



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Initiating Coverage @ Dalal & Broacha

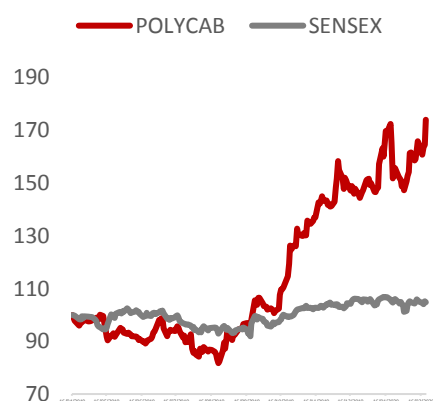
ACCUMULATE

Current Price	1089
Target Price	1205
Upside	11%
52 Week Range	525/1180

Key Share Data

Market Cap (Rs.bn)	167.34
Market Cap (US\$ Bn)	2.33
No of o/s shares (mn)	148.64
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos'000	414
BSE Code	542652
NSE Code	POLYCAB
Bloomberg	POLYCABIN

Price performance



% Shareholding	Dec19	Sept19
Promoters	68.60	68.69
DII	13.39	12.83
FII	4.64	4.39
Others	13.37	14.09
Total	100	100

Polycab India (PIL) is engaged in the business of wire & cable and FMEG (fast moving electrical goods - which includes fans, lighting, switches and switchgears, etc.) under the "Polycab" brand. PIL has the largest value market share of ~18% in organized cable and wire industry, followed by KEI industries having a market share of 9%. PIL has developed a strong distribution network of 3133 dealers and distributors across India. These dealers and distributors serve approx. 115,000 retail outlets

Investment Rationale

Highest manufacturing capacity domestically – PIL is the largest manufacturer in the organized wires & cables industry in India, having a capacity of 32,94,463 km of cables and wires. PIL has 24 manufacturing facilities of which 4 are dedicated towards FMEG business and balance towards Cables and Wires. Their biggest facility is at Halol which has a capacity of 21,24,115 Km (64% of Total Capacity) working at a capacity utilization ~80-85%. PIL's large manufacturing capacity enables it to execute supply large orders and fulfill industry demand at the earliest.

FMEG – The next growth driver: Polycab entered FMEG business in FY12, which as of Q3FY20 contributes 9% to the topline and generated 1% EBIT Margin. Under this segment, products like Fans (50% of FMEG), Switches, Switch gears and MCBs are covered. The management expects 100-150 bps margins expansion every year. We expect this business to contribute 12% to topline by FY22E, from 8% in FY19 and clock 5% & 6% EBIT Margin by FY21E and FY22E, respectively. Under this vertical, the entire sales are B2C unlike their existing model for cables and wires which is majorly B2B driven. We believe that FEMG space holds immense opportunity for penetration as market size is INR 600 bn and Polycab's FMEG segment generates revenue of INR 6.4bn (~1% penetration). Hence, we expect Polycab to show strong revenue growth of 33% FY19-FY22E on the back of higher penetration.

Strong Distribution – Polycab's 80% of the overall sales are through distributors. Polycab has ~3133 distributors spread across geographies. Out of the total distributors 500 are common for FMEG and Wires and Cables business. Geographically, South has 971 distributors, North has 815 distributors and East and West has 689 and 658 distributors respectively. We believe that PAN India distribution capability coupled with channel financing offerings will enhance revenue growth going forward.

Outlook and Valuation

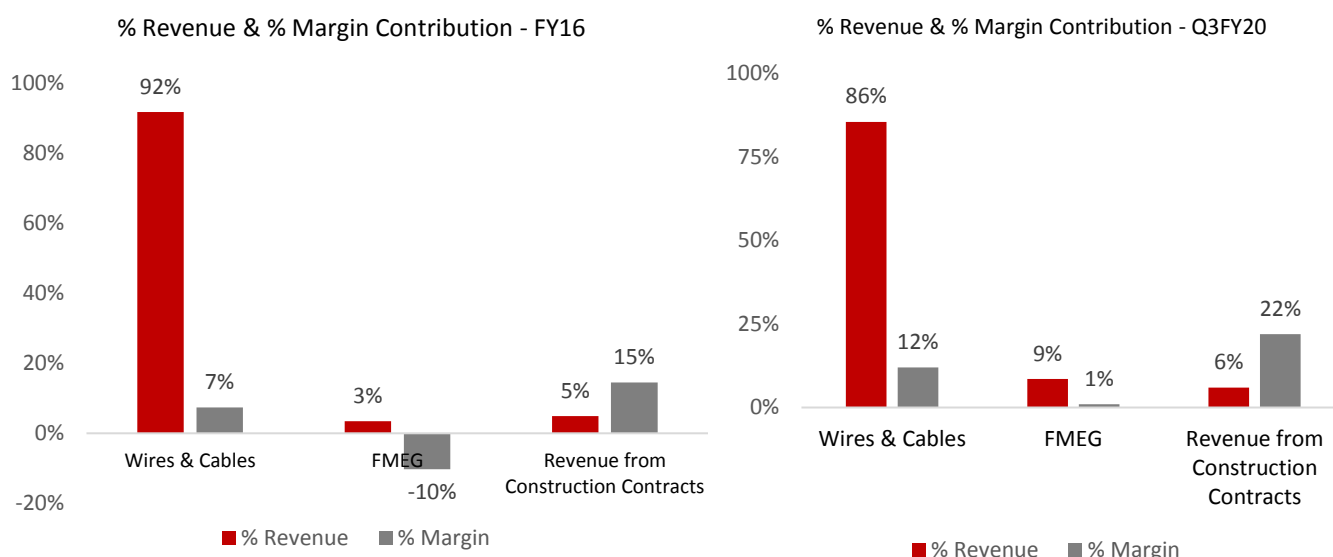
Strong demand for wires and cables across industries and Polycab's competitive advantage amongst peers followed by FMEG traction, we believe Polycab will grow at a Revenue CAGR of 17% in FY19-FY22. Opportunity for the company is immense seeing government's visibility in implementing infrastructure projects worth Rs 102 lakh crore over the next five years. We value Polycab, on P/E methodology and as such apply a P/E multiple of 17x FY22E EPS of Rs. 70.9 arriving at a target price of Rs. 1205. **We Initiate Coverage on the stock with a target price of Rs. 1205 and assign an Accumulate rating on the stock.**

Key Financials (In INR mn)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY18	67,703	23.1%	7,288.8	10.8%	3,580.1	53.9%	25.4	43	15%	19%
FY19	79,560	17.5%	9,231.9	11.6%	4,997.0	39.6%	35.4	30.8	18%	25%
FY20E	96,316	21.1%	11,964.8	12.4%	8,012.8	60.4%	53.9	20.2	22%	29%
FY21E	1,11,499	15.8%	13,972.4	12.5%	9,443.9	17.9%	63.5	17.4	21%	30%
FY22E	1,28,559	15.3%	16,172.7	12.6%	10,538.6	13.5%	70.9	15.4	19%	28%

The company generates its revenue from three verticals (i) Wires and Cables (84% of Topline), (ii) Fast Moving Electrical Goods (FMEG) (9% of Topline) and (iii) construction contracts (14% of Topline). Cables sales contribute 49% and wires sales contribute 34% to overall revenues, respectively.

