

Polycab India Limited
IPO Note
(SUBSCRIBE)

Analyst:

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IPO details

Key Data	
Issue Opens	5-Apr-19
Issue Closes	9-Apr-19
Equity Shares Offered (in mn.)	25.02
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	533-538
Max. Issue Size (₹ mn)	13,459
Lot Size (Eq. Shares)	27 and multiple thereof

Valuation	@ 533 per share	@ 538 per share
Market Cap (₹ mn)	79,226	79,969
Net Debt (₹ mn)	717	717
Enterprise Value (₹ mn)	79,943	80,686
EV/ Sales	11.8	11.9
EV/ EBIDTA	4.8	4.8
P/B	3.4	3.4
P/E	20.3	20.5

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	111.5	78.9%	93.9	63.2%
Public	29.7	21.1%	29.7	20.0%
Offer for sale			17.6	11.8%
Fresh Issue			7.4	5.0%
Total	141.2	100.00%	148.6	100.0%

Object of Offer for sale

- To achieve benefits of listing
- General corporate purposes

Recommendation

Being the largest manufacturer in wires and cable category and after controlling attractive market share of 18% in organized market Polycab is well placed compared to its peers. Having a pan India distribution network and back integrated operations gives the company an added benefit. The management is focusing to increase the concentration from 35% in B2C business to 50% which would augur well in margins expansions in the future.

On valuation front, upper issue price at 20.5x FY18 earnings is fairly at par with its peers and can be looked for further growth on back of its robust growth for long term. Therefore, we recommend

SUBSCRIBE over the issue.

The largest manufacturer in the wires and cables industry in India..

- ❑ POLYCAB is engaged in the business of manufacturing and selling wires and cables and fast moving electrical goods (“FMEG”) under the “POLYCAB” brand. According to CRISIL Research, it is the largest manufacturer in the wires and cables industry in India, in terms of revenue from the wires and cables segment and provide one of the most extensive range of wires and cables in India.
- ❑ Apart from wires and cables, it manufactures and sell FMEG such as electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories.
- ❑ According to CRISIL Research, the wires and cables industry in India, in value terms, has grown at a compound annual growth rate (“CAGR”) of approximately 11% in the last five years to reach ₹525 billion in Fiscal 2018. CRISIL Research expects the wires and cables industry in India to expand at a CAGR of approximately 15% in value terms to reach approximately ₹1,033 billion by Fiscal 2023
- ❑ The company manufactures and sell a diverse range of wires and cables and our key products in the wires and cables segment are power cables, control cables, instrumentation cables, solar cables, building wires, flexible cables, flexible/single multi core cables, communication cables and others including welding cables, submersible flat and round cables, rubber cables, overhead conductors, railway signaling cables, specialty cables and green wires
- ❑ In 2009, it diversified into the engineering, procurement and construction (“EPC”) business, which includes the design, engineering, supply, execution and commissioning of power distribution and rural electrification projects. In 2014, it diversified into the FMEG segment and the key FMEG are electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories.
- ❑ It has 24 manufacturing facilities, including the two joint ventures with Techno Electromech Pvt Ltd. (“Techno”) and Trafigura Pte Ltd (“Trafigura”), located across the states of Gujarat, Maharashtra and Uttarakhand and the union territory of Daman and Diu. Four of these 24 manufacturing facilities are for the production of FMEG, including a 50:50 joint venture with Techno, a Gujarat-based manufacturer of LED products.
- ❑ In 2016, it entered into a 50:50 joint venture with Trafigura, a commodity trading company, to set up a manufacturing facility in Waghodia, India to produce copper wire rods (the “Ryker Plant”). It expects the Ryker Plant to commence commercial operations by the end of Fiscal 2019, with an estimated annual capacity of 225,000 MT of copper wire rods once it is fully operational.
- ❑ The research and development (“R&D”) capabilities, emphasis on upgrading the technology used in the production process, customer-centric R&D efforts and the R&D center located in Halol, assist sales and marketing team in understanding customers’ requirements.

