Polycab India Limited

Business dynamics strong, retain buy

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. 1,740**	
Price Target: **Rs. 2,050**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

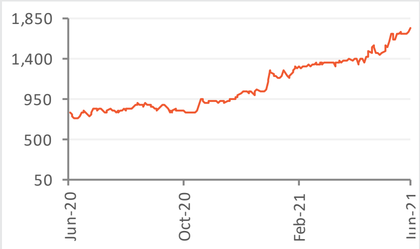
Company details

Market cap:	Rs. 25,947 cr
52-week high/low:	Rs. 1,748/709
NSE volume: (No of shares)	14.0 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.7 cr

Shareholding (%)

Promoters	68.4
FII	9.3
DII	7.4
Others	14.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19	29	71	117
Relative to Sensex	85	96	135	169

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Polycab India Limited (Polycab) with a revised PT of Rs. 2050, given a rise in demand in underlying user-industries and strong growth outlook.
- Polycab has outlined a five-year roadmap to achieve revenues of Rs 20,000 crore in FY26E with a greater focus on brand positioning, operations and business growth and strong emphasis on governance and sustainability outpacing industry growth.
- A strong balance sheet and net cash position provide comfort in the present environment. The company's strong focus on expanding its distribution (currently at 4,100 dealers/distributors) will help deepen its presence in semi-urban and rural markets.
- The management highlighted that it expects Q2FY22 to be better than Q1 and H2FY22 to be better than H1FY2022.

The company's overall business dynamics remains strong charting way for the outlook outlining its new initiative, Project Leap, through which it intends to achieve revenues of Rs. 20,000 crores by FY26E. The growth is expected to come from B2C followed by exports and B2B. The four focus areas over next five years will be 1) B2B 2) B2C 3) Capability 4) Sustainability. It intends to strengthen the B2B segment by growing 1.5x in the core segments and 2x in emerging product areas. There will also be an increased focus on the exports business to improve its contribution to 10% from current 8%. For B2C business, it plans to deliver EBITDA margins of more than 12% in the FMEG segment. Polycab also aims to continue to outpace the industry, with a 2x growth in the FMEG segment and 1.5x growth in retail wires. The management highlighted that April-May 2021 were better than last year. It expects Q2FY22 to be better than Q1 and H2FY22 to be better than H1FY2022. The company expects to maintain OPM with a variance of 100bps. The company is cautious and agile but better placed as compared to last year. It does not foresee a significant disruption from COVID. The company will spend Rs. 150-200 crore for FY2022 for A&P in FY22. During FY21, the company increased market share in B2C from 32.6% in FY20 to 40.2%. Wires & cables revenues increased by 35% y-o-y. It estimates to have gained 200bps increase in market share. The company has Rs. 900 crore net cash as on FY2021 end. The capex for FY2022 is estimated at Rs. 300 crore of which 35% would be towards FMEG segment and balance in cables & wires facilities for import substitute products. The company had spent Rs. 191 crore in FY21. Overall, the outlook remains positive despite near-term challenges, which remains transient given growth prospects through various initiatives the company has undertaken like Project Udaan (cost-saving initiatives), Project Josh (on penetrating geographies) and now Project Leap (five-year roadmap). Polycab's strong balance sheet and net cash position which improved significantly, with net cash of Rs. 906 crore as of FY21-end vs. net cash of Rs. 164 crore in FY20. The company is strongly focusing on its distribution, currently at 4,100 dealers/distributors, catering to 1,65,000 retailers. Its distribution enhancement program is on track, which will help deepen its presence in semi-urban and rural markets. We introduce FY2024E earnings estimate in this note. The stock is currently trading at P/E of 23x/19x its FY2023E/FY2024E EPS. 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 robust distribution, in-house manufacturing capabilities, strong balance sheet and healthy cash position. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 2050.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2050: Polycab is expected to maintain a healthy performance led by strong traction in the housing segment, input cost led price hikes undertaken in the C&W segment, rising exports, and scaling up the FMEG business with new product launches. The company also has strong growth tailwinds in terms of rising infrastructure investments. Polycab's strategy of deepening penetration in semi-urban and rural markets bodes well in providing a 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 the wires & cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. We introduce FY2024E earnings estimate this note. The stock is currently trading at P/E of 23x/19x its FY2023E/FY2024E EPS. With a consistent improvement in balance sheet, market share gains and growth acceleration, Project Leap remains constructive in medium to long term growth outlook. Hence, we retain Buy on the stock with a revised PT of Rs. 2050.

