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POLY CAB

Connection Zindagi Ka



Polycab India Limited



Accumulate

Key Data

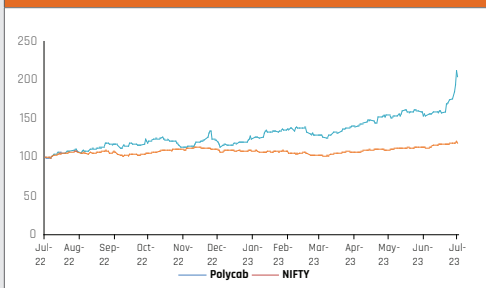
DATE	18.07.2023
Reco Price	3,970 - 3,990
Target	4,895
Upside	23%
Sector	Cables - Electricals
Bloomberg Code	POLYCAB:IN
BSE Code	542652
NSE Code	POLYCAB
EPS (FY23)	84.8
Face Value (Rs.)	10.0
Market Cap (Mn)	5,97,661.5
Shares O/s (Mn)	150.0
Debt/Equity (x)	0.0
52-week High (Rs)	4,010.1
52-week Low (Rs)	2,198.0

Source : NSE, BSE

Shareholding pattern (Mar-2023)	%
Promoters	66.21
DIIs	9.34
FIIIs	9.78
Public	14.67
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

Polycab India Limited

Company Background

Polycab India Limited (POLYCAB) is an India-based manufacturer of wires and cables. The company is engaged in fast-moving electrical goods (FMEG) and also involved in engineering, procurement, and construction (EPC) projects. The company owns approximately 25 manufacturing facilities located across the states of Gujarat, Maharashtra, Uttarakhand, and the union territory of Daman. It operates through three segments.

The Wire and Cable segment is engaged in the manufacturing and selling of wires and cables. The Fast Moving Electrical Goods (FMEG) segment is involved in the production of fans, light-emitting diode (LED) lighting and luminaires, switches, switchgear, solar products, pumps, hohm, conduits, and domestic appliances.

The other segment comprises the engineering, procurement, and construction (EPC) business, which includes design, engineering, supply of materials, survey, execution, and commissioning of power distribution and rural electrification projects on a turnkey basis."

Outlook and Valuation

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. We believe the company will utilize the opportunity with its strong economic moat, like a robust distribution network and a wide range of product offerings that it has built over the years. Furthermore, the growth will be driven by factors such as the Government of India's increased spending on infrastructure, policies like "Housing for All", an increase in the absorption of real estate, an increase in per capita consumption of electricity, and improved rural electrification. We believe Polycab India Limited is well-placed to capitalize on these opportunities. We expect the company's revenue to grow at a CAGR of ~13% over FY23-FY26E. Hence, we recommend Polycab India Limited with a target price of Rs 4,895 based on FY26E EPS of Rs ~ 122.67 with a forward PE valuation multiple of 40. **It looks like an attractive BUY with growth potential for medium to long-term perspectives. Hence, we recommend ACCUMULATE rating for the Medium-term investment.**

Financial Snapshot

Particulars (₹ in Mn)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Sales	1,41,077.80	1,58,712.53	1,79,345.15	2,03,556.75	13.00%
EBITDA	18,428.50	20,021.75	22,629.01	25,485.30	11.41%
PAT	12,699.50	13,936.46	16,050.53	18,372.08	13.10%
PAT Margin %	9.00%	8.78%	8.95%	9.03%	
EPS	84.80	93.06	107.17	122.67	13.10%
D/E (x)	0.03	0.00	0.00	0.00	

Source: Company, ACMIIL Retail Research

Company at a glance

Investment Idea

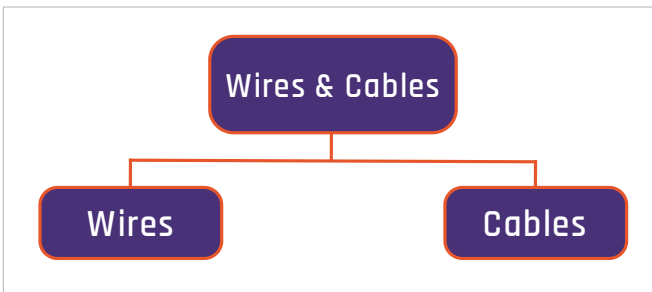
- Manufacturer of wires and cables in India with a market share of around 22-24% of the organized market.
- Extensive distribution network of 4,300+ authorized dealers and 2,05,000 retail outlets across pan India.
- The Company has guided Rs. 20,000 crore Revenue by FY 2026 as part of its 'Project Leap' execution strategy.
- Strong reach and distribution in B2C business and increasing presence in white spaces for B2B business.
- High degree of backward integration and automation.
- Strengthening presence through alternate channels of sales such as Modern trade and E-commerce to increase penetration in Tier 1 & 2 cities.
- Robust products Portfolio with sector diversification.
- Current capacity utilization levels at 73-74%.

