

28<sup>th</sup> January 2021

CMP – ₹1195/-

View – Positive

## Quarterly Result Highlights

- **Festive sales, Distribution reach and market share gains drive Q3FY21** – Revenues grew by 11.6% to ₹28bn driven by strong festive season demand, distribution expansion, a better product mix (rising share of B2C) and pricing actions. Wires & Cables (W&C) sales was +5.6% YoY to ₹22.7bn driven by strong traction in wires, exports and improving consumer sentiment. Construction activities are slowly picking up, distribution channels saw healthy double-digit growth however, institutional business continues to face headwinds. Domestic wires grew faster than cables, especially housing wires, led by distribution expansion, pickup in renovation activity and gains from the unorganized segment. Overall exports revenue contributed 10.5% to overall top-line. Ex-Dangote order of ₹1.4bn, exports grew by 29% YoY led by Australia, Asia and UK. FMEG sales grew by 41% YoY to ₹3.05bn. Gross margins contracted by ~320bps YoY to 24.3%. Gross margins have impacted on back of rising commodity prices. Complete cost of commodity price increase have not been passed on, it is likely to be passed on in calibrated manner. Overall demand for Lighting products remained upbeat led by festive season. Switches, Switchgears and Pumps posted healthy growth. Fans grew strongly gaining leadership position in few geographical clusters. Revenue contribution of FMEG to overall revenues increased to 10.8% in Q3FY21. Others which comprises of EPC business declined 53% YoY to ₹614mn on account of stronger base. Annual sustainable operating margin in this business is expected to be in high single digit over mid to long term as per the management. EBITDA grew by 10.8% YoY to ₹3.8bn while margins contracted by 10bps YoY to 13.4%. Annual sustainable operating margin in this business is expected to be in high single digit over mid to long term. The management stated that the growth was broad-based across categories and regions, aided by festive season.
- **Business Outlook** – B2C business has returned to normalcy. Construction and infrastructure activities have picked up, but new construction funding is still under constraint due to government orders being slow. Sudden surge in demand and supply side issues at global level caused raw material (RM) prices to increase at an unprecedented rate. Prices of raw materials like Cu, Al, Steel, PVC have increased 15-50% in Sep-Dec'20. These will be passed on to consumers by way of phased price hikes. Macro indicators are performing decently well with high frequency indicators like power consumption and freight touching new highs.
- **Wires & Cables Segment** – Market leader in W&C segment and in cables and wires separately. Cables as a proportion of Polycab's overall segment revenues contribute slight more than 50% and the remainder is wire sales. Polycab has captured 18-20% share of organized market. Wires showed double digits revenue growth and cables revenues remained flattish. North and East performed better. B2C domestic W&C business is recovering. Domestic optical fiber cable business remains slow. Institutional business remains a challenge as investments in projects remain subdued, but this is being mitigated with improved distribution. Share of unorganized participants is reducing. Because of demonetization, GST, unavailability of labor due to pandemic, recovery is difficult for these players.
- **Exports** – The company clocked nearly ₹1.4bn of export revenues compared to ₹3.2bn in Q3FY20. Overall exports contributed ~10% to overall top-line. Ex-Dangote, exports grew by a healthy ~29% YoY led by orders from US, Australia, Asia and UK. Margins for export orders are similar to overall company margins of 13-14% for FY21. Polycab is trying to venture into

## Important Statistics

|                       |          |
|-----------------------|----------|
| <b>MCAP (₹bn)</b>     | 178.17   |
| <b>52week H/L (₹)</b> | 1325/572 |
| <b>NSE Code</b>       | POLYCAB  |
| <b>BSE Code</b>       | 542652   |

