Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Polycab India Ltd

Consolidating leadership, expanding wings

Capital Goods	Sharekhan code: POLYCAB

Reco/View: Buy	↔	CMP: **Rs. 2,135**	Price Target: **Rs. 3,000**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING Updated Apr 08, 2022	25.1

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

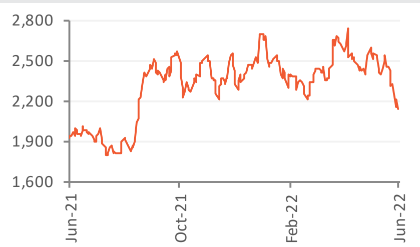
Company details

Market cap:	Rs. 31,906 cr
52-week high/low:	Rs. 2,820/1,762
NSE volume: (No of shares)	3.9 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.8 cr

Shareholding (%)

Promoters	68.1
FII	5.7
DII	9.2
Others	17.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.0	-11.7	-11.9	11.2
Relative to Sensex	-14.2	-2.3	-0.8	13.1

Sharekhan Research, Bloomberg

Summary

- Polycab India Limited's (POLYCAB)'s annual report reflects the management's focus on growth through backward integration, a comprehensive product portfolio, strengthening brand positioning, wide distribution network and a robust management.
- Project Leap (a five -year roadmap) envisages Rs. 20,000 crore revenue by FY26 with 1.5x industry growth. It aims to regain EBITDA margin of 11-13% in W&C and achieve ~12% EBITDA margin in Fast moving electrical goods (FMEG) by FY26.
- The company sees healthy volume traction across categories and expects healthy topline in the near to medium term. OPM is expected to improve on account of operating leverage, premiumisation and calibrated pricing hikes.
- We retain a Buy rating on the stock with an unchanged PT of Rs 3,000 as the valuation (P/E of 23x FY24E) seems compelling given its strong brand equity, healthy net cash (~Rs. 1,100 crore) and aggressive growth plans.

Polycab India Limited's (Polycab's) FY22 annual report reveals that the company gained market share in some product categories despite inflationary pressures and supply-side headwinds. Revenue in both Wires & Cables (W&C) and FMEG segment was a blend of higher realizations and a decent volume growth driven by strong distribution network (4,600+ dealers and distributors and 2,05,000 retail outlets), robust product portfolio (W&C - 11,000+ SKUs, FMEG - 6,000+ SKUs) and absorption of input cost in some of the product categories in order to capture market share. In the long term, the company is focused on in-house manufacturing, distribution expansion to grow FMEG segment, while strengthen its leadership position in W&C through new products across varied price points. Further, Polycab's healthy net cash position and net working capital cycle provide us further comfort.

Market share rises despite headwinds: Polycab gained share in the organized W&C market in FY22 despite several headwinds. The segment grew by 41% yoy in FY22 accounting for 88% of the total sales through regulated pricing actions in most of the products and improved product mix. Stable demand environment resulted in a healthy double digit volume growth and led to market share gains. The institutional business grew faster than the distribution business, especially in H2FY22 as large projects picked up pace. The company's exports in cables grew 24% y-o-y, contributing 6.9% to the overall revenue. Domestic wires business achieved ~ 50% y-o-y growth in FY22 and contributed ~50% to the overall W&C segment. The W&C industry is witnessing a gradual shift from smaller regional unorganized players towards pan-India branded market players across categories. This could help larger players further gain market share.

Project Leap – Five-year roadmap to augment next leg of growth: Project Leap aims at Rs 20,000 crore revenue by FY26, which translates to a CAGR of ~13% over FY22-26. POLYCAB has guided for 1.5x industry growth in W&C and a 2x growth in the FMEG segment by FY26. It aims to regain EBITDA margin of 11-13% in W&C and achieve ~12% EBITDA margin in the FMEG segment by FY26. The company plans to achieve these targets by distribution expansion (currently it has a pan-India retail network of 2,05,000 outlets) and product portfolio optimisation.

