



BODHI CAPITAL

An Initiative of ABC | INVESTMENTS 



POLYCAB

Connection Zindagi Ka

Polycab India Limited

-Shivansh Wadhwa





- Current Market Price- Rs. 749.40
- Market Capitalization- Rs.110.92 Billion
- Analyst Take- **Hold**
- Holding Period- 3-4 years
- Date- 14/06/2020



Investment Thesis

- Growing Industry of Operations
- Efficient Management
- Robust Fundamentals
- Increasing Revenues and Margins
- Increasing EPS
- Diverse Portfolio of Products and Services



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Company Overview

- Polycab India is a manufacturer and seller of wires and cables and fast moving electrical goods. The Company's product line includes electric fans, LED lighting and luminaires, switches and switchgears under the 'POLYCAB' brand.
- The company is the market leader in the Cables and Wires(C&W) market with over 12% market share.
- Although all businesses of the company are profitable, the company's overachiever is the FMEG business which has seen profits increase 51% CAGR over the past five years.
- The company also works on a contract basis for infrastructural projects.



Management



INDER JAISINGHANI

Chairman & Managing Director

Aged 65 years, is the Chairman and Managing Director of our Company. He has been working with our Company since its inception. He has completed his education up to secondary school certificate level. He has worked in different areas of Sales, Marketing, Production and other support services and has played a major role in leadership of our Company.



AJAY T JAISINGHANI

Whole-Time Director

Aged 66 years, is a Whole-Time Director of our Company. He has completed his education up to secondary school certificate level. He has worked in different areas of Sales, Marketing, Production and other support services and has played a major role in leadership of our Company.



RAMESH T JAISINGHANI

Whole-Time Director

Aged 62 years, is a Whole-Time Director of our Company. He has been working with our Company since its inception as a director. He has completed his education up to secondary school certificate level. He has worked in different areas of Sales, Marketing, Production and other support services and has played a major role in leadership of our Company.



SHYAM LAL BAJAJ

Whole-Time Director

Aged 66 years, is the Whole-Time Director of our Company. He holds a bachelor's degree in commerce from Rajasthan University and is a qualified Chartered Accountant. Prior to joining our Company, he served as the Director Finance at Vedanta Limited (including at Sesasterlite Limited now merged with Vedanta Limited).

9.8

Years, Average Management Tenure

62

Years, Average Manager Age



Blend of Experience with a Splash of Youth



BHARAT JAISINGHANI

Director - FMEG Business (Non-board member)

He is the Director – FMEG Business (non-board member) of our Company since October 16, 2018. He joined our Company on January 1, 2012. He holds a master's degree in operations management from the University of Manchester. He has experience of working in different areas of sales, marketing, production and other support services and has played a key leadership role in our Company.



NIKHIL JAISINGHANI

Director - LDC Business (Non-board member)

He is the Director – LDC Business (non-board member) of our Company since October 16, 2018. He joined our Company on January 1, 2012. He holds a master's degree in business administration (MBA) from Kellogg School of Management, Northwestern University, Illinois, USA. He has worked in different areas of sales, marketing, production and other support services and has played a key leadership role in our Company.



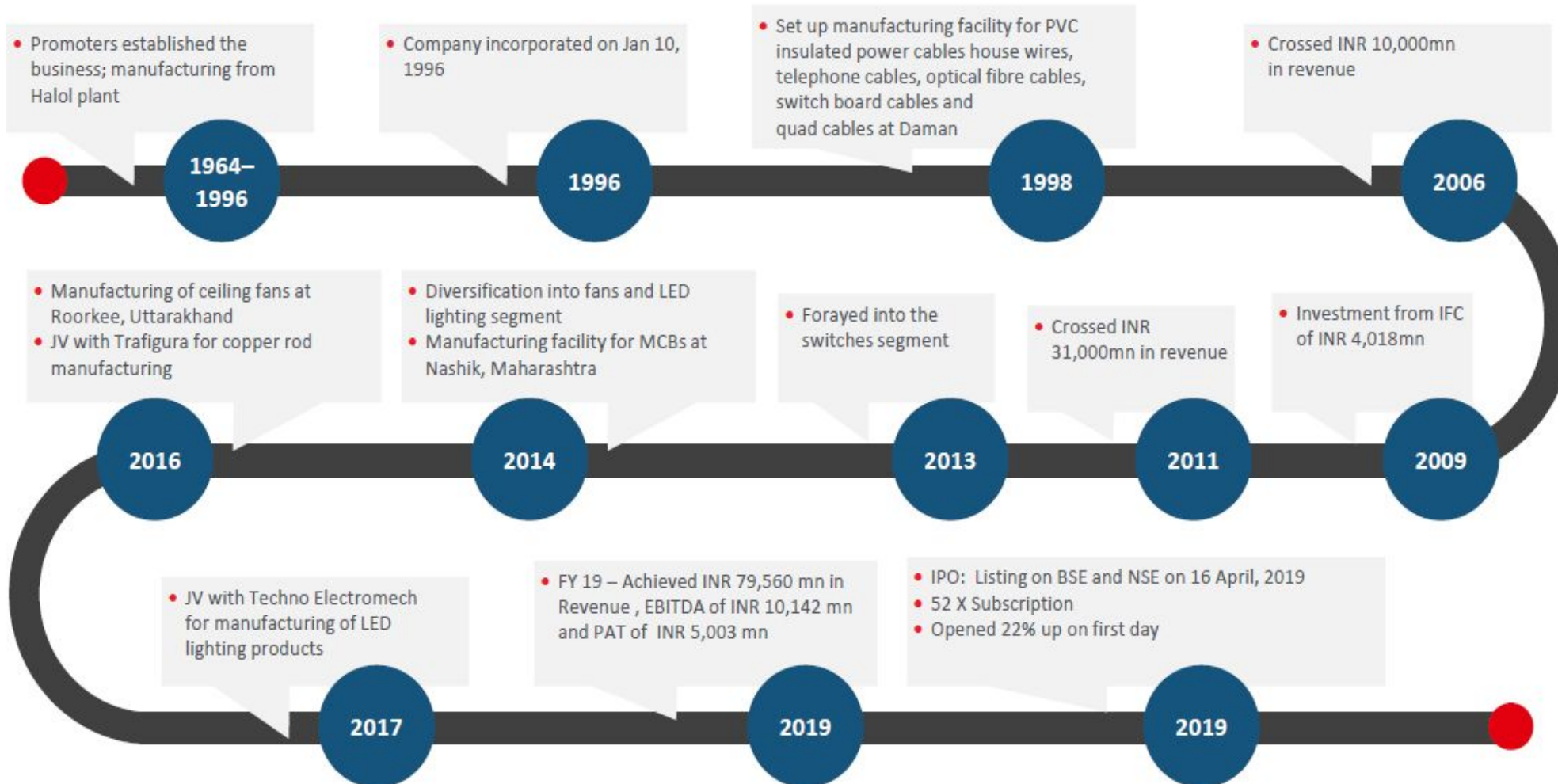
KUNAL JAISINGHANI

Head Agri Products

He is the Head – Agri Products of our Company since October 16, 2018. He joined our Company on August 1, 2015. He holds a degree in business management studies from University of Mumbai. He has experience in factory operations, MIS and pricing.