Source: Red Herring Prospectus, Dealmoney research

- ❑ The company has been awarded the gold trophy for five consecutive years from 2013 to 2017 at the Annual Convention on Quality Concepts organized by the Quality Circle Forum of India. It works closely with major power utilities, oil and gas, IT parks, metro rail, infrastructure, metal and non-metal, cement and EPC companies that operate in India and abroad.
- ❑ From FY16 to FY18, the total income less excise duty grew at a CAGR of 14.31%. During the same period, FY16 to FY18, the EBITDA and profit for the year grew at a CAGR of 23.82% and 41.71%, respectively. For FY16, FY17 and FY18, the total income less excise duty was ₹52,355.47 million, ₹55,756.49 million and ₹68,414.91 million respectively, the EBITDA margin was 10.01%, 9.96% and 11.74% respectively, the PAT margin was 3.53%, 4.18% and 5.42% respectively, the ROE was 10.34%, 11.67% and 15.76% respectively, the RoCE was 15.99%, 14.98% and 21.25% respectively, and the debt to equity ratio (D/E) was 0.45, 0.43 and 0.34 respectively.

Total income by segment

	9MFY19		9MFY18		FY18		FY17		FY16	
	₹ mn	% of total income	₹ mn	% of total income	₹ mn	% of total income	₹ mn	% of total income	₹ mn	% of total income
Wires and cables external sales	48,634	87%	43,988	90%	62,401	89%	56,082	92%	52,634	92%
FMEG external sales	4,480	8%	3,169	7%	4,943	7%	3,384	6%	1,981	3%
Others external sales	2,454	4%	1,585	3%	2,491	4%	1,720	3%	2,825	5%
Financial income	43	0%	40	0%	27	0%	39	0%	34	0%
Total income	55,611	100%	48,782	100%	69,861	100%	61,225	100%	57,473	100%

Other external sales" comprises EPC business, which includes design, engineering, supply, execution and commissioning of power distribution and rural electrification projects.

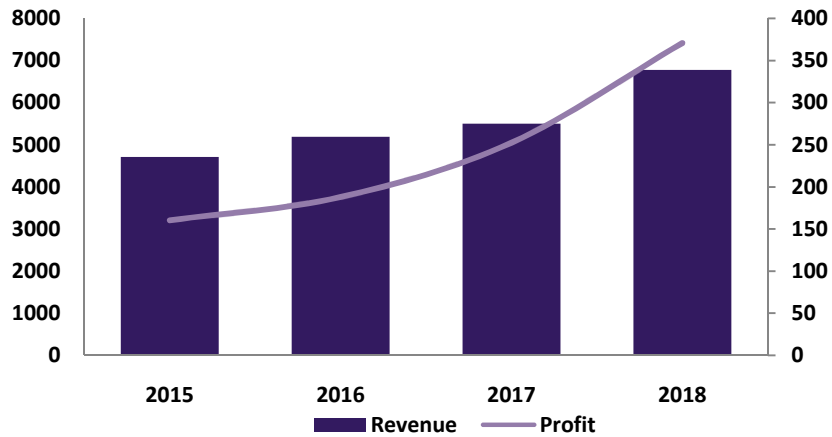
Breakdown of external sales for our wires and cables business

	9MFY19		9MFY18		FY18		FY17	
	₹ mn	% of total income	₹ mn	% of total income	₹ mn	% of total income	₹ mn	% of total income
Wires and cables external sales								
Cables	25,311	52%	23,508	53%	34,080	55%	27,991	50%
Wires	21,692	45%	17,485	40%	24,363	39%	20,504	37%
Others	1,631	3%	1,549	4%	2,511	4%	2,118	4%
ExciseDuty	-	-	1,446	3%	1,446	2%	5,469	10%
Total wires and cables external sales	48,634	100%	43,988	100%	62,401	100%	56,082	100%

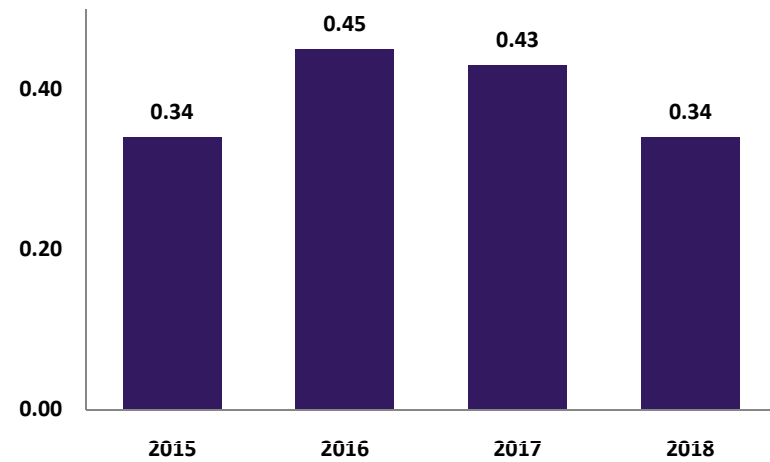
Source: Red Herring Prospectus, Destimoney research

