

Polycab India (PIL) is engaged in the business of wire & cable and fast moving electrical goods (FMEG) under the "Polycab" brand. With value market share of ~18% in organised industry, PIL is the largest manufacturer in the wires & cables industry in India. PIL has developed a strong distribution network of dealers and distributors across India. These dealers and distributors serve more than 100,000 retail outlets. PIL has recorded revenue, earnings CAGR of ~14%, ~42%, respectively, in FY16-18 led by higher EBITDA margin. We believe organic growth in core business coupled with lower interest outgo (owing to loan repayment through proceeds from fresh issue) would drive profitability of the business, going forward.

Investment Rationale

Strong play in cable & wire industry

According to Industry estimate, the wire & cable industry is likely to record value CAGR of ~15% FY18-23E to cross ₹ 103,300 crore. We believe PIL being a market leader (18% value market share in the organised cable & wire industry) would be a direct beneficiary of a shift in demand from unorganised to organised category (value market share~34%). This coupled with government initiatives in power & infrastructure would boost the demand of the cable & wire industry.

Leveraging existing distributors to boost FMEG segment

The FMEG products of Polycab largely include switchgears, fans, lightings & luminaires and solar pumps. The company entered the FMEG segment during FY14. In the last four years, it has achieved a turnover of ~₹ 500 crore. Polycab is planning similar growth in topline over the next two years by leveraging its strong brand, ~2800 distribution channel across India's diverse customer base along with manufacturing capabilities.

Focus on reducing working capital requirement through channel financing

To reduce its debtor days, it has increased use of channel financing. Channel financing not only reduces risk of non-payment but also significantly reduces working capital requirement. A reduction in working capital requirement through channel financing would boost the quality of the balance sheet and lower interest outgo, thus aiding earnings growth, going forward.

Key risks and concerns

- Higher exposure in cable & wire segment poses business concentration risk
- Exchange rate fluctuation
- Competitive pressure in FMEG business

Priced attractively...

At the IPO price band of ₹ 533-538, the stock is available at a price to earnings multiple of 22x FY18 EPS. We believe the issue is available at attractive valuation, considering its leadership position in the wire & cable industry, low debt/equity (~0.3x) and attractive return ratios (RoCE ~21%, RoE ~16%). We recommend **SUBSCRIBE** to the issue at the offer price.

Key financial summary

(₹ crore)	FY16	FY17	FY18	9MFY18	9MFY19
Net Revenues	5202.2	5500.1	6779.3	4689.8	5506.7
EBITDA	490.5	479.9	740.8	393.9	693.7
EBITDA margins (%)	9.4	8.7	10.9	8.4	12.6
PAT	184.5	232.7	370.8	181.0	357.9
EPS	13.1	16.5	26.2	12.8	25.3



Particulars

Issue Details

Issue Opens	5-Apr-19
Issue Closes	9-Apr-19
Issue Size (₹ crore)	1333 - 1345
Price Band (₹ per share)	533 - 538
Fresh issues (at upper band)	0.74 crores
Offer for Sale	1.76 cores
No. of Shares on Offer (crore)	2.5 crores
QIB (%)	50.0
Non-Institutional (%)	15.0
Retail (%)	35.0
Commencemnt of Trading	18-Apr-19

Shareholding Pattern

	Pre-Offer	Post-Offer
Promoters & Group	78.9	68.7
Others	21.1	31.3

Peer valuation comparison

(x)	Polycab	KEI Ind	Uni. Cables
P/E	22	23	10.0
EV/EBITDA	11.8	12.0	11
Mcap/sales	1.2	1.0	0.7

* based on FY18 financials

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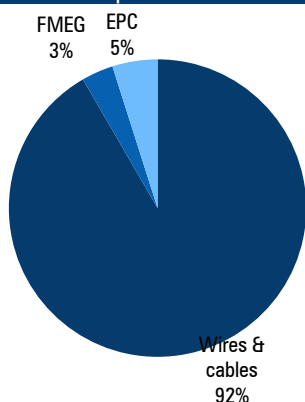
Company Background

Incorporated in 1996, Polycab India (PIL) is engaged in the business of manufacturing and selling wires & cables (revenue contribution of ~89%) and fast moving electrical goods (FMEG) under the “Polycab” brand (revenue contribution of 7%). With value market share of ~18% in the organised industry, PIL is one of the largest manufacturer in the wires and cables industry in India. Apart from wires and cables, the company entered the engineering, procurement and construction (EPC) business in 2009 (revenue contribution of ~4%), which includes design, engineering, supply, execution and commissioning of power distribution and rural electrification projects. As a part of diversification and to leverage strong ‘Polycab’ brand PIL entered the FMEG product category during 2014. The FMEG product includes electric fans, LED lighting & luminaires, switches & switchgears, solar products and conduits & accessories. PIL has 24 manufacturing facilities in India of which four are dedicated to FMEG product categories.