The Story



Shareholding Patterns

Shareholding Pattern

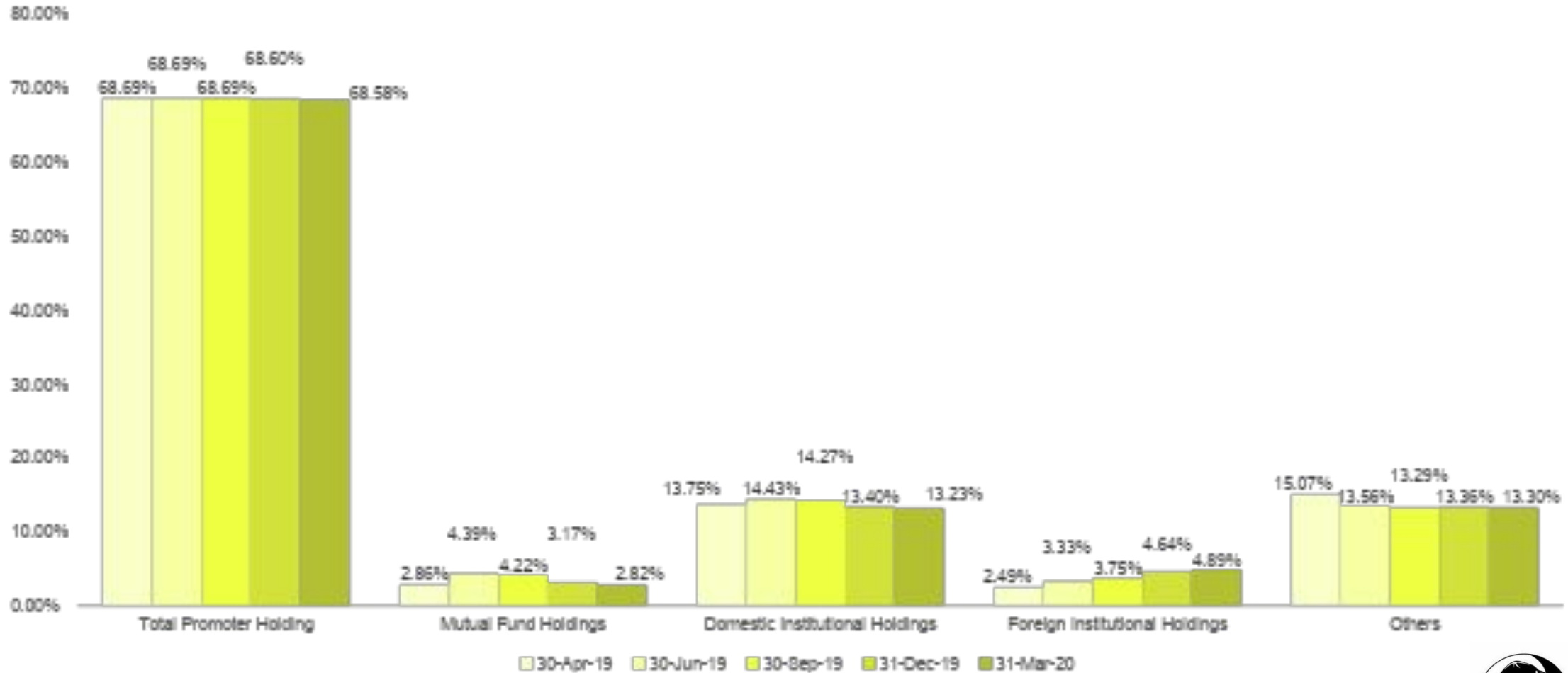


*As at 31st March 2020

**Promoter, Mutual Fund and Foreign Institutional holdings have remained fairly constant in the past years



Shareholding Pattern FY 2020



Business Segments

Wires and cables

We are India's dominant manufacturer and seller of a diverse range of wires and cables for retail and industrial use.

- ▶▶ Power Cables
- ▶▶ Control Cables
- ▶▶ Instrumental Cables
- ▶▶ Solar Cables
- ▶▶ Building Wires
- ▶▶ Flexible single/Multicore
- ▶▶ Communication Cables
- ▶▶ Other Cables



Fast moving electrical goods (FMEG)

In 2014, we entered the fast-moving electrical goods business. Polycab is now India's fastest-growing FMEG brand. The share of FMEG in our total revenue is rising steadily.

- ▶▶ Conduits & Accessories
- ▶▶ Fans & Home Appliances
- ▶▶ LED Lighting & Luminaires
- ▶▶ Switches & Switchgears
- ▶▶ Solar Products
- ▶▶ Pumps, Pipes & Fittings



