



THINK DIFFERENT PROFIT MORE

Company Name	: POLYCAB INDIA
BSE Code	: 542652
Time Duration	: 2 years
CMP	: ₹675.70 (as on 07 May., 2020)
Target Price	: ₹950

Our Upstream Pick for this month is Polycab India. The company is a market leader in the wire & cable industry. Along with the manufacturing of wires & cables, the company has forayed in FMEG segment in 2014, where it makes electric fans, LED lighting and luminaires, switches and switchgears, solar products & conduits as well as accessories.

Besides, in 2009, it entered into engineering, procurement and construction (EPC) business, where it is involved in the design, engineering, supply and execution & commissioning of power distribution and rural electrification projects. The company commands nearly 18 per cent of organised market of wires and cables and 12 per cent of the overall market. Polycab is the largest manufacturer in the wires & cables industry in India with a production capacity of 3.5 million km of cables and wires.

The key products of the company in the wires & cables segment are power cables, control cables, instrumentation cables, solar cables, building wires, flexible cables, flexible/single multi-core cables, communication cables and others including welding cables, submersible flat and round cables, rubber cables, overhead conductors, railway signalling cables, speciality cables and green wires.

In terms of FY19 revenue mix, wires & cable accounted for nearly 86.2 per cent, while eight per cent was from FMEG segment and the rest was from other segments, which mainly consists of an EPC project.

The countrywide lockdown to curtail the spread of COVID-19 pandemic has resulted in the disruption in both demand and supply. Consequently, the revenue is going to get hit for a couple of months. However, as the economic activities start resuming, the demand is expected to get back on track though in a slow pace. In this challenging time, the income statement is going to take a severe hit as there have been no sales since a few days but companies like Polycab with a strong balance sheet (net cash of ~Rs 640 crore) can survive this issue. A potential growth, owing to lower segment penetration, strong brand and strong balance sheet boosts confidence to invest in the company.

Impact of COVID-19

Due to a complete lockdown, the company had to shut its production and also, there was no demand, thus, there were some days when the company did not generate any sales. Resultant, deterioration in the performance is bound to happen. Besides, the management believes that this will also have a major impact on Q1FY21. Post this, there might be a gradual improvement in the demand which might help the company to scale-up its operations. In terms of raw material, the company has ample inventory with it. The company has a lean balance sheet with net cash positioning of Rs 640 crore as on December 2019, which would help the company to survive this crisis and bounce back as the situation starts to normalise.

A leader in wires & cables industry

The company is a market leader in the wire & cable industry and commands nearly 18 per cent market share of India's organised market and 12 per cent of the overall market. The company has India's largest capacity of 3.5 million km/year for producing wires & cables. In this division, the company caters to the requirement of various institutional and retail customers in different industries such as power, oil & gas, construction, IT parks, infrastructure, metal and cement industries. Notably, Polycab has reduced concentration risk by diversifying its customer base. No customers contribute more than five per cent to the revenue, which eliminates the risk of dependency on any single customer.

With an increasing demand for power, light and communication including voice and data, the demand for cables and wires are too surging. The unorganised market in the cable and wire industry has reduced to 30 per cent in 2019 from 40 per cent in 2014 and is expected to further reduce to 20-25 per cent in the next five years. Being a market leader in the industry, we believe Polycab to be a key beneficial from this shift. The demand for wire & cable industry is likely to grow strong, going forward, owing to various govern-

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ment initiatives in power and infrastructure such as huge spending on infrastructure, growth in the fire survival cables underpinned by metro, airport and commercial real estate projects and smart cities missions' investment in underground cables.

Forayed in FMEG segment, another growth engine

To transform itself from B2B to B2C, the company has forayed in FMEG business and from the start of this operation; the company's revenue from this division grew to eight per cent of FY19 revenue from a mere 0.3 per cent in FY14. Notably, from this lower base, FMEG revenue has grown at a CAGR of 116 per cent. The company is leveraging its strong distribution network of more than 3,400 authorised dealers & distributors and 1,00,000+ retail outlets to expand its FMEG business. Polycab aims to reach untapped larger addressable market by increasing the number of authorised dealers and distributors in North, South and East India. It also plans to penetrate new towns through these additional dealers and distributors. The industry size of FMEG business is almost Rs 60,000 crore, which is growing rapidly. In FY19, the company generated around Rs 650 crore revenue from FMEG business, which translates into a mere one per cent market share. We believe with new product launch on regular basis, coupled with strong distribution network and geographical expansion would help to expand its FMEG business.

Backward integration enables seamless supply & lower cost

In 2016, the company has entered into a joint venture with Trafigura for manufacturing copper wire rods, which is a key raw material in the manufacturing of wire, cable and FMEG. This would help the company to meet a substantial part of its requirement. Recently, Polycab India signed an agreement with Trafigura Pte Ltd, Singapore to acquire the remaining 50 per cent stake in Ryker Base Private Limited, making the latter, a wholly-owned subsidiary of PIL. Further, Polycab in its existing manufacturing facilities produces other key raw materials that are used in the manufacturing of our wires & cables and FMEGs which include aluminium rods, higher size of copper rods, various grades of PVC, rubber, XLPE compounds and GI wire & strip. This backward integration in manufacturing enables the company to reduce its dependence on the third party for quality raw materials, maintaining the control of the supply chain and lower cost of operations.

