

Polycab India Limited

22nd August 2022

Well poised to compound

Polycab India Ltd. (PIL) is India's No. 1 cable & wires manufacturer with a ~22-24% market share of the organized cable and wire industry. PIL is the only company in India to manufacture all possible cables & wires, generating more than Rs. 100 Bn in revenue. PIL was established in 1983, and since then, it has shown aggressive growth. PIL entered the Fast-Moving Electrical Goods (FMEG) segment in 2014 and plans to be among the top 3 players in certain categories. We initiate coverage on Polycab India Ltd. with a BUY rating and a target price of Rs. 2,691.

Growth-driven management with a superior execution track record

PIL has achieved a leadership position in the consumer electrical industry by growing its revenue/profit after tax at a healthy 12.5%/37.9% CAGR for the last ten years. In the last 8 years, PIL has managed to scale its FMEG business, generating a topline of Rs. 12 Bn in FY22. Management continues to maintain its aggressive stance as PIL embarks on a transformational growth journey under Project LEAP, where it aims to reach a target of Rs. 200 Bn revenue by FY26. Almost all the managerial talent acquisition to achieve Project LEAP has been done. Also, crucial strategic decisions like introducing a new brand and improving reach in rural areas are currently in progress. These efforts should result in healthy future growth for PIL.

FMEG optionality + right to win

The Company commenced its FMEG business journey in 2014 and has nurtured it remarkably. PIL has built all the key variables like brand, strong distribution network, the ability to invest, the ability to launch innovative products, etc., to succeed in this space. Profitability is the only aspect that PIL will continue to work towards. However, the Company aims to achieve a 12% operating margin in FMEG by FY26, which looks attainable given the characteristics that the Company has created. The FMEG segment matches all the qualities of good optionality where the Company has a good probability to make it big and cement its position in the Top 3 players in a few FMEG categories.

View & Valuation

We initiate coverage on Polycab India Ltd. with a BUY rating and a target price of Rs. 2,691 (33x FY23E earnings). Project LEAP will become a prime reason for future revenue and profitability growth. The profitability is expected to grow faster than revenue as we expect efficiencies to drive margins upward. Multiple macros factors will enable this healthy growth, which looks ripe to fructify.

We believe in all the growth triggers of PIL and expect it to continue compounding.

BUY

CMP Rs. 2,350

TARGET Rs. 2,691 (+15%)

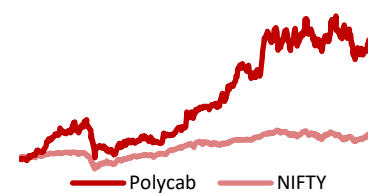
Company Data

MCAP (Rs. Mn)	3,51,150
O/S Shares (Mn)	150
52w High/Low	2,820 / 1,810
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	815

Shareholding Pattern %

	June 22	March 22	Dec 21
Promoters	67.99	68.08	68.15
FII's	5.71	5.75	6.43
DII's	9.03	9.18	8.66
Non-Institutional	17.27	16.98	16.77

Polycab vs Nifty



Aug, 19 Aug, 20 Aug, 21 Aug, 22

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	1,22,038	1,38,025	1,56,106
EBITDA	12,502	16,977	19,357
Net Profit	8,539	12,232	13,948
Total Assets	74,119	97,441	1,10,994
ROCE (%)	15%	20%	20%
ROE (%)	16%	20%	20%

Source: Company, Keynote Capitals Ltd.

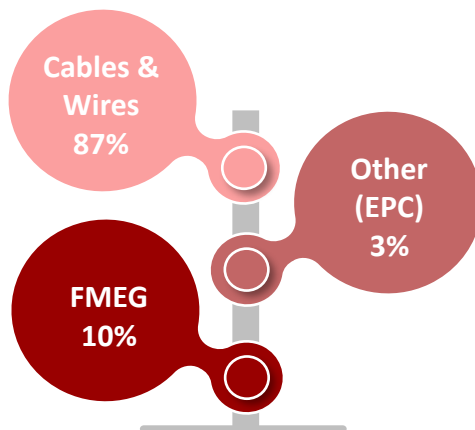
Devin Joshi, Research Analyst
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About Polycab India Limited

In 1964, Late Thakurdas Jaisinghani established 'Sind Electric Stores,' which dealt with various electrical products, including fans, lighting, switches, and wires. Later, in 1983, Polycab Industries, a partnership firm established by his four sons, was registered as a small-scale industrial unit in respect of a factory located at Halol for manufacturing/ processing of PVC (Polyvinyl Chloride) insulated cables & wires, copper and aluminum, and bare copper wire. This Company was later registered as a private limited company in 1988 as Polycab Industries Private Limited, which was converted into a public limited company during its IPO in April 2019. Currently, Polycab India Limited (PIL) operates in 3 segments – Wires & Cables, FMEG (Fast Moving Electrical Goods), and Others (EPC - Engineering, Procurement, and Construction).

Revenue Mix (FY22)



Source: Company, Keynote Capitals Ltd.

The company operates in the B2B segment, selling various Cables & Wires (C&W). Products manufactured are either made-to-stock, i.e., based on market demand forecasts, or made-to-order, i.e., customized products. PIL is the only company to manufacture all types of C&W. They are the largest player in the industry with a ~22%-24% market share of the organized C&W segment and are the largest exporter from India.

PIL diversified into the EPC business to popularise its wide range of product offerings, including EHV (Extra High Voltage), HV (High Voltage) & LV (Low Voltage) Cables. These products are used in refinery works, rural & urban electrification, and various GOI utilities, etc. Recently, PIL was appointed as the Master System Integrator (MSI) by Tamil Nadu FibreNet Corporation Ltd to implement the BharatNet Phase-II project, which covered over 3,000 Gram Panchayats across nine state districts.

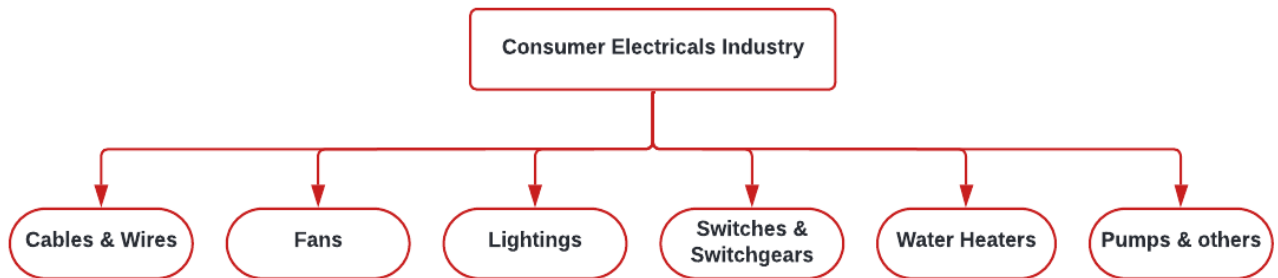
PIL commenced its FMEG business in 2014, leading to its entry into the B2C sector. PIL's fast growth in FMEG is due to its primary focus on in-house manufacturing. Its vast distribution network leads to selling more products via the same network resulting in faster penetration and reaching untapped markets.

PIL has 23 manufacturing facilities across Gujarat, Maharashtra, Uttarakhand, and Daman (U.T). It sells its products via its vast PAN India distribution network, which comprises over 4,600 authorized dealers & distributors and 28 warehouses, which deliver further to over 205,000 retailers.

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Consumer Electricals Industry

The Consumer Electricals sector comprises household electrical appliances such as fans, lights, cables & wires, switches & switchgear, water heaters, kitchen appliances, and other small domestic appliances (pumps, irons, etc.). The collective industry size is around Rs. 1.4-1.5 trillion as of FY22.



Source: Company, Keynote Capitals Ltd.

The Consumer Electricals sector caters to the basic needs of urban and rural households. Generally, it has a resilient demand due to a lack of alternatives/substitutes and semi to non-discretionary products, making them less dependent on spending trends of the economy.

Unlike the Consumer Appliances sector (refrigerator, washing machine, iron, etc.), where online sales and modern retail contribute 60-70% of the total sales, the Consumer Electricals sector still depends on the traditional general trade channel (hardware and electrical stores). Sales from general trade account for more than 80% of the total sales of the Consumer Electricals sector as these are not mere plug-and-play devices but need installation through an electrician. Hence, establishing an extensive and entrenched distribution network nationwide are critical for success.

The macro drivers for the Consumer Electricals sector include better power connectivity (through rising urban and rural electrification), an increase in housing development (rising urbanization, thrust on rural housing through PMAY, incentives for affordable housing), and construction activities (residential, commercial, industrial and infrastructure creation). The sector is witnessing consolidation in favor of industry leaders, with consumers preferring branded and premium products with better brand image and product quality.

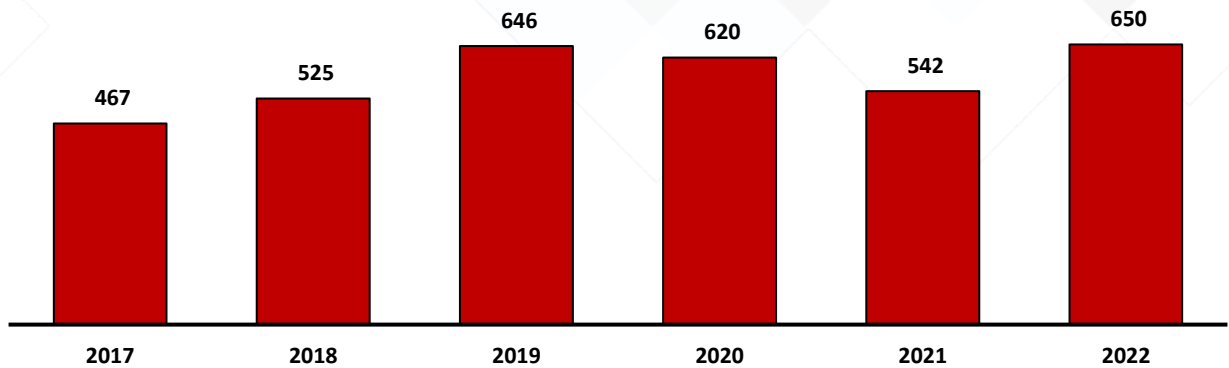
Over the past few years, market share has rapidly shifted from unorganized players and regional brands to sector leaders and is expected to accentuate. Sector leaders have emerged stronger from the Covid-19 pandemic, led by a deeper distribution network, direct retail reach, ability to manage the supply chain through alternate sourcing, and structural cost savings. At the same time, consolidation in the industry is likely to happen. With new trends in the sector favoring premiumization and IOT-enabled smart products, and upcoming BEE (Bureau of Energy Efficiency) norms (which will lead to an increase in 2-10% of manufacturing costs for making the product efficient), it is fair to expect that the sector leaders will further strengthen their market share and profitability.

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Cables and Wires (C&W) Industry



The C&W industry is estimated to be over Rs. 600-650 Bn as of FY22. It is the largest constituent contributing 40-45% to the Consumer Electrical Industry.

Market Size (Rs. Bn) of C&W Industry over 5 years grew at a healthy CAGR of ~7%



Source: Company, Keynote Capitals Ltd.

Difference between Cables and Wires

	Cables	Wires
Definition	A cable is, generally, two or more wires bonded, twisted or braided together and are typically insulated 	A wire is a single or a group of strands of conductive material, like copper or aluminum, which can either be visible or insulated 
Uses	Mainly used in industrial segment in power transmission, to carry electricity and telecommunications signals	Mainly used in the residential segment to carry electricity and telecommunications signals. Also used in heating, automotive or industrial parts, and bulbs.
Types	Twisted pair cable, coaxial cable, multi-conductor cable, and fiber optic cable	Solid and Stranded
Advantage	Higher strength, heavy duty, and insulated.	Solid wires offer low resistance, thus, perfect for use in higher frequencies. Stranded wire shows higher resistance to metal fatigue.
Price	Costlier than Wires	Cheaper than Cables

Source: Company, Keynote Capitals Ltd.

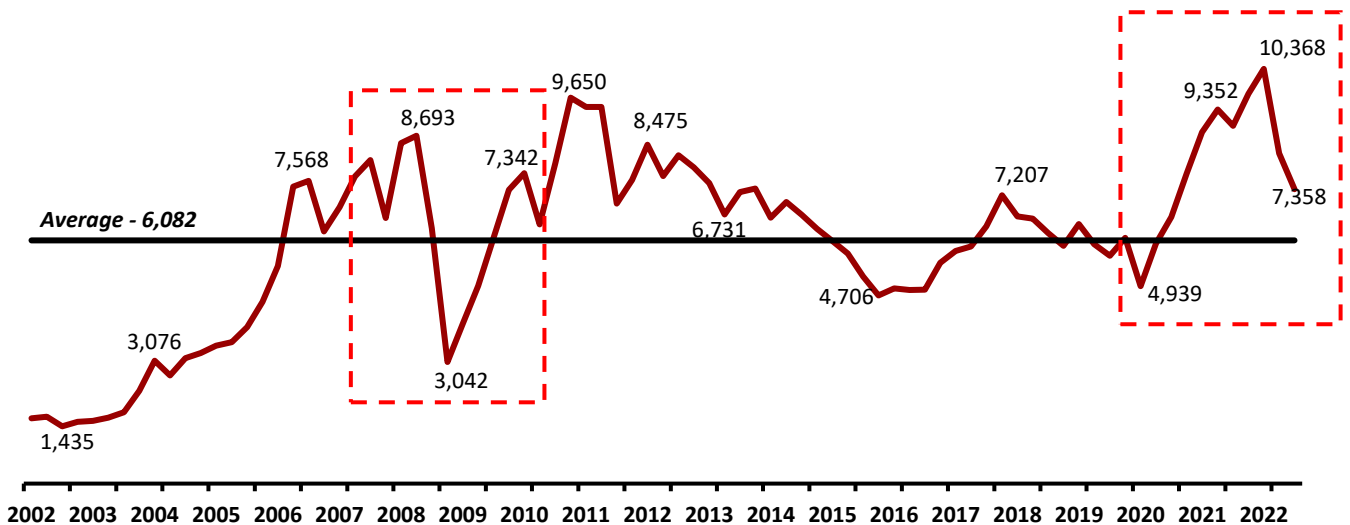
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Operating margins for wires are higher than that of cable as they are primarily used in the residential sector, catering to B2C demand. Thus, any price increases can be passed on quickly. On the other hand, cables are mostly used in B2B projects, especially in the private sector, where deals are mostly done on a fixed price basis, which hurts companies' operating margins in an inflationary market.