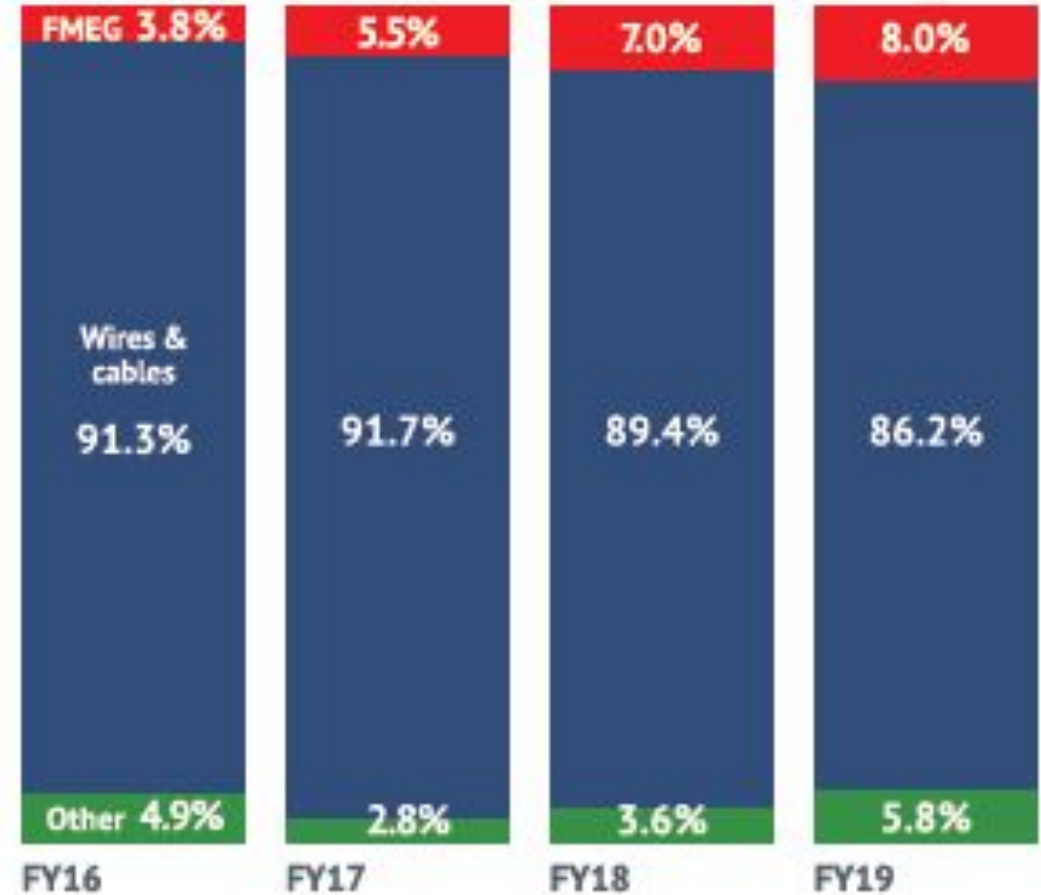
Other

Our engineering, procurement and construction (EPC) business provides project-based solutions.

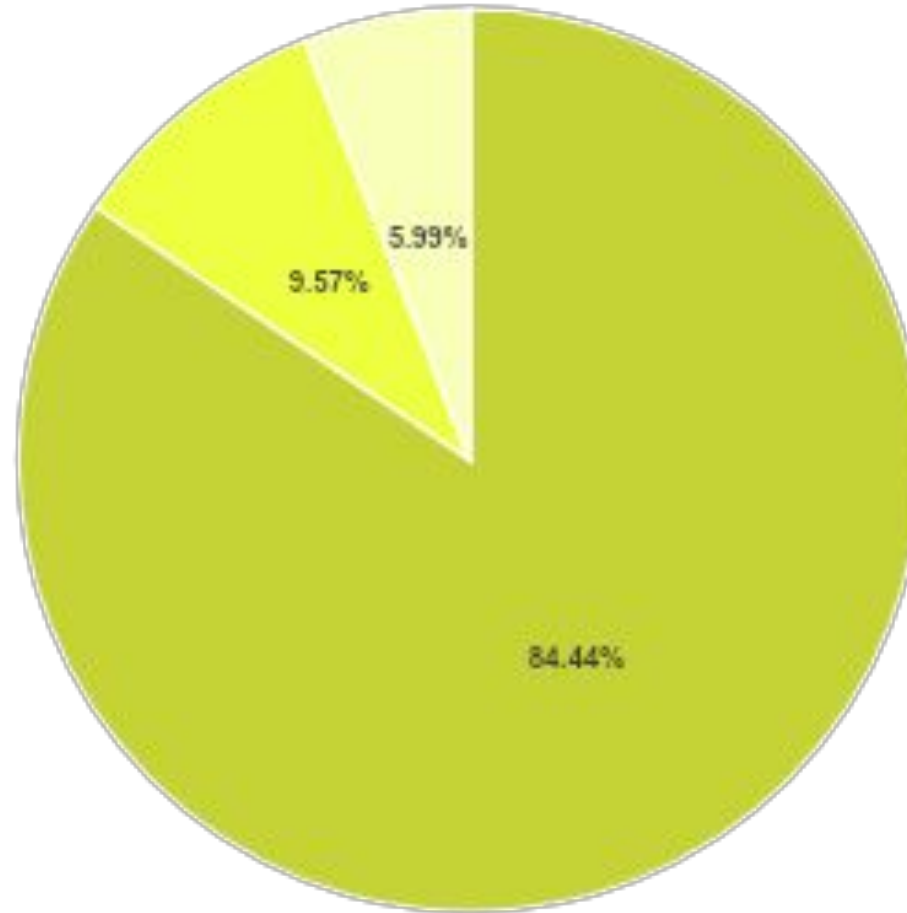
The design, engineering, supply, execution, and commissioning of power distribution and rural electrification projects.



Revenue Mix



Revenue Mix for FY 2020



■ Wires & Cables

■ Fast Moving Electrical Goods (FMEG)

■ Revenue from construction contracts



Wires And Cables Industry in India

- The Wires and Cables Industry comprises of **40%** of the Indian electrical equipment market.
- This industry was projected to grow at **15% CAGR** for the next 5 years as at Dec 2019
- The growth of the industry is heavily correlated with the **Infrastructure and Power industry**.
- Recent government policies like *Ujjwal Discom Assurance Yojana (UDAY)*, *the Deendayal Upadhyay Gram Jyoti Yojana (DDUGJY)*, *the Integrated Power Development Scheme (IPDS)* and the *Pradhan Mantri Sahaj Bijli Har Ghar Yojana Saubhagya* have **heavily impacted** and **increased** the demand for this industry.
- The **Transmission and Distribution** sector which is now is in focus of the Government is opening a lot more opportunities in the sector.
- In the near future, there appears to be **no viable alternative** for cables for bulk power transmission. But trends such as Smart Grids or Distributed Generation has a potential to change the demand for cables, although they are yet to be fully established in terms of long term commercial viability.



Fast Moving Electronic Goods Industry in India

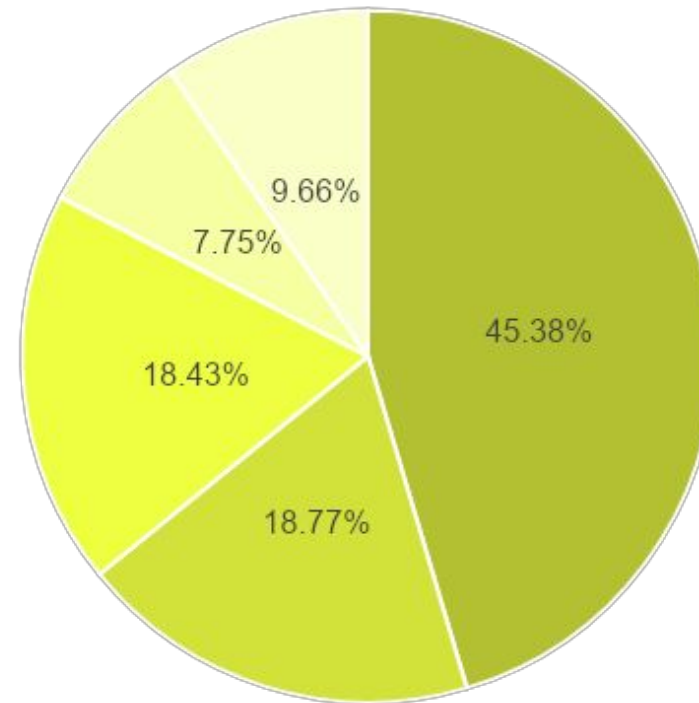
- Projected to outshine Polycab's C&W business, the FMEG Segment has been increasing 51% CAGR in the past 5 years.
- This was because of increasing consumer spending, number of nuclear families and market for premium consumer electricals.
- Growth of this segment seems have heavily stunted due to the COVID crisis.
- Demand for premium consumer electricals and consumer spending might fall in the near future.
- Major players operating in this industry are- Havells, Crompton Greaves and Orient.
- Polycab's Increasing presence and Brand Name due to effective marketing has helped it steal market share from the giants of the industry.