## Financials

|                          | (₹ mn) |        |        |        |
|--------------------------|--------|--------|--------|--------|
| Particulars              | FY18   | FY19   | FY20   | 9MFY21 |
| <b>Revenue</b>           | 67,703 | 79,856 | 88,300 | 59,508 |
| <i>Wires and Cables</i>  | 62,423 | 69,295 | 75,192 | 48,046 |
| <i>% of Revenue</i>      | 92.2   | 86.8   | 85.2   | 80.7   |
| <i>FMEG</i>              | 4,853  | 6,433  | 8,536  | 6,873  |
| <i>% of Revenue</i>      | 7.2    | 8.1    | 9.7    | 11.5   |
| <b>EBITDA</b>            | 7,289  | 9,528  | 11,350 | 7,457  |
| <i>EBITDA Margin (%)</i> | 10.8   | 11.9   | 12.9   | 12.5   |
| <b>Net Profit</b>        | 3,586  | 5,003  | 7,656  | 5,069  |
| <b>EPS (₹)</b>           | 24.1   | 33.6   | 51.4   | 34.0   |
| <b>P/E (x)</b>           | 49.6   | 35.6   | 23.2   |        |
| <b>EV/EBITDA (x)</b>     | 1.4    | 12.0   | 12.0   |        |
| <b>P/BV (x)</b>          | 7.2    | 4.0    | 3.5    |        |
| <b>RoE (%)</b>           | 16.5   | 19.3   | 22.9   |        |
| <b>RoCE (%)</b>          | 15     | 20     | 23.3   |        |

Source: Company Filing, Way2wealth Research

## Shareholding pattern (%)

|                            | Dec'20 |
|----------------------------|--------|
| <b>Promoter</b>            | 68.4   |
| <b>DII</b>                 | 10.3   |
| <b>FII</b>                 | 7.0    |
| <b>Public &amp; Others</b> | 14.3   |

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Eastern Africa and Russia slowly. Also, it expects some orders due to import substitution in Indian defense, railways and EV.

- **FMEG segment** – Fans contributes to 40% of revenues, while lighting and switchgear contribute 30% each. Switchgears posted 100% YoY growth. The growth was resilient across most categories and regions. The revenue contribution of FMEG to overall revenues increased to 10.8% in Q3FY21 (Q3FY20 - 8.7%). Polycab is focusing on pumps' channel expansion. It is also making focused effort to improve penetration of premium fans. Now, channel financing is at 25% compared to 17% earlier.
- **Others segment** – Other segment largely comprises of EPC business were down 53% YoY on account of a strong base. EBIT margin was at 14% (down from 23% in Q3FY20). However, the company mentioned that annual sustainable operating margin in this business is expected to be in high single digit over mid-long term.
- **Copper segment** – Ryker plant has capacity of 2x of current demand. In order to reduce cost and bring in operational efficiencies, only 50% of the capacity is currently being used. For Ryker plant, the prime objective is stability in supply of Cu as RM. 50% additional capacity is available, which can be used by third party tie-ups or own demand increase.
- **B2C business** – Wires and FMEG business constitute B2C segment. It constitutes 40% of the business. **B2B business** - Private and government capex remain the key driver for this segment and is witnessing improved trajectory.
- **New launches and expanding reach** – HOHM is the new premium IoT based smart product in the FMEG portfolio. It's a complete made in India product. It got launched in top10 cities in phased manner. Will be available online from next month. It has also brought out range of new economy to premium fans. The company presently has 4,000 dealers and 160,000 retail outlets. Project Bandhan has brought 170,000 electricians under its umbrella and 50,000 retailers. It plans to continue in the same categories as it is present today. Smart products like HOHM will continue. In case of export markets, the company plans to increase overall offering in W&C to serve all types of customers.
- **Sales acceleration program** – Polycab is looking for channel expansion, product mix improvement and key influencer connect program to aid top-line growth. It has been piloted in five towns and plan for 30-36 months is to cover 300 towns. Cost optimization and other projects. The company has hired management consulting firm BCG for its cost optimization program and another consultant improving its distribution reach and inventory optimization. Company is confident of continued market share gains in medium term over next 5 years
- **Working capital management** – Cash generation will be used as company required capex for getting into Defense and Railway sector. It will be also used to improve capability for getting more exports orders. Metal procurement is done on zero credit period and the liability becomes interest bearing. Vendor gets borrowing from the bank and then gets settled by the company in 90 days. Working capital has seen improvement on higher channel financing and increasing in payables. Overall, objective is to improve working capital. To improve receivables cycle, channel financing will need to increase. It is currently at 60-65% in W&C, 25% in FMEG. Aim is also to reduce inventory days from 130 to 110.

