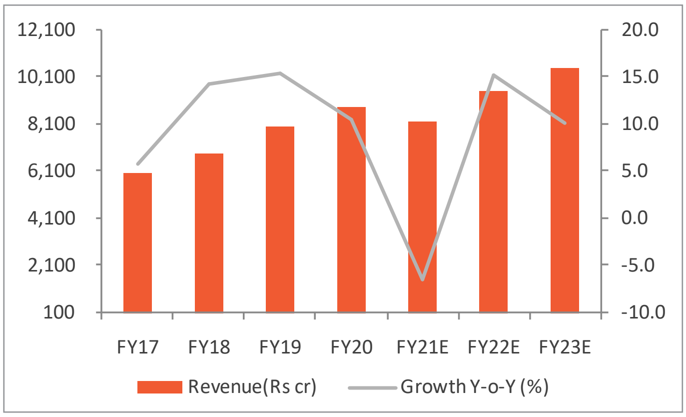
Polycab has invested an average Rs256 crore in capex over past five years



Source: Company, Sharekhan Research

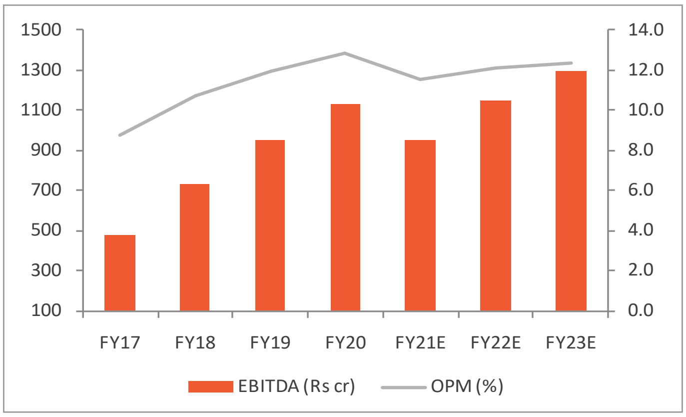
Financials in charts

Revenue trend



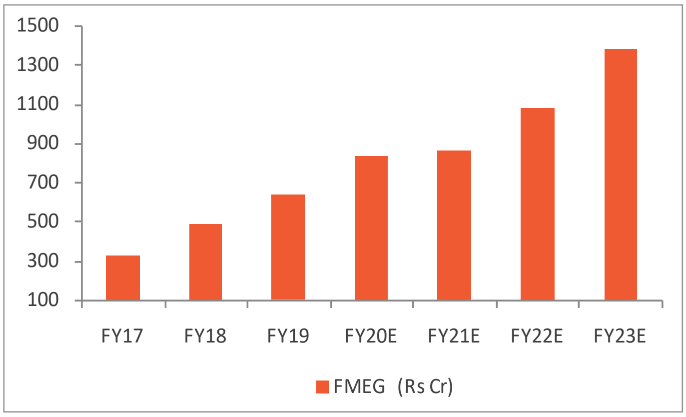
Source: Company, Sharekhan Research

EBITDA and Margin Trend



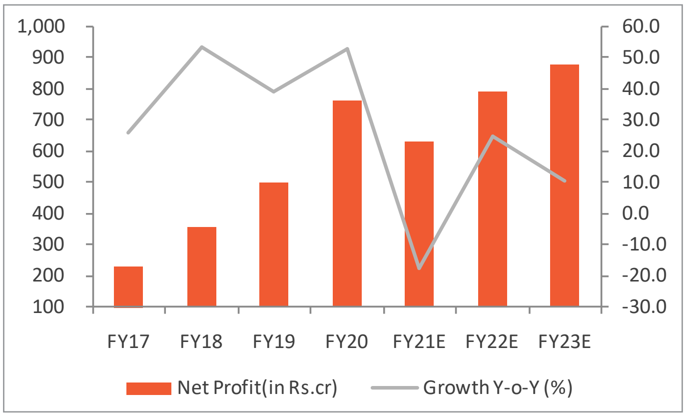
Source: Company, Sharekhan Research

FMEG revenue trend



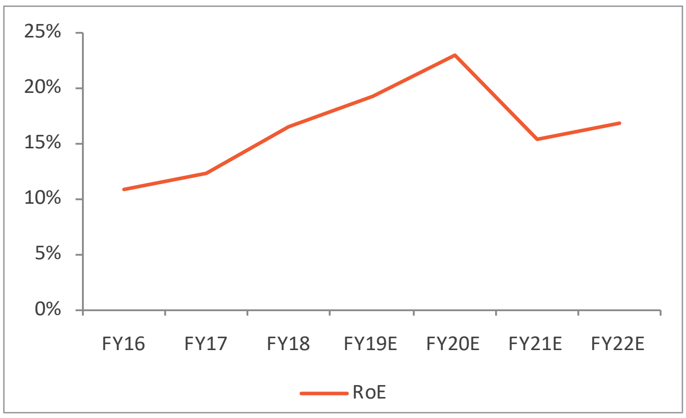
Source: Company, Sharekhan Research

PAT trend



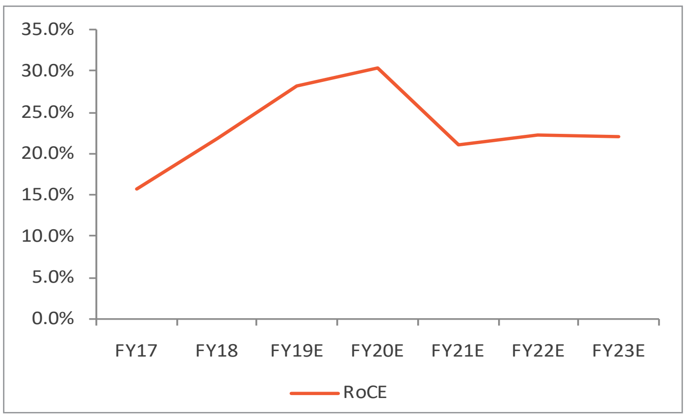
Source: Company, Sharekhan Research

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.

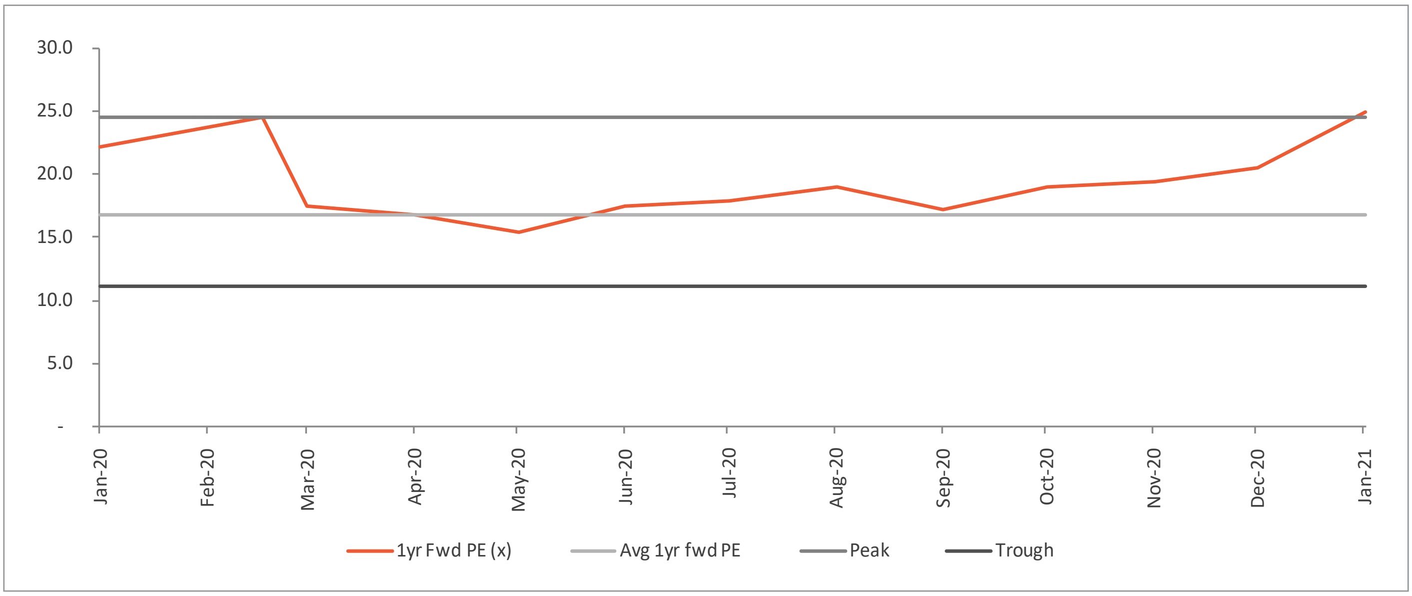
■ Company outlook - Improving business environment

Domestic demand bounced 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 would remain a focus area to aid C&W segment's revenue growth.

■ Valuation - Retain Buy with a revised PT of Rs. 1,530

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 the semi-urban and rural markets focus along with premiumisation of existing portfolio and increasing share of FMEG sales in existing network 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 & cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at a P/E of 23.9/21.6x its FY2022E/FY2023E EPS. We retain Buy on the stock with a revised price target (PT) of Rs. 1530.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Polycab manufactures and sells wires 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 descent 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 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 sharply 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

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

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 detoriating 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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