Competitors Analysis

- The major competitors in the Cables and Wires industry for Polycab are Finolex, Havells, KEI Industries and Universal Cables.
- In the FMEG segment, which constitutes 8.1% of Polycab's revenues, the biggest competitors are Luminous, Crompton Greaves, Havells and Orient Electrical

C&W Revenue 19-20



■ Polycab ■ Finolex ■ Havells ■ KEI Industries ■ Universal Cables



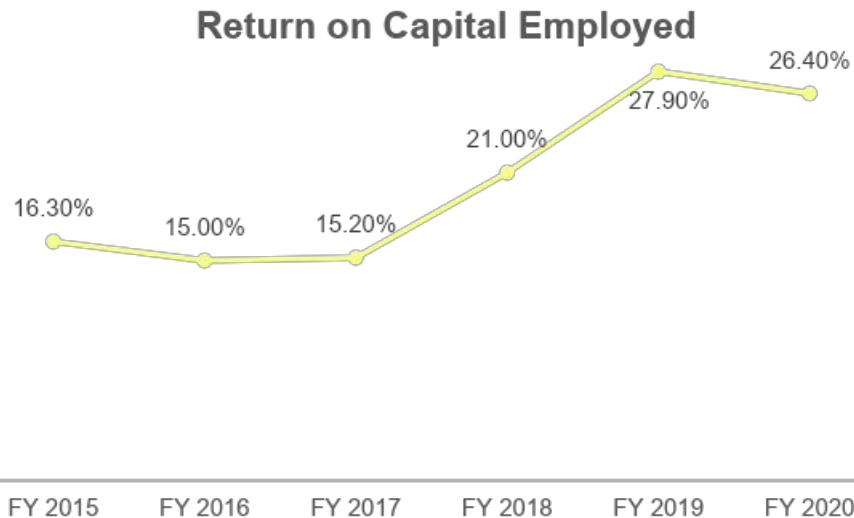
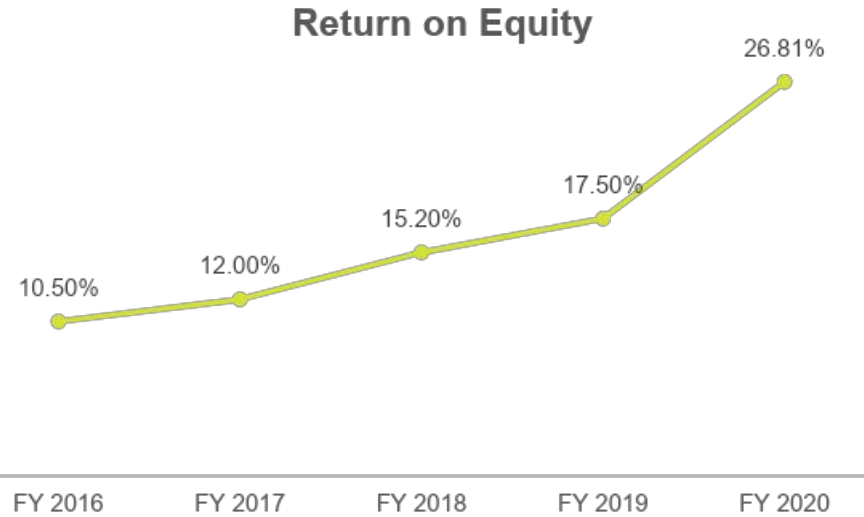
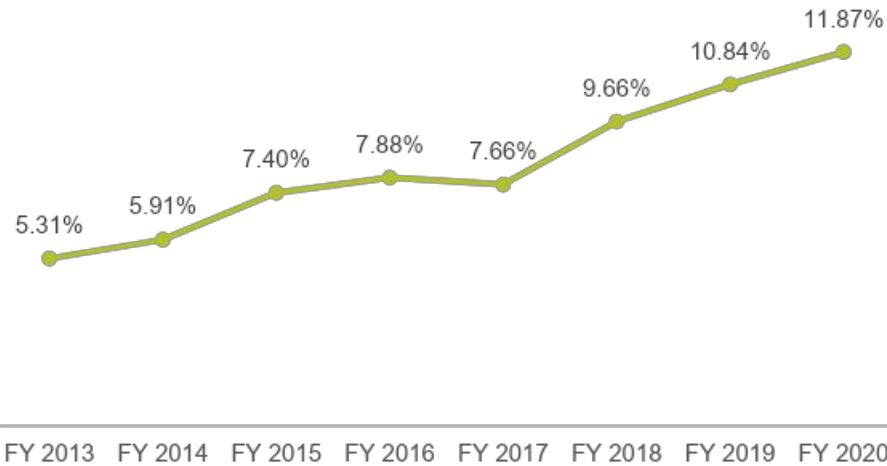
Serial Number	Name	CMP Rs.	Mar Cap (Rs.Cr.)	P/E	PEG	ROE %	Debt / Eq	Interest Coverage	OPM %	EV / EBITDA	Div Yld %
1	Havells India	551.65	34534.01	46.63	3.36	17.41	0.02	47.19	10.96	29.14	0.82
2	Polycab India	746.25	11114.13	14.64	0.36	19.19	0.03	21.39	12.77	8.98	0.94
3	Bajaj Electrical	393.35	4475.14	157.5	1.57	16.54	1.51	1.38	4.46	19.86	0.89
4	Finolex Cables	256.5	3922.89	10.6	0.83	14.97	0	465.01	13.42	7.11	1.75
5	Orient Electric	178.7	3791.75	48.23		24.72	0.42	5.37	8.56	21.8	0.56
6	KEI Industries	337.15	3017.64	11.83	0.16	26.3	0.21	3.53	10.16	6.08	0.44
7	Universal Cables	110.8	384.42	4.27		14.84	0.57	2.9	10.58	3.83	1.81
8	Paramount Comm.	7.75	142.7	4.65	0.24	37.87	1.2	3.81	7.58	6.01	0
9	Hind.Urban Infra	492.7	71.09			-1.18	0.63	0.61	6.94	6.51	0
10	Ultracab India	51	64.89	63.62	6.92	6.07	1.26	1.42	7.95	15.82	0
11	Crompton Gr. Con	225.05	14117.03	28.44		42.55	0.12	15.52	13.25	21.65	0.89
	Average			39.04	1.92	19.93	0.54	51.65	9.69	13.34	0.74