Focus on R&D for introducing innovative product

The company spends heavily on the research & development, which eventually helps Polycab to introduce new and innovative products. In 2017, the company had launched environmental-friendly power cables that consume less power, to meet the growing demand for green products. Further, the company is developing specialised, innovative and quality cables such as automotive cables, rubber (elastomeric) cables and e-beam irradiated cables to serve the needs of the automobile, ship-building industry, mining, solar energy and rolling-stock sectors.

Financial performance

On the financial front, looking at the recently concluded quarter-Q3FY20, the consolidated revenue came in at Rs 2,507.31 crore as against Rs 2,027.95 crore in the corresponding quarter last year, registering 23.6 per cent YoY increase. EBITDA for the quarter grew by 5.8 per cent YoY to Rs 339.12 crore as against Rs 320.53 crore in the corresponding quarter last year, with a corresponding margin contraction of 228 bps while, EBITDA margin for the quarter stood at 13.5 per cent. PAT for the quarter came in at Rs 221.63 crore as against Rs 194.66 crore in the corresponding quarter last year with YoY increase of 13.9 per cent. Looking at nine-month number i.e. for 9MFY20, the revenue jumped by 22 per cent YoY to Rs 6,700.57 crore while, EBITDA grew by 19 per cent YoY to 834.45 crore. Further, the company reported net profit of Rs 552.1 crore, up by 50 per cent YoY.

Looking at the historical trend, the revenue has grown at CAGR of 14.82 per cent over the last five years and profit has grown at CAGR of 41 per cent over the same duration.

Outlook

A healthy balance sheet, strong return ratios, coupled with industry leadership position indicates that it is positioned to bounce back as soon as the ongoing crisis gets over. The company's backward integration plan would help in quality & adequate input materials and lower material cost. However, currency fluctuation and prolonged slowdown in demand may impact adversely on the company's performance. Further, the company's customers are diversified in various industries which reduce the risk of concentration. In terms of return ratios, Polycab's ROE and ROCE has improved significantly from 10 per cent and 16 per cent in FY15 to 18 per cent and 28 per cent, respectively. At present, the stock of Polycab is available at P/E multiple of 14.73x on TTM earnings. We believe that the stock has a potential to touch the mark of Rs 950 piece, which represents a potential upside of 40 per cent.

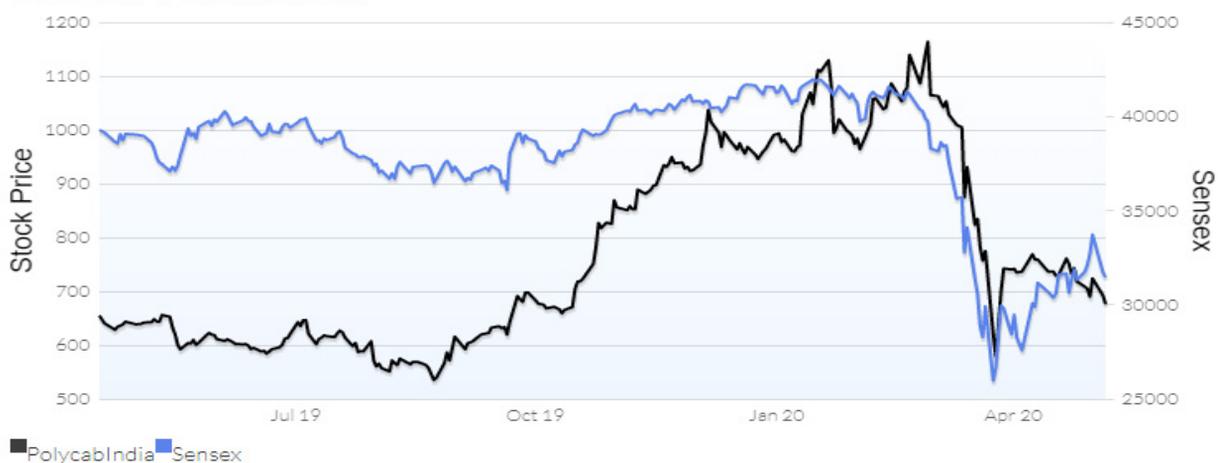
Inc/Exp Statement (Consolidated)

Description	201903	201803	201703	201603	201503
Net Sales	7955.98	6770.3	5500.12	5186.83	4708.12
Total Income	8049.33	6834.74	5575.33	5198.69	4719.27
Total Expenditure	7032.79	6041.42	5020.17	4700.85	4268.08
PBIDT	1016.54	793.32	555.16	497.84	451.19
PAT	502.63	358.46	233.08	187.96	160.32
Dividend %	30	10	10	17.5	15
Adj. EPS(Rs)	35.39	25.35	16.46	13.31	11.35

Quarter On Quarter (Consolidated)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	2507.31	2241.94	11.84	2024.84	23.83
Total Expenditure	2168.2	1970.23	10.05	1707.42	26.99
PBIDT (Excl OI)	339.11	271.71	24.8	317.41	6.84
PAT	221.63	195.41	13.42	191.74	15.59
PBIDTM% (Excl OI)	13.52	12.12	11.55	15.68	-13.78
PBIDTM%	13.54	12.67	6.87	16.85	-19.64
PATM%	8.84	8.72	1.38	9.47	-6.65
Adj. EPS(Rs)	14.7	12.91	13.87	13.69	7.38

Stock vs. Index



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