

Issue Details

Listing	NSE & BSE
Open Date	05/04/2019
Close Date	09/04/2019
Price Band	533-538

Issue Structure (In %)

Fresh issue	30.0
Offer for Sales	70.0

Shareholding Pattern (%)

	Pre	Post
Promotes	78.94	68.66
Public	21.06	31.34
Total	100.0	100.0

Polycab India Ltd. (Polycab) is engaged in the business of manufacturing and selling wires and cables and fast moving electrical goods and is the largest manufacturer in the wires and cables industry in India. The key products of the company 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 also diversified into the FMEG segments. Some of its key FMEG are electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories.

It has 24 manufacturing facilities, including two of its 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. Three 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 its Ryker manufacturing facility in Waghodia, India to produce copper wire rods which is expected to commence commercial operations by the end of FY19. The estimated annual capacity of this facility, once it is fully operational, will be 258,620 MT of copper wire rods. The Ryker Plant will strengthen the backward integration of the manufacturing process and is expected to meet a substantial part of the demand for copper wire rods used for the manufacturing of its wires and cables and FMEG.

It has a strong established supply chain network comprising of authorized dealers, distributors and retailers. This network supplies the products across India. The distribution network in India comprises over 3,300 authorized dealers and distributors and 29 warehouses as at March 31, 2018. The company supplies the products directly to the authorized dealers and distributors who in turn supply the products to over 100,000 retail outlets in India.

❖ **Business Overview: -**

The company was incorporated as 'Polycab Wires Private Limited' on January 10, 1996 at Mumbai as a private limited company. It is primarily engaged in the production and sales of a variety of wires and cables and FMEG including electric fans, LED lighting and luminaire, switches and switchgears, solar products and conduits and accessories. Its products are used in the power industry and a range of other industries, including petrochemicals, metal and mining, communication and railways, shipbuilding and construction.

- **Wires and Cables**

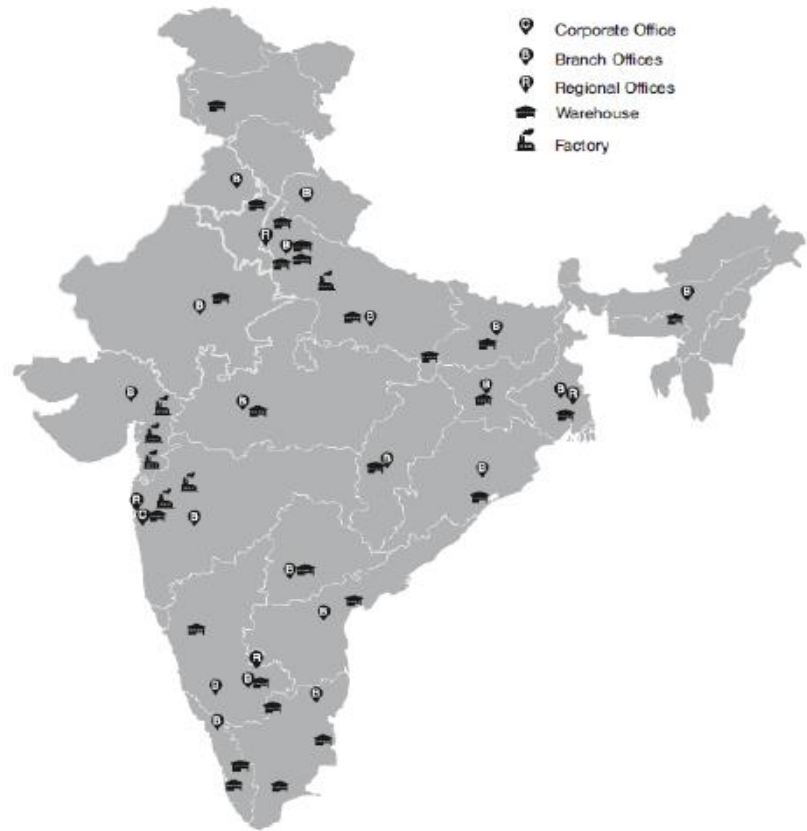
Polycab is the largest manufacturer in the wires and cables industry in India, in terms of revenue from the wires and cables segment and offers one of the most extensive ranges of wires and cables in India. For Fiscal 2018, it had a market share of approximately 18% of the organized wires and cables industry and approximately 12% of the total wires and cables industry in India. The key range of portfolio of the company comprises of Wires and cables, Power cables, Control cables, Instrumentation cables, Solar cables, Building wires, Flexible single/Multi core and Communication cables.

