

April 4, 2019

IPO Note

IPO Fact Sheet

Opening Date	April 05, 2019
Closing Date	April 09, 2019
BRLMs	Kotak Mahindra Capital, Axis Capital, Citigroup Global, Edelweiss Financials, IIFL Holding & YES Securities
Issue Size	Rs.13.5bn
Fresh Issue	Rs4bn
Offer for Sale	Rs9.5bn

Issue Details

Pre-issue equity (m shares)	141.21
Post-issue equity (m shares)	148.64
Post-issue Market Cap (Rs bn)	Rs80bn

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	78.9%	68.7%
Public & Others	21.1%	31.3%

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Wired for growth

We recommend "Subscribe" rating to Polycab given 1) leadership with most versatile product range in cables and wires 2) strong distribution with 2800 distributors and over 0.1mn retail touch points 3) strong manufacturing base 4) diversification into premium FMEG segment with presence in fans, lighting, switchgears & switches and 5) likely reduction in working capital due to channel financing. Although FMEG is just 8% of sales, strong brand would enable faster scale up in the coming years. Recent export order of USD137mn for an upcoming refinery is a testimony of quality and growth potential in wires and cable business. Over FY16-18 Polycab has reported Revenue/EBITDA/PAT CAGR of 14%/24%/42% respectively with reported EPS (Pre IPO) of Rs26.2 in FY18 and ~Rs25.3 for 9mFY19. The offer at 20.5x FY18 EPS in line with Finolex cables (20x FY18 EPS) but at significant discount to ECD players like Havells (68x FY18 EPS) and Crompton Consumer (44x FY18 EPS). Steady increase in sales proportion of FMEG will re-rate the stock in the long term.

- Market leader in Wires & Cables:** Polycab is India's largest manufacturer of wires and cables (88% of sales) with an organized market share of 18% (12% overall). It is one of the most versatile player with presence across high value added segments like electrical, marine, oil & gas, telecom, nuclear energy, infrastructure etc.
- FMEG holds huge growth potential:** Polycab also manufactures & sells FMEG (8% of sales) such as electric fans, LED lighting & luminaries, switches & switchgears, solar products etc. Premium positioning, dedicated distribution and strong brand recall in cables & wires has enabled it achieve Rs5bn sales much faster than some of its peers.
- Strong distributor network:** Polycab's strength is 2800 distributors and over 100,000 retailers, some of them being with Polycab for 3 generations. Wires and cables have 1500 while FMEG has 1900 distributors, 500 are common for both products. Well entrenched distribution with long standing relationships and stickiness is one of the major strengths of Polycab.
- Superior manufacturing capabilities:** Polycab has strong manufacturing base with 24 manufacturing facilities (3 for FMEG). Polycab has incurred a capex of Rs11bn in the past 5 years, including plants for FMEG. Currently capacity utilization stands between 70-80%. In-house manufacturing will provide flexibility in improving the quality and range of FMEG. Backward integration into polymers, wire rods, cable/wire colors reduces costs and improves the quality which will continue to drive superior growth and margins.
- Channel financing to ease working capital cycle:** Polycab has high working capital (27% of sales) due to penetrative strategy in FMEG and manufacturing focus. It is also starting channel financing like Havells - the impact of which is already visible in reduction in receivables from 89 days to ~58 days. Although aggressive penetration policy in FMEG will keep inventory high, full impact of channel financing will further improve working capital in the coming years.

Exhibit 1: Issue Details

Company	Polycab India Limited
Profile	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. According to CRISIL Research, it is the largest manufacturer of the wires and cables with most extensive range in India..
Offer Period	Opens on: Friday, April 05, 2019 Closes on: Tuesday, April 09, 2019
Price Band	Rs.533/- to Rs.538/-
Bid Lot	27 shares & in multiple of thereafter
Issue size	Fresh Issue: Rs400 crore Offer for sale of 17,582,000 Equity Shares
Issue size (in Rs)	Rs.13.5bn
QIB	50% of the issue
NIB	15% of the issue
Retail	35% of the issue
Mode of Payment	ASBA Mandatory (No cheque will be accepted)
Registrar	Karvy Fintech Pvt Ltd
Lead Manager	Kotak Mahindra Capital, Axis Capital, Citigroup Global, Edelweiss Financial, IIFL Holdings & YES Securities
Listing	NSE & BSE