Investment Rationale



Source – Company Reports, Dalal & Broacha Research

❖ **Largest Manufacturing Capacity & Largest Player in the Organized Market**

Polycab has 24 manufacturing facilities, including two joint ventures with Techno Electromech Pvt Ltd (Gujarat-based manufacturer of LED products.) and Ryker Plant (which is a JV between PIL and Trafigura Pte. Ltd. - a commodity trading company) for manufacturing Copper Rods, located across the states of Gujarat, Maharashtra and Uttarakhand and Daman and Diu. Ryker plant has commenced trial runs in FY19 and we expect it to be fully operational by FY20 end with an estimated annual capacity of 225,000 MT of copper wire rods. Ryker Plant will enable backward integration of their manufacturing process as we expect that it will meet a substantial part of Polycab’s demand for copper wire rods, which is currently satisfied by imports from Japan (which fulfills 70% of Copper requirement). Out of the 24 manufacturing facilities, 4 manufacturing facilities are dedicated for the production of FMEG.

Comparison of manufacturing capacities of domestic C&W companies:

Company Name	Manufacturing Capacities
Polycab	32,94,463 kms of cables and wires
KEI Industries	900 km of EHV cables (up to 400 kV) 7,500 km of HT cables 93,600 km of LT cables 3,600 km of rubber cables 6,77,000 km of winding, flexible and house wires 6,000 MT of stainless steel wire
Havells	11,50,000 kms (domestic and industrial cables)
V-guard	30,000 km of multicore round & flat cables per annum.
KEC International	Power cables (~40,000 Km per annum)

Some of the details w.r.t. their production facilities are as under –

Product Type	Location	Leased(L)/Owned(O)	Capacity Utilization				Types of Wires & Cables Manufactured
			Installed Capacity as at December 2018 (In Kms)	FY 16	FY 17	FY 18	
Wires & Cables	Halol	O	21,24,115	95%	96%	81%	Low Voltage Power Cable, Low Voltage Control Cable, Light Duty Cables, Instrument Cables, Rubber Cable, Control & Special Cable, Solar Cable, Multicore LDC.
	Daman	O/L	14,12,458	72%	75%	79%	
Switches & Switchgears	Nashik	L	60,00,000	41%	69%	79%	Switches and Switchgears
Fans	Roorkee	O	24,00,000	11%	32%	56%	Fans
Others	Padana	L	20,250	-	28%	57%	Various other Things including drums, Outers, Pallets
Copper Rods	Waghodia	O/L	-	-	-	-	New Facility for manufacturing Copper Rods, yet to commence operations.

Source – Company Reports, Dalal & Broacha Research

Instance of having competitive advantage due to largest manufacturing capacity - A recent export order of \$137 million was awarded to for an upcoming refinery, as the order was very large quantities to be completed in a stipulated time. This is testimony to the capacity, quality and growth potential in the wires and cable business of Polycab.

❖ **Strong Distribution Network (80% of Sales)**

Polycab has an established supply chain comprising of network of authorized dealers, distributors and retailers. The company is generating 80% of its Revenue from this supply chain, spread across geographies.

Geographical Distribution of distributors and dealers:

Category	FY 16	FY17	FY18	FY19
North	921	875	912	815
South	1187	1145	1057	971
East	782	787	684	689
West	935	871	719	658
Total	3825	3678	3372	3133

Source – Company Reports, Dalal & Broacha Research

Polycab's Top 100 dealers contribute 50% to its topline. Polycab has common as well as separate dealers for cables and wires and FMEG. They also have some common dealers depending upon the geographies and size of the market, the breakup of which is as under –

Category	FY 16	FY17	FY18	FY19
Wires & Cables	1718	1436	1304	1017
FMEG	1381	1603	1547	1535
Common for Wires and Cables	726	639	521	501
Total	3825	3678	3372	3133

Source – Company Reports, Dalal & Broacha Research

Projects Josh, Bandhan give fillip to distribution

To further strengthen the distributor network, Polycab has launched two projects, which are rightfully named Project Josh and Project Bandhan. In Project Josh, the company sells through its app, thereby ensuring better inventory management for the company and helping distributors make faster sales. This project has changed the selling techniques in five important ways – (1) it has added focus on pull marketing (2), it is more customer oriented, thereby enhancing product acceptance by them, (3) it anticipates the changing markets and customer preferences and addresses the same, (4) it encourages employees to take lead, (5) it focuses on building lifelong associations with customers. Project Josh has been rolled out in 250 towns and the company continues to roll it out in more cities to enhance sales and market shares and improve distribution.

Project Bandhan, on the other hand, is a CRM program that gives sales incentives to retailers and electricians. Under this program, tons of data is collected from retailers and electricians and then analyzed; this helps the company assess its resource allocation better since it helps understand the customers better. This is the company's step towards target marketing, enabling it to finally launch products to meet the customer's end needs. It is a great way of winning over the customer's loyalty for its products. Additionally, the electricians and retailers who the company is working closely with and who have register with the Bandhan scheme get additional loyalty points that form incentives to get more business.

These kind of schemes specially formulated to give impetus to distribution and marketing are the reasons that set this company apart from others in the market and helps it garner the lion's share in the market.

As compared to its Peers, KEI industries has 1,450 distributors and Havells has 9,000 direct dealers and 1, 30,000 retail touch points (Dealer are the ones who create a link between distributor and consumer while distributor connects the manufacturer to dealer. Hence, distributors build up inventory which are later sold through dealers). In terms, of distribution (dealers) Havells has a wider reach however, Havells ~68% business is consumer durables (Where End to End sales in important) and only ~32% of business is Cables, whereas in case of Polycab ~87% of business is Cables and wires (Where B2B and B2C are equally important).

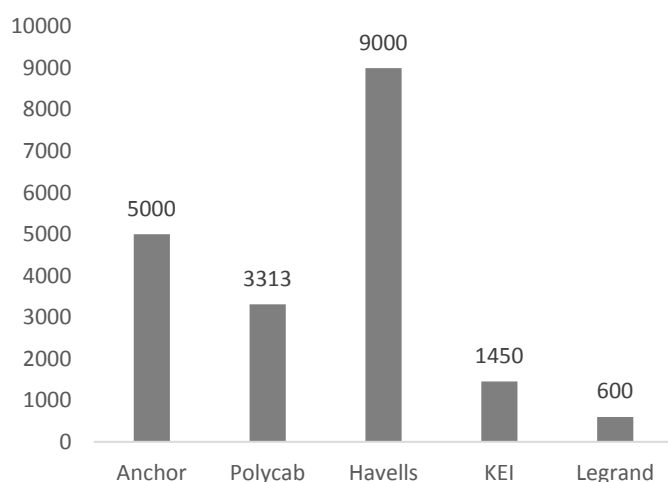
Hence, we believe that with Polycab growth in FMEG segment, retail touch points and FMEG distributors will increase. Herewith, below we have mentioned list of ~dealers and ~retailers in India. On perusal of the same it is evident that Polycab is well placed and comes in the Top 3

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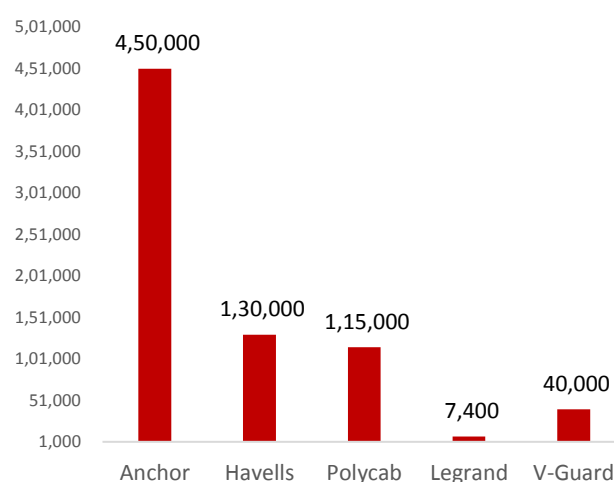
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Distributors/Direct Dealers



