



**LAKEWATER**

Nurturing Visions and Values



# *Polycab India Ltd*

*(NSE: POLYCAB)*

Date : 22nd August 2020

Closing Price : ₹898

**Lakewater PMS**  
[www.lakewateradvisors.com](http://www.lakewateradvisors.com)

## Highlights

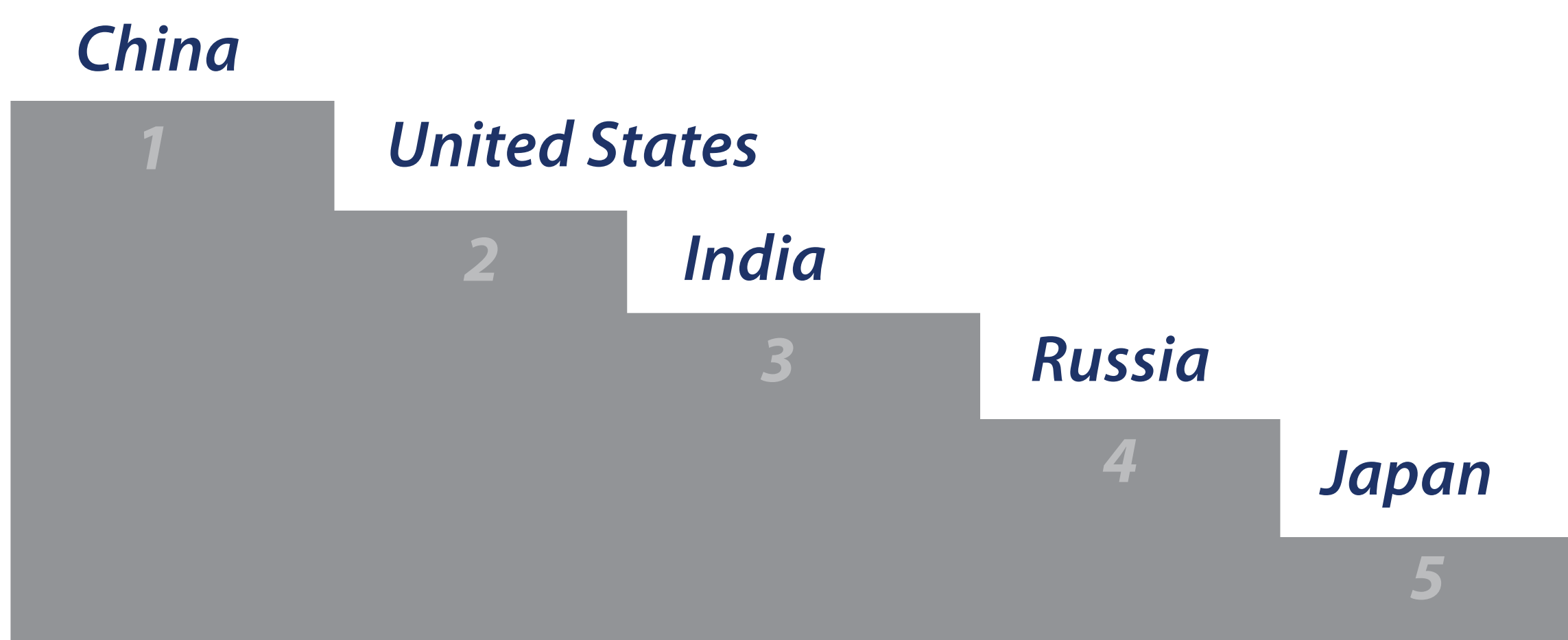
- Past few years have seen robust investments in the power and infrastructure sectors. This has supported the growth of wires and cables market, along with government incentives.
- The manufacturing base comprises 1/3rd of the unorganized sector of the wires and cables sector, the remaining 2/3rd is dominated by few major players. Polycab holds ~18% market share of the organized sector.
- Vast distribution network has helped Polycab to establish the Fast-Moving Electrical Goods (FMEG) segment in B2C space.