Source: RHP, PL

Exhibit 2: OFS by existing shareholders is 70% of issue size

Sr no	Name	Max shares offered (mn)	Avg Cost of acquisition per share (Rs)
1	IFC	7.06	189.72
2	Inder T. Jaisinghani	2.09	0.11
3	Ajay T. Jaisinghani	2.07	0.01
4	Ramesh T. Jaisinghani	2.07	0.00
5	Girdhari T. Jaisinghani	2.08	0.00
6	Bharat A. Jaisinghani	0.53	0.01
7	Nikhil R. Jaisinghani	0.53	0.01
8	Anil H. Hariani	0.51	0.00
9	Ramakrishnan Ramamurthi	0.64	0.00
	Total	17.6	

Source: RHP, PL

Exhibit 3: Shareholding Post-IPO

Particulars (mn)	Pre IPO		Post IPO	
	No of shares	% of shares	No of shares	% of shares
Promoter & Promoter Group	111	78.9	102	68.7
IFC	21	15.0	14	9.5
Others	9	6.1	32	21.8
Total	141.2	100.0	148.6	100.0

Source: RHP, PL

Exhibit 4: “Polycab” has most extensive range of Wires & Cables (88% of sales) which command 15% premium

	Principal Products	Application
Power Cables	LV up to 1.1 KV	Suitable for use on AC single phase per three phases (earthed or unearthed) systems for rated voltage up to 1.1 KV for rated voltage up to 1.5 KV to earth
	MV - 1.1 KV to 33 KV	Variety of applications in instruments, ignition systems, and AC & DC power transmission. Conductors are made of copper / aluminum conductor which are screened with extruded semi-conducting compound.
	EHV - 66 KV to 220 KV	Mainly used in expansion of transmission lines owing to its lower transmission loss benefits.
Control Cables	Send signals to control the functioning of an equipment and allow distribution of low voltage data or signals	
Instrumental cables	Wide variety of applications for process instrumentation for measurement, supervision and control of the process in oil & gas, power generation and distribution, auto, chemical and mining industries.	
Solar Cables	DC solar cables are used as inter-connection cables for connecting different photovoltaic modules in air or conduit. LT solar AC cables are used for connection of inverter to transformer in air/underground trays whereas HT Solar AC cables are used for connecting transformer to the grid in air/underground trays	
Building Wires	Ideal for indoor- and outdoor-applications and building electrification in various industries, household appliances such as power-supply for refrigerators and air conditioners.	
Flexible single/Multi core	Energy efficient class 5 wire with different insulation properties such as PVC, heat resistant flame retardant (“HRFR”), heat resistant (“HR”) and high resistant-flame retardant low smoke (“H R-FRLS”).	
Communication cables	Include telephone cables, LAN cables, co-axial cables and speaker cables.	
Other cables	Welding cables, submersible flat and round cables, rubber cables, overhead conductors, railway signaling cables and specialty cables. Our specialty cables can be used for various applications such as marine, oil and gas, extreme fire conditions, space station cables and traffic signaling.	

Source: RHP, PL

Exhibit 5: FMEG contributes 8% of revenues; Fans sell at a premium to peers, switchgears sell at 15% discount to peers,

