

Strong export orders drive FY20 earnings...

The Indian wire & cable industry faced a challenging scenario in FY20 on account of weak demand from end users, liquidity issues and slower private infrastructure spend. This was further exacerbated by nationwide lockdown at the end of FY20. Despite such a challenging scenario, Polycab India posted robust revenue, earnings growth of 11%, 53% YoY with improvement in EBITDA margin (up 130 bps YoY) and decline in interest cost by 60% YoY. The core business of Polycab i.e. wire & cable (85% of revenue) has grown 7% YoY supported by execution of strong export orders. On the other hand, fast moving electrical goods (FMEG) segment of Polycab posted robust ~30% growth in FY20 (increased its share of revenue from 8% in FY19 to 9.4% in FY20) driven by portfolio augmentation and expansion of dealer networks. Further, while FY21E is likely to be a challenging year for the core business, the company's focus on increasing export business (contribution in sales grew to 12.3% in FY20 vs. 3.1% in FY19) may limit the impact on its wire & cable business. Also, pan India dealer networks would help it to recoup lost sales and recover faster from H2FY21 onwards compared to competitors. We also believe better EBITDA margin, lower interest cost and lower tax rate would help drive profitability of the company by 17% from FY19-22E.

Focus on export to drive revenue of core business

Polycab executed ~₹ 750 crore worth of export order in FY20 (~₹ 1100 crore order received from Dangote Group, South Africa). This aided export revenue to grow 3.3x YoY in FY20. The large Dangote order also helped boost confidence of management to explore more business opportunities in export markets. Revenue contribution of export increased from ~3% in FY19 to ~12% in FY20. The management guided export would be ~10% of overall revenue, going forward, as the company is seeing increased traction in few developed geographies (like US where sales increased 41% in FY20).

Increasing presence in FMEG space

The FMEG business (~11% of revenue) recorded a robust performance with revenue CAGR of 49% in FY16-20 led by portfolio augmentation and overall distribution expansion (distributor count increased 16% YoY to 1750+ in FY20). We believe FMEG performance would remain robust (with revenue CAGR of ~20% in next two years) in the coming future with the opening up of economy and addition of more distributors, going forward.

Valuation & Outlook

We believe Polycab's performance has remained robust in FY20 despite various challenges. Strong balance sheet condition, market leadership position in wire & cable business and profitable growth in FMEG segment would help drive future growth of the company. We upgrade the stock from HOLD to **BUY** with revised target price of ₹ 895/share (valuing at 17x FY22E).



Particulars

Particular	Amount
Market Cap (₹Crore)	11,091.5
Total Debt (FY 20) (₹Crore)	152.3
Cash & Inv (FY 20) (₹Crore)	276.0
EV (₹Crore)	10,967.8
52 week H/L	1180/ 522
Equity capital (₹Crore)	148.9
Face value (₹)	10.0

Key Highlights

- Despite challenging environment in FY20, wire & cable business grew 7% YoY led by ~3.3x jump in export revenue
- Gross margin expanded 290 bps YoY in FY20 led by favourable mix and benign raw material prices
- Upgrade stock from HOLD to BUY with revised target price of ₹ 895/share