## Industry Scenario

Government is constantly coming up with numerous supportive measures and trying major efforts to make India self-reliant. Its prime focus is rural, infrastructure, and industrial growth. For this, a long-term strategy is planned, which includes boosting electricity generation and increasing per capita consumption. With government incentives to promote local manufacturing, it is going to rejuvenate better growth. In fact, globally, the market for cables is expected to be USD 145 bln, in which ~40% is contributed by the Asia-Pacific region.

India is the world's **third largest producer** (China and United States, being the first and second) and even consumer of electricity; wires and cables make ~40-45% of the electrical industry. It is estimated that the domestic wires and cables industry is over INR 500 bln. But, the outbreak of Covid-19 has resulted in sluggish macroeconomic conditions and weak consumer sentiment. Having said this, wires and cables are likely to pick demand, as it plays a vital role in all the prime sectors.

### Top 5 electricity consumers



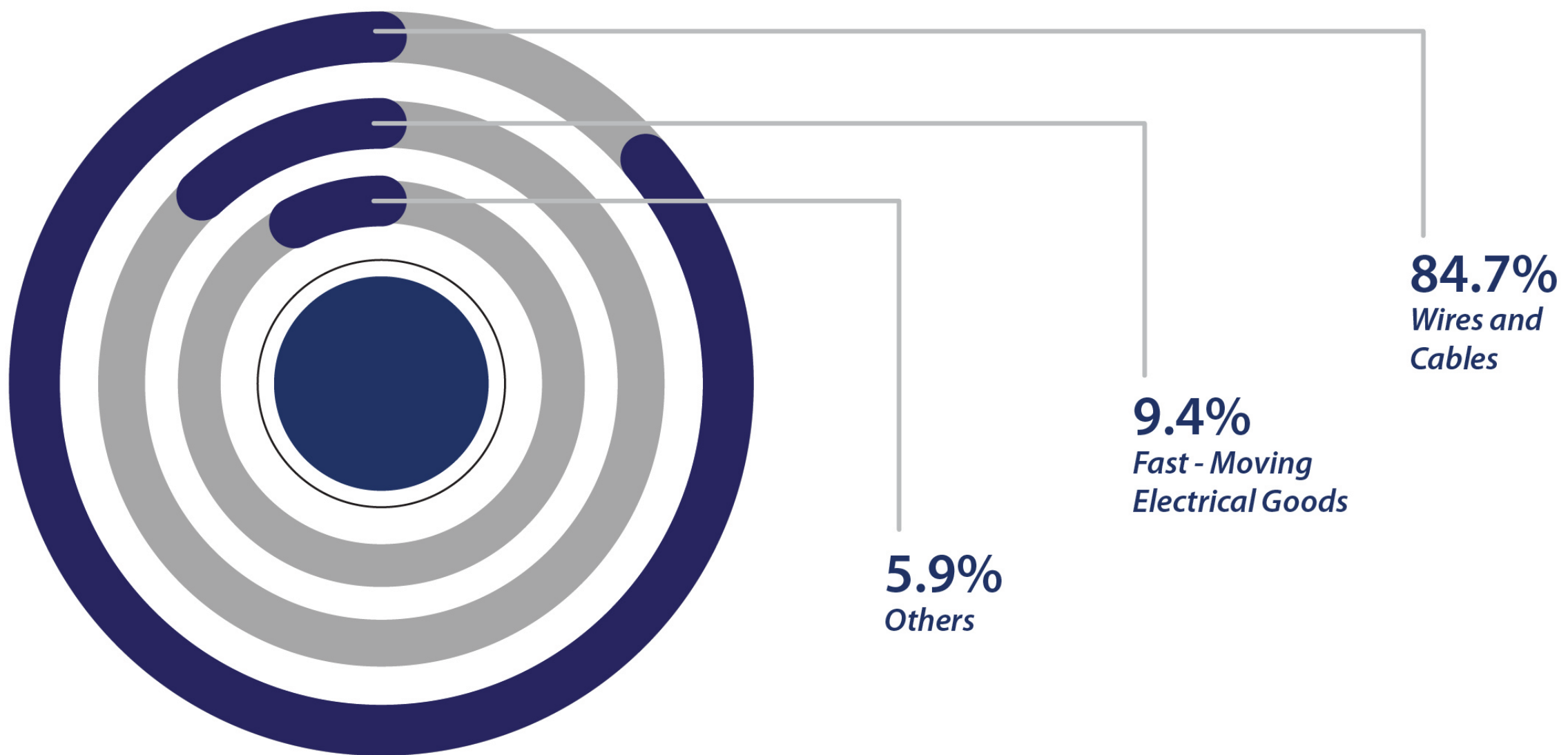
## Background

Polycab India (PIL) is the **leading manufacturer of wires and cables** in India. It is also involved in fast moving electrical goods (FMEG). It has an extensive portfolio that caters to both the industrial and retail. It has a Pan India presence with 25 manufacturing facilities, which includes two joint ventures with Techno and Trafigura. 4 out of 25 manufacturing facilities are related to FMEG products. The established supply chain is developed all over India. As on 31st March, 2018 it had 3,464 authorized dealers and distributors and 29 warehouses. Additionally, it exports to over **40 countries**.



## Top-line Segmentation

(%)



Source: Polycab Annual Report

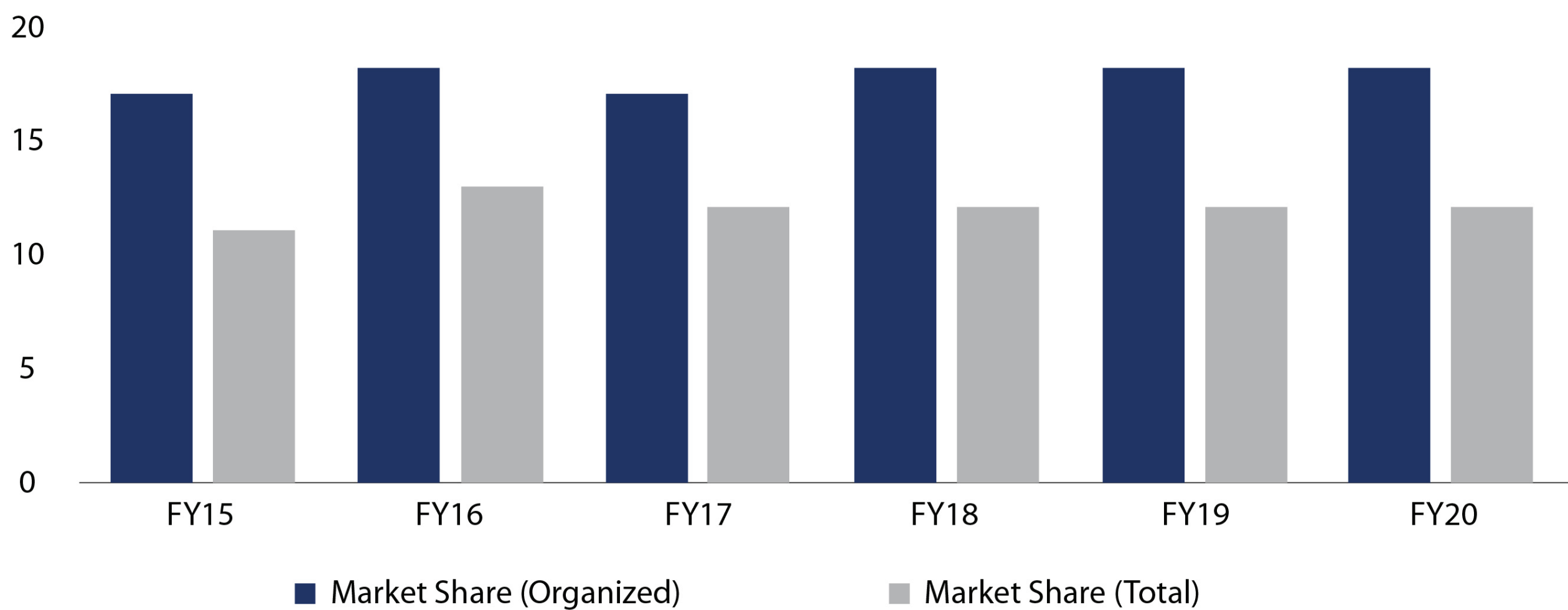
Though the company was incorporated in 1996, the promoters have a prior 15 years of experience.