Primary raw materials required for manufacturing C&W are copper, aluminum, and PVC compounds. Copper prices have an inverse correlation with the gross margins of C&W companies. Thus, they are prone to raw material fluctuations and other factors like changes in government policies, economic conditions, income levels, and interest rates, which may positively or negatively affect the demand for the products.

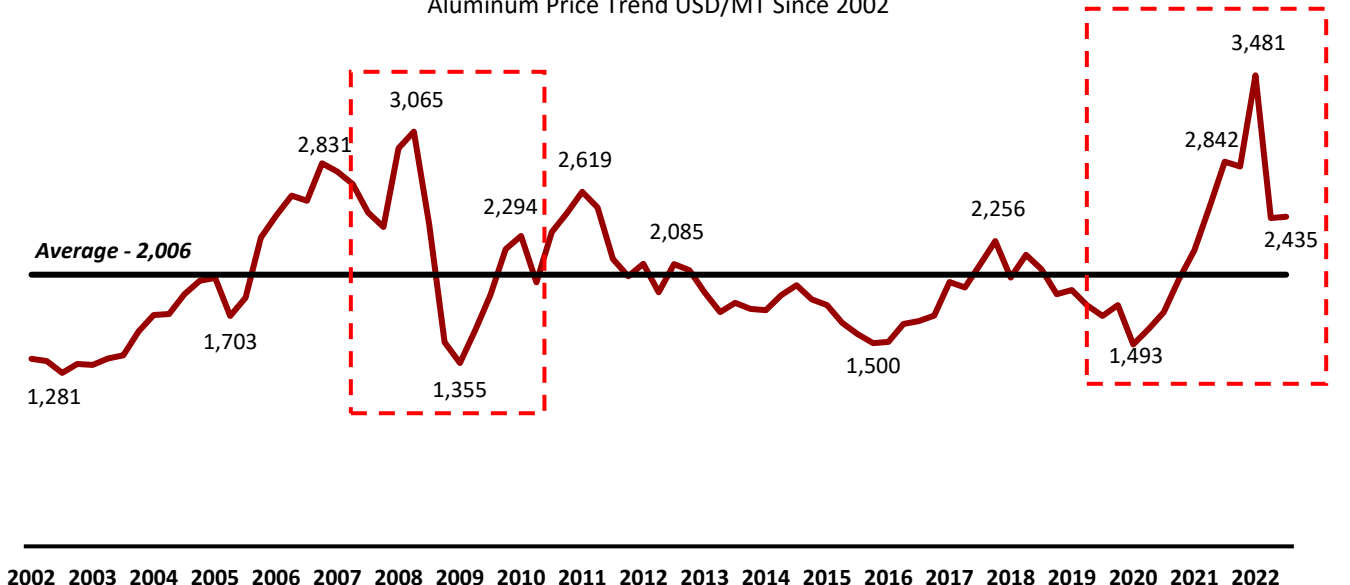
Raw Material Volatility

Copper Price Trend USD/MT Since 2002



Source: Bloomberg, Keynote Capitals Ltd.

Aluminum Price Trend USD/MT Since 2002

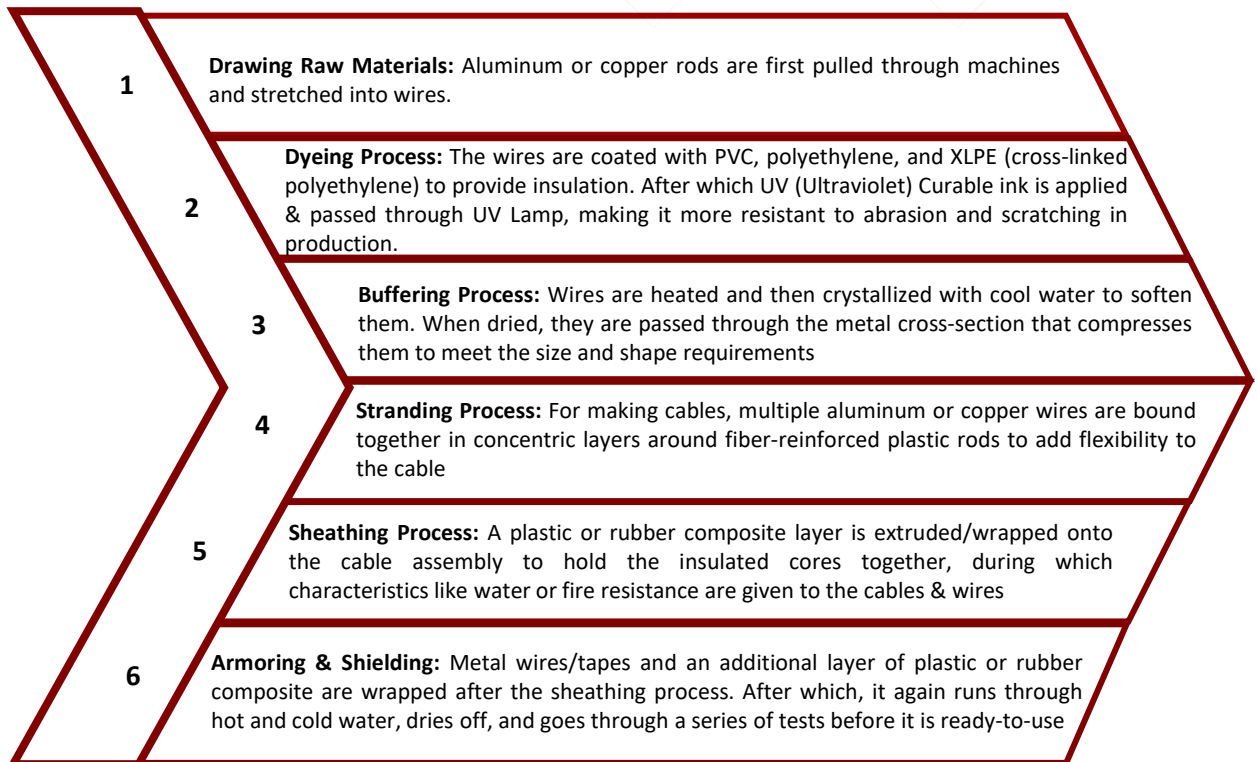


Source: Bloomberg, Keynote Capitals Ltd.

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Sudden fluctuations in commodity prices have never been a surprise. The sudden rise in prices of copper in 2005 was the result of a supply shortage. Copper and Aluminum are traded on LME (London Metal Exchange), and their prices fluctuate due to global demand and supply. For example, they fell steeply in 2008 due to the real estate crisis. Another such instance was the rapid rise of these commodities post-COVID pandemic due to supply shortages. Such changes affect C&W manufacturing companies as they rely heavily on these commodities which are their raw materials. Many companies follow the practice of hedging to stay immune to such precarious nature of these commodity prices.

Manufacturing process of Cables and Wires



Source: Company, Keynote Capitals Ltd.

Types of Cables and Wires

Name	Wire/Cable	Applications	Growth Drivers
Power Cables		<p>Transmission distribution systems (overhead, underground, submarine)</p>	<p>Expansion of underground power distribution lines, capacity additions in solar and wind energy, and smart city missions.</p>
Instrumentation Cables		<p>It controls the process in oil & gas, power generation, distribution, auto, chemical, and mining industries. The electrical signals passing through these cables are prone to external interferences and thus require high quality and unique electrical properties</p>	<p>Demand will be driven by the demand in oil & gas, power generation, distribution, auto, chemical, and mining industries</p>
Control Cables		<p>Sends signals to control equipment functioning, allow the distribution of data or passwords with low voltage, and are explicitly designed for automation controls.</p>	<p>Investments in railways and metros, industrial capital expenditure rising across industries like automobile, steel, oil and gas, power, chemicals, and increased focus on automation.</p>
Building Wires		<p>Environmentally friendly and suitable for use where high flexibility is essential. Ideal for various indoor and outdoor applications and building electrification</p>	<p>Increasing affordable housing, nuclear families, and increased household spending, along with commercial & residential infrastructure investment</p>
Telecom/ Communication Cables		<p>Used by service/industrial sector demanding data cables, intercom and security penetration in residential buildings, and internet users</p>	<p>Increasing demand for power, light, and communication sector (voice and data)</p>

Source: Company, Keynote Capitals Ltd.

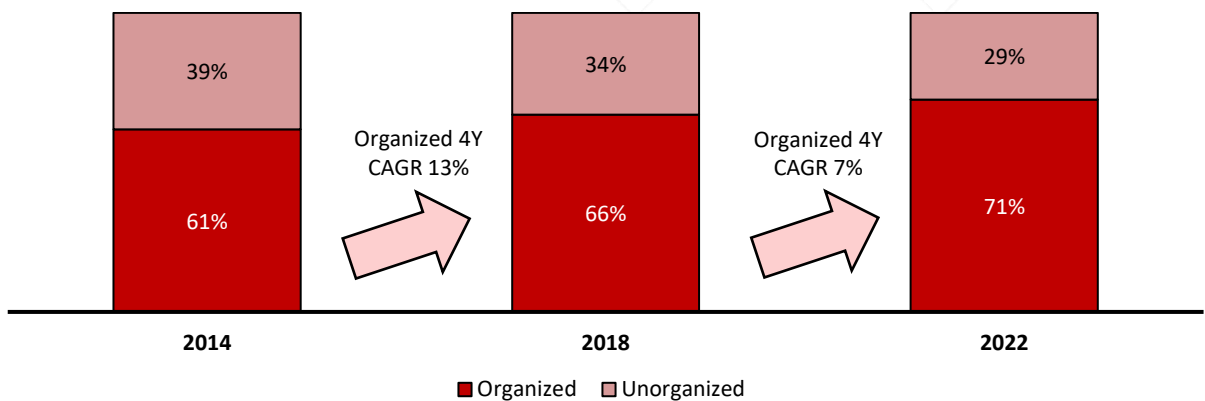
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Cables & Wires Industry Trends

Shift of C&W industry from unorganized to organized segment

Over the past few years, market share has rapidly shifted from unorganized players and regional brands to industry leaders and is expected to accentuate even further. Organized industry leaders have emerged stronger due to their focus on the distribution network, structural cost savings, technological complexities, product innovations, marketing & branding, and government reforms like the introduction of GST, etc. As a result, the share of organized players has increased by 10% since 2014.

Organized players gaining over un-organized players in C&W industry

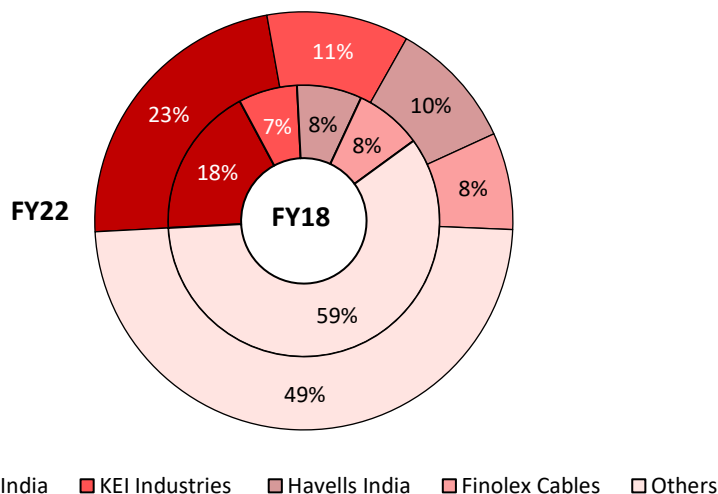


Source: Company, Keynote Capitals Ltd.

Top three players are gaining market share

In the last four years, the top three players in the organized C&W industry have gained most of the market share, with Polycab (+5%) gaining the highest and leading the industry, followed by KEI Industries (+4%), and Havells (+2%). This gain has been led by technological enhancements, product innovation, wide range of products, aggressive marketing, an entrenched distribution network, and the ability to fulfill large orders on time.

Top 3 players have constantly gained market share



Source: Company, Keynote Capitals Ltd.

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Fast Moving Electrical Goods (FMEG) Industry

With the growth in infrastructure in residential, commercial, and industrial areas, the demand for FMEG products has increased manifold. Due to its secular nature, multiple quality players compete in the industry. Companies in the FMEG sector continuously innovate to maintain market share and sustain their product line.



Modern FMEG products penetrate deep into the homes and lifestyles of the people. Consumer preferences are constantly evolving due to increasing disposable income and brand preference. Frequent government regulatory changes play a vital role in the industry's growth. The market share of the players significantly depends on creating brand and consumers' awareness. Consistent branding and marketing are the keys to selling in the industry.