	Principal Products	Application
Electric Fans	Ceiling fans	Homes, offices and restaurants
	TPW	Offices, factories and bungalows
	Exhaust fans	Kitchens, bathrooms and factories
	Air circulator	Water heaters in bathrooms and kitchens
LED Lighting & Luminaires	LED products including lamps, batten, panels and downlights	Homes, restaurants, call centers, hotels, retail showrooms, banks, hospitals
	Urbania (Street Lights)	Residential colonies, industrial parks, secondary and medium traffic roads
	Arenia (Flood Lights)	Billboards, facade lighting, open area lighting
	Industria (LED Luminaires including high bays, medium bays, clean room and task lighting)	Industrial applications, power plants, cement plants, thermal plants, underground parking area, banks, hospitals
	Modernia (Commercial Luminaires including panels, downlights, mood lighting and recessed lighting)	Corporate offices, conference rooms, call centers, retail showrooms and stores, banks, hospitals
Gardenia (Bollards and Landscape Lighting)	Parks, parking lots, lawns, pathways and bollard applications	
Switches & Switchgears	MCBs	In the event of overload or a short-circuit, MCBs disconnects the load circuit.
	RCCB	RCCB is to be used with MCBs to detect earth leakage and disconnect load to protect people, equipment and buildings against electric shocks.
	RCBO	Protection against overload/short circuit and electric shocks.
	Distribution Board (“DB”)	used to distribute electrical supply within the building
	Electrical Switches	Modular switches are used to make and break electric circuit.
Solar Products	Solar DC cables (1.5sq.mm to 300sq.mm)	Used to connect the output of solar photovoltaic (“PV”) panel to the array junction, array junction/main junction boxes and string/central inverter.
	Solar Grid tie Inverter (1kw to 60kw)	converts direct current (“DC”) power generated from solar energy through solar panel, into alternating current (“AC”) power
	Solar Pump (1HP to 30HP)	Agriculture pump which works on power generated through Solar Panels
	Solar Pump Controller (1HP to 30HP)	Provide variable frequency AC to drive the pump motor at different speeds
	Solar DC MCBs (0.5A to 63Amps)	Protection to the Inverter input from excess overload and short circuit.
	Solar Off Grid Inverters (0.5KVA to 25KVA)	Converts the DC power received from the Solar PV panels to AC power.

Source: RHP, PL

Exhibit 6: Conduits & EPC contribute 4% of revenue

Conduits & Accessories	uPVC conduits carry wires inside the wall and under the slab at the time of construction. They are typically used for concealed wiring, underground wiring and surface wiring. uPVC accessories include bending springs, circular boxes, circular lids, couplers, deep circular boxes, fan boxes, inspection bends, inspection elbows, inspection tees, junction boxes, reducers, round tees, saddle plates, saddle straps, slip type bends and space bar saddles.
EPC	Electrical turnkey solutions comprising project management, onsite execution and resource management through specialized erectors and financial management