Key risk

Fluctuations in raw-material prices would affect margins sharply.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	8,927	10,474	12,205	14,303
OPM (%)	13.1	13.2	13.3	13.6
Adjusted PAT	876	946	1,120	1,389
% y-o-y growth	14.4	8.0	18.4	24.0
Adjusted EPS (Rs.)	58.8	63.5	75.1	93.1
P/E (x)	29.6	27.4	23.2	18.7
P/B (x)	5.5	4.6	4.0	3.3
EV/EBITDA (x)	19.3	15.9	13.8	11.1
RoNW (%)	20.4	18.3	18.5	19.5
RoCE (%)	24.9	24.8	25.1	26.2

Source: Company; Sharekhan estimates

Business outlook positive: Polycab remains the market leader in the organized market witnessing a jump and commanding a 20-22% market share (earlier 18-20% in FY20) and remains well-equipped to cater to the demand across the underlying business with newer areas of focus (railways, metros, renewables etc.). The company outlined its new initiative, Project Leap, thorough which it intends to achieve revenues of Rs. 20,000 crore by FY26E. It intends to strengthen the B2B segment by growing 1.5x in the core segments and 2x in emerging product areas. There will also be increased focus on the exports business to improve its contribution to 10% from the current 8%. For the B2C business, it plans to deliver EBITDA margins of more than 12% in the FMEG segment. Polycab also aims to continue to outpace the industry, with a 2x growth in the FMEG segment and 1.5x growth in retail wires. Overall, the outlook remains positive despite near-term challenges, which remains transient given growth prospects through various initiatives the company has undertaken like Project Udaan (cost-saving initiatives) and now Project Leap (five-year roadmap). Polycab's strong balance sheet and net cash position which improved significantly, with net cash of Rs. 300 crore as of FY21-end vs. net debt of Rs. 600 crore in FY20. The company is strongly focusing on its distribution, currently at 4,100 dealers/distributors, catering to 1,65,000 retailers; and its distribution enhancement program is on track, which will help deepen its presence in semi-urban and rural markets.

Polycab Q4FY21 Concall Highlights

- **FY26 guidance:** The company targets to cross Rs. 20,000 crore revenue during FY26. The growth is expected to come from B2C followed by exports and B2B. The four focus areas over next five years will be 1) B2B 2) B2C 3) Capability 4) Sustainability.
- **Near term outlook:** April-May 2021 were better than last year. It expects Q2 to be better than Q1 and H2FY2022 to be better than H1FY2022. The company expects to maintain OPM with a variance of 100bps. The company is cautious and agile but better placed compared to last year. It doesn't foresee significant disruption from covid. The company will spend Rs. 150-200 crore for FY2022 for A&P in FY22.
- **Q4 performance:** The company had a strong Q4FY21 with market share gains. Infrastructure and construction activities had picked up in full swing along with improvement in consumer sentiments in Q4. B2B continued to outperform B2C. Lower A&P spends at 0.5% of sales was one-off which will increase going ahead. FMEG grew by 89% y-o-y where fans posted healthy growth, lighting doubled and switches & switch gears 2.5x.
- **FY2021 performance:** The company increased market share in B2C from 32.6% in FY20 to 40.2%. Wires & Cables revenues increased by 35% y-o-y. It estimates to have gained 200bps increase in market share. The company has Rs. 900 crore net cash as on FY2021 end.
- **Projects:** The company has planned Project Leap with BCG consultants one month ago which will help it achieve Rs. 20,000 crore revenue in FY26. The OPM is expected to improve with a rise in B2B share. Project Udaan was launched a year back to aid in cost optimisation. Project Josh on penetrating geographies.
- **Distribution reach:** The company increased distributors & dealers by 17% y-o-y to 4100, electricians by 32% y-o-y to 165,000 and influencers by 33% y-o-y to 180,000.
- **Revenue mix:** In FMEG, revenue mix product wise is 35-40% fans, 25-30% lighting, 15% switches & switch gears and Pipes double digit.
- **Pricing:** The raw material basket grew in double digit while prices were increased by lower teens during Q4FY21.
- **Capex:** The capex for FY2022 is estimated at Rs. 300 crore of which 35% would be towards FMEG segment and balance in cables & wires facilities for import substitute products. The company had spent Rs. 191 crore in FY21.

