

Rewiring into a B2C giant

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Company Initiation

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	88,300	85,207	1,02,459	1,16,035
EBITDA (Rs. m)	11,350	11,249	13,246	15,261
Margin (%)	12.9	13.2	12.9	13.2
PAT (Rs. m)	7,591	7,792	8,888	10,310
EPS (Rs.)	51.0	52.3	59.7	69.3
Gr. (%)	44.1	2.7	14.1	16.0
DPS (Rs.)	7.0	9.0	11.0	13.5
Yield (%)	0.7	0.9	1.1	1.3
RoE (%)	22.7	18.2	17.5	17.5
RoCE (%)	30.5	24.4	23.5	23.6
EV/Sales (x)	1.7	1.7	1.4	1.2
EV/EBITDA (x)	13.4	12.8	10.7	9.0
PE (x)	20.3	19.8	17.3	14.9
P/BV (x)	4.0	3.3	2.8	2.4

Key Data

POLC.BO | POLYCAB IN

52-W High / Low	Rs. 1,182 / Rs. 570
Sensex / Nifty	47,869 / 14,019
Market Cap	Rs. 154 bn/ \$ 2,108 m
Shares Outstanding	149m
3M Avg. Daily Value	Rs. 904.85m

Shareholding Pattern (%)

Promoter's	68.53
Foreign	15.60
Domestic Institution	2.73
Public & Others	13.14
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.7	29.6	4.0
Relative	0.4	(4.1)	(10.2)

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Polycab India (POLYCAB IN)

Rating: BUY | CMP: Rs1,034 | TP: Rs1,247

Rewiring into a B2C giant

We initiate coverage on Polycab with a BUY rating and target price of Rs1,247 on SOTP basis. We believe Polycab is fast emerging as a B2C player given 1) strong potential in FMEG and Retail wires segment 2) sustained investments in brand building and 3) steadily increasing distribution network. We believe Polycab is well placed to capitalize on uptick in demand for housing construction given wide product range in Cables, Wires, Switchgear, Switches, Conduit Pipes, Lighting, Fans and Water heaters etc.

We estimate 13% and 24% CAGR in sales of B2C wires and FMEG which will increase sales contribution mix (currently at 40%) to ~50% over next 5 years. Increase in scale of operations and improved mix will improve FMEG margins by 600bps over FY20-23. We estimate Sales/PAT to grow at a CAGR of 16.7%/ 15% over FY21-23E led by 14.4% and 28.8% sales CAGR for wires and cables and FMEG segments and 30bps margin expansion led by scale/mix. We value the stock on SOTP basis and arrive at a target price of Rs1,247 (derived PE of 18x FY23 EPS; W&C/ FMEG valued at 18x/ 25x). Polycab trades at 14.9x FY23 EPS, which is at a premium to Finolex/KEI (12.4x/11.6x), but at a significant discount to ECD players like Havells/Crompton (46.8x/ 35x). Steady increase in B2C mix will likely rerate the stock in long term. We initiate coverage with BUY rating.

Investment Arguments

- Fast emerging as a B2C player:** Polycab has evolved itself from being B2B player to a fast growing B2C brand, given increase in FMEG share by 680bps to 9.4% over FY15-20. B2C mix (FMEG/ retail wires), currently at 40% is set to breach 50% in the medium term given 1) strong growth potential in FMEG and & Retail wires segment 2) investments in brand building and 3) increase in distribution reach (from 100,000 to 137,000). We believe presence in large FMEG categories like Fans, Lighting, Switchgear, Switches, Pumps and Appliances (Coolers, Water heaters and Irons) will enable sales to grow at a CAGR of 28.8% over FY21-23.
- Market leader in Wires & Cables with most versatile range:** Polycab is India's largest and most versatile manufacturer of Wires and Cables (12%/ 18% overall/ organized share) with presence across segments like Power cables, Control cables, Optic fiber cables, Instrumentation cables and Solar cables. We expect W&C segment sales CAGR of 14.4% over FY21-23 led by 1) Infrastructure schemes (like Smart Cities, Housing for all etc.) 2) Entry into newer segments (like EVs, defence) and 3) Distribution led export model.
- Valuation & Outlook:** We estimate Sales/PAT CAGR of 16.7%/ 15% over FY21-23 led by 1) improving business mix, 2) gains from operating leverage and cost optimizing initiatives 3) sustained investments in brand building and 4) increasing distribution reach. At current valuations of 14.9x FY23 earnings, it trades at a premium to Finolex/KEI (12.4x/ 11.6x), but at a significant discount to ECD players like Havells/Crompton (46.8x/ 35x). Steady increase in B2C mix will rerate the stock in long term. Initiate coverage with a BUY rating and a SOTP derived target price of Rs1,247, a 21% upside.



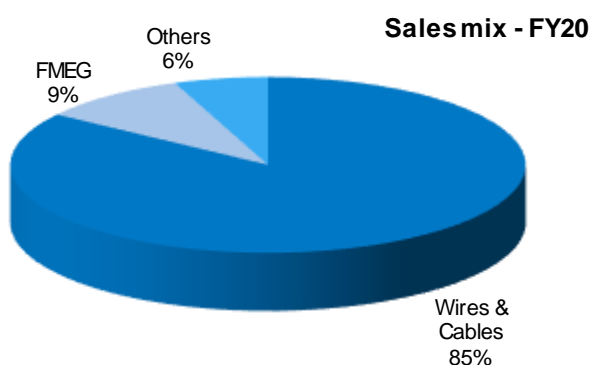
Polycab – Evolving into a formidable FMEG player

Polycab is India's largest player in wires and cables (W&C) segment with formidable brand presence. It is one of the fastest growing FMEG (Fast Moving Electrical Goods) player, aiding its transformation from a B2B company to a B2C company.

- Polycab is a market leader in domestic wires & cables (W&C) segment with over 12% market share (18% organized market share).
- A forward extension to its W&C business, Polycab is also present in EPC business bidding for projects with ~40-60% cabling requirement.
- In 2014 Polycab entered FMEG space by selling fans, lights, switches, switchgears, irons, water heaters, coolers, solar, pumps and conduit pipes etc.
- Polycab's fundamental strategic priorities are built around five axes: **1)** strengthening business and product offerings **2)** growing distribution network **3)** enhancing technological competence **4)** augmenting brand visibility & customer satisfaction and **5)** improving operational efficiency
- Polycab manufactures majority of its products in-house through 25 plants (4 for FMEG) across 7 locations. High degree of backward integration enables it to maintain full control over quality and supply chain, lower operational costs and deliver products at competitive prices.
- Contribution of B2C business increased from 30% since few years ago to present 40%. We expect it to breach 50% in medium term led by 24%+ growth in FMEG business and 13% growth in Polycab branded wires business.

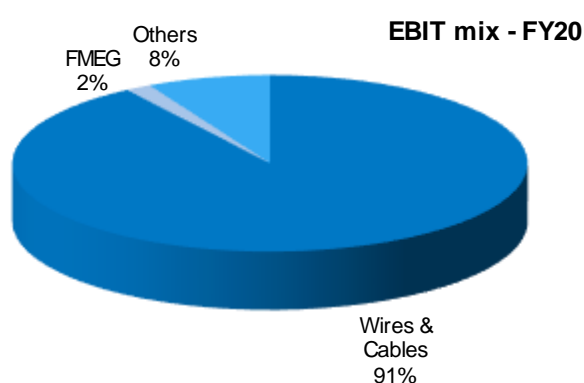
Over FY15-20, Polycab's sales grew at a CAGR of 13.4% with W&C segment growing by 11.4% and FMEG by 46.7%. Within W&C, Polycab is focused on consolidating its presence by entering in new categories (special cables) while also establishing a distribution led export business. In FMEG, focus is on improving the mix and profitability by introducing more premium offerings in large categories (like fans, lights, switches, switchgears) and achieving scale in remaining categories.

Exhibit 1: FMEG now contributes 9.4% of sales



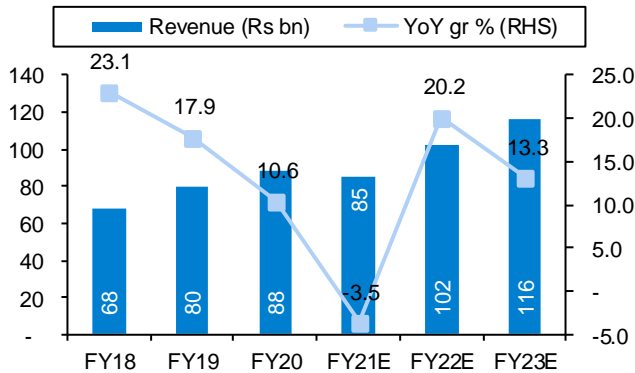
Source: Company, PL

Exhibit 2: while EBIT contribution is at 1.6%

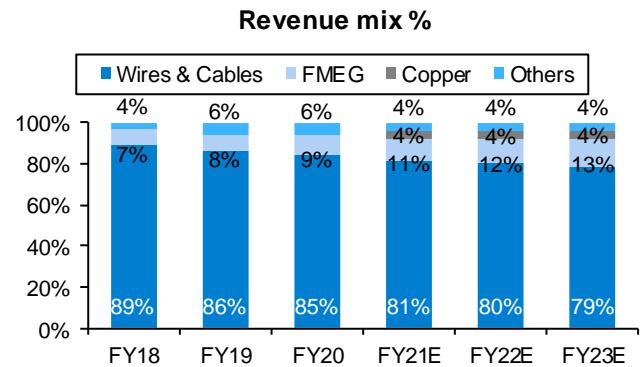


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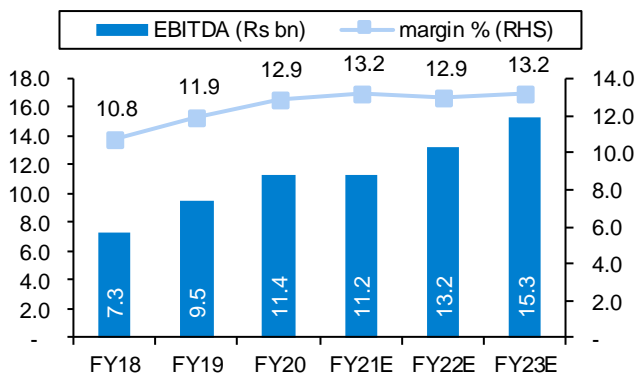
Story in charts

Exhibit 3: Revenues to grow at 16.7% CAGR over FY21-23E


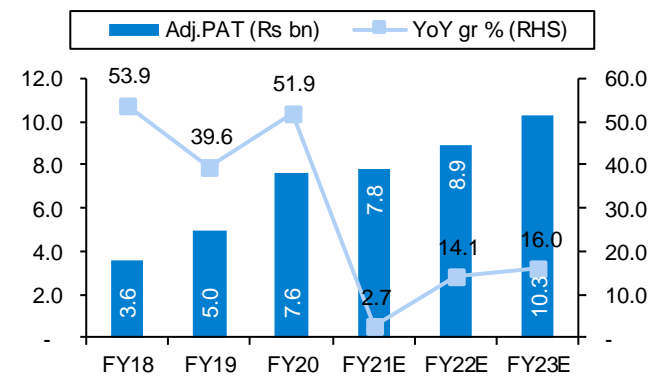
Source: Company, PL

Exhibit 4: FMEG contribution to increase to 13.3% in FY23


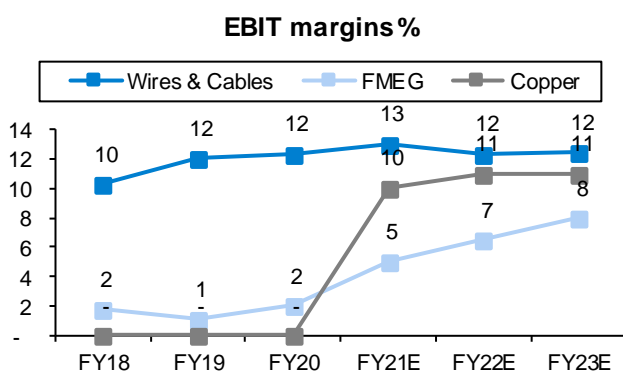
Source: Company, PL

Exhibit 5: Margins to expand by 30bps over FY20-23E


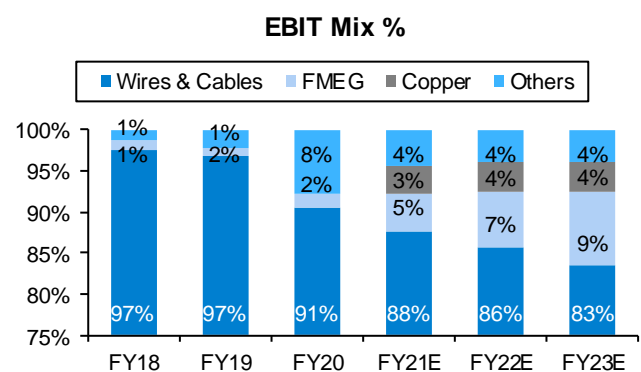
Source: Company, PL

Exhibit 6: PAT to grow at a CAGR of 15% over FY21-23E


Source: Company, PL

Exhibit 7: FMEG margins to expand by 6% over FY20-23


Source: Company, PL

Exhibit 8: FMEG contribution to rise to 9.1% by FY23


Source: Company, PL

FMEG – Premium positioning with focus on large categories

Polycab is India's largest wires and cables manufacturer with Pan-India distribution network offering strong suite of products. In a bid to enlarge its product bouquet and move away from B2B focused strategy, in 2014, leveraging their strong brand recall/distribution reach in electrical industry, Polycab forayed into high potential Fast Moving Electrical Goods (FMEG) segment.