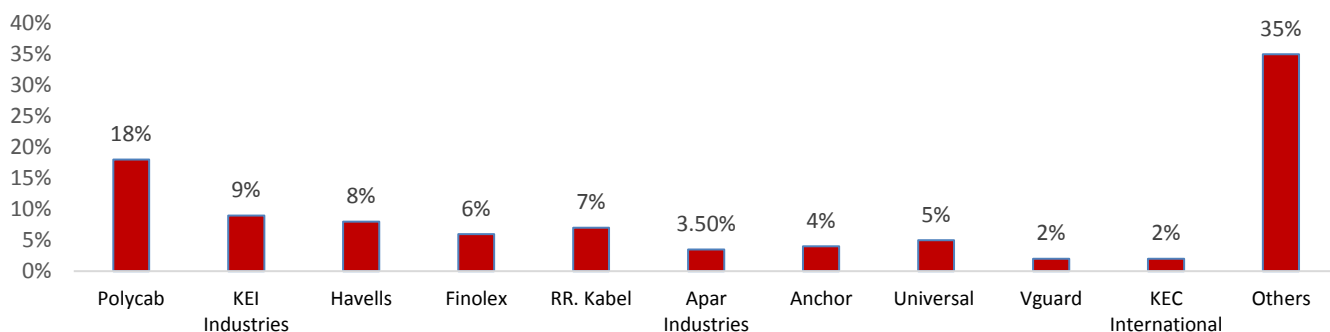
Retailers



Source – Company Reports, Dalal & Broacha Research

❖ **Shift from Unorganized to Organized Market**

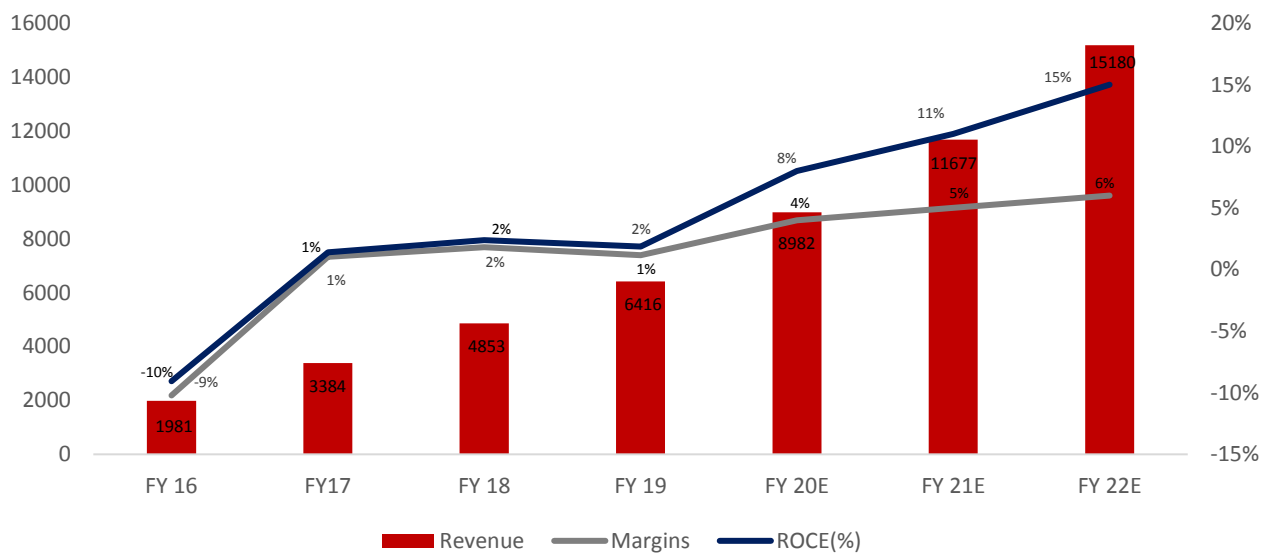
The Indian wires and cables industry is gradually moving from a largely unorganized segment comprising smaller regional players to an organized sector comprising pan-India branded players. At an overall level, organized players are ~519 and account for 66% share of the wires and cables industry’s production in FY18. The share of organized players is expected to increase to approximately 74% by fiscal 2023 on account of GST implementation which reduces the price gap between the organized and unorganized sectors. Polycab should benefit from an efficient cost structure due to its large manufacturing capacity (which should drive economies of scale) and distribution capability due to its pan-India network. Polycab accounts for 18% of organized market. Additionally, a strong brand image would boost Polycab’s market share across its geographic presence. Further, organized players have upped their advertisement and promotional spends in recent times which has ultimately helped organized players garner higher market share and margins over the last two to three years. The approximate market size of the organized players –



Source – Company Reports, Dalal & Broacha Research

❖ **FMEG - The next growth driver**

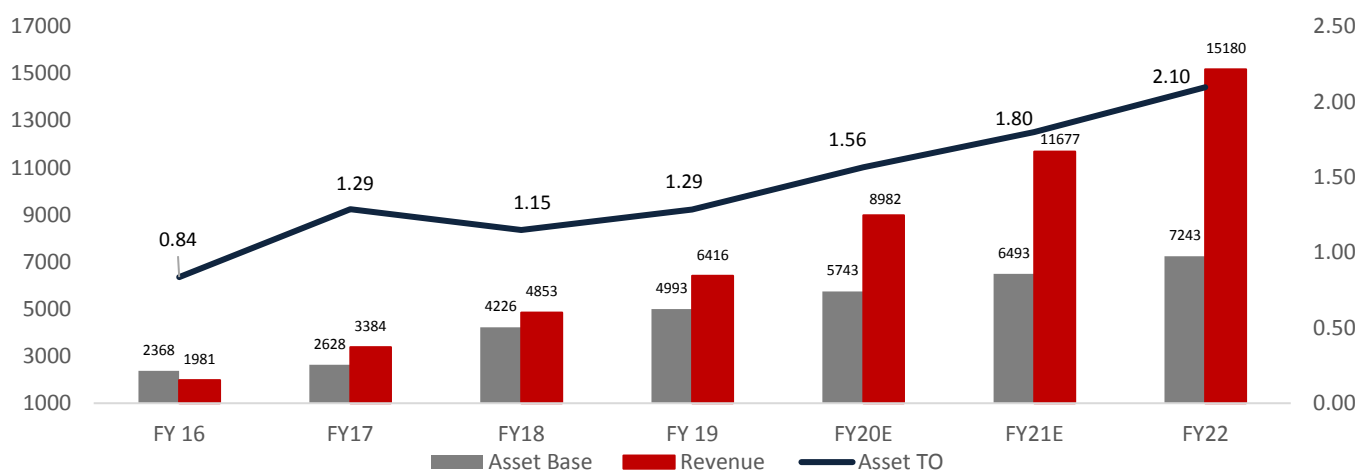
The company has diversified into the FMEG business in 2014 to move from pure B2B player to B2C Company. Though it was a late entrant to FMEG market, the company has grown rapidly (48% CAGR over FY16-19). The management expects increase in margins every year on account of premiumization of products and new product launches. (The products manufactured under this category are electric fans (50% of FMEG sales), LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories. Further, with the commercialization of Ryker Plant (Production of Copper Rods) will strengthen the backward integration of Polycab’s manufacturing process as we expect that it will meet a substantial part of the company’s demand for copper wire rods for the manufacturing of wires and cables and FMEG products. We believe that due to excessive competition in this space of business, increasing margins would not be easy however gaining market share is the main key to their business growth. Hence, focus on expanding its distribution reach, increasing rural penetration and greater retail expansion will be the levers for expanding its foot print and capturing market.