- **FMEG**

The company sells and, as the case may be, manufactures a range of FMEG products comprising electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories. It owns and operates two manufacturing facilities located in Maharashtra and Uttarakhand for the production of switchgears and ceiling fans, respectively. It also has a joint venture with Techno, a Gujarat-based manufacturer of LED products.

For all its other FMEG products, it enters into arrangements with third-party manufacturers who manufacture its products based on its requirements. These products include fans, lighting and luminaire products, switchgears and switches and pumps.

Strong distribution network across India



Source: Company, Ventura Research

Dealers and Distributors by geography

Particulars	2018	2017	2016
East	684	787	782
North	912	875	921
South	1,057	1,145	1,187
West	719	871	935
Total	3,372	3,678	3,825

Source: Company, Ventura Research

Dealers and Distributors by product

Particulars	2018	2017	2016
Wires and cables	1,304	1,436	1,718
FMEG	1,547	1,603	1,381
Common for wires and cables and FMEG	521	639	726
Total	3,372	3,678	3,825

Source: Company, Ventura Research

❖ Key Strategies:

1. Enhance and strengthen the leadership position in wires and cables

The Indian wires and cables market has grown at a CAGR of 23% from Fiscals 2014 to 2018 and is expected to further grow at 12% till Fiscal 2023, largely due to government initiatives such as increased infrastructure expenditure which will boost demand for wires and cables, growth in fire survival cables supported by investments in metro, airport and commercial real estate projects and Smart Cities. The company intends to expand its market share by targeting key growth sectors such as mining, oil and gas, shipping, power, renewables, infrastructure, construction, automotive, telecommunication and agriculture while expanding its customer base and utilizing its research and development capabilities to develop new and innovative products for these sectors.

2. Continue to expand its FMEG business

The FMEG business has potential for future growth and Polycab seeks to leverage this by strengthening its market position in FMEG in India and abroad with the support of its brand, distribution network, diverse customer base and manufacturing capabilities. It aims to focus on expanding its distribution reach in the existing FMEG products segments as well as undertaking detailed market mapping to identify and appoint new channels for geographical expansion. It also intends to focus on manufacturing value-added FMEG that enjoy higher profit margins such as premium fans, a wider range of table, pedestal, wall fans, smart fans and lighting products in the professional luminaire segment and penetrate segments of the FMEG market.

3. Expand distribution reach

Poylcab intend to increase the size of its addressable market by increasing the number of authorized dealers and distributors in North, South and East India. It also plans to penetrate new towns through these additional dealers and distributors. Further, it intends to add regional distribution centers in Hyderabad and Kolkata and smaller warehouses in other locations depending on the market potential and its sales plans.

4. Continue to invest in technology to improve operational efficiencies, customer satisfaction and sales

The company will focus on optimizing and automating its production processes to improve returns in a rapidly changing technological environment. It aims to identify opportunities to implement production improvements and will dedicate R&D resources to enhance the production processes. It will also continue to expand its R&D capabilities to capitalize on emerging trends such as energy efficiency. In particular, the company seeks to capitalize on the trend towards home automation through its continuous development of smart home electrical products such as fans, lights and curtains which feature apps-based operation and control in the switches and switchgear segment.

