



#### 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

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 2,440	
Price Target: Rs. 2,850	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

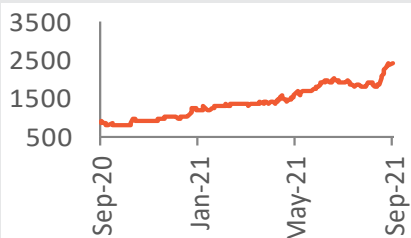
#### Company details

Market cap:	Rs. 36,403 cr
52-week high/low:	Rs. 2,502/ 795
NSE volume: (No of shares)	3.5 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.7 cr

#### Shareholding (%)

Promoters	68.4
FII	6.5
DII	8.8
Others	16.3

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	27.0	34.6	79.9	174.9
Relative to Sensex	22.3	23.8	64.5	124.7

Sharekhan Research, Bloomberg

#### Summary

- We retain Buy on Polycab India Limited (Polycab) with a revised PT of Rs. 2,850, led by upwardly revised estimates and strong earnings growth outlook.
- Our interaction with management indicates traction in B2B, institutional and B2C sales, barring fans, post Q1FY2022. Consolidation of copper prices leads to improving dealer stocking, pick up in primary sales, and lower inventory.
- We expect H2FY2022 to be better than H1. Project leap target of Rs. 20,000 crore revenue by FY2026 remains intact to be supported by several organization wide initiatives including aggressive distribution reach.
- The company is one of the quasi plays on both infrastructure and consumption growth story of India.

Our interaction with the management of Polycab India Limited (Polycab) indicate both B2B and B2C business gaining traction m-o-m with pick up in infrastructure construction and residential demand. Consolidation of copper prices from mid-June is expected to lead to dealer restocking, pick-up in primary sales, and decline in inventory levels. The upcoming festive season bodes well for its B2C products such as lights, switches, and wires. Management reiterates H2FY2022 to be better than H1. The Project leap to touch Rs. 20,000 crore revenue by FY2026 remains intact.

- Traction in B2B and institutional business:** Polycab witnesses sequential improvement in B2B and institutional business with infrastructure construction activities picking up. Dealer stocking has increased with consolidation of copper prices, while primary sales have started to pick up. Competitive intensity and stable copper prices post June has led to price corrections which would lead to better product positioning in the market.
- Upcoming festive season bodes well for B2C:** The company is expecting healthy sales in its B2C products such as lights, switches, and wires, with onset of the festive season. Opening up of regional markets, barring few clusters, has led to improving sales in the B2C segment, barring fans (affected by seasonality).
- Near to long-term target intact:** Management reiterated that H2FY2022 would be better than H1. Its project leap with revenue target of Rs. 20,000 crore remains intact, supported by several organization wide initiatives including aggressive distribution reach. The company would be sharing further details during Q2FY2022 earnings call.

#### Our Call

**Valuation – Retain Buy with a revised PT of Rs. 2,850:** We have revised our estimates upwards for FY2022-FY2024, factoring higher growth in both its B2B and B2C verticals. We believe Polycab is a quasi play on both infrastructure and consumption story of India. Consistent market share gains in the core business and expected scaling up of the FMEG business provide positive outlook in the medium to long term. The stock is currently trading at a P/E of 29x/25x its FY2023E/FY2024E earnings. We retain Buy on the stock with a revised PT of Rs. 2,850.

#### Key Risks

Fluctuations in raw-material prices affect margins sharply.