Source – Company Reports, Dalal & Broacha Research

Improvement in Asset Turnover

The company started its FMEG operations in 2014, and is in investment cycle till date. From the above chart it can be seen that, Polycab generated EBITDA Margin of -10% in FY16 to 1% in FY19. Additionally, from FY16-FY19, Polycab’s FMEG assets have increased by Rs. 2625 mn which is 111% of FY16 asset base of Rs. 2368 mn.



Source – Company Reports, Dalal & Broacha Research

We believe, Polycab’s FMEG Asset Turnover to increase to 2.43 in FY22E from 1.29 in FY19, on account of higher growth from revenue. We expect the revenue to grow at a CAGR of 40% FY19-FY22E, EBIT margins to be at 5% and 6% in FY21E and FY22E. The growth will be driven by increasing penetration PAN India, introduction of new SKU’s, premiumization of exiting products and increase in market share (currently ~1% market share)

FMEG is a monopolistic competition market with moderate barriers to entry and few established players which try to differentiate their products through various unique features. However, due to the massive opportunity and low penetration, Polycab’s strong distribution and manufacturing capacity gives it a competitive advantage.

In the table below we have listed out the key players in each segment along with the addressable market size:

Products	Market Size (In Mn)	Penetration Level	Competitors
Switches	22,000	Medium	Panasonic (Anchor), Legrand, Havells
Switchgears (MCB)	25,000	High	Legrand, Schneider, Anchor, L&T, Orpat, Havells
Lighting & Fixtures	65,000	Medium	Philips, Wipro, Crompton, Bajaj, Philips, Syska, Havells
Fans	70,000	Very High	Crompton, Usha, Orient, Khaitan, Havells , Bajaj

Source – Company Reports, Dalal & Broacha Research

A brief background of the FMEG industry is as follows –

Switches

We expect India’s electrical switches market to grow at 10%+ CAGR over the next 5 years. The market size is Rs. 22,000 mn mainly contributed by modular switches. Geographically, South India contributes 35% to the Market Size, West India 29%, North India 24% and 12% by East Indian (as per various industry reports)

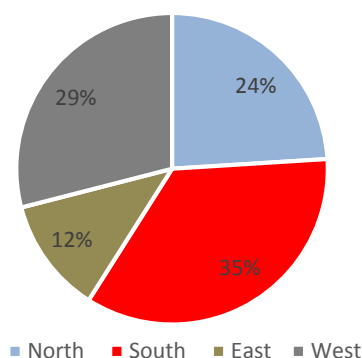
Modular switches are an advanced version of conventional switches, which cater to the increasing need for safety and aesthetics among individuals. As per various reports, about 20% purchases are directly or indirectly influenced by retailers and other intermediaries.

Some of the large players have their key strength i.e. their channel network well placed to have a command over the market. For instance, Legrand has 600 dealers and 7,400 retailers in India; Havells has a network of 2,500 dealers and 1, 30,000 retailers; whereas Anchor has 5,000 dealers and 450,000 retailers, **Polycab has 3313 dealers and 1, 15,000 retailers.**

Owing to the aesthetics of modular switches, strong demand is being witnessed from the residential sector, as more and more people are replacing their old switches with modular switches that complement their wall paints and interior designing. Preliminary investigation on the website indicates that PIL’s switches business is primarily dominated by Modular switches.

Moreover, supportive government initiatives, rising per capita income and declining prices of modular switches are some of the other factors that are expected to positively influence the electrical switches market in India.

Geographic Distribution



Switchgears (MCB)

We expect India’s electrical switches market to grow at 10%+ CAGR over the next 5 years. Moreover, electrification programs running across the country and development of transmission and distribution networks is further fueling growth in India switchgear market. Additionally, with rising per capita income, demand for various electrical appliances like air conditioners, fridges, etc., is also growing, which in turn, is increasing the electricity consumption and the need of switchgears to regulate and control these appliances. Geographically, South India contributes 37% to the Market Size, West India 30%, North India 22% and 11% by East Indian (as per various industry reports)

Further, automatic switching during abnormal electrical conditions, tripping in electrical faults, and quick restoration of electrical supply by switching on the operation. MCBs (Miniature Circuit Breakers) and MCCBs (Molded Case Circuit Breakers) prevent the overheating of home appliances and reusable protection system as well as they avoid electrical accidents in households and offices. Some of the key players are Larsen & Toubro Limited(Now Sold to Schneider), ABB India Limited, Siemens Ltd, Havells India Ltd, CG Power and Industrial Solutions Limited, Schneider Electric Infrastructure Limited, Legrand India Pvt. Ltd, GE T&D India Limited, HPL Electric and Power Limited, and C&S Electric Limited.

Lighting and Fixtures

The lighting demand of the Indian market is broken down by segment (consumer residential lighting, architectural commercial lighting, industrial lighting and outdoor lighting) and by light source (conventional and LED). The market size is estimated to be Rs. 65000 mn, and geographically, every region i.e. North, South, East and West have equal demand overall.

The lighting market is a highly price sensitive and this segment witnesses high price erosions and thereby reduces the chances of margin expansion. The key players are, Philips, Wipro, Crompton, Bajaj, Philips, Syska, and Havells.

Fans

India is a tropical country and thus fans are necessary. Therefore the Fan industry in India highly penetrated and has grown significantly over the years. The Indian market is estimated at 2.5 million fans per month and it is growing at about 10% per annum. India has large number of manufacturing plants located across the country and producing world class fans. Infact, the export of fans from India has doubled in the last few years and are a testimony to the quality and development of the Indian fan Industry.

The Indian Fan market is divided into Economy (>Rs. 1500), Standard (Rs. 1500 - Rs. 2499) and Premium range (> Rs. 2500). The economy range is 44% of the market, standard range is 41% and 15% from the premium range. We expect, the premium range to contribute higher to the sales mix which is a high margin business. Further, product wise, Ceiling fan (75% of Fan Market), Table, Wall and Pedestal Fan (19% of the Fan Market) and other domestic and industrial fan (6 % of the Fan Market)

The market size is approx. Rs. 70,000 mn, which has grown at a CAGR of 11.8% FY 12-FY19. We expect the market to grow at a CAGR 12% over the next few years. Player wise, Crompton is the largest player having a market share of 22%, followed by Havells which has 16% market share and Orient Electricals having a market share of 12%. **Polycab has a low market share but owing to its large distribution network and focus on standard and premium category**, we expect Polycab to be well placed in the segment and expect it to gain market share quickly.

The distribution of fans in India is also well developed with over 1, 00,000 selling points for fans, across the country covering towns right upto the 5th population. The key competitors are Crompton, Usha, Orient, Khaitan, Havells, and Bajaj.