- **Diverse Product Basket:** Under FMEG, Polycab currently sells Fans, Lighting Luminaries, Switches, Switchgears, Water Heaters, Pipes, Conduits, Agro Pumps, Solar, Air Coolers, Irons etc. Apart from Kitchen Appliances and Home Appliances Polycab is present across all major categories with target market size of Rs700bn currently.
- **Positioned as a mass premium brand:** After initially venturing into economy categories across segments, Polycab gradually expanded its product range in mass-premium and premium segments. Its products are generally priced at a 5-10% discount to leading brands. However, having made their mark in FMEG space, Polycab is focused on augmenting innovation and improving penetration of premium products in large categories like Fans, Lighting, Switches and Switchgears.

Exhibit 9: Polycab is present across large range of product categories; Fans/Lighting/Switches/Switchgear key categories

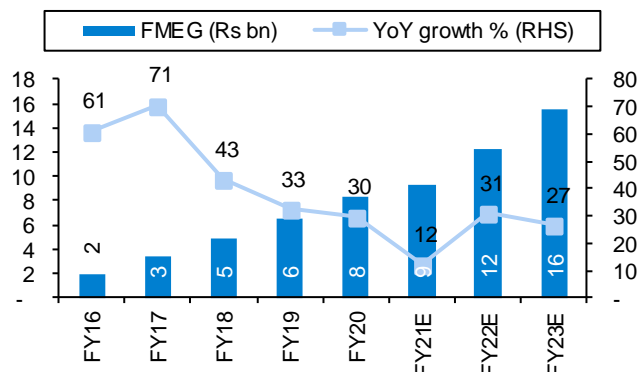
Players	Fans	Lightings	Switches	Switchgears	Water Heaters	Home App	Kitchen App
Bajaj Electricals Ltd	✓	✓			✓	✓	✓
Crompton Consumer	✓	✓			✓	✓	✓
Finolex Cables Ltd	✓	✓	✓	✓	✓		
Havells India Ltd	✓	✓	✓	✓	✓	✓	✓
Orient Electric Ltd	✓	✓	✓	✓	✓	✓	✓
Philips India		✓				✓	✓
Polycab India Limited	✓	✓	✓	✓	✓		
Surya Roshni Ltd	✓	✓			✓	✓	✓
TTK Prestige Ltd						✓	✓
Usha International Ltd	✓				✓	✓	✓
V-Guard Industries Ltd	✓		✓	✓	✓	✓	✓

Source: Company, PL

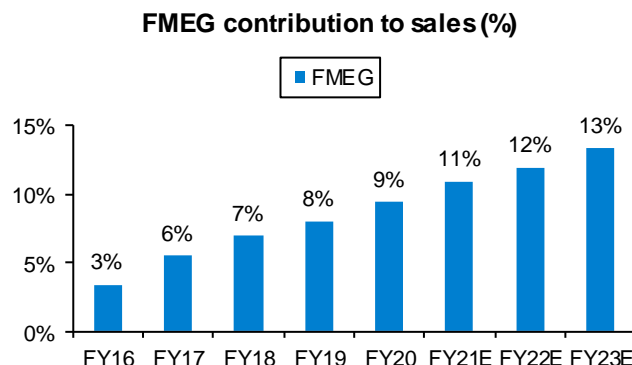
FMEG CAGR of 28.8% over FY21-23 to improve B2C mix

Over past six years, Polycab evolved itself from being majorly a B2B player to a fast growing B2C brand. Contribution of B2C mix (FMEG and retail wires) improved to c.40% in H1FY21 (35% in FY20). Over FY15-20 FMEG revenues grew 6.8x at a CAGR of 46.7% to Rs8.4bn, which currently contribute 9.4% of revenues. We expect B2C mix to further increase, led by 28.8% sales CAGR in FMEG revenues over FY21-23.

- **Strong growth potential in FMEG and Retail wires:** Growth opportunities in the Indian FMEG industry remain high, aided by improving macro drivers like **1)** rising consumer aspirations **2)** increasing awareness **3)** rising income levels **4)** rural electrification **5)** urbanization and **6)** digital connectivity

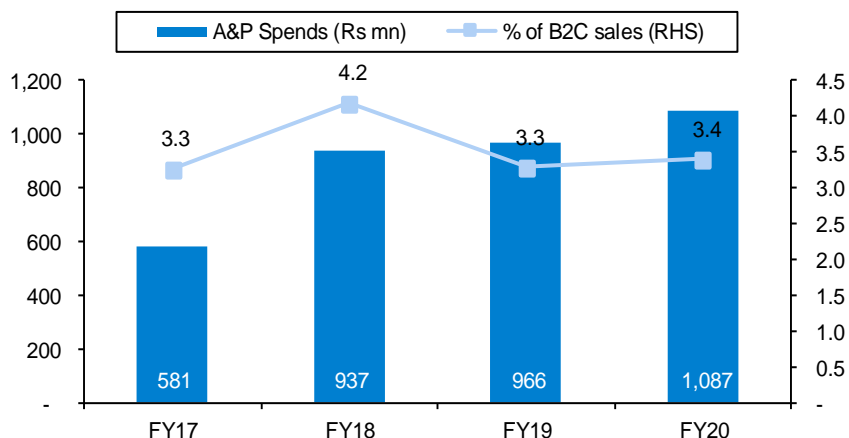
Exhibit 10: Revenues CAGR of 28.8% over FY21-23E


Source: Company, PL

Exhibit 11: FMEG to contribute 13.3% of FY23 sales


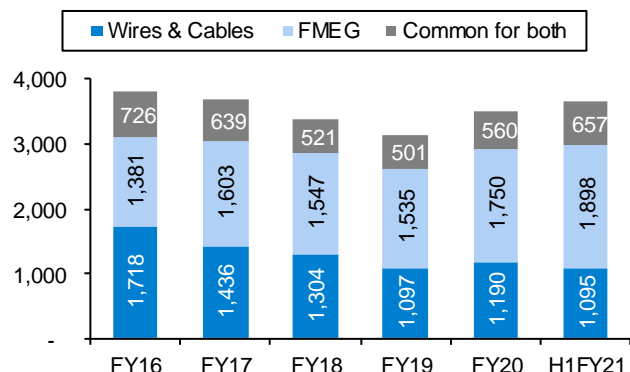
Source: Company, PL

- Sustained investments in brand building:** Polycab enjoys a powerful legacy in electrical industry owing to its wires business. Over past few years, Polycab further fortified its brand positioning via sustained investments in marketing and brand promotional activities. Focus has been on increasing brand awareness and customer loyalty through creative promotions and new age marketing, using both digital and traditional channels. Polycab's continued association with IPL since 2016 has also provided a huge fillip towards brand visibility and has expanded their reach to wider audiences, across the country. Since FY17, Polycab has spent c.3.5% of its annual B2C sales on A&P.

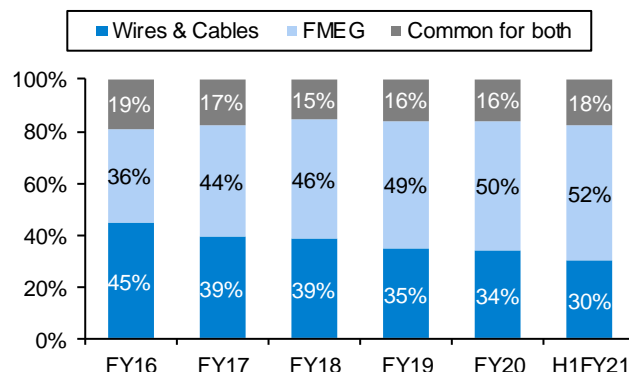
Exhibit 12: A&P spends at c.3.5% of B2C sales


Source: Company, PL *B2C (FMEG + Retail Wires)

- Increase in distribution reach:** Polycab focused on increasing its distribution network which has increased from 3,133 dealers in FY19 to present 3,650, of which 52% are exclusively for FMEG while 18% are common for both FMEG and Wires & Cables. Their dealer network reduced from FY16 to FY19 as the company made a strategic decision to discontinue some smaller dealers and instead focus on larger distributors, who in turn would cater to these smaller dealers. Number of dealers for FMEG are set to rise as apart from exclusive dealer addition, we also expect conversion of some dealers selling exclusively Wires & Cables going ahead. The 3,650 distributors serve over 137,000 retail touchpoints (up from 100,000 in FY18).

Exhibit 13: FMEG and common dealers on a rise


Source: Company, PL

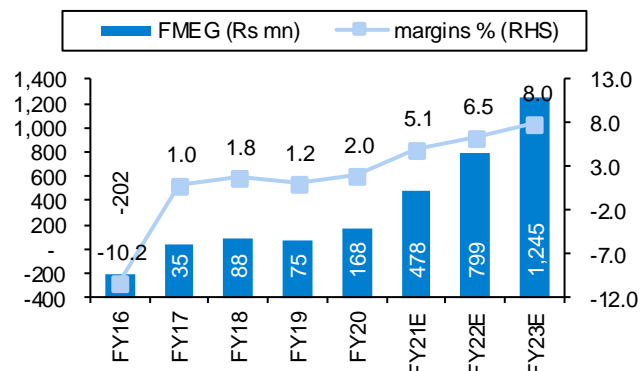
Exhibit 14: 52% dealers exclusively sell FMEG products


Source: Company, PL

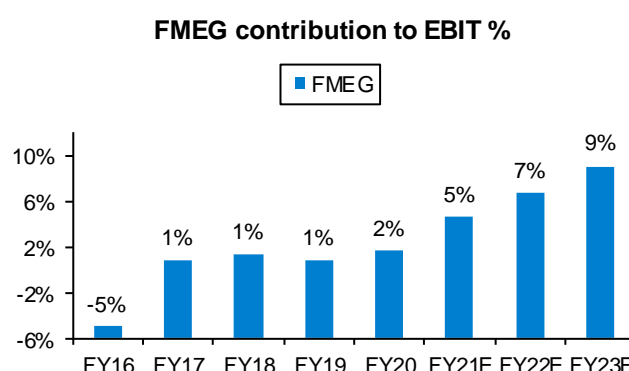
- Focus on quality:** Polycab has ensured un-relented focus on product quality. The company has been offering extra wattage LED lighting in comparable sizes and claims to have heavier motors and blades in fans which provide superior performance. This enabled Polycab to garner better market reception than most new entrants, in recent years.

FMEG margins to improve by 600bps over FY20-23E

Over FY15-20, Polycab invested in laying down groundwork for its FMEG business by setting up **1)** manufacturing facilities **2)** distribution network and **3)** brand building. Thus profits remained subdued with less than 2% EBIT margins and 2% contribution to overall company's EBIT in FY20. However, with Polycab having achieved **1)** minimum scale in some large categories like fan, lighting, switches and switchgear **2)** change in mix led by premiumisation and **3)** increased channel financing coverage, we expect margins to improve by 600bps over FY20-23.

Exhibit 15: FMEG EBIT to improve by 6% over FY20-23E


Source: Company, PL

Exhibit 16: FMEG to contribute 9.1% of EBIT by FY23


Source: Company, PL

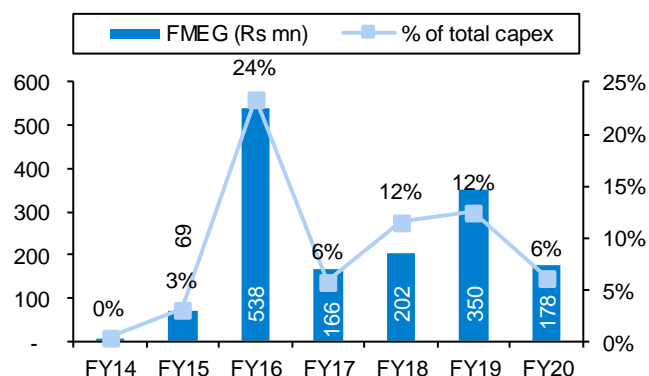
- Changing business mix led by premiumisation:** Having made their mark in bigger segments like Fans, Lighting, Switches & Switchgears, Polycab is focusing on stepping up on innovation pedal and introducing more premium products using IOT. In smaller segments like pipes, pumps etc. focus remains on quickly achieving the scale.

- Operating efficiencies to kick in with improving scale of operations:** Polycab manufactures c.80% of products in-house. Fans, lighting(JV), switches and switchgears are all manufactured in-house while balance products are sourced from third parties. With major upfront investments completed, we expect operating efficiencies to kick in with improved scale of operations.

Exhibit 17: FMEG manufacturing facilities

Manufacturing Facilities	Location	State	Annual Capacity
Lighting & Luminaires	Chhani	Gujarat	18.2mn units
Switches & Switchgears	Nashik	Maharashtra	7.2mn units
Fans	Roorkee	Uttarakhand	3.1mn units

Source: Company, PL

Exhibit 18: Sustained investments in FMEG facilities


Source: Company, PL

- Increased channel financing coverage:** Having entered FMEG space only in 2014, channel financing remains only amongst high teens compared to 60-65% in Wires & Cables. Polycab is focused on improving this on a sustained basis and get it at par with Wires & Cables segment. In addition to this, the company is also working on optimizing its inventory levels which can help reduce working capital cycle and thereby improve profitability.

