

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



## *Rewiring into a B2C giant*

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# Polycab India (POLY CAB IN)

## Company Initiation

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

### Rewiring into a B2C giant

#### 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   POLY CAB 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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**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.



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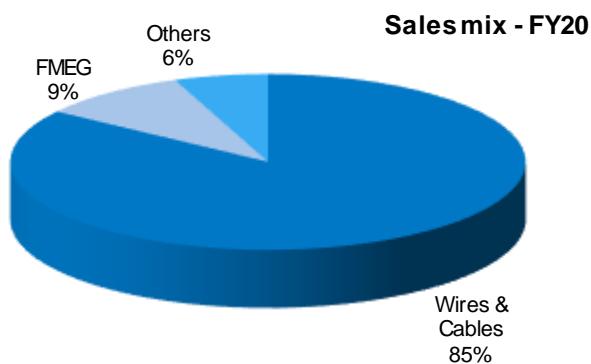
## Polycab – Evolving into a formidable FMEG player

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.

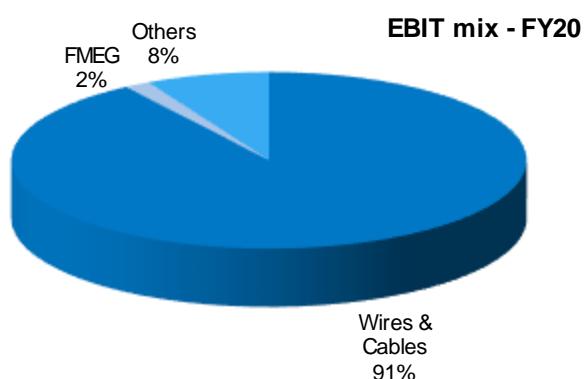
- Polycab is a market leader in domestic wires & cables (W&C) segment with over 12% market share (18% organized market share).
- A forward extension to its W&C business, Polycab is also present in EPC business bidding for projects with ~40-60% cabling requirement.
- In 2014 Polycab entered FMEG space 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**



**Exhibit 2: while EBIT contribution is at 1.6%**

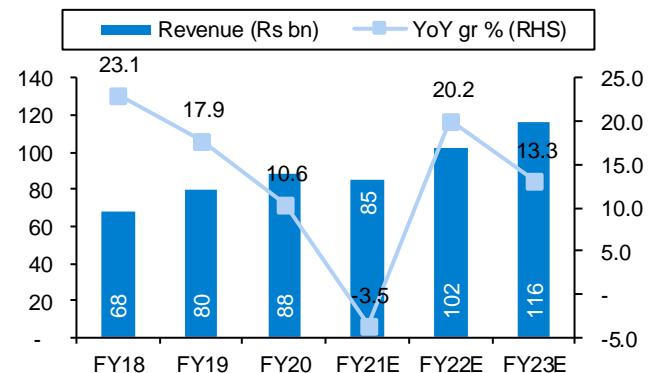


Source: Company, PL

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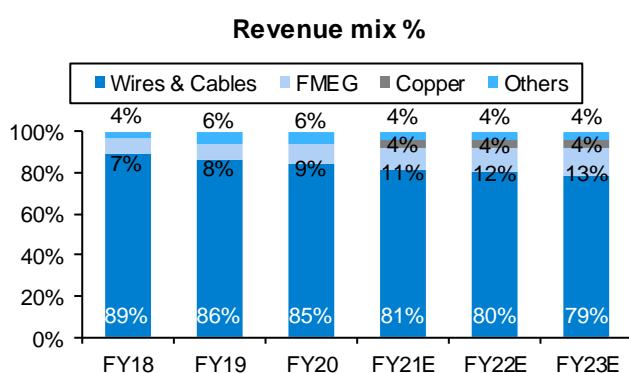
## Story in charts

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



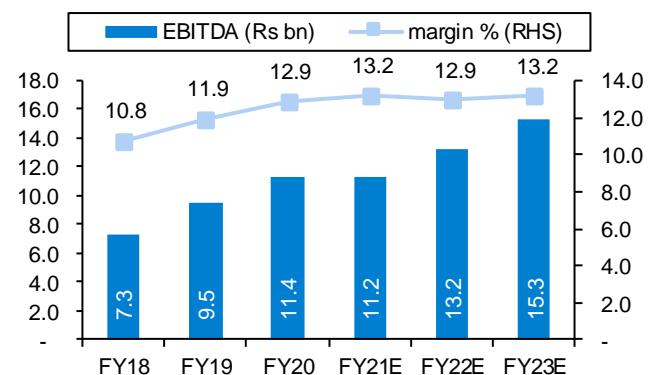
Source: Company, PL

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



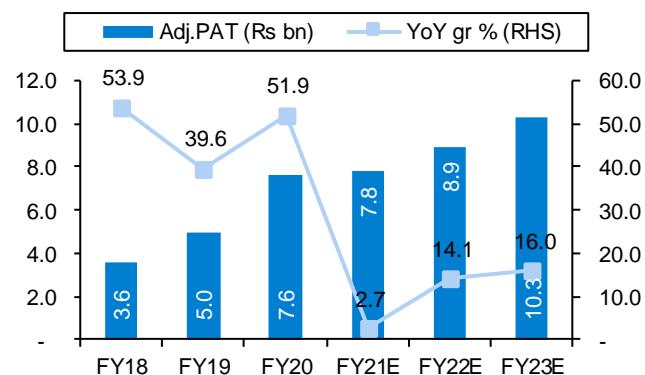
Source: Company, PL

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



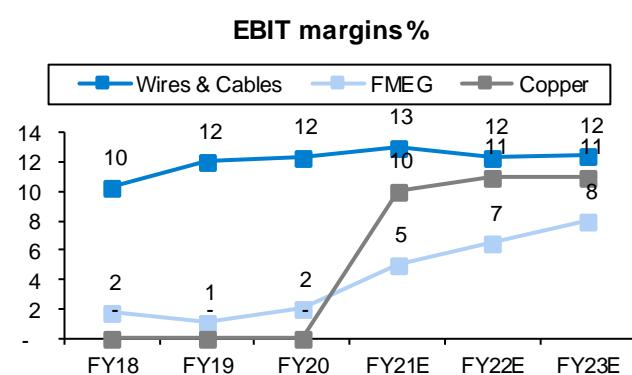
Source: Company, PL

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



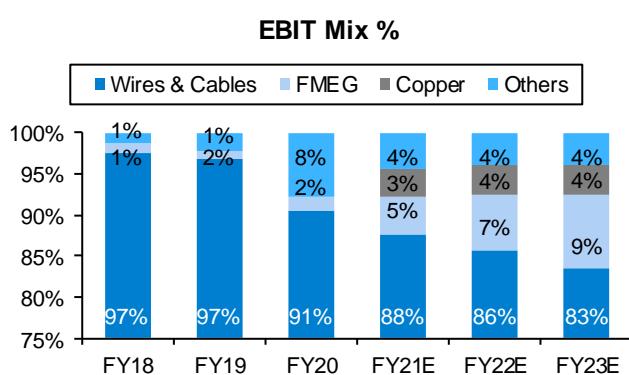
Source: Company, PL

**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                |      | ✓         |          |             |               | ✓        | ✓           |
| <b>Polycab India Limited</b> | ✓    | ✓         | ✓        | ✓           | ✓             |          |             |
| Surya Roshni Ltd             | ✓    | ✓         |          |             | ✓             | ✓        | ✓           |
| TTK Prestige Ltd             |      |           |          |             |               | ✓        | ✓           |
| Usha International Ltd       | ✓    |           |          |             | ✓             | ✓        | ✓           |
| V-Guard Industries Ltd       | ✓    |           | ✓        | ✓           | ✓             | ✓        | ✓           |

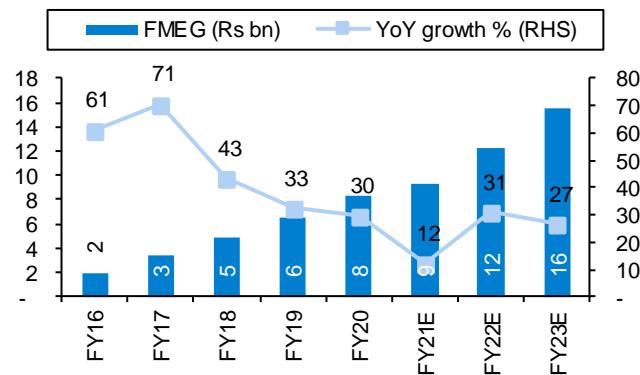
Source: Company, PL

## 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.

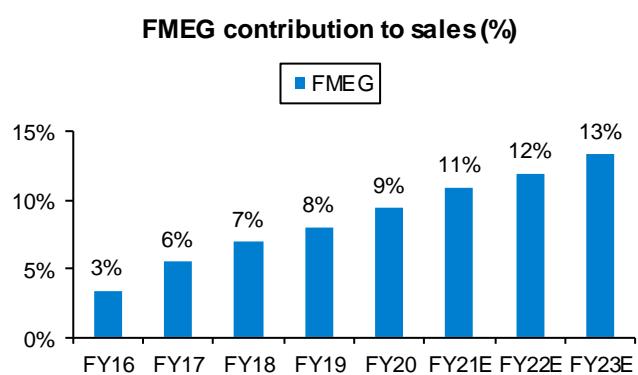
- **Strong growth potential in FMEG and Retail wires:** Growth opportunities in the Indian FMEG industry remain high, aided by improving macro drivers like 1) rising consumer aspirations 2) increasing awareness 3) rising income levels 4) rural electrification 5) urbanization and 6) digital connectivity