Ratio Analysis



Profitability



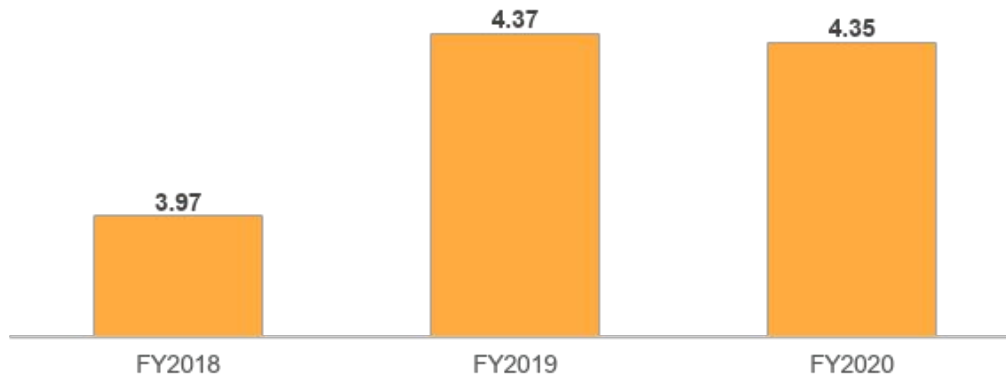
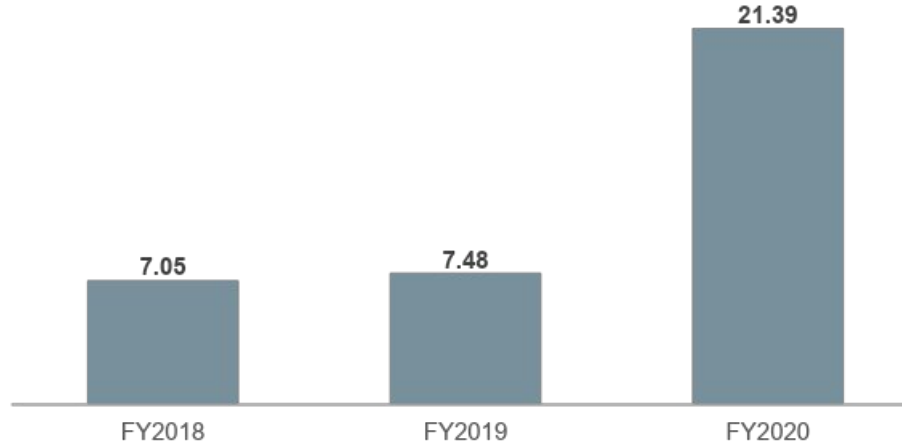
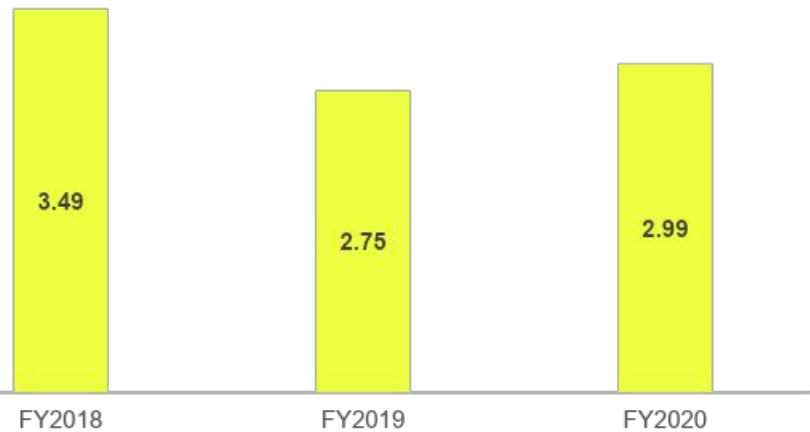
- The company in the past years can be seen having better **operating margins**. Which shows while growing revenues they are also working at the **profitability** of the revenues.
- **Return on Capital Employed** fell this fiscal year due to inability to realize a significant amount of payables due to the lockdown.
- The company also can be seen to be working consistently on increasing **Shareholder's value**.



Turnover Ratios

Inventory Turnover Ratio

Interest Coverage Ratio



- Polycab's Inventory turnover is **Below** Industry average of 4. This is because of the development of the Ryker Base and the raw material required for it.
- The company through deleveraging has massively increased its ICR to 21.39 times which is way above industry standards.
- The company has also maintained a stable WC turnover ratio even after failing to realise a significant chunk of receivables due to the lock down.



Qualitative Analysis



Key Frameworks For Qualitative Analysis

PORTER'S FIVE
FORCES

BCG MATRIX

SWOT
ANALYSIS

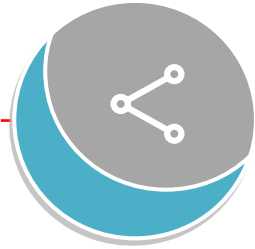


Porter's Five Force Analysis



Threat of New Entrants

- Although this industry might not have any entry exit barriers, products need to be certified before going into the market.
- In the industry Polycab Operates, Brand Name and trust is a very big component of business. It might take a new entrant some amount of time to build its brand and trust.



Threat of Substitutes

- Due to Polycab's wide array of products and brand name, there is no significant threat of substitute products.
- There are no significant substitutes to Cables and Wires in heavy power transmission.



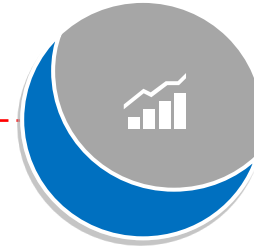
Bargaining Power of Customers

- No company generates more than 10% of revenue for Polycab, customers do not have significant pricing power



Bargaining Power of Suppliers

- Suppliers do have significant power with respect to Raw Materials.
- Polycab in relation to the industry is much better of because of its active plan for back wards integration which will help them procure their own raw material.