Over the years, PIL has developed a strong distribution network of dealers and distributors across India with total count of ~2800 at the end of 9MFY19. These dealers and distributors serve more than 100,000 retail outlets. The company’s products are largely used in industries like power, oil & gas, construction, IT parks, infrastructure, metal and cement industries. The company’s customer base is well diversified while none of the customers contributes more than 5% to its topline, which reduces dependency on any single customer.

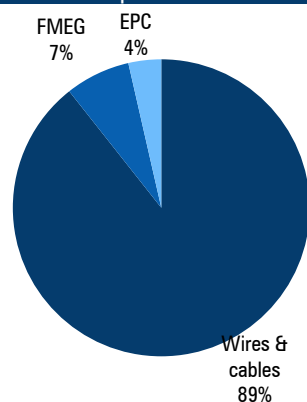
Over the last three years, the company has increased its focus towards the FMEG segment where revenue contribution has increased from 3% in FY16 to 7% in FY18. The segment recorded strong sales growth of 58% in FY16-18 and turned profitable in FY17. The cable & wire segment recorded a sales CAGR of 9% with segment profitability improving from 7.4% in FY16 to 12.8% in 9MFY19. The company recorded consolidated revenue, earning CAGR of 14% and 42%, respectively, in FY16-18.

Exhibit 1: Revenue breakup in FY16



Source: Company, ICICI Direct Research

Exhibit 2: Revenue breakup in FY18



Source: Company, ICICI Direct Research

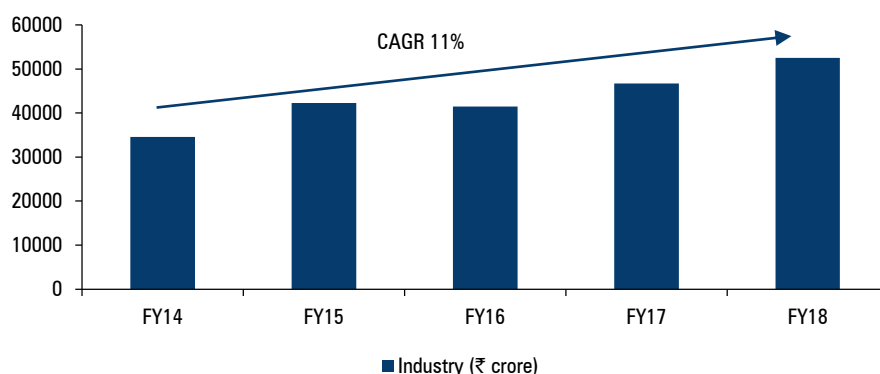
Investment Rationale

Various government initiatives to drive cable & wire demand

The Indian cables & wires industry recorded a value CAGR of ~11% in the last five years to reach ₹ 52500 crore in FY18. The growth came on the back of factors like electrification of rural villages and households (Power for All); investments in transmission and distribution systems for modernisation and increasing efficiencies; increased demand from renewable power generation, particularly solar and wind energy; infrastructure development initiatives taken by the Government of India like Smart Cities Mission and mass transit systems; and improved lifestyle and consumer spending. The domestic wire & cable industry is further likely to grow at a CAGR of 15% in next five years to ₹ 1,03,300 crore by the end of FY23E. The demand for building wires and power cables is expected to be spurred by government schemes such as Pradhan Mantri Sahaj Bijli Har Ghar Yojana ('Saubhagya' scheme) and Power for All, focusing on electrification of rural households and T&D efficiencies, as well as an increase in cabling demand from commercial establishments and public utilities. Growth in renewable energy capacities is expected to drive demand for solar cables and elastomeric cables used in windmill applications.