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



Source: Company, PL

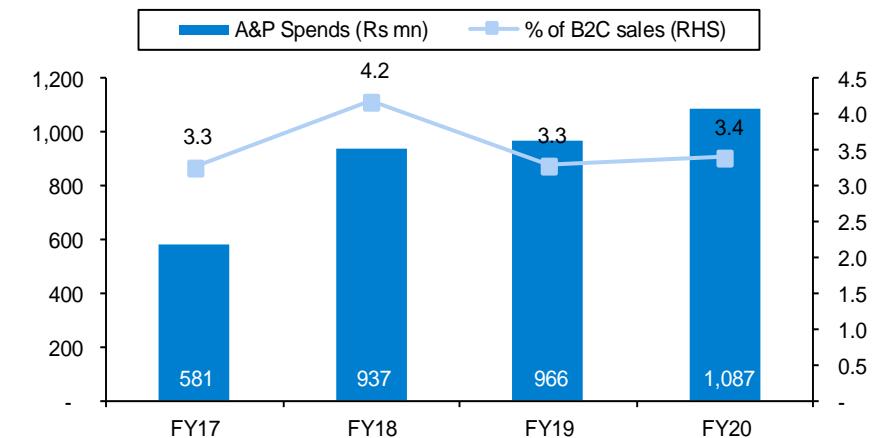
Exhibit 11: FMEG to contribute 13.3% of FY23 sales



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.

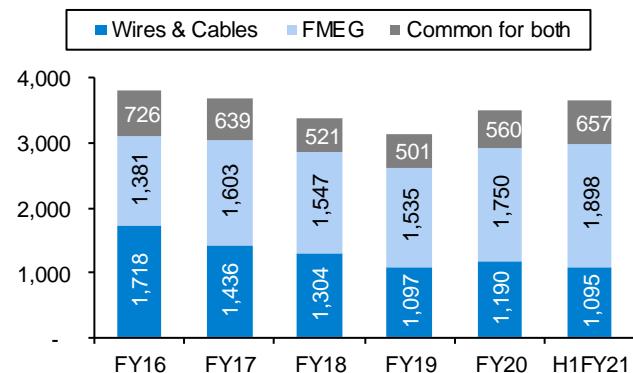
Exhibit 12: A&amp;P spends at c.3.5% of B2C sales



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

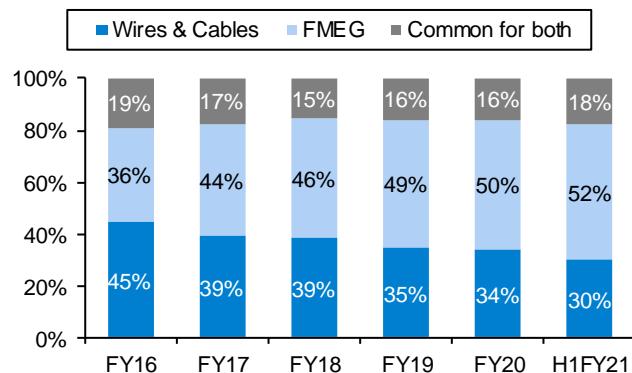
- Increase in distribution reach:** Polycab focused on increasing its distribution network which has increased from 3,133 dealers in FY19 to present 3,650, of which 52% are exclusively for FMEG while 18% are common for both FMEG and Wires & Cables. Their dealer network reduced from FY16 to FY19 as the 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



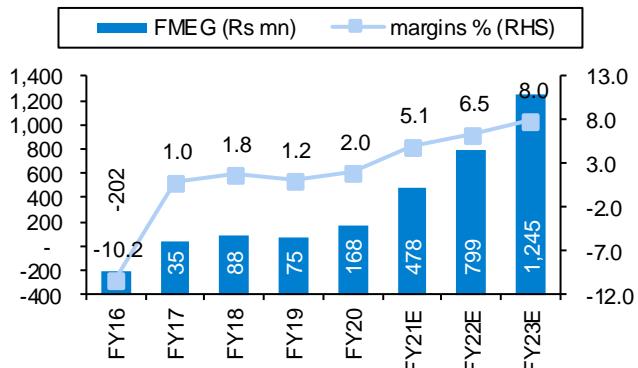
Source: Company, PL

- **Focus on quality:** Polycab has ensured un-relenting 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

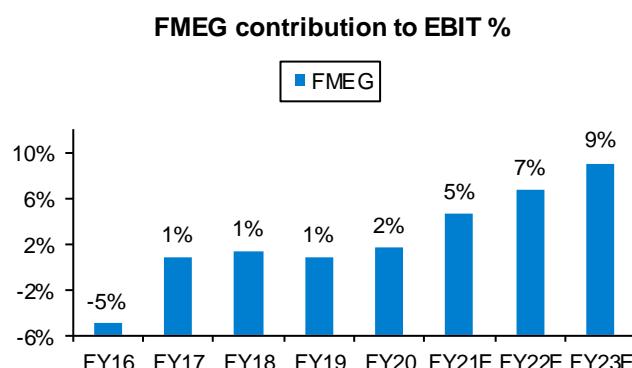
Over FY15-20, Polycab invested in laying down groundwork for its FMEG business by setting up 1) manufacturing facilities 2) distribution network and 3) brand building. Thus profits remained subdued with less than 2% EBIT margins and 2% contribution to overall company's EBIT in FY20. However, with Polycab 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.

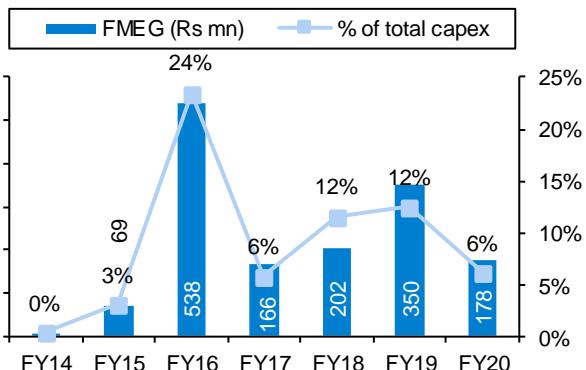
- **Operating efficiencies to kick in with improving scale of operations:** Polycab manufactures c.80% of products in-house. Fans, lighting(JV), switches and switchgears are all manufactured in-house while balance products are sourced from third parties. With major upfront investments completed, we expect 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 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|----------------|
| <b>FMEG Revenues</b>     |        |        |        |        |        |        |        |        |                |                |
| 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           |
| <b>FMEG EBIT (Rs mn)</b> |        |        |        |        |        |        |        |        |                |                |
| 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

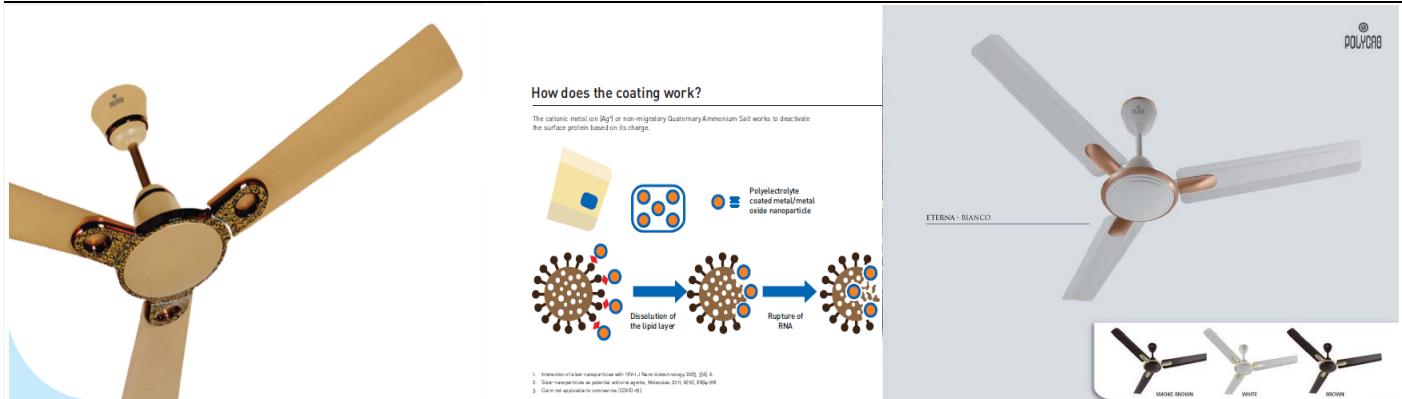
## Fans (40-45% of FMEG sales): Increasing premium offerings

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 eying 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 7-8<sup>th</sup> position on attributes like heavy motors and blades which provider 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 Nouvea'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 Nouveau 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.