Top constituents of the FMEG industry

Segment	Size FY22 (Rs. Bn)	Historical 8Y CAGR Growth	Estimated 5Y CAGR Growth	Top Organized Players	Long Term Growth Drivers
Fans	106	7%	5-7%	Havells, Polycab, Bajaj Electricals, Crompton Greaves, Orient Electric, V-Guard Industries	Government initiatives like housing for all & UJALA, increasing rural & urban electrification, affordable housing, demand for energy-efficient products, increasing adoption of premium and IOT enabled products due to rise in disposable income, infrastructure development
Lighting & Luminaires	187	4%	4-6%	Havells, Polycab, Bajaj Electricals, Philips, Crompton Greaves, Orient Electric	
Switches	72	12%	10%	Polycab, Havells, Finolex Cables, Orient Electric, V-Guard, Schneider Electric	
Switchgears	210	6%	6-7%	ABB India, Havells, Polycab, Schneider Electric, Siemens	

Source: Company, Keynote Capitals Ltd.

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Consumer Electrical Industry Trends

Increasing premium and energy-efficient products in the industry

India is witnessing a shift towards premium and energy-efficient products in the industry. All the industry participants are either setting up plants for manufacturing premium products or acquiring companies doing consistent innovations and launching new products to increase their wallet share in the premium products segment.

“During the first quarter, we have already launched 15 new products in premium segments. Our premium products now contribute 12% to overall consumer business, which was just 8% in fiscal 2022 and 4% in fiscal 2021.” – Gandharv Tongia, CFO, Polycab India, Q1 FY23.

“We have actually seen a little bit of upgrading towards more energy-efficient products and products becoming more expensive. So, people are going in for a little bit higher onetime costs and then focusing more on the electricity consumption.” – Anil Rai Gupta, MD, Havells India, Q4 FY22.

“First, there is clearly an opportunity which we are seeing in the premiumization” – Shantanu Khosla, MD, Crompton Greaves, Q4 FY22.

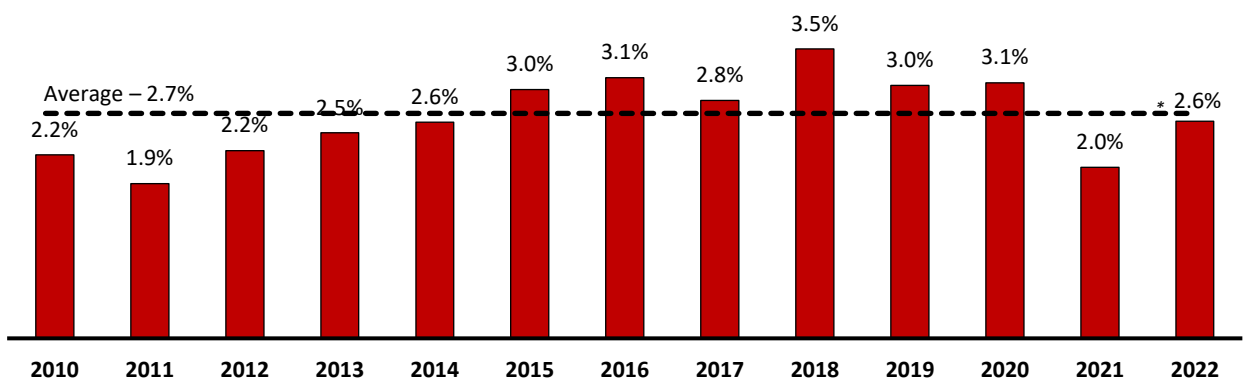
“We are starting to move up end product portfolio a little more towards premium more contemporary energy-efficient BLDC (Brushless Direct Current Motor) aesthetic fans, etc.” – Anuj Poddar, Executive Director, Bajaj Electricals, Q4 FY22.

“This Roorkee fan plant enables us to produce a premium range of fans which is primarily liquid painted fans with decorative” – Mithun K Chittilappilly, MD, V-Guard Industries, Q1 FY22.

Focus on marketing and branding

Advertising and Sales Promotion are the key to selling consumer-based products. Average cumulative A&SP spending in the industry since 2010 has been around 2.7% of cumulative sales. It experienced a dip in 2021 due to the COVID, but it again revived in FY22 when the companies again started spending on marketing and branding. As per the industry participants, the number is expected to go up even further to 2.7-3.0% due to a revival in demand and consumer sentiments.

Trend in A&SP Spends as a % of Sales



* KEI Industries & Finolex Cables are yet to published their Annual Report for 2022, therefore their numbers are excluded from the calculation. Companies included in the calculation of FY22 industry A&SP are Polycab, Havells, Crompton, Orient Electric, Bajaj Electricals, and V-Guard Ind.
Source: Company, Keynote Capitals Ltd.

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The largest players in the industry share the same views on A&P trends

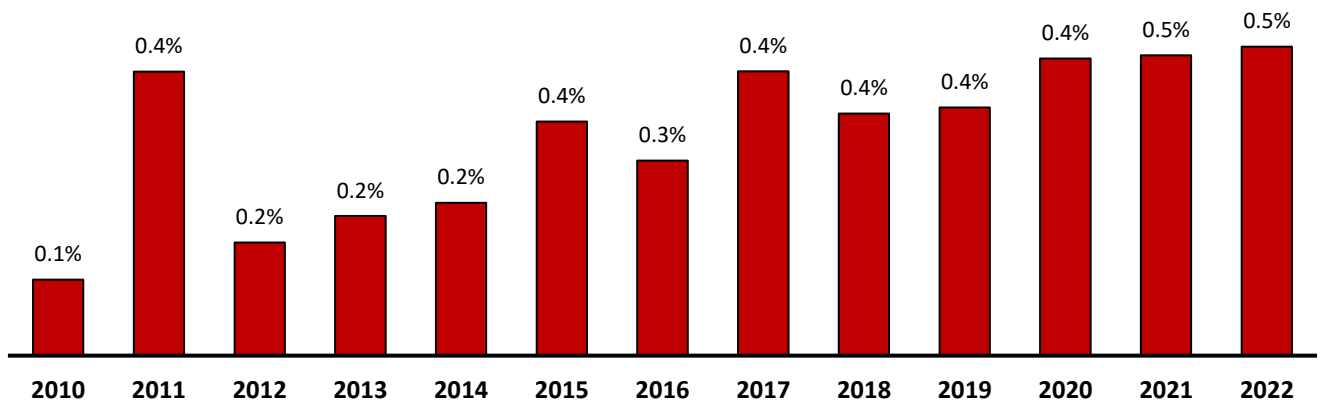
"I would expect some increase in expenses, for example, advertisement and publicity in the COVID years we were following a bit of soft approach on A&P spend, but I would expect this to go up in the quarters and years to come" – Gandharv Tongia, CFO, Polycab India, Q1 FY23.

"We usually spend close to about 2.5% to 3% in a normal year other than the disrupted COVID years but generally about 2.5% to 3%" – Anil Rai Gupta, MD, Havells India, Q1 FY23.

Focus on Research and Development (R&D)

The industry's leaders have been increasing focus on R&D, which helps players produce new energy-efficient & smart products. Industry leaders are inching up their R&D spending year after year to maintain pole positions when it comes to launching innovative products. R&D spending in the last 12 years has compounded at a substantial rate of 26%. This spending on R&D can only be expected to go higher from here because of a preference for smart and energy-efficient products.

R&D spends as % of sales of industry leaders at all time high



Companies included in the calculation of industry R&D expense are Polycab, Havells, Crompton, Orient Electric, Bajaj Electricals, KEC International and V-Guard Ind.
Source: Company, Keynote Capitals Ltd.

Increasing focus on Rural Reach

In India, rural areas are developing due to various government initiatives for housing and electricity, increasing smartphone and network penetration in remote regions, and rising disposable incomes resulting in apparent future demand. Multiple companies have already taken initiatives to set themselves up in rural markets. Market leaders in consumer electricals and durables segments are positioning themselves in the best way to take advantage of this emerging market.

Companies are now making sure that they are present across product categories and price points covering the entire spectrum. Some leading companies have adopted a multi-brand strategy while some of them are extending their existing brands towards the rural markets.

Each company has decided to define rural markets in its own way, but the bottom line remains that companies are increasing focus on rural markets and paying greater attention to building brand presence in these markets in order to derive maximum benefit from the demand that emerges from Rural India.

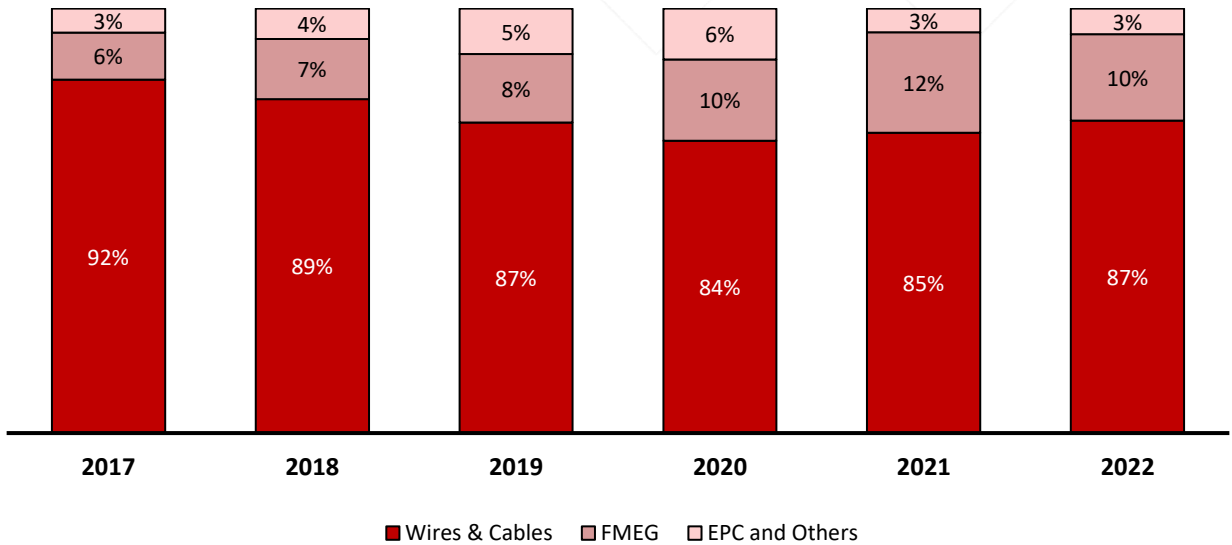
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About Polycab India Ltd.

In 1964, Late Thakurdas Jaisinghani established 'Sind Electric Stores,' which dealt with various electrical products, including fans, lighting, switches, and wires. In 1983, Polycab Industries, a partnership firm founded by his four sons, was set up a small-scale industrial unit at Halol for manufacturing cables & wires. The company became a public limited company in April 2019.

Currently, PIL operates in 3 segments – Wires & Cables, EPC & others, and FMEG (Fast Moving Electrical Goods).

PIL's segmental revenue mix trend



Source: Company, Keynote Capitals Ltd.

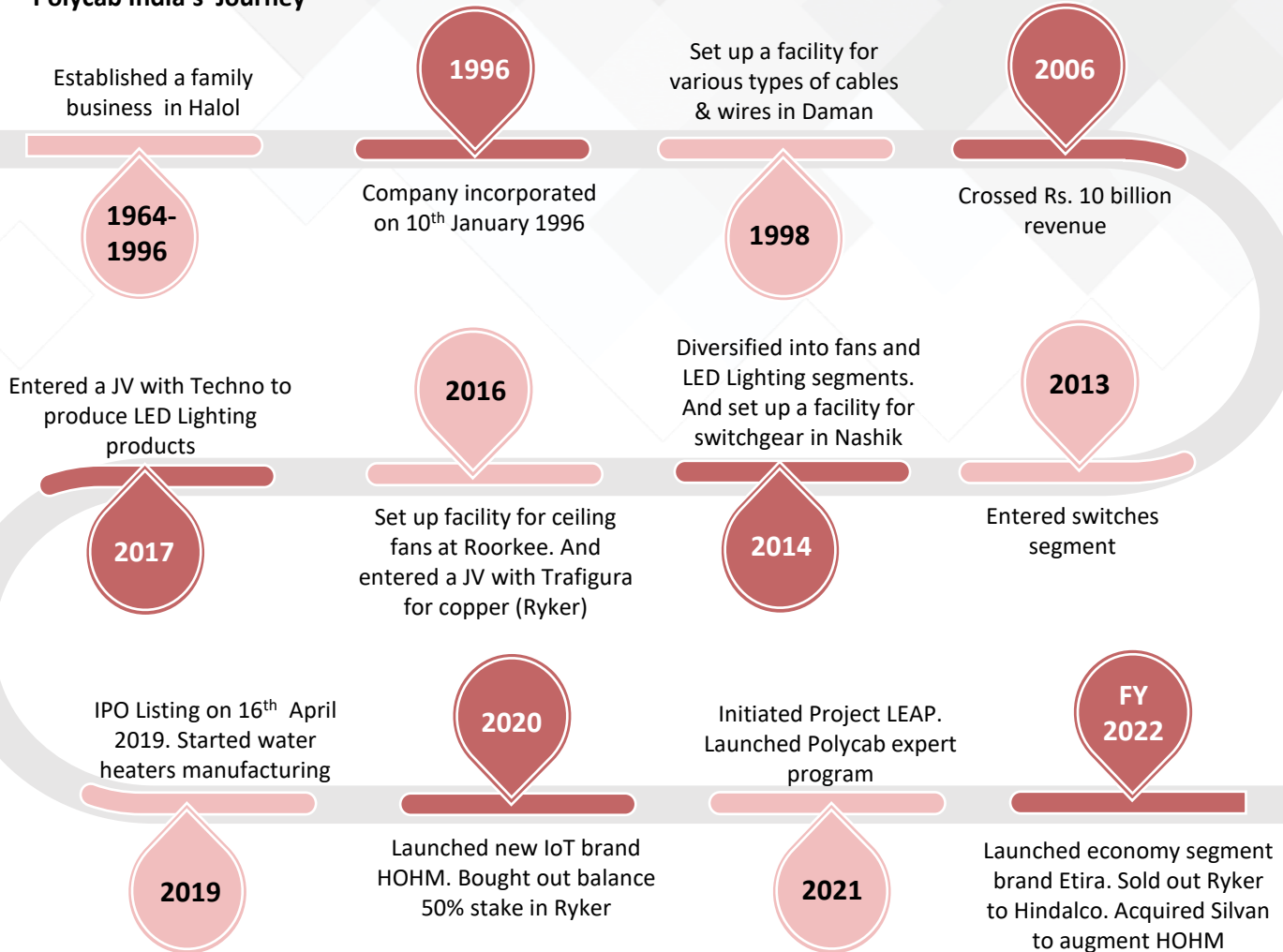
Sectors and Customers PIL's products cater to



Source: Company, Keynote Capitals Ltd.