#### Valuation (Consolidated)

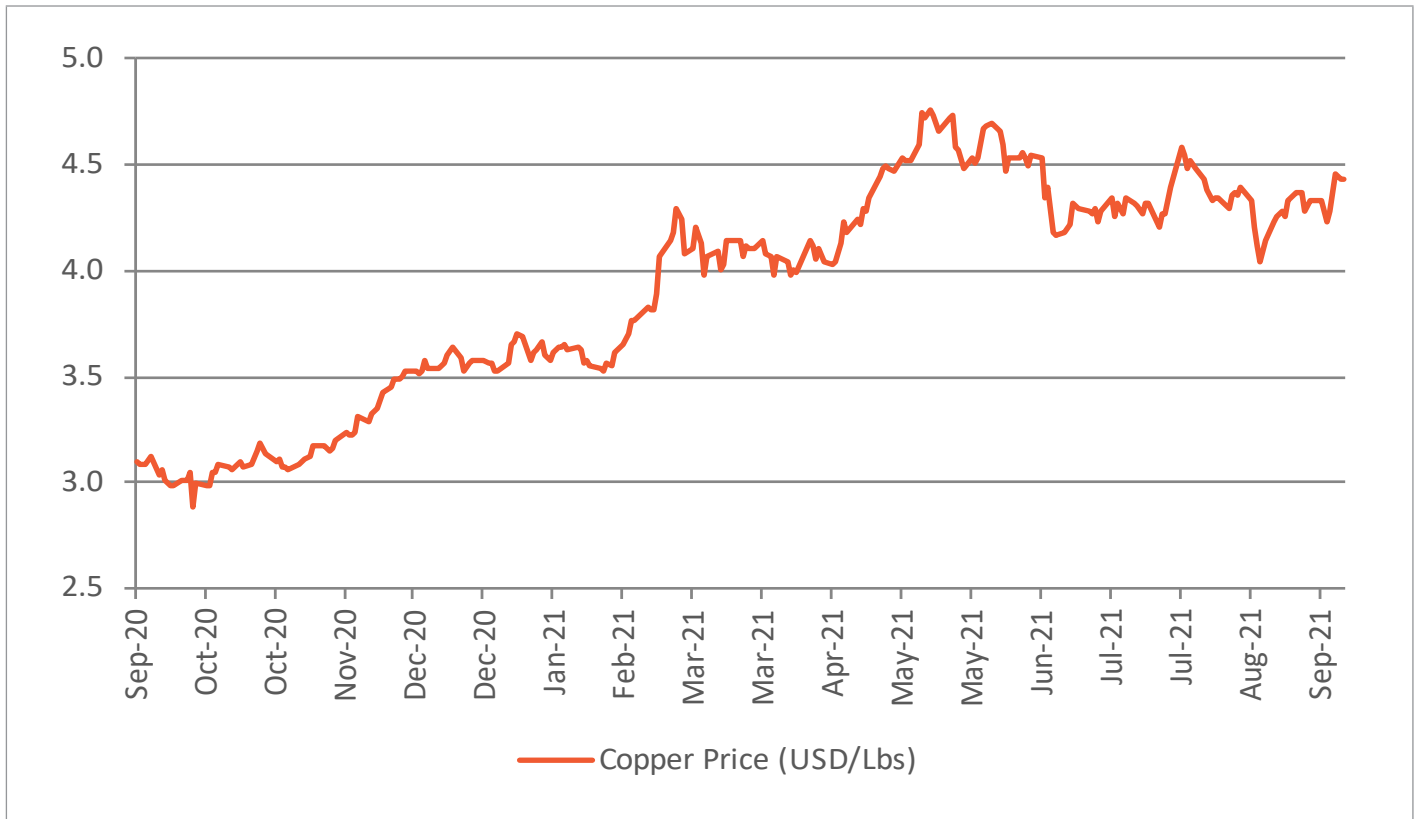
Particulars	Rs cr			
	FY21	FY22E	FY23E	FY24E
Revenue	8,927	10,971	13,193	14,997
OPM (%)	13.1	13.3	13.5	13.7
Adjusted PAT	876	1,007	1,237	1,452
% y-o-y growth	14.4	15.0	22.8	17.4
Adjusted EPS (Rs.)	58.8	67.5	83.0	97.4
P/E (x)	41.5	36.1	29.4	25.1
P/B (x)	7.7	6.5	5.4	4.6
EV/EBITDA (x)	27.4	21.6	18.1	15.4
RoNW (%)	20.4	19.4	20.1	19.9
RoCE (%)	24.9	26.2	27.2	26.8

Source: Company; Sharekhan estimates

### Consolidating copper prices to improve dealer stocking:

Polycab had been affected by the sharp correction in copper prices from mid-June 2021, which had led to dealers refraining from stocking in anticipation of further price cuts. However, since then, copper prices have begun consolidating, which has led to improvement in dealer stocking. Primary sales, which were lagging secondary sales, have begun to come back. The company has also taken price cuts in tandem with correction in copper prices. However, competitive intensity has increased in cables and wires, which had led to the company taking a conscious call on correcting prices to better position products in the market.