Operating metrics

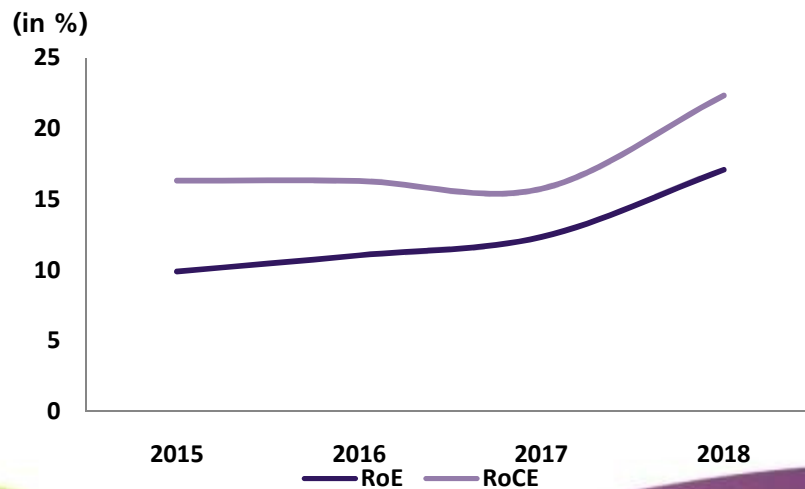
Revenue and PAT (In Crs)



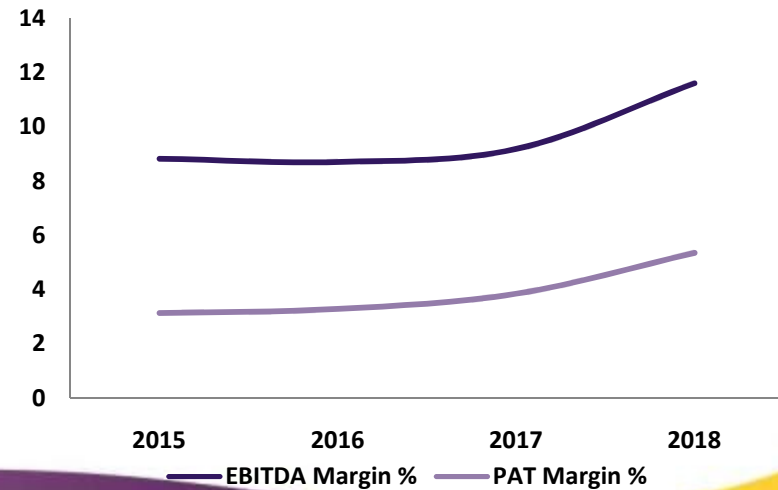
Debt-to-Equity Ratio



Return Ratio



EBITDA and PAT Margin



Peers

Company Name	Mcap	CMP	Net Sales	Operating Profit (Excl OI)	Profit After Tax	EBITM (%)	PATM (%)	ROE (%)	ROCE (%)	Debt/Equity (x)	PE
Polycab India Limited	7,997	538.00	6,779	741	371	11.60	5.35	17.07	22.33	0.34	20.50
Peers											
Bajaj Electricals Ltd.	5,624	549.25	4,707	282	94	4.96	2.00	10.60	14.76	0.78	38.56
Crompton Greaves Consumer Electricals Ltd.	14,352	228.90	4,080	531	324	13.38	7.89	54.48	42.19	0.92	39.42
Havells India Ltd.	48,196	770.55	8,146	1,031	661	11.97	7.99	18.87	27.00	0.03	59.47
KEI Industries Ltd.	3,300	418.15	3,465	339	145	9.03	4.13	27.49	23.26	1.41	19.24
V-Guard Industries Ltd.	9,474	221.90	2,326	190	135	7.78	5.78	20.31	26.02	0.01	70.77