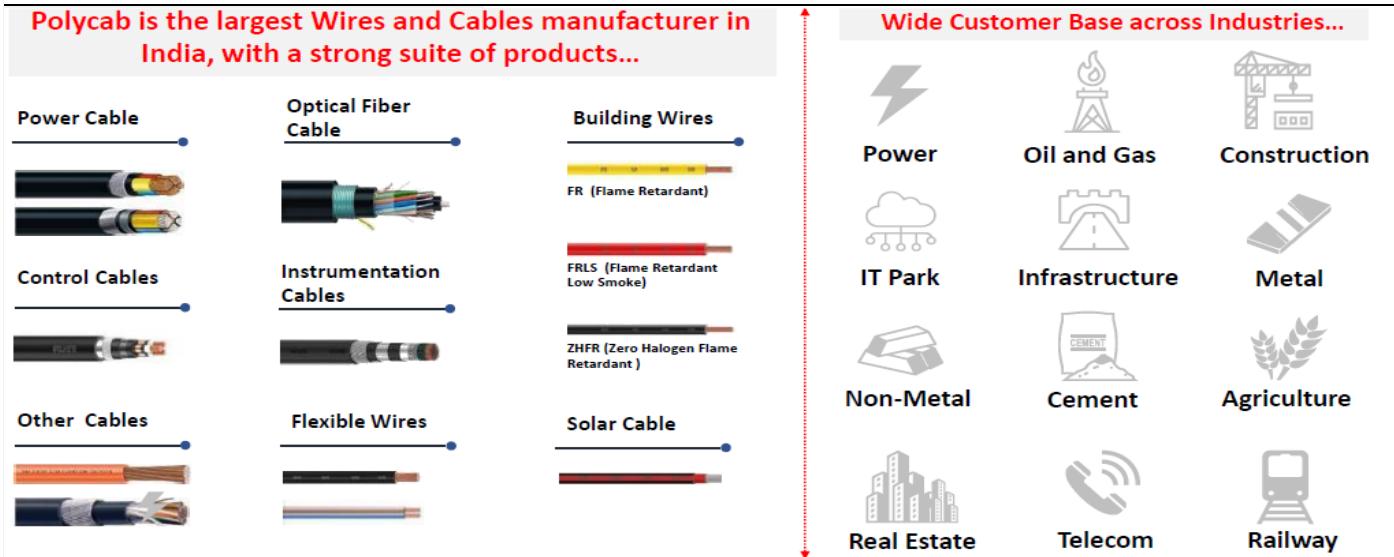
#### **Strategy/Outlook: Achieving meaningful scale**

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             | ✓                             | ✓                 | ✓                                | ✓           | ✓  |
| <b>Polycab India Limited</b>   | <b>✓</b>                      | <b>✓</b>          | <b>✓</b>                         | <b>✓</b>    | <b>✓</b>   |
| 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.

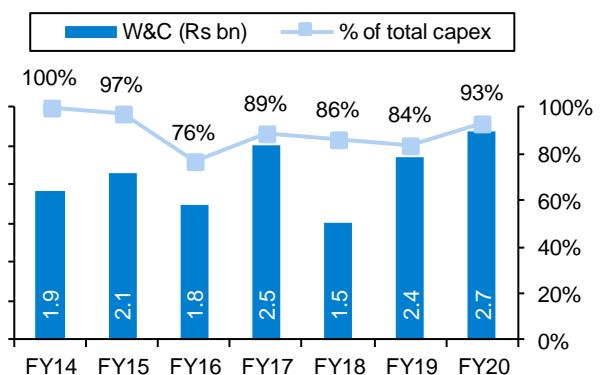
- **Increasing share of Housing/Retail wires:** Over the years, Polycab has gradually increased proportion of housing/retail wires (B2C) from 60% to current 75% of wires sales (Wires contribute 45% of segment sales). Rising sales of margin accretive wires business has helped in increasing the segment 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

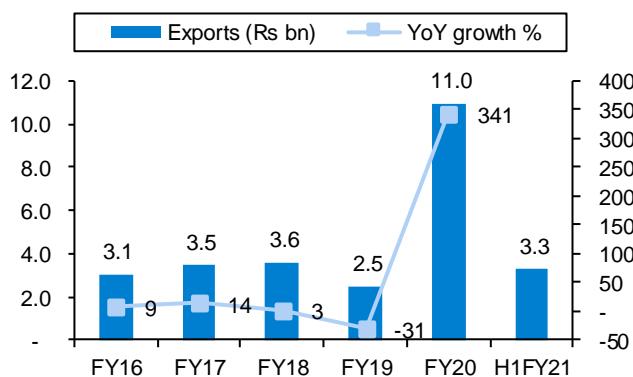
#### Exhibit 31: Incurred capex of Rs14.9bn over FY14-20



Source: Company, PL

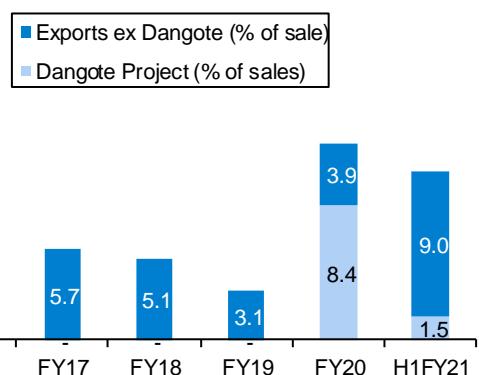
- **Exports to be new leg of growth:** Polycab has identified exports as a key growth driver in the coming years. Out of the \$145bn global cable markets (Asia-Pacific contribution at 40%) nearly \$40bn of cables are currently imported from various countries. After successfully executing a large order 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

- **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%.

**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**

**Exhibit 34: Polycab reported higher margin improvement over peers**

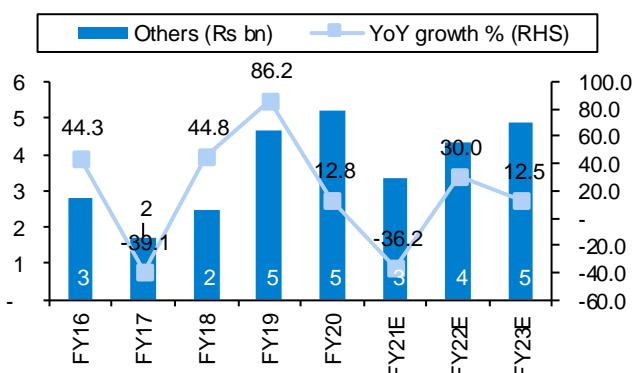
| Particulars (Rs mn)                | FY16   | FY17   | FY18   | FY19   | FY20   | CAGR %<br>FY16-20 |
|------------------------------------|--------|--------|--------|--------|--------|-------------------|
| <b>Wires &amp; Cables Revenues</b> |        |        |        |        |        |                   |
| 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               |
| <b>Wires &amp; Cables EBIT</b>     |        |        |        |        |        |                   |
| 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

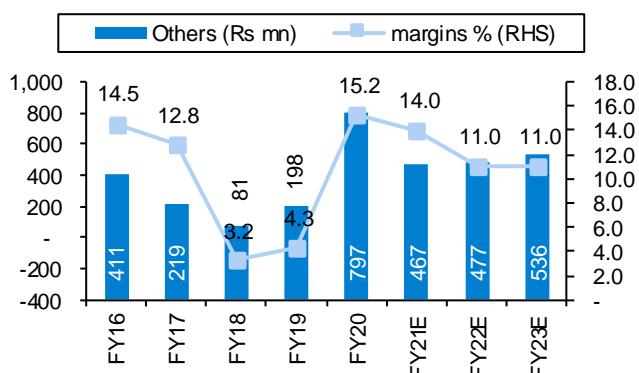
### EPC business: Focus on projects with 40-60% cabling requirement

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**



**Exhibit 36: Margins to settle around 11% by FY23**



Source: Company, PL

Source: Company, PL

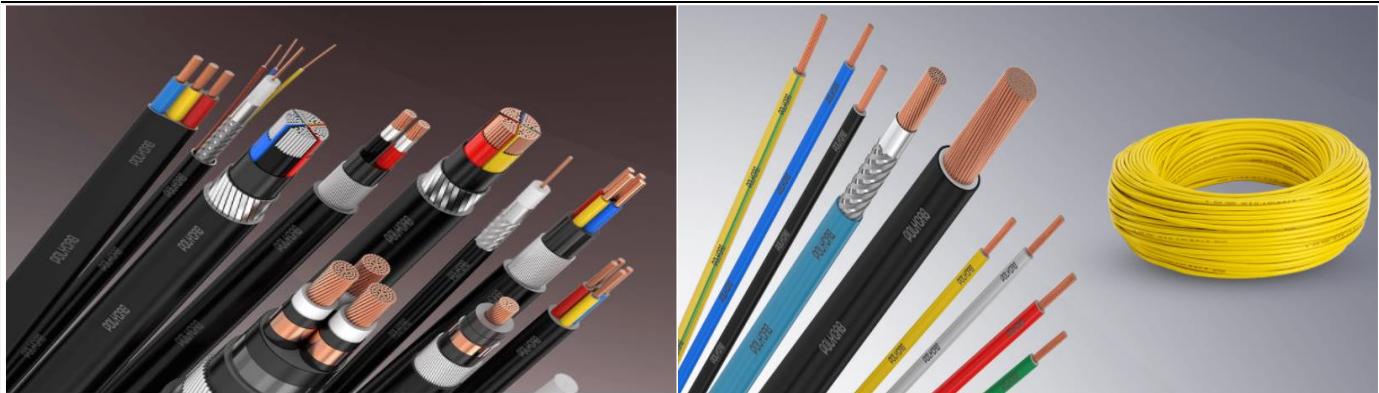
## Wires & Cables (85% of total sales): Looking to enter new product segments/markets