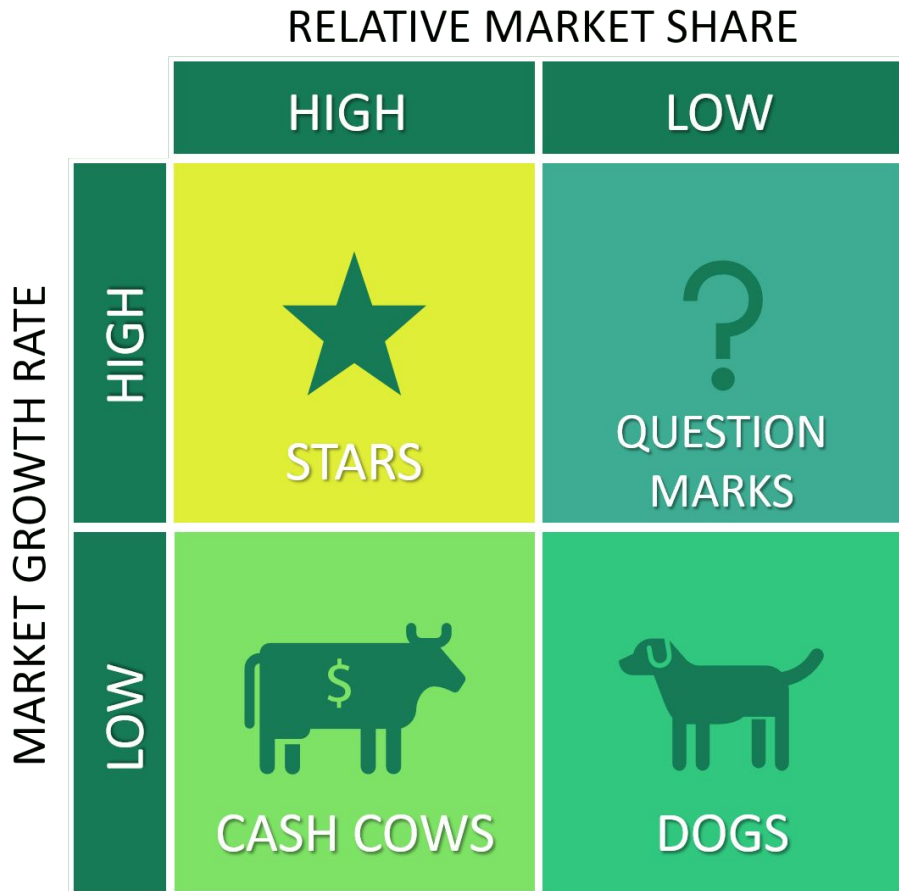


Competitive Rivalry

- Polycab has the most market share in the Wires and Cables Segment .
- Main competitors for are – Finolex, Havells, KEI Industries, Sterlite Industries.
- Finolex, KEI have better margins, Polycab has more volume and have now started working on their margins which can be seen in this year's results.



BCG Matrix



- According to the BCG Matrix, Polycab can be identified as a Star.
- It has high growth in revenues and the highest market capital in the industry.
- We can expect Polycab to soon turn into a cash cow when they reach their stable growth phase.



Strengths

- Diversified portfolio of products
- Strong Branding
- Great Quality Management
- Strong Backward Integration
- Great Fundamentals



Weaknesses

- The company's revenues were heavily hit due to the pandemic.
- The company has negative free cash flow for FY 2020
- The industry's growth is heavily correlated to the growth of the Infrastructure Industry.

Opportunities

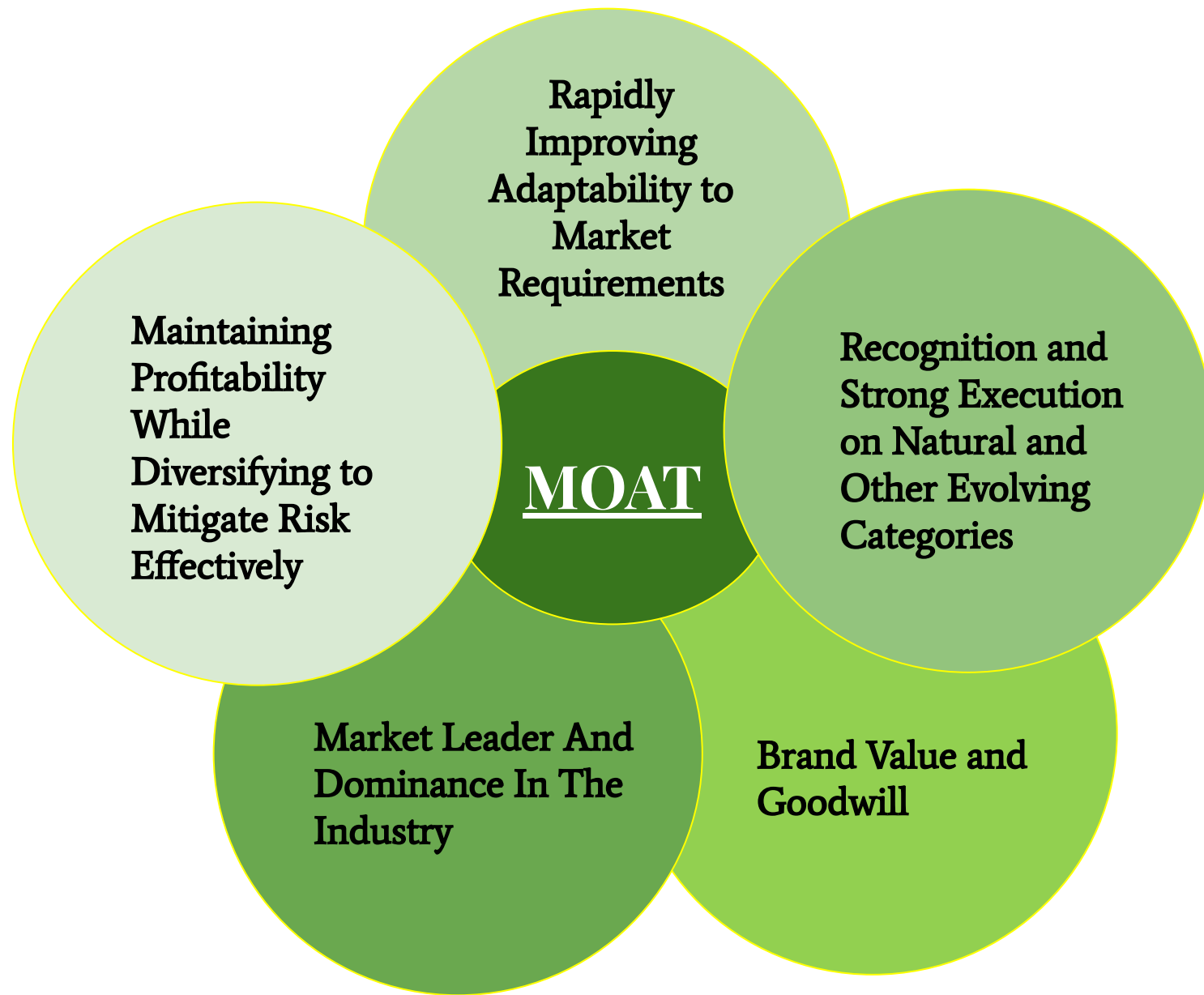
- Increasing Share of the Organised players in the industry
- Key government initiative like-DDUGJY, Housing for all 2020
- Possibility of expansion to global market



Threats

- Fluctuation In raw material Prices
- Fluctuation in exchange rate
- Concentration of suppliers of raw materials





"In business, I look for economic castles protected by unbreachable moats."