#### Copper price trend

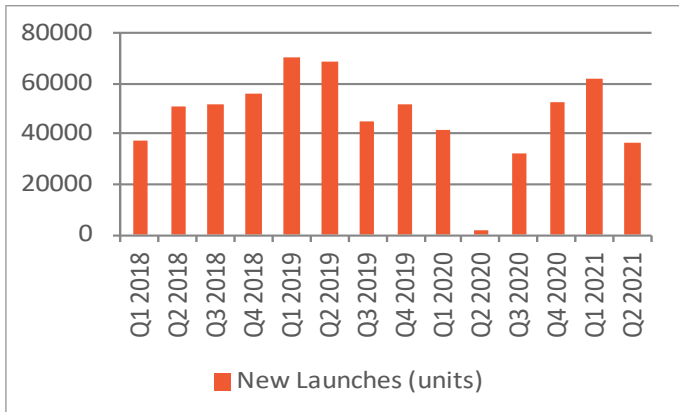


Source: Industry; Sharekhan Research

### Healthy residential demand – Driver for housing wires and FMEG products

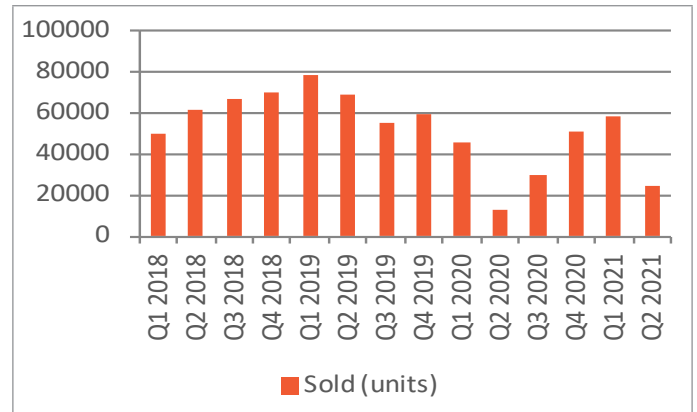
Residential sales during Q2 2021 across the top seven cities of India were around 24,570 units, which were up 93% y-o-y and lower by 58% q-o-q. A total of 36,260 units were launched in Q2 2021, which were significantly higher than just 1,390 launched in Q2 2020. Higher launches during Q2 2021 compared to sales done during the period indicates developers' confidence on residential demand. Further, property registrations in Mumbai and Maharashtra post Q1FY2022 showed encouraging trends, especially seen in the wake of the period after the state government's approval of registering property purchased till March 2021 till July 2021. The number of sales documents registered in Mumbai in August stood at 6,784, up 2.6x y-o-y and up 15.5% compared to August 2019 and down 30.9% m-o-m. The m-o-m decline can be attributed to the high base of July 2021, which had a major sales push, led by stamp duty reduction till March 2021. The number of documents registered in Maharashtra in August were up 28.5% y-o-y, up 9.3% as compared to August 2019 and lower by 22.6% m-o-m. Demand traction seen in the residential sector is expected to continue going ahead, which would yield better demand for Polycab's housing wires and FMEG portfolio.