Strengths

- ❑ **Market leader in wires and cables in India:** POLYCAB is the largest wires and cables manufacturer in India, in terms of segment revenues, with a market share of approximately 18% of the organized wires and cables industry and approximately 12% of the total wires and cables industry in Fiscal 2018 (Source: CRISIL Research). Having grown at a CAGR of 14.2% from Fiscals 2014 to 2018 in terms of operating revenues, it is one of the faster growing manufacturers in the organized wires and cables industry during the period from Fiscals 2014 to 2018 (Source: CRISIL Research).
- ❑ **Diverse suite of electrical products with varied applications across a diverse customer base:** The company manufacture and sell a diverse portfolio of wires and cables and FMEG, which also gives them the opportunity to cross-sell the products to the diverse base of customers. Since the incorporation as a business-to-business (“B2B”) manufacturer of wires and cables, it has diversified into the FMEG business and transformed the company from a pure B2B company into a B2B and business-to-customer (“B2C”) company. According to CRISIL Research, it is one of the most diversified product portfolio as compared to the peers in the industry.
- ❑ **Strong distribution network:** The distribution network across India also enables it to roll out new products more quickly, which gives the company a competitive advantage over other competitors. For the nine months period ended December 31, 2018, the distribution network across India comprised over 2,800 authorized dealers and distributors. It supply products directly to the authorized dealers and distributors who in turn sell the products to over 100,000 retail outlets in India. Further, it supply the portfolio of products to the direct customers including EPC companies and government companies through direct sales.
- ❑ **Manufacturing facilities with high degree of backward integration:** The competitive edge lies in product innovation, quality and availability. It manufactures products within its manufacturing facilities, which were set up to address the specific needs of innovation, quality and availability. It has developed systems throughout the production process to ensure the quality and reliability of products. The manufacturing facilities are accredited with quality management system certificates for compliance with ISO 9001, ISO 14001, OHSAS 18001 requirements. The central quality and test laboratory, located at Halol, is accredited by NABL and our central test laboratory, also located at Halol, for all flexible cables and wires is approved by UL. Certain products are also certified to be compliant with various national and international quality standards including BIS, BASEC, UL, IEC and various specific approvals from other countries.
- ❑ **Strong brand in the electrical industry:** it has an established manufacturer of wires and cables and other electrical products, and it sell the products under our “POLYCAB” brand. According to CRISIL Research, it is the largest player in the wires and cables industry in India in terms of segment revenue. As of Fiscal 2018, it has approximately 18% market share of the organized wires and cables industry, estimated at ₹346 billion, and approximately 12% market share of the total wires and cables industry, estimated at ₹525 billion.