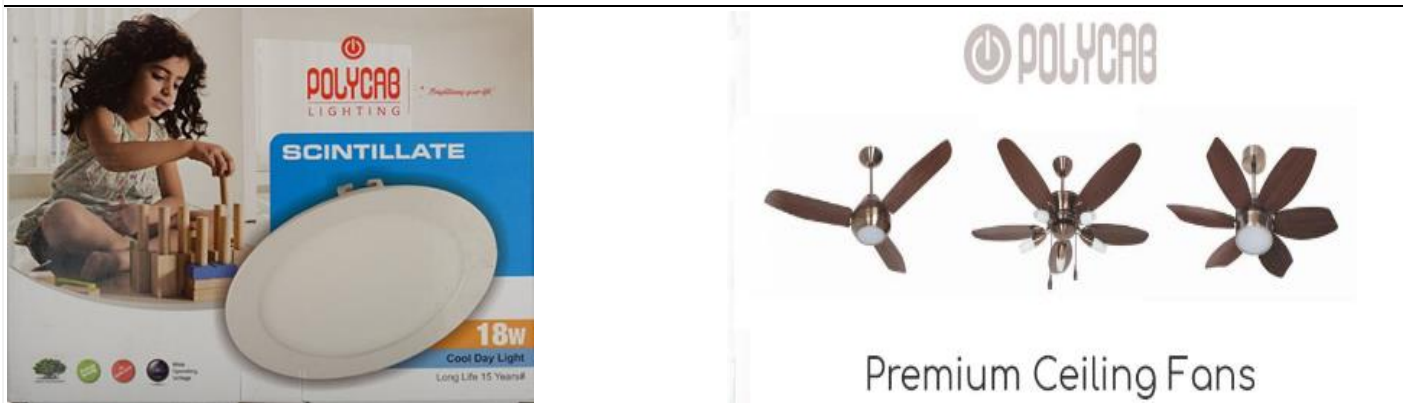
Source: RHP, PL

Exhibit 7: Polycab Range of Products – Cables & Wires, Solar Inverter



Source: PL

Exhibit 8: Polycab Range of Products: Lighting & Premium Fans



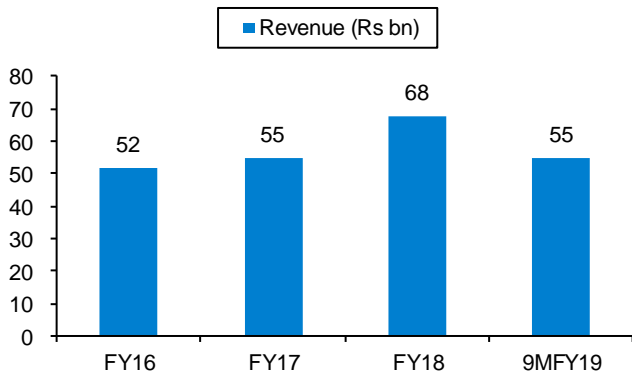
Source: PL

Exhibit 9: Polycab Range of Products – Switchgears & Switches



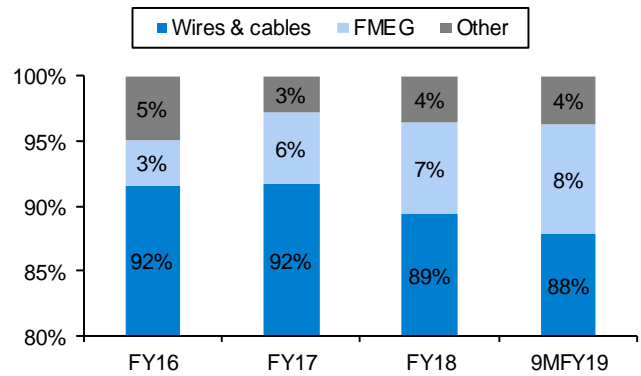
Source: PL

Exhibit 10: Revenues CAGR of 14% over FY16-18



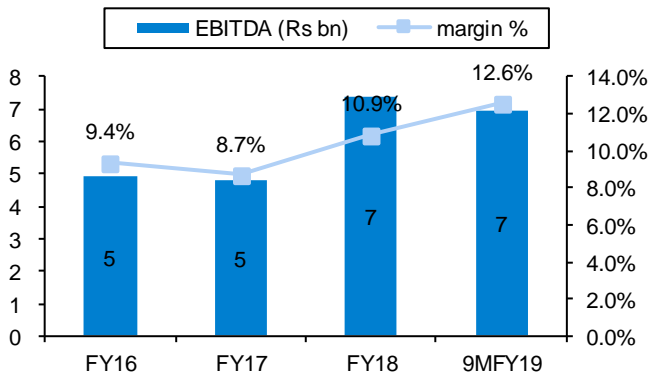
Source: RHP, PL

Exhibit 11: FMEG contribution at 8% of revenues



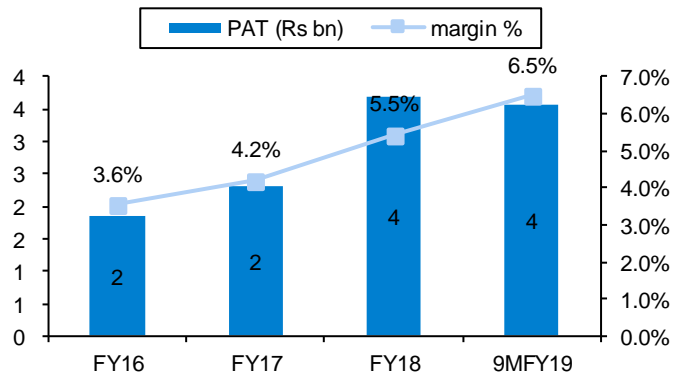
