



SMC Ranking

★ ★ ★ ★ ☆ (3.5/5)

Issue Highlights

Industry	Cables
Offer for Sale (Shares)	17,582,000
Fresh Issue (Shares)	7,434,944
Employee Reservation	175,000
Net offer to the Public	24,841,944
Issue Size (Rs. Cr.)	1333-1346
Price Band (Rs.)	533-538
Employee Discount:	Rs.53/-Per shar
Offer Date	5-Apr-19
Close Date	9-Apr-19
Face Value	10
Lot Size	27

Issue Composition

	In shares
Total Issue for Sale	24,841,944
QIB	12,420,972
NIB	3,726,292
Retail	8,694,680

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	78.94%	67.92%
QIB	15.00%	17.85%
NIB	6.06%	8.26%
Employee reservation	0.00%	0.12%
Retail	0.00%	5.85%
Total	100.00%	100.00%

*Calculated on the upper price band

Objects of the Issue

- Scheduled repayment of all or a portion of certain borrowings availed by our Company;
- To fund incremental working capital requirements of the Company;
- General corporate purposes.

Book Running Lead Manager

- JKotak Mahindra Capital Company Limited
- Axis Capital Limited
- Citigroup Global Markets India Private Limited
- Edelweiss Financial Services Limited
- IIFL Holdings Limited
- YES Securities (India) Limited

Name of the registrar Karvy Fintech Private Limited

About the company

Polycab India Limited is engaged in the business of manufacturing and selling wires and cables and fast moving electrical goods (“FMEG”) under the “POLYCAB” brand. Apart from wires and cables, it manufactures and sells FMEG such as electric fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories. The company has 24 manufacturing facilities, including its 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.

Competitive Strengths

Market leader in wires and cables in India: 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, the company has one of the most extensive portfolios of wires and cables to cater to the needs of its institutional and retail customers. Further, the company intends to capture such growth by leveraging on its brand, product quality and strong distribution network.

Diverse suite of electrical products with varied applications across a diverse customer base: It manufactures and sells a diverse portfolio of wires and cables and FMEG, which also gives it the opportunity to cross-sell its products to its diverse base of customers. Although India remains its largest market, in Fiscal 2018 its products were exported to more than 40 countries in the world, with its sales to customers located outside India contributing to 5.14% and 3.41% of its total segment revenue for Fiscal 2018 and the nine months period ended December 31, 2018, respectively.

Strong distribution network: For the nine months period ended December 31, 2018, its distribution network across India comprised over 2,800 authorized dealers and distributors. The company supplies its products directly to its authorized dealers and distributors who in turn sell its products to over 100,000 retail outlets in India. To strengthen its distribution network, it has undertaken several internal and external facing initiatives such as (i) its customer relationship management (“CRM”) programme, Bandhan, and (ii) Project Josh, which seek to increase its market share in the FMEG segment in a targeted and organized manner. Since the implementation of its Project Josh in 2015, it has increased its number of retailers and distributors to, as at December 31, 2018, approximately 33,000 and 500, respectively (in the approximately 105 locations where Project Josh was implemented).

Manufacturing facilities with high degree of backward integration: Its manufacturing facilities are accredited with quality management system certificates for compliance with ISO 9001, ISO 14001, OHSAS 18001 requirements. As at December 31, 2018, the company has 24 manufacturing facilities, four of these 24 manufacturing facilities are for the production of FMEG, including a joint venture with Techno to manufacture LED products. In addition, it has seven Catenary Continuous Vulcanization lines within its manufacturing facilities for producing different types of wires and cables to

meet customers' demands and needs.

The company owns and operates two manufacturing facilities located in the states of Maharashtra and Uttarakhand for the production of switchgears and ceiling fans, respectively. The two facilities have a total annual installed production capacity of 8,400,000 (in numbers) as at December 31, 2018.