Source: Polycab Annual Report

Ever since 1996, it is growing and maintains stable market share. Currently it has **~18% market share** of the organized sector and **~12-13%** of the total market since the last 5 years. Quality products, backward integration and distribution network is expected to rise.

## Polycab Market Share



Source: Polycab India Ltd, CD Equisearch

## Current Scenario

The earning of Q1 FY 21 has been released. The revenue has severely been impacted by Covid-19 outbreak and has reported a decline of 50% YoY, since ~45 business days were lost in lockdown this year. Q1FY2020 has been overall tough for all. But, Polycab was able to combat with positive growth in June 2020. Higher revenues were recorded as B2C sales was trending. The export orders witnessed a **growth of 116%**. Also, tight cost control drove better EBITDA than expected. The shrink in expenses was due to judicious cost management, by a massive cut in advertisement costs, and low variable pay to employees. The company managed to maintain its liquidity by deferring non critical spends and drawing credit lines. It is expected that some of the overhead cuts will be sustainable.



### Top - Line (Revenue)

Q1 FY21: 9,766 mn

≡ -50% Y-o-Y

≡ -54% Q-o-Q



### Operating (EBITDA)

Q1 FY21: 563 mn

≡ -75% Y-o-Y

≡ -81% Q-o-Q

Source: Polycab Quarterly Report -Q1 FY2021

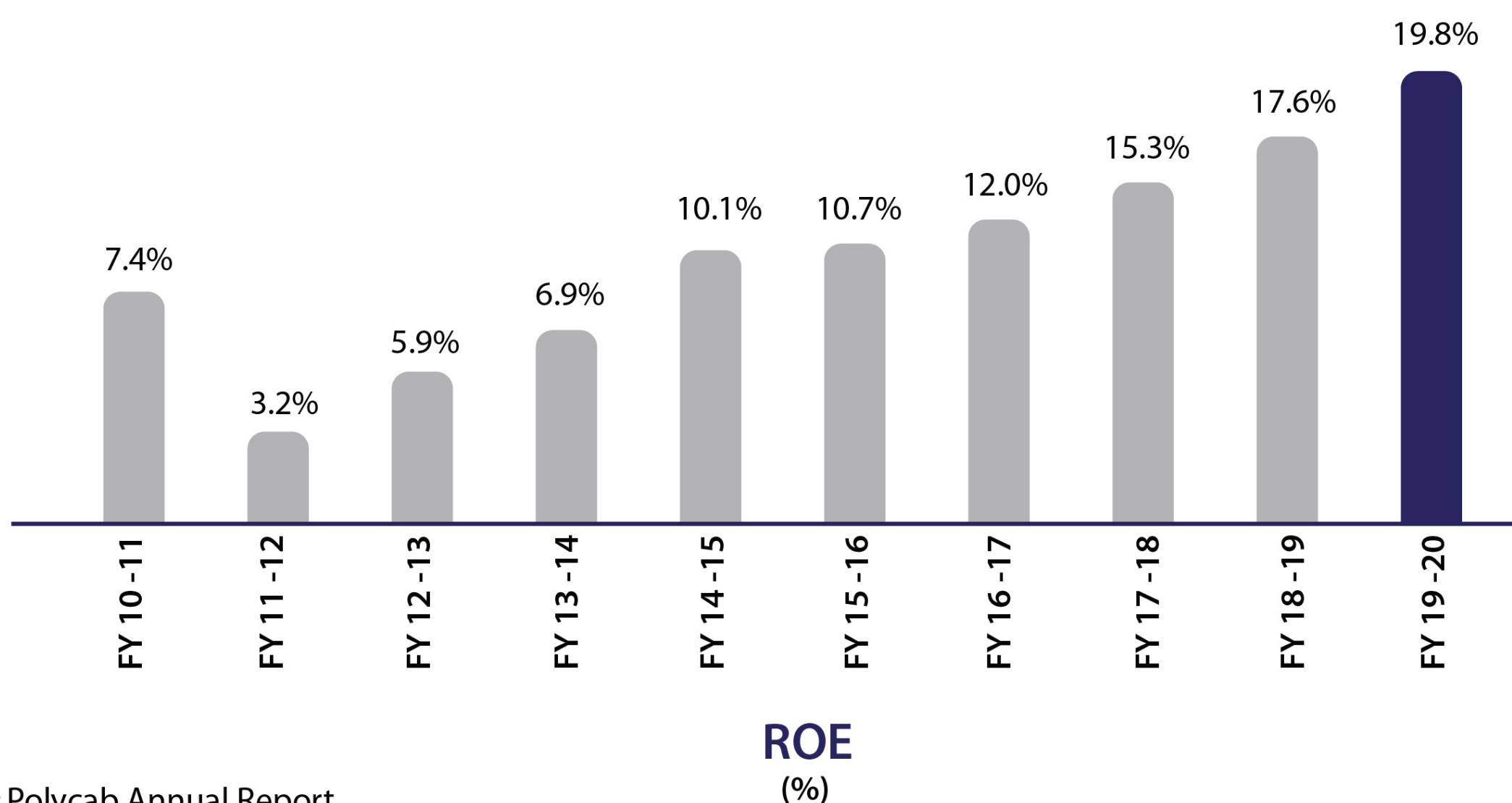