Source: RHP, PL

Exhibit 12: EBITDA grew at CAGR of 23% over FY16-18



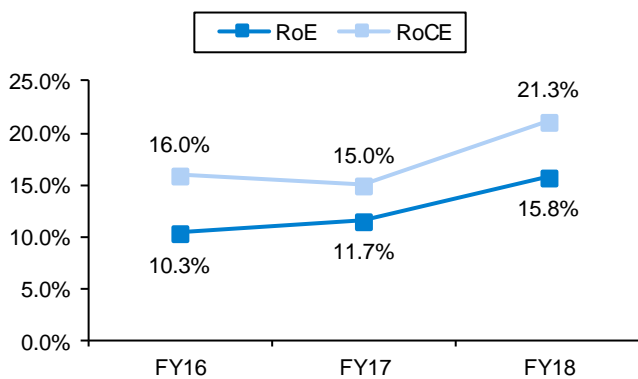
Source: RHP, PL

Exhibit 13: PAT recorded CAGR of 42% over FY16-18



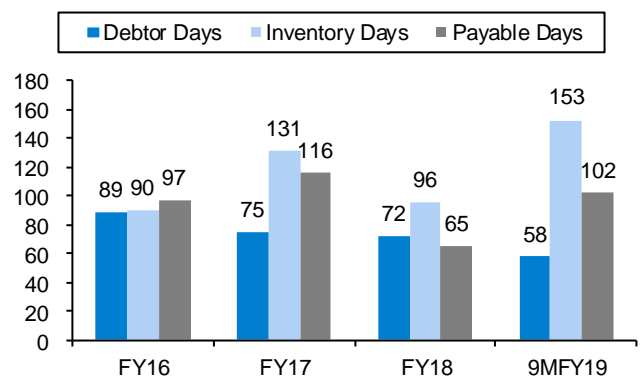
Source: RHP, PL

Exhibit 14: Improving RoE & RoCE ratios

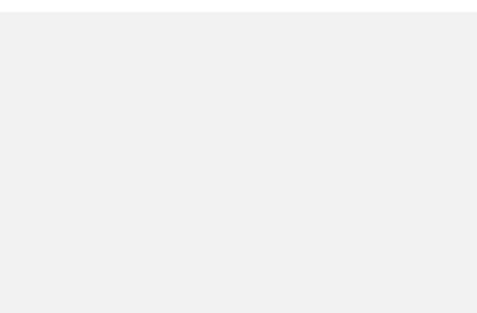


Source: RHP, PL

Exhibit 15: Net working capital cycle at 109 days



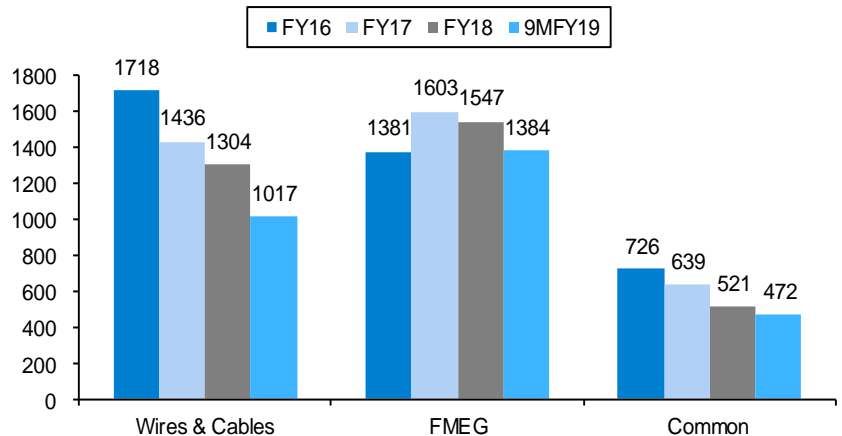
Source: RHP, PL



Strong personal connect with distributors, some of them associated with Polycab into their third generation