Strong brand in the electrical industry: The company is an established manufacturer of wires and cables and other electrical products. It sells its products under its "POLYCAB" brand. As of Fiscal 2018, it has approximately 18% market share of the organized wires and cables industry, estimated at Rs.34600 crore, and approximately 12% market share of the total wires and cables industry, estimated at Rs. 52500 Crore. In the FMEG segment, its external sales have grown at a CAGR of 57.96% from Fiscals 2016 to 2018, and by 41.38% for the nine months period ended December 31, 2018 as compared to the nine months period ended December 31, 2017. From Fiscals 2016 to 2018, its advertising and sales promotion expenses increased from Rs. 57.94 crore to Rs. 93.70 Crore, and from Rs.72.68 crore for the nine months period ended December 31, 2017 to Rs. 75.72 Crore for the nine months period ended December 31, 2018.

Strategy

Enhance and strengthen its leadership position in wires and cables:

The Company intends to enhance, maintain and strengthen its leadership position in the wires and cables market in India by growing its share of business with existing customers, winning new customer contracts, geographical expansion and development of innovative and customized products. In 2016, it entered into a 50:50 joint venture with Trafigura to set up the Ryker Plant, a manufacturing facility in Waghodia, India for the production, trading and sale of copper wire rods. The company expects the Ryker Plant to commence operations in Fiscal 2019 and once fully operational, the plant will have an annual capacity of 225,000 MT of copper wire rods.

Continue to expand its FMEG business: The Company seeks to grow and strengthen its market position in the FMEG market in India and abroad by leveraging on its brand, distribution network, diverse customer base and manufacturing capabilities. The company is also undertaking detailed market mapping to identify and appoint new channels for geographical expansion. The company intends to continue to position itself as the go-to manufacturer of FMEG and will focus on strengthening its after-sales service for its customers. As at December 31, 2018, it has over 255 customer care franchisees who employ customer care technicians.

Expand distribution reach: The Company intends 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.

Continue to invest in technology to improve operational efficiencies, customer satisfaction and sales: The Company plans to continue to invest in technology to improve its operational efficiencies, increase customer satisfaction and improve its sales and profitability. It 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 its production processes. The company intends to roll out the Distributor Management System platform across India by April 30, 2019.

Risk Factors

Heavy dependency on the performance of the wires and cables market:

The business of the company is heavily dependent on the performance of the wires and cables market. Any adverse changes in the conditions affecting the wires and cables market can adversely impact its business, financial condition, results of operations, cash flows and prospects.

Exposed to foreign currency fluctuation risks: The company faces foreign exchange rate risk to the extent that its revenue, expenses, assets or liabilities are denominated in a currency other than the Indian Rupee.

Have substantial capital expenditure and working capital requirements:

The company has substantial capital expenditure and working capital requirements and may require additional financing to meet those requirements, which could have a material adverse effect on its results of operations, cash flows and financial condition.

Faces significant competitive pressures: The company faces significant competition in its business from other manufacturers and suppliers of electrical products. Its inability to compete effectively would be detrimental to its business and prospects for future growth.

Peer Comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Havells India Limited	9840.66	810.45	10.61	72.06	12.83	59.62	1	764.70	47829.91
Bajaj Electricals Limited	6470.97	145.84	11.10	50.95	6.19	91.44	2	565.75	5793.26
Crompton Greaves Con.Elec Ltd	4398.34	364.07	5.81	38.24	16.30	13.63	2	222.15	13928.49
KEI Industries Limited	3998.60	171.50	18.35	22.90	5.48	76.63	2	420.20	3316.45
V-Guard Industries Limited	2485.35	133.86	3.16	69.45	12.49	17.56	1	219.35	9364.80
Polycab India Limited	7342.27	477.63	33.83	16.74	2.06	261.11	10	538.00	7996.87

Valuation

Considering the P/E valuation on the upper price band of Rs.538, EPS and P/E of FY2019 are Rs.32.13 and 16.74 multiple respectively and at a lower price band of Rs. 533, P/E multiple is 16.59. Looking at the P/B ratio on the upper price band of Rs.538, book value and P/B of FY19 are Rs. 261.11 and 2.06 multiple respectively and at a lower price band of Rs. 533 P/B multiple is 2.04. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Outlook

The electrical cables and wires segment of the industry constitutes 40-45% of the electrical equipment industry in India, which constitutes 8% of the manufacturing sector in terms of value, and 1.5% of the overall GDP in fiscal 2018. The increasing demand for power, light and communication (voice as well as data) has kept the demand for cables and wires high. Investments in power transmission projects, execution of solar and wind energy projects, metro rail projects, and increased household spending have all led to an increase in demand for power and building wires and cables. Further, growth in the industrial sector has resulted in increased demand for flexible cables

Annexure

and wires and control and instrumentation cables. The Indian cables and wires industry has grown at a CAGR of approximately 11% by value in the last five years to reach Rs. 525 billion in fiscal 2018. In general, realisation of the cables and wires industry follows the trend of key raw materials prices, mainly copper and aluminium. In value terms, CRISIL Research expects the industry to grow by approximately 15% CAGR and reach an estimated Rs. 1,033 billion by fiscal 2023.