Exhibit 19: Polycab to be fastest growing FMEG player over FY21-23; Margins to improve with scale of operations

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR % FY16-20	CAGR % FY21-23
FMEG Revenues										
Bajaj Electricals	25,975	23,142	22,285	27,408	30,846	30,783	36,525	41,959	4.4	16.7
Crompton Consumer	18,117	40,167	41,051	44,789	45,120	44,561	52,488	59,368	25.6	15.4
Havells	33,160	39,104	41,627	49,776	48,447	50,040	60,249	69,101	9.9	17.5
Polycab	1,981	3,384	4,853	6,433	8,356	9,567	12,529	15,863	43.3	28.8
FMEG EBIT (Rs mn)										
Bajaj Electricals	1,204	990	1,087	1,801	2,082	2,555	3,287	4,196	14.7	28.1
margin %	4.6	4.3	4.9	6.6	6.8	8.3	9.0	10.0		
Crompton Consumer	2,465	5,941	6,820	7,230	7,411	8,202	9,693	11,043	31.7	16.0
margin %	13.6	14.8	16.6	16.1	16.4	18.4	18.5	18.6		
Havells*	9,779	11,755	13,130	15,481	14,741	14,671	17,881	20,631	10.8	18.6
margin %	29.5	30.1	31.5	31.1	30.4	29.3	29.7	29.9		
Polycab	-202	35	88	75	168	478	799	1,245	NA	61.3
margin %	-10.2	1.0	1.8	1.2	2.0	5.1	6.5	8.0		

Source: Company, PL *Havells Contribution Margins

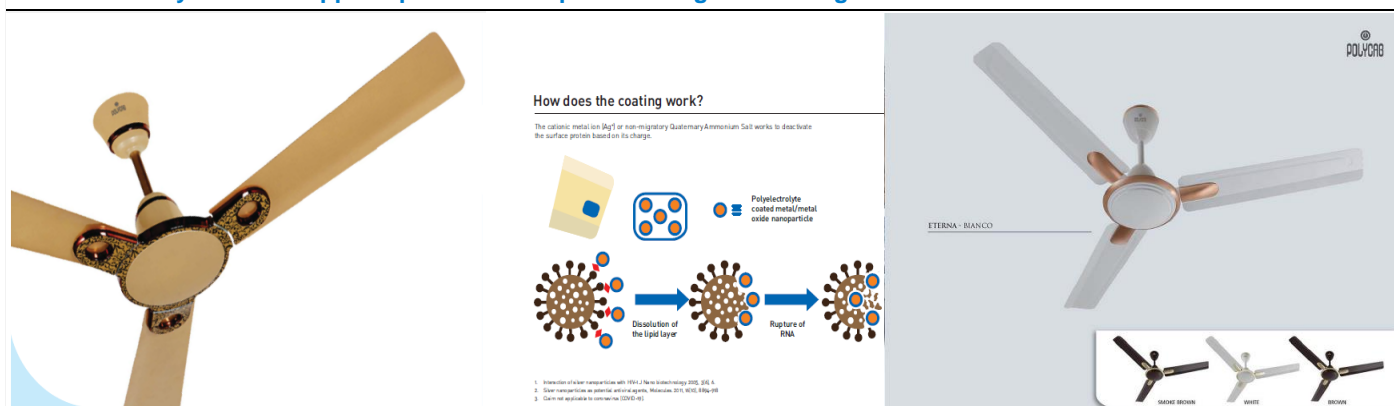
Fans (40-45% of FMEG sales): Increasing premium offerings

Exhibit 20: Since its launch in 2014, Polycab has gained 3-5% share in the highly competitive fans market

Product	Market size (Rs bn)	Polycab's share (%)	Competitors	Organized Penetration Level
Fans	93	3-5%	Crompton, Havells, Orient, Bajaj	High

Source: Company, PL

Exhibit 21: Polycab has stepped up launches in premium segment through its Anti-Germs series



Source: Company, PL

Fans: Industry eyeing Premiumisation

Crompton leads with an overall market share of ~25-27%, whereas Havells has redefined category with premium offerings in an otherwise well penetrated and laid back category. On the other hand, industry dynamics are changing as all key players like Crompton and Orient etc. have started focusing on premium segment with multiple offerings. We expect industry to witness steady demand as rural electrification, better power availability, rising disposable income and increasing consumer awareness remain key triggers.

Strategy/Outlook: Increase premium offerings; profitability

Fans are the single largest category for Polycab that accounts ~40-45% of FMEG sales. Ever since its launch in 2014, the company gained 3-5% market share and is currently at 7-8th position on attributes like heavy motors and blades which provide superior performance. After successfully making its mark as a premium economy brand, Polycab is now looking to make dents in the premium segment with launch of IoT enabled products.

Polycab has made a considerable stride in fans segment by augmenting its fans portfolio with additional SKUs, thereby offering variety of products in terms of design and price points. With consumers now placing emphasis on aesthetics, design, efficiency and technology, Polycab is constantly reworking on its portfolio right through its economy to premium offerings. We expect Polycab to continue making rapid strides in the fans segment given **1)** strong brand recall **2)** sustained brand investments **3)** increasing distribution reach **4)** in-house manufacturing to benefit from increasing scale and **5)** consumer meaningful innovations (like Anti-Germ fans) & IOT enabled products. Fans will be a key driver for margin improvement in FMEG, given that it is most scaled up segment for Polycab.

Lighting (20-25% of FMEG sales): Innovation remains a key to success

Exhibit 22: Polycab has its work cut out in an industry plagued by intense competitive intensity

Product	Market size (Rs bn)	Polycab's share (%)	Competitors	Organized Penetration Level
LED	223	c.1%	Philips, Crompton, Bajaj, Wipro, Havells	Medium

Source: Company, PL

Exhibit 23: Polycab is focusing on launching innovative products like RGBW bulbs, Emergency Bulb



Source: Company, PL

Competitive Landscape: Intense competitive rivalry

Phillips, Crompton, Havells, Syska & Wipro are some large players in the market. LED is now dominant lighting technology across all applications as sustained reduction in prices and Govt push (Ban on fluorescent lamps and free/subsidised distribution) has resulted in consumer shift. Innovation, Premiumisation and aesthetics are key to offer a differentiated value proposition (Eg. Anti-bacterial bulbs by Crompton) in a market flushed with Chinese imports and easy product imitations.

Strategy/Outlook: Innovation and Penetration a focus area

With the industry witnessing substantial price reduction (some respite over past 6 months) & competitive intensity, Polycab reconstructed its product mix by focusing on more profitable & stable categories like Panels and Down lighters. Polycab is now making investments in developing new product pipeline with focus on IoT and increasing its distribution reach. In addition to this, there will be renewed focus on B2B segment.

Over the past few years' rapid technological change in lighting is driving value erosion and enhancing need for continuous re-evolution. Additionally, this being a low entry-barrier business there is a constant deluge of new players thereby leading to increased competitive intensity. With reduced private capex intensity and slowdown in government orders due to Covid-19 pandemic, recovery in B2B segment remains sluggish. Polycab has so far focused on categories which have been less impacted such as panels and down lights. Going ahead, the company will likely focus on improving sales mix with launch of premium products like Emergency Bulbs and RGBW LEDs.

Switches & Switchgears (15% of FMEG sales): Immense growth potential

Exhibit 24: Polycab launched all products within 18 months of launch

Product	Market size (Rs bn)	Competitors	Organized Penetration Level
Switchgear	210	Havells, Legrand, Schneider	High
Switches	46	Havells, Anchor, GM, Schneider	Medium

Source: Company, PL

Exhibit 25: Initially launched with focus placed on economy segment; now looking to introduce more premium products



Source: Company, PL

Competitive Landscape: Long term growth positive

Switchgear: Havells, Legrand and Schneider are some of the largest players in the segment. Technology intensive nature of the product has resulted in high share of organized players (90%). Switchgear is a highly urbanised product which is yet to enter small towns and rural India in a major way, which signifies huge growth potential. Polycab is well placed as it had acquired Datar Nouvelle's manufacturing and technology capabilities.

Switches: Havells, Anchor, GM, Schneider are some of the largest players in this segment. Rising disposable income & growing preference for aesthetically designed modular switches will enable 10% CAGR over FY20-25.

Strategy/Outlook: Improve mix with more premium offerings

With slump in residential and real estate market, Polycab had focused on building alternate channels such as panel builders, OEMs and large institutions.

Having initially launched as an economy brand, Polycab is now focusing on changing the mix more towards a technology focused premium offerings. It has launched MCB changeover switch and plans to enter new product categories in an attempt to plug gaps in its product portfolio.

Within switches, Polycab has increased its premium offerings through launch of new colored plate range, infrared sensors and touch feel products and switches.

Switches and switchgears have been under pressure over the past 12-18 months. However, their long term potential remains strong given **1)** customer preference towards modular switches/switchgears **2)** demand for safe and secure products **3)** rising demand for various electrical appliances and **4)** greater awareness towards building automation and management. Polycab with its strong brand legacy within electrical space, right technological investments (Datar Nouvelle acquisition) and increasing distribution reach remains well placed to tap this opportunity. We believe smart pick up in real estate construction and housing augurs well for demand of switches and switchgears, in the coming quarters.

Others (15% of FMEG sales): Achieving meaningful scale across categories remains key

Exhibit 26: Polycab is also present in Pumps, Water Heaters, Air cooler, Iron, Solar, Pipes and Conduits segments

Product	Market size (Rs bn)	Competitors	Organized Penetration Level
Pumps	75	Crompton, Shakti, Havells, Kirloskar	Medium
Water Heater	18-20	Racold, Havells, Crompton, AO Smith	Medium
Air Cooler	42	Symphony, Kenstar, Voltas, Crompton	Low

Source: Company, PL

Exhibit 27: Pipes, Pumps, Water Heaters, Irons and Air Coolers major contributors to appliances segment



Source: Company, PL

Competitive landscape: Long term growth potential intact

Pumps: Crompton is the market leader in this Rs75bn industry. Rising building construction and industrialisation activities, increasing agriculture activities and depleting groundwater levels will continue to drive demand for water pumps in the longer run.

Water Heaters: In the c. Rs20bn market where large players like Havells, Racold, Crompton and Orient are increasing offerings thereby increasing competition too. Rising disposable income and energy-efficient products will drive growth in this segment.

Air Cooler: The residential air cooler market is largely unorganized. Organized players are gaining share as they are now offering technologically advanced and energy efficient products. Symphony (50% market share) is the largest player in the organized market. Other players include Orient Electric, V-Guard, Crompton. Voltas & Blue Star are new entrants in this space.

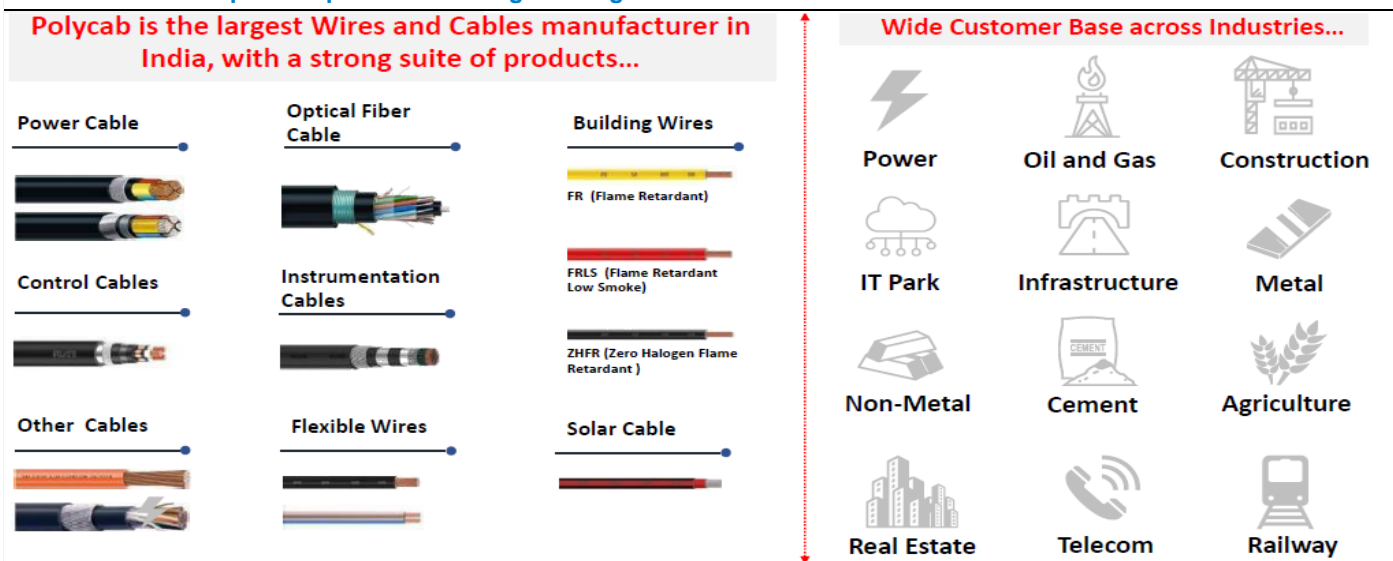
Strategy/Outlook: Achieving meaningful scale

Pumps, Water Heaters, Air Coolers, Irons, Solar, Pipes and Conduits contribute the remaining 15% of FMEG sales for Polycab. The immediate focus remains on quickly growing these segments to Rs1bn each post which it will focus on improving profitability in these segments.

Market leader in Wires & Cables

Polycab is India's largest manufacturer of wires and cables (85% of FY20 sales) with an organized market share of 18% (12% overall). It is one of the most versatile player with presence across high value added segments like power, marine, oil & gas, telecom, nuclear energy, infrastructure, railways, metals etc. thereby serving a wide customer base across industries. Over FY15-20, Wires & Cables revenues have grown at CAGR of 11.4% to Rs75bn.

Exhibit 28: Diverse product portfolio catering to a large customer base across industries



Source: Company, PL

Exhibit 29: Cable and Wires offering vs peers

Company	Power & Power Control (LT/HT)	Power Cable (EHV)	Control & Instrumentation Cables	House Wires	Flexible & Industrial Cables incl specialty cables
Apar Industries Ltd	✓		✓	✓	✓
Finolex Cables Ltd	✓	✓	✓	✓	✓
Gupta Power Infrastructure Ltd	✓	✓	✓	✓	✓
Havells India Ltd	✓		✓	✓	✓
KEC International Ltd	✓	✓	✓	✓	✓
KEI Industries Ltd	✓	✓	✓	✓	✓
Polycab India Limited	✓	✓	✓	✓	✓
R R Kabel Ltd	✓		✓	✓	✓
V-Guard Industries Ltd	✓			✓	✓

Source: Company, PL

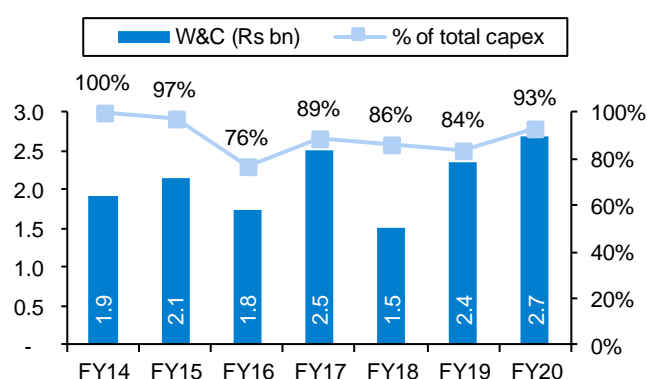
- Superior Product Availability:** Polycab's biggest USP has been availability of products across SKUs. Our channel checks suggest that at any given point of time, Polycab (including its top 100 distributors) holds inventory worth Rs20bn which can fulfill customer requirements at the earliest. Products are either **1)** made to stock, produced based on demand forecasts given from customers and/or internal estimates or **2)** made to order – where Polycab works closely with customers to develop customized products.