–Warren Buffet



Quantitative Analysis



Profit and Loss Statement

Revenue from operations
Other income

Expenses

Cost of materials consumed
Purchases of traded goods
Changes in inventories of finished goods, traded goods and work-in-progress
Excise duty
Project bought outs and other cost
Employee benefits expense
Finance cost
Depreciation and amortisation expense
Other expenses

Total Expenses

Profit before share of profit/loss of JV

Share of profit / loss of JV

PBT

Income Tax Expenses

Current tax
Deffered Tax
Adjustment of tax relating to earlier periods

Total Tax Expense

Tax %

Profit for the year

	Year ended 31-Mar-20	Year ended 31-Mar-19	Year ended 31-Mar-18
Revenue from operations	88299.55	79855.52	69149.52
Other income	927.92	637.8	644.37
	89227.47	80493.32	69793.89
Cost of materials consumed	58637.06	54823.19	47676.24
Purchases of traded goods	4246.12	3370.41	2472.14
Changes in inventories of finished goods, traded goods and work-in-progress	-2371.48	-1076.98	657.94
Excise duty	0	0	1446.47
Project bought outs and other cost	3174.46	2543.04	1247.03
Employee benefits expense	3657.46	3002.48	2592.55
Finance cost	495.35	1167.06	936.8
Depreciation and amortisation expense	1608.87	1414.45	1329.53
Other expenses	9605.67	7665.77	5768.35
Total Expenses	79053.51	72909.42	64127.05
Profit before share of profit/loss of JV	10173.96	7583.9	5666.84
Share of profit / loss of JV	-74.08	-23.26	1.05
PBT	10099.88	7560.64	5667.89
Current tax	2480.05	2951.12	2176.05
Deffered Tax	-34.05	-73.55	226.86
Adjustment of tax relating to earlier periods	-2.3	-319.99	-320.63
Total Tax Expense	2443.7	2557.58	2082.28
Tax %	24.56%	39.03%	38.39%
Profit for the year	7656.18	5003.06	3585.61

- Revenue increased 11% YoY, whilst cost of material consumed only 8% showing efficiency in production.
- Inventory has increased due to expectations of high sales in Q4(Prime sales period)
- The company estimates Rs.6.1 billion loss of revenues due to lock down.
- PAT has increased 54% YoY due to decrease in finance cost and low Tax for FY2020.
- Loss in JV is mainly because of setting up of the Ryker Base which will be able to supplement significant (225,000 tonnes) requirement of copper for the company.
- Other expenses increased due to increase in Sub-contracting expenses and Advertising and Promotion Expenses.



Balance Sheet

	As at 31-Mar-20	As at 31-Mar-19	As at 31-Mar-18
ASSETS			
Non-current assets			
Property, plant and equipment	13,865.45	12,720.86	11944.23
Capital work-in-progress	2,411.78	1,929.97	1359.93
Right of use assets	337.92	--	
Intangible assets	16.76	34.98	27.04
Investment in Joint Venture	254.77	293.85	314.006
Financial assets			
a) Investments	0	0	1.4
b) Trade receivables	1,660.47	1,351.27	880.00
c) loans	53.41	50.88	61.16
d) other financial assets	14.17	9.38	0.00
	191.77	105.84	321.67
Other non-current assets	10.13	-	0.10
	300.13	544.09	312.46
	19,116.76	17,041.12	15222.05
Current assets			
Inventories	19,249.54	19,957.85	13656.98
Financial assets			
a) Investment	400.00	0	0
b) Trade receivables	14,336.43	13,343.16	12,908.16
c) Cash and cash equivalents	1,721.62	1,790.59	82.32
d) Bank balance other than cash and cash equivalents	1,091.45	1,375.90	24.1
e) Loans	244.37	207.40	152.74
f) other financial assets	1,442.00	695.81	185.54
Other current assets	2,013.77	1,870.90	2247.52
	40,499.18	39,241.61	29256.36
Non-current assets classified as held for sale	-	0.22	2.70
TOTAL ASSETS	59,615.94	56,282.95	44480.11

LIABILITIES

Equity Share Capital	1,488.79	1,412.06	1,412.06
Other Equity	36,875.36	27,057.49	22064.13
Non controlling assets	150.00	84.25	40.49
	38,514.15	28,553.80	23516.68
Financial liabilities			
(a) Borrowings	106.55	889.25	1589.49
(b) Other financial liabilities	301.84	0.00	0.00
Other non-current liabilities	171.24	257.04	182.20
Provisions	256.32	162.42	95.1
Deferred tax liabilities (net)	174.94	231.02	553.47
	1,010.89	1,539.73	2420.26
Current Liabilities			
Financial liabilities			
a) Borrowings	1,114.53	1,030.71	5687.45
b) Trade payables			
(i) Total outstanding dues of micro enterprises and small enterprises	230.00	158.41	77.70
(ii) Total outstanding dues of creditors other than micro enterprises and small enterprises	13,306.83	15,043.41	9143.17
Other Financial Liabilities	1,324.38	1,775.49	1385.84
Other current liabilities	2,685.74	6,300.78	1049.92
Provisions	237.81	208.71	376.33
Current tax liabilities (net)	1,191.61	1,671.91	823.76
Total Current Liabilities	20,090.90	26,189.42	18544.17
Total Equity and Liabilities	59,615.94	56,282.95	44481.11



Balance Sheet Cont.

- Other assets have increased due to increase in derivatives for hedge against inflation.
- The company in the past 5 years has worked consistently in decreasing the leverage of the company. This is helpful because it decrease the finance cost also opens up credit lines if in case the company needs help in the low demand period.
- Trade Payables increased from FY18 to FY19 The increase was mainly due to a large advance received for an export order(Dangote Order) and increased LC acceptances in trade payables.