Company Business and Products

Polycab India Limited operates in the electrical industry and is the market leader in the Indian wires and cables industry. The company is present in the Fast Moving Electrical Goods (FMEG) sector and the Engineering, Procurement, and Construction (EPC) business, and it executes limited projects.

The product portfolio of different segments includes:

- **Wires & Cables**



1. Wires

- House wires
- Green wires – High Resolution Resistance (HRR), Flame Retardant (FR), Low Smoke and Halogen (LSH) and Lead Free (LH)
- Industrial flexible wires
- Speaker wire

2. Cables

- EHV cables
- Fire survival cables
- Optical Fibre Cables (OFC)
- Jelly filled telephone cables
- High voltage cables
- LAN cables
- Power and control cables
- Instrumentation cables
- Co-axial cables
- Thermoplastic High heat Resistant Nylon coated cable

FMEG (Fast Moving Electrical Goods):

POLYCAB made inroads into the highly competitive FMEG market with an exhaustive range of products that cater to both home and institutional needs like -

- Fans and home appliances
- Solar Products
- Pumps, conduits and accessories
- Switches and Switchgears
- LED lighting and luminaries

Investment Idea

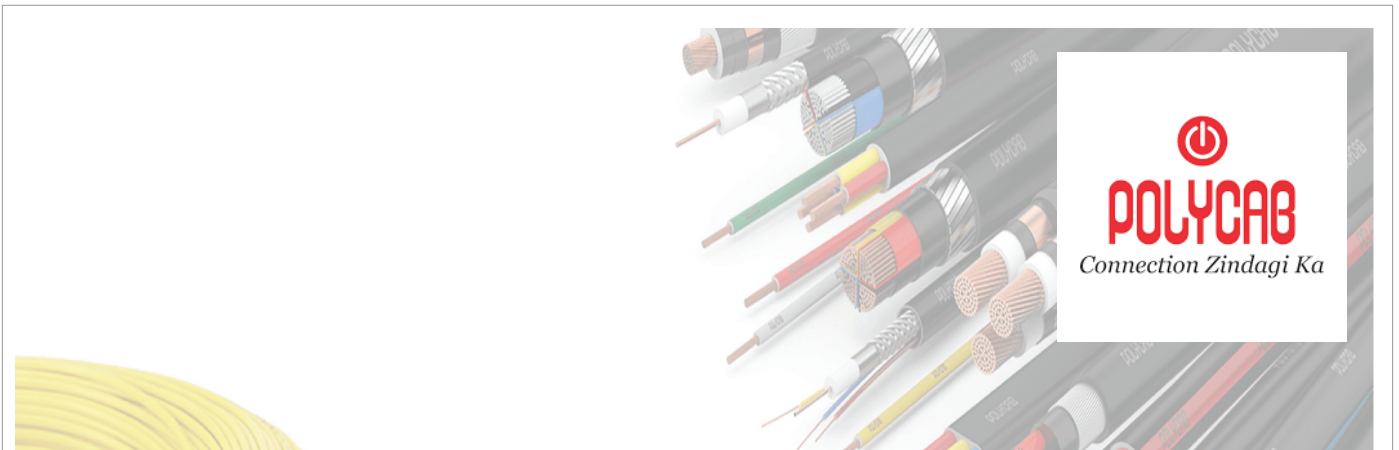


Others

The company's Engineering, Procurement, and Construction (EPC) business provide electrical turnkey solutions comprising project management, onsite execution, and resource management through specialized erectors and financial management. Its solutions are largely provided for the transmission and distribution sectors, involving projects in extra high voltage and high voltage levels for various government utilities in India. The company supplies cables, wires, and conductors for these projects.