- Increasing share of Housing/Retail wires:** Over the years, Polycab has gradually increased proportion of housing/retail wires (B2C) from 60% to current 75% of wires sales (Wires contribute 45% of segment sales). Rising sales of margin accretive wires business has helped in increasing the segment margins from 7.4% in FY16 to 12.3% in FY20. Leveraging its strong brand legacy & benefitting from Govt's focus on affordable housing/ smart cities, we expect Polycab to register healthy double digit growth of 13% in this segment.
- In-house manufacturing with high degree of backward integration:** Polycab manufactures several critical inputs in-house which allows it to provide guarantee of quality, service and short-notice supply, that few competitors can. In order to control its supply chain, there is a high level of backward integration for key raw materials like aluminum rods, copper rods and various grades of PVC, rubber, XLPE compounds, GI wire and strip.

Exhibit 30: Wires & Cables manufacturing capacity

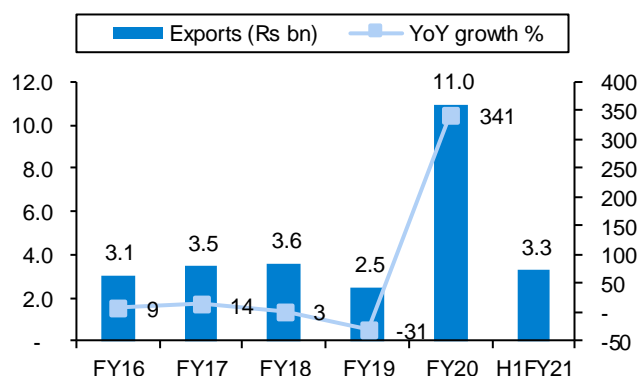
Manufacturing Facilities	Location	State	Annual Capacity
Wires & Cables	Halol/Daman	Gujarat	3.7mn kms
Copper Rods	Waghodia	Gujarat	0.22mn tonnes

Source: Company, PL

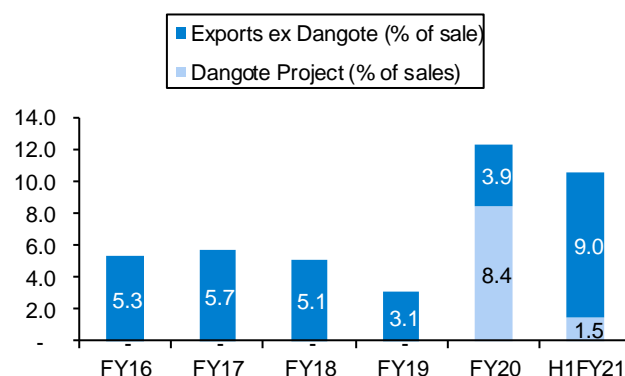
Exhibit 31: Incurred capex of Rs14.9bn over FY14-20


Source: Company, PL

- Exports to be new leg of growth:** Polycab has identified exports as a key growth driver in the coming years. Out of the \$145bn global cable markets (Asia-Pacific contribution at 40%) nearly \$40bn of cables are currently imported from various countries. After successfully executing a large order from Dangote refinery in FY20, Polycab is in the process of setting up its distribution network in overseas markets starting with Africa, USA, Middle East and Australia. In the medium term, Polycab expects double digit contribution from exports.

Exhibit 32: FY20 exports helped by Rs7.5bn Dangote order


Source: Company, PL

Exhibit 33: Exl Dangote exports contributed 9% of 1H sales


Source: Company, PL

Polycab's Wires & cables sales have grown at a CAGR of 9.3% over FY16-20. Margins expanded by 490bps. Polycab has scope of further margin expansion given superior scale over peers

- Long standing relationship with distributors:** Most of 3,650 dealers catering to over 137,000 retail touchpoints, have been associated with Polycab for over 3 generations. Many of whom are solely dependent on Polycab for their turnover. Our channel checks suggest that Chairman & MD – Mr Inder Jaisinghani remains in direct touch with largest distributors. Well entrenched distribution with long standing relationships and stickiness is one of the major strengths of Polycab. We believe Asian paints (the largest paint company) has similar strength in distribution, which enabled it to withstand rising competition and increase share from 40-42% to current levels of ~50%.

Exhibit 34: Polycab reported higher margin improvement over peers

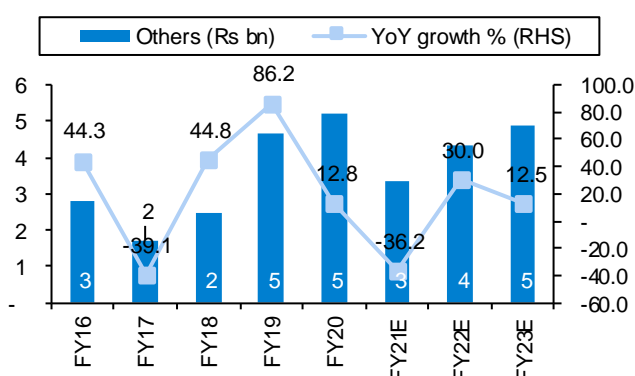
Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	CAGR % FY16-20
Wires & Cables Revenues						
Finolex Cables	24,816	25,463	27,831	29,833	27,701	2.8
Havells	24,595	26,756	26,834	32,346	29,942	5.0
KEI	20,062	22,197	28,139	35,017	41,235	19.7
Polycab	52,634	56,082	62,423	69,295	75,192	9.3
Wires & Cables EBIT						
Finolex Cables	3,713	3,647	4,229	4,474	4,035	2.1
margin %	15.0	14.3	15.2	15.0	14.6	
Havells*	3,089	3,256	4,380	5,217	4,887	12.2
margin %	12.6	12.2	16.3	16.1	16.3	
KEI	2,313	2,732	3,035	3,755	4,501	18.1
margin %	11.5	12.3	10.8	10.7	10.9	
Polycab	3,886	3,983	6,407	8,351	9,255	24.2
margin %	7.4	7.1	10.3	12.1	12.3	

Source: Company, PL *contribution margin

EPC business: Focus on projects with 40-60% cabling requirement

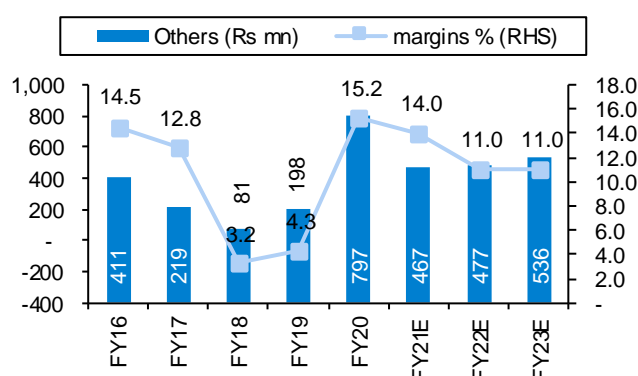
Polycab diversified into EPC business as a part of strategic forward integration, seeking to bag orders with at least 40-60% cabling requirement. It is also looking to enter into EHV segment which has entry barriers involving long approval cycle plus an EPC set up. Polycab's EPC exposure aids in setting a base in this segment.

Exhibit 35: EPC sales to grow at 20.9% CAGR over FY21-23



Source: Company, PL

Exhibit 36: Margins to settle around 11% by FY23



Source: Company, PL

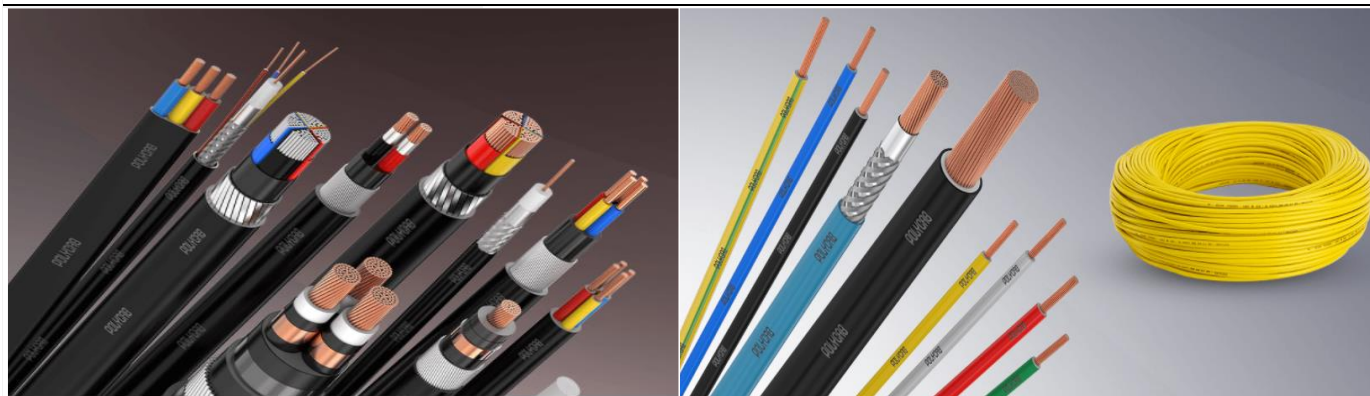
Wires & Cables (85% of total sales): Looking to enter new product segments/markets

Exhibit 37: Polycab is the market leader enjoying 12% overall market share (18% organized sector)

Product	Market size (Rs bn)	Polycab's share (%)	Competitors	Organized Penetration Level
Wires & Cables	500-550	12%*	Havells, Finolex, KEI	High

Source: Company, PL *18% organized market share

Exhibit 38: Polycab is focusing on launching environment friendly power cables, rubber cables, green wire etc.



Source: Company, PL

Competitive Landscape: Strong infrastructure spends

Polycab is the largest player in Wires & Cables industry enjoying 12% market share (18% organized). Finolex, KEI and Havells are the other large players in the industry. We expect, Wires & Cables to grow in low teens over the coming few years led by **1)** growing infrastructure & housing investments **2)** national infrastructure pipeline **3)** strong thrust on electrification **4)** BharatNet project **5)** rising disposable income

Increase in technology & product complexities, promotion/branding by large players to increase organized share

Strategy/Outlook: Diversify into new segments, exports

In addition to further consolidating its position in existing segments, Polycab is looking to enter into special cables which are utilized in EVs and defense (currently imported), a high margin business. It is also looking to enter into high entry barrier EHV segment. Polycab is also focusing on penetrating the exports market by following a distribution led model starting with countries like USA, Australia, Middle East and Africa.

Govt. capex of Rs111 lakh crore for Infra Development under NIIP

Indian Government has announced expenditure of Rs111 lakh crore in infrastructure sector over next 5 years, as part of National Infrastructure Pipeline, under which:

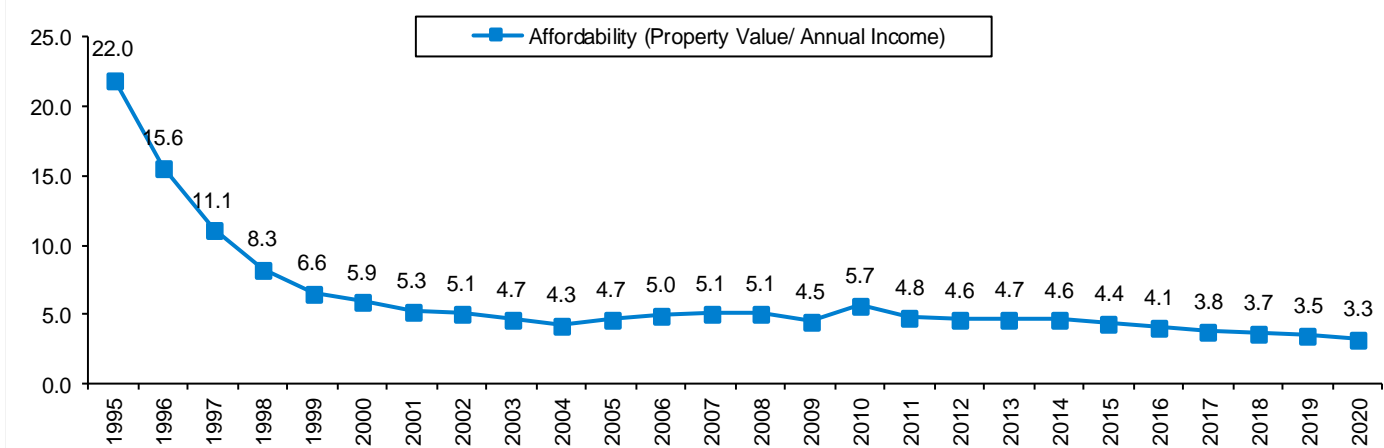
- Energy, railways, urban & infrastructure will cover 72% of the expenditure.
- Total energy capacity is expected to be 583 GW by 2025 (current 356 GW).
- Housing for All by 2022, targeting 31mn households in urban and rural areas.
- 100% electrification of existing railway network, mass rapid transit system and availability of public charging infrastructure.
- 100% population coverage for telecom and high quality broadband services and laying optical fiber cables across the nation under Bharat Net project.

Polycab continues to dominate the domestic market led by **1)** strong brand legacy **2)** distribution reach **3)** in-house manufacturing capabilities with R&D focus. It is trying to drive innovations through environmentally friendly products like Green Wire. We like the company's strategy of exploring newer markets (exports) and niche segments (EVs, defense, EHV) which can be margin accretive.