❖ Step towards Premiumization

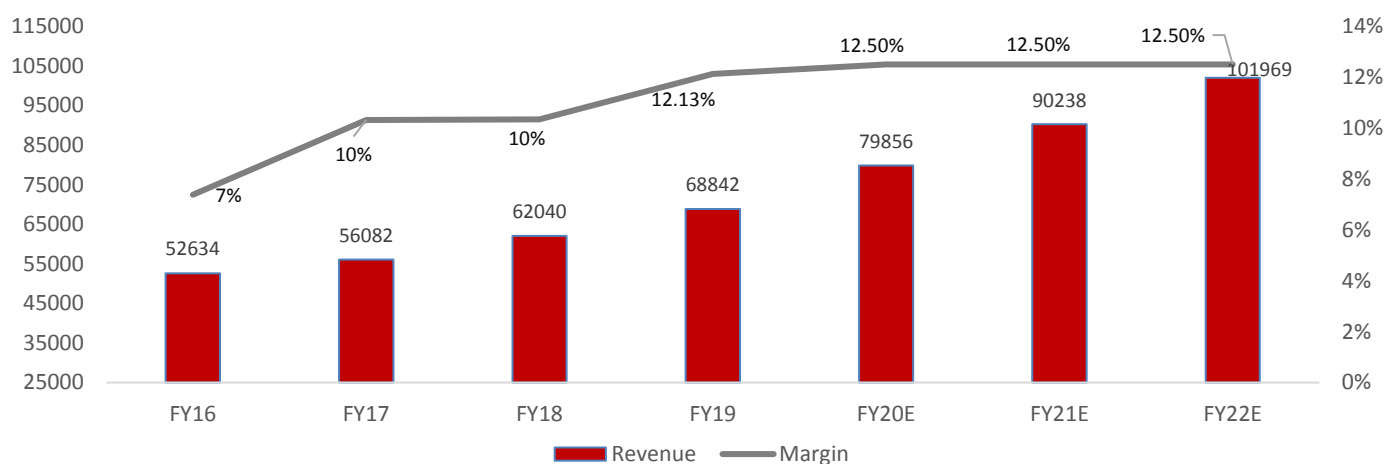
Polycab recently launched its first “**Experience center**” in Mumbai and Pune. Polycab Experience Centre showcases the **entire premium range** of high quality offerings offering value for money in various categories such as Wires, Cables, innovative frame retardant products developed through a strong R&D pipeline; **FMEGs** such as Fan, Switches, Pumps, Geysers, Lighting, Solar, Conduit Pipes, etc. It also intends to focus on street lighting and other specialized products such as domestic and agriculture pumps amongst others. This step intend to further connect Polycab to direct customers in the FMEG market and continue to evolve and design future-ready innovative products customized for their changing needs. We believe, Polycab to open more such centers to enhance brand image and visibility amongst end users and serve premium products

❖ Industry Growth

India is the fastest growing developing economy, where capital expenditure across sectors such as infrastructure development will drive the growth for economy. The cable and wire industry is linked to housing, manufacturing sector, power and infrastructure, Building and construction, Rural Electrification and in EPC industry.

India wire and cable market has been growing at mid-teens over the last decade. We expect the industry to grow at a CAGR of 12% FY19-FY22E, predominantly on account of growing government investments towards infrastructure development projects. Development of Smart Cities across the country under Smart Cities Mission coupled with increasing number of electronic devices per household and development of manufacturing industries under the ‘Make in India’ initiative, which is driving demand for power, are expected to boost

market demand in the coming years. Moreover, growing demand for reliable, efficient energy and data communication from rural areas and tier II, tier III and tier IV cities and towns would positively influence the country's insulated wire and cable market. We expect Polycab cable and wire segment to growth at a CAGR of 13% over the next 3 years i.e. at the industry growth, in the cables and wires segment.



Source - Dalal & Broacha Research

Cables & Wires market is populated by organized and unorganized players. Unorganized players form approximately 30% of the market and organized players contribute 79% of the market.

Types of Cables	KEC International	KEI Industries	POLYCAB	APAR Industries	Finolex	Havells	RR Kabel	V-Guard
Power Cables (LT/HT)	✓	✓	✓	✓	✓	✓	✓	✓
Power Cables (EHV)	✓	✓	✓	✗	✓	✗	✗	✗
Control Cables	✓	✓	✓	✓	✓	✓	✓	✗
Instrumentation Cables	✓	✓	✓	✓	✗	✓	✓	✗
House Wires	✓	✓	✓	✓	✓	✓	✓	✓
Flexible/Other Industrial wires	✓	✓	✓	✓	✓	✓	✓	✓

Source – Company Reports, Dalal & Broacha Research

The sectors that would drive the growth of the industry is as under -

- Power Sector**

India is the world's third largest producer and third largest consumer of electricity (As per Industry reports and Government publications). The electric national grid in India has an installed capacity of 360 GW as of 31 August 2019. Further, renewable power plants, which also include large hydroelectric plants, constitute 34.9% of India's total installed capacity. During the FY19, the gross electricity generated by utilities in India was 1,372 TWh and the total electricity generation (utilities and non-utilities) in the country in the FY19 period was 1,547 TWh. The gross electricity consumption in FY19 was 1,181 kWh per capita. India's power sector is forecasted to attract investments worth Rs 9-9.5 trillion (US\$ 128.24-135.37 billion) between FY19-23. **India has a surplus power generation capacity but lacks adequate**

distribution infrastructure. Hence, Power Sector will be a source of healthy demand for Cables & Wires to drive optimum utilization of power generation and improved connectivity.

Further, with a generation of 1,497 TWh, India is the third largest producer and the third largest consumer of electricity in the world. The Government of India is expected to offer nearly 20 power transmission projects worth Rs16,000 crore (US\$ 2.22 billion) for bidding in 2019. Further, under this segment demand for Extra High Voltage Cables, Resistant cables, and High Voltage cables Low Voltage cables are popularly used. Further, currently the Discoms are under pressure due to liquidity issues and for the resolution of the same the government launched scheme UDAY in November 2015. Ujjwal DISCOM Assurance Yojana (UDAY) is the financial turnaround and revival package for electricity distribution companies of India (DISCOMs) initiated by the Government of India with the intent to find a permanent solution to the financial mess that the power distribution is in. It allows state governments, which own the DISCOMs, to take over 75 percent of their debt as of September 30, 2015, and pay back lenders by selling bonds. (DISCOMs are expected to issue bonds for the remaining 25 percent of their debt)

- **Infrastructure and Housing Sector**

India has a requirement of investment worth INR 50 trillion in infrastructure by 2022 to have sustainable GDP growth in the country. Sectors like power transmission, roads & highways and renewable energy will drive the investments in the coming years.

In Union Budget 2019-20, the Government of India has given a massive push to the infrastructure sector by allocating Rs 4.6 Tn for the sector.

The Ministry of Railways have been allocated Rs 940 bn (US\$ 14.11 billion) in 2019-20. The government has suggested the investment of Rs 50 Lakh crore (US\$ 750 billion) for railways infrastructure between 2018-2030. The Indian Railways received allocation under Union Budget 2019-20 at Rs 67 billion (US\$9.25 billion). Out of this allocation, Rs 64.587 billion (US\$8.95 billion) is capital expenditure, which will bring tremendous requirement of Cables and wires.

