

27<sup>th</sup> December 2019

## Polycab India-BUY

**CMP** :Rs.964  
**Target Price** :Rs.1,154  
**Upside** : 20%+  
**Stop Loss** :Rs.828.0(Closingbasis)

### Investment Thesis

Polycab India is India's largest cable & wire (C&W) company with an organized market share of ~18%. It earns ~88% of its total topline from C&W segment while other two segments fast moving electrical goods (FMEG) and EPC contributes 8% and 4% to topline, respectively. It has an extensive product range in W&C, catering to vast applications, including house wires, power cables, communication cables and many others. Polycab India has developed a strong distribution network of ~3100 dealers and distributors across India. These dealers, distributors serve more than 100,000 retail outlets. Polycab India reported revenue and PAT CAGR of ~15% and ~39%, respectively, in FY16-19 led by higher EBITDA margin. We believe organic growth in core business coupled with lower interest outgo (owing to loan repayment through proceeds from IPO issue) will drive profitability of the business, going forward.

Polycab India has forayed into the FMEG business in FY14 by launching the switches business. It further diversified into fans, LED lightings and switchgear in FY15. Diversifying into FMEG was a logical step as it has synergistic benefits by leveraging existing capabilities. Polycab India has rapidly scale up its FMEG business as the products were a part of the same 'electrical' ecosystem. We believe, FMEG business has huge opportunity to cross-sell to a large customer base and leverage distribution network across diverse product offerings. Leveraging the 'Polycab' brand, Polycab India's FMEG segment is likely to grow at revenue CAGR of over 20% in FY19-21E on a low base and strong distribution channel across India.

### Financials

- During the past 5 years, revenue of Polycab Indiangrew at a CAGR of 15.7% while PAT grew at a CAGR of 39.9% in the same period.

Consol. (Rs.Mn.)	FY17	FY18	FY19	FY20E	FY21E
Revenue	55,001	67,703	79,560	91,494	105,218
EBITDA	4,799	7,289	9,232	10,617	12,209
% growth	-1.2	51.9	26.7	15.0	15.0
PAT	2,325	3,580	4,997	5,857	6,676
EPS (INR)	16.5	25.4	35.4	41.5	47.3
P/E (x)	57.5	37.3	26.7	22.8	20.0
RoE (%)	11.7%	15.3%	17.6%	18.9%	19.7%

- Polycab India has reported a significant 23.7% YoY growth in revenue to Rs.22,419mn in Q2FY20 led by strong volume growth in W&C and FMEG segment in the quarter.

### Stock Data

Market Cap (Rs. Mn)	1,40,807
Market Cap (\$ Mn)	1,975.8
Shares O/S (in Mn)	141.2
Avg. Volume (3 month)	3,02,000
52-Week Range (Rs.)	1,092/ 525

### Shareholding Pattern

Promoters	68.69%
FII's	3.75%
Institutions	14.27%
Others (incl. body corporate)	13.29%

Performance (%)	1M	6M	1Yr
Absolute	1.6%	59.9%	45.6%
BSE 500	0.7%	3.4%	9.6%

### Key Ratios

Div Yield	0.3%
TTM PE	21.3x
ROE	19.0%
TTM EPS (Rs.)	44.4/-

- EBITDA of Polycab India grew by 25.5% YoY in Q2FY20 to Rs.2,717mn led by higher revenue growth. As a result, EBITDA margin also grew by 17bps YoY to 12.1% led by higher revenue share of high margin FMEG segment.
- Polycab India has reported significantly higher PAT growth, which grew by 115.0% YoY to Rs.1,918mn led by 25.6% YoY lower tax outgo and 64.9% YoY lower interest burden on recent loan repayment.

## Key Business Highlights

- Polycab India is engaged in the business of manufacturing and selling wires & cables and fast-moving electrical goods (FMEG) under the 'Polycab' brand. It has 24 manufacturing facilities in India of which four are dedicated to FMEG product categories.
- In 2014, Polycab India entered the FMEG segment to diversify and leverage the strong 'Polycab' brand. The FMEG product includes electric fans, LED lighting & luminaires, switches & switchgears, solar products and conduits & accessories.
- Apart from wires and cables, Polycab India entered the engineering, procurement and construction (EPC) business in 2009, which includes design, engineering, supply, execution and commissioning of power distribution and rural electrification projects.