Industries Catered

POLYCAB has rich experience working across industries – For eg:



Source: Company, ACMIIL Retail Research

Investment Rationale

Promising Medium term business outlook

The company, Polycab, is confident of delivering a strong performance as it aims for industry-leading growth through both domestic and export channels, and by scaling up its B2C business. The Company intends to achieve revenues of Rs. 20,000 crore by FY2026E, following the "Project Leap" strategy, which aims to outpace industry growth. As a result, Polycab is well poised for sustainable and healthy growth in the medium term.

Demand from the residential market and increase in private capex to drive growth prospects

The company believes that there will be a structural uptick in demand from the residential market and an increase in private capex from sectors like steel and cement, which will drive further growth. Additionally, other areas such as data centers and capex led by the PLI scheme are also attracting significant investments, which bodes well for wires and cables players in the long term.

Premiumization Offerings & improvisation of efficiency with economies of Scale

The company is aligned with the strategy of focusing on improving margins through the premiumization of their offerings, leveraging brand building and product innovation efforts. Additionally, going forward, it will place greater emphasis on the product categories of switchgears and switches, where competition is lower, resulting in higher margins. In-house manufacturing and strong backward integration have always been their areas of focus, and these aspects will now start yielding benefits, including lower costs, economies of scale, enhanced product quality, and improved availability.

Investment Idea

Governing and overseeing ESG initiatives

The company has finalized its ESG framework, which aligns with international ESG protocols, guidelines, and standards, along with the ESG charter. This ESG framework will be ingrained into the company's ethos, with all business decisions from now onwards being focused on sustainability based on the pillars of environmental, social, and governance principles.

FMEG - A key growth enabler in the long term

Currently, the company has a robust new product development pipeline aimed at strengthening and building a differentiated portfolio in the FMEG business. The company is expediting efforts to scale up the FMEG business through a realignment of its distribution strategy, which involves consolidating existing dealers/distributors and adding new dealers in new regions. The company has a significant opportunity to scale up its business, given its current market share in fans and switchgear & switches.

Tie-up with Redington Limited to scale up telecom business

Polycab India has partnered with Redington Limited to expand its presence in the telecom sector, which currently constitutes a relatively small part of its business. Redington is a leading distribution and supply chain solutions provider, serving over 290 brands. Through this collaboration, Polycab's Optic Fiber Cables (OFC) will be distributed by Redington. The increasing number of mobile devices, growing adoption of Fiber to the Home (FTTH) connectivity, the surge in data centers, and the impending 5G transition are expected to drive the demand for OFC and other equipment in India over the coming years.

Ample business opportunities with sector diversification to give an edge

POLYCAB is excited to seize the opportunities that lie ahead and create value for their stakeholders. The Company has developed strategic plans to tap into the potential offered by multiple sectors, including defense, railways, the electric vehicle industry, data centers, and the telecommunications domain, among others. Looking ahead, the company's key growth catalysts include expansion in the B2C business, sustained demand in the B2B segment, and an expanding international presence. Their entry into the EHV segment also promises long-term growth potential.

Aggressive investments in brand building & maintaining Margin

The company's aggressive investments in brand building through advertisements and promotions would help deliver strong long-term growth. Furthermore, calibrated price revisions (in line with copper price movements) would enable the company to maintain its margins at a comfortable level.

Additional Key Growth Drivers

- POLYCAB is pursuing structured distribution addition planning and monitoring with a focus on technology to exemplify as well as simplify the entire process. It has reduced turnaround time for providing their products to end dealers or customers to generally almost less than 24 hours.
- The company's capex strategy is prudent and growth-centric, with plans to incur INR 6 billion-7 billion for this calendar year, which would be funded completely through internal accruals. This investment aims to support its target of ₹200 billion revenue by FY26. Two-thirds of the capex would be directed towards the C&W segment, mainly for capacity expansion in the emerging business and exports. The remaining balance is likely to be directed towards the FMEG business for de-bottlenecking and capacity expansion.
- It has initiated an integrated and structured approach for strategic key accounts across real estate, OEMs, Data centers, and special cables industries, making it easier to serve customers with custom or tailored solutions. It operates largely through its dealers and distributor's network and about 88-90% of its sales normally happen through this channel & Remaining 9% to 10% through institutions sales.
- The company on the continent to manufacture each and every type of cables that can be manufactured. And if we look at any particular infrastructure project, there will be a requirement for about 50 to 60 different types of cables, and Polycab is the only company that is able to provide all those different types of cables.
- It operates largely through its dealers and distributors network, with about 88-90% of its sales normally happening through this channel, and the remaining 9% to 10% through institutional sales.
- It has up to a 90-day window from its major suppliers of copper and aluminum to pass on price hikes. The volatility is passed on through periodic adjustments in selling prices.
- Its largest distribution channel and the number of SKUs it offers are unique advantages that have helped it become the largest cables and wires business in the country.
- Its aggressive in its international business and aims to achieve 10% plus of overall revenue through international operations by FY26.
- It has ~₹6481 crore worth of reserves on the balance sheet as of 31.03.2023. Apart from distributing dividends to shareholders, it can use these reserves to buy back shares and improve its RoE profile. The reserves can also be utilized for any inorganic opportunities for the overall growth of the company.

