



*Presents To You A*

RESEARCH REPORT ON

POLYCAB  
INDIA

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**COMPANY NAME**

*Analysed By: Alok Daiya's Trading Desk*

## PROFILE

Polycab India Ltd is a leading player in India's wires and cables industry with more than 18% and ~12% market share in the organized and total market respectively. The company has retail outlets reach of 1,37,000 and 3,650 authorized dealers/distributors. Project Bandhan connects 147,000 electricians and 57,000 retailers. The company's product portfolio in the wires and cables segment includes power, control, instrumentation, solar, building, multi core, communication, welding, rubber, submersible flat & round, railway signaling, and specialty other cables. The FMEG segment includes electric fans, LED lighting and luminaries, switches, switchgears, solar products, water heaters and conduits & accessories. Wires & Cables business is the major contributor to the company's revenue with a share of ~84% followed by FMEG business. The company has also ventured into the EPC business in FY09 to provide turnkey solutions for power distribution and rural electrification projects. The EPC business provides a strategic advantage to the company's wires & cables business.

## PROFILE

Polycab has the largest manufacturing capacity with 25 manufacturing facilities spread across 7 locations in India. Of the 25 manufacturing units, four units are for the production of FMEG products including a 50:50 joint ventures with Techno Electromech Pvt Ltd for the manufacturing of LED products and Trafigura Pte Ltd for the manufacturing of copper rods . The company recently purchased the balance 50% stake in Ryker plant from Trafigura Pte Ltd to make it a wholly-owned subsidiary. The company has backward integrated its operations by building manufacturing capabilities for all the key raw materials such as aluminum rods, copper rods, and various grades of PVC, rubber, XLPE compounds, GI wire and strip

# INDUSTRY

Wires & cables industry comprises of power cables, building wires, instrumentation and control cables, telecom cables, elastomeric cables and other flexible and special application cables used in various industrial sectors. Wires & cables industry accounts for 40-45% of the electrical equipment industry, 8% of the manufacturing sector in terms of value and 1.5% of the overall GDP. The Indian wires & cables industry has grown at a CAGR of ~11% for the last five years and is valued at ₹583 billion in FY19. However, there was a decline in the industry by mid-double digits in FY20 owing to the sluggish economic environment, weak consumer sentiment, lower capex and impact of Covid-19 pandemic at the end of the year. The growth in the wires & cables industry is associated with the growth in the infrastructure of the country. The government has launched various initiatives such as corporate tax rate cut, reforms in power, housing & agriculture sectors to boost the growth of the wires & cables business. The industry has been impacted due to the ongoing Covid-19 pandemic with low demand and the shutdown of manufacturing facilities in the month of April 2020. However, with the gradual improvement in the demand for rest of the FY21 and further growth owing to the factors mentioned above, the industry is expected to grow at a faster pace than the overall economic growth.



# INVESTMENT RATIONALE

## Strong brand recognition in the electrical industry

Polycab has evolved itself from a B2B player to a fast-growing B2C brand in the consumer electrical market, thus expanding its customer base and extending its reach in the domestic and international markets. The company aims to increase the B2C mix from 35% to 50% in the medium term.

## Transforming itself into a strong FMEG business

Polycab's FMEG revenue has grown at the CAGR of 40% from FY16-20. FMEG business will continue to grow at double digit rate due to launch of the product in the premium segment, stable pricing, continuous brand building exercise and expansion of distribution network.

## Government initiatives in Power and infrastructure

The demand for building wire and power cable is expected to increase by government initiatives such as universal electrification , investment in digital & telecommunication connectivity, Capacity additions under national solar mission, Housing for all by 2022 targeting 20mn households and smart cities mission envisaging core infrastructure to 100 cities.