Strong growth opportunity in the Indian FMEG Industry: The Indian FMEG industry witnessed decent price driven growth in FY22 despite subdued volume growth. The share of unorganised players continued to decline as consumers are moving towards branded and high-quality products. Polycab's FMEG segment sales grew by 21% y-o-y led by distribution expansion and healthy demand environment, particularly in water heaters, lights & luminaries and switchgears and contributed 10% to FY22 revenue. This resulted in market share gains across most categories. In FMEG, the company has exhaustive range of products that cater to both home and institutional needs. In FY22, the company launched ~30 different models of fans and appliances across categories i.e. premium, economy, BLDC, etc. and new models of lights and luminaries. Around 54% of Polycab's distribution network is utilised by the FMEG segment giving it ample scope for growth.

Revision in estimates – We have maintained our estimates for FY2022-FY2024E.

Our Call

Valuation – Retain Buy with a PT of Rs. 3,000: Polycab is well-poised to benefit from government infrastructure investments, revival in housing demand, pick up in construction and increase in private capex spending. The operating margins are expected to improve as the impact of price hikes and operating leverage is likely to offset the increased input costs in medium to long term. The focus on increasing exports and scaling up of FMEG business with new product launches would be other key growth triggers. Overall, we believe the company is on a healthy growth trajectory, owing to its leadership position and a strong product portfolio both in the W&C and FMEG segments and a strong distribution and in-house manufacturing capabilities. We retain a Buy on the stock with a PT of Rs. 3,000.

Key Risks

Increase in raw-material prices particularly copper and aluminum could adversely affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	8,792	12,204	14,842	17,310
OPM (%)	12.6	10.4	11.1	11.6
Adjusted PAT	842	845	1,118	1,383
% y-o-y growth	10.0	0.4	32.3	23.7
Adjusted EPS (Rs.)	56.5	56.7	75.0	92.7
P/E (x)	37.8	37.7	28.5	23.0
P/B (x)	6.7	5.8	4.9	4.2
EV/EBITDA (x)	25.1	22.7	18.5	15.0
RoNW (%)	19.6	16.4	18.6	19.6
RoCE (%)	23.5	21.7	25.2	26.6

Source: Company; Sharekhan estimates

FY2022 Annual report highlights

- **Ruling the roost in W&C segment:** Polycab has continued to maintain market leadership in the organized wires & cables (W&C) market with a share of 22-24% in FY22 despite several headwinds due to surging input cost and supply side constraints. The segment grew by 41% y-o-y in FY22 accounting for 88% of the total sales through regulated pricing actions in most of the products and improved product mix. Stable demand environment resulted in a healthy double digit volume growth and led to market share gain. The institutional business grew faster than the distribution business, especially in H2FY22 as large projects picked up pace. The company reinforced its presence in power cables, control cables, optic fibre cables, instrumentation cables and solar cables. Apart from key sectors like construction, consumer goods, utilities and telecommunications, company could explore opportunities in renewables. However, profitability in this segment remained subdued as the company captured market share aggressively in some of the products. The company's exports in cables grew 24% y-o-y, contributing 6.9% to the overall revenue. Domestic wires business achieved ~ 50% y-o-y growth in FY22 and contributed ~50% to the overall W&C segment.

- **Market share gain in FMEG business:** The FMEG industry saw decent price driven growth in FY22 despite subdued volume growth. The share of unorganised players continued to decline as consumers are moving towards branded and high quality products. Polycab's FMEG segment sales grew by 21% y-o-y led by distribution expansion and healthy demand environment, particularly in water heaters, lights & luminaries and switchgears, resulting in market share gains across most categories. The business contributed 10% to FY22 revenue. The company plans to achieve 12% EBITDA margin in this business by FY26.