Industry Overview

India's growth story remains fundamentally sound, with the Economic Survey projecting a 7.0% increase in Gross Domestic Product (GDP) for FY23. This, along with a predicted GDP growth of 6.5% in FY24, indicates that India is well poised to enter a new phase of expansion.

The Indian government is helping upgrade one of the biggest drivers of economic growth – infrastructure. The recent Budget 2023-24, which announced a capex outlay of ₹10 trillion towards infrastructure, will give a significant boost to India's overall growth and development, improving various sectors of the economy.

Many Economic Key indicators, such as manufacturing PMI, services PMI, and core 8 industries, consistently remained above long-term averages, while growth momentum was visible in steel and cement output, GST collections, capacity utilization, and rising demand for electricity and travel. Additionally, double-digit credit growth, improvement in passenger vehicle sales, and a downward trajectory of inflation indicate positive momentum for the long-term GDP growth of the country.

Wires & Cables (W&C) industry

The Indian W&C (Wires and Cables) industry is estimated to have grown in the low teens in FY23, reaching a size of ₹680-730 billion, contributing to 40-45% of the Indian electrical industry. Sectors like Power, Railways, Infrastructure, Oil & Gas, Telecom, Real Estate, Renewables, Defence, Automobiles, etc., are the largest demand drivers for the industry. Organized players command a lion's share of the market, accounting for roughly 70%, while unorganized players largely dominate the rural geographies. The demand for the W&C industry is expected to be driven by factors such as the expansion and modernization of power transmission and distribution infrastructure, the upgradation and expansion of the railway network, increased investments in metro railroads, smart grid initiatives, and the development of smart cities.

Fast Moving Electrical Goods (FMEG)

FMEG industry (Fast-Moving Electrical Goods) refers to consumer electrical goods sold through various retail trade outlets and e-commerce platforms. These include fans, lights, luminaires, switches, switchgear, conduits, fittings, and so on. Over the years, the industry has evolved rapidly with the increasing participation of organized players and an emphasis on branding. Structural drivers like changes in demography, consumer behavior, technology, and rising disposable incomes have catapulted the growth of the organized FMEG sector in India.

Engineering Procurement and Construction (EPC)

EPC (Engineering, Procurement & Construction) is a prominent form of contracting agreement in the construction industry. EPC companies are involved in executing projects that encompass multiple engineering disciplines, with overall responsibility for the performance of a 'unit' or the whole plant. The key factors driving the growth of the engineering procurement and construction market include increasing demand for infrastructure development, rising industrialization and urbanization, and government initiatives to support infrastructure development.

Industry Growth Push Drivers

- The government has brought in much-needed reforms to the power distribution system and strengthened India's sub-transmission and distribution networks.
- The government targets the construction of 12 million and 28.5 million houses in urban and rural India, respectively, under its 'housing for all' scheme.
- India is planning to install 500 GW of renewable energy capacity by CY30, which is expected to involve an investment of at least ₹2.4 trillion. Moreover, India's energy demand is expected to increase in the coming decades due to its sheer size and enormous potential for growth.
- The Indian real estate sector demonstrated strong resilience to global uncertainties in 2022 and came out of a prolonged down cycle, registering growth across the entire real estate verticals, including residential, commercial, retail, and warehousing.
- The Indian telecom industry, currently the second-largest globally, is primed for substantial growth. This growth is propelled by factors such as government initiatives like BharatNet, affordable tariffs, increased accessibility, and the rollout of 5G coverage.
- The government of India has introduced the Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) to expand electrification to all parts of India. As of 2023, a total of 290 million households have been electrified, with seven states reporting 100% household electrification.