# FINANCIALS

Polycab has grown its revenue at a CAGR of ~11.5% for the last five years from Rs 5,714 Crs in FY16 to Rs 8,830 Crs in FY20. The growth has been on back of expansion of its distribution network, aggressive focus on branding & promotions and higher growth in the FMEG business. Polycab's revenue comprises of three segment such as wires & cables, FMEG and EPC. Wires & cables business has grown at a CAGR of ~9% during the same period while FMEG has grown at a CAGR of ~43%. Polycab is expected to de-grow by ~15% in FY21 owing to the Covid-19 pandemic. However, we expect the company to grow its revenue at a CAGR of ~6% during FY20-23E on back of recovery in demand and growth in the FMEG business. On the margins front, Polycab has successfully improved its EBITDA margins from 9.4% in FY16 to 12.9% in FY20 and is further expected to improve to 13.5% by FY23. Polycab has taken certain cost management initiatives across its facilities to control unnecessary costs. Also, the company has launched its FMEG business which has a higher synergy with its existing wires & cables business in terms of raw materials. The company has also set up multiple factories & warehouses near its distributors to save on transport costs. Currently, the margins in the FMEG business are very low at around 2%, however, with the increase in the sales volume and wider market reach the margins are expected to improve. Polycab's PAT margins have also improved by 512 bps from 3.6% in FY16 to 8.7% in FY20. Such a significant improvement is due to reduction in finance costs as the company has repaid majority of its borrowings, also, recently corporate tax rate cut has also added few bps gain in the margins. We expect the company to further expand its margins by 65 bps and 34 bps by FY23. The company's return ratios have also improved over the years with continuous margin expansion, higher operating leverage and prudent capital management. The company's ROE has improved by almost 1000 bps from 10.5% in FY16 to 20% in FY20. Polycab has one of the best return ratios among its peers.

# RISKS & CONCERN

## Raw Material Price fluctuations and Supply constraints

The key raw materials for the company are copper, aluminium, steel, PVC compound among others which the company sources it from domestic as well as international markets. Copper, aluminium and steel are commodity metals that are prone to price fluctuations on account of its demand and supply. PVC compound prices are dependent on crude prices which are affected by the global oil market. The total cost of copper, aluminium, steel and PVC compounds accounts for 56.82%, 18.27%, 4.75% and 13.60% respectively of the company's total cost in FY18. The company passes on the price fluctuations of the raw materials with a one month lag to its customer and also hedges its raw material purchases. However, any further lag in passing the price changes or delay in procuring the raw materials can lead to an adverse effect on the company's working capital, cash flows and margins.



## RISKS & CONCERN

### Adverse impact on the company's Brand Value

Branding plays a significant role in the company's success and growth in the industry as the products offered by the players are of similar nature with minor differentiation. The company spends aggressively on improving its brand value and garnering more market share. Brand value includes brand visibility, customer loyalty, distributor loyalty and customer experience. Any damage to the company's brand value will significantly impact the company's operations and growth.

### Slowdown in the Macro Environment

Polycab derives majority of its revenue from the wires & cables business at around 85%. In the wires and cables business, the cables business is around 50-55% and wires business accounts for 40-45%. Demand for wires & cables is dependent on the government and private capex such as infrastructural spends, increase in residential/commercial complexes, defense spends, increase in manufacturing activities, etc. Any slowdown in the spending by the government and private enterprises can adversely affect the company's performance and growth.



## RISKS & CONCERN

**Scaling up the FMEG business is critical**

FMEG is a very competitive industry with many small and large players holding sizable market shares.

Polycab has recently entered into this business and has been able to successfully scale up the operations on account of the existing distribution network. Margins in this business are very thin owing to competitive pricing, higher spending on branding & promotions and standardized products.

## OUTLOOK & VALUATION

Polycab Ltd is expected to maintain healthy performance as wire & cable segment is expected to see improvement as infrastructure investments rise, strong diversified product portfolio, wide distribution reach, strong brand presence, increasing share of B2C business by scaling up FMEG business, healthy return ratios & robust balance sheet.



*DIWALI PICK*

**NEXT GENERATION CALL**

**13TH NOVEMBER 2020**



**POLYCAB INDIA**

**CMP 925 TGT 1400 DURATION 2 YRS**



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