### 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:

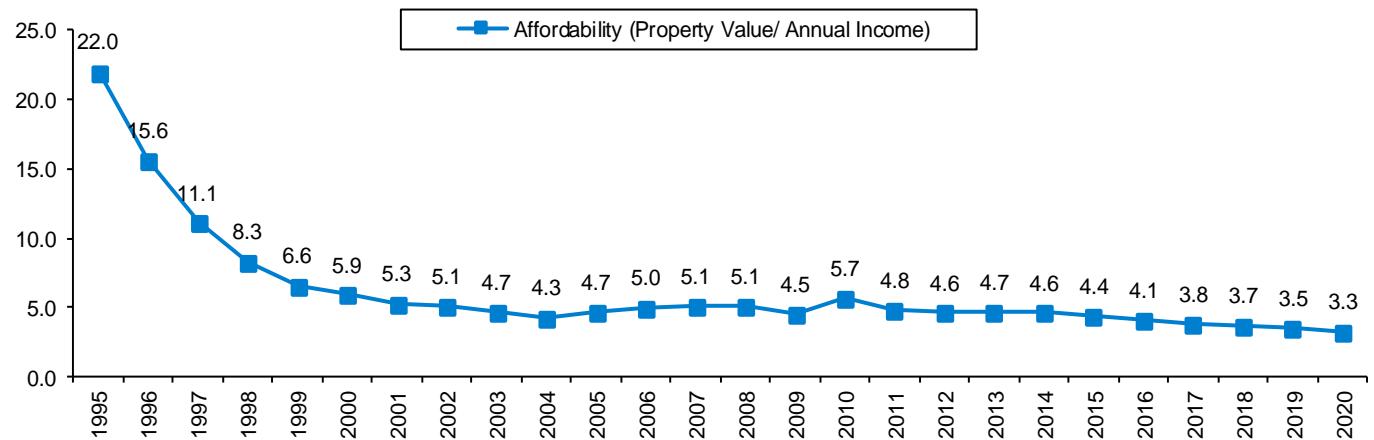
- Energy, railways, urban & infrastructure will cover 72% of the expenditure.
- Total energy capacity is expected to be 583 GW by 2025 (current 356 GW).
- Housing for All by 2022, targeting 31mn households in urban and rural areas.
- 100% electrification of existing railway network, mass rapid transit 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 aide 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%   |

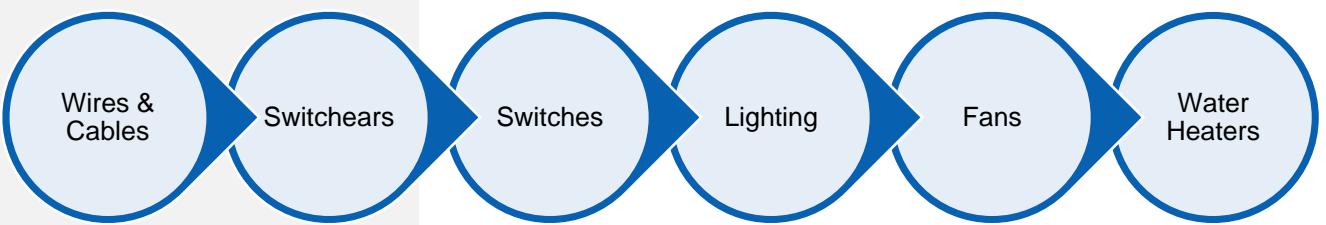
Source: Company, PL

### 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   |
| Supply Side Incentives     | Extension of timeframe and rationalization of conditions under the CLSS   |
|                            | Incentives to developers to build affordable housing<br>Infrastructure' status accorded to affordable housing<br>External Commercial Borrowings/Rupee Denominated Bonds Issued Overseas |

Source: Company, PL

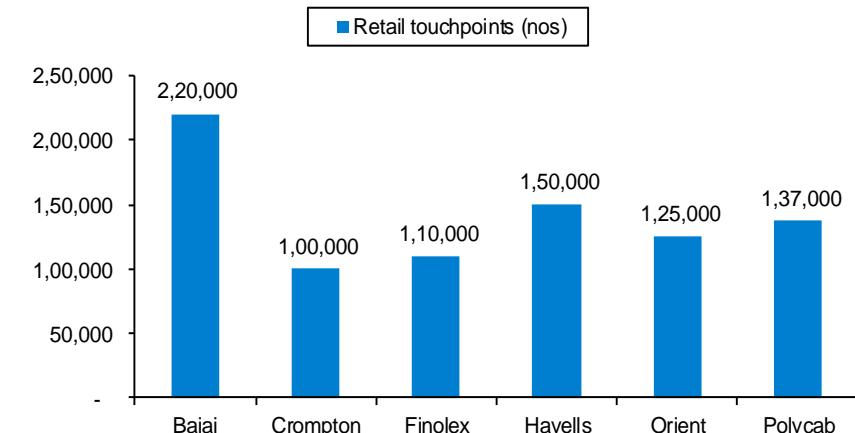
- We believe rising housing demand will have a positive impact on housing related products and could lead to increase in demand for essentials like Wires & Cables, switchgears, switches, lighting, fans and water heaters. Given its product portfolio, Polycab is well positioned to benefit from this.



## 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.

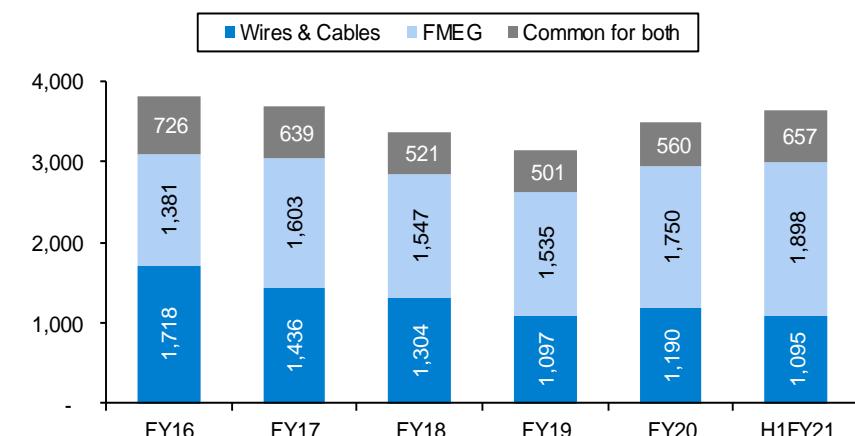
**Exhibit 42: Polycab's retail touchpoints up from 100k in FY18 to 137k in 1H21**



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.

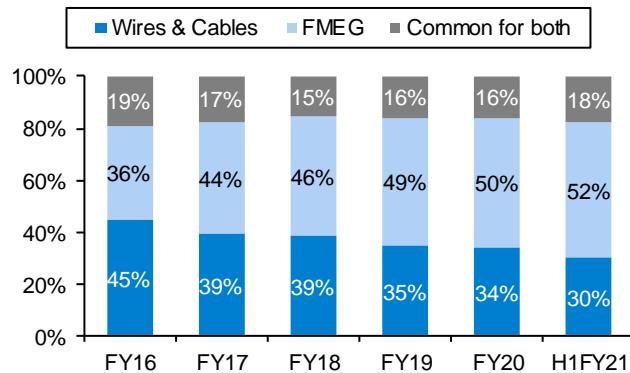
**Exhibit 43: Distributor expansion on track post FY16-19 rationalisation**



Source: Company, PL

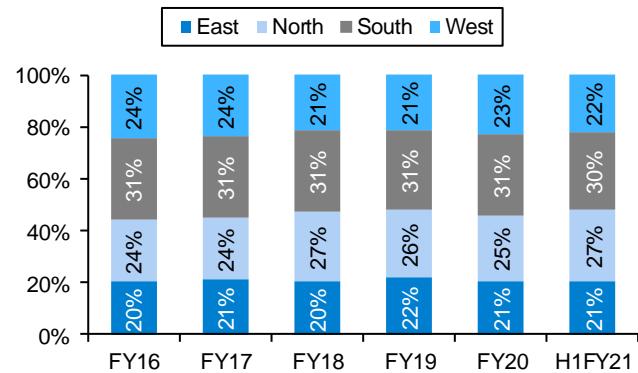
*The dealer network reduced from FY16 to FY19 as Polycab made a strategic decision to discontinue some smaller dealers and to focus instead on larger distributors who in turn would also cater to these smaller dealers*