Story in Charts (Values in Mn.)

Exhibit 1: Sales Growth

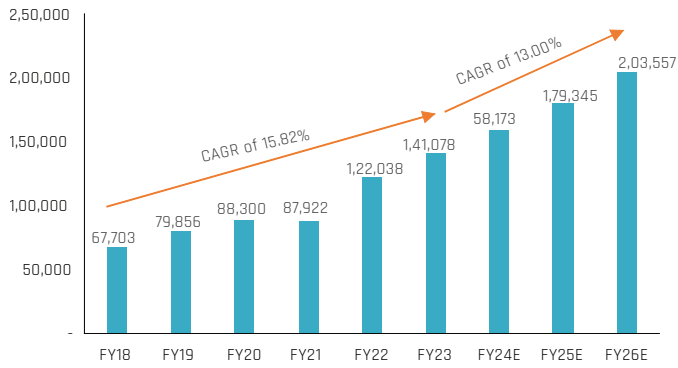


Exhibit 2: EBITDA & EBITDA Margin (%)

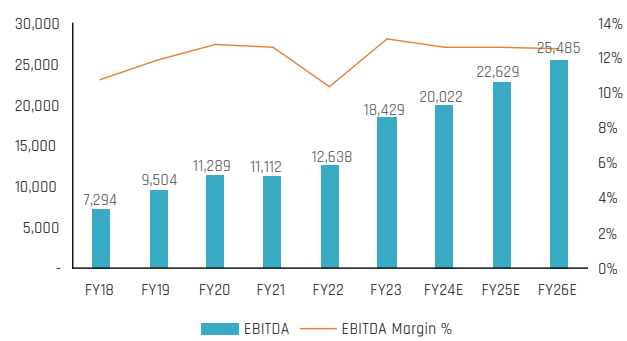


Exhibit 3: PAT & PAT Margin (%)

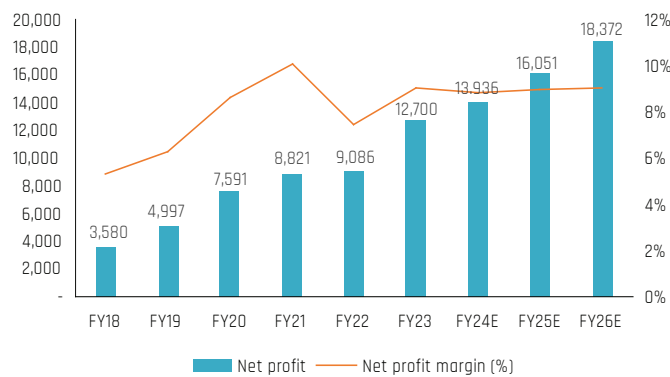


Exhibit 4: Product wise break-up

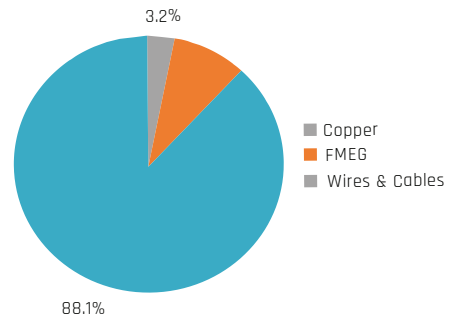


Exhibit 5: Location wise breakup

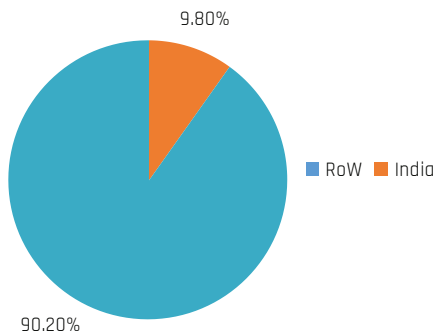
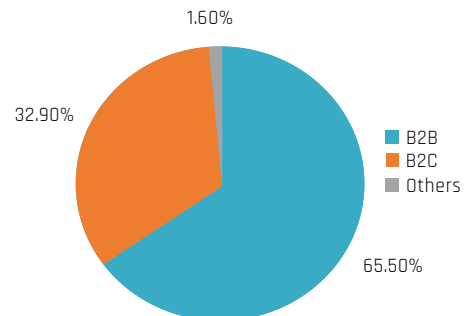