The Indian cables & wires industry is gradually moving from a largely unorganised sector comprising smaller regional players towards an organised sector comprising pan-India branded market players across categories. The share of the organised sector has increased from 61% to 66% in the last five years. According to estimates, the share of organised players is likely to increase to ~74% by FY23E on account of GST implementation and improvement in efficiency and cost structure, thereby reducing the price gap between the organised, unorganised sectors and the economies of the pan-India distribution network.

Exhibit 3: Domestic cable & wire industry growth trend

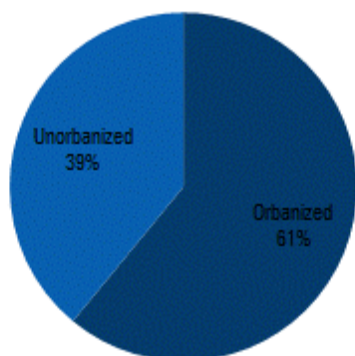


Source: Company, ICICI Direct Research

Increase in organised pie to benefit Polycab in long term

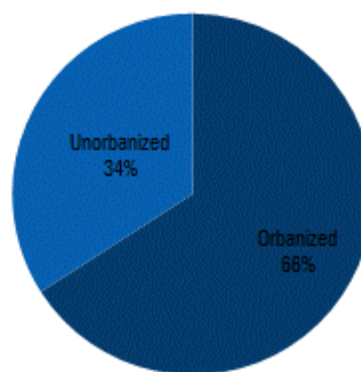
We believe PIL being a market leader (18% value market share in the organised cable & wire industry) would be a direct beneficiary of the shift in demand from unorganised to organised category. This, coupled with government initiatives in power and infrastructure like increased infrastructure expenditure by the government, growth in fire survival cables supported by metro, airport and commercial real estate projects and Smart Cities Missions' investment in underground cables would boost the demand of the cable & wire industry, going forward. The company plans to strengthen its leadership position in the wires & cables market in India by increasing the share of business with existing customers, winning new customer contracts, geographical expansion and development of innovative and customised products.

Exhibit 4: Share of organised and unorganised pie in FY14



Source: Company, ICICI Direct Research

Exhibit 5: Organised pie increases in last 4 years to 500 bps



Source: Company, ICICI Direct Research

Leveraging existing distributors to boost FMEG segment

The FMEG products of Polycab largely include switchgears, fans, lightings & luminaires and solar pumps. The company entered the FMEG segment during FY14. In the last four years, it has achieved a turnover of ~₹ 500 crore. This was largely due to the company’s strong pan India reach with over 2800 dealers. The company is planning similar topline growth in the next two years by leveraging its strong brand, distribution network, diverse customer base and manufacturing capabilities. Company aims to grow market share in existing FMEG product segments with a focus on expanding distribution reach, increasing rural penetration and greater retail expansion. It is also undertaking detailed market mapping to identify and appoint new channels for geographical expansion.

In order to cater to the changing needs of customers, the company plans to strengthen its FMEG product portfolio and enter new product segments by way of continuous product development and innovation. Under the new product category, it is planning to enter the high margin product category such as street lighting and other specialised products such as domestic and agriculture pumps, domestic air purifiers and domestic water purifiers. The segment turned profitable in FY17 and further recorded an improvement in segment margin at 3.04% FY18.

Exhibit 6: Number of dealers and distributors by product

	9FY19	FY18	FY17	FY16
Wires & Cables	1017	1304	1436	1718
FMEG	1384	1547	1603	1381
Common for wires & cables and MFEG	472	521	639	726
Total	2873	3372	3678	3825

Source: Company, ICICI Direct Research

According to an estimate by Crisil (i) the switches industry in India is expected to grow at a CAGR of ~9% to ₹ 6200 crore by FY23, driven by modular switches that have higher realisations, (ii) the lighting and luminaire industry in India to grow at a CAGR of ~7% to reach an estimated market size of ₹ 30100 crore by FY23 largely due to a decline in LED chip prices, government policies to encourage LEDs and increasing consumer awareness for energy efficient technologies such as LED lighting, and (iii) the electric fans industry in India to grow at a CAGR of ~7% to ₹ 11100 crore by FY23 largely due to government initiatives, the introduction of value added products by major fan manufacturers, replacement demand in urban areas, rise in rural penetration and improving economic factors.