Exhibit 44: FMEG &amp; Common distributors have been on rise



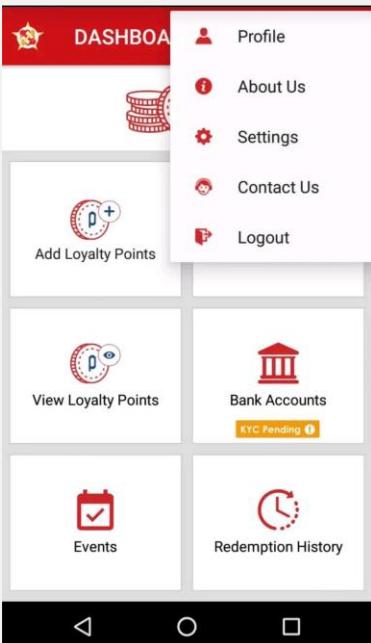
Source: Company, PL

Exhibit 45: Distribution network spread across the country

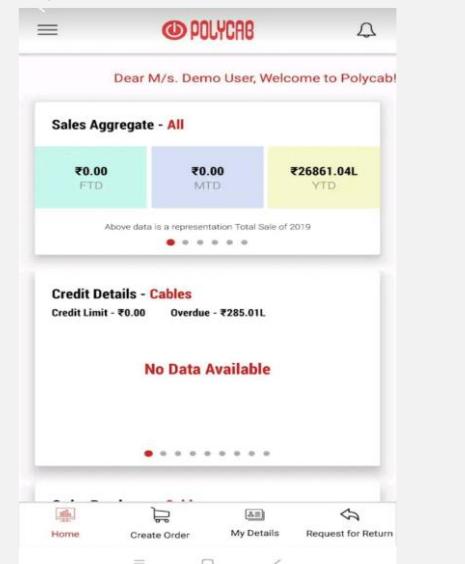


Source: Company, PL

### 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

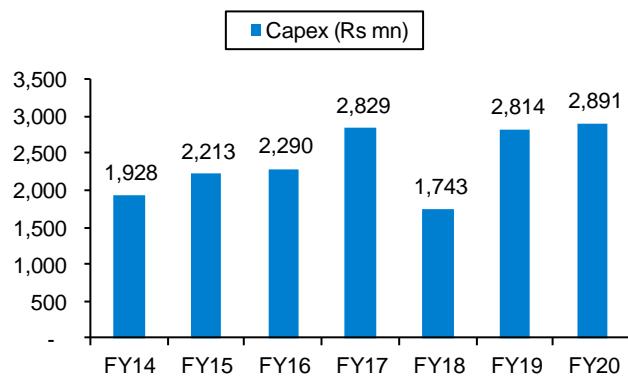
Polycab has strong manufacturing base with 25 manufacturing facilities at seven locations, which are designed to secure a complete supply chain for its product range, starting from raw materials to end-products. 4 out of these 25 facilities manufacture FMEG products. Polycab has incurred a capex of Rs16.7bn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

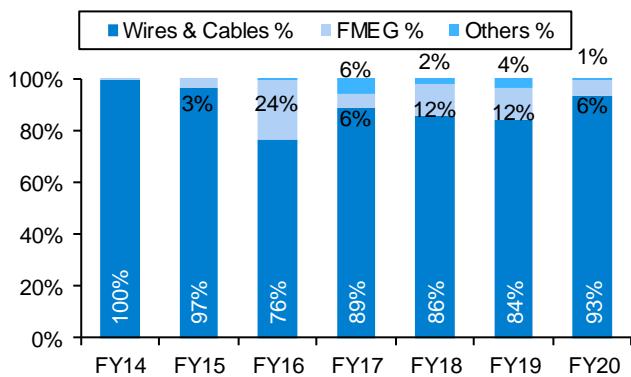
Source: Company, PL

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



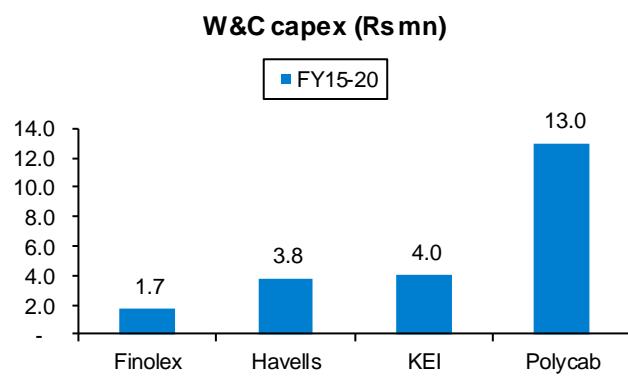
Source: Company, PL

### 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

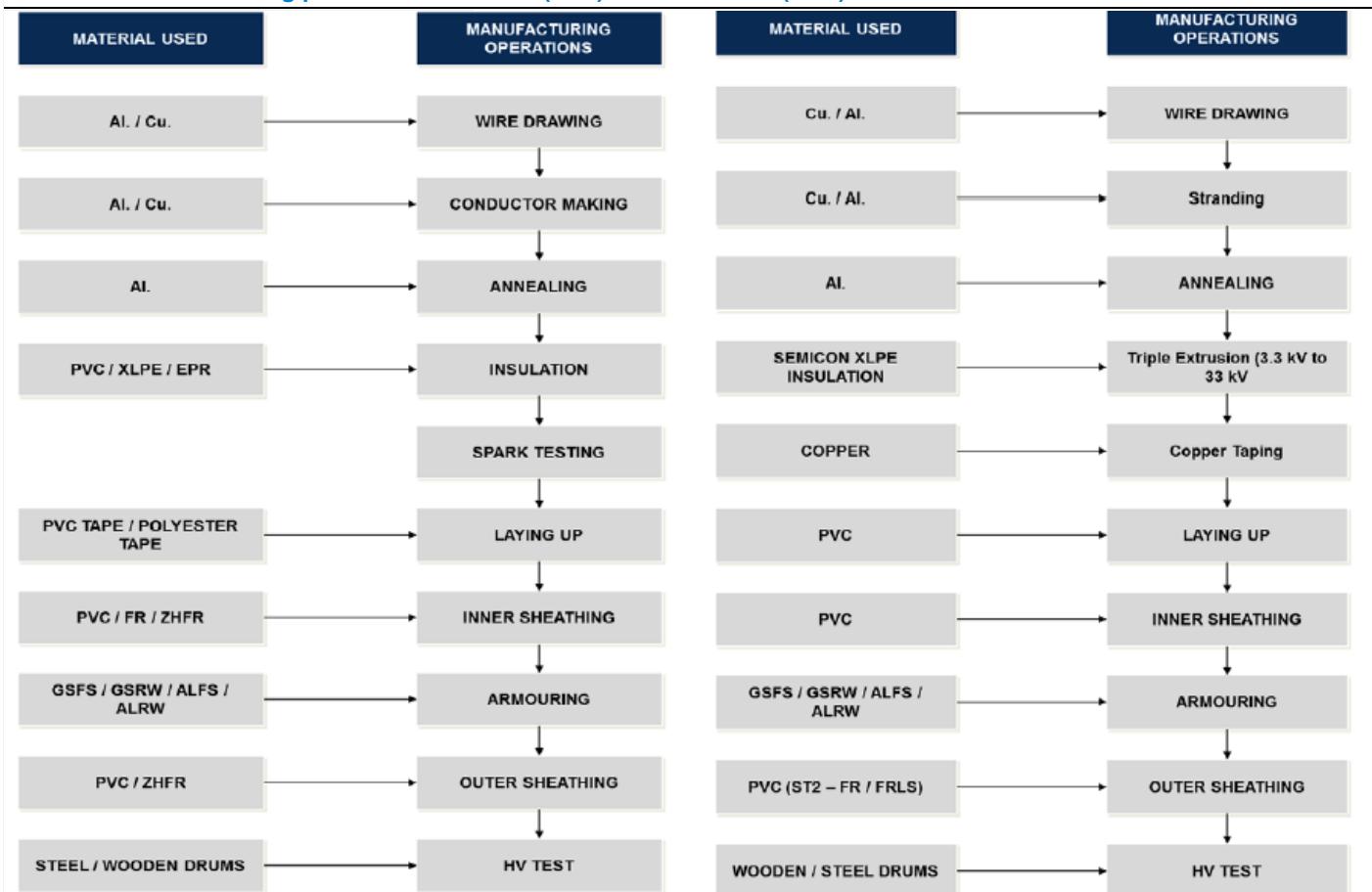
### Exhibit 50: Copper constitutes 50-60% of total RM costs

| Backward Integration |                |                |
|----------------------|----------------|----------------|
| Polycab              | Finolex Cables | KEI Industries |
| Copper Rods          | Copper Rods    | PVC compounds  |
| Aluminum Rods        | PVC compounds  | Optical Fibre  |
| PVC, XLPE compounds  |                | FRP rods       |
| Rubber               |                |                |
| 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