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Polycab India's Journey



Details of Subsidiaries & JVs

	Company	% Stake	Operations
	Subsidiaries:		
1.	Tirupati Reels Pvt Ltd.	55%	Manufactures of Wooden Pallets, Outer Laggings and Cable Drums
2.	Dowells Cables Accessories Pvt Ltd.	60%	Manufactures of electrical goods & cable accessories & equipment
3.	Polycab Australia Pty Ltd.	100%	Trading business of electrical cables and wires, optical fiber cables and consumer electrical goods
4.	Uniglobus Electricals and Electronics Pvt Ltd.	100%	Trading and manufacturing of, cables, wires, fast-moving electricals and electronics goods
5.	Polycab Support Force Pvt Ltd.	100%	Manpower services
6.	Polycab USA LLC	100%	Trading business of electrical cables and wires, optical fiber cables and consumer electrical goods
7.	Polycab Electricals and Electronics Pvt Ltd.	100%	Engaged in the business of electrical goods, instruments, appliances, and apparatus
8.	Silvan Innovations Labs Pvt Ltd.	100%	Augment Company's IoT-based home & office automation segment
9.	Steel Matrix Pvt Ltd.	75%	Manufacturing of steel drums and bobbins for cables and wires
	Joint Venture:		
1.	Techno Electromech Pvt Ltd.	50:50	Manufacturing of light emitting diodes, lighting and luminaires, and LED drivers

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Manufacturing Capacities

Products	Capacity (Mn.)	Owned/Leased	Plant Location (number)
Cables & Wires (Km)	5.2	Owned & Leased	Halol, Gujarat (6), Daman (11)
Fans (units)	4.2	Owned	Roorkee, Uttarakhand (2)
Switchgears (units)	10.9	Leased	Nashik, Maharashtra (2)
Lighting & Luminaire (units)	18.2	Owned	Chhani (Vadodara, Gujarat) (1)
- LED Batten (units)	12		
- Panel LED Light (units)	3		
- LED Flood Light (units)	0.3		
- LED Street Light (units)	0.48		
- LED Bulbs (units)	2.4		

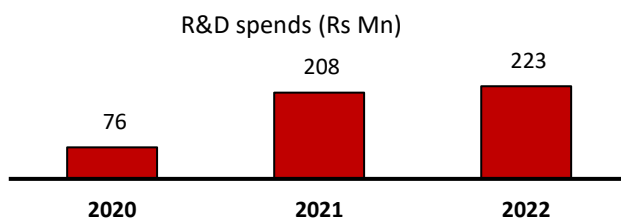
Source: Company, Keynote Capitals Ltd.

PIL has 23 manufacturing facilities across Gujarat, Maharashtra, Uttarakhand, and Daman (U.T). PIL has a hybrid manufacturing model with a mix of in-house manufacturing and outsourcing for a few products in its FMEG portfolio. Five of these manufacturing facilities cater to FMEG products; the remaining plants focus on its core product manufacturing, C&W. The Company firmly believes in backward integration to reduce dependency on third-party suppliers. It manufactures key raw materials, including aluminum rods, copper rods, various grades of PVC, Rubber, and XLPE compounds, GI (Galvanized Iron) wire, and strips used in manufacturing products.

The Company focuses on innovating technology and manufacturing customer-centric products through an R&D center at Halol. The Company has adopted a Manufacturing Execution System (MES), an automated sensor for recording the consumption of raw materials in production, and the Maynard Operation Sequence Technique (MOST) for optimizing productivity and capacity utilization.

Research & Development (R&D)

PIL has been consistently making efforts in R&D which can be seen in its revenue growth. It has been doing R&D for products that are as per various industry trends like premiumization, energy-efficient products, green products, etc. In FY22 PIL launched a super-efficient ceiling fan which saves 60% energy compared with a conventional induction motor, Green Wire that uses 5-in-1 GreenShield technology, Mosquito Repellent Heater based Pedestal Fan, and many more.



Source: Company, Keynote Capitals Ltd.

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Products manufactured by PIL across segments

Products – Cable and Wires (C&W)

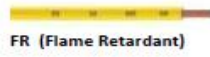
Power Cable



Optical Fiber Cable



Building Wires



FR (Flame Retardant)

Control Cables



Instrumentation Cables



FRLS (Flame Retardant Low Smoke)

ZHFR (Zero Halogen Flame Retardant)

Other Cables



Flexible Wires



Solar Cable



Products – Fast Moving Electrical Goods (FMEG)



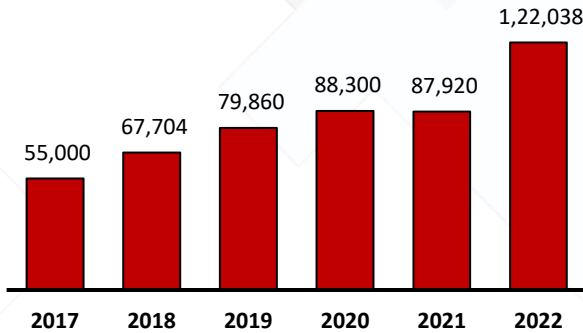
Products – HOHM (Premium FMEG)



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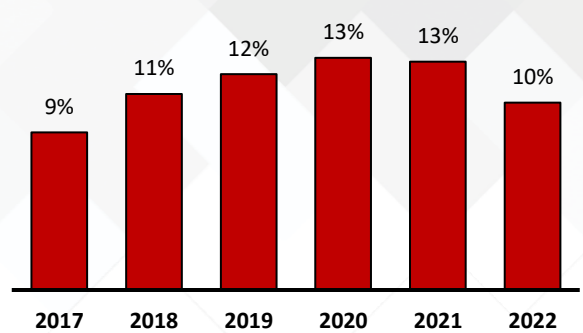
Polycab India Limited – Business Progression in Numbers

Revenue (Rs. Mn) trend



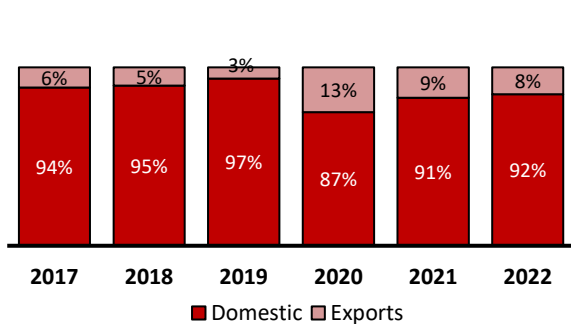
Source: Company, Keynote Capitals Ltd.

EBITDA Margin %



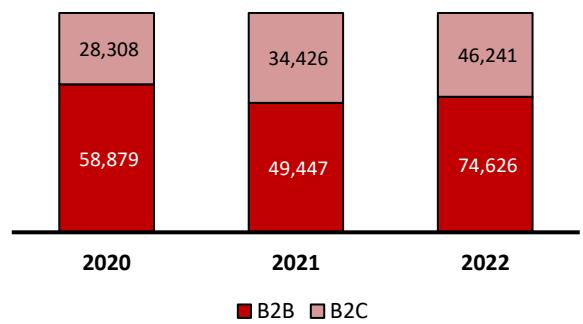
Source: Company, Keynote Capitals Ltd.

Domestic-Export Revenue breakup(Rs Mn.)



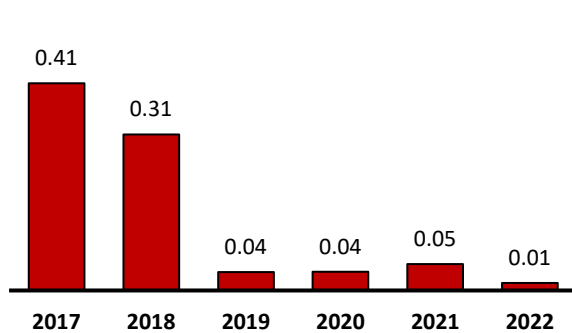
Source: Company, Keynote Capitals Ltd.

Consumer Revenue breakup (Rs Mn.)



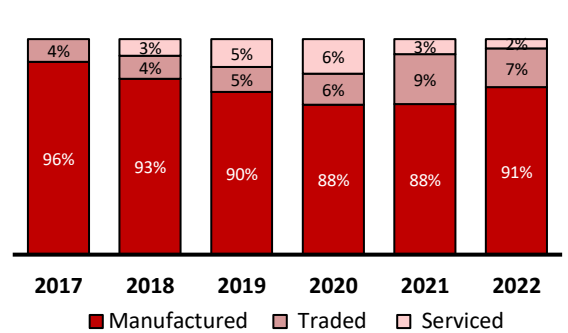
Source: Company, Keynote Capitals Ltd.

Debt to Equity (x)



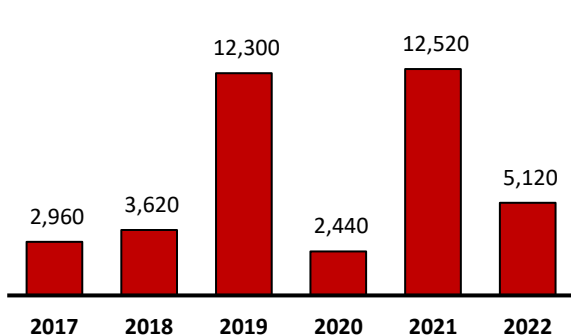
Source: Company, Keynote Capitals Ltd.

Sales breakup %



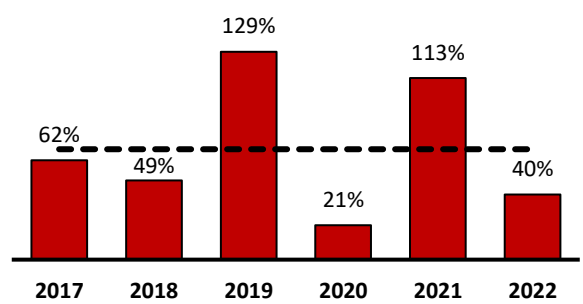
Source: Company, Keynote Capitals Ltd.

Cash Flow from Operations (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

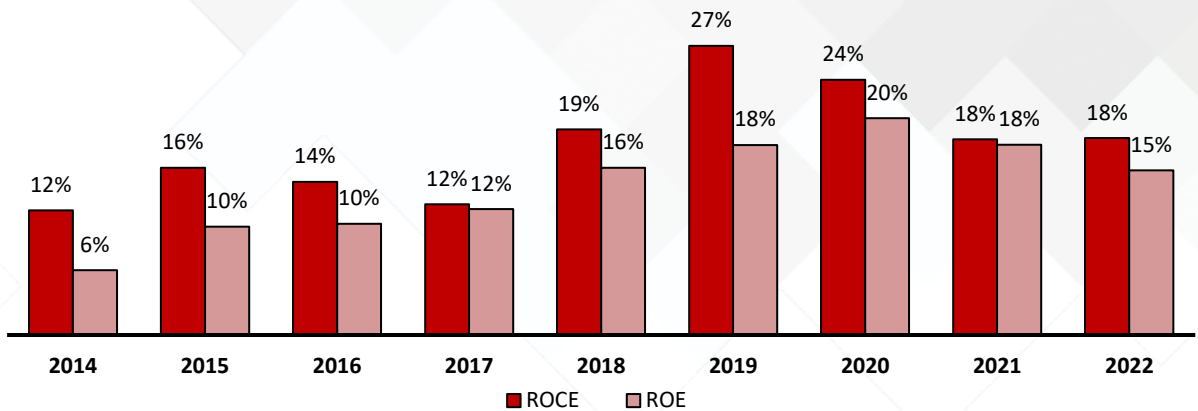
Cash Conversion (CFO/EBITDA)
5Y Avg 69%



Source: Company, Keynote Capitals Ltd.