Housing market revival to aid electrical demand

- Affordability Index of HDFC suggests that the combination of low interest rates, tax benefits, lower stamp duty, attractive developer schemes and low property prices are positive for housing demand growth in near to medium term.
- Channel checks & industry data from companies in Cement, Paint, Building Materials & Housing Finance Companies disbursement suggest strong activity in individual home construction, more so inter tier 2/3 cities & small towns.

Exhibit 39: Property affordability index improving – Positive for Housing & housing related products demand



Source: HDFC, PL

Exhibit 40: Downward revision in home loan rates in 1 year

Interest rates	Jan'20	Mar'20	Apr'20	Jun'20	Nov'20
SBI	7.9%	-	-	-	7.0%
HDFC	8.2%	-	8.1%	7.6%	6.9%
LICHF	-	-	7.4%	6.9%	6.9%

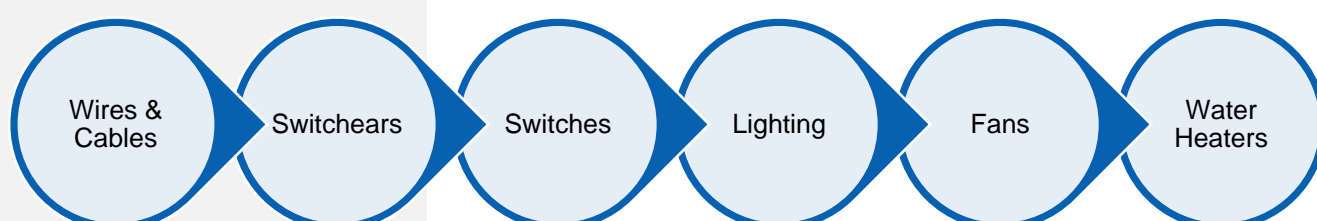
Source: Company, PL

Exhibit 41: GoI initiatives aiding housing finance demand

Fiscal Incentives	Tax Incentives on interest and principal
Interest subvention Scheme	Interest rate subsidy under the Credit Linked Subsidy Scheme (CLSS) to include middle-income groups Extension of timeframe and rationalization of conditions under the CLSS
Supply Side Incentives	Incentives to developers to build affordable housing 'Infrastructure' status accorded to affordable housing External Commercial Borrowings/Rupee Denominated Bonds Issued Overseas

Source: Company, PL

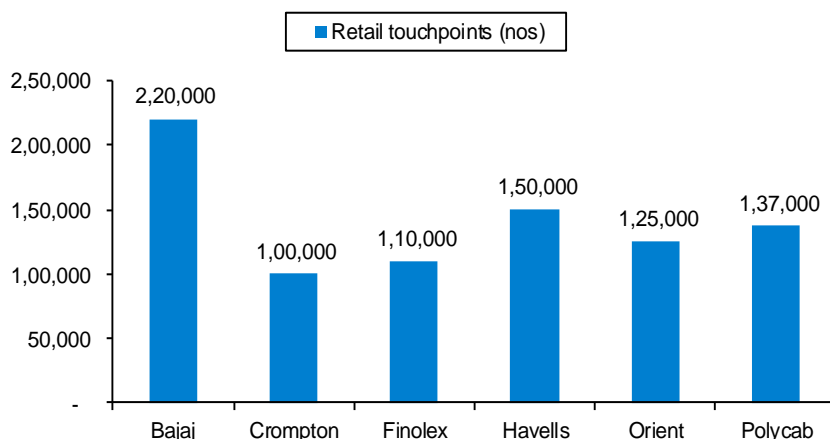
- We believe rising housing demand will have a positive impact on housing related products and could lead to increase in demand for essentials like Wires & Cables, switchgears, switches, lighting, fans and water heaters. Given its product portfolio, Polycab is well positioned to benefit from this.



Strong distribution network

In addition to its strong brand legacy, Polycab's Pan-India distribution network has been a key enabler in the company's growth. Polycab products are currently being sold through 3,650+ distributors covering 137,000+ retail touchpoints. Widening of the distribution network in a targeted manner through addition of new distributors, dealers and retailers remains at the core of company's growth strategy.

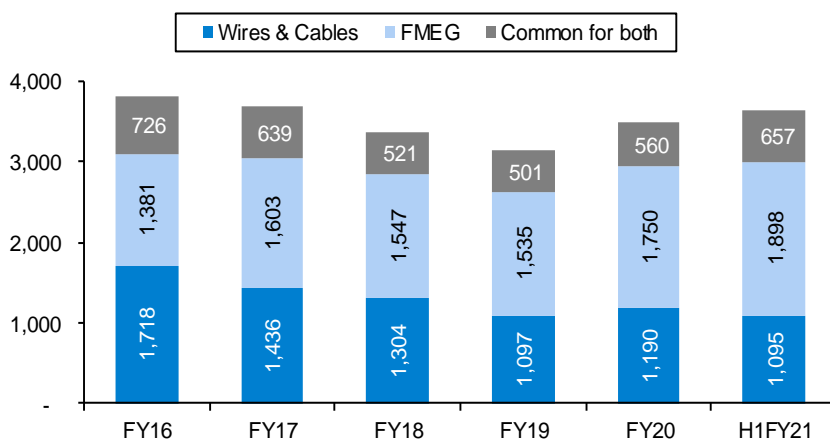
Exhibit 42: Polycab's retail touchpoints up from 100k in FY18 to 137k in 1H21



Source: Company, PL

Of the total 3,650 distributors 30% exclusively cater to Wires & Cables segment, 52% to FMEG segment while the balance 18% are common for both. Going ahead, management expects the common mix to increase further. In terms of country coverage, south dominates with 30% followed by north (27%), west (22%) and east (21%). Although the distribution network is more or less evenly spread out Pan India, west and south dominate revenue throughput followed by north and east. 60-65% of wires & cables network is under channel financing, whereas for FMEG it stands in higher teens.

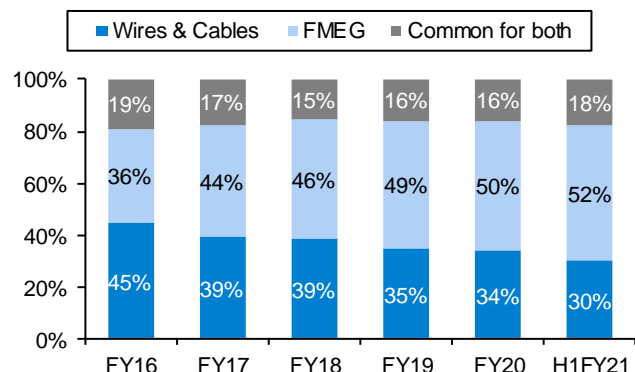
Exhibit 43: Distributor expansion on track post FY16-19 rationalisation



Source: Company, PL

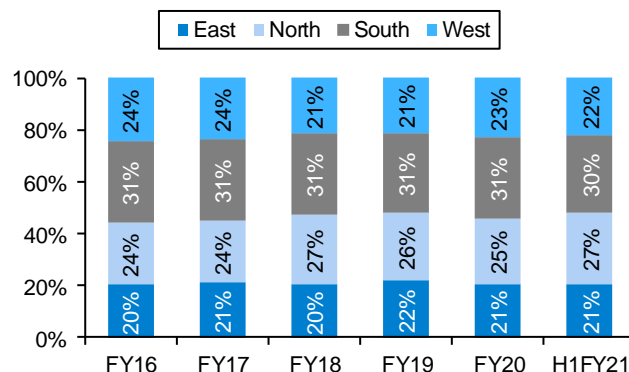
The dealer network reduced from FY16 to FY19 as Polycab made a strategic decision to discontinue some smaller dealers and to focus instead on larger distributors who in turn would also cater to these smaller dealers

Exhibit 44: FMEG & Common distributors have been on rise



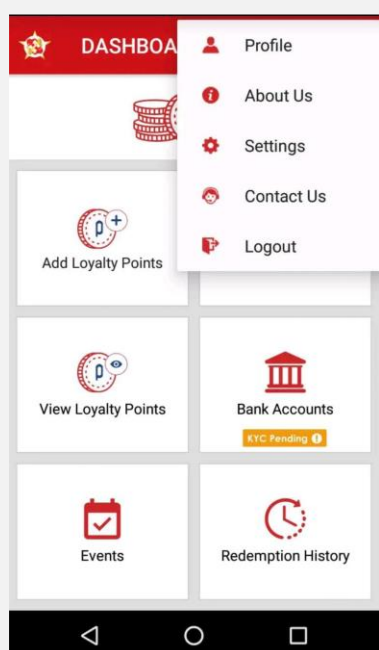
Source: Company, PL

Exhibit 45: Distribution network spread across the country

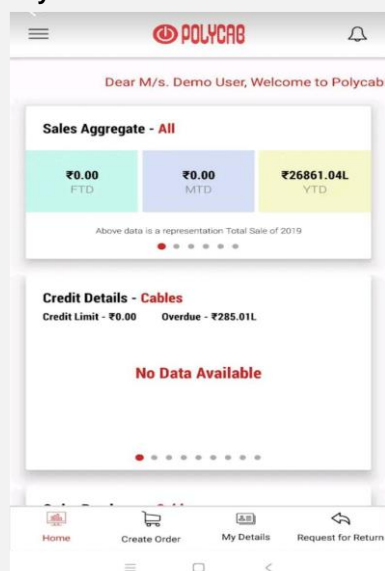


Source: Company, PL

Polycab Bandhan Star



Polycab Connect



Investing in distribution expansion/ automation

Polycab views technology as an enabler & continues to invest in solutions aimed at improving efficiency, optimise inventory levels & streamline supply chain thereby reducing dead stock with trade/company and improve receivables. It uses online & mobile based applications to bring customers & partners closer.

- **Project Bandhan – Loyalty Program:** A Customer Relationship Management (CRM) programme, Bandhan provides sales incentives to retailers and electricians, key consumer decision influencers, thereby aiding sales. Currently 154,000+ electricians and 47,000+ retailers are covered under this program.
- **Project josh:** A strategic initiative aimed at increasing market share in retail wires and FMEG segment. Polycab undertakes detailed mapping to better identify and understand 1) market positioning 2) customers and 3) spot gaps in customer/product segments, after which corrective actions are taken. Implemented in 125 locations, there has been a meaningful increase in the number of distributors & retailers.
- **Distributor Management System:** This platform links Polycab's internal systems with authorised dealers and distributors thereby providing visibility on secondary sales and automates replenishment of inventories with distributors. This aides efficient inventory management and optimizes supply chain.
- **Sales force Automation:** Enables sales tracking through mobile app, right from retailers to salesmen and ensures effective sale process. Along with distributor management system, this tool is linked to distributor's billing software which helps in tracking order fulfilments.
- **Pilot project to drive semi-urban/rural reach:** There has been an increase in demand from semi-urban/rural areas on the back of increasing awareness and affordability. To tap into this growing opportunity, Polycab has hired a consultant to develop an active distributor network in towns below 5 lakh population. The pilot project has been launched in 3 states, wherein all Polycab products (FMEG or wires) will be available across key markets in those states. Depending on the learnings from this pilot, it will be replicated Pan-India.

Polycab has Atamnirbhar Focus

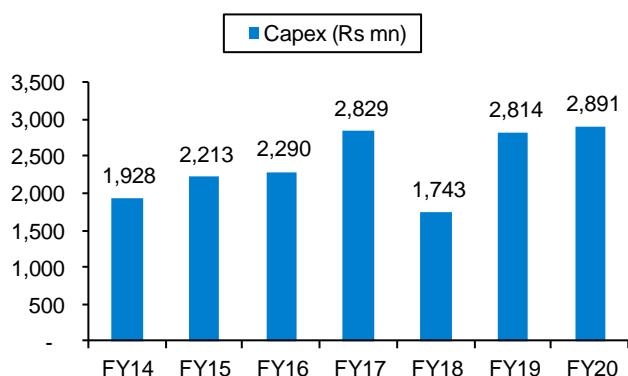
Polycab has strong manufacturing base with 25 manufacturing facilities at seven locations, which are designed to secure a complete supply chain for its product range, starting from raw materials to end-products. 4 out of these 25 facilities manufacture FMEG products. Polycab has incurred a capex of Rs16.7bn over FY14-20, including plants for FMEG.