**Top 7 cities launch trend**



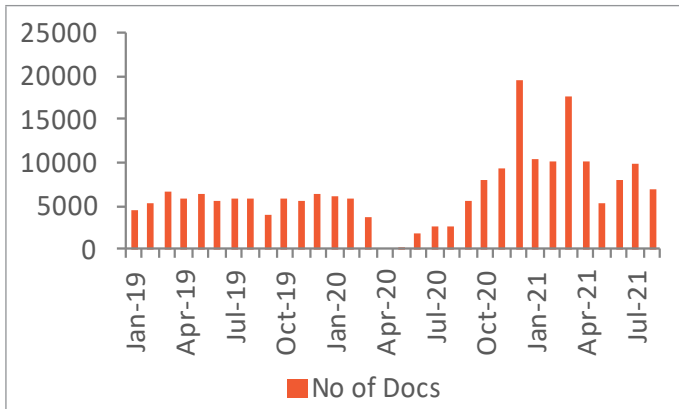
Source: Anarock; Sharekhan Research

**Top 7 cities sales trend**



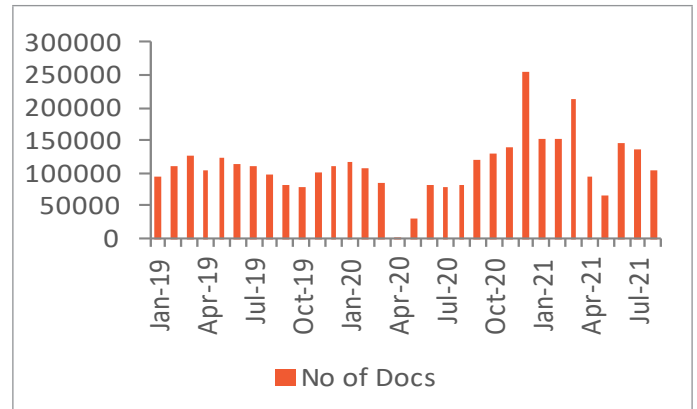
Source: Anarock; Sharekhan Research

**Mumbai Property Registration Trend**



Source: Industry; Sharekhan Research

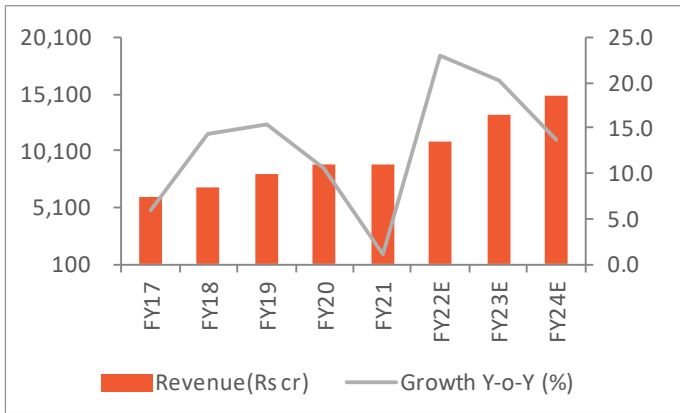
**Maharashtra Property Registration Trend**



Source: Industry; Sharekhan Research

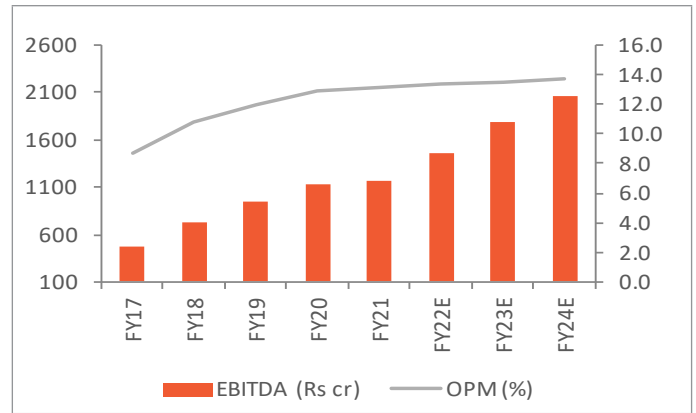
**Financials in charts**

**Revenue Trend**



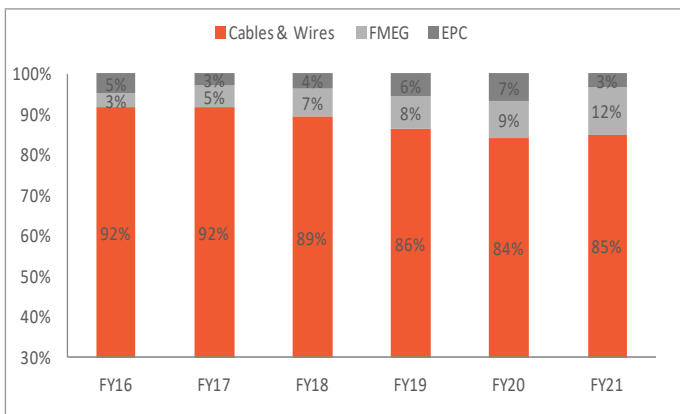
Source: Company Data; Sharekhan Research