The unpredictable local lockdowns are affecting closures of stores. The Q2FY2020 is expected to show better results, as the demands are pumping up. However, the newly established subsidiaries in the US and Australia are embarking as strong pots of growth.

## Strengths

- **Independent of China** - - Polycab isn't dependent on China apart from premium fans (which has alternatives too). Most of the cables and wire metals, is sourced from Japan. Rest of the non-metals are obtained majorly from India itself or all over the globe. One of the notable point is that for FMEG business, everything is manufactured in the country itself.
- **Economic Growth** - India is witnessing robust economic growth, fast pace urbanization, and increase in per capita consumption. These dynamics shoots up the demand of electricity, and acts as a catalyst to strengthen and expand the current generation and transmission. Transmission and Distribution segment is assured to experience steep growth as the demand for energy rises.
- **Government Incentive** - Due to Covid-19, many countries are turning towards India. India can grab this chance and be "**Made for World**", only if it's well connected. Prime Minister, Narendra Modi, realizes its opportunity and in 2020 Independence Day speech has announced to **connect 6 lakh villages with optical fibre in 1000 days**. This will increase the demand of optical wires. Also, government incentives like Integrated Power Development Scheme (IPDS) and Pradhan Mantri Sahaj Bijli Ghar Yojna have created a positive impact on this industry. This has given a backing for the rising ROE.