Future road ahead

- ❑ **Enhance and strengthen leadership position in wires and cables:** The Indian wires and cables market has grown at a CAGR of approximately 23% from Fiscals 2014 to 2018, in terms of production volume (Source: CRISIL Research). Accordingly, CRISIL Research expects the domestic cables and wires industry to expand at a CAGR of approximately 12% and reach an estimated 26.2 million kms by Fiscal 2023. In value terms, CRISIL Research expects the Indian wires and cables market to grow at a CAGR of approximately 15% to reach an estimated ₹1,033 billion by Fiscal 2023, due largely to government initiatives in power and infrastructure such as increased infrastructure expenditure by the Government which will boost demand for wires and cables, growth in fire survival cables supported by metro, airport and commercial real estate projects and Smart Cities Missions' investment in underground cables, an increase in industrial investment, a rise in consumer spending and an increase in exports of wires and cables from India.
- ❑ **Continue to expand FMEG business:** FMEG business has potential for future growth. CRISIL Research expects (i) the switches industry in India to grow at a CAGR of approximately 9% to ₹62 billion by Fiscal 2023, driven by modular switches that have higher realizations, (ii) the lighting and luminaire industry in India to grow at a CAGR of approximately 7% to reach an estimated market size of ₹301 billion by Fiscal 2023 largely due to a decline in LED chip prices, government policies to encourage LEDs and increasing consumer awareness for energy efficient technologies such as LED lighting, and (iii) the electric fans industry in India to grow at a CAGR of approximately 7% to ₹111 billion by Fiscal 2023 largely due to government initiatives, the introduction of value added products by major fan manufacturers, replacement demand in urban areas, rise in rural penetration and improving economic factors.
- ❑ **Expand distribution reach:** the company intend to increase the size of addressable market by increasing the number of authorized dealers and distributors in North, South and East India. It has planned to penetrate new towns through these additional dealers and distributors. it consistently evaluate the need for newer warehouses and take appropriate decisions when necessary. It intend to add regional distribution centers in Hyderabad and Kolkata and smaller warehouses in other locations depending on the market potential and sales plans. These new warehouses will be equipped with ASRS comprising features such as advanced racking mechanisms to meet competitive delivery deadlines. It will also look to implement auto-replenishment modules across warehouses to help us better monitor and manage the inventory levels at authorized distributors and dealers.
- ❑ **Strengthen brand recognition:** it aims to continue enhancing brand awareness and customer loyalty through promotional and marketing efforts. It will seek to increase visibility and brand recognition through increased advertising in print and social media and television campaigns and increased one-to-one interactions with the authorized distributors, authorized dealers and end-consumers. It will also strengthen the influencer activities targeted at retailers, electricians, contractors, consultants, builders, industrial customers and government agencies. At the retail outlets, it intend to enhance the point of sale activities and increasing the visibility through signage and displays.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- ❑ **Expertise in undertaking all stages of project development and execution from conceptualisation to commissioning:** Work on a turnkey basis and undertake the full cycle of project development from concept to commissioning including stages of design, preparation of estimates, calling and award of contracts, project and contract management etc. It has the expertise in undertaking all nature of railway infrastructure projects. This has also helped build its expertise in executing projects across a wide range of activities. It had contributed to more than 33% of the doubling projects and more than 21% of electrification projects of the total reported by Indian Railways for the last five years (FY13 to FY17).
- ❑ **Established financial track record:** Established a consistent track record of financial performance and growth. Revenue from operations on consolidated basis for the FY2016, FY2017 and FY2018 and the six month period ended September 30, 2018 aggregated to ₹45,398.54 million, ₹59,151.06 million, ₹75,973.58 million and ₹36,228.82 million, respectively. Net profit was ₹4,290.20 million, ₹4,430.91 million, ₹5,693.60 million and ₹2,536.35 million, respectively, for the same periods. Revenue from operations has increased at a CAGR of 29.36% from ₹45,398.54 million in the Financial Year 2016 to ₹75,973.58 million in the Financial Year 2018, and net profit has increased at a CAGR of 15.20% from ₹4,294.34 million in Financial Year 2016 to ₹5,699.20 million in the Financial Year 2018. As on December 31, 2018, its total order book value was ₹775,042.80 million.
- ❑ **Undertaken diverse categories of projects with an asset light model:** It has over the years, leveraged our expertise in diverse segments of the railway infrastructure such as doubling, railway electrification, gauge conversion, new line, metro rail projects, workshops/maintenance facilities for railway sector. Each of these segments / sub-segments require specific skill sets and experience which have been developed by our Company for the timely execution of the projects in these sectors.
- ❑ **Empowerment by MoR for sanctioning project estimates and award of contracts:** It has been authorised by MoR to sanction detailed estimates within prescribed limits and award contracts of any value to its contractors for implementation of its projects. This provides an advantage over its competitors in railway sector. This enables it to expedite its delivery timelines and reduce project delays resulting in controlling cost and time overruns.