Exhibit 46: Out of the 25 facilities, 4 are for FMEG products

Manufacturing Facilities - FY20	Location	State	Annual Capacity
Wires & Cables	Halol/Daman	Gujarat	3.7mn kms
Lighting & Luminaires	Chhani	Gujarat	18.2mn units
Switches & Switchgears	Nashik	Maharashtra	7.2mn units
Fans	Roorkee	Uttarakhand	3.1mn units
Copper Rods	Waghodia	Gujarat	0.22mn tonnes
Total - 25	7		

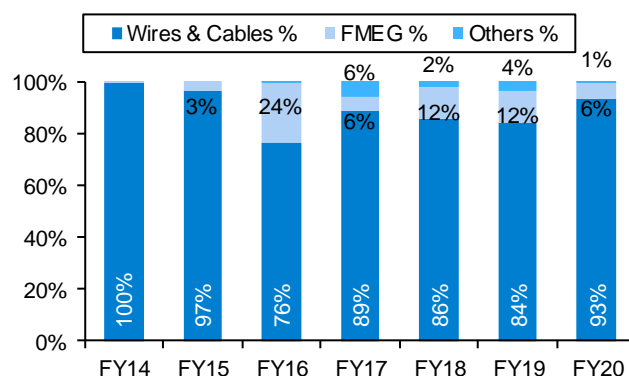
Source: Company, PL

Exhibit 47: Over FY14-20, incurred capex of Rs16.7bn



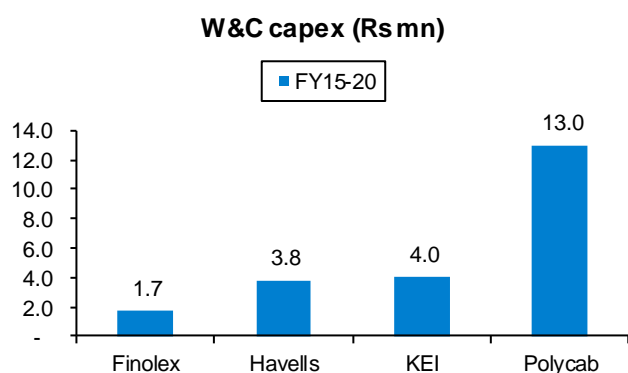
Source: Company, PL

Exhibit 48: c.10% being spent on FMEG segment



Source: Company, PL

Exhibit 49: Polycab has spent 3-8x more than peers



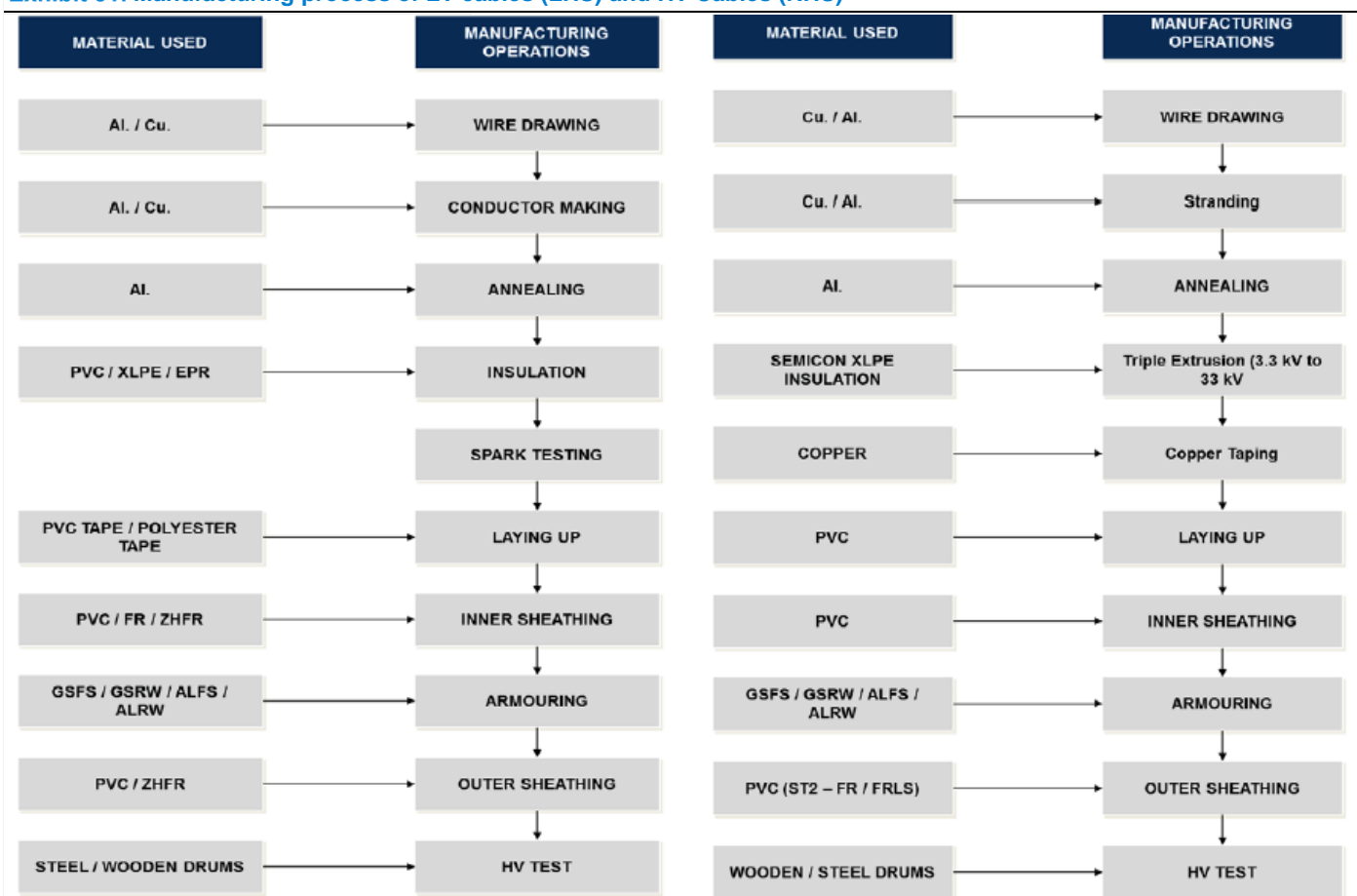
Source: Company, PL

Exhibit 50: Copper constitutes 50-60% of total RM costs

Backward Integration		
Polycab	Finolex Cables	KEI Industries
Copper Rods	Copper Rods	PVC compounds
Aluminum Rods	PVC compounds	
PVC, XLPE compounds	Optical Fibre	
Rubber	FRP rods	
GI Wire & strip		

Source: Company, PL

- High Degree of backward integration:** Comprehensive backward integration of operation remains main priority which has helped Polycab to build manufacturing facilities for all key raw materials, including aluminum rods, copper rods, and various grades of PVC, rubber, XLPE compounds, GI wire and strip. Polycab acquired remaining 50% stake in Ryker JV (copper rod plant) having begun commercial operation in Q1FY20. Backward integration in manufacturing enables them to maintain full control over quality and supply chain, lower operational costs as well as deliver products at competitive prices. All copper and aluminum related materials required for making wires and cables, which form 65-70% of total RM cost (copper 50-55%), are manufactured in-house by Polycab. Apart from Polycab, Finolex Cables also is backward integrated for new raw material requirements like Copper Rods, PVC compounds, while KEI manufactures PVC compounds in-house.

Exhibit 51: Manufacturing process of LT cables (LHS) and HT Cables (RHS)


Source: Company, PL

- In house R&D with innovation capabilities:** Polycab's R&D centre at Halol has nearly 100 engineers and technicians. The R&D team places emphasis on upgrading technology used in production process and customer centric/consumer meaningful innovations. In 2017, launched Green wire – an energy efficient and environment friendly product. In order to keep pace with the emerging industry trends and consumer preferences, Polycab intends to invest more in the development of energy efficient and other specialised products.

Channel check takeaways

- **Availability of products one of the biggest USPs:** One of the biggest USPs for Polycab has been availability of products across SKUs. Our channel checks indicate, at any given point of time between the Company and its top 100 distributors, together hold inventory worth Rs20bn (Rs10bn each). This enables Polycab to fulfil maximum orders, faster than its peers.
- **Personal emotional bond with distributors:** Many of the 3,650 distributors have been associated with Polycab over multiple generations. Our interaction with one of the top distributor for Polycab indicates that, Mr Inder Jaisinghani – MD, has an emotional bonding with many distributors. In fact, top distributors remain in direct touch with the MD and many of their distributors are only dealing in Polycab products.
- **Demand continues to improve MoM since resumption of activities:** After resumption of activities post nationwide lockdown, demand has progressively improved MoM led by housing wires. Demand momentum witnessed at the end of 2Q has sustained in October and November as well. Our discussions with distributors across the country has indicated return to pre-covid turnover, with housing wires exhibiting healthy growth. Smaller towns continue to lead growth.
- **Rising RM prices lead to price hike of 5-20%:** With rising prices of key commodities like copper, aluminium, steel, ABS (plastic) up by c.10-20% in the last 3 months (ABS up by 2x), Polycab hiked prices of Wires & Cables to the tune of 15-20% and FMEG products by 5-10%.
- **FMEG – Quality products, competitive rates, higher margins:** Our channel checks indicated that Polycab's FMEG products are of good quality offering similar features and are priced at competitive rates vs peers. Polycab is incentivizing the channel by offering higher margins (c.25%) on products compared to other brands. This along with the strong brand legacy is enabling customer acquisition.

Exhibit 52: Polycab Experience centres – Offering entire range of Polycab Products; Currently in Mumbai, Pune, Kerala



Source: Company, PL

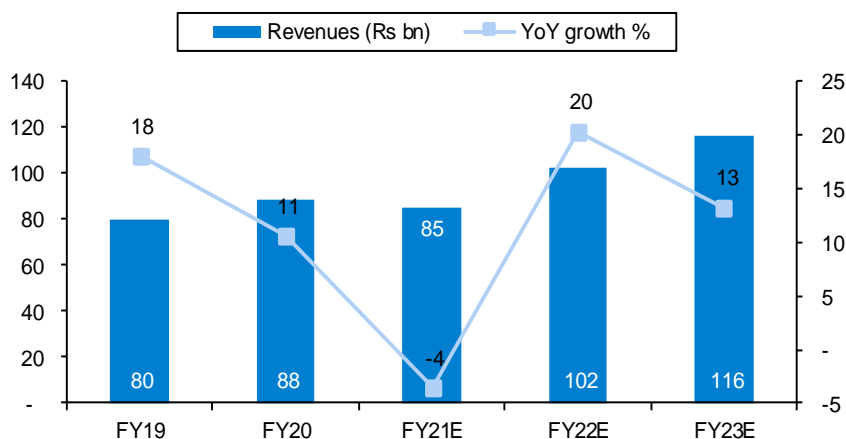
Financials & Valuations

Estimate CAGR of 16.7% in Sales over FY21-23

We expect revenues to grow at a CAGR of 16.7% over FY21-23 with Wires & Cables sales growing at a CAGR of 14.4%, while FMEG will continue to outperform (albeit on a lower base) industry growth rates and grow at 28.8% CAGR.

- **Wires & Cables:** Benefitting from **1)** growing infrastructure/ housing investments **2)** national infrastructure pipeline **3)** thrust on electrification **4)** BharatNet project **5)** rising disposable income **6)** increased focus on exports, we expect Wires & Cables sales to grow at a CAGR of 14.4% over FY21-23.
- **FMEG:** We expect Polycab to continue leveraging its strong brand legacy and benefit from the growing opportunities in the FMEG space given **1)** rising consumer aspirations and disposable income **2)** increasing brand spends and **3)** rising distribution network. We expect FMEG segment to continue growing faster than industry at 28.8% over FY21-23. We expect the four larger segments (fans, lighting, switches and switchgear) to grow in excess of 25%.
- **Copper:** With rising scale of operations from the Ryker plant, we expect revenues to grow at a CAGR of 15.4% over FY21-23
- **Others (EPC):** With EPC being more of a tactical play, we expect revenues to be around 4-5% of total sales and remain flattish around Rs5bn over FY20-23

Exhibit 53: Revenues to grow at a CAGR of 16.7% over FY21-23



Source: Company, PL

Exhibit 54: FMEG to lead revenue growth; Wires & Cables to recover in FY22

Revenues (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Wires & Cables	69,295	75,192	70,044	82,476	91,711
YoY gr.	11.0%	8.5%	-6.8%	17.7%	11.2%
FMEG	6,433	8,356	9,379	12,285	15,557
YoY gr.	32.6%	29.9%	12.3%	31.0%	26.6%
Copper*			3,317	3,923	4,414
YoY gr.			NA	18.3%	12.5%
Others	4,637	5,230	3,334	4,335	4,877
YoY gr.	86.2%	12.8%	-36.2%	30.0%	12.5%

Source: Company, PL *Acquired balance 50% stake from Ryker JV in FY21

Commodity prices are near term headwind

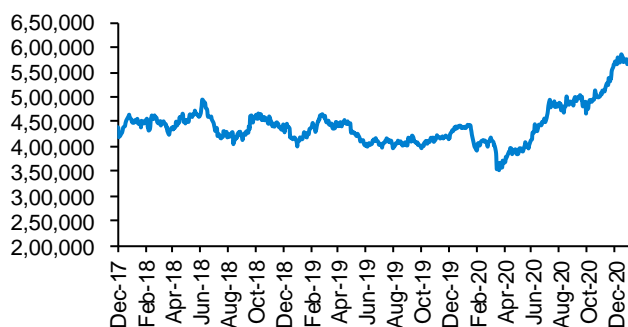
Even with an inflationary commodity price environment over FY16-20, Polycab's gross margins improved by c.450bps due to **1)** improving business mix (Retail Wires, Exports, FMEG) and **2)** improving operational efficiencies. Key commodity prices- Copper/ Aluminum/ Brent Crude have increased at a CAGR of 5%/ 4.5%/ 6.4% over FY16-20.

Covid-19 pandemic resulted in global lockdowns, commodity prices crashed over Jan20 highs in April/May. However, with resumption of economic activities, commodity prices inched up and in some cases are even traded above pre-Covid levels. Spot copper/aluminum prices are up by 27%/11.5% over Jan20 highs. Brent Crude prices are down 26% over Jan20 highs.

Even with an inflationary commodity environment, we expect Polycab's gross margins to expand by 30bps over FY20-23 given **1)** increasing share of B2C and premium products and **2)** gains from cost optimizing initiatives.