## Polycab's decade ROE

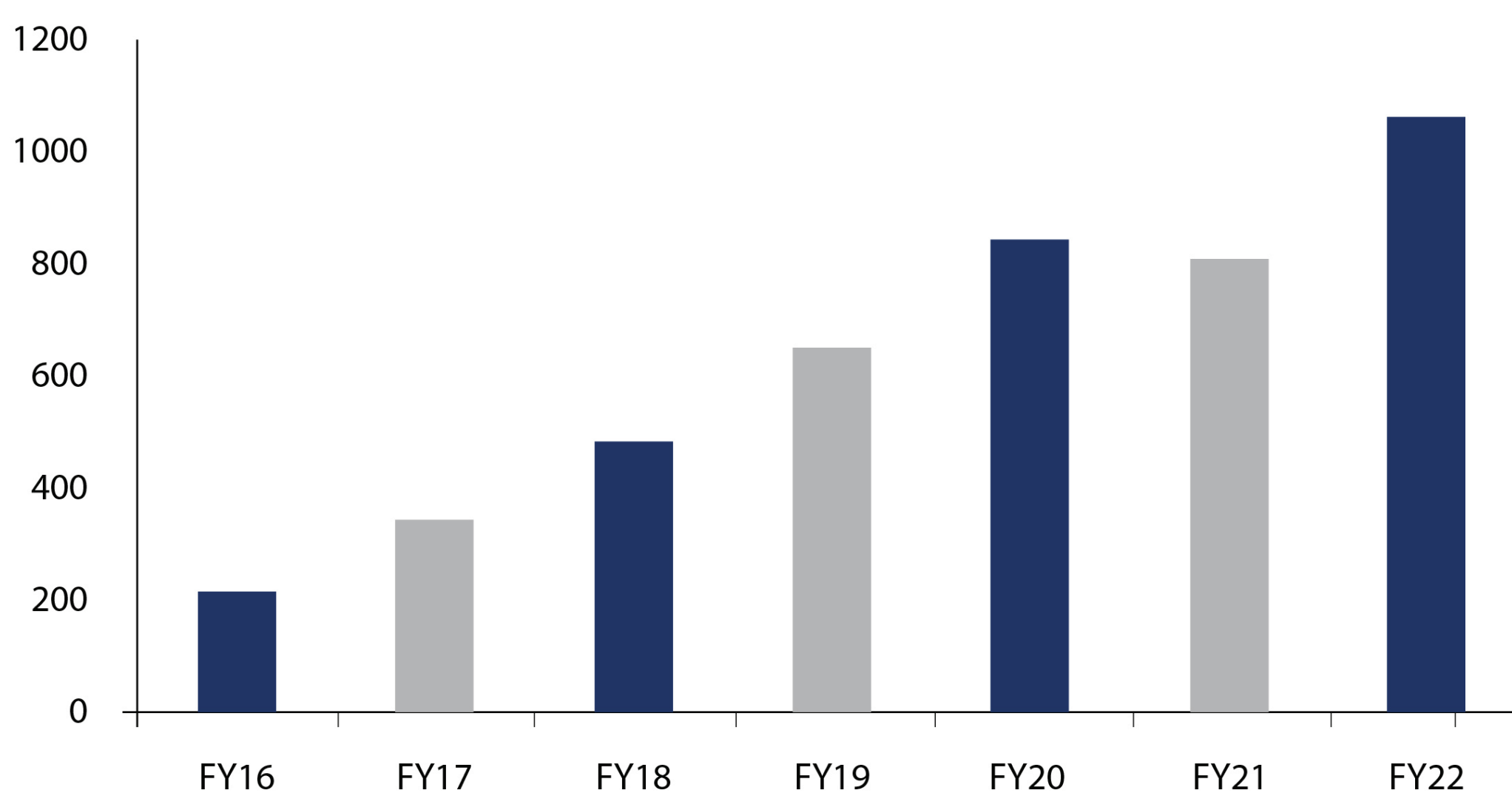


Source: Polycab Annual Report

- FMEG Segment** – Polycab is a leader in wires and cables business. With just 6 years in industry, FMEG segment share in revenue is increased to ~9%. 5 year top line CAGR of FMEG business is 47%. Though the EBIT margins are low, strong brand positioning is establishing Polycab as a **dominant B2C player**.