Outlook

Polycab India manufactures and sells a diverse range of wires and cables and their key products in the wires and cables segment. The company is engaged in the FMEG segment, which has bright prospects ahead. Moreover, the LED lightning arena is in advance mode. On the issue pricing front, it is reasonably priced and its fundamentals are also good. Investor may opt the issue.

EVENT	INDICATIVE DATE (On or about)
Bid/ Offer Opening Date	5-Apr-19
Bid/ Offer Closing Date	9-Apr-19
Finalisation of Basis of Allotment with the Designated Stock Ex.	12-Apr-19
Initiation of refunds for anchor investors/unblocking of funds	15-Apr-19
Credit of Equity Shares to demat accounts of Allottees	16-Apr-19
Commencement of trading of the Eq. Shares on the Stock Ex.	18-Apr-19

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	9 Months Ended 31-Dec-18	12 Months Ended 31-Mar-18	12 Months Ended 31-Mar-17
Revenue from operations	5,506.70	6,923.92	6,047.01
Total expenditure	4812.66	6183.10	5567.06
Operating Profit	694.04	740.82	479.95
OPM%	12.60	10.70	7.94
Other Income	54.35	62.22	75.53
PBDIT	748.39	803.04	555.48
Depreciation	107.14	132.95	127.88
PBIT	641.26	670.09	427.60
Interest	90.49	93.68	65.95
PBT before Share of profit/(loss) of JV	550.76	576.41	361.65
Share of profit/(loss) of Joint Ventures	-4.61	0.11	-0.33
PBT	546.16	576.52	361.32
Tax	187.93	205.60	128.36
Profit After Tax	358.22	370.92	232.96

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	31-Dec-18	31-Mar-18	31-Mar-17
Non-current assets			
Property, plant and equipment	1270.50	1194.43	1122.36
Capital work-in-progress	143.42	135.99	164.88
Intangible assets	1.41	2.70	6.03
Investment in Joint Venture	26.73	31.41	32.70
Financial assets	180.86	94.26	54.40
Income tax assets (Net)	8.20	31.14	57.29
Deferred tax assets (net)	0.00	0.01	0.07
Other non-current assets	56.07	31.25	34.94
Total non-current assets	1687.19	1521.18	1472.66
Current assets			
Inventories	2305.51	1365.69	1519.82
Financial Assets	1119.19	1330.59	1252.06
Income Tax Assets (Net)	0.00	0.00	0.00
Other current assets	274.02	225.53	333.52
Total current assets	3698.72	2921.81	3105.40
Assets classified as held for disposal	0.00	0.27	0.75
Total Assets	5385.91	4443.26	4578.81
Non-current liabilities			
Financial liabilities	93.77	158.95	161.77
Long Term Provisions	12.29	9.51	9.02
Deferred tax liabilities (net)	50.43	55.35	65.74
Other non-current liabilities	16.15	18.22	19.46
Total non-current liabilities	172.65	242.03	255.99
Current liabilities			
Borrowings	446.40	568.75	659.03
Trade payables	1533.92	922.09	1354.27
Other current financial liabilities	184.80	133.19	105.48
Other current liabilities	115.34	103.63	147.43
Short term Provisions	36.86	37.63	28.94
Current tax liabilities (Net)	173.06	82.38	30.86
Total current liabilities	2490.38	1847.67	2326.01
Total liabilities	2663.03	2089.69	2582.00
NET Worth	2722.88	2353.56	1996.81
Net worth represented by:			
Share capital	141.21	141.21	141.21
Reserves and surplus	2574.99	2208.31	1852.55
Non-controlling interests	6.68	4.05	3.05
Net Worth	2722.88	2353.56	1996.81

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.