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Key Financial Summary

₹Crore	FY18	FY19	FY20E	FY21E	FY22E	(CAGR 19E-22E)
Net sales	6770.3	7956.0	8830.0	7745.1	9199.2	5.0
EBITDA	728.9	923.2	1135.0	890.7	1195.9	9.0
EBITDA Margin(%)	10.8	11.6	12.9	11.5	13.0	
Net Profit	358.6	500.5	765.6	538.4	792.1	16.5
EPS (₹)	25.4	35.4	51.4	36.2	53.2	
P/E(x)	29.3	21.0	14.5	20.6	14.0	
RoE (%)	15.3	17.6	20.0	12.3	15.6	
RoCE (%)	20.9	28.3	26.5	16.9	20.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	2129.4	2444.8	-12.9	2507.3	-15.1	Revenue impacted by Covid-19 outbreak and subsequent lockdown during prime sales period. However, excluding Covid-19 impact, sales would have been up 11% YoY
Other Income	46.5	36.1	28.9	0.3	NM	
Raw Material Exp	1476.9	1901.7	-22.3	1819.0	-18.8	Change in revenue mix (execution of high margin export orders) resulted in strong gross margin (up 840 bps YoY)
Employee cost	89.9	64.4	39.5	91.5	-1.8	
Aadvertisement Exp	18.5	35.6	-48.1	37.6	-50.8	Rationalisation of advertisement expenditure owing to low demand
Freight and forwarding Exp	49.9	50.0	-0.1	52.6	-5.1	
Other Expenditure	193.6	168.4	14.9	167.6	15.5	
Total Expenditure	1828.8	2220.1	-17.6	2168.2	-15.7	
EBITDA	300.6	224.7	33.8	339.1	-11.4	
EBITDA Margin (%)	14.1	9.2	493 bps	13.5	59 bps	Sharp increase in gross margin helped EBITDA margin expansion
Depreciation	42.2	34.3	22.9	40.7	3.7	
Interest	15.9	26.2	-39.2	8.6	85.6	
Exceptional items						
PBT	288.9	200.2	44.3	290.2	-0.4	
Total Tax	68.0	65.2	4.2	68.6	-0.8	Transition to new corporate tax rate helped save tax outflow
PAT	215.1	137.3	56.8	221.4	-2.8	
Key Metrics*						
Wires & Cables	1,860.5	2,121.6	-12.3	2,169.6	-14.2	Wires business saw muted demand in Q4 due to lower realisations and closure of retail channel led by virus outbreak
FMEG	183.3	190.9	-4.0	216.6	-15.4	While fan saw great traction across portfolio (includes lighting, switchgear), the lockdown impacted overall sales during Q4FY20
Others	159.2	218.4	-27.1	151.0	5.4	Other segment which largely comprises EPC business. Q4 impacted by delayed execution on account of restriction in movement

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ crore)	FY20E			FY21E			Introduced FY22E	Comments
	Est.	Actual	% Chg	Old	New	% Chg		
Revenue	8,935.1	8,830.0	(1.2)	10,028.7	7,745.1	(22.8)	9,199.2	While FY21E will be a challenging year in terms of lower demand, we believe a pick-up in construction activity coupled with execution of strong export order would drive performance of the company
EBITDA	929.3	1135.0	22.1	1,093.1	890.7	(18.5)	1195.9	
EBITDA Margin (%)	10.4	12.9	245bps	10.9	11.5	60bps	13.0	Change in mix coupled with various cost rationalisation measures (like automation in new plants) would help in a fast recovery in margin
PAT	534.7	765.6	43.2	641.3	538.4	(16.0)	792.1	
EPS (₹)	35.9	51.4	43.2	43.1	36.2	(16.0)	53.2	

Source: Company, ICICI Direct Research

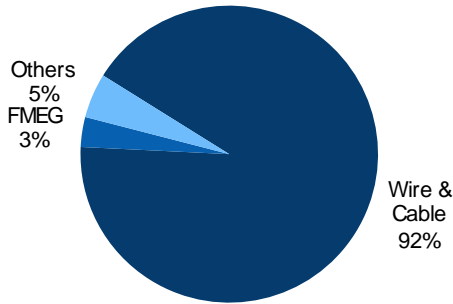
Exhibit 3: Assumptions

	Current				Comments
	FY19E	FY20E	FY21E	FY22E	
Wire & Cable	14.0	8.6	(12.0)	15.0	We believe rising contribution of exports and recovery in construction activity would lead to recovery in core business from FY22E onwards
FMEG	34.6	30.7	(10.0)	45.0	Low base coupled with addition of new dealers would help drive growth in FMEG segment
Others	92.5	29.8	(14.0)	20.0	100% population coverage for telecom and high-quality broadband services and laying optical fiber cables across the nation under Bharat Net project would be key growth driver for project business