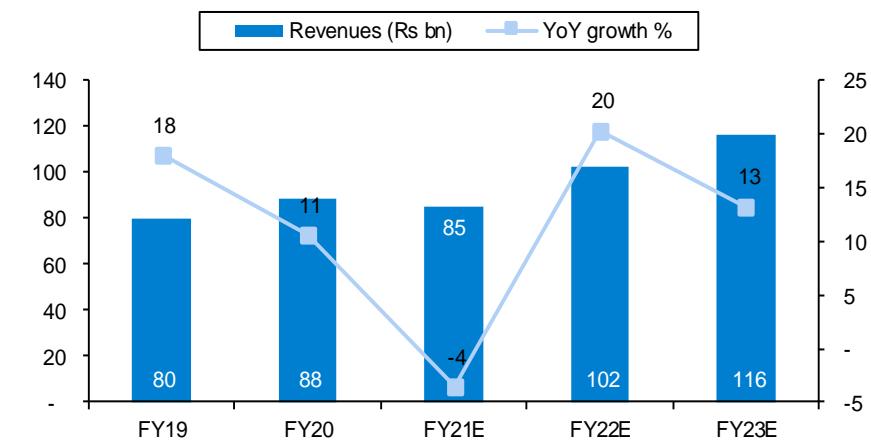
## Financials & Valuations

### 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:** Benefiting 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

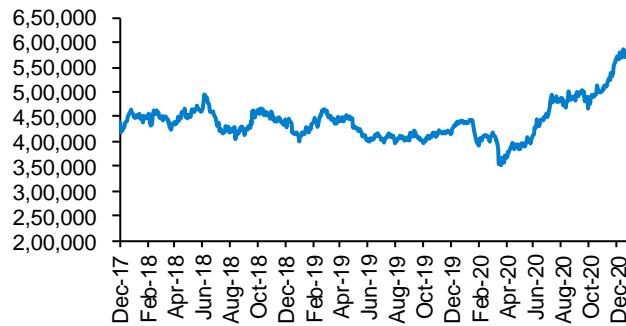
Even with an inflationary commodity price environment over FY16-20, Polycab's gross margins improved by c.450bps due to **1)** improving business mix (Retail Wires, Exports, FMEG) and **2)** improving operational efficiencies. Key commodity prices- Copper/ Aluminum/ Brent Crude have increased at a CAGR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

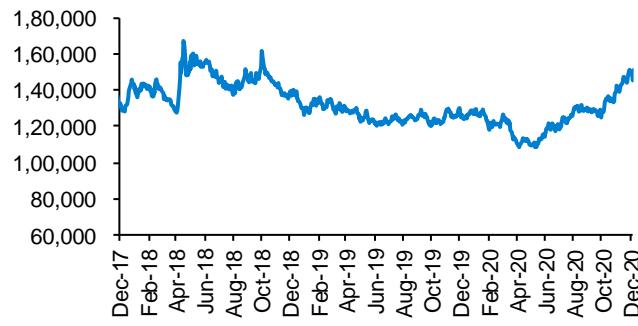
### Copper Spot (INR/MT)



Source: Company, PL

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

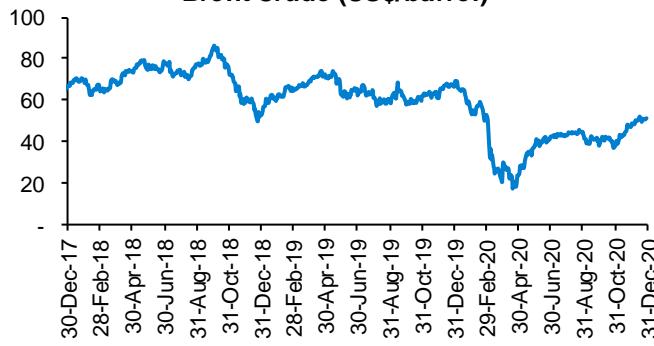
### Aluminium Spot (INR/MT)



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%         |
| <b>EBITDA</b>                     | <b>9,528</b> | <b>11,350</b> | <b>11,249</b> | <b>13,246</b> | <b>15,261</b> |
| 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           |
| <b>PBT</b>                        | <b>7,584</b> | <b>10,174</b> | <b>10,403</b> | <b>11,987</b> | <b>13,886</b> |
| Tax                               | 2,558        | 2,444         | 2,538         | 3,021         | 3,499         |
| ETR                               | 33.7%        | 24.0%         | 24.4%         | 25.2%         | 25.2%         |
| <b>Profit before JV/Associate</b> | <b>5,026</b> | <b>7,730</b>  | <b>7,865</b>  | <b>8,966</b>  | <b>10,386</b> |
| Share of JV/Associate             | -23          | -74           | -17           | -20           | -15           |
| Non-controlling interest          | 6            | 66            | 56            | 59            | 61            |
| <b>Adj PAT</b>                    | <b>4,997</b> | <b>7,591</b>  | <b>7,792</b>  | <b>8,888</b>  | <b>10,310</b> |
| Margin                            | 6.3%         | 8.6%          | 9.1%          | 8.7%          | 8.9%          |
| Exceptional item                  | 0            | 0             | 937           | 0             | 0             |
| <b>Reported PAT</b>               | <b>4,997</b> | <b>7,591</b>  | <b>8,728</b>  | <b>8,888</b>  | <b>10,310</b> |
| <b>Adj EPS (Rs)</b>               | 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          |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------|
| <b>Revenue from Operations</b> | <b>16,826</b> | <b>18,119</b> | <b>20,248</b> | <b>24,636</b> | <b>19,513</b> | <b>22,419</b> | <b>25,073</b> | <b>21,294</b> | <b>9,766</b> | <b>21,137</b> |
| <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%         |
| <b>EBITDA</b>                  | <b>1,728</b>  | <b>2,164</b>  | <b>3,174</b>  | <b>2,435</b>  | <b>2,236</b>  | <b>2,717</b>  | <b>3,391</b>  | <b>3,006</b>  | <b>575</b>   | <b>3,125</b>  |
| <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           |
| <b>PBT</b>                     | <b>1,236</b>  | <b>1,416</b>  | <b>2,885</b>  | <b>2,047</b>  | <b>2,064</b>  | <b>2,319</b>  | <b>2,902</b>  | <b>2,889</b>  | <b>305</b>   | <b>2,882</b>  |
| 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            |
| <b>Adj PAT</b>                 | <b>770</b>    | <b>892</b>    | <b>1,933</b>  | <b>1,404</b>  | <b>1,345</b>  | <b>1,918</b>  | <b>2,188</b>  | <b>2,139</b>  | <b>239</b>   | <b>2,205</b>  |
| <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   |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenues</b>     |        |        |        |        |        |        |        |        |        |        |
| 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     |
| 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% |
| <b>EBIT</b>         |        |        |        |        |        |        |        |        |        |        |
| 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     | -1.7%  | 9.3%   |
| <i>YoY gr.</i>      | 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.

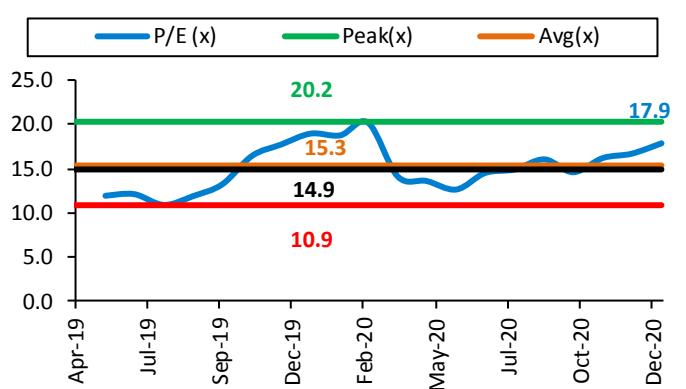
We initiate coverage on Polycab with a BUY rating and a SOTP derived TP of Rs1,247 (derived PE of 18x FY23 EPS, W&C/ FMEG at 18x/ 25x). At current valuations of 15x FY23 EPS, it trades at a premium to Finolex /KEI (12.4x/11.6x) but at a discount to ECD players like Havells/Crompton Consumer (46.8x/35x). 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        |
| <b>Polycab</b>     | <b>-3.5</b>      | <b>20.2</b> | <b>13.3</b> | <b>2.7</b>     | <b>14.1</b> | <b>16.0</b> | <b>18.2</b> | <b>17.4</b> | <b>17.5</b> | <b>19.8</b> | <b>17.3</b> | <b>14.9</b> |
| 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        |
| Volta              | -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



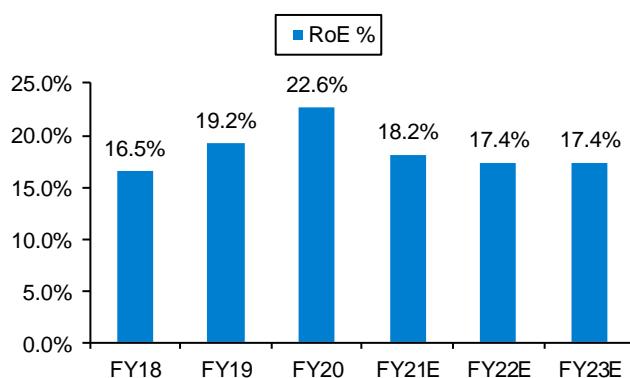
Source: Company, PL

### 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%          |
| <b>Target Price</b> |       |          |           | <b>1,247</b> | <b>100%</b> |