28<sup>th</sup> January 2021

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We continue ([Report](#)) to maintain our **POSITIVE** stance on the stock based on emerging growth opportunity given pick up in renovation/ construction activities, distribution expansion, exports revenues, gains from unorganized sector and launch of IOT based ECD brand HOHM. Quicker ramp-up of FMEG will also drive better working capital management and higher margins in future years. We view strong cash generation and sustainable improvement in working capital are the key drivers for the stock apart from increasing B2C business.

28<sup>th</sup> January 2021

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## Financial Performance

(₹mn)

| Particulars              | Q3FY21        | Q3FY20        | YoY (%)     | Q2FY21        | QoQ (%)       | 9MFY21        | 9MFY20        | YoY (%)       |
|--------------------------|---------------|---------------|-------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>           | <b>27,988</b> | <b>25,073</b> | <b>11.6</b> | <b>21,137</b> | <b>32.4</b>   | <b>58,891</b> | <b>67,006</b> | <b>(12.1)</b> |
| Operating Exps           | 21,196        | 18,190        | 16.5        | 15,128        | 40.1          | 43,422        | 48,917        | (11.2)        |
| % of Sales               | 75.7          | 72.5          |             | 71.6          |               | 73.7          | 73.0          |               |
| Gross Profit             | 6,792         | 6,883         | (1.3)       | 6,009         | 13.0          | 15,469        | 18,089        | (14.5)        |
| % of Sales               | 24.3          | 27.5          |             | 28.4          |               | 26.3          | 27.0          |               |
| Employee Cost            | 896           | 915           | (2.1)       | 897           | (0.1)         | 2,606         | 2,759         | (5.5)         |
| % of Sales               | 3.2           | 3.6           |             | 4.2           | (0.3)         | 4.4           | 4.1           |               |
| Other Expenses           | 2,138         | 2,577         | (17.0)      | 1,987         | 7.6           | 5,406         | 6,985         | (22.6)        |
| % of Sales               | 7.6           | 10.3          |             | 9.4           |               | 9.2           | 10.4          |               |
| <b>EBITDA</b>            | <b>3,758</b>  | <b>3,391</b>  | <b>10.8</b> | <b>3,125</b>  | <b>20.3</b>   | <b>7,457</b>  | <b>8,345</b>  | <b>(10.6)</b> |
| % EBITDA Margin          | 13.4          | 13.5          |             | 14.8          |               | 12.7          | 12.5          |               |
| Other Income             | 345           | 3             | 11,400.0    | 327           | 5.5           | 1,008         | 463           | 117.7         |
| Depreciation             | 478           | 407           | 17.4        | 456           | 4.8           | 1,377         | 1,187         | 16.0          |
| EBIT                     | 3,625         | 2,987         | 21.4        | 2,996         | 21.0          | 7,088         | 7,621         | (7.0)         |
| Interest                 | 88            | 86            | 2.3         | 114           | (22.8)        | 365           | 336           | 8.6           |
| PBT                      | 3,537         | 2,901         | 21.9        | 2,882         | 22.7          | 6,723         | 7,285         | (7.7)         |
| Tax                      | 905           | 686           | 31.9        | 664           | 36.3          | 1,624         | 1,764         | (7.9)         |
| JV/ Associates           | 5             | (2)           | (350.0)     | (3)           | 266.7         | (9)           | (16)          | (43.8)        |
| Non-Controlling Interest | 11            | 26            | (57.7)      | 10            | 10.0          | 21            | 54            | (61.1)        |
| <b>Net Profit</b>        | <b>2,626</b>  | <b>2,187</b>  | <b>20.1</b> | <b>2,205</b>  | <b>(99.1)</b> | <b>5,069</b>  | <b>5,451</b>  | <b>(7.0)</b>  |
| EPS (₹)                  | 17.6          | 14.7          | 20.1        | 14.8          | 19.1          | 34.0          | 36.6          | (7.0)         |