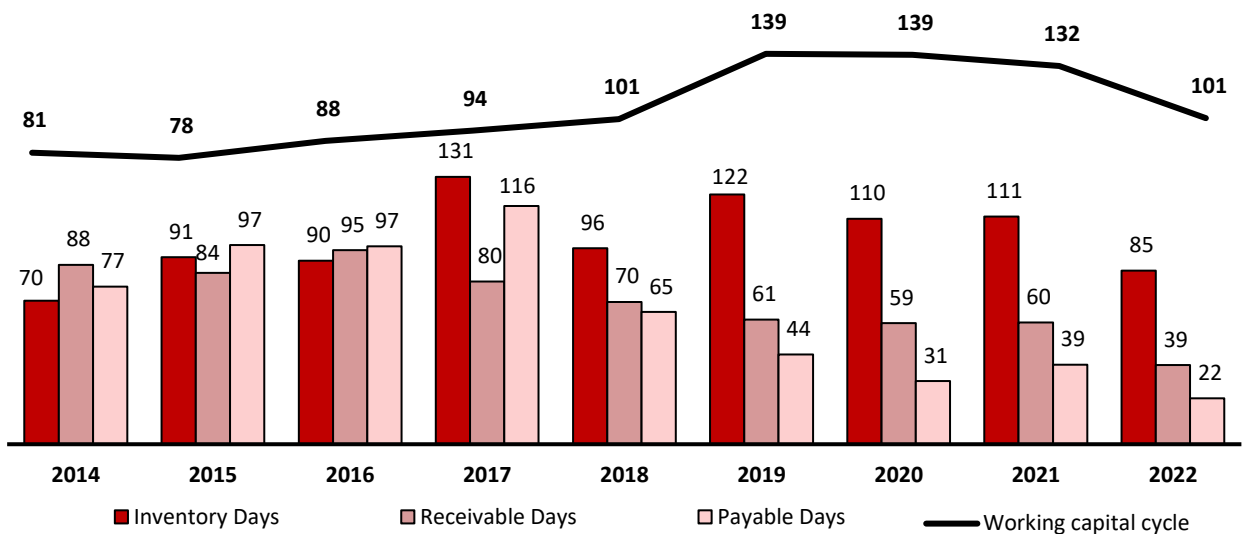
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Steady improvement in Return Ratios



Source: Company, Keynote Capitals Ltd.

Working Capital Cycle



Source: Company, Keynote Capitals Ltd.

PIL has been using channel financing to reduce their receivable days. The Company helps its customers in entering financing arrangements with banks. This allows the Company to receive payment upfront from the banks, thereby decreasing the receivable days. The best part of the arrangement is that it is “non-recourse” in nature, i.e., default by the customer doesn’t trigger liability on the company. Almost 70% of C&W sales and 50% of FMEG sales are covered under this facility.

The Company believes in having sufficient inventory to meet customer demands. This naturally leads to a very high inventory at PIL’s end. In recent years, the Company has been focusing on inventory management by tracking the sales pattern and estimating future demand, which has helped significantly reduce inventory days. The Company, in consultation with Boston Consulting Group (BCG), is working on this initiative.

PIL fulfills most of its raw material requirements through imports, where the Company uses LCs to make payments. These LCs are due for payment in 90-180 days. Due to the COVID-induced supply chain disruptions, the company had to switch to domestic sourcing, where PIL had to make faster payments, resulting in materially lower payable days. According to the management, this is not sustainable, and the Company proposes to introduce LC arrangements for domestic sourcing as well.

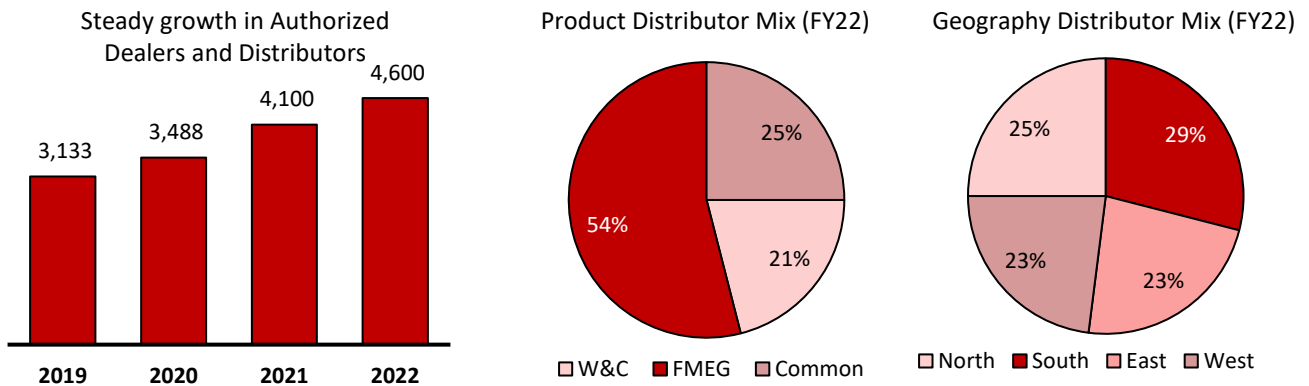
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Distribution Reach

PIL has a vast distribution network comprising about 4,600 Authorized Dealers and Distributors, 28 warehouses, and 205,000 retail outlets as of Q1 of FY23. Products manufactured by PIL are not mere plug-and-play products and require proper installation by electricians. Thus, the distribution network is the backbone of the Company and most of the sales are made through it. The distribution channel contributes 87% to the overall revenue. In comparison, only 13% comes from institutional clients and other trade channels like E-commerce.

PIL has focused on increasing its export reach by developing products that comply with the requirement in exporting economies like the US, UK, UAE, etc.; Dealers and Distributors help PIL expand its local presence in various countries.

The Company maintains finished goods inventory at all the touchpoints – Depots, warehouses, or manufacturing locations. It believes that its channel partners should be able to get supplies as demanded by the customers immediately.



Source: Company, Keynote Capitals Ltd.

The Company provides quarterly sales targets to each Authorized Dealer and Distributor. These channel partners must make payments for products sold within 60 days from the invoice date. The Company offers cash discounts of up to 3% to the Dealer or Distributor for making an advance payment before dispatch or adopting channel financing. In the case of channel financing, channel partners can obtain a credit of up to 90 days from the invoice date. This helps the Company to improve its cash flows as they receive payments from the bank within three business days.

The physical distribution reach of the company is evenly distributed across India. Besides physical distribution, PIL has been building a presence in e-commerce, modern trade, canteen department store channels, etc. Over 600 Polycab products are available on all leading e-commerce portals like Amazon, Flipkart, JioMart, and Moglix.

Along with this, considerable effort is being put into the 'Emerging India' segment to increase the rural distribution network, which will help unlock the demand further in towns with up to 200,000 population. PIL also launched a new brand named ETIRA, which caters to the economy segment, increasing affordability and reach for the population in the emerging India segment.

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Cables & Wires (C&W) Segment

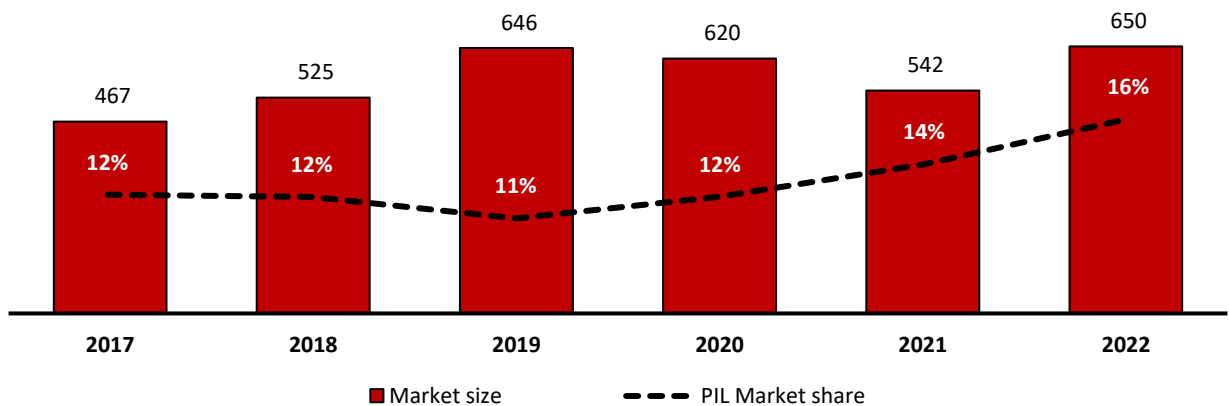
PIL enjoys the highest market share in the C&W segment, the largest constituent of the Consumer Electricals industry. The Company started by trading these products and went on manufacturing them, and eventually became a market leader.

PIL started its business half a century back with manufacturing cables and later, in 1996, got into the wires segment. Today, PIL is the market leader in both these segments. PIL is the market leader with the highest market share of ~16-17% in the overall C&W industry and ~22%-24% in the organized C&W industry.

PIL became the largest player in the industry due to its aggression for growth and the management's ability to execute plans. Over the years, they managed to increase their presence pan India and in the export markets. Increasing demand from the B2C segment due to higher consumer involvement, preference for branded products, safety awareness, and vast distribution reach has helped PIL improve its margins over the years.

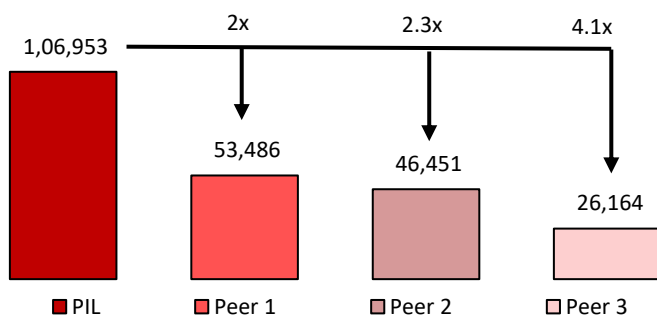
PIL commenced manufacturing high-end cables used in Commercial and Passenger Vehicles in FY21, and the special cables division received approvals from Defense, Railways, and EVs. These emerging areas can be drivers for the growth in this segment.

Strong Market Share % of PIL



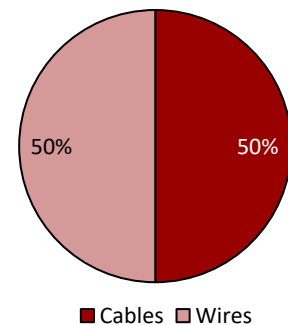
Source: Company, Keynote Capitals Ltd.

PIL dominates the industry in a big way (C&W sales Rs Mn)



Source: Company, Keynote Capitals Ltd.

Revenue % evenly distributed between Cables & Wires (FY22)

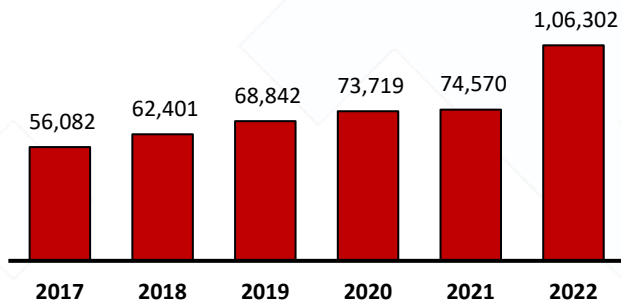


Source: Company, Keynote Capitals Ltd.

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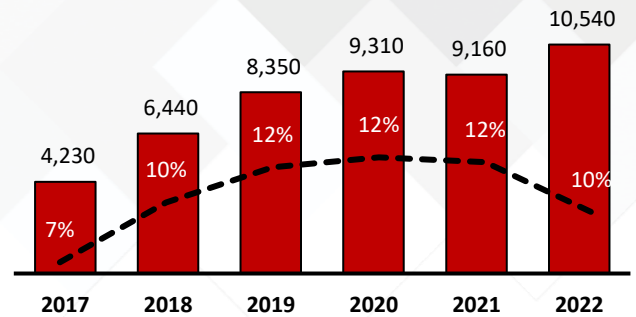
Cables and Wires – Business Progression

Growth in C&W Revenue (Rs. Mn)
(5Yr CAGR- 14%)



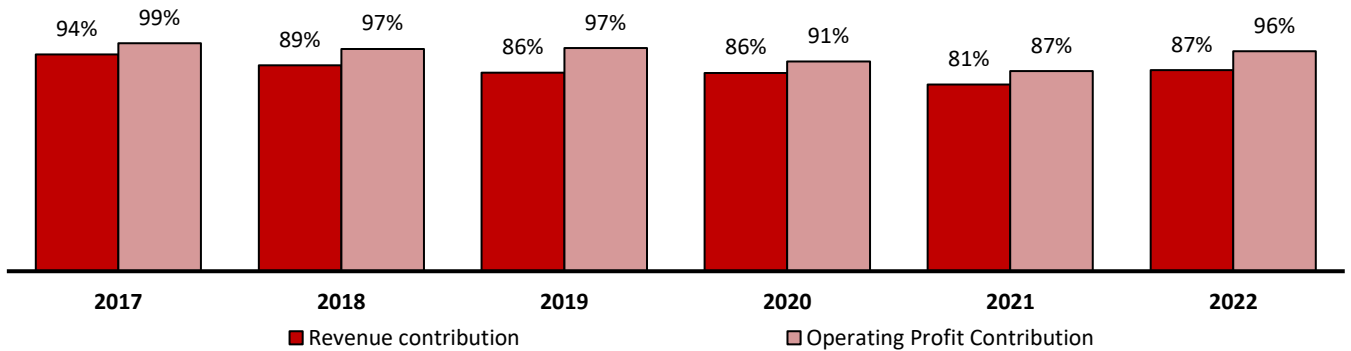
Source: Company, Keynote Capitals Ltd.

C&W Operating Margins %



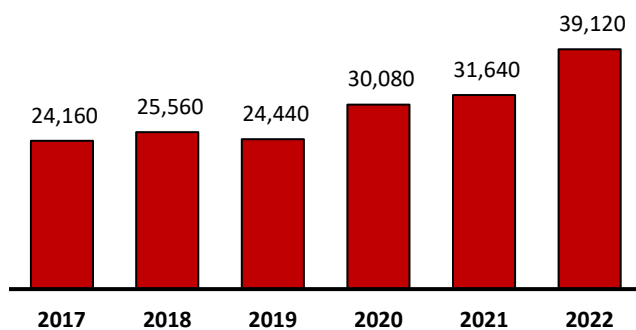
Source: Company, Keynote Capitals Ltd.