- **Exports:** US comprises 50% exports share followed by Asia & Australia and rest of the world.
- **R&D:** The company has 100-150 people who look after R&D. It has picked up aGerman team for R&D purpose.

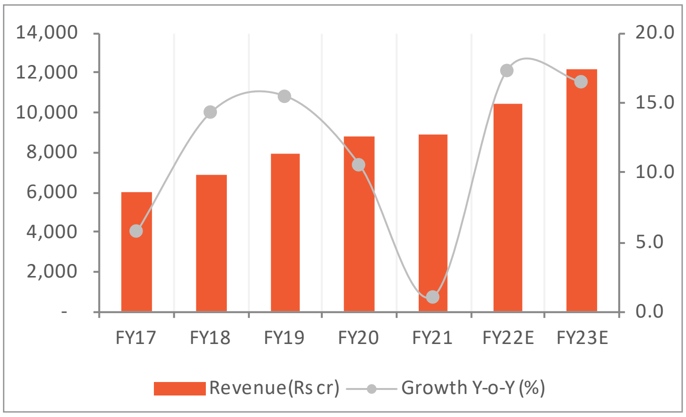
Results (consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	2,798.8	2,507	11.6%	2,114	32.4%
Operating profit	376	339	10.8%	312	20.3%
Other Income	34	0	-	33	5.3%
Interest	9	9	2.9%	11	-22.4%
Depreciation	48	41	17.6%	46	4.9%
PBT	354	290	21.9%	288	22.7%
Tax	90	69	32.0%	66	36.2%
EO	-	-		-	
Reported PAT	263	219	20.0%	221	19.0%
Adj. PAT	263	219	20.0%	221	19.0%
Adj. EPS (Rs.)	17.6	14.7	20.0%	14.8	19.0%
Margin			**BPS**		**BPS**
OPM (%)	13.4	13.5	(10)	14.8	(136)
NPM (%)	9.4	8.7	65	10.4	(106)
Tax rate	25.6	23.6	-	23.0	-