Source: Red Herring Prospectus, Destimoney research

Future road ahead

- ❑ **To leverage its position as an executing agency in MoR's investment plan for ramping of rail infrastructure:** Since RVNL is an executing agency of the MoR for various infrastructure projects, it plans to leverage its existing knowledge and experience in execution of projects for assignment of further projects from the Indian Railways. For 2018-19, the total capital and development expenditure of railways has been pegged at ₹148,528 crore. Further, 100% FDI has been approved by Government for the activity of Indian Railways – construction, operation & maintenance of the entire railway segment.
- ❑ **Securing of rail infrastructure projects from other ministries/ PSUs:** Since RVL has gained expertise in execution of projects, on account of being executing agency for the MoR, it propose to utilise this experience to obtain orders from other ministries/government departments/PSUs for example strategic lines in border areas and sidings for military use, providing linkages to collieries and other mines etc.
- ❑ **Focus on high value projects:** It has recently been assigned the hill projects in the difficult terrains of the Himalayas for the construction of the new lines between Rishikesh-Karnprayag in Utrakhand and Bhanupalli – Bilaspur - Beri in Himachal Pradesh. The new line till Beri is likely to be extended upto Ladakh on strategic consideration, which may be considered for transfer to RVNL for execution on concurrent basis. Hence, in the coming years, it intends to increase our focus on projects with high value, especially in hilly terrains.
- ❑ **Implementation of railway workshops and factory projects:** Indian Railways has seven production units to manufacture locomotives, coaches and wheels and about 50 workshops to undertake periodic overhaul or midlife rehabilitation of rolling stock. Besides, there are a number of loco sheds and carriage and wagon depots for day-to-day maintenance. It has successfully completed seven projects related to construction of workshops including augmentation of production capacity at diesel locomotive works, Varanasi. At present, five further projects for sheds at Latur (Maharashtra), Kanpur (UP), Gaya (Bihar), Sonipat (Haryana) and Vishakhapatnam (Andhra Pradesh) are under execution. An increase in the Indian Railways' policies and budgetary allocation to expand and upgrade the workshops and maintenance depot will provide an opportunity to implement more such projects in the near future.

Source: Red Herring Prospectus, Destimoney research

Consolidated Summary Financials

Income Statement

₹ Crores	Mar-15	Mar-16	Mar-17	Mar-18
Total Income	4,708	5,187	5,500	6,779
Operating Expense	4,268	4,701	5,020	6,038
EBIDTA	440	486	480	741
Depreciation	98	111	128	133
Other Income	11	12	75	62
Finance Costs	108	116	66	94
PBT & (EI)	245	271	361	576
Exp Income	-	-	-	-
PBT	245	271	361	576
Provision for Tax	85	83	128	206
PAT	160	188	233	371
Less : Minority Intrest	-	-	(0)	(1)
Share of Associate	-	-	(0)	0
Net Profit	160	188	233	370

	FY15	FY16	FY17	FY18
EBIDTA Margin	9.3%	9.3%	8.6%	10.8%
Net Margin	3.4%	3.6%	4.2%	5.4%
ROE	9.9%	11.0%	12.3%	17.1%
ROCE	16.3%	16.3%	15.7%	22.3%

Balance Sheet

₹ Crores	Mar-15	Mar-16	Mar-17	Mar-18
Liabilities				
Share capital	141	141	141	141
Reserves and surplus	1,481	1,644	1,852	2,208
Minority Interest	0	3	3	4
Long-Term Borrowings	-	101	162	159
Deferred Tax Assets / Liabilities	17	21	66	55
Long Term Provisions	6	8	9	10
Other Long Term Liabilities	-	11	19	18
Trade payables	963	1,057	1,354	922
Short Term Borrowings	546	695	659	569
Other current liabilities	88	140	227	220
Short term provisions	71	30	60	120
Current Tax liability (Net)	-	-	-	-
Total Liabilities	3,312	3,852	4,553	4,426
Assets				
Net Block	825	985	1,128	1,197
Intangible assets	-	-	-	-
Capital Work in Progress	177	138	165	136
Non Current Investments	0	0	33	32
Long Term Loans & Advances	57	35	144	156
Other Non Current Assets	8	68	2	1
Inventories	904	980	1,520	1,366
Sundry Debtors	1,085	1,349	1,173	1,269
Cash and Bank	27	51	30	11
Other Current Assets	16	7	45	46
Short Term Loans and Advances	213	238	311	213
Total Assets	3,312	3,852	4,553	4,426

Source: Red Herring Prospectus, Destimoney research

Key Risks

- ❑ Significant increases or fluctuations in prices of, or shortages of, or delay or disruption in supply of primary raw materials could affect its estimated costs, expenditures and timelines which may have a material adverse effect.
- ❑ Heavily dependent on the performance of the wires and cables market.
- ❑ Copper, aluminium, steel and polyvinyl chloride are major raw materials for the company, with copper accounting for around 56% of total raw material. Any significant increase in the prices of the raw materials in short term can affect the margins which have been increasing consistently.
- ❑ Any change in import duty structure on wires and cables and on FMEG products can result in higher imports and, thus, pricing pressure on the industry, which can hurt the margins.

Source: Red Herring Prospectus, Destimoney research

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A graph of daily closing prices of securities available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart). Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

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