



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. 1,911	
Price Target: Rs. 2,375	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

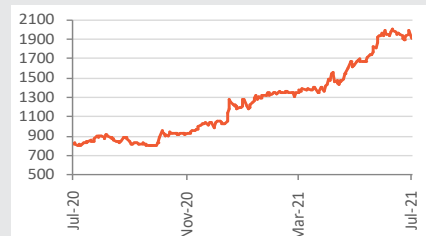
Company details

Market cap:	Rs. 28,473 cr
52-week high/low:	Rs. 2034/ 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	1.3	39.2	55.3	134.5
Relative to Sensex	-0.7	8.6	5.2	37.6

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Polycab India Limited (POLYCAB) with unchanged PT of Rs. 2,375, given improving demand scenario, widespread dealer network, and lower copper prices in June, which decreases pressure on OPM.
- POLYCAB reported Q1FY2022 topline in line with our expectations with revenue/EBITDA/PAT at Rs. 1,881 crore/Rs. 139 crore/Rs. 75 crore (+93% y-o-y, +142% y-o-y). The company reported a decline in gross profit margin by ~400 bps due to increased raw-material prices, while OPM improved by 152 bps to 7.4%, largely due to cost-saving initiatives offset by unfavourable operating leverage and input cost volatility.
- A strong balance sheet and net cash position provide comfort in the present environment. The company's strong focus on expanding its distribution will help deepen its presence in semi-urban and rural markets.
- Management expects Q2FY2022 to be better than Q1 and H2FY2022 to be better than H1FY2022.

Polycab India Limited (POLYCAB) reported Q1FY2022 topline in line with our expectations with revenue/EBITDA/PAT at Rs. 1,881 crore/Rs. 139 crore/Rs. 75 crore (+93% y-o-y, +142% y-o-y). The company reported a ~400 bps decline in gross profit margin due to increased raw-material prices, while OPM improved by 152 bps to 7.4%, largely due to cost-saving initiatives, which were offset by unfavourable operating leverage and input cost volatility. The wires and cables revenue grew by 97% y-o-y to Rs. 1,627 crore despite challenges posed by the second wave. In the domestic business, cables outperformed wires in Q1 partly on account of relatively favourable base. Performance from distribution and institutional business doubled in comparison to the previous year. Exports business grew by 12% y-o-y. Its contribution to overall revenue improved sequentially to 6% in Q1FY2022 versus 4.5% in Q4FY2021. Growth was driven by Asia, Australia, UK, and Africa. The FMEG revenue increased by 39% y-o-y to Rs. 192 crore. Business momentum was affected by closure of retail shops across many large states. Fans grew in healthy double digits; however, lockdowns in April and May, which are key summer stocking periods, hurt the momentum. The other segment largely comprises EPC business, which saw total income at Rs. 72 crore, up 34% y-o-y basis due to impact of the pandemic. POLYCAB saw an 11-12% increase in raw-material prices, but management said they were able to take price hike by only 9-10%, which impacted operating profit margin (OPM). Moreover, POLYCAB saw sharp correction in copper prices in mid-June, which caused further complications to an improving demand scenario as dealers refrained from stocking in anticipation of further correction. Management is confident H2FY2022 will be much better than H1FY2022 as lockdown impositions are easing and volatility in input costs is on the decline. The company again reiterated on its new initiative, Project Leap, through which it intends to achieve revenue of Rs. 20,000 crore by FY2026E. POLYCAB intends to strengthen the B2B segment by growing 1.5x in the core segments and 2x in emerging product areas. For the B2C business, the company plans to deliver EBITDA margin of more than 12% in the FMEG segment. POLYCAB also aims to continue to outpace the industry, with 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 taken by the company such as Project Udaan (cost-saving initiatives) and Project Leap (five-year roadmap). The company is strongly focusing on its distribution, currently at 4,100 dealers/distributors, catering to 1,65,000 retailers; and its distribution enhancement programme is on track, which will help deepen its presence in semi-urban and rural markets. As of June 30, 2021, net cash position stood at Rs. 672 crore against Rs. 206 crore for the same period last year. The stock is currently trading at P/E of 25x/21x 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 and 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 an unchanged price target (PT) of Rs. 2,375.

Key positives

- Wires and cables continued its growth trajectory (+97% y-o-y).
- Copper prices are declining since June; this will reduce pressure on OPM.
- POLYCAB's acquisition of Silvan adds new dimensions to its research and development.