5. Strengthen brand recognition

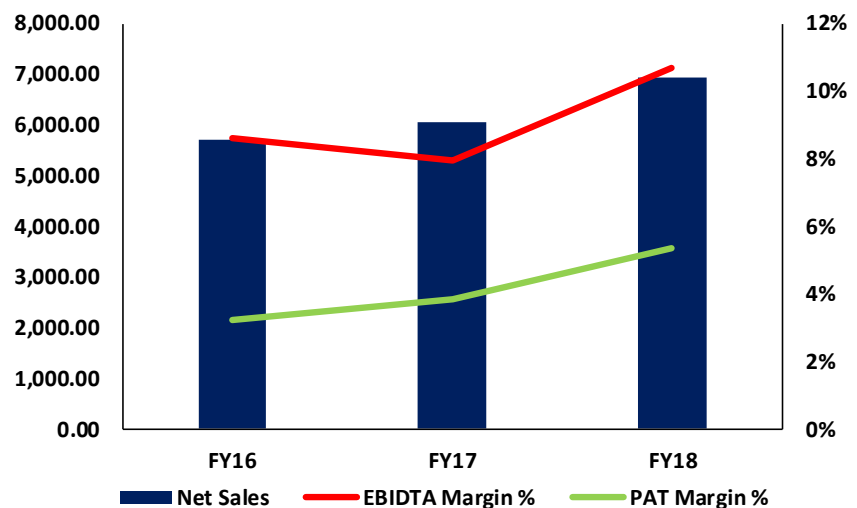
The company intends to continue enhancing its brand awareness and customer loyalty through promotional and marketing efforts. It will seek to increase its visibility and brand recognition through increased advertising in print and social media and television campaigns and increased one-to-one interactions with its authorized distributors, authorized dealers and end-consumers. It will also strengthen its influencer activities targeted at retailers, electricians, contractors, consultants, builders, industrial customers and government agencies.

❖ Financial Performance:

Total income of Polycab has witnessed a growth of 91% CAGR from Rs. 5,714.2 crores in FY16 to Rs. 6,923.9 crores in FY18. EBITDA and PAT have grown at a similar rate of 81% and 71% respectively. EBITDA margin has expanded by 210 bps during the same period to 10.7%. PAT margin has increased by 212 bps to 5.4% in FY18.

The company has demonstrated improving return ratios – ROCE to 21.25% (526 bps) and ROE to 15.76% (542 bps) over the period FY16 to FY18.

Revenue, EBITDA and PAT



Source: Company, Ventura Research

Product-wise Revenue

Particular	Fiscal 2018		Fiscal 2017		Fiscal 2016	
	(in Rs. crs)	(% of total income)	(in Rs. crs)	(% of total income)	(in Rs. crs)	(% of total income)
Wires and cables external sales	6,239.9	89.3	5,607.9	91.6	5,263.4	91.6
FMEG external sales	494.3	7.1	338.4	5.5	198.1	3.4
EPC business	249.1	3.6	172.0	2.8	282.5	4.9
Financial income	2.7	0.0	3.9	0.1	3.4	0.1
Total income	6,986.0	100.0	6,122.2	100.0	5,747.3	100.0

Source: Company, Ventura Research

❖ **Key Risk and Threats:**

1. Fluctuation in copper and aluminum commodity prices can impact the realization and profitability of the company.
2. Currency fluctuation poses a key challenge as major raw materials are imported and therefore could impact the margins.
3. The wires and electrical cables segment is highly fragmented with a large number of unorganized players, constraining the pricing power of organized sector players. Apart from unorganized sector, Polycab also faces competition from organized sector players such as Havells India Ltd and Finolex Cables Ltd.

❖ **Issue Structure & Valuation:**

The proposed Polycab India Ltd. issue is for an aggregate of 2,50,22,067 shares consisting of offer for sale as well as a fresh issue. This is being offered to the public in a price range of Rs 533 per share to Rs 538 per share. Minimum bid is of 27 shares and in multiples of the same thereafter. The valuation works out to be 20x P/E FY18.