The stable 18% share in organized sector is being expanded with the support of FMEG sector.

## FMEG Revenue (In Rs. Cr)



Source: Polycab India, CD Equisearch

- Export Business** - The export orders had witnessed a growth of ~116% YoY, in spite Dangote Project linked sales were nil in Q1. The earnings are expected to vigorously grow with the execution of Dangote Project . Furthermore, the company is also exploring opportunities in USA, Australia via its subsidiaries. Exports business expected to reach target of **10% of overall revenues in 3- 5years**.
- Backward Integration** – Innovation, quality and availability is Polycab's competitive edge, which makes backward integration its prime focus. Production of raw materials has reduced its reliance on external factors and ensures stable supply. Its production capabilities have made high barriers for other companies to emulate.

Once Ryker plant (entire stake purchase in May 2020) is fully operational, it shall be able to fulfil the demand for copper wire rods too.

## Issues

- **Covid-19 phase** - Although the distribution channel is active, the large retailers in Tier 1 are affected, resulting to under utilization of capacity. Another barrier is shortage of labors. This is resulting delay in construction and infrastructure related projects.
- **Commodity Risk** - Polycab manufactures raw materials, but the cost of primary raw materials is fluctuating. For instance, copper and aluminum is linked to prices on London Metal Exchange and that of PVC compounds depends on crude oil's price. Usually, the cost is passed on to consumers, but this isn't possible in case of rapid fluctuation. This consequently affects operating results. Currently, mitigation is place with the help of hedging.
- **Key-end user** - Polycab is dependent on its key end users. A downturn is any of them due to geopolitical tensions, general economic slowdown or government policy can impact negatively. The company ought to diversify and penetrate deeper to avoid impact of any user.

The consumer sentiment is weak at the moment. July has seen growth already and this is just a phase effect, which shall be recovered soon.

## FY2021 Outlook

Polycab is trying to keep the balance sheet healthy. The focus is to maintain optimized inventory level. Channel financing, cost and supply chain optimization, digitization of process, are multiple strategies that Polycab is undertaking to drive growth. There is a significant expectation from export business, provided there isn't any strict lockdown in any geography. Apart from the internal stratagems, the external factor that shall play a crucial role is anti-China sentiment. This shall help the company attain a better grip in the market.

Overall, 2QFY21 is expected to better than the first quarter.