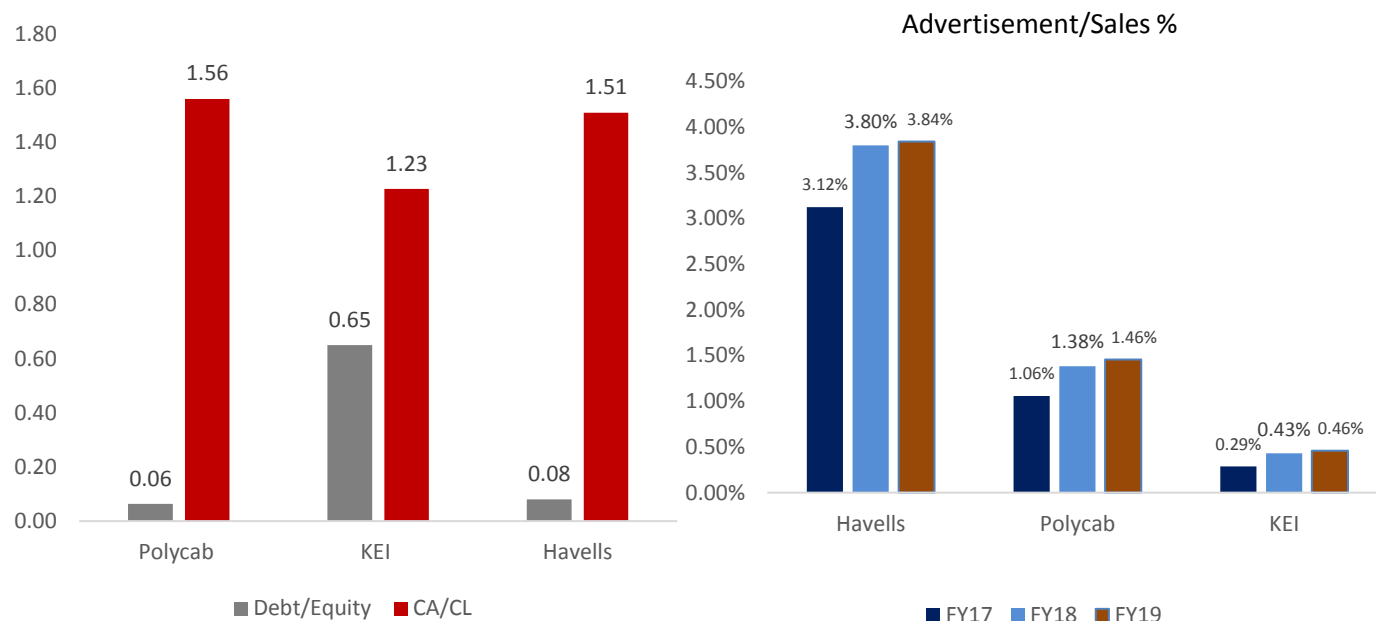
Further, the Government's target to construct of 65,000 km of highways by 2022, is another major boost for the infrastructure segments. The Government of India's Housing for All initiative is expected to bring US\$ 1.3 trillion investments in the housing sector by 2025. The scheme is expected to push affordable housing and construction in the country and give a boost to the real estate sector. Followed by this, the Airport Authority of India (AAI) plans to spend over Rs 21,000 crore (US\$3.2 billion) between 2018-22 to build new terminal and expand capacity of existing ones. These all measure will boost major cables requirements across the segment. Further, under this segment demand for control cables, instrumentation cables, low voltage cables, control cables, stainless steel wires and winding wires are commonly used.

- **Manufacturing Sector**

Gross Fixed Capital Formation, which represents net investments in fixed assets, has grown 10.44 per cent annually between FY16 and FY18. Capital spending by some of India larger firms rose to a staggering ~4.63 trillion at the end of 2017-18, up from ~3.47 trillion in 2016-17. Further, 100 % FDI is approved in the sector through the automatic route under the current FDI Policy, which will promote manufacturing in India. Also, boost by the Government to lower the tax rates for new manufacturing companies to 19% will further encourage the companies to setup new units thereby pushing demand. The Make in India initiative led to a rise in India's total FDI inflows to US\$ 60.97 billion in 2017-18 from US\$ 34.9 billion in 2014-15. In 2018-19 FDI inflow stood at US\$ 46.62 billion. Also, Various initiatives like Startup India, Skill India and make in India have been taken by Government of India to encourage Indian as well as multi-national companies to manufacture in India. As per the latest survey, capacity utilization in India's manufacturing sector stood at 75.9 per cent in the third quarter of 2018-19.

Peer Comparison

Polycab is financially strong and is investing continuously to increase its presence keeping its liquidity intact. We have compared the D/E and quick ratio based on Q2FY20 numbers and Polycab is well placed in it. Further, Polycab's advertisement spends are minimal owing to the brand image they enjoy.



Source – Company Reports, Dalal & Broacha Research

Polycab overtakes its peers in terms of Pan India distribution reach and large manufacturing capacity amongst the organized players. The peer comparison in terms valuations amongst listed players are as under –

POLYCAB LTD

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY18	67,703	23.1%	7,288.8	10.8%	3,580.1	53.9%	25.4	43	15%	19%
FY19	79,560	17.5%	9,231.9	11.6%	4,997.0	39.6%	35.4	30.8	18%	25%
FY20E	96,316	21.1%	11,964.8	12.4%	8,012.8	60.4%	53.9	20.2	22%	29%
FY21E	1,11,499	15.8%	13,972.4	12.5%	9,443.9	17.9%	63.5	17.4	21%	30%
FY22E	1,28,559	15.3%	16,172.7	12.6%	10,538.6	13.5%	70.9	15.4	19%	28%

Particulars	Polycab Ltd	KEI Industries	Havells	V-Guard
Debtor Days (Q3FY20) (In Days)	62	91	11	52
Inventory Days (Q3FY20) (In Days)	92	60	64	67
Creditor Days (Q3FY20) (In Days)	98	78	43	61
Fixed Assets (H1FY20) (In Million)	15947	5681	34421	3134
Gross Debt (Q3FY20) (In Million)	1161	2998	540	100
Cash (Q3FY20) (In Million)	3631	2604	11520	1533

KEI Industries										
Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY 18	34,655	32%	3,403	9.82%	1,448	55%	18.2	28.6	27.2	31.0
FY 19	42,310	22%	4,438	10.49%	1,809	25%	22.7	22.9	26.2	28.5
FY 20E*	50,611	20%	5,199	10.27%	2,612	44%	32.1	16.2	27.0	29.9
FY 21E*	57,298	13%	6,068	10.59%	3,306	27%	40.5	12.8	27.8	30.4
FY 22E*	66,183	16%	6,801	10.28%	3,751	13%	47.5	10.9	28.2	31.3

* As per Bloomberg Estimates

On comparing KEI with Polycab on the profitability front, Polycab has higher operating margins owing to the different business models. KEI industries generates 20% of its business revenues from EPC projects which leads to higher receivable days of ~91 days (Group level) as compared to Polycab's receivable days of 66days(Group Level). Secondly, on the growth part, KEI is witnessing very strong growth majorly because of Extra High Voltage (~15-16% Margins v/s 10.2% Blended Margins) segment which is grew by 242% YoY, for the 9MFY20 and contributes 8.5% of the Topline in 9MFY20 as compared to 3.1% in 9MFY19. On the other hand, Polycab has an edge over KEI in terms of brand image and scale of operations leading to improvement in profitability going ahead.

HAVELLS Ltd.										
Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY 18	80,999	33%	10,439	13%	6,624	34%	10.6	59.0	18.9	24.5
FY 19	1,00,116	24%	11,844	12%	7,860	19%	12.6	49.8	19.8	29.3
FY 20E*	1,01,838	2%	12,458	12%	8,518	8%	12.7	49.1	18.8	26.2
FY 21E*	1,14,000	12%	11,356	10%	10,832	27%	15.2	41.3	19.6	28.7
FY 22E*	1,29,050	13%	13,590	11%	13,265	22%	17.6	35.5	19.4	27.4

* As per Bloomberg Estimates

Havells is a consumer durables company, where cables and wire contributes only 29-32% of sales generating 15-16% EBIT Margins as compared to 12% Group level margins. Whereas for Polycab cables and wires is 86% of sales generating 11-13% EBIT margins. This is because B2C sales has a higher proportion than that of Polycab (80% of sales through distributors). However, geographically, Havells has a major chunk of sales from North India, whereas Polycab is PAN India driven.