- **Project Leap – Five-year roadmap for next leg of growth:** Project Leap is on track, aiming at Rs 20,000 crore revenue by FY26, which translates to a CAGR of ~13% over FY22-26. The company plans to achieve these targets by distribution expansion and product portfolio optimisation. It aims to strengthen its leadership in the B2B space and make transition towards a leading B2C player and be among the top three players in the FMEG space in the country.

- **Margin could improve in FY23:** Prices of key inputs such as copper and aluminium touched all-time highs in FY22 and displayed significant volatility. Although the company passed on most of the input cost escalation to the end consumers, the company absorbed inflation in select categories within the cables segment in order to capture market share aggressively. As a result, OPM declined by 230 bps y-o-y during the year. However, there has been healthy sequential improvement in margins and profitability is likely to improve in FY23 given operating leverage, premiumisation and calibrated pricing hikes.

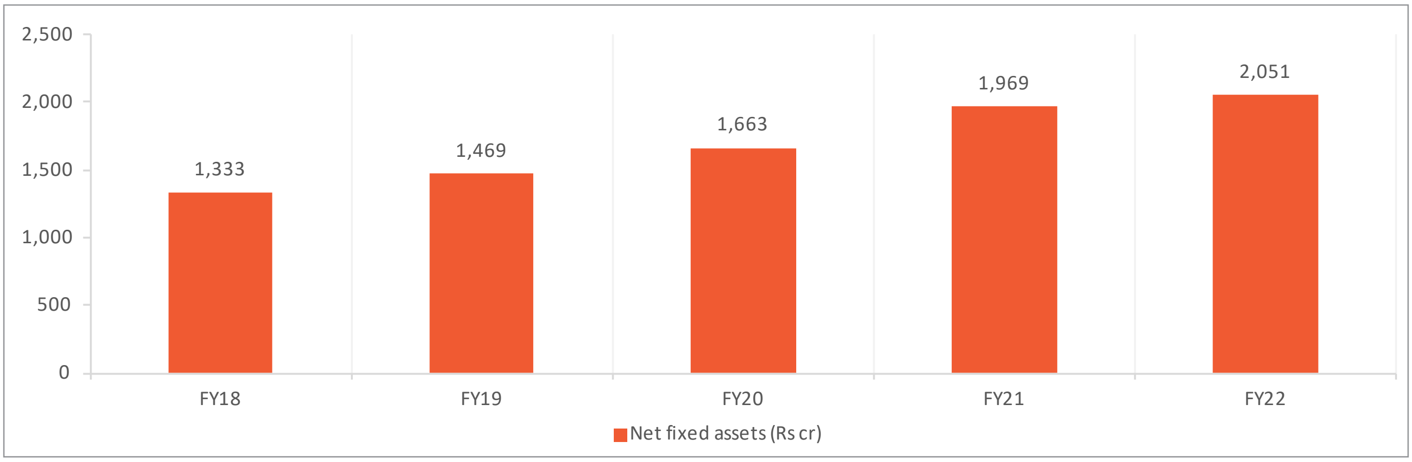
- **Deep Distribution and comprehensive product portfolio:** The company's distribution network comprises 4,600+ dealers and distributors and 2,05,000+ retail outlets. About 21% of this network exclusively serves W&C; 54% is utilised by the FMEG segment whereas 25% of the network is common to both the segments. In FY22, Polycab launched ~30 different models of fans and appliances across premium, economy and BLDC categories and new models of lights and luminaries. The company provides a wide range of products across price variants. In the W&C segment the number of SKUs are 11,000+, while in FMEG it has over 6,000 SKUs.

- **Product launches and acquisitions would augment growth:** In FY22, the company launched new sub brand – Etira to cater to the economy price segment and facilitate penetration in semi-rural areas. In FMEG, the company acquired home automation solutions provider, Silvan Innovation Labs. This acquisition coupled with its organic brand, Hohm would strengthen its position in smart home automation space. The company currently is not eyeing any large acquisition as it believes that in the near term Project Leap provides several organic growth opportunities. However, the company would consider partnerships/deals with technology driven and B2C companies to augment its portfolio.