Source: Company, ICICI Direct Research

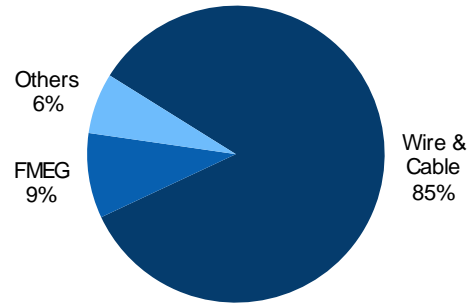
Financial story in charts

Exhibit 4: Segment wise revenue contribution in FY16



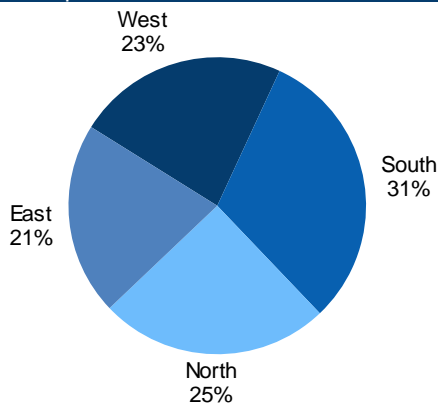
Source: Company, ICICI Direct Research

Exhibit 5: Segment wise revenue contribution in FY20



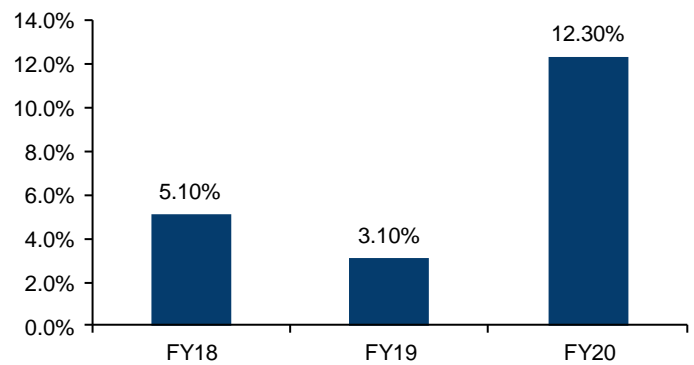
Source: Company, ICICI Direct Research

Exhibit 6: Well spread distribution network



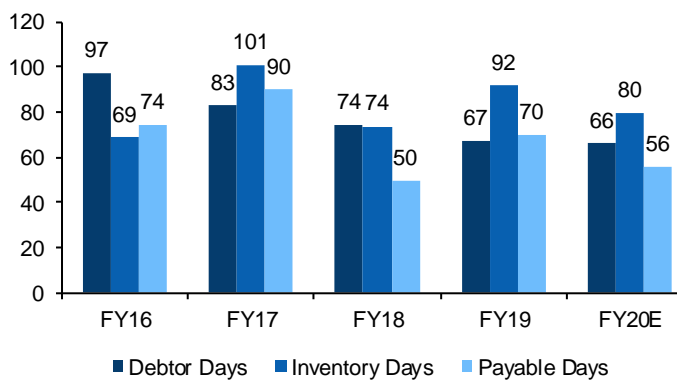
Source: Company, ICICI Direct Research

Exhibit 7: Export revenue contribution in topline



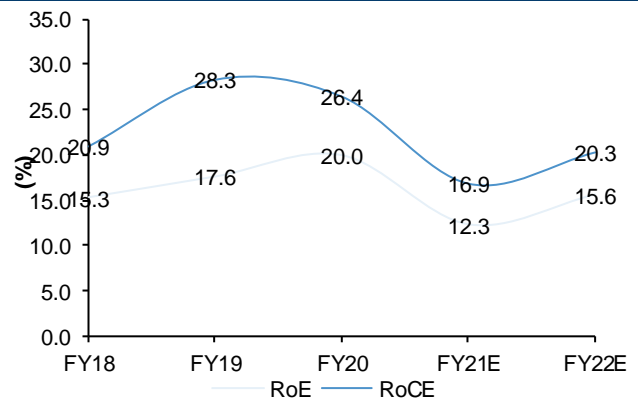
Source: Company, ICICI Direct Research

Exhibit 8: Working capital cycle



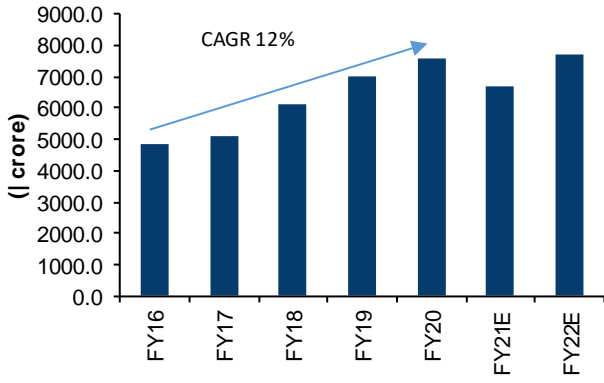
Source: Company, ICICI Direct Research

Exhibit 9: Return ratios profile



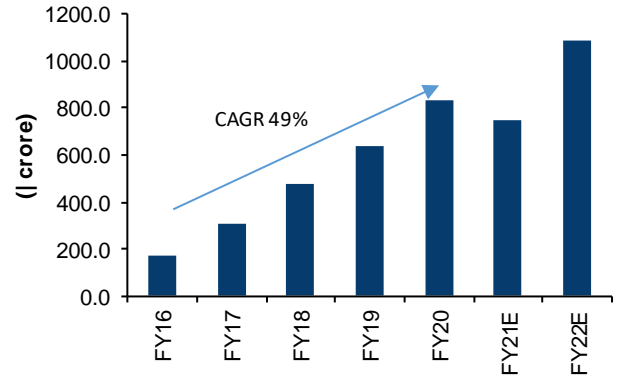
Source: Company, ICICI Direct Research

Exhibit 10: Wire & cable segment growth trend



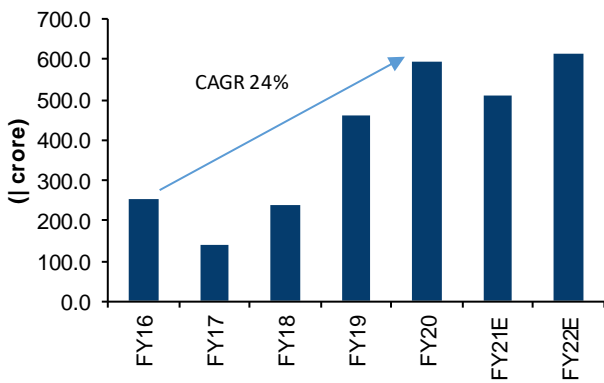
Source: Company, ICICI Direct Research

Exhibit 11: FMEG segment growth trend



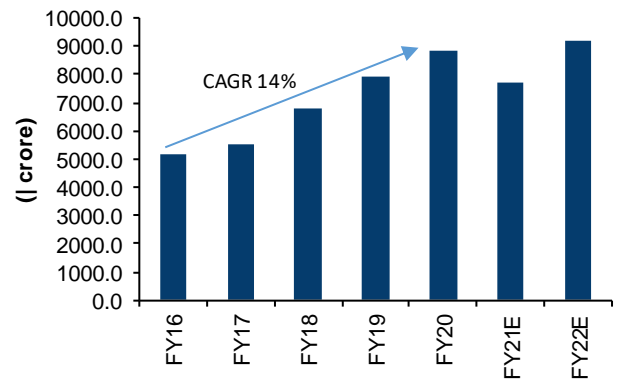
Source: Company, ICICI Direct Research

Exhibit 12: Other segment (largely EPC business) growth trend