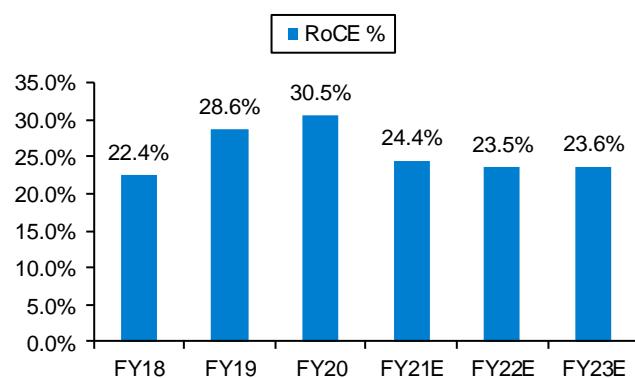
Source: Company, PL

Exhibit 66: ROE to remain steady over FY21-23



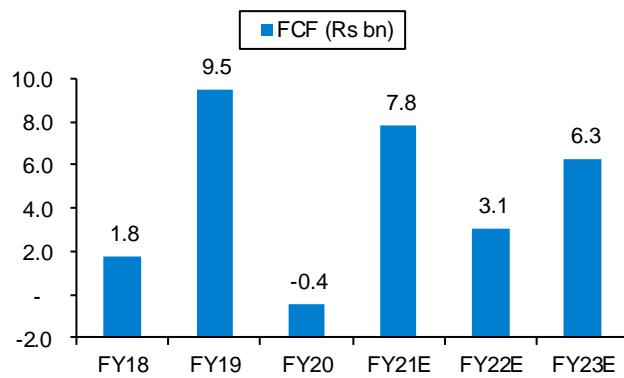
Source: Company, PL

Exhibit 67: ROCE to sustain at mid-twenties



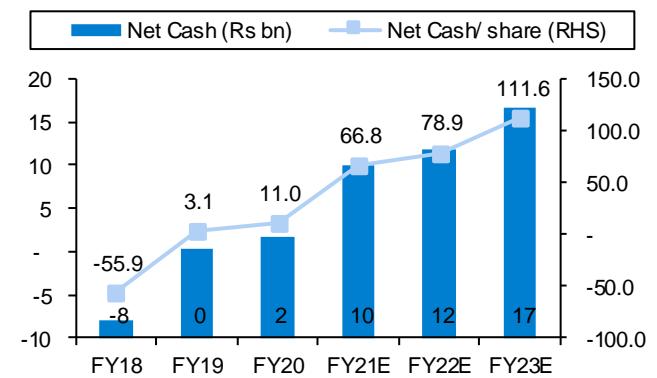
Source: Company, PL

Exhibit 68: Free cash flow to increase with scale



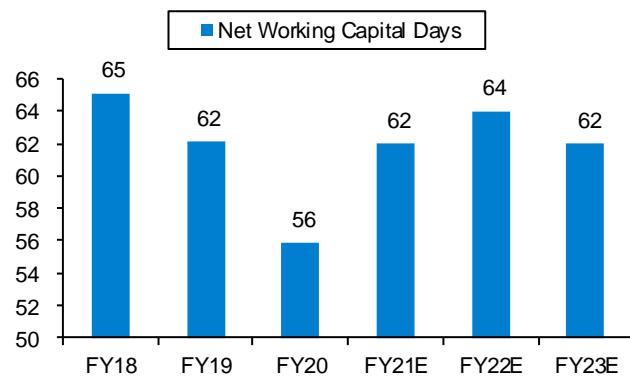
Source: Company, PL

Exhibit 69: Net cash per share to improve steadily



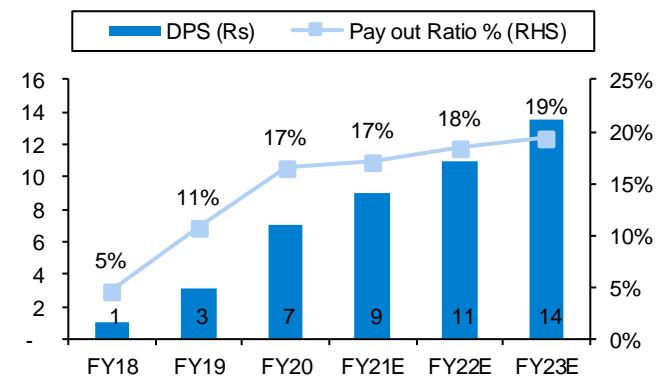
Source: Company, PL

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              |
|---|------------------------------|
| <b>Family Member Representation on Board of Directors</b> |                              |
| Inder T Jaisinghani                                       | Chairman & Managing Director |
| Ajay T Jaisinghani  | Whole-time Director          |
| Ramesh T Jaisinghani                                      | Whole-time Director          |
| <b>Other Board of Directors</b>                           |                              |
| 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)           |               |               |                 |                 | Balance Sheet Abstract (Rs m)         |               |               |               |               |
|-----------------------------------|---------------|---------------|-----------------|-----------------|---------------------------------------|---------------|---------------|---------------|---------------|
| Y/e Mar                           | FY20          | FY21E         | FY22E           | FY23E           | Y/e Mar                               | FY20          | FY21E         | FY22E         | FY23E         |
| <b>Net Revenues</b>               | <b>88,300</b> | <b>85,207</b> | <b>1,02,459</b> | <b>1,16,035</b> | <b>Non-Current Assets</b>             |               |               |               |               |
| YoY gr. (%)                       | 10.6          | (3.5)         | 20.2            | 13.3            | <b>Gross Block</b>                    | <b>24,642</b> | <b>27,910</b> | <b>30,984</b> | <b>34,082</b> |
| Cost of Goods Sold                | 63,686        | 61,402        | 73,791          | 83,337          | Tangibles                             | 24,472        | 27,711        | 30,754        | 33,822        |
| Gross Profit                      | 24,613        | 23,805        | 28,667          | 32,698          | Intangibles                           | 170           | 200           | 230           | 260           |
| Margin (%)                        | 27.9          | 27.9          | 28.0            | 28.2            | <b>Acc: Dep / Amortization</b>        | <b>10,422</b> | <b>12,159</b> | <b>13,942</b> | <b>15,916</b> |
| Employee Cost                     | 3,657         | 3,579         | 4,303           | 4,815           | Tangibles                             | 10,269        | 11,987        | 13,749        | 15,699        |
| Other Expenses                    | 4,183         | 4,163         | 4,765           | 5,253           | Intangibles                           | 153           | 172           | 193           | 217           |
| <b>EBITDA</b>                     | <b>11,350</b> | <b>11,249</b> | <b>13,246</b>   | <b>15,261</b>   | <b>Net fixed assets</b>               | <b>14,220</b> | <b>15,752</b> | <b>17,042</b> | <b>18,166</b> |
| YoY gr. (%)                       | 19.1          | (0.9)         | 17.8            | 15.2            | Tangibles                             | 14,203        | 15,723        | 17,006        | 18,123        |
| Margin (%)                        | 12.9          | 13.2          | 12.9            | 13.2            | Intangibles                           | 17            | 28            | 37            | 42            |
| Depreciation and Amortization     | 1,609         | 1,735         | 1,897           | 2,097           | <b>Capital Work In Progress</b>       | <b>2,412</b>  | <b>1,500</b>  | <b>1,500</b>  | <b>1,500</b>  |
| <b>EBIT</b>                       | <b>9,741</b>  | <b>9,514</b>  | <b>11,349</b>   | <b>13,164</b>   | Goodwill                              | -             | 23            | 23            | 23            |
| Margin (%)                        | 11.0          | 11.2          | 11.1            | 11.3            | Non-Current Investments               | 1,983         | 1,582         | 1,867         | 2,091         |
| Net Interest                      | 495           | 475           | 492             | 501             | Net Deferred tax assets               | (165)         | (186)         | (305)         | (444)         |
| Other Income                      | 928           | 1,363         | 1,130           | 1,222           | Other Non-Current Assets              | 492           | 540           | 544           | 547           |
| <b>Profit Before Tax</b>          | <b>10,174</b> | <b>10,403</b> | <b>11,987</b>   | <b>13,886</b>   | <b>Current Assets</b>                 |               |               |               |               |
| Margin (%)                        | 11.5          | 12.2          | 11.7            | 12.0            | Investments                           | 400           | 5,400         | 6,400         | 8,400         |
| Total Tax                         | 2,444         | 2,538         | 3,021           | 3,499           | Inventories                           | 19,250        | 19,142        | 23,018        | 26,068        |
| Effective tax rate (%)            | 24.0          | 24.4          | 25.2            | 25.2            | Trade receivables                     | 14,336        | 14,007        | 16,843        | 18,438        |
| <b>Profit after tax</b>           | <b>7,730</b>  | <b>7,865</b>  | <b>8,966</b>    | <b>10,386</b>   | Cash & Bank Balance                   | 2,813         | 7,122         | 7,299         | 9,995         |
| Minority interest                 | 66            | 56            | 59              | 61              | Other Current Assets                  | 2,014         | 2,343         | 2,561         | 2,669         |
| Share Profit from Associate       | (74)          | (17)          | (20)            | (15)            | <b>Total Assets</b>                   | <b>59,616</b> | <b>68,525</b> | <b>78,392</b> | <b>89,338</b> |
| <b>Adjusted PAT</b>               | <b>7,591</b>  | <b>7,792</b>  | <b>8,888</b>    | <b>10,310</b>   | <b>Equity</b>                         |               |               |               |               |
| YoY gr. (%)                       | 51.9          | 2.7           | 14.1            | 16.0            | Equity Share Capital                  | 1,489         | 1,489         | 1,489         | 1,489         |
| Margin (%)                        | 8.6           | 9.1           | 8.7             | 8.9             | Other Equity                          | 36,875        | 45,604        | 53,152        | 61,824        |
| Extra Ord. Income / (Exp)         | -             | 937           | -               | -               | <b>Total Networth</b>                 | <b>38,364</b> | <b>47,093</b> | <b>54,641</b> | <b>63,313</b> |
| <b>Reported PAT</b>               | <b>7,591</b>  | <b>8,728</b>  | <b>8,888</b>    | <b>10,310</b>   | <b>Non-Current Liabilities</b>        |               |               |               |               |
| YoY gr. (%)                       | 51.9          | 15.0          | 1.8             | 16.0            | Long Term borrowings                  | 107           | 1,464         | 929           | 729           |
| Margin (%)                        | 8.6           | 10.2          | 8.7             | 8.9             | Provisions                            | 256           | 128           | 154           | 174           |
| Other Comprehensive Income        | -             | -             | -               | -               | Other non current liabilities         | 171           | 171           | 171           | 171           |
| Total Comprehensive Income        | 7,591         | 8,728         | 8,888           | 10,310          | <b>Current Liabilities</b>            |               |               |               |               |
| <b>Equity Shares O/s (m)</b>      | <b>149</b>    | <b>149</b>    | <b>149</b>      | <b>149</b>      | ST Debt / Current of LT Debt          | 1,115         | 1,108         | 1,025         | 1,044         |
| <b>EPS (Rs)</b>                   | <b>51.0</b>   | <b>52.3</b>   | <b>59.7</b>     | <b>69.3</b>     | Trade payables                        | 13,537        | 13,458        | 15,769        | 17,809        |
| Source: Company Data, PL Research |               |               |                 |                 | Other current liabilities             | 5,440         | 4,702         | 5,125         | 5,318         |
|                                   |               |               |                 |                 | <b>Total Equity &amp; Liabilities</b> | <b>59,616</b> | <b>68,525</b> | <b>78,392</b> | <b>89,338</b> |