## Valuation

- Polycab India's competitive edge lies in product innovation, quality and availability. The products are manufactured within the company's manufacturing facilities, which were set up to address the specific needs of innovation, quality and availability. Polycab India also entered into two joint ventures of which one is a backward integration strategy. Backward integration in manufacturing assures the company of a dependable supply of quality raw materials and enables Polycab India to maintain control of the supply chain, lower the cost of operations, and offer products at competitive prices.
- Polycab India is currently operating at ~80% capacity utilization for its W&C facilities. The availability of excess capacity along with continuous capex will enable Polycab India to grow better than its peers. The company incurred close to Rs.2,750mn on capex in FY19 and expected to incur about Rs.1,750-2,000mn in FY20, primarily towards W&C. This capex is aimed at catering to segments where there is opportunity for growth or opportunity for import substitution, such as defense, railways, mining and metro.
- Polycab continuously invested in strengthening its supply chain over the years. Polycab India has developed a pan-India distribution network of 3,300+ authorized distributors and dealers with a reach of 100,000+ retail outlets. It spends about 1.5% of sales on advertising and sales promotion. The management also sees lot of headroom in terms of building the brand further.
- With India's largest cable & wire company, extensive product range in W&C, forayed into the FMEG business, competitive edge with product innovation, quality and availability and strong distribution network, we value Polycab India at 24.39x FY21E EPS of Rs.47.30 to arrive at target price of Rs.1,154, an upside of 20%.

## Risk & Concern

- Cost of copper, aluminum, steel and PVC form a significant portion of the Polycab India's operating expenses. Any fluctuations in prices of these raw materials may affect its margins negatively.
- Majority of the raw materials required are imported and hence Polycab India is exposed to foreign exchange volatility risks as well.
- Polycab India operates in industry which requires substantial capex and high working capital, which may stretch its debt and working capital cycle putting strain on its cash flows.

## Graphs & Charts

Figure 1: Net Sales Trend

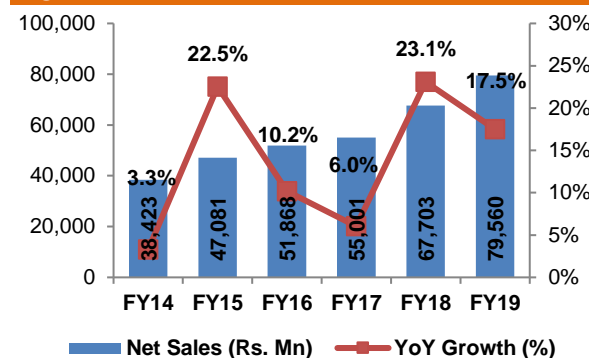


Figure 2: EBITDA & EBITDA Margin Trend

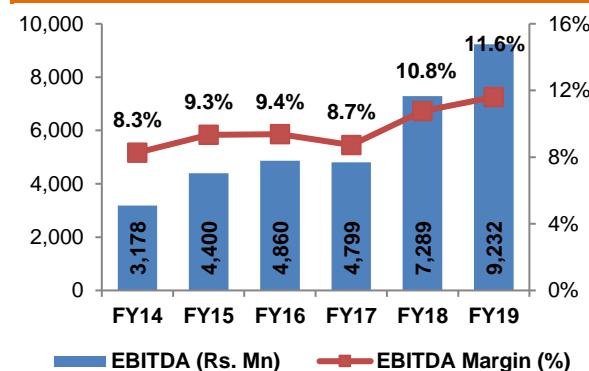


Figure 3: PAT Trend

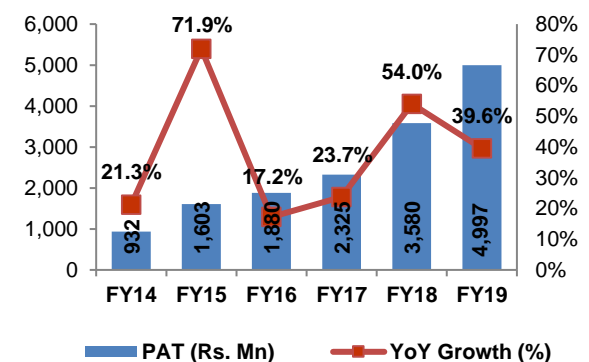
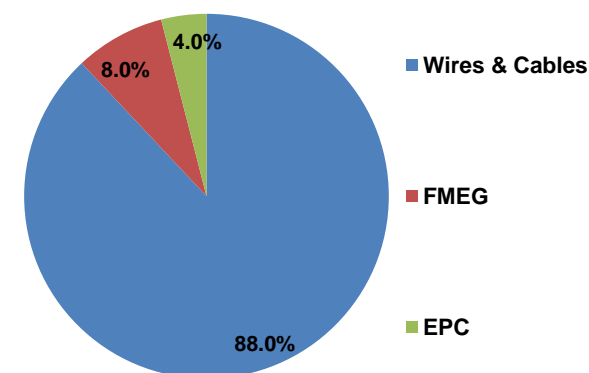


Figure 4: Segment-wise Revenue Contribution



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