- **Business outlook:** Volumes across most of Polycab's portfolio are growing and are higher than pre-pandemic levels despite high inflation. This suggests positive consumer sentiments and therefore company expects to deliver healthy top-line as well as the bottomline over the medium term.

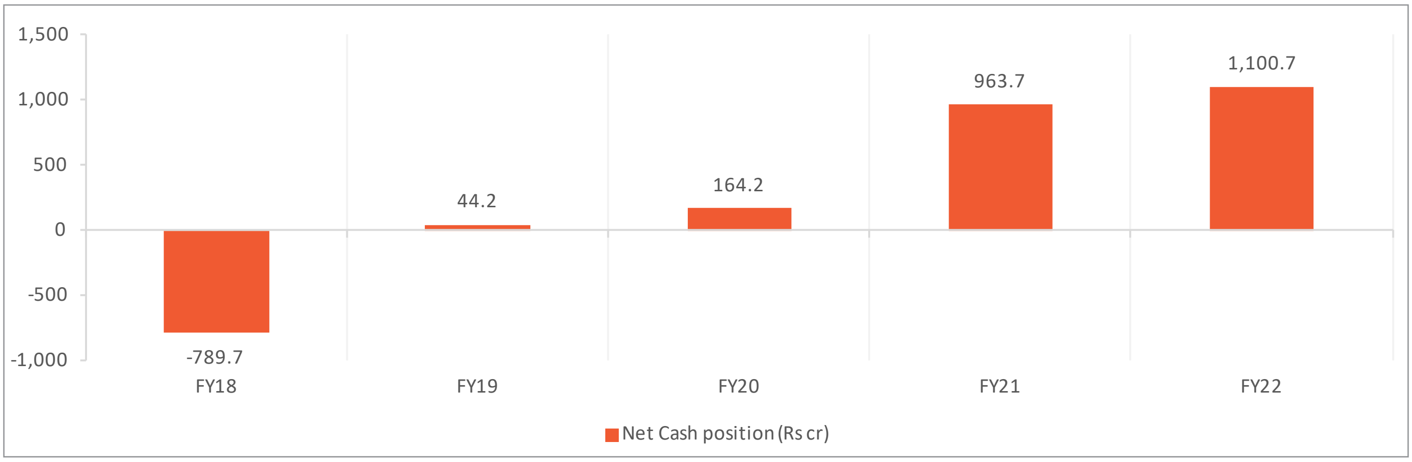
- **Capex of Rs 300-400 crore planned for FY23:** The company's capex is likely to be in the range of ~Rs 300-400 crore p.a. for the next few years. This will include maintenance as well as green and brownfield projects. In FY22, the company invested Rs ~200 crore to acquire over 55,000 sq ft. of office space and a part of this cost is likely to be compensated by monetising its existing land and building. The company's net fixed assets have grown at a CAGR of ~11% over FY18-22, while net cash position stands at ~Rs 1,100 crore. Further, working capital cycle has improved considerably in FY22.