Category	No. of shares Offered	% of Shares Offered
QIB	12,423,532	50
Non institutional Bidders	3,727,061	15
Retail	8,696,474	35
Employees	175,000	-
Total	25,022,067	

❖ **SWOT Analysis:**

<p>STRENGTH</p> <ul style="list-style-type: none"> ➤ Market leader in wires and cables in India with a market share of around 18% of the organized wires and cables industry. ➤ Diverse suite of electrical products with varied applications across a diverse customer base. ➤ Strong distribution network. ➤ Manufacturing facilities with high degree of backward integration. ➤ Experienced and committed management team. 	<p>WEAKNESS</p> <ul style="list-style-type: none"> ➤ Dependency on a limited number of third parties for the supply of the primary raw materials and delivery of products. ➤ High dependency on performance of the wires and cables market. ➤ Inability to maintain the stability of its distribution network and attract additional distributors and dealers may have an adverse effect on the operations.
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> ➤ Government initiatives in power and infrastructure to remain major contributors for growth in future. ➤ Construction sector activity led by investment in the infrastructure segment to boost growth in the cables and wires industry. ➤ Share of organized sector to increase as the industry is gradually moving from a largely unorganized sector. 	<p>THREAT</p> <ul style="list-style-type: none"> ➤ Failure to meet the substantial capital expenditure and working capital requirements. ➤ Inability to compete effectively would be detrimental to the business and prospects for future growth. ➤ Being part of a labor-intensive industry, the company is subject to stringent labor laws and carries a risk of unexpected strike, work stoppage or increased wage demand.

Profit & Loss (In Rs. crs)

Particulars	FY16	FY17	FY18
Revenue from operations	5,714.2	6,047.0	6,923.9
Expenses	5,223.5	5,567.1	6,183.1
EBITDA	490.8	479.9	740.8
<i>EBITDA Margin %</i>	8.6	7.9	10.7
Other Income	33.1	75.2	62.03
PBDIT	523.9	555.2	802.9
Depreciation	111.1	127.9	133.0
Interest	147.4	65.9	93.7
Exceptional items	-	-	-
PBT	265.4	361.3	576.2
Tax Provisions	80.7	128.3	205.5
PAT	184.7	233.1	370.7
<i>PAT Margin %</i>	3.2	3.9	5.4
Share of profit/(loss) of Associates	-	(0.3)	0.1
Consolidated Net Profit	184.7	232.7	370.8

Source: Company, Ventura Research

Balance Sheet (In Rs. crs)

Particulars	FY16	FY17	FY18
EQUITY AND LIABILITIES			
Shareholder's Funds			
Share Capital	141.2	141.2	141.2
Other Equity	1,641.6	1,852.3	2,208.0
Non controlling interests	2.8	3.1	4.0
Total Shareholder's Funds	1,785.6	1,996.6	2,353.2
Non-current Liabilities			
Borrowings	100.9	161.8	158.9
Long term provisions	7.1	9.0	9.5
Deferred tax liabilities (net)	21.1	65.7	55.3
Other non-current liabilities	10.3	19.5	18.2
Total Non-current Liabilities	139.4	256.0	242.0
Current Liabilities			
Short term borrowings	694.8	659.0	568.7
Trade Payables	1,056.6	1,354.3	922.1
Other current liabilities	145.6	258.0	302.4
Short term Provisions	24.3	28.9	37.6
Total Current Liabilities	1,921.2	2,300.2	1,830.8
Total Equity and Liabilities	3,846.1	4,552.8	4,426.1
ASSETS			
Non-current Assets			
Property, Plant and Equipment	978.4	1,122.4	1,194.4
Capital Work in Progress	138.1	164.9	136.0
Intangible assets	6.7	6.0	2.7
Investments	0.1	32.8	31.5
Trade receivables	35.2	48.3	88.0
Deferred tax assets (net)	-	0.1	0.0
Other non-current assets	64.6	98.3	68.7
Total Non -current assets	1,222.95	1,472.77	1,521.36
Current assets			
Inventories	980.4	1,519.8	1,365.7
Trade receivables	1,324.8	1,173.4	1,269.4
Cash and cash equivalents	31.6	23.4	8.2
Other current financial assets	26.1	29.4	36.1
Other Current Assets	259.6	333.2	225.0
Assets classified as held for disposal	0.7	0.7	0.3
Total Currents Investments	2,623.2	3,080.0	2,904.7
Total Assets	3,846.1	4,552.8	4,426.1

Source: Company, Ventura Research

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