Exhibit 55: Copper price have risen by 60% over Mar20 lows

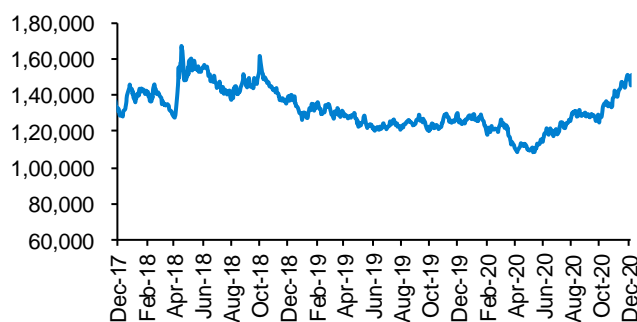
Copper Spot (INR/MT)



Source: Company, PL

Exhibit 56: Aluminium price up by 33% over May20 lows

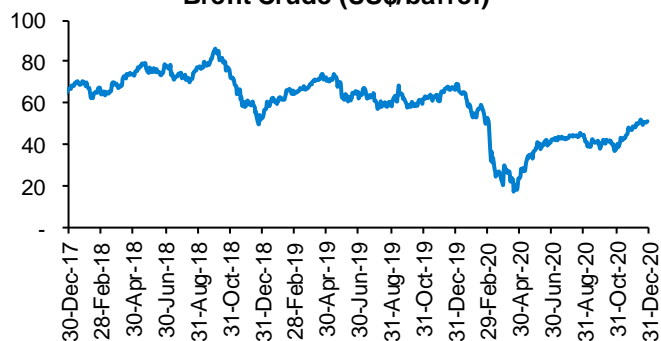
Aluminium Spot (INR/MT)



Source: Company, PL

Exhibit 57: Crude price still down by 26% over Jan20 high

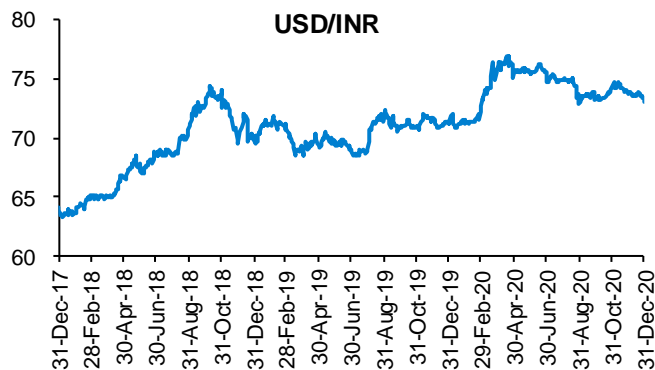
Brent Crude (US\$/barrel)



Source: Company, PL

Exhibit 58: INR appreciated by 4.9% since Apr20

USD/INR



Source: Company, PL

EBITDA and PAT CAGR of 16.5% and 15% over FY21-23

We estimate EBITDA CAGR of 16.5% over FY21-23 led by improving revenue mix based on rising contribution from B2C (FMEG and retail wires) and various cost efficiency measures. We estimate margins to improve by 30bps over FY20-23. We estimate PBT to grow by 15.5% CAGR over FY21-23 helped by improving mix and lower interest burden. With acquisition of Ryker JV, we estimate lower share of JV losses and expect Adj. PAT to grow at a CAGR of 15% over FY21-23.

Exhibit 59: FMEG margins to grow by 600bps over FY21-23

Revenues (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Wires & Cables	8,351	9,255	9,101	10,202	11,421
Margin	12.1%	12.3%	13.0%	12.4%	12.5%
YoY gr	30.3%	10.8%	-1.7%	12.1%	11.9%
FMEG	75	168	478	799	1,245
Margin	1.2%	2.0%	5.1%	6.5%	8.0%
YoY gr	-15.6%	125.8%	184.3%	66.9%	55.9%
Copper*	-	-	335	432	486
Margin	-	-	10.1%	11.0%	11.0%
YoY gr	-	-	NA	28.8%	12.5%
Others	198	797	467	477	536
Margin	4.3%	15.2%	14.0%	11.0%	11.0%
YoY gr	145.0%	302.8%	-41.4%	2.1%	12.5%

Source: Company, PL

Exhibit 60: Revenue/PAT to grow at CAGR of 16.7%/15% over FY21-23E

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue from Operations	79,856	88,300	85,207	1,02,459	1,16,035
YoY gr.	17.9%	10.6%	-3.5%	20.2%	13.3%
Gross Profit	20,196	24,613	23,805	28,667	32,698
Margin	25.3%	27.9%	27.9%	28.0%	28.2%
Other Expenses	10,668	13,263	12,556	15,421	17,437
% of sales	13.4%	15.0%	14.7%	15.1%	15.0%
EBITDA	9,528	11,350	11,249	13,246	15,261
Margin	11.9%	12.9%	13.2%	12.9%	13.2%
YoY gr.	30.7%	19.1%	-0.9%	17.8%	15.2%
Other Income	638	928	1,363	1,130	1,222
Depreciation	1,414	1,609	1,735	1,897	2,097
Interest	1,167	495	475	492	501
PBT	7,584	10,174	10,403	11,987	13,886
Tax	2,558	2,444	2,538	3,021	3,499
ETR	33.7%	24.0%	24.4%	25.2%	25.2%
Profit before JV/Associate	5,026	7,730	7,865	8,966	10,386
Share of JV/Associate	-23	-74	-17	-20	-15
Non-controlling interest	6	66	56	59	61
Adj PAT	4,997	7,591	7,792	8,888	10,310
Margin	6.3%	8.6%	9.1%	8.7%	8.9%
Exceptional item	0	0	937	0	0
Reported PAT	4,997	7,591	8,728	8,888	10,310
Adj EPS (Rs)	35.4	51.0	52.3	59.7	69.3
YoY gr.	39.6%	44.1%	2.7%	14.1%	16.0%

Source: Company, PL

Exhibit 61: Quarterly snapshot: In Q2FY21, Revenues declined by 5.7% YoY; Adj PAT was up 15% YoY

Particulars (Rs mn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Revenue from Operations	16,826	18,119	20,248	24,636	19,513	22,419	25,073	21,294	9,766	21,137
<i>YoY gr.</i>	NA	NA	NA	NA	16.7%	23.7%	23.8%	-13.6%	-50.0%	-5.7%
Gross Profit	4,181	4,553	5,816	5,619	5,235	5,970	6,883	6,525	2,669	6,009
<i>Margin</i>	24.8%	25.1%	28.7%	22.8%	26.8%	26.6%	27.5%	30.6%	27.3%	28.4%
Other Expenses	2,453	2,389	2,642	3,184	2,999	3,253	3,492	3,519	2,094	2,884
<i>% of sales</i>	14.6%	13.2%	13.0%	12.9%	15.4%	14.5%	13.9%	16.5%	21.4%	13.6%
EBITDA	1,728	2,164	3,174	2,435	2,236	2,717	3,391	3,006	575	3,125
<i>Margin</i>	10.3%	11.9%	15.7%	9.9%	11.5%	12.1%	13.5%	14.1%	5.9%	14.8%
<i>YoY gr.</i>	NA	NA	NA	NA	29.4%	25.5%	6.8%	23.4%	-74.3%	15.0%
Other Income	231	-23	238	217	336	124	3	465	336	327
Depreciation	352	364	356	343	385	395	407	422	443	456
Interest	372	362	172	262	123	127	86	159	163	114
PBT	1,236	1,416	2,885	2,047	2,064	2,319	2,902	2,889	305	2,882
Tax	431	491	967	668	713	365	686	680	55	664
<i>ETR</i>	34.9%	34.7%	33.5%	32.6%	34.6%	15.7%	23.6%	23.5%	18.0%	23.0%
Profit before JV/Associate	805	925	1,917	1,379	1,351	1,954	2,216	2,209	251	2,218
Share of JV/Associates	-35	-30	19	23	2	-16	-2	-58	-12	-3
Non-Controlling interest	-	3	3	-2	8	20	26	12	-0	10
Adj PAT	770	892	1,933	1,404	1,345	1,918	2,188	2,139	239	2,205
<i>YoY gr.</i>	NA	NA	NA	NA	74.7%	NA	13.2%	52.4%	-82.2%	15.0%

Source: Company, PL

Exhibit 62: Quarterly snapshot: In Q2FY21, Wires & Cables/FMEG margins were up by 390bps/470bps YoY

Particulars (Rs mn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Revenues										
Wires & Cables	15,051	15,656	17,956	20,632	16,104	18,811	21,502	18,774	7,935	17,408
<i>YoY gr.</i>	NA	NA	NA	NA	7.0%	20.2%	19.7%	-9.0%	-50.7%	-7.5%
FMEG	1,481	1,381	1,617	1,953	2,401	1,956	2,166	1,833	1,378	2,440
<i>YoY gr.</i>	NA	NA	NA	NA	62.1%	41.6%	33.9%	-6.2%	-42.6%	24.7%
Copper									95	952
<i>YoY gr.</i>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Others	518	1,044	892	2,184	1,226	1,638	1,306	1,061	481	580
<i>YoY gr.</i>	NA	NA	NA	NA	136.6%	56.9%	46.4%	-51.4%	-60.7%	-64.6%
EBIT										
Wires & Cables	1,462	1,753	3,056	2,079	1,862	2,011	2,571	2,810	243	2,534
<i>Margin</i>	9.7%	11.2%	17.0%	10.1%	11.6%	10.7%	12.0%	15.0%	3.1%	14.6%
<i>YoY gr.</i>	NA	NA	NA	NA	27.3%	14.7%	-15.9%	35.1%	-86.9%	26.0%
FMEG	138	-28	-50	14	88	65	14	1	-56	196
<i>Margin</i>	9.3%	-2.0%	-3.1%	0.7%	3.7%	3.3%	0.6%	0.1%	-4.0%	8.0%
<i>YoY gr.</i>	NA	NA	NA	NA	-36.3%	NA	NA	-92.1%	NA	199.8%
Copper									-2	88
<i>Margin</i>	NA	NA	NA	NA	NA	NA	NA	NA	-1.7%	9.3%
<i>YoY gr.</i>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Others	-0	38	29	131	119	231	301	147	69	92
<i>Margin</i>	0.0%	3.7%	3.3%	6.0%	9.7%	14.1%	23.0%	13.8%	14.4%	15.8%
<i>YoY gr.</i>	NA	NA	NA	NA	NA	506.0%	929.0%	12.1%	-41.7%	-60.2%

Source: Company, PL

Valuations: Rising B2C mix can re-rate the stock

Polycab is focused on consolidating its leadership position in wires & cables industry by **1)** entering into new product segments (like special cables – EV, defence etc) **2)** increasing its customer base **3)** establishing distribution led export business. However, it is fast transitioning from a B2B company to B2C player given strong growth potential in FMEG segment and retail wires. We estimate Sales/PAT CAGR of 16.7%/ 15% over FY21-23 led by **1)** improving business mix **2)** operating leverage & cost optimizing initiatives **3)** investments in brand building and **4)** increasing distribution reach.

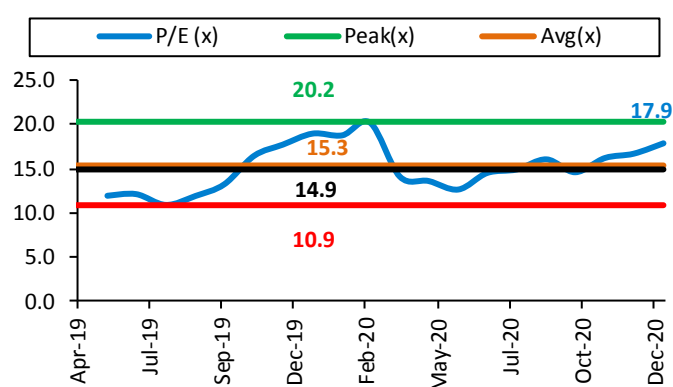
We initiate coverage on Polycab with a BUY rating and a SOTP derived TP of Rs1,247 (derived PE of 18x FY23 EPS, W&C/ FMEG at 18x/ 25x). At current valuations of 15x FY23 EPS, it trades at a premium to Finolex /KEI (12.4x/11.6x) but at a discount to ECD players like Havells/Crompton Consumer (46.8x/35x). Increase in B2C mix (FMEG/ retail wires) can re-rate the stock in the long term.

Exhibit 63: Valuation Matrix

Name	Sales growth (%)			PAT growth (%)			RoE (%)			P/E (x)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Amber Enterprises	-17.2	50.5	23.8	-47.0	163.0	36.5	6.4	14.3	16.4	89.5	35.5	26.0
Bajaj Electricals	-5.3	18.5	10.9	NA	159.7	28.0	6.3	14.6	16.4	77.5	29.8	23.3
Blue Star	-19.2	27.2	13.3	-37.0	98.4	30.4	10.9	21.3	24.7	87.9	43.6	33.6
Crompton Consumer	-1.2	17.8	13.1	9.4	21.6	16.5	29.7	29.8	29.0	49.6	40.8	35.0
Dixon Technologies	23.7	76.4	36.8	22.6	87.8	37.1	23.8	32.9	32.4	105.4	55.1	41.6
Finolex Cables	-11.5	19.3	9.8	-29.8	39.1	9.3	10.1	12.9	12.7	18.8	13.6	12.4
Havells	0.5	18.7	13.5	12.7	25.3	17.5	17.4	18.8	19.4	68.9	55.0	46.8
KEI	-8.2	18.3	13.0	-0.8	25.7	16.1	15.5	16.4	16.3	16.8	13.4	11.6
Orient Electric	-7.6	25.8	11.6	-13.1	73.6	32.0	16.8	25.8	27.9	67.6	39.9	31.3
Polycab	-3.5	20.2	13.3	2.7	14.1	16.0	18.2	17.4	17.5	19.8	17.3	14.9
TTK Prestige	1.5	18.2	12.1	-11.5	30.0	14.8	13.0	14.8	15.3	49.1	37.8	32.9
V-Guard	-4.4	18.0	13.1	-15.9	39.1	15.1	14.5	17.7	18.1	50.8	36.6	31.8
Voltas	-2.6	18.3	11.8	0.1	38.1	13.9	12.7	15.7	15.9	48.4	35.0	30.7

