

3R MATRIX	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive	= Neutral		- Negative

What has changed in 3R MATRIX

	Old	New
RS	✓	↔
RQ	✓	↔
RV	✗	↔

Company details

Market cap:	Rs. 1,08,962 cr