C&W dominates Sales and Operating Profit mix of PIL



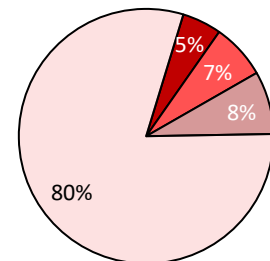
Source: Company, Keynote Capitals Ltd.

C&W Capital Employed (Rs Mn)



Source: Company, Keynote Capitals Ltd.

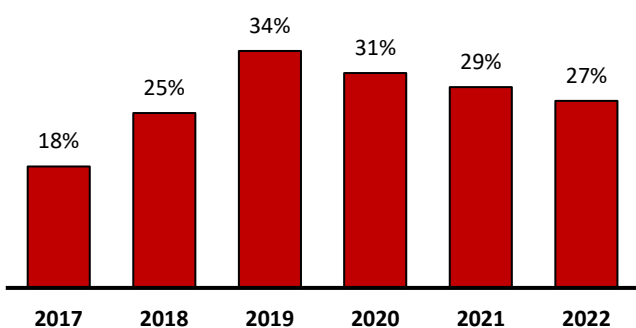
Customer Contribution to Revenue % indicates no concentration risk



Legend: Largest (dark red), Next 4 (red), Next 5 (light red), Others (white)

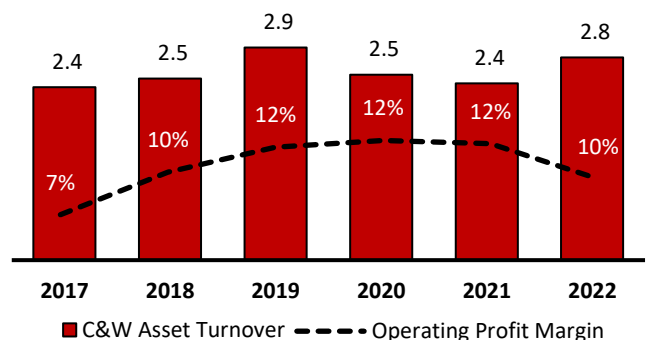
Source: Company, Keynote Capitals Ltd.

C&W ROCE %



Source: Company, Keynote Capitals Ltd.

C&W ROCE Du Pont



Source: Company, Keynote Capitals Ltd.

Least affected by the raw material price fluctuations

PIL does not have a material impact due to raw material volatility, as it adjusts its price list based on the fluctuations in raw materials prices, currency fluctuations, or a notable difference between peers' prices with a maximum lag of one month. It also hedges its raw materials for large orders by pass-through derivatives, resulting in no inventory gains/losses.

"Most of the commodities worldwide generally are catered with embedded derivative which means that on the date of procurement you need not decide the final price which you need to pay to your vendors, you can decide it a month or two months or three months down the line and generally in that timeframe you are able to convert the raw material into finished goods and you have visibility on the selling price and that is where you decide and sum up the procurement price and this is how the changes in raw material prices become a pass-through for us and that is where it does not impact the profitability of our company. There could be a few chances or changes on a month-on-month or quarter-on-quarter basis, but if you were to take an annualized view it would not have a significant impact on the profitability of the company. We are the largest consumer of copper in India and we have those benefits available both from international suppliers as well as from the domestic suppliers." – Gandharv Tongia, CFO.

Focus on Exports

PIL has been focusing on export orders (private sector), as they are on a fixed price basis and provides a cushion during the domestic demand slowdown, which helps them maintain operating margins. Execution of the Dangote refinery project during FY20-21 led to outperformance compared to peers who struggled with weak domestic demand then. Saipem & Dangote are the largest PIL customers in the export market.

Besides B2B, PIL has also been focusing on increasing the B2C segment in export markets. For this, the Company has set up subsidiaries overseas that caters to the international demand. The Company focuses on manufacturing various products required to cater to the requirements of overseas economies, for which it relies on R&D and Capex. PIL expects export contribution to the revenue to increase to 10% in a short span of time.

Focus on B2C and Rural areas

PIL has been focusing on B2C segment, as the products catering to B2C have higher margins than B2B segment. An increase in raw material prices can be mostly passed ahead in a month. There has been a gradual shift in the contribution of B2C segment. Currently, B2C contributes around 40% of revenue in FY22, which was about 30% five to seven years back.

To cater to the rural demand, PIL has launched 'Etira,' which will cater to the demand of the economy segment and increase the distribution network to penetrate untapped areas with a population of up to two lakhs.

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FMEG (Fast Moving Electrical Goods) Segment

PIL commenced its FMEG business in 2014, leading to its entry into the B2C sector. In the last seven years, the Company has grown the FMEG segment at 39% CAGR, now contributing 10% to the top line albeit with lower profitability. The Company has a presence in fans, lighting, IOT products, switches, switchgear, water heaters, conduits and accessories, pumps, and solar products.

FMEG Product Basket

Categories	Products
Fans	Ceiling fans, table fans, wall mounted fans, Exhaust fans and Farratas (Pedestal fan)
Lightings	Domestic (LED lamps/ batten/ panels/ downlights); Urbania (Street Lights); Arenia (Flood Lights); Industrial (Industrial LED Luminaries); Modernia (Commercial Luminaries); Gardenia (Bollards and Landscape Lighting)
Switches	Modular Plates, Switches & Accessories, IR touch switches
Switchgears	MCB, RCCB, RCBO, Distribution Board, Isolators, ACCL
Solar Products	Solar Grid Tie Inverter, DC MCB, Solar DC Cable, Solar Panel
Pumps	Self-Priming, Centrifugal, Jet, Submersible
Appliances	Water Heaters, Irons, Air Coolers
Conduits and Accessories	UPVC conduit, concealed box

Source: Company, Keynote Capitals Ltd.

PIL's fast growth in the FMEG sector is due to its primary focus on in-house manufacturing. Fans, lighting (through JV), water heaters, switches (OEM vendor selling under the brand name 'Levana,' soon setting up a facility), and switchgear are mainly manufactured in-house. At the same time, other products (pumps, solar, appliances) are sourced from third-party vendors.

PIL aspires to be one of the Top 3 players in the various segments of the FMEG industry, starting with Fans and LED lighting. This will be challenging but possible given the capabilities PIL possesses. The Company derives its synergies from its C&W segment, such as sourcing key raw materials, manufacturing know-how, established brand in the consumer electrical space, heavy A&SP spending, cross-selling opportunities to a large customer base, and opportunity to increase market share.

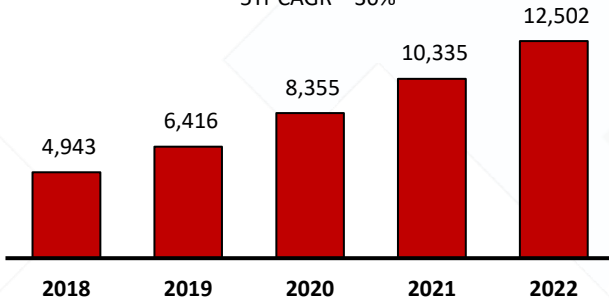
The company aims to establish itself in all price segments – ultra-premium, mid-base, and economy. PIL already has a strong presence in the mid-base category; it is now increasing its focus on the other two. PIL has opted for a multi-brand strategy by launching 'Hohm' for a premium range of IOT-enabled home automation products like fans, lighting, switches, water heaters, and 'Etira' for the economy segment, in which the company plans to enter the FMEG segment soon.

To augment 'Hohm,' in FY22, PIL acquired Silvan Innovation Labs, which provides PIL with residential solutions (Smart lighting, Music Zoning, Smart Security, Integrated Home Automation) and Enterprise solutions (Smart office lighting, conference room automation, Hotel room automation). Key customers of Silvan include ITC Hotels, Oberoi group, Godrej, Sobha, Tata Housing, and many more.

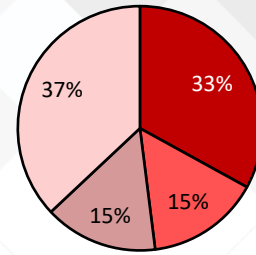
FMEG segment – Business Progression in Numbers

Growth in FMEG Revenue (Rs. Mn)

5Yr CAGR – 30%



Fans dominate the FMEG mix (%) followed by Lighting and Switches (FY22)

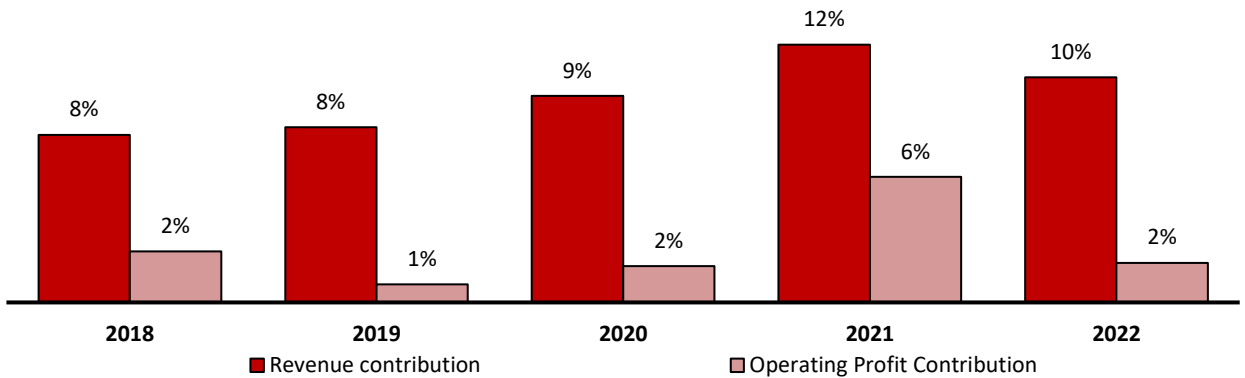


■ Fans ■ Lighting ■ Switches & Switchgears ■ Others

Source: Company, Keynote Capitals Ltd.

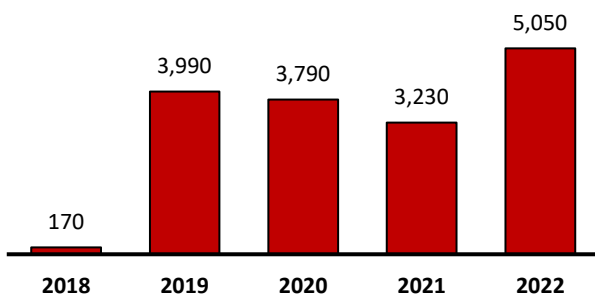
Source: Company, Keynote Capitals Ltd.

FMEG contribution (%) in Revenue and Operating profitability



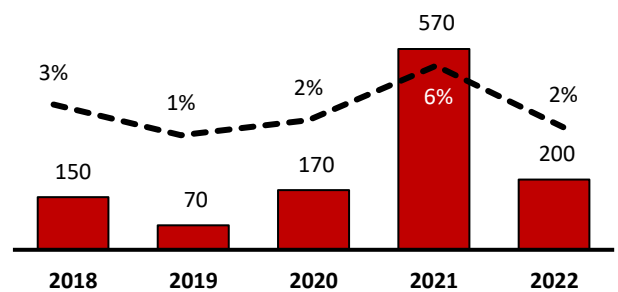
Source: Company, Keynote Capitals Ltd.

FMEG Capital Employed (Rs Mn)



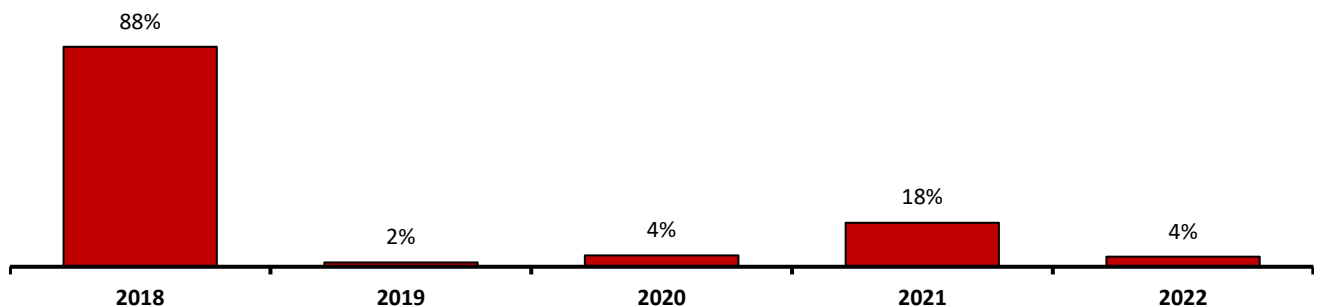
Source: Company, Keynote Capitals Ltd.

FMEG Operating Margins (%)



Source: Company, Keynote Capitals Ltd.

FMEG ROCE (%)



Source: Company, Keynote Capitals Ltd.