Source: Company, PL PL Coverage

Exhibit 64: Trades at 10% discount to peak multiple

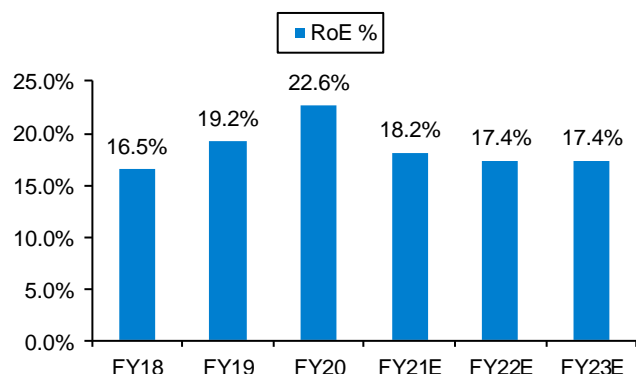


Source: Company, PL

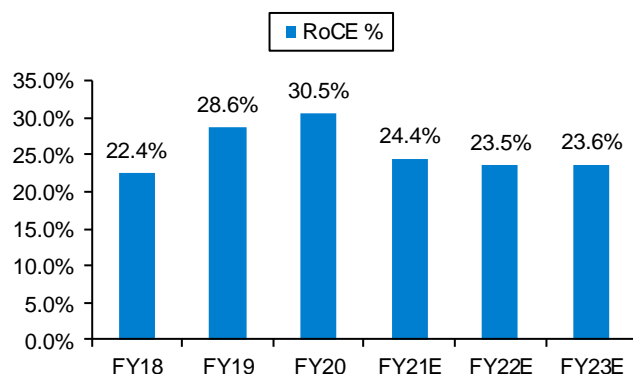
Exhibit 65: SOTP – Implied PE of 18x

FY23	Basis	Multiple	Per Share	Value (Rs)	Valuation %
Wires & Cables	P/E	18	58.2	1,047	84%
FMEG	P/E	25	6.4	159	13%
Copper	P/E	8	2.5	20	2%
Others (EPC)	P/E	8	2.7	21	2%
Target Price				1,247	100%

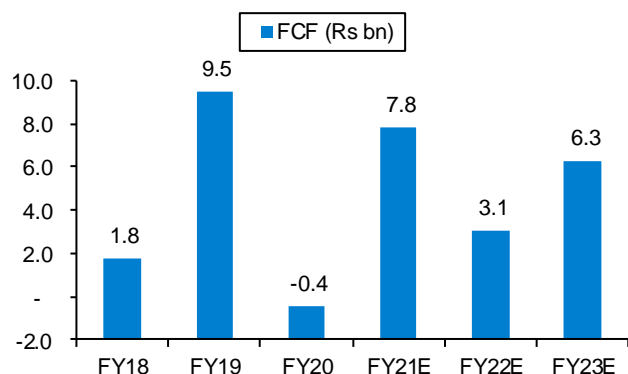
Source: Company, PL

Exhibit 66: ROE to remain steady over FY21-23


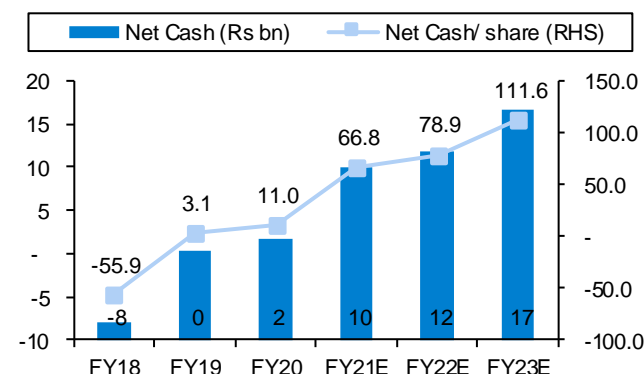
Source: Company, PL

Exhibit 67: ROCE to sustain at mid-twenties


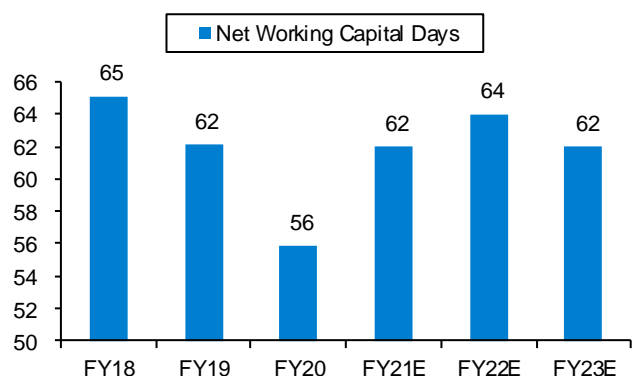
Source: Company, PL

Exhibit 68: Free cash flow to increase with scale


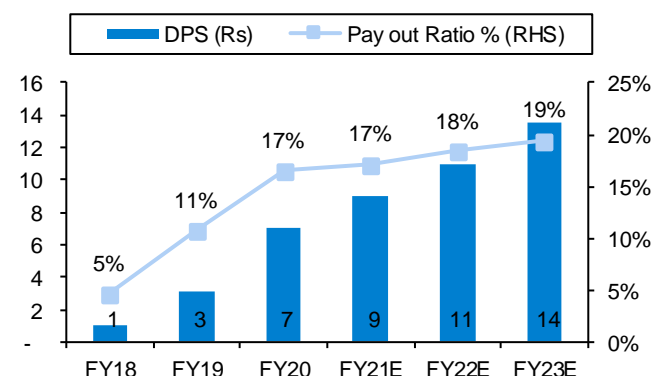
Source: Company, PL

Exhibit 69: Net cash per share to improve steadily


Source: Company, PL

Exhibit 70: Channel financing to aide working capital cycle


Source: Company, Company, PL

Exhibit 71: Pay out-ratio to improve steadily


Source: Company, Company, PL

Annexure:

Board of Directors & KMP

Exhibit 72: Key Managerial Posts held by family members

Name		Management Role
Family Member Representation on Board of Directors		
Inder T Jaisinghani	Chairman & Managing Director	Yes
Ajay T Jaisinghani	Whole-time Director	Yes
Ramesh T Jaisinghani	Whole-time Director	Yes
Other Board of Directors		
Shyam Lal Bajaj	Whole-time Director	
TP Oswal	Independent Director	
RS Sharma	Independent Director	
Hiroo Mirchandani	Independent Director	
Pradeep Poddar	Independent Director	

Source: Company, PL

Exhibit 73: Auditors list

Name	
B S R & Co LLP	Auditors
M/s N. Ritesh & Associates	Cost Auditors
M/s Dilip Bharadiya & Associates	Secretarial Auditors

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	88,300	85,207	1,02,459	1,16,035
YoY gr. (%)	10.6	(3.5)	20.2	13.3
Cost of Goods Sold	63,686	61,402	73,791	83,337
Gross Profit	24,613	23,805	28,667	32,698
Margin (%)	27.9	27.9	28.0	28.2
Employee Cost	3,657	3,579	4,303	4,815
Other Expenses	4,183	4,163	4,765	5,253
EBITDA	11,350	11,249	13,246	15,261
YoY gr. (%)	19.1	(0.9)	17.8	15.2
Margin (%)	12.9	13.2	12.9	13.2
Depreciation and Amortization	1,609	1,735	1,897	2,097
EBIT	9,741	9,514	11,349	13,164
Margin (%)	11.0	11.2	11.1	11.3
Net Interest	495	475	492	501
Other Income	928	1,363	1,130	1,222
Profit Before Tax	10,174	10,403	11,987	13,886
Margin (%)	11.5	12.2	11.7	12.0
Total Tax	2,444	2,538	3,021	3,499
Effective tax rate (%)	24.0	24.4	25.2	25.2
Profit after tax	7,730	7,865	8,966	10,386
Minority interest	66	56	59	61
Share Profit from Associate	(74)	(17)	(20)	(15)
Adjusted PAT	7,591	7,792	8,888	10,310
YoY gr. (%)	51.9	2.7	14.1	16.0
Margin (%)	8.6	9.1	8.7	8.9
Extra Ord. Income / (Exp)	-	937	-	-
Reported PAT	7,591	8,728	8,888	10,310
YoY gr. (%)	51.9	15.0	1.8	16.0
Margin (%)	8.6	10.2	8.7	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,591	8,728	8,888	10,310
Equity Shares O/s (m)	149	149	149	149
EPS (Rs)	51.0	52.3	59.7	69.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	24,642	27,910	30,984	34,082
Tangibles	24,472	27,711	30,754	33,822
Intangibles	170	200	230	260
Acc: Dep / Amortization	10,422	12,159	13,942	15,916
Tangibles	10,269	11,987	13,749	15,699
Intangibles	153	172	193	217
Net fixed assets	14,220	15,752	17,042	18,166
Tangibles	14,203	15,723	17,006	18,123
Intangibles	17	28	37	42
Capital Work In Progress	2,412	1,500	1,500	1,500
Goodwill	-	23	23	23
Non-Current Investments	1,983	1,582	1,867	2,091
Net Deferred tax assets	(165)	(186)	(305)	(444)
Other Non-Current Assets	492	540	544	547
Current Assets				
Investments	400	5,400	6,400	8,400
Inventories	19,250	19,142	23,018	26,068
Trade receivables	14,336	14,007	16,843	18,438
Cash & Bank Balance	2,813	7,122	7,299	9,995
Other Current Assets	2,014	2,343	2,561	2,669
Total Assets	59,616	68,525	78,392	89,338
Equity				
Equity Share Capital	1,489	1,489	1,489	1,489
Other Equity	36,875	45,604	53,152	61,824
Total Network	38,364	47,093	54,641	63,313
Non-Current Liabilities				
Long Term borrowings	107	1,464	929	729
Provisions	256	128	154	174
Other non current liabilities	171	171	171	171
Current Liabilities				
ST Debt / Current of LT Debt	1,115	1,108	1,025	1,044
Trade payables	13,537	13,458	15,769	17,809
Other current liabilities	5,440	4,702	5,125	5,318
Total Equity & Liabilities	59,616	68,525	78,392	89,338

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	10,100	10,386	11,967	13,871
Add. Depreciation	1,609	1,735	1,897	2,097
Add. Interest	495	475	492	501
Less Financial Other Income	928	1,363	1,130	1,222
Add. Other	(524)	(19)	(429)	(545)
Op. profit before WC changes	11,680	12,577	13,928	15,924
Net Changes-WC	(6,221)	133	(4,661)	(2,888)
Direct tax	(3,012)	(2,538)	(3,021)	(3,499)
Net cash from Op. activities	2,446	10,171	6,246	9,536
Capital expenditures	(2,891)	(2,377)	(3,188)	(3,221)
Interest / Dividend Income	243	497	570	699
Others	25	(5,358)	(1,500)	(2,500)
Net Cash from Invt. activities	(2,622)	(7,238)	(4,118)	(5,022)
Issue of share cap. / premium	3,661	-	-	-
Debt changes	(1,328)	1,351	(619)	(180)
Dividend paid	(1,793)	-	(1,340)	(1,638)
Interest paid	(433)	(475)	(492)	(501)
Others	-	-	-	-
Net cash from Fin. activities	107	876	(2,450)	(2,319)
Net change in cash	(69)	3,809	(323)	2,196
Free Cash Flow	(445)	7,794	3,058	6,316

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	51.0	52.3	59.7	69.3
CEPS	61.8	64.0	72.4	83.3
BVPS	257.7	316.3	367.0	425.3
FCF	(3.0)	52.3	20.5	42.4
DPS	7.0	9.0	11.0	13.5
Return Ratio(%)				
RoCE	30.5	24.4	23.5	23.6
ROIC	23.3	22.4	21.5	23.2
RoE	22.7	18.2	17.5	17.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	83	84	86	84
Valuation(x)				
PER	20.3	19.8	17.3	14.9
P/B	4.0	3.3	2.8	2.4
P/CEPS	16.7	16.2	14.3	12.4
EV/EBITDA	13.4	12.8	10.7	9.0
EV/Sales	1.7	1.7	1.4	1.2
Dividend Yield (%)	0.7	0.9	1.1	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	25,073	21,294	9,766	21,137
YoY gr. (%)	23.8	(13.6)	(50.0)	(5.7)
Raw Material Expenses	18,190	14,769	7,097	15,128
Gross Profit	6,883	6,525	2,669	6,009
Margin (%)	27.5	30.6	27.3	28.4
EBITDA	3,391	3,006	575	3,125
YoY gr. (%)	6.8	23.4	(74.3)	15.0
Margin (%)	13.5	14.1	5.9	14.8
Depreciation / Depletion	407	422	443	456
EBIT	2,984	2,584	132	2,669
Margin (%)	11.9	12.1	1.4	12.6
Net Interest	86	159	163	114
Other Income	3	465	336	327
Profit before Tax	2,902	2,889	305	2,882
Margin (%)	11.6	13.6	3.1	13.6
Total Tax	686	680	55	664
Effective tax rate (%)	23.6	23.5	18.0	23.0
Profit after Tax	2,216	2,209	251	2,218
Minority interest	26	12	-	10
Share Profit from Associates	(2)	(58)	(12)	(3)
Adjusted PAT	2,188	2,139	239	2,205
YoY gr. (%)	13.2	52.4	(82.2)	15.0
Margin (%)	8.7	10.0	2.5	10.4
Extra Ord. Income / (Exp)	-	-	937	-
Reported PAT	2,188	2,139	1,176	2,205
YoY gr. (%)	13.2	52.4	(12.6)	15.0
Margin (%)	8.7	10.0	12.0	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,188	2,139	1,176	2,205
Avg. Shares O/s (m)	149	149	149	149
EPS (Rs)	14.7	14.4	1.6	14.8

Source: Company Data, PL Research

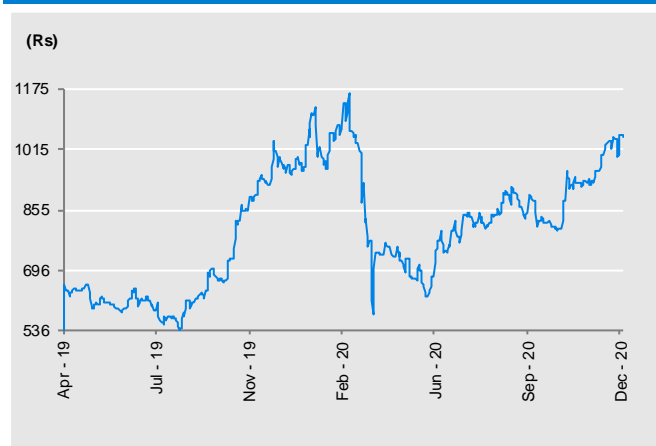


Notes



Notes

Price Chart



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	Accumulate	1,450	1,331
2	SpiceJet	BUY	70	55

PL's Recommendation Nomenclature

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
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