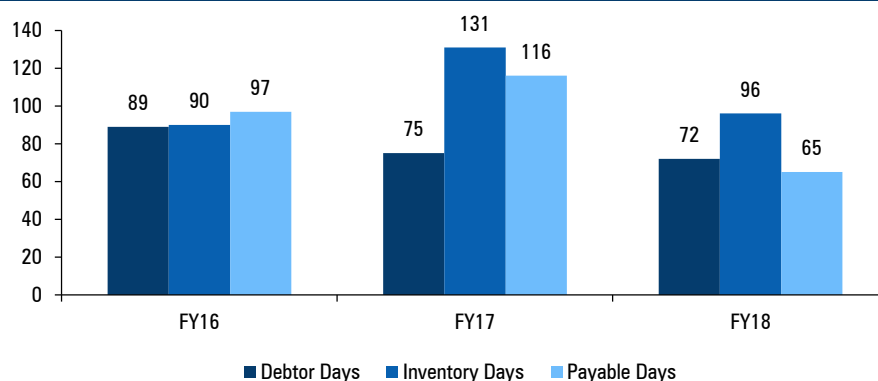
Manufacturing facilities with high degree of backward integration

PIL is the largest player in the wires & cables segment in India in terms of segment revenue. Currently, the company is operating with 24 manufacturing facilities. Four of these 24 manufacturing facilities are for the production of FMEG, including a joint venture with Techno to manufacture LED products. Its focus is on backward integration, where it produces a substantial portion of raw materials and sources the remaining from third-party suppliers. In 2016, PIL entered into a 50:50 joint venture with Trafigura to set up the Ryker Plant that will, once fully operational, fulfil a substantial part of its demand for copper wire rods. Apart from the Ryker Plant, it also produces other key raw materials that are used in manufacturing wires & cables and FMEGs. These key raw materials include aluminium rods (for aluminium conductor), higher size of copper rods (for required size of copper conductors for manufacturing cables and wires), various grades of PVC, rubber, XLPE compounds, GI wire and strip (for armouring). Producing own raw materials reduces reliance and risks of procuring raw materials from domestic and international markets by ensuring a consistent and reliable supply of quality raw materials. Such backward integration also helps the company to maintain control of the supply chain, lower costs of operations and sell products at competitive prices.

Focus on reducing working capital requirement through channel financing

The nature of the business requires significant working capital (~90 days of net working capital cycle) mainly due to procurement of raw material and higher receivable days. However, the company's limit exposure in the EPC segment (EPC business typically has slower payment from customers and therefore higher working capital requirements) and significant portion of the business through its dealer network restricts any aberration in working capital days. Further to reduce its debtor days, it has increased the use of channel financing, whereby customers enter into arrangements with banks through which PIL receive payment directly from the banks, who, in turn, takes on credit risk and seeks to collect from customers. Channel financing not only reduces risk of non-payment but also significantly increases payments cycle. We believe a reduction in working capital requirement through channel financing would boost the quality of balance sheet and lowering interest outgo thus aiding earnings growth, going forward.

Exhibit 7: Channel financing to help reduce working capital requirement, going forward



Source: Company, ICICI Direct Research

Objects of issue

The offer comprises an offer for sale (by promoters and institutional investor) and fresh shares up to 1.76 crore shares and 0.74 crore respectively. The object of the offer is to 1) scheduled repayment of all or a portion of certain borrowings availed by company, 2) to fund incremental working capital requirements of the company.

Key risks and concerns

Higher exposure in cable & wire segment poses business concentration risk

The cable & wire business of the company contributes ~90% to the topline. As a result, the business and financial condition is heavily dependent on the performance of the wires and cables market in India. The company is exposed to fluctuations in the performance of these markets. In the event of a decline in demand for wires and cables in India or abroad, the company is expected to experience pronounced effects on business, results of operations, financial condition, cash flows and prospects. The cable & wire market may be impacted by, among others, changes in government policies, government initiatives, economic conditions, income levels and interest rates, which may negatively impact demand for and valuation of products.

Exchange rate fluctuation

The company largely imports its raw material such as aluminium, copper and PVC compounds, where prices are reference to benchmarks quoted in US dollar. Hence, expenditures are largely influenced by the value of the US dollar. Depreciation of the rupee against the US dollar, the Euro and other foreign currencies may adversely affect results of operations by increasing the cost of imported raw materials.