Source: Company; Sharekhan Research

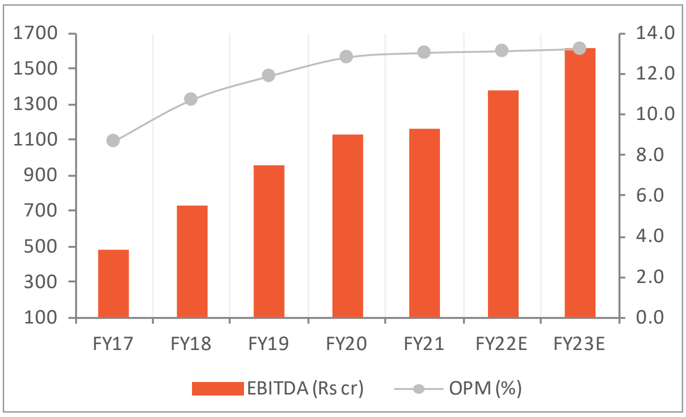
Financials in charts

Revenue trend



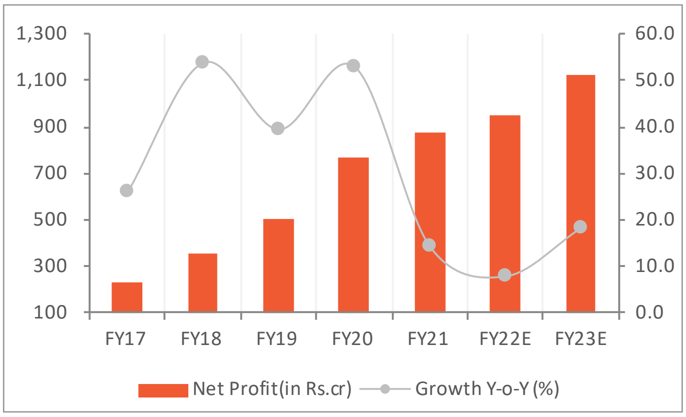
Source: Company, Sharekhan Research

EBITDA and Margin Trend



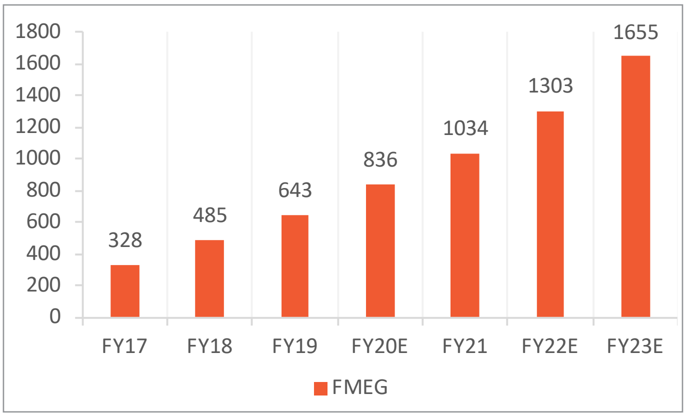
Source: Company, Sharekhan Research

Net Profit Trend



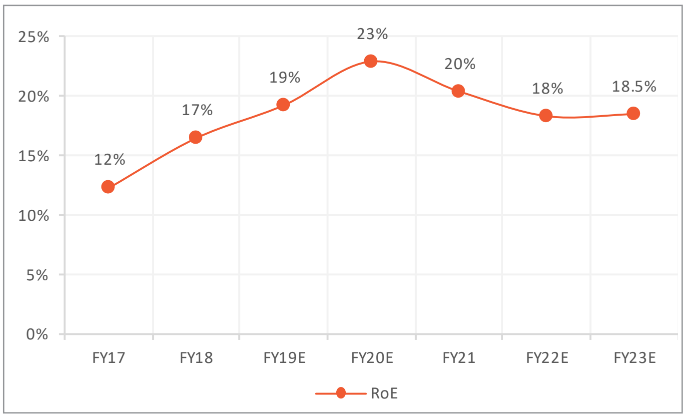
Source: Company, Sharekhan Research

FMEG revenue trend



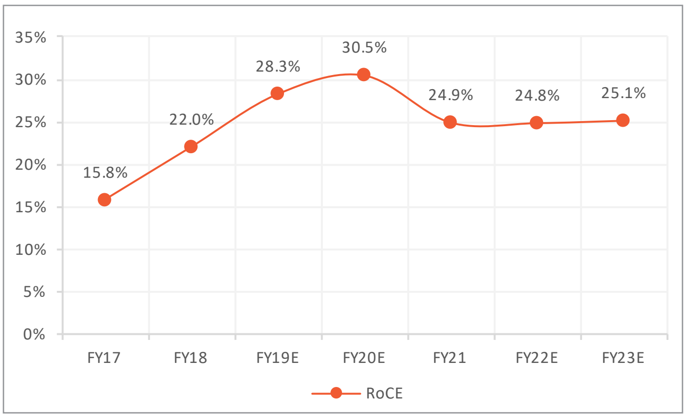
Source: Company, Sharekhan Research

RoE Trend



Source: Company, Sharekhan Research

RoCE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Ample 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 & cables industry contributes 40%-45% to India's electrical equipment industry. In terms of volumes, the Indian wires & cables industry (including exports) has grown from 6.3million km in FY2014 to 14.5million km in FY2018, posting a ~23% CAGR over the period. The industry registered an ~11% CAGR in value terms, from Rs. 34,600 crores in FY2014 to Rs. 52,500 crores in FY2018. The C&W industry was expected to register a CAGR of 14.5% from Rs. 52,500 crores 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.