As on 9MFY19, South & North cumulatively account for 57% of total distributors

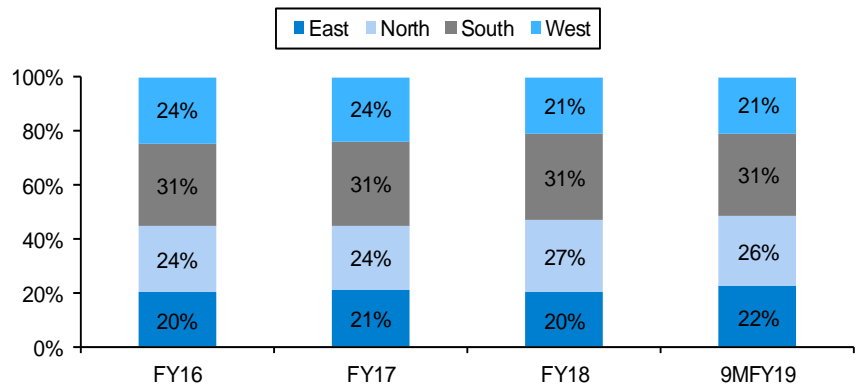
Exhibit 16: Strong distribution network



Source: RHP, PL

Exhibit 17: Strong presence in South & West

Distribution network - Geography split



Source: RHP, PLs

Exhibit 18: Cables & Wires offering of competitors

Company	Power & Power Control (LT/HT)	Power Cable (EHV)	Control & Instrumentation Cables	House Wires	Flexible & Industrial Cables incl specialty cables
Apar Industries Ltd	✓		✓	✓	✓
Finolex Cables Ltd	✓	✓	✓	✓	✓
Gupta Power Infrastructure Ltd	✓	✓	✓	✓	✓
Havells India Ltd	✓		✓	✓	✓
KEC International Ltd	✓	✓	✓	✓	✓
KEI Industries Ltd	✓	✓	✓	✓	✓
Polycab India Limited	✓	✓	✓	✓	✓
R R Kabel Ltd	✓		✓	✓	✓
V-Guard Industries Ltd	✓			✓	✓