Key negatives

- The second wave of COVID-19 impacted the business, especially FMEG.
- POLYCAB's performance was impacted by input cost volatility and logistical issues.

Our Call

Valuation – Retain Buy with unchanged PT of Rs. 2,375: POLYCAB faced issues related to input cost volatility, which impacted margins during the quarter. However, 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 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 and cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at P/E of 25x/21x its FY2023E/FY2024E EPS. With consistent improvement in the balance sheet and market share gains the outlook for the company remains positive in the medium to long term. Hence, we retain Buy on the stock with an unchanged PT of Rs. 2,375.

Key Risks

Fluctuations in raw-material prices would affect margins sharply.

Valuation (Consolidated)

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)	32.5	30.1	25.4	20.5
P/B (x)	6.0	5.1	4.3	3.7
EV/EBITDA (x)	21.3	17.6	15.2	12.3
RoNW (%)	20.4	18.3	18.5	19.5
RoCE (%)	24.9	24.8	25.1	26.2

Source: Company; Sharekhan estimates

Strong performance across segments: The wires and cables revenue grew by 97% y-o-y to Rs. 1,627 crore despite challenges posed by the second wave. In the domestic business, cables outperformed wires in Q1 partly on account of relatively favourable base. Performance from the distribution and institutional business doubled in comparison to the previous year. Exports business grew by 12% y-o-y. Its contribution to overall revenue improved sequentially to 6% in Q1FY2022 versus 4.5% in Q4FY2021. Growth was driven by Asia, Australia, UK, and Africa. FMEG revenue increased by 39% y-o-y to Rs. 192 crore. The business momentum was affected by closure of retail shops across many large states. Fans grew in healthy double digits; however, lockdowns in April and May, which are key summer stocking periods, hurt the momentum. The other segment largely comprises EPC business, which saw total income at Rs. 72 crore, up 34% y-o-y basis due to impact of the pandemic.

Business outlook positive: POLYCAB remains the market leader in the organised market, witnessing a jump and commanding a 20-22% market share (earlier 18-20% in FY2020) and remains well-equipped to cater to the demand across the underlying business with newer areas of focus (railways, metros, and renewables etc.). The company reiterated its initiative, Project Leap, through which it intends to achieve revenue of Rs. 20,000 crore by FY2026E. It intends to strengthen the B2B segment by growing 1.5x in the core segments and 2x in emerging product areas. POLYCAB also aims to continue to outpace the industry, with 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 undertaken by the company such as 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. 672 crore and total debt of Rs. 317 crore as of Q1FY2022. The company is strongly focusing on its distribution, currently at 4,100 dealers/distributors, catering to 1,65,000 retailers; and its distribution enhancement programme is on track, which will help deepen its presence in semi-urban and rural markets.

Q1FY2022 Concall Highlights

- ♦ **Near-term outlook:** Management is confident H2FY2022 will be much better than H1FY2022 as lockdown impositions are easing and volatility in input costs is on the decline. Management expects OPL margins to return to 11-13% due to improving demand scenario and various cost-effective measures undertaken by them.
- ♦ **Q1 performance:** The company reported much better performance in Q1 despite the lockdown due to the second wave and instability in raw-material prices. Infrastructure and construction activities picked up in full swing along with improvement in consumer sentiments. FMEG grew by 39% y-o-y but could have been better as the lockdown impacted sales in summer months.
- ♦ **Distribution reach:** The company focuses on increasing distributors and dealers, electricians, and influencers as they target their products to reach smaller towns of the country.
- ♦ **Fixed Cost:** Last year, the company did not offer any increment to its employees, but they have done so this year (double increment), which has led to increased in fixed cost. Moreover, during the quarter, there has been an increase in AMC cost, which is attributed to the B2C business.
- ♦ **Working capital:** The increase in inventory days was as a result of higher raw-material prices, which impacted sales and expectation of improvement in demand.
- ♦ **Pricing:** POLYCAB saw an 11-12% increase in raw-material prices, but management said it was able to take price hike by only 9-10%.
- ♦ **Capex:** Capex for FY2022 is estimated at Rs. 300 crore, of which 35% would be towards the FMEG segment and balance in cables and wires facilities for import substitute products. The company has spent Rs. 80 crore in Q1FY2022.
- ♦ **Acquisition:** In June 2021, POLYCAB acquired 100% stake in Bengaluru-based automation company, Silvan Innovation Labs, for Rs. 18.2 crore. POLYCAB's acquisition of Silvan adds new dimensions to its research and development (R&D) and innovation capabilities and the company's vast distribution presence and strong manufacturing capabilities will be leveraged to scale up Silvan's highly functional Internet of Things (IoT)-based solutions.