V-Guard Industries										
Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY 18	23,257	12%	1,904	8%	1,343	-7%	3.1	64.0	19.4	20.5
FY 19	25,940	12%	2,243	9%	1,672	25%	3.9	51.4	20.3	21.3
FY 20E*	27,648	7%	2,980	11%	2,195	31%	5.2	39.0	21.9	25.8
FY 21E*	31,356	13%	3,401	11%	2,553	16%	6.0	33.7	23.2	26.1
FY 22E*	35,694	14%	4,007	11%	2,990	17%	7.0	28.7	24.1	26.2

* As per Bloomberg Estimates

V-Guard, similar to Havells is a consumer driven company, in which electricals segment contribute 45% of sales and generates EBIT Margins of 10-11%, whereas for Polycab's cables and wires segment is 87% of sales generating 11-12% EBIT margins. Further, V-Guard is a south India driven company, unlike Polycab which is Pan India driven. Over the years Polycab has been growing faster than V-Guard and we believe this will continue going forward as well.

Distributor Survey

We recently interacted with two distributors of cables and wires of Polycab India Ltd, and below mentioned are key takeaways:

No Slowdown in demand: Distributor claims demand for cables and wires remains strong despite the “extenuated slowdown in economy” and he continues to witness highest demand coming from Tier 2 cities and towns. Any Demand for cables and wires is through new projects and not through replacement as cables and wires have high durability. The Distributor’s sales are split equally between residential and commercial sectors.

Highest Capacity, least time for delivery: Since Polycab has the largest manufacturing capacity amongst peers and a wide distribution network, any sudden order of even a larger quantity can be fulfilled by the company within a minimum amount of time. The distributor keeps Rs. 20-25mn worth of inventory at all times.

Share of sales through Channel Finance to go up: Currently 54% of Polycab’s sales come through channel finance which the distributor says will increase to 65%. The company offers 45-60 days of credit flexibility.

Railway and Renewable Energy, the current growth driver The manufacturer highlighted that in renewable source of energy like solar power generation, cable and wire requirement is very high. The current government is pushing hard for infrastructure development of renewable energy. In this segment, low tension wires and high voltage and extra voltage wires are required, **the margins of which are higher than that of local wires. Secondly, demand of cables from Railway Projects is increasing every year. Aggressive government spending on railway infrastructure development will drive demand of high tension and extra high voltage cables.**

Pharma and Chemical sector, next demand drivers: Distributor is witnessing good demand from pharma and chemical sector, other than infra projects. Other sectors are performing but liquidity issues has dampened their performance compared to Pharma and Chemical sectors.

Real estate Condition: One of the distributor supplies only to the top 10 builders i.e. Godrej, Hiranandani, Oberoi, Runwal etc. These builders are working on continuing to work on new projects albeit at a slow pace but payments are done on time. Barring the top 10, other builders are suffering through financial stress and distributor expects recovery still some time away. Another distributor has stopped all supply to builders in general owing to slowdown in payments.

Geographic Demand – West and South India requires large quantities of cable. Other than that, UP is a big market as there are lot of infrastructure projects going on, but none of the organized players supply there owing to delayed payments from government.

Volume Growth: Both distributors have witnessed volume growth of 12-15% on a yoy basis. Owing to slowdown, no price increases have been taken which has resulted in margins remaining subdued.

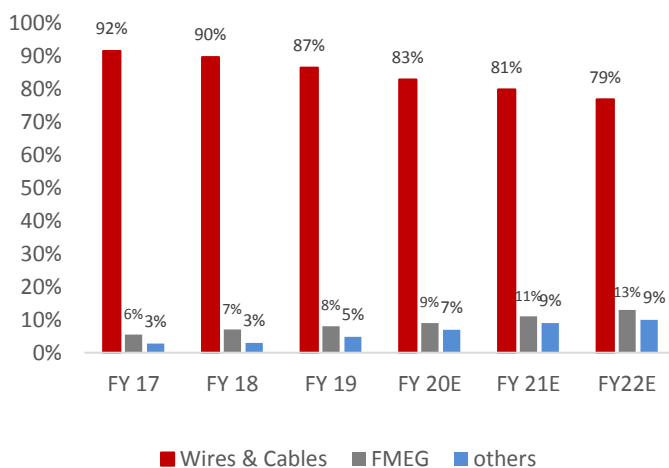
Selling Price Determination – Cables and wires are generally sold at weighted average price (week/month). In long term contracts, price is decided upfront and supplies are made as and when upon requirement on the pre-determined price.

Valuations & Outlook

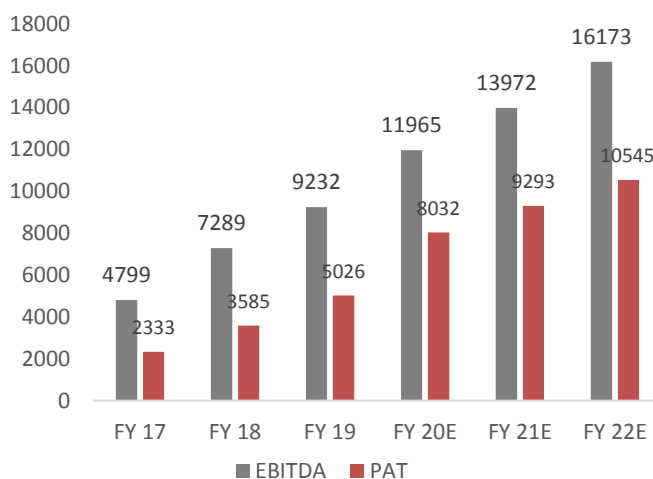
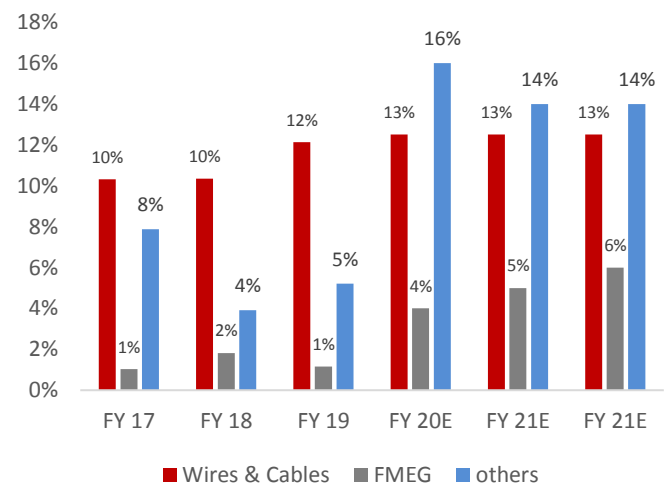
We believe the organized Cable and wire industry will grow faster than our expectations of 12-13%, owing to shift to organize from unorganized markets. We believe Polycab to grow at a CAGR of 17% FY19 – FY22E, as against growth of 11% FY16-FY19. Further, in terms of profitability we expect the EBITDA to grow at a CAGR of 18% FY19-FY22E. Further, segment wise, we expect cables and wires segment to generate 12.5% margins and FMEG clocking 6% margins, by FY22E.

We believe Polycab to be the major beneficiary in an uptick in the economy. As discussed earlier, Polycab's large manufacturing facilities enables it to execute orders of various scale in a stipulated time frame and wide distribution network to ensure timely sales to customers. Additionally, Polycab's existing brand image amongst the end users which would help Polycab to retain customers and get repeat orders. Hence, owing to scale and brand image that Polycab enjoys, we value Polycab at 17x FY22e at an EPS of Rs.70.9. Accordingly, we arrive at a **Target price of Rs. 1205** and recommend investors to Accumulate the stock.