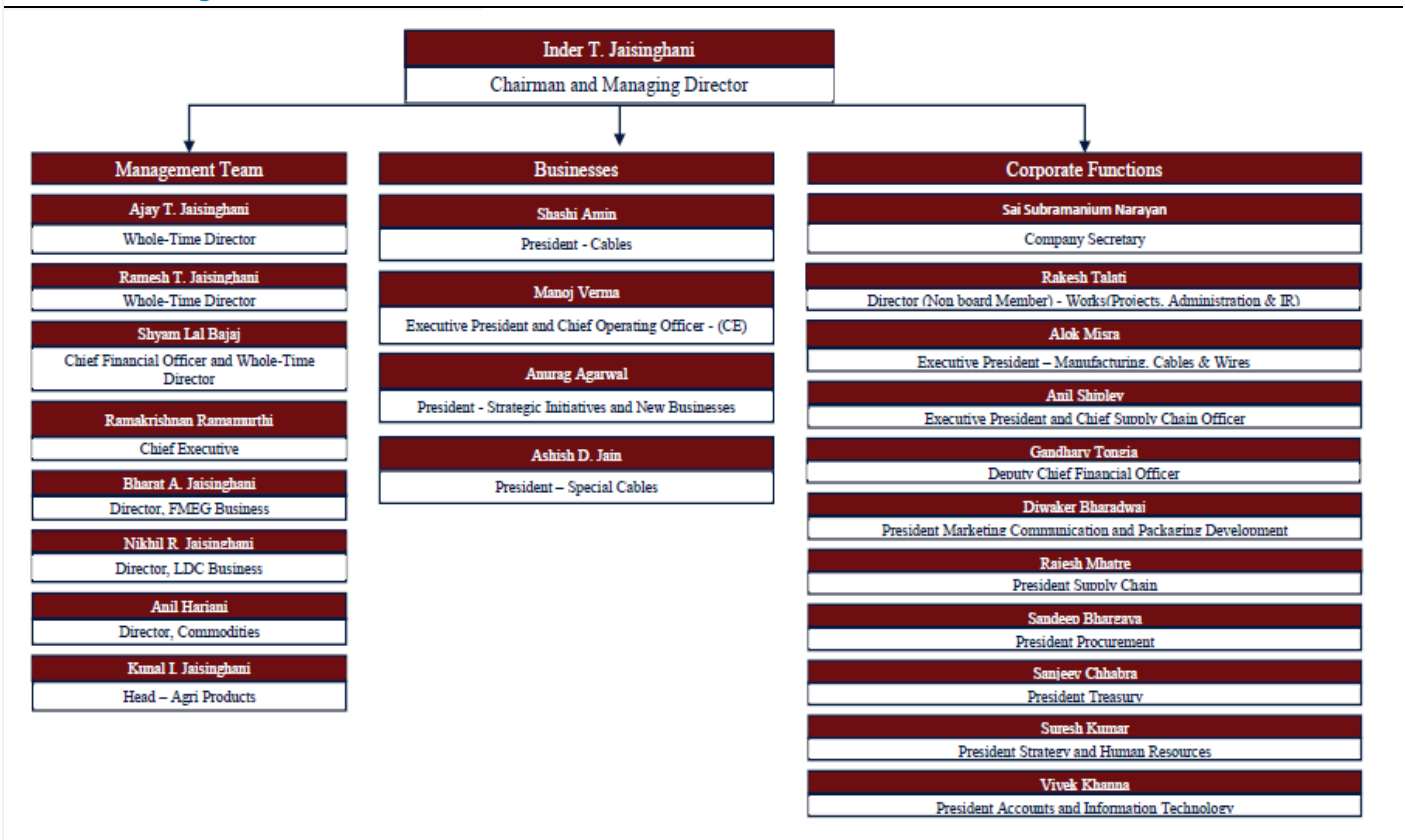
Source: RHP, PL

Exhibit 19: FMEG will focus on electrical goods, no plans to enter white goods

Company	Fans	Lighting	Switches	Switchgears	Water Heater	Home App.	Kitchen App.
Bajaj Electricals Ltd	✓	✓			✓	✓	✓
Crompton Greaves Consumer Electricals Ltd	✓	✓			✓	✓	✓
Finolex Cables Ltd	✓	✓	✓	✓	✓		
Havells India Ltd	✓	✓	✓	✓	✓	✓	✓
Orient Electric Ltd	✓	✓		✓	✓	✓	✓
Philips India#		✓				✓	✓
Polycab India Limited	✓	✓	✓	✓	✓		
Schneider Electric India Pvt. Ltd	✓	✓	✓	✓			
Surya Roshni Ltd	✓	✓			✓	✓	✓
TTK Prestige Ltd						✓	✓
Usha International Ltd	✓				✓	✓	✓
V-Guard Industries Ltd	✓			✓	✓	✓	✓

Source: RHP, PL

Exhibit 20: Management structure



Source: RHP, PL

Financials

Exhibit 21: Income Statement

Y/e Mar	FY16	FY17	FY18
Net Revenues	52,024	55,001	67,793
YoY gr. (%)	10.5%	5.7%	23.3%
Cost of Goods Sold	39,889	42,432	52,081
Gross Profit	12,135	12,569	15,711
Margin (%)	23.3%	22.9%	23.2%
Employee Cost	2,061	2,291	2,593
Other Expenses	5,167	5,479	5,711
EBITDA	4,908	4,799	7,408
YoY gr. (%)	11.1%	-2.2%	54.4%
Margin (%)	9.4%	8.7%	10.9%
Depreciation and Amortization	1,111	1,279	1,330
EBIT	3,797	3,521	6,079
Margin (%)	7.3%	6.4%	9.0%
Net Interest	1,474	659	937
Other Income	331	755	622
Profit Before Tax	2,654	3,616	5,764
Margin (%)	5.1%	6.6%	8.5%
Total Tax	807	1,284	2,056
Effective tax rate (%)	30.4%	35.5%	35.7%
Profit after tax	1,847	2,333	3,708
Minority interest	(1)	3	5
Share Profit from Associate	-	(3)	1
Adjusted PAT	1,848	2,327	3,704
YoY gr. (%)	12.5%	25.9%	59.2%
Margin (%)	3.6%	4.2%	5.5%
Extra Ord. Income / (Exp)			
Reported PAT	1,848	2,327	3,704
YoY gr. (%)	12.5%	25.9%	59.2%
Margin (%)	3.6%	4.2%	5.5%
Equity Shares O/s (m)	141	141	141
EPS (Rs)	13	16	26