Net fixed assets have grown at ~11% CAGR



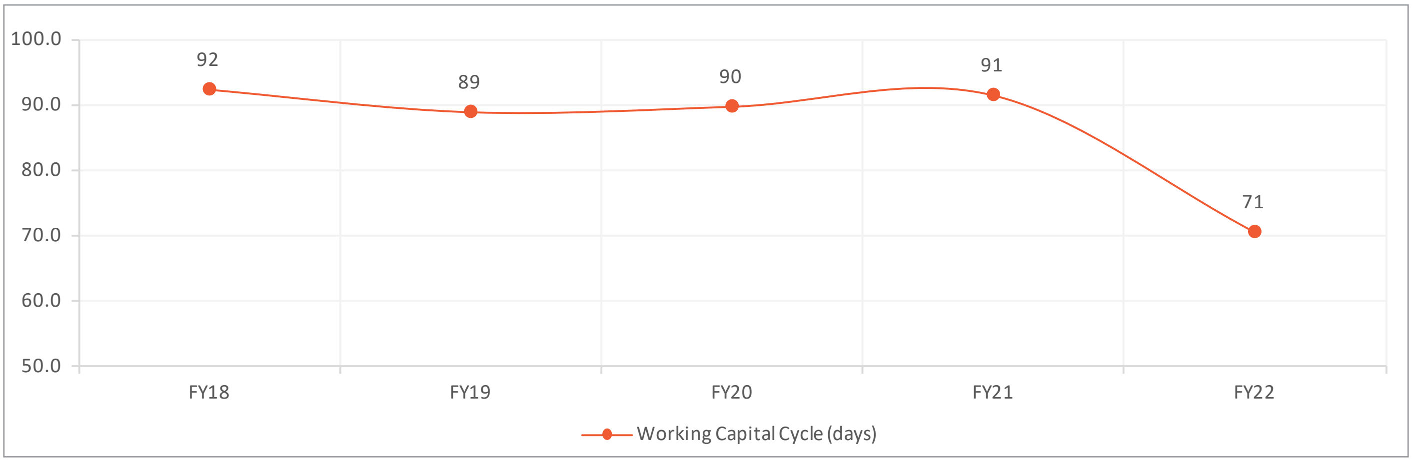
Source: Company, Sharekhan Research

Net Cash position (Rs cr) has strengthened over the years



Source: Company, Sharekhan Research

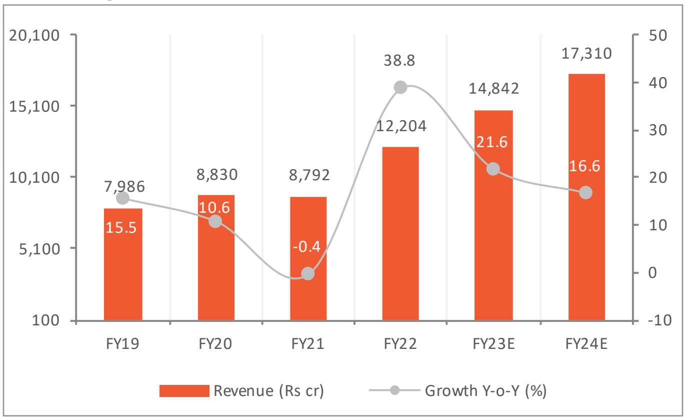
Working capital cycle (in days) has improved in FY22