Exhibit 6: Distribution Channels



Source: Company, ACMIIL Retail Research



Investment Idea

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (in Mn.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	67,703.00	79,855.50	88,299.60	87,922.30	1,22,037.60	1,41,077.80	1,58,712.53	1,79,345.15	2,03,556.75
Expenses	60,409.05	70,351.10	77,010.20	75,810.80	1,09,399.30	1,22,649.30	1,38,690.78	1,56,716.14	1,78,071.44
Operating Profit	7,293.95	9,504.40	11,289.40	11,111.50	12,638.30	18,428.50	20,021.75	22,629.01	25,485.30
Other Income	645.40	637.80	914.80	1,639.60	1,607.90	1,333.30	1,405.00	1,453.00	1,502.00
Interest	936.80	1,167.10	495.40	426.90	351.90	597.60	268.80	271.00	272.00
Depreciation	1,329.50	1,414.50	1,608.90	1,761.70	2,015.20	2,091.60	2,576.00	2,410.30	2,219.20
Profit before tax	5,667.90	7,560.60	10,099.90	10,562.50	11,879.10	17,072.60	18,581.95	21,400.71	24,496.10
Tax	2,082.30	2,557.60	2,443.70	1,703.40	2,706.30	4,250.00	4,645.49	5,350.18	6,124.03
Tax %	36.74%	33.83%	24.20%	16.13%	22.78%	24.89%	25.00%	25.00%	25.00%
Net profit	3,580.10	4,997.00	7,590.60	8,820.90	9,085.80	12,699.50	13,936.46	16,050.53	18,372.08
Net profit margin (%)	5.29%	6.26%	8.60%	10.03%	7.45%	9.00%	8.78%	8.95%	9.03%
Number of Shares	141.21	141.21	148.88	149.12	149.44	149.77	149.77	149.77	149.77
Earning Per Share	25.35	35.39	50.98	59.15	60.80	84.80	93.06	107.17	122.67

Source: Company, ACMIIL Retail Research

Balance Sheet:

Particulars (₹ in Mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Liabilities:									
Equity Share Capital	1,412.10	1,412.10	1,488.80	1,491.20	1,494.40	1,497.70	1,497.70	1,497.70	1,497.70
Reserves	22,064.10	27,057.50	36,875.40	46,048.30	53,943.00	64,813.70	72,750.16	86,800.69	1,05,172.77
Borrowings	8,003.00	2,724.20	1,570.60	2,825.00	1,181.50	1,914.70	299.00	300.00	305.00
Other Liabilities	13,001.80	25,089.20	19,671.00	19,782.50	17,500.10	26,015.20	41,047.91	33,521.75	49,750.03
Total	44,481.00	56,283.00	59,605.80	70,147.00	74,119.00	94,241.30	1,15,594.77	1,22,120.14	1,56,725.50
Assets:									
Net Block	11,971.30	12,755.80	14,220.10	18,696.00	16,751.20	20,669.40	23,093.40	21,683.10	19,963.90
Capital Work in Progress	1,359.90	1,930.00	2,411.80	990.50	3,754.50	2,507.70	3,507.70	4,507.70	4,007.70
Investments	315.50	293.90	654.80	6,349.50	7,733.10	13,505.00	13,505.00	13,505.00	13,505.00
Other Assets	30,727.90	38,136.80	39,506.00	38,797.80	41,809.00	50,606.80	67,873.23	63,766.56	83,414.62
Cash & Bank	106.40	3,166.50	2,813.10	5,313.20	4,071.20	6,952.40	7,615.45	18,657.78	35,834.28
Total	44,481.00	56,283.00	59,605.80	70,147.00	74,119.00	94,241.30	1,15,594.77	1,22,120.14	1,56,725.50

Source: Company, ACMIIL Retail Research

Risks and Concerns

- Economic slowdown due to external and internal factors can affect the overall GDP growth of the country.
- Any unexpected change in government policies and regulations may impact the business environment.
- The slowdown in private capex could lead to muted order bookings.
- Geopolitical tensions and supply chain disruptions can result in volatility in commodity prices and higher logistics costs. Such fluctuations in key raw material prices may impact the overall business profitability of the company.
- The wires & cables and FMEG industry are highly fragmented and have many unorganized players, leading to high competitive intensity.

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Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

Retail Research Desk

Email: retailresearch@acm.co.in

Research Analyst Registration Number:
INH000002483

CIN: U65990MH1993PLC075388

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