Source: RHP, PL

Exhibit 22: Balance Sheet

Y/e Mar	FY16	FY17	FY18
Non-Current Assets			
Gross Block			
Tangibles	14,774	17,444	19,446
Intangibles	165	199	207
Acc: Dep / Amortization			
Tangibles	4,990	6,220	7,502
Intangibles	99	139	180
Net fixed assets			
Tangibles	9,784	11,224	11,944
Intangibles	67	60	27
Capital Work In Progress	1,381	1,649	1,360
Goodwill			
Non-Current Investments	1	328	315
Net Deferred tax assets	125	574	312
Other Non-Current Assets	872	892	1,254
Current Assets			
Investments	-	-	-
Inventories	9,804	15,198	13,657
Trade receivables	13,534	11,992	12,862
Cash & Bank Balance	507	302	106
Other Current Assets	2,672	3,569	2,595
Total Assets	38,747	45,788	44,433
Equity			
Equity Share Capital	1,412	1,412	1,412
Other Equity	16,444	18,556	22,124
Total Networth	17,856	19,968	23,536
Non-Current Liabilities			
Long Term borrowings	1,009	1,618	1,589
Provisions	71	90	95
Other non current liabilities	314	852	736
Current Liabilities			
ST Debt / Current of LT Debt	6,948	6,590	5,687
Trade payables	10,566	13,543	9,221
Other current liabilities	1,984	3,127	3,568
Total Equity & Liabilities	38,747	45,788	44,433

Source: RHP, PL

Exhibit 23: Cash Flow

Y/e Mar	FY16	FY17	FY18
PBT	2,654	3,616	5,764
Add. Depreciation	1,111	1,279	1,330
Add. Interest	1,474	659	937
Less Financial Other Income			
Add. Other	274	154	612
Op. profit before WC changes	5,512	5,709	8,643
Net Changes-WC	(2,116)	(1,729)	(3,612)
Direct tax	(1,188)	(1,016)	(1,399)
Net cash from Op. activities	2,208	2,964	3,632
Capital expenditures	(2,464)	(2,780)	(1,837)
Interest / Dividend Income	32	42	30
Others	(111)	(160)	(75)
Net Cash from Inv. activities	(2,543)	(2,898)	(1,881)
Issue of share cap. / premium	29	-	-
Debt changes	2,175	749	(789)
Dividend paid	(261)	(177)	(170)
Interest paid	(1,487)	(670)	(944)
Others			
Net cash from Fin. activities	455	(98)	(1,903)
Net change in cash	120	(32)	(152)
Free Cash Flow	(255)	184	1,795

Source: RHP, PL

Exhibit 24: Key Ratios

Y/e Mar	FY16	FY17	FY18
RoCE	16.0%	15.0%	21.3%
RoE	10.3%	11.7%	15.8%
Net Debt : Equity (x)	0.5	0.4	0.3
Debtor (days)	89	75	72
Inventory (days)	90	131	96
Creditor (days)	97	116	65

Source: RHP, PL

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,460	1,407
2	Avenue Supermarts	Reduce	1,270	1,572
3	Britannia Industries	Accumulate	3,159	3,108
4	Colgate Palmolive	Hold	1,245	1,322
5	Crompton Greaves Consumer Electricals	BUY	272	216
6	Dabur India	Hold	456	452
7	Emami	Accumulate	524	411
8	Future Retail	BUY	576	448
9	GlaxoSmithKline Consumer Healthcare	Hold	8,227	7,400
10	Hindustan Unilever	Hold	1,874	1,752
11	ITC	BUY	364	277
12	Jubilant FoodWorks	Accumulate	1,467	1,303
13	Kansai Nerolac Paints	Accumulate	498	430
14	Marico	Hold	371	364
15	Nestle India	Accumulate	11,059	10,629
16	Pidilite Industries	Accumulate	1,163	1,109
17	Titan Company	BUY	1,195	992
18	Voltas	Accumulate	600	522

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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