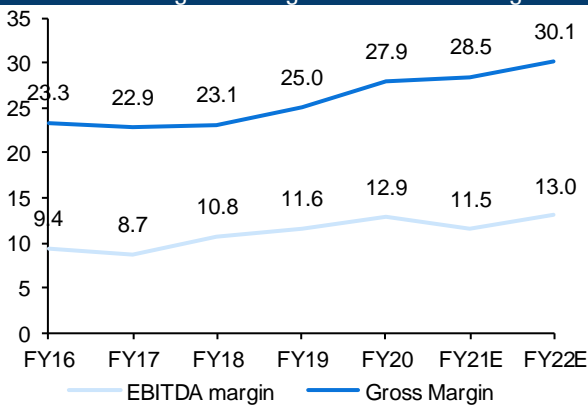
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated revenue growth trend



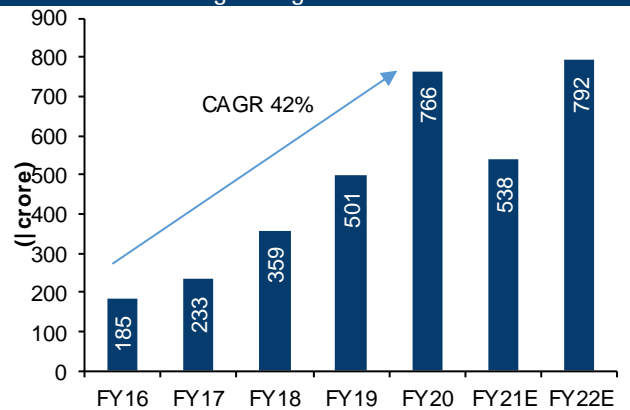
Source: Company, ICICI Direct Research

Exhibit 14: Trend of gross margin and EBITDA margin



Source: Company, ICICI Direct Research

Exhibit 15: FMEG segment growth trend



Source: Company, ICICI Direct Research

Conference call highlights

Wire & cable segment

- Segment revenue increased 7% YoY in FY20
- Domestic sales of wire & cable were impacted by challenging economic environment and benign commodity prices. Nationwide lockdown severely dented demand in Q4
- Domestic distribution channel sales posted a slight decline in FY20 while institution business was stable helped by execution of Optic Fibre Cable (OFC). OFC sales for the year was over ₹ 180crore
- Export contribution to overall sales increased to 12.3% in FY20 (3.1% in FY19) led by partial execution of Dangote order and increasing traction seen in few developed geographies like US
- Dangote sales amounted to about ₹ 750 crore in FY20
- Segment adjusted EBIT margin 530 bps YoY in Q4FY20 to 14.6% (up by 220 bps YoY to 12.7% in FY20) driving benefit from improved product mix and benign raw material prices