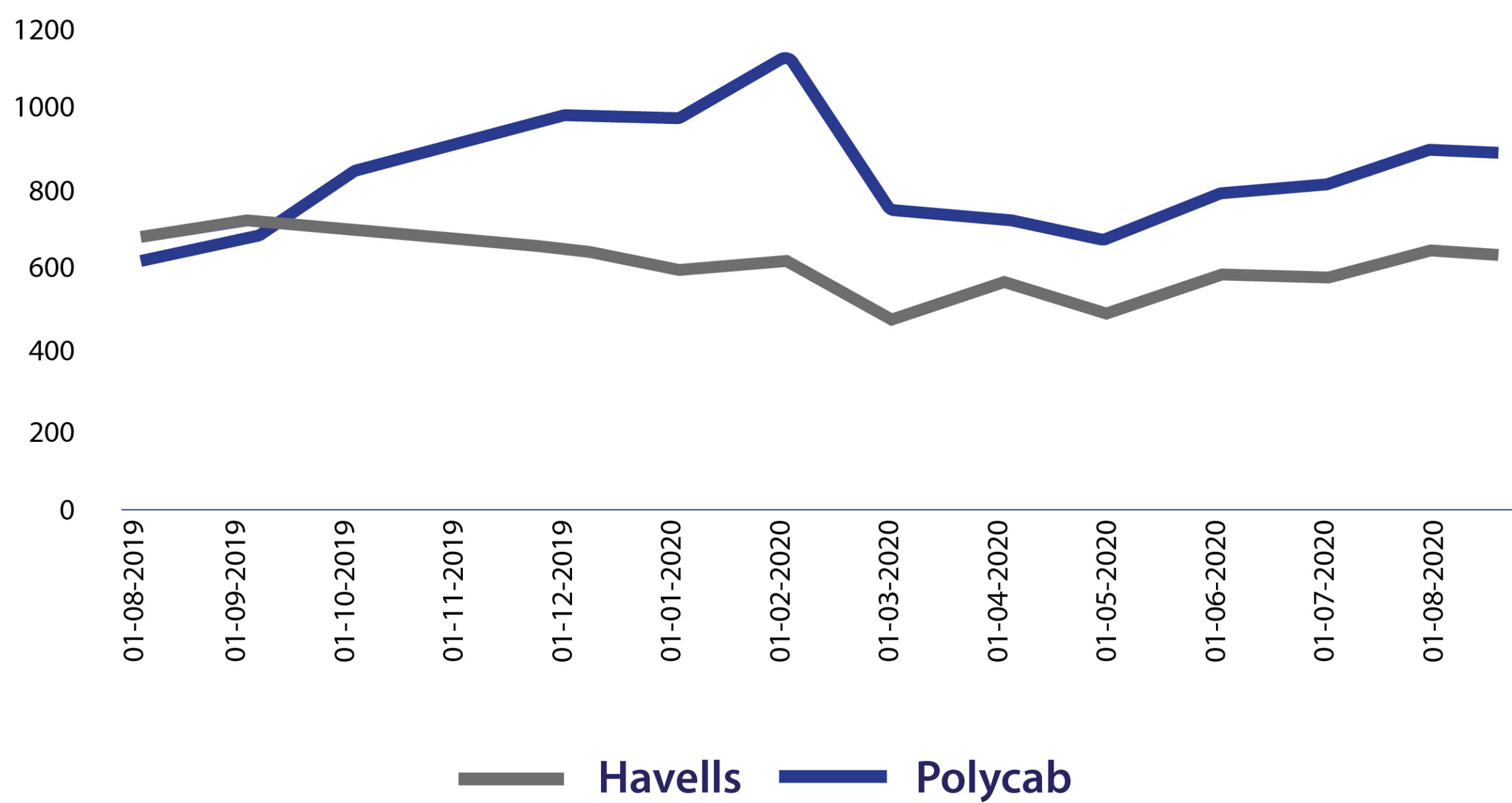
## Polycab or Havells

Though Polycab and Havells belong to similar territories- electrical equipment manufacturing, the market to which they cater is different. Polycab is both in B2B and B2C market, but has major emphasis on B2B and Havells is mainly in retail.

Even though they are in same sector, Polycab is expanding and Havells is contracting. Polycab's EBITDA Margin in FY20 was 12.7% (FY19, it was 11.9%), while that of Havells was 10.9% (FY19, it was 10.9%). Also, if we focus on Earning Per Share of FY20 in comparison to FY19, Polycab's Basic EPS has increased to INR 51.16 from INR 35.39 and that of Havells has decreased to INR 11.76 from INR 12.59. Studying the growth, Lakewater places its bet on Polycab.



## Polycab vs Havells



Source: Moneycontrol

### Conclusion

Industry Revolution 4.0 has made digital a new normal and is transferring conventional business. This needs smart and advance digital infrastructure. Further, the wire and cable industry in India will see a steady growth in the coming years due to commercialization of renewable power generation. These will provide robust growth of Polycab.

Polycab expects healthy progress because of increase in consumer electrical demand, and government incentives. The growth is further backed by its wide range of products, strong manufacturing experience, strategic backward integration, and branding position. Noting all these positive factors, makes **Lakewater Advisors bullish on Polycab**.

### References

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