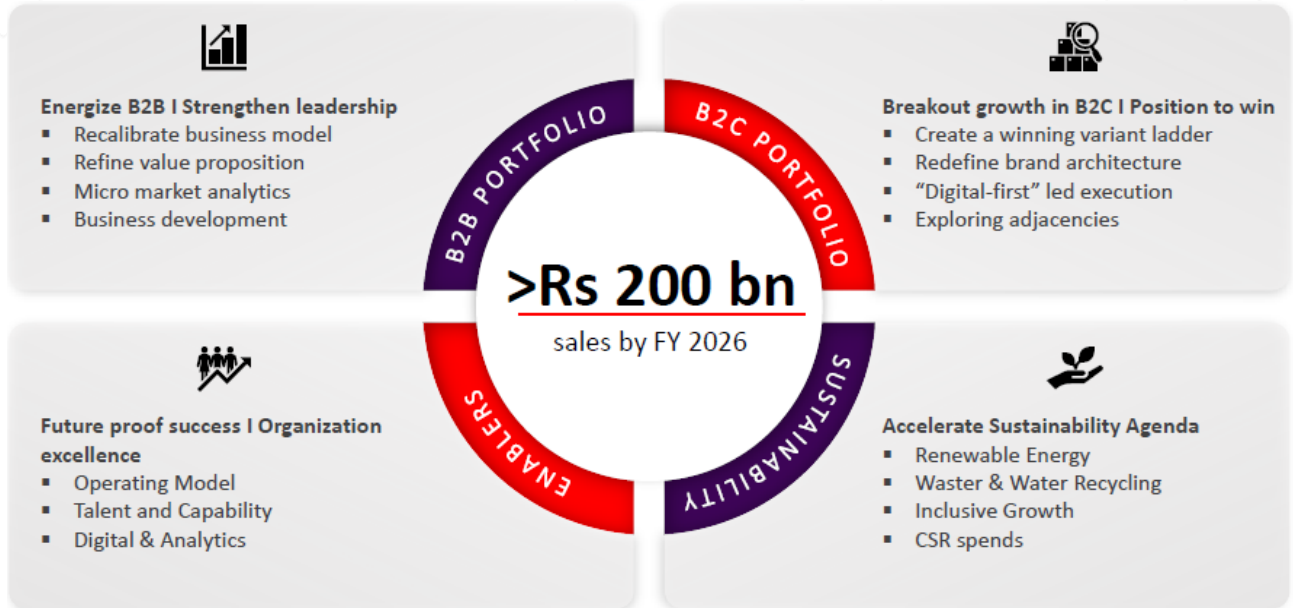
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Project LEAP

What is Project LEAP?

Project LEAP is a multi-year program that aims to strengthen PIL's B2B and B2C reach while achieving the targeted revenue of Rs. 200 Bn by FY26. This project has been broken down into four parts – Organization enablers, Customer centricity, Go-To-Market, and Product portfolio optimization. These parts have been further divided into 24 work streams. The Company is taking consultation from the Boston Consultant Group (BCG) to drive this transformation.

In a nutshell, Project LEAP looks like:



Source: Company, Keynote Capitals Ltd.

Pulling off such a transformational project can only be possible with the help of the right organizational enablers (Leaders). As per management's commentary, 90% of top-level professional hiring has already been done as of Q1 FY23.

Secondary sales are tracked to help the company strengthen its position in the B2C market and explore more synergies that can be catered to in the future by launching relevant products. PIL also merged heavy duty & light duty cable verticals which will unlock the latent value through cross-selling opportunities given the distribution and geographical overlap. This move will improve customer service as most of their requirements will be addressed by a single point of contact.

PIL has been building a presence in e-commerce, modern trade, and canteen department store channels to digitize the distribution ecosystem. Over 600 PIL products are available on all leading e-commerce portals like Amazon, Flipkart, JioMart, and Moglix. And is increasing its distribution network in semi-urban and rural India.

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Future of Project LEAP

PIL proposes to complete the acquisition of top-level management and subordinates as enablers. The company may also acquire an already established company to provide them with more synergies, as they are planning 1.5x growth in the C&W segment and 2x market growth in the FMEG segment while maintaining 12% EBITDA margins under the project by FY26. PIL aspires to generate 10% revenue from exports under Project LEAP; thus, the export contribution is expected to increase soon.

PIL plans to further launch new products under 'Etira', starting with fans and then the adjacent products. Etira and distribution network expansion will help penetrate the rural areas with a population of up to 2 lakh. And for high-end products, PIL plans to roll out new products soon in the automation space. The Company plans on establishing a more robust e-commerce network to sell its products and expects 10% of revenue from the same under Project LEAP.

Other Key Projects

The Company has undertaken other such projects for various aspects of the business. **Project Udaan** was initiated in FY21 to achieve cost optimization. This project is currently underway and is progressing as per the expectation of the Company.

Project Shikhar is a distribution program where the Company aims to penetrate identified geographies and get a higher share of wallet or sales from the identified distribution target, including channel expansion with the influencer and the expert program.

Project Bandhan launched in April 2017; the Company undertook Customer Relationship Management (CRM). Bandhan helps understand end customers better through the data collected from retailers and electricians, allowing the Company to allocate its resources more effectively and focus on target marketing.

And **Project Josh**, launched in 2015, aims to increase its market share in the FMEG segment, which requires focusing on marketing, customer-oriented products, leading the industry, empowering leadership among staff, and building strong customer relationships. The Company manages and promotes secondary sales from distributors to retailers through a mobile app. Field assist allows the booking of secondary orders through the app and transfers the orders to distributors improving service levels and enabling the company to cross-sell across product categories. The distributor management system is linked to the distributors' billing software. These give the company visibility on secondary sales, stock movement, and automated orders to replenish the inventories of its distributors.

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Peer Analysis

PIL and Havells India Ltd. are the only players present across product categories, making them the most diversified players in the consumer electricals space.

Company	Cables and Wires	Fans	Lightings	Switches	Switchgear	Water Heaters	Home Appliances
Polycab India	*	*	*	*	*	*	*
Crompton Cons.		*	*			*	*
Finolex Cables	*	*	*	*	*	*	
Havells India	*	*	*	*	*	*	*
Bajaj Electricals		*	*			*	*
Philips			*				*
Orient Electric		*	*	*	*	*	*
V-Guard Ind.	*	*		*	*	*	*
KEI Ind.	*						
Apar Ind.	*						
KEC Intl.	*						

Source: Company, Keynote Capitals Ltd.

PIL qualifies as the most diversified player in the Cables and Wires industry, along with KEI Industries Ltd. and Finolex Cables Ltd.

Company	Control Cables (LT/HT)	Power Cable (EHV)	Control Cables	Flexible & Industrial Cables	House Wires
Polycab India	*	*	*	*	*
KEI Industries	*	*	*	*	*
Finolex Cables	*	*	*	*	*
Havells India	*		*	*	*
Apar Industries	*		*	*	*
KEC Intl.	*	*	*	*	*
V-Guard Industries	*			*	*

Source: Company, Keynote Capitals Ltd.

Financial & Operating Parameters

Particulars	Polycab India	KEI Industries	Finolex Cables	Havells India	Crompton Greaves	Orient Electric
5Y Revenue CAGR	17.3%	16.9%	9.0%	17.9%	7%	* 11.2%
5Y Op. Profit CAGR	24.7%	17.2%	2.3%	16.7%	11%	
Op. Profit Margin 2022	10.4%	9.3%	10.3%	10.8%	14.6%	7.5%
5Y C&W Revenue CAGR	13.7%	19.6%	7.0%	11.7%	-	-
5Y C&W Op. Profit CAGR	19.6%	17.4%	(3.3%)	10.7%	-	-
C&W Op. Profit Margin 2022	9.6%	8.4%	11%	11.6%	-	-
5Y FMEG Revenue CAGR	29.8%	-	31%	10.4%	* 7.1%	* 8.5%
5Y FMEG Op. Profit CAGR	* 12.8%	-	N/A	1.3%	* 8.8%	* 10.2%
FMEG Op. Profit Margin 2022	1.9%	-	1.1%	19.4%	17.7%	7.9%
5Y Avg ROE	17.5%	19.4%	14.3%	18.7%	32.3%	23.7%
5Y Avg ROCE	21.5%	23.0%	12.8%	22.7%	29.0%	29.0%
5Y A&SP as a % of sales	1.01%	0.42%	0.8%	3.01%	2.01%	3.6%
5Y R&D as a % of sales	0.1%	-	-	0.9%	0.5%	0.1%
Dealers/Distributors	4,600	1,805	# 5,000+	14,000	N/A	N/A
Retailers/ Retail outlets	2,05,000	-	90,000	2,10,000	N/A	N/A
Debt/Equity 2022	0.02	0.17	0.002	0.08	0.5	0.13
Working Capital Days 2022	78	116	76	44	11	33
5Y Avg Cash Conversion	69%	51%	61%	73%	79%	91%
Current P/E	33	31	11	68	39	40
Current EV/EBITDA	25	20	12	45	29	23

* Calculation of 5Y CAGR is not possible due to the unavailability of numbers as Polycab's FMEG segment was loss-making in FY17, and Orient Electric's numbers are available from FY18, thus 4Y CAGR is calculated

2022 numbers not available

Source: Company, Keynote Capitals Ltd.

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Management Analysis

Top level management & Board consists of a mix of family members and professionals with requisite qualifications and experience

Name	Designation	Qualification	Industry Experience (Yrs)	Experience with PIL (Yrs)
Inder T Jaisinghani	Chairman and MD		54	54
Bharat A Jaisinghani	Executive Director	Exe. MBA, Harvard	16	10
Nikhil R Jaisinghani	Executive Director	MBA, Kellogg School	16	10
Rakeshkumar Talati	Executive Director	Civil Engineer		8
Sutapa Banerjee	Independent Director	Leadership, Harvard	24	1
RS Sharma	Independent Director		40+	4
TP Ostwal	Independent Director	CA		4
Pradeep Poddar	Independent Director	MBA, Chemical Engineer	55	4

Source: Company, Keynote Capitals Ltd.

The top management and board consist of a mix of family members and professionals with the right kind of qualifications and industry experience. Recently, as a part of succession planning, younger family members Bharat Jaisinghani, and Nikhil Jaisinghani got promoted as Director and older family members resigned from directorship. Both these young directors have been working for the company in various level for over a decade. This is a prudent succession planning step taken by the management. Now Mr. Inder Jaisinghani is the oldest family member at the helm.

Onboarding the best-in-class talent into the Senior Management team. Few young family members are a part of this team too.

Name	Designation	Industry Experience (Yrs)	Experience with PIL (Yrs)	Previous Employers
Anil Hariani #	Director Commodities		31	
Anil Shipley	Chief Supply Chain Officer	35+	4	Escorts, Blue Star, Bajaj Electricals
Anurag Agarwal	Executive President	20+	7	RR Kabel, Sterlite Technologies
Ashish Jain	COO Telecom	17.5	8.5	Teracom, VMC Systems
Bhushan Sawhney	Chief Officer H&L Duty Cables		12	
Diwakar Bharadwaj	President Packaging	15+	9.5	Utility forms, Havells India, Energetic Lighting, Syscom
Gandharv Tongia	CFO	19	4	EY, AF Ferguson & Co.
Kunal Jaisinghani #	Head Strategic Initiatives	7.5	7.5	
Manita Gonsalves	CS	25+	2.5	Essel Propack, Amcor
Rajesh Nair	Chief HR	25+	1.5	TATA Motors
Sandeep Bhargava	Chief Procurement Officer	30+	11	GKN Driveline, TATA AutoComp, Arcelor Mittal Steel, Vedanta Resources
Sanjeev Chhabra	Treasury Chief		10.5	
Vivek Khanna	Chief Information Officer	35+	4.8	Havells India, SS Kothari & Co.
Vivek Sharma	Deputy MD - Non Board	30+	10 months	Phillips, Morphy Richards, Panasonic

Family member

Source: Company, Keynote Capitals Ltd.

Compensation and Skin in the Game

Particulars	FY20	FY21	FY22	Q1 FY23
% Promoter Holding	68.58%	68.42%	68.08%	67.99%
Promoter Salary (Rs Mn)	15	21	18	-
As a % of PAT	2.6%	3.2%	2.7%	-

Source: Company, Keynote Capitals Ltd.

After the Company got listed, Promoter shareholding has been constant at 68% for the past three years. Management salary has been in the range of 3%-5% of PAT in the last five years, which is a normal compensation range.

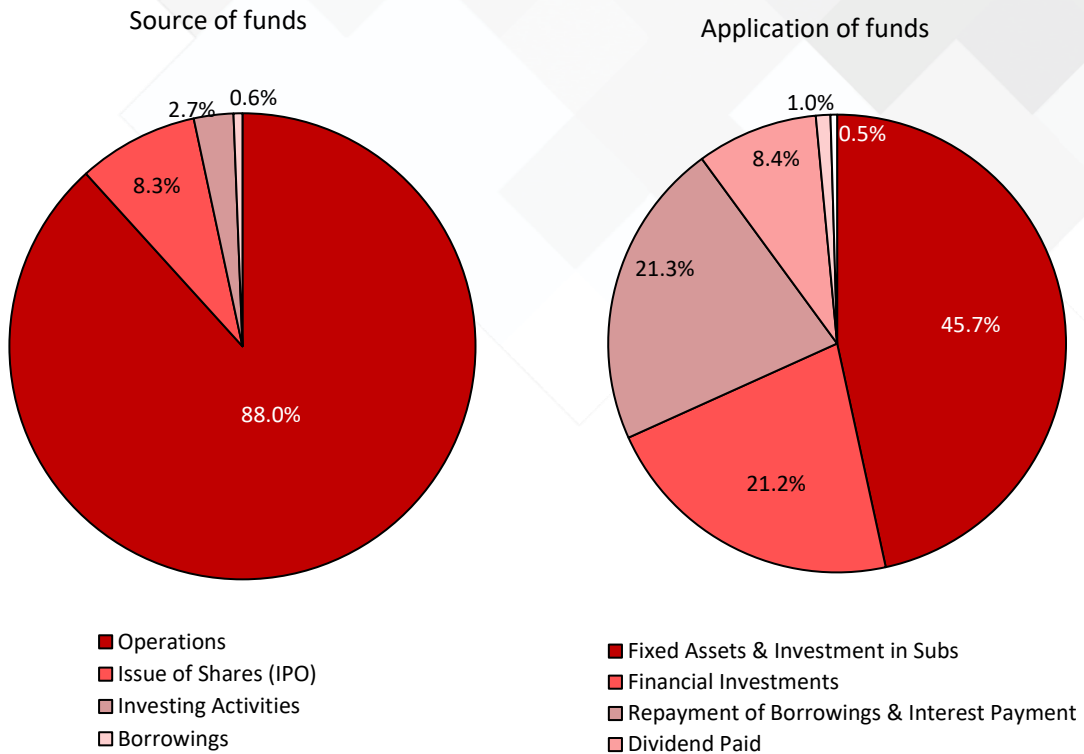
Shareholders holding more than 1% stake

Stakeholders	FY20	FY21	FY22	Q1 FY23
Anil Hariram Hariani #	3.56%	3.27%	3.25%	3.24%
Dsp Equity & Bond Fund	-	-	1.54%	1.26%
Canara Robeco Mutual Fund	-	1.15%	1.17%	1.15%
Ramakrishnan Ramamurthi	1.41%	1.17%	1.08%	1.08%
International Finance Corporation	9.48%	2.54%	-	-
L&T Mutual Fund Trustee Ltd- L&T Infrastructure Fund	1.07%	-	-	-
T. Rowe Price International Discovery Fund	-	1.19%	-	-
Tata Mutual Fund	-	1.06%	-	-
Total stake held	15.52%	10.38%	7.04%	6.73%

Indirect family member

Source: Company, Keynote Capitals Ltd.