Source: Company Data, PL Research

| <b>Cash Flow (Rs m)</b>              |                |                |                |                | <b>Key Financial Metrics</b>      |             |              |              |              |
|--------------------------------------|----------------|----------------|----------------|----------------|-----------------------------------|-------------|--------------|--------------|--------------|
| <b>Y/e Mar</b>                       | <b>FY20</b>    | <b>FY21E</b>   | <b>FY22E</b>   | <b>FY23E</b>   | <b>Y/e Mar</b>                    | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
| PBT                                  | 10,100         | 10,386         | 11,967         | 13,871         | <b>Per Share(Rs)</b>              |             |              |              |              |
| Add. Depreciation                    | 1,609          | 1,735          | 1,897          | 2,097          | EPS                               | 51.0        | 52.3         | 59.7         | 69.3         |
| Add. Interest                        | 495            | 475            | 492            | 501            | CEPS                              | 61.8        | 64.0         | 72.4         | 83.3         |
| Less Financial Other Income          | 928            | 1,363          | 1,130          | 1,222          | BVPS                              | 257.7       | 316.3        | 367.0        | 425.3        |
| Add. Other                           | (524)          | (19)           | (429)          | (545)          | FCF                               | (3.0)       | 52.3         | 20.5         | 42.4         |
| Op. profit before WC changes         | 11,680         | 12,577         | 13,928         | 15,924         | DPS                               | 7.0         | 9.0          | 11.0         | 13.5         |
| Net Changes-WC                       | (6,221)        | 133            | (4,661)        | (2,888)        | <b>Return Ratio(%)</b>            |             |              |              |              |
| Direct tax                           | (3,012)        | (2,538)        | (3,021)        | (3,499)        | RoCE                              | 30.5        | 24.4         | 23.5         | 23.6         |
| <b>Net cash from Op. activities</b>  | <b>2,446</b>   | <b>10,171</b>  | <b>6,246</b>   | <b>9,536</b>   | ROIC                              | 23.3        | 22.4         | 21.5         | 23.2         |
| Capital expenditures                 | (2,891)        | (2,377)        | (3,188)        | (3,221)        | RoE                               | 22.7        | 18.2         | 17.5         | 17.5         |
| Interest / Dividend Income           | 243            | 497            | 570            | 699            | <b>Balance Sheet</b>              |             |              |              |              |
| Others                               | 25             | (5,358)        | (1,500)        | (2,500)        | Net Debt : Equity (x)             | (0.1)       | (0.2)        | (0.2)        | (0.3)        |
| <b>Net Cash from Inv. activities</b> | <b>(2,622)</b> | <b>(7,238)</b> | <b>(4,118)</b> | <b>(5,022)</b> | Net Working Capital (Days)        | 83          | 84           | 86           | 84           |
| Issue of share cap. / premium        | 3,661          | -              | -              | -              | <b>Valuation(x)</b>               |             |              |              |              |
| Debt changes                         | (1,328)        | 1,351          | (619)          | (180)          | PER                               | 20.3        | 19.8         | 17.3         | 14.9         |
| Dividend paid                        | (1,793)        | -              | (1,340)        | (1,638)        | P/B                               | 4.0         | 3.3          | 2.8          | 2.4          |
| Interest paid                        | (433)          | (475)          | (492)          | (501)          | P/CEPS                            | 16.7        | 16.2         | 14.3         | 12.4         |
| Others                               | -              | -              | -              | -              | EV/EBITDA                         | 13.4        | 12.8         | 10.7         | 9.0          |
| <b>Net cash from Fin. activities</b> | <b>107</b>     | <b>876</b>     | <b>(2,450)</b> | <b>(2,319)</b> | EV/Sales                          | 1.7         | 1.7          | 1.4          | 1.2          |
| <b>Net change in cash</b>            | <b>(69)</b>    | <b>3,809</b>   | <b>(323)</b>   | <b>2,196</b>   | Dividend Yield (%)                | 0.7         | 0.9          | 1.1          | 1.3          |
| Free Cash Flow                       | (445)          | 7,794          | 3,058          | 6,316          | Source: Company Data, PL Research |             |              |              |              |

Source: Company Data, PL Research

#### Quarterly Financials (Rs m)

| <b>Y/e Mar</b>                    | <b>Q3FY20</b> | <b>Q4FY20</b> | <b>Q1FY21</b> | <b>Q2FY21</b> |
|-----------------------------------|---------------|---------------|---------------|---------------|
| <b>Net Revenue</b>                | <b>25,073</b> | <b>21,294</b> | <b>9,766</b>  | <b>21,137</b> |
| 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          |
| <b>EBITDA</b>                     | <b>3,391</b>  | <b>3,006</b>  | <b>575</b>    | <b>3,125</b>  |
| 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           |
| <b>EBIT</b>                       | <b>2,984</b>  | <b>2,584</b>  | <b>132</b>    | <b>2,669</b>  |
| Margin (%)                        | 11.9          | 12.1          | 1.4           | 12.6          |
| Net Interest                      | 86            | 159           | 163           | 114           |
| Other Income                      | 3             | 465           | 336           | 327           |
| <b>Profit before Tax</b>          | <b>2,902</b>  | <b>2,889</b>  | <b>305</b>    | <b>2,882</b>  |
| 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          |
| <b>Profit after Tax</b>           | <b>2,216</b>  | <b>2,209</b>  | <b>251</b>    | <b>2,218</b>  |
| Minority interest                 | 26            | 12            | -             | 10            |
| Share Profit from Associates      | (2)           | (58)          | (12)          | (3)           |
| <b>Adjusted PAT</b>               | <b>2,188</b>  | <b>2,139</b>  | <b>239</b>    | <b>2,205</b>  |
| YoY gr. (%)                       | 13.2          | 52.4          | (82.2)        | 15.0          |
| Margin (%)                        | 8.7           | 10.0          | 2.5           | 10.4          |
| Extra Ord. Income / (Exp)         | -             | -             | 937           | -             |
| <b>Reported PAT</b>               | <b>2,188</b>  | <b>2,139</b>  | <b>1,176</b>  | <b>2,205</b>  |
| YoY gr. (%)                       | 13.2          | 52.4          | (12.6)        | 15.0          |
| Margin (%)                        | 8.7           | 10.0          | 12.0          | 10.4          |
| <b>Other Comprehensive Income</b> | -             | -             | -             | -             |
| <b>Total Comprehensive Income</b> | <b>2,188</b>  | <b>2,139</b>  | <b>1,176</b>  | <b>2,205</b>  |
| Avg. Shares O/s (m)               | 149           | 149           | 149           | 149           |
| <b>EPS (Rs)</b>                   | <b>14.7</b>   | <b>14.4</b>   | <b>1.6</b>    | <b>14.8</b>   |

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               |

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|                   |                                   |
|-------------------|-----------------------------------|
| 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   |
| Under Review (UR) | : Rating likely to change shortly |

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