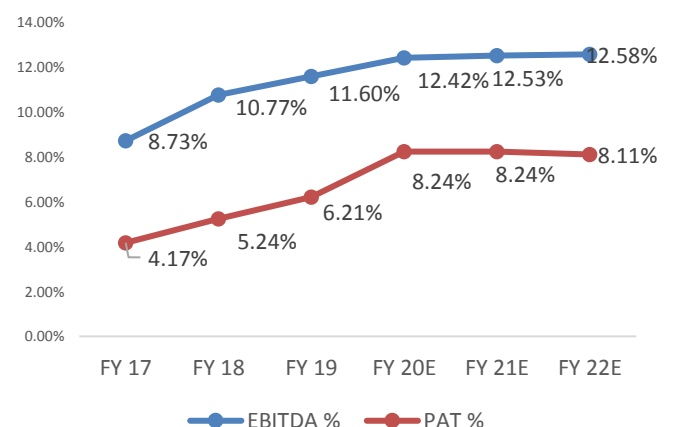
Contribution to Revenue



EBIT Margins (%)



EBITDA % & PAT %



POLYCAB LTD - Financial data											
P&L (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	67,703.1	79,559.8	96,315.7	1,11,498.7	1,28,559.3	Net Profit	2,332.8	3,584.6	5,026.3	8,031.8	9,293.1
Cost of sales	60,414.3	70,327.9	84,350.9	97,526.3	1,12,386.6	Add: Dep. & Amort.	1,278.8	1,329.5	1,414.5	1,535.2	2,119.0
Operating Profit	7,288.8	9,231.9	11,964.8	13,972.4	16,172.7	Cash profits (Inc)/Dec in	3,611.6	4,914.1	6,440.8	9,567.0	11,412.2
Depreciation	1,329.5	1,414.5	1,535.2	2,119.0	2,812.8	-Sundry debtors	(1,312.6)	(906.3)	(3,877.3)	(1,763.8)	(3,111.6)
PBIT	5,959.3	7,817.4	10,429.6	11,853.4	13,359.9	-Inventories	1,541.2	(6,300.9)	(980.9)	(5,599.5)	(4,192.7)
Other income	644.4	933.5	907.9	1,186.9	1,319.9	-Loans/advances	(137.3)	(25.6)	(17.8)	(19.6)	(21.6)
Interest	936.8	1,167.1	483.7	481.9	430.3	-Current Liab and Provisions	(13.9)	5,615.1	(5,508.5)	4,569.6	2,422.4
Profit before tax	5,666.8	7,583.9	10,853.8	12,558.3	14,249.6	- Other Current Assets	1,122.1	(163.7)	(93.5)	15.2	(271.7)
Exceptional and Extra Ordinary Items	-	-	-	-	-	- Current Payables	(4,321.8)	5,981.0	2,459.6	1,446.1	3,018.8
Share of profit/loss in JV	1.1	(23.3)	(13.0)	-	-	- Non Current Assets	285.6	(4.5)	(10.1)	(244.5)	(166.0)
PBT (Post Extra Ordinary)	5,667.9	7,560.6	10,840.8	12,558.3	14,249.6	Net Change in Working Capital	(2,836.8)	4,195.0	(8,028.7)	(1,596.5)	(2,322.4)
Provision for tax	2,082.3	2,557.6	2,822.0	3,265.2	3,704.9	CF from Oper. activities	774.9	9,109.1	(1,587.9)	7,970.5	9,089.8
Reported PAT	3,585.6	5,003.0	8,018.8	9,293.1	10,544.7	CF from Inv. activities	(1,663.6)	(2,663.9)	(1,089.7)	(1,170.1)	(1,347.0)
MI	5.5	6.0	6.0	6.0	6.0	CF from Fin. activities	696.6	(3,378.6)	2,650.9	297.3	112.8
Adjusted PAT	3,580.1	4,997.0	8,012.8	9,287.1	10,538.6	Cash generated/(utilised)	(192.1)	3,066.6	(26.8)	7,097.8	7,855.6
						Cash at start of the year	301.6	109.5	3,176.1	3,149.3	10,247.1
						Cash at end of the year	109.5	3,176.1	3,149.3	10,247.1	18,102.6
Balance Sheet	FY18	FY19	FY20E	FY21E	FY21E	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Equity capital	1,412.1	1,412.1	1,412.1	1,412.1	1,412.1	OPM	10.8	11.6	12.4	12.5	12.6
Reserves	22,064.1	27,057.5	34,787.7	43,294.7	52,948.1	NPM	5.2	6.2	8.2	8.2	8.1
Net worth	23,476.2	28,469.6	36,199.7	44,706.7	54,360.1	Tax rate	36.7	33.7	26.0	26.0	26.0
Minority Interest	40.5	84.3	84.3	84.3	84.3	Growth Ratios (%)					
Non Current Liabilities	2,420.3	1,539.7	1,148.8	1,197.1	1,133.4	Net Sales	23.1	17.5	21.1	15.8	15.3
Current Liabilities	18,544.2	26,189.4	23,478.4	29,803.5	35,270.1	Operating Profit	51.9	26.7	29.6	16.8	15.7
CAPITAL EMPLOYED	44,481.1	56,283.0	60,911.2	75,791.6	90,847.9	PBIT	69.3	31.2	33.4	13.7	12.7
Non Current Assets	15,221.7	17,031.7	16,521.7	17,787.9	17,698.1	PAT	53.9	39.6	60.4	15.9	13.5
Fixed Assets	13,331.2	14,685.8	14,361.1	14,531.6	13,968.8	Per Share (Rs.)					
Non Current Investments	314.1	293.9	293.9	293.9	293.9	Net Earnings (EPS)	25.35	35.4	53.9	62.5	70.9
Non Current tax assets	321.8	105.8	-	105.8	105.8	Cash Earnings (CPS)	15.9	25.4	43.6	48.2	52.0
Long Term Trade Receivables	880.0	1,351.3	1,155.8	2,007.0	2,314.1	Dividend	0.1	0.1	0.1	0.2	0.4
Other Financial Assets	62.2	50.9	58.0	66.1	75.4	Book Value	166.3	201.6	243.5	300.8	365.7
Other Non Current Assets	312.5	544.1	652.9	783.5	940.2	Free Cash Flow	(6.3)	45.6	(18.0)	45.7	52.1
Current Assets	29,259.4	39,251.2	44,389.5	58,003.7	73,149.8	Valuation Ratios					
Inventories	13,657.0	19,957.9	20,938.8	26,538.2	30,731.0	P/E(x)	43	31	20	17	15.4
Trade Receivables	12,908.2	13,343.2	17,416.0	18,328.6	21,133.0	P/B(x)	6.6	5.4	4.5	3.6	3.0
Cash and Bank Balances	109.5	3,176.1	3,149.3	10,247.1	18,102.6	EV/EBIDTA(x)	22.1	16.5	13.4	11.0	9.0
Short Term Loans and Advances	152.7	178.3	196.2	215.8	237.4	Div. Yield(%)	0.0	0.0	0.0	0.0	0.0
Other Financial Assets	184.5	724.9	724.9	611.4	780.0	FCF Yield(%)	(0.6)	4.2	(1.7)	4.2	4.8
Other Current Assets	2,247.5	1,870.9	1,964.4	2,062.7	2,165.8	Return Ratios (%)					
CAPITAL DEPLOYED	44,481.1	56,283.0	60,911.2	75,791.6	90,847.9	ROE	15%	18%	22%	21%	19%
						ROCE	19%	25%	29%	30%	28%

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