- Domestic wire and cable industry declined by 14% YoY in FY20. The unorganised industry (30-35% of total industry) declined 25% (I-direct estimate) whereas organised industry (60%-65%) would have declined 8-9% (I-direct estimate)

FMEG segment

- FMEG segment grew 30% YoY in FY20 driven by portfolio augmentation, better product mix, overall distribution expansion
- FMEG contribution to overall sales increased 140 bps YoY to 9.4% in FY20
- Fans continued to see great traction across portfolio improved sales mix and pricing actions led to better profitability
- EBIT margin increased from 1% in FY19 to 2.1% in FY20

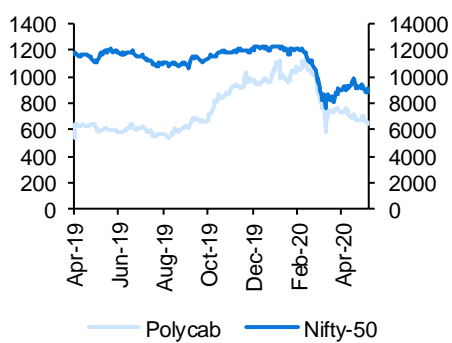
EPC segment

- Healthy topline growth in FY20 by 13% YoY with improved EBIT margin. Healthy topline growth and margins led by execution of profitable projects.
- Annual sustainable operating margin in this business is expected to be in high single digit over mid to long term
- In FY20, company with its consortium partners undertook projects under BharatNet Phase II in states of Gujarat and Bihar to connect over 4,700 Gram Panchayats with OFC in period of 10 months