Cash Flow Statement

Financial Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Cash from Operating Activities	619.86	503.51	309.67	150.32	220.83	296.39	362.44	1,229.88	244.64
Cash from Investing Activities	-134.56	-76.12	-109.2	-173	-246.7	-294.75	-187.83	-407.66	-262.25
Cash from Financing Activities	-446.08	-419.03	-196.03	14.59	45.49	-9.84	-189.82	-651.4	10.71
Net Change in Cash	39.22	8.36	4.44	-8.09	19.62	-8.19	-15.21	170.82	-6.90
Changes in Working Capital	306.45	192.52	-44.21	-338.49	-330.41	-274.51	-481.76	123.87	298.07
Capital Expenditures	134.63	78.56	105.18	203.63	249.29	279.18	198.84	286.07	290.13
Free Cash Flow	485.23	424.95	204.49	-53.31	-28.45	17.21	163.6	943.81	-45.50

- Cash Flow from Operating in FY2019 increased due to The increase was mainly due to a large advance received for an export order and increased LC acceptances in trade payables. In FY2020, CFO has decreased due to loss of sales worth Rs.6.1 Billion.
- In FY 2020 the company has heavily invested in manufacturing plants for FMEG segment and Raw materials.
- WC has increased due to poor realization of accounts receivables and Increase in Inventory due to the lockdown.



	Year ended 3/31/2020	Year ended 3/31/2019	Year ended 3/31/2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
PBT	1009.99	756.06	566.79
	0.00	0.00	0.00
Dep and Amort	160.89	141.45	132.95
Share of P/L of JV	7.41	2.33	-0.11
(P)/L on disposal of ppe	1.31	-2.10	-4.90
(Gain)/Loss on termination of Lease	-0.14	0.00	0.00
Finance income	-27.00	-12.79	-2.74
Finance costs	49.54	116.71	93.68
(Gain)/loss on Redemption of investment	-17.91	0.00	0.00
ESOP Compensation Expense	17.10	14.95	0.00
Fair valuation of Financial asset	-38.40	13.63	-0.86
Public Issue Expenditure	0.00	1.71	0.00
Liabilities / provisions no longer required written back	-3.17	-1.37	-10.35
Impairment allowance for trade receivable considered doubtful	26.04	54.86	42.10
Unrealised foreign exchange (gain)/loss	-24.40	18.68	21.34
Fair value of written put options	0.09	-0.61	5.50
Sundry advances written-off	6.64	2.50	0.80
Fair Valuation MTM of investment	0.00	0.00	0.00
	<u>1167.97</u>	<u>1105.99</u>	<u>844.21</u>
	0.00	0.00	0.00
Movements in working capital	0.00	0.00	0.00
(Increase)/decrease in trade receivables	-175.22	-145.02	-165.68
(Increase)/decrease in other financial and non financial assets	-82.63	18.13	108.93
(Increase)/decrease in inventories	70.83	-630.09	154.26
Increase/(decrease) in trade payables, other financial and non financial liabilities and provisions	-435.09	1062.29	-439.34
	0.00	0.00	0.00
Cash generated from operations	545.86	1411.32	502.37
	0.00	0.00	0.00
Income Tax	-301.22	-181.36	-139.93
	0.00	0.00	0.00
Net cash flows from operating activities	<u>244.64</u>	<u>1229.96</u>	<u>362.44</u>
B. Cash flows from investing Activities			
Proceeds from sale of property, plant and equipment including assets held for disposal	1.04	4.72	15.56
Purchase of property, plant and equipment and Intangible assets	-290.13	-286.07	-198.84
Proceeds/(Repayment) of loan from/to related parties	0.00	-2.40	-13.48
Proceeds from sale of Mutual funds	29376.79	0.14	0
Maturity/(Investment) made in bank deposits (having original maturity of more than 3 months)	27.88	-135.74	5.88
Interest Received	24.34	11.79	3.05
Payments to acquire Mutual funds	-29398.88	0.00	0.00
Investment made in equity shares of joint ventures	-3.50	756.06	0.00
Loan (given to) / repaid by employees	0.22	-0.16	0.00
	0.00	0.00	0.00
Net Cash Flows from investing Activities	<u>-262.25</u>	<u>-407.73</u>	<u>-187.83</u>

C. Cash Flows from Investing Activities

Proceeds from Issue of Share Capital (including Securities Premium) against offer for sale	400.00	0.00	0.00
Interest paid	-43.30	-78.14	-94.36
Shares issued to minority	0.00	3.77	0.45
Public Issue Expenditure	-40.21	-9.10	0.00
Proceeds/(Repayment) from long term borrowings	-123.97	-69.98	34.30
Repayment from short term borrowings	4.56	-495.08	-113.22
Payment of dividend and DDT	-179.30	-2.88	-16.99
Repayment of lease	-13.38	0.00	0.00
Net adjustment of IPO expenses between company and selling shareholders	-4.72	0.00	0.00
Proceeds from exercise of share under ESOP Scheme	<u>11.03</u>	<u>0.00</u>	<u>0.00</u>
Net cash flows from financing activities	10.71	-651.40	-189.82
Net Increase/Decrease in cash and cash equivalents	-6.90	170.83	-15.21
Cash and cash equivalents at the beginning of the year	<u>179.06</u>	<u>8.23</u>	<u>23.44</u>
Cash and Cash Equivalents at the end of the year	172.16	179.06	8.23



The COVID-19 Impact

Polycab India's Dy-CFO sees no significant impact of Coronavirus

With copper prices softening due to COVID-19, Gandharv Tongia believes that this will definitely change the top line but won't necessarily impact the profitability of the company.

- Polycab's revenue is predicted to take a notable hit but, constant effort towards improving margins might help the company exit this crisis unscathed. This past year Polycab's manufacturing facilities in Gujarat became the first full automated C&W manufacturing plant.
- Further, due to a dent in consumer spending the FMEG segment's demand will also take a hit.
- The company predicts a low Q1 result as first 40 days sales were insignificant.
- The company expects demand to recover in 1-2 quarters.

Argus White Paper:

Covid-19 provokes sharp fall in global wire and cable demand in 2020

Sharp short-term downward revisions in wire and cable demand as capital spending falls

Coronavirus will lead to a sharp contraction in global wire and cable demand throughout 2020 as reduced fixed investment, industrial activity and private consumption stifle end market demand. Global wire and cable demand will fall by 3.5pc in 2020, from 34.7mn t in 2019 to 33.4mn t in 2020, a 2pc downward revision from our previous forecast.



Valuation



Summary of Investment Thesis

01	QUANTITATIVE	<ul style="list-style-type: none">• Consistently high returns and margins in relation to competitors.• Fast growing FMEG segment, availability of a wide portfolio of products.• Increasing/consistent growth in revenue and PAT.• Low P/E, without adequate justification.• Low D/E, <0.5• PEG ratio <0.5
02	QUALITATIVE	<ul style="list-style-type: none">• Business has a highly sustainable model using vast network of retailers and strong backward integration.• Industrial and macroeconomic trends for potential growth opportunities look positive.• Although there are no barriers to entry or exit in the industry, creating brand value can take time.
03	ANALYST RECOMMENDATION	<ul style="list-style-type: none">• The impact of the crisis on the company is still unpredictable.• It will be recommended to HOLD the stock till the time signs of revival of demand can be seen• Even though the company has enough leeway to deal with the crisis easily, it will be better to wait.