Competitive pressure in FMEG business

The industry and markets for cable & wire and FMEG products are characterised by factors like rapid technological change, development of new end products and their rapid obsolescence, evolving industry standards and significant price erosion over the life of a product. The company may face stiff competition from large consumer durable players such as Crompton Greaves Consumer Electricals, Orient Electric and Havells India, which may restrict growth in segment margin of FMEG segment.

Payment delay in EPC business may impact working capital cycle

The nature of the business requires significant amounts of working capital primarily for raw material purchases and manufacturing products before it receive payments from its customers. Working capital requirements can also vary significantly across business lines, with businesses like government contracts and EPC business typically having slower payment from customers, and, therefore, higher working capital requirement. If the company's EPC business grows exponentially (on a low base and aggressive bidding on government orders) relative to other business lines, we expect that working capital ratios to be adversely affected.

Financial Summary

Exhibit 8: Profit and loss statement

₹ crore	FY16	FY17	FY18
Net Sales	5202.2	5500.1	6779.3
Raw materials	3559.5	4157.7	4774.7
Chg in inventories	-58.7	-219.5	67.5
Purchased of traded goods	306.5	194.6	241.2
Project bought outs and other cost	181.5	110.4	124.7
Employee	206.1	229.1	259.3
Other cost	516.7	547.9	571.1
Total Cost	4711.7	5020.2	6038.5
EBITDA	490.5	479.9	740.8
Other income	33.1	75.2	62.0
EBITDA incl other income	523.6	555.2	802.9
Depreciation	111.1	127.9	133.0
EBIT	412.5	427.3	669.9
Interest	147.3	65.9	93.7
Share of profit/(loss) of joint ventures (Net of tax)	0.0	-0.3	0.1
PBT	265.2	361.0	576.3
Tax	80.7	128.3	205.5
PAT	184.5	232.7	370.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet

(₹ crore)	FY16	FY17	FY18
Equity share capital	141.2	141.2	141.3
Other Equity	1641.6	1852.3	2208.0
Shareholders fund	1782.8	1993.5	2349.2
Non Controlling stake	2.8	3.1	4.0
Debt	795.6	820.8	727.7
Other non current liabilities	10.3	19.5	18.2
Deferred Tax liabilities	21.1	65.7	55.3
Total Liabilities	2612.6	2902.6	3154.5
Assets			
Net Block	978.4	1122.4	1194.4
Intangible Assets	6.7	6.0	2.7
CWIP	138.1	164.9	136.0
Total Assets	1123.1	1293.3	1333.1
Investment in JV	0.0	32.7	31.4
Financial Assets			
Investment	0.1	0.1	0.1
Other non current assets	64.6	98.4	68.7
Current Assets			
Trade receivables	1360.0	1221.7	1357.4
Inventories	980.4	1519.8	1365.7
Cash	31.6	23.4	8.2
Loans	1.0	1.5	15.3
Other current assets	284.6	361.0	245.9
Total	2657.7	3127.6	2992.4
Current Liabilities			
Trade Paybles	1056.6	1354.3	922.0
Provisions	31.4	38.0	47.1
Other current financial liabilities	31.1	79.7	116.3
Other current liabilities	107.2	147.4	103.6
current tax liabilities	7.3	30.9	82.4
Total	1233.5	1650.2	1271.5
Net working capital	1424.2	1477.4	1720.9
Asset classified as held for disposal	0.7	0.7	0.3
Total Assets	2612.6	2902.6	3154.5

Source: Company, ICICI Direct Research

Exhibit 10: Ratios

Ratios	FY16	FY17	FY18
Per share data			
EPS (₹)	13.1	16.5	26.2
BV per share (₹)	126.3	141.2	166.3
Operating ratios			
EBITDA margin (%)	9.4	8.7	10.9
EBIT Margin (%)	7.9	7.8	9.9
PAT Margin (%)	3.5	4.2	5.5
Return Ratios			
RoE	10.4	11.7	15.8
RoCE	15.8	14.7	21.2
Valuation Ratios			
P/E	43.4	34.4	21.6
Mcap/Sales	1.5	1.5	1.2
Price/BV	4.3	3.8	3.2
Turnover Ratio			
Debtor Turnover	3.8	4.5	5.0
Inventory Turnover	5.3	3.6	5.0
Creditor Turnover	4.9	4.1	7.4
Solvency Ratios			
D/E	0.4	0.4	0.3
Current Ratio	2.2	1.9	2.4

Source: Company, ICICI Direct Research

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