Historical Capital Allocation



Source: Company, Keynote Capitals Ltd.

Looking at the last eight years (FY15-FY22) of cash flows of Polycab India Ltd, it can be stated that most of the cash was generated from its core operations, i.e., 88%. On the applications side, maximum cash has been reinvested back in the core business by the way of deploying it in fixed assets & investments in subsidiaries, and interest & debt repayment, cumulatively contributing around 67% to the overall spending.

PIL believes in in-house manufacturing and has been investing in setting up its plants and machinery for the items it first used to outsource. PIL has invested in setting up a plant for switches, as a slow down in the supply of switches from its vendors impacted the company. Plant & machinery have increased at a CAGR of 10% in the last eight years, and despite COVID, it has increased at a 15% CAGR in the previous three years.

The remaining 33% of cash has been used to pay dividends, IPO expenses, and financial investments. Also, divestment in Ryker was a prudent capital allocation step as the company was not able to utilize the plant to the best effect.

Based on the observation of capital allocation over the last eight years, it can be stated that PIL’s capital allocation looks in place. PIL has majorly relied on its operating activities to generate cash and used them to expand its capacities and repay the debt narrowing down the debt to equity to a negligible ratio of 0.03, attaining almost debt-free status.

Polycab India Limited | Initiating Coverage Report

Opportunities for Polycab India

Growth driven management with superior execution record

PIL initially started as a manufacturer of cables, further expanded into wires, and became the market leader in both businesses. Currently, PIL commands a dominating position in C&W industry, clocking almost 2x the sales of its nearest competitor in C&W industry. Apart from this, the company has done reasonably well to scale its C&W exports business and its newly launched FMEG business.

Recently, PIL embarked on its next growth journey by launching the Project LEAP. The Company under this project wants to grow 1.5x times of the industry in its core segment and 2x times of the industry in emerging segments by FY26. The Company expects to achieve this without impacting profitability in the C&W business and get to a 12% operating margin in the FMEG segment, which is currently generating low to mid-single digits operating profit margins at best.

The action plan under Project LEAP is underway as the Company has hired top-notch industry talent who will enable smooth and efficient project execution. The Company has also launched a dedicated brand, "ETIRA," which will help PIL spread its wings in rural markets. In the future, the company is expected to adopt digitalization and recalibrate its business model. Exploring adjacencies is another crucial area of PIL's plan. These things show that the management is growth driven.

FMEG Optionality + Right to win

PIL entered in FMEG segment in 2014 and has aggressively grown its turnover ever since, registering a 39% CAGR. FMEG is a fast-growing segment, and PIL aims to be one of the top three players in multiple FMEG product categories. The Company has ample muscle power in the form of a strong brand, distribution network, ability to bring innovative product offerings, and the ability to invest in the brand.

Currently, it might be early to comment on the prospects of this business as its contribution to profits are negligible. It can be said that the company has achieved reasonable scale and is a promising player in the sector with the right to win. Therefore, it will be apt to say that the FMEG segment can be meaningful optionality that has the potential to drive future growth for PIL.

Leaders are well poised to gain market share disproportionately from sectoral tailwinds

The most crucial leg of India's growth is infrastructure. It is imperative for infrastructure to grow for India to develop. This, in turn, will benefit the consumer electricals sector.

A significant player like PIL will continue to benefit disproportionately against the competition, given the brand image and competencies that the Company has created over the years. Apart from this, the Company is swiftly taking new initiatives to aid its strong competitive position in the sector.

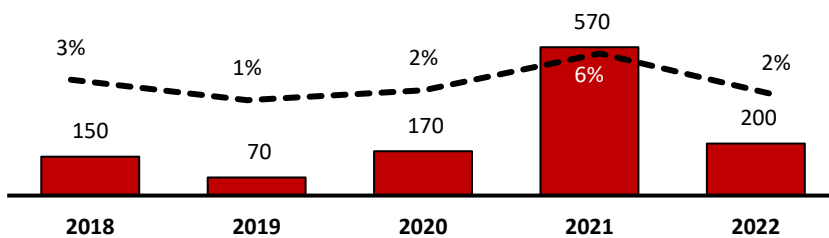
Challenges for Polycab India

Scaling up the FMEG segment while maintaining profitability will be onerous

The FMEG segment where PIL aims to claim a spot among the Top 3 in multiple product categories is already dominated by incumbents. Apart from this, the two most promising categories for PIL where it can achieve the top spot are “Fans” and “Lights”.

The penetration in the above two categories stands at more than 85%. This makes a case that these categories cannot be expected to grow at double-digit growth rates. The best-case scenario will be that they can grow at a rate that is in line with India’s GDP growth.

PIL’s FMEG Operating Profit Margin



Source: Company, Keynote Capitals Ltd.

Reaching among the Top 3 and challenging equally sound incumbents in well-penetrated, slow-growing segments will not be easy for PIL. The Company aims to continue achieving a 10% contribution from FMEG under Project LEAP and take the FMEG segment’s operating profit to 12% by FY26.

Though the company has managed to scale the FMEG business to a reasonable level, there are still questions about when will the expected level of profitability kick in.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	87,922	1,22,038	1,38,025	1,56,106	1,76,556
Growth %		39%	13%	13%	13%
Raw Material Expenses	62,604	92,279	98,826	1,11,772	1,26,414
Employee Expenses	3,537	4,066	4,969	5,620	6,356
Other Expenses	10,670	13,190	17,253	19,357	20,657
EBITDA	11,111	12,502	16,977	19,357	23,129
Growth %		13%	36%	14%	19%
Margin%	13%	10%	12%	12%	13%
Depreciation	1,762	2,015	1,994	2,084	2,122
EBIT	9,350	10,487	14,983	17,273	21,007
Growth %		12%	43%	15%	22%
Margin%	11%	9%	11%	11%	12%
Interest Paid	427	352	256	256	256
Other Income & exceptional	1,193	1,049	1,500	1,500	1,500
PBT	10,116	11,184	16,228	18,517	22,251
Tax	1,703	2,706	4,057	4,629	5,563
PAT	8,412	8,478	12,171	13,888	16,688
Others (Minorities, Associates)	44	62	61	60	60
Net Profit	8,456	8,539	12,232	13,948	16,748
Growth %		1%	43%	14%	20%
Shares (Mn)	149.1	149.4	150.0	150.0	150.0
EPS	59.15	60.80	81.55	92.99	111.66

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	5,313	4,071	9,053	14,350	23,116
Current Investments	6,231	7,641	7,641	7,641	7,641
Debtors	14,358	12,964	22,084	24,977	28,249
Inventory	19,879	21,996	29,648	33,532	37,924
Short Term Loans & Advances	1,473	3,990	3,990	3,990	3,990
Other Current Assets	472	749	749	749	749
Total Current Assets	47,726	51,411	73,164	85,238	1,01,669
Net Block & CWIP	19,687	20,506	22,101	23,607	24,486
Long Term Investments	118	93	67	40	13
Other Non-current Assets	2,616	2,109	2,109	2,109	2,109
Total Assets	70,147	74,119	97,441	1,10,994	1,28,277
Creditors	13,480	12,175	25,554	27,757	31,394
Provision	519	413	413	413	413
Short Term Borrowings	890	765	765	765	765
Other Current Liabilities	5,257	4,059	4,059	4,059	4,059
Total Current Liabilities	20,146	17,413	30,792	32,995	36,632
Long Term Debt	1,037	30	30	30	30
Deffered Tax Liabilities	418	272	272	272	272
Other Long Term Liabilities	819	716	716	716	716
Total Non Current Liabilities	2,274	1,018	1,018	1,018	1,018
Paid-up Capital	1,491	1,494	1,500	1,500	1,500
Reserves & Surplus	46,048	53,943	63,967	75,405	89,139
Shareholders' Equity	47,539	55,437	65,467	76,905	90,639
Non Controlling Interest	188	251	164	77	-11
Total Equity & Liabilities	70,147	74,119	97,441	1,10,994	1,28,277

Cash Flow Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	10,160	11,246	16,202	18,490	22,224
Adjustments	1,684	1,318	775	867	905
Change in Working Capital	2,600	-4,974	-3,392	-4,574	-4,028
Total Tax Paid	-2,409	-3,340	-4,057	-4,629	-5,563
Cash flow from operating Activities	12,034	4,250	9,528	10,154	13,538
Net Capital Expenditure	-1,911	-5,200	-3,589	-3,590	-3,001
Change in investments	-8,071	-645	0	0	0
Other investing activities	-139	1,576	1,500	1,500	1,500
Cash flow from investing activities	-10,121	-4,270	-2,089	-2,090	-1,501
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-1,217	-168	0	0	0
Dividend (incl. tax)	0	-1,492	-2,202	-2,511	-3,015
Other financing activities	-531	-347	-256	-256	-256
Cash flow from financing activities	-1,748	-2,007	-2,457	-2,766	-3,270
Net Change in cash	166	-2,026	4,982	5,297	8,766

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	59	61	82	93	112
Growth %		3%	34%	14%	20%
Book Value Per Share	319	371	438	513	604
Return Ratios					
Return on Assets (%)	13%	12%	14%	13%	14%
Return on Equity (%)	20%	16%	20%	20%	20%
Return on Capital Employed (%)	18%	15%	20%	20%	20%
Turnover Ratios					
Asset Turnover (x)	1.4	1.7	1.6	1.5	1.5
Sales / Gross Block (x)	3.7	4.5	4.8	4.9	5.0
Working Capital / Sales (%)	27%	25%	28%	30%	33%
Receivable Days	60	41	46	55	55
Inventory Days	114	83	95	103	103
Payable Days	78	50	65	84	83
Working Capital Days	96	74	77	74	76
Liquidity Ratios					
Current Ratio (x)	2.4	3.0	2.4	2.6	2.8
Interest Coverage Ratio (x)	24.7	32.8	64.5	73.4	88.0
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	-0.1	-0.2	-0.3
Valuation					
PE (x)	23.3	38.9	29.7	26.0	21.7
Earnings Yield (%)	4%	3%	3%	4%	5%
Price to Sales (x)	2.3	2.9	2.6	2.3	2.1
Price to Book (x)	4.3	6.4	5.5	4.7	4.0
EV/EBITDA (x)	18.3	28.0	21.1	18.5	15.5
EV/Sales (x)	2.3	2.9	2.6	2.3	2.0

Source: Company, Keynote Capitals Ltd. estimates

Valuation based on achievement of Project Leap

Valuation	FY22	FY23E	
Scenario (in Rs. Mn, otherwise stated)	Current	Project LEAP will be achieved by Fiscal 2026 (4Y)	Project LEAP will be achieved by Fiscal 2027 (5Y)
Expected Growth Rate	-	13%	10%
Revenue	1,22,038	1,38,025	1,34,241
PAT Margin %	7%	9%	8.5%
PAT (excl. P/L from JV & Subs.)	8,388	12,232	11,410
EPS (Rs.)	56	82	76
P/E	33	33	30
Target Price (Rs.)	-	2,691	2,282
CMP (Rs.)	-	2,350	2,350
% Upside/(Downside)	-	15%	(3%)

Source: Company, Keynote Capitals Ltd. estimates

We conducted the valuation based on the assumption that the revenue target of Rs. 200 Bn set under Project LEAP will be achieved. This assumption is made by looking at the management's superior execution track record. This was exemplified when management scaled up the FMEG business to a reasonable level despite being a late entrant and showed progress on the export front, where sales jumped from 3% in FY19 to almost 8% in FY22. The management has already taken some crucial steps to achieve Project LEAP. Given the positive backdrop, we cannot rule out the possibility of a delay in achieving the target. We have built-in two scenarios based on our expectations of the execution of Project LEAP.

Target under Project LEAP will be achieved by FY26- Assuming the target is achieved by FY26, compounded revenue growth will be ~13%. Given the current cost structure and some success in FMEG, PIL should be able to achieve a PAT margin of ~9%. We expect the current multiple to sustain and assign a multiple of 33x on FY23E EPS of Rs. 82 and arrive at a share price of Rs. 2,691, giving us an upside of 15%.

Target under Project LEAP will be delayed by a year and is achieved by FY27- Under this assumption, the compounded revenue growth will decrease to 10%. Lowering the assumption of PAT margin by 50bps compared to the previous scenario, we assign a 10% haircut on the current multiple giving 30x on FY23E EPS of Rs. 76 due to delayed execution and FMEG remaining at current levels, giving us a share price of Rs. 2,282 and a possible downside of 3%.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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