**EBITDA and Margin Trend**



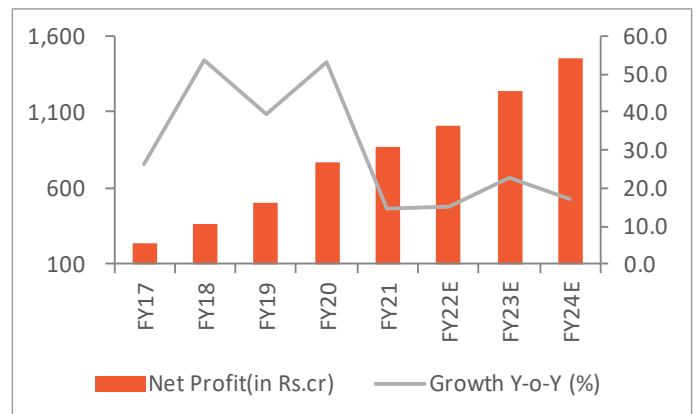
Source: Company Data; Sharekhan Research

**Segment Revenue Distribution Trend**



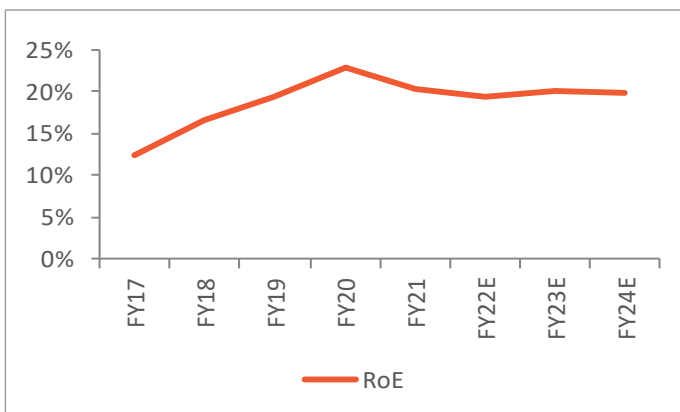
Source: Company Data; Sharekhan Research

**PAT & PAT Margin Trend**



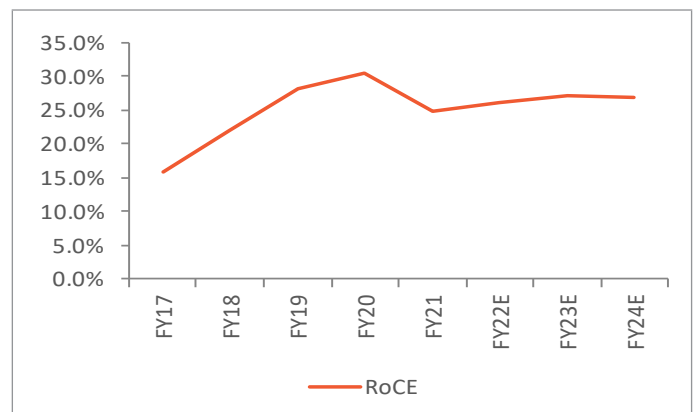
Source: Company Data; Sharekhan Research