Source: Company, Sharekhan Research

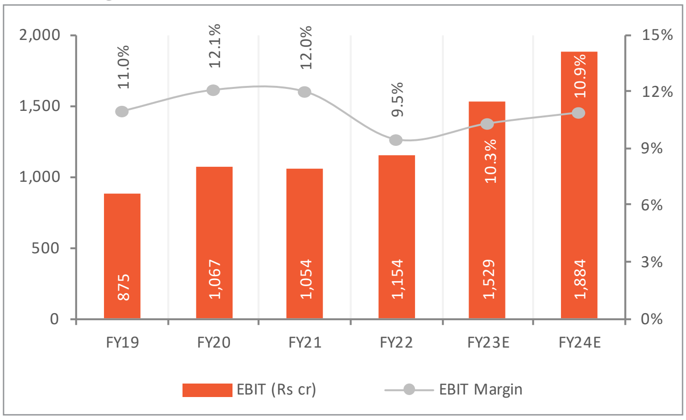
Financials in charts

Revenue growth trend



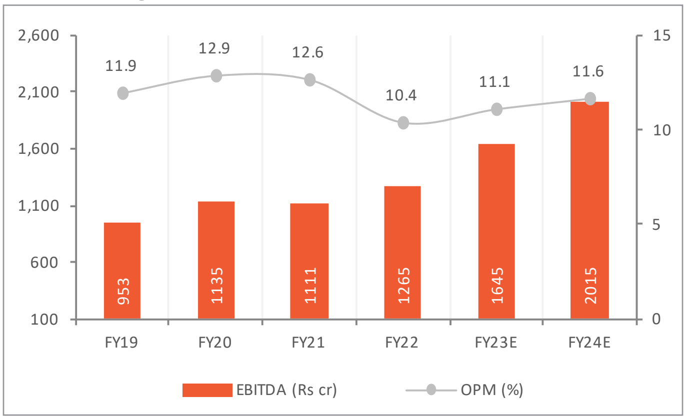
Source: Company, Sharekhan Research

EBIT Margin trend



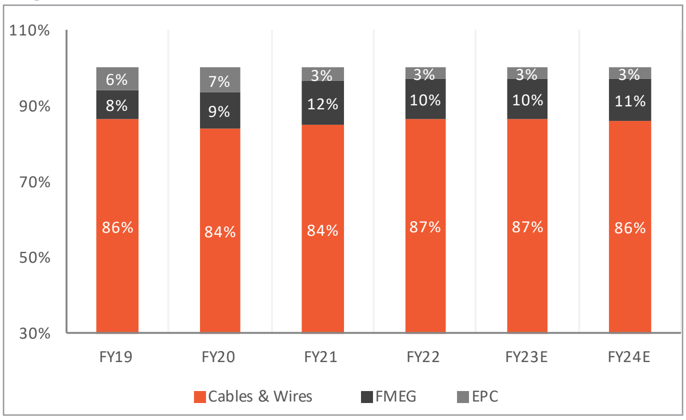
Source: Company, Sharekhan Research

EBITDA margin trend



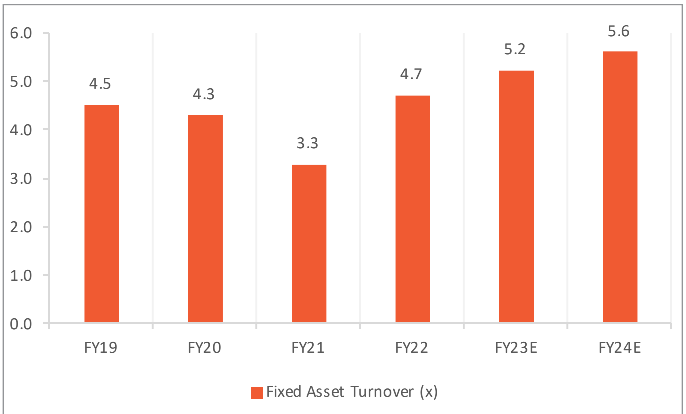
Source: Company, Sharekhan Research

Segmental Revenue mix



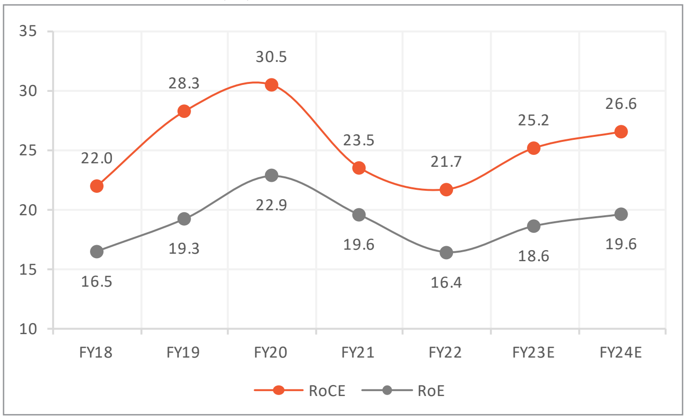
Source: Company, Sharekhan Research

Fixed Asset Turnover (x) trend



Source: Company, Sharekhan Research

Return Ratios trend (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Ample scope for growth

The wires & cables (W&C) 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 W&C industry was expected to register a 14.5% CAGR from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. The government has envisaged Rs. 111 lakh crore capital expenditure in infrastructure sectors in India during FY2020 to FY2025. 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.