Others

- Almost 40 days of sales impacted in Q1FY21 due to lockdown. Recovery in business would start from H2FY21.
- Company is working on various cost optimisation initiatives to improve operating leverage. Based on historical trend, the EBITDA margin is likely to be in the range of ~11%-13%
- Export revenue to be ~10% in the coming future
- Incurred capex of ₹ 280 crore in FY20. Capex in FY21 will be lower at ~₹ 200 crore depending on recovery in the economy

Exhibit 16: Historical price trend



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	NA	68.7	68.7	68.6	68.6
FII	NA	3.3	3.8	NA	4.9
DII	NA	4.4	4.2	NA	2.8
Others	NA	23.6	23.3	31.4	23.7

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Revenue	7,956.0	8,830.0	7,745.1	9,199.2	
Growth (%)	17.5	11.0	-12.3	18.8	
Raw material expense	5,374.6	5,626.6	4,879.4	5,703.5	
Employee expense	300.2	365.7	387.3	414.0	
Advertisement & P	96.6	108.7	77.5	128.8	
Forwarding expenses	149.9	189.7	154.9	202.4	
Other expenses	520.1	662.2	697.1	827.9	
Total Operating Ex	7,032.8	7,694.9	6,854.4	8,003.3	
EBITDA	923.2	1,135.0	890.7	1,195.9	
Growth (%)	26.7	22.9	-21.5	34.3	
Depreciation	141.4	160.9	178.1	203.3	
Interest	116.7	49.5	53.4	27.3	
Other Income	93.3	92.8	69.7	82.8	
PBT	758.4	1,017.4	728.9	1,048.0	
Total Tax	255.8	244.4	183.1	251.5	
PAT	500.5	765.6	538.4	792.1	
Growth (%)	39.6	53.0	-29.7	47.1	

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	500.5	765.6	538.4	792.1	
Add: Depreciation	141.4	160.9	178.1	203.3	
(Inc)/dec in Current Assets	-738.6	-152.3	-460.9	-566.7	
Inc/(dec) in CL and Pre	1236.9	-608.8	-147.4	176.7	
Others	116.7	49.5	53.4	27.3	
CF from operating a	1257.0	214.9	161.6	632.7	
(Inc)/dec in Investment	2.2	3.9	0.0	0.0	
(Inc)/dec in Fixed Assets	-277.0	-355.4	-250.0	-350.0	
Others	-21.7	-34.2	2.0	5.0	
CF from investing a	-296.5	-385.8	-248.0	-345.0	
Issue/(Buy back) of Ec	0.0	7.7	0.0	0.0	
Inc/(dec) in loan funds	-535.7	-39.7	50.0	-40.0	
Dividend paid & divid	0.0	-104.5	-71.5	-98.3	
Others	-116.7	265.8	31.4	-27.3	
CF from financing a	-652.4	129.2	9.9	-165.6	
Net Cash flow	308.1	-41.6	-76.5	122.1	
Opening Cash	10.7	317.6	276.0	199.5	
Closing Cash	317.6	276.0	199.5	321.6	