**RoE Trend**



Source: Company Data; Sharekhan Research

**RoCE Trend**



Source: Company Data; Sharekhan Research

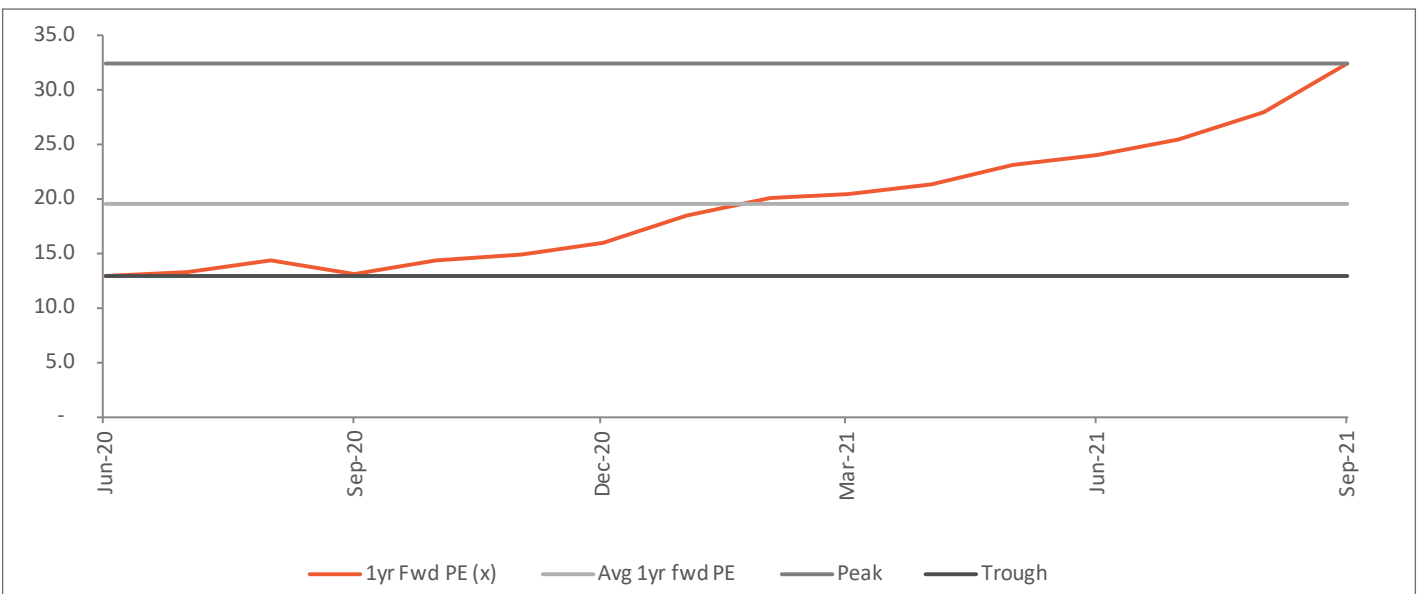
## Outlook and Valuation

■ **Sector outlook – 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 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 6.3 million km in FY2014 to 14.5 million km 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 14.5% CAGR from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. However, 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 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 through various initiatives taken by the company such as Project Udaan and Project Leap. Polycab has gained a market share in the organised market (20-22% from 18% in FY2020), auguring well for growth. The company has outlined its new initiative, Project Leap, through which it intends to achieve Rs. 20,000 crore in revenue by FY2026E 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. 2,850:** We have revised our estimates upwards for FY2022-FY2024, factoring higher growth in both its B2B and B2C verticals. We believe Polycab is a quasi play on both infrastructure and consumption story of India. The company's consistent market share gains in the core business and expected scaling up of FMEG business provide positive outlook in the medium to long term. The stock is currently trading at a P/E of 29x/25x its FY2023E/FY2024E earnings. We retain Buy on the stock with a revised PT of Rs. 2,850.

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



Source: Company Data; Sharekhan Research

## About company

Polycab manufactures and sells wires and cables and FMEG 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 Rs. 20,000 crore in FY2026E with more focus towards brand positioning, operations and business growth along with strong emphasis on governance and sustainability outpacing the industry's growth provides healthy visibility ahead. Revenue from the wires and cable segment has seen a decent 9% CAGR during FY2017-FY2021 and FMEG posted by a 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	14.37
2	Jaisinghani Ajay T	13.01
3	Jaisinghani Ramesh T	12.6
4	Jaisinghani Girdhari T	12.23
5	Jaisinghani Kunal	3.9
6	Jaisinghani Bharat	3.67
7	Jaisinghani Nikhil	3.67
8	Hariani Anil	3.26
9	IFC	2.54
10	DSP Investment Managers	1.41

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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by BNP PARIBAS

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