Results (Consolidated)

Rs cr

Particulars	Q1FY22	Q1FY21	y-o-y %	Q4FY21	q-o-q%
Revenue	1,880.5	976.6	93%	3,037.4	-38%
Operating Profit	139.3	57.5	142%	421.3	-67%
Other Income	25.3	33.6	-25%	27.4	-8%
Interest	12.2	16.3	-25%	16.6	-27%
Depreciation	52.1	44.3	18%	48.9	7%
PBT	98.2	39.1	151%	383.8	-74%
Total Tax	22.9	-78.5	-	100.6	-77%
Reported PAT	75.3	117.6	-36%	283.2	-73%
Adjusted PAT	75.3	7.5	903%	283.2	-73%
Adjusted EPS (Rs.)	5.1	0.5	903%	19.0	-73%
Margin			BPS		BPS
EBITDA Margin	7%	6%	152	14%	-646
PAT Margin	4%	1%	323	9%	-532
Tax Rate	23%	-	-	26%	-

Source: Company Data, 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 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 a rising demand for various electrical appliances.

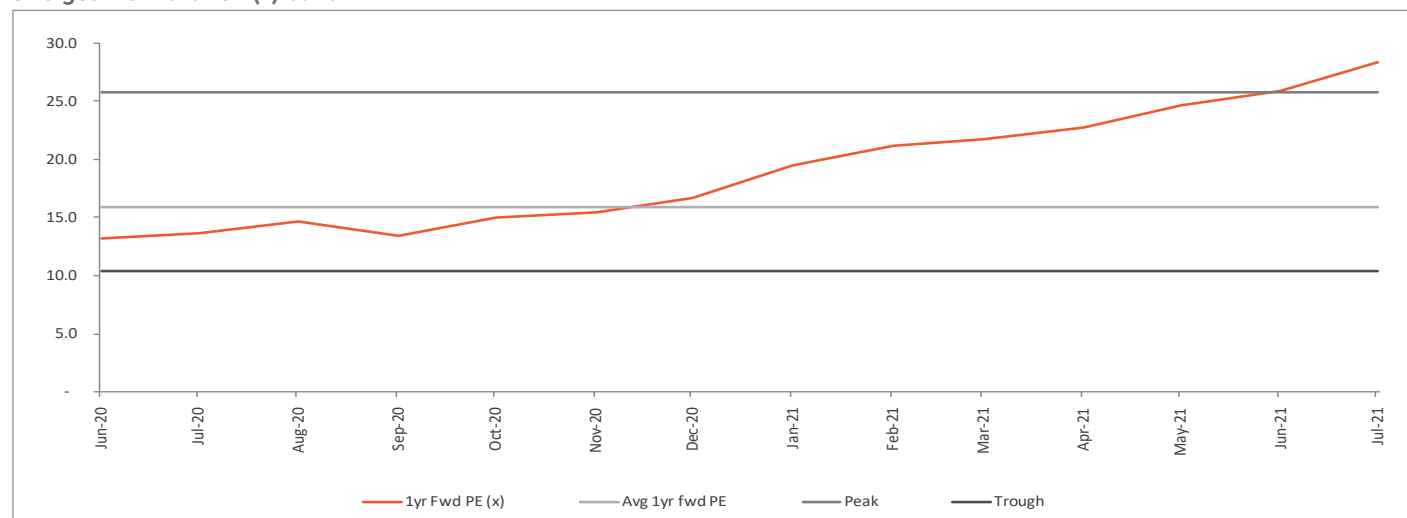
■ Company outlook - Growth prospects bright

Overall, the outlook remains positive despite near-term challenges, which remains transient given the growth prospects ahead 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 an unchanged PT of Rs. 2,375

POLYCAB faced issues related to input cost volatility, which impacted margins during the quarter. However, 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 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 and cables and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at P/E of 25x/21x its FY2023E/FY2024E EPS. With consistent improvement in the balance sheet and market share gains the outlook for the company remains positive in the medium to long term. Hence, we retain Buy on the stock with an unchanged PT of Rs. 2,375.

One-year forward P/E (x) band



Source: Company Data; 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 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 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 – FMEGBusiness (Non-board member)
Manoj Verma	Executive President and Chief Operating Officer (CE)
Gandharv Tongia	Deputy Chief Financial Officer

Source: Company

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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.