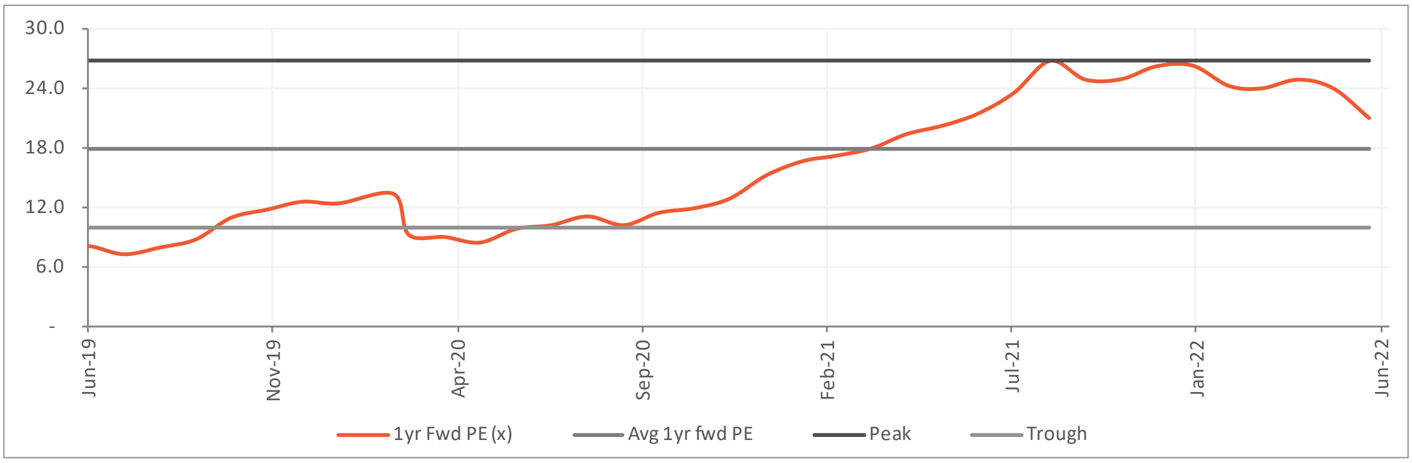
■ Company Outlook – Growth prospects stay bright

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 organized 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 revenues 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.

■ Valuation – Retain Buy with a PT of Rs. 3,000

Polycab is well-poised to benefit from government infrastructure investments, revival in housing demand, pick up in construction and increase in private capex spending. The operating margins are expected to improve as the impact of price hikes and operating leverage is likely to offset the increased input costs in medium to long term. The focus on increasing exports and scaling up of FMEG business with new product launches would be other key growth triggers. Overall, we believe the company is on a healthy growth trajectory, owing to its leadership position and a strong product portfolio both in the W&C and FMEG segments and a strong distribution and in-house manufacturing capabilities. We retain a Buy on the stock with a PT of Rs. 3,000.

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. 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 14.4% CAGR during FY2018-FY2022 and FMEG grew by ~27% CAGR during the same period. Further, increasing market share of organized players, which grew from 61% in FY2014 to 66% in FY2018, is expected to touch 74% in FY2023E, which augurs well for the industry leaders.

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) could sharply impact margins.
- **Currency risk:** POLYCAB faces forex risks as a portion of its raw-material purchases, particularly aluminum, copper, and PVC compound, are priced with reference to benchmarks quoted in US Dollar terms.

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	12.97
2	Jaisinghani Ajay T	12.95
3	Jaisinghani Ramesh T	12.37
4	Jaisinghani Girdhari T	10.16
5	Jaisinghani Kunal	3.89
6	Jaisinghani Bharat	3.66
7	Jaisinghani Nikhil	3.65
8	Hariani Anil	3.25
9	DSP Investment Managers	1.54
10	Canara Robeco mutual fund	1.17

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 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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