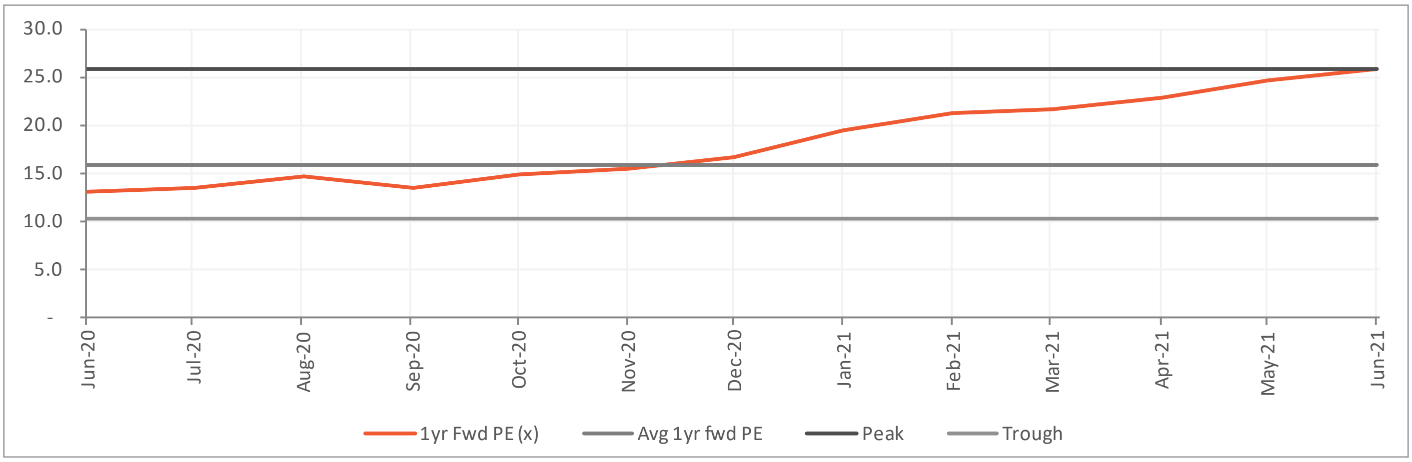
■ Company Outlook – Growth prospects bright

Overall, the outlook remains positive despite near-term challenges, which remains transient given the growth prospects ahead the through the various initiatives the company has taken like Project Udaan and Project Leap. Polycab has gained market share in the organized market (20-22% from 18% in FY20), auguring well for growth. The company outlined its new initiative 'Project Leap' through which it intends to achieve Rs. 20,000 crore in revenues by FY26E on superior growth versus the industry in B2C segments (2x in FMEG and 1.5x in retail wires) and stronger position in B2B segments. Polycab remains better-placed considering its consistent focus on balance sheet improvement, healthy free cash flows and potential margin improvement as 'Project Udaan' is yet to fully reap benefits.

■ Valuation – Retain Buy with a revised PT of Rs. 2050

Polycab is expected to maintain healthy performance led by strong traction in the housing segment, input cost led price hikes undertaken in the C&W segment, rising exports, and scaling up the FMEG business with new product launches. The company also has strong growth tailwinds in terms of rising infrastructure investments. Polycab's strategy of deepening penetration in semi-urban and rural markets bodes well in providing a 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 the wires & cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. We have introduced FY2024E earnings estimate in this note. The stock is currently trading at P/E of 23x/19x its FY2023E/FY2024E EPS. With consistent improvement in balance sheet, market share gains and growth acceleration with Project Leap remains constructive in medium to long term growth outlook. Hence, we retain Buy on the stock with a revised PT of Rs. 2050.

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. Polycab's five-year roadmap to achieve to achieve Rs 20000 crore in FY26E with more focus towards brand positioning, operations and business growth along with strong emphasis on governance and sustainability outpacing industry growth provides healthy visibility ahead. Revenue from the wires and cable segment has seen a decent 9% CAGR during FY2017-FY2021 and FMEG grew by 33% CAGR during the same period. Further, increasing market share of organised players, which grew from 61% in FY2014 to 66% in FY2018, is expected to touch 74% in FY2023E, which augurs well for the industry leader.

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 and 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

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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