Source: Company Filing, Way2wealth Research

## Segmental Performance

(₹mn)

| Revenue             | Q3FY21        | Q3FY20        | YoY (%)     | Q2FY21        | QoQ (%)       | 9MFY21        | 9MFY20        | YoY (%)       |
|---------------------|---------------|---------------|-------------|---------------|---------------|---------------|---------------|---------------|
| Wires & Cables      | 22,703        | 21,502        | 5.6         | 17,408        | (30.4)        | 48,046        | 56,759        | (15.4)        |
| FMEG                | 3,055         | 2,166         | 41.0        | 2,440         | (25.2)        | 6,873         | 6,523         | 5.4           |
| Copper              | 1,866         | -             | NA          | 952           | (96.0)        | 2,913         | -             | NA            |
| Others              | 614           | 1,306         | (53.0)      | 580           | (5.9)         | 1,676         | 3,829         | (56.2)        |
| <b>TOTAL</b>        | <b>28,238</b> | <b>24,974</b> | <b>13.1</b> | <b>21,380</b> | <b>(32.1)</b> | <b>59,508</b> | <b>67,111</b> | <b>(11.3)</b> |
| <b>EBIT (Rs mn)</b> |               |               |             |               |               |               |               |               |
| Wires & Cables      | 3,062         | 2,571         | 19.1        | 2,534         | (20.8)        | 5,840         | 6,445         | (9.4)         |
| EBIT Margin (%)     | 13.5          | 12.0          |             | 14.6          |               | 12.2          | 11.4          |               |
| FMEG                | 182           | 14            | 1,200.0     | 196           | 7.1           | 322           | 167           | 92.8          |
| EBIT Margin (%)     | 6.0           | 0.6           |             | 8.0           |               | 4.7           | 2.6           |               |
| Copper              | 200           | 0             | #DIV/0!     | 88            | (127.3)       | 287           | 0             | #DIV/0!       |
| EBIT Margin (%)     | 10.7          | #DIV/0!       |             | 9.2           |               | 9.9           | #DIV/0!       |               |
| Others              | 86            | 301           | (71.4)      | 92            | 6.5           | 247           | 651           | (62.1)        |
| EBIT Margin (%)     | 14.0          | 23.0          |             | 15.9          |               | 14.7          | 17.0          |               |
| <b>TOTAL</b>        | <b>3,530</b>  | <b>2,886</b>  | <b>22.3</b> | <b>2,910</b>  | <b>(21.3)</b> | <b>6,696</b>  | <b>7,263</b>  | <b>(7.8)</b>  |
| EBIT Margin (%)     | 12.5          | 11.6          |             | 13.6          |               | 11.3          | 10.8          |               |

Source: Company Filing, Way2wealth Research

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| Particulars       | FY18          | FY19          | FY20          | 9MFY21        | 9MFY20        | YoY (%)       |
|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>    | <b>67,703</b> | <b>79,856</b> | <b>88,300</b> | <b>59,508</b> | <b>67,111</b> | <b>(11.3)</b> |
| Wires and Cables  | 62,423        | 69,295        | 75,192        | 48,046        | 56,759        | (15.4)        |
| % of Revenue      | 92.2          | 86.8          | 85.2          | 80.7          | 84.6          |               |
| FMEG              | 4,853         | 6,433         | 8,536         | 6,873         | 6,523         | 5.4           |
| % of Revenue      | 7.2           | 8.1           | 9.7           | 11.5          | 9.7           |               |
| <b>EBITDA</b>     | <b>7,289</b>  | <b>9,528</b>  | <b>11,350</b> | <b>7,457</b>  | <b>8,345</b>  | <b>(10.6)</b> |
| EBITDA Margin (%) | 10.8          | 11.9          | 12.9          | 12.5          | 12.4          |               |
| <b>Net Profit</b> | <b>3,586</b>  | <b>5,003</b>  | <b>7,656</b>  | <b>5,069</b>  | <b>5,451</b>  | <b>(7.0)</b>  |
| EPS (₹)           | 24.1          | 33.6          | 51.4          | 34.0          | 36.6          |               |

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Polycab India Ltd. as on 28 January 2021**

|  |                    |
|--|--------------------|
| Name of the Security   | Polycab India Ltd  |
| Name of the analyst  | Jayakanth Kasthuri |
| Analysts' ownership of any stock related to the information contained  | NIL                |
| Financial Interest   |                    |
| Analyst :  | No                 |
| Analyst's Relative : Yes / No  | Yes                |
| Analyst's Associate/Firm : Yes/No                                      | No                 |
| Conflict of Interest   | No                 |
| Receipt of Compensation  | No                 |
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| Investment Banking relationship with company covered                   | NIL                |

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