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Liabilities					
Equity Capital	141.2	148.9	148.9	148.9	
Reserve and Surplus	2,705.7	3,682.1	4,233.8	4,927.6	
Total Shareholders func	2,847.0	3,831.0	4,382.7	5,076.5	
Total Debt	192.0	152.3	202.3	162.3	
Other non current liabili	57.2	49.6	51.6	56.6	
Total Liabilities	3,096.2	4,032.9	4,636.6	5,295.4	
Assets					
Gross Block	1,785.9	2,093.1	2,343.1	2,693.1	
Less: Acc Depreciation	510.3	671.2	849.3	1,052.6	
Total Fixed Assets	1,468.6	1,663.1	1,735.0	1,881.7	
Investments	29.4	25.5	25.5	25.5	
Inventory	1,995.8	1,925.0	2,121.9	2,268.3	
Debtors	1,469.4	1,599.7	1,909.8	2,268.3	
Loans and Advances	25.8	29.8	26.1	31.0	
Other CA	256.7	345.6	303.1	360.0	
Cash	317.6	276.0	199.5	321.6	
Total Current Assets	4,065.3	4,176.0	4,560.4	5,249.2	
Creditors	1,520.2	1,353.7	1,273.2	1,361.0	
Provisions	37.1	49.4	46.5	49.7	
Other CL	974.8	520.2	456.3	541.9	
Total Current Liabilities	2,532.1	1,923.3	1,775.9	1,952.6	
Net current assets	1,533.2	2,252.7	2,784.5	3,296.6	
Other non current asse	65.0	91.6	91.6	91.6	
Total Assets	3,096.2	4,032.9	4,636.6	5,295.4	

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per share data (₹)					
EPS	35.4	51.4	36.2	53.2	
Cash EPS	45.5	62.2	48.1	66.9	
BV	201.6	257.3	294.4	341.0	
DPS	0.0	7.0	4.8	6.6	
Operating Ratios (%)					
EBITDA Margin	11.6	12.9	11.5	13.0	
PAT Margin	6.3	8.7	7.0	8.6	
Asset Turnover	4.5	4.2	3.3	3.4	
Inventory Days	91.6	79.6	100.0	90.0	
Debtor Days	67.4	66.1	90.0	90.0	
Creditor Days	69.7	56.0	60.0	54.0	
Return Ratios (%)					
RoE	17.6	20.0	12.3	15.6	
RoCE	28.3	26.5	16.9	20.3	
RoIC	22.4	24.7	15.6	19.2	
Valuation Ratios (x)					
P/E	21.0	14.5	20.6	14.0	
EV / EBITDA	11.9	9.6	12.4	9.1	
EV / Net Sales	1.4	1.2	1.4	1.2	
Market Cap / Sales	1.4	1.3	1.4	1.2	
Price to Book Value	3.7	2.9	2.5	2.2	
Solvency Ratios					
Debt / Equity	0.1	0.0	0.0	0.0	
Current Ratio	2.4	2.8	3.3	3.5	
Quick Ratio	1.1	1.4	1.7	1.9	

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
Asian Paints (ASIPAI)	1,716	1,900	Buy	1,64,564	29.9	32.5	38.6	57.4	52.8	44.5	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	958	900	Hold	14,433	16.6	14.2	20.0	57.8	67.2	47.8	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Havells India (HAVIND)	555	575	Buy	34,626	11.7	7.8	13.2	47.3	70.9	42.0	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	395	415	Buy	21,287	9.9	7.8	10.4	39.8	50.6	38.0	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,510	1,485	Buy	77,415	25.0	26.7	31.3	60.4	56.6	48.2	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Polycab India (POLI)	745	855	Buy	11,091	51.4	36.2	53.2	14.5	20.6	14.0	9.6	12.4	9.1	26.5	16.9	20.3	20.0	12.3	15.6
Supreme Indus (SUPIND)	1,062	1,040	Hold	13,490	38.5	36.8	27.6	39.7	28.9	38.5	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	899	1,055	Buy	6,289	26.0	23.7	35.1	34.6	38.0	25.6	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
V-Guard Ind (VGUARD)	186	210	Buy	7,918	4.4	3.5	5.1	42.8	52.6	36.5	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Voltas Ltd (VOLTAS)	567	635	Buy	18,753	15.8	9.5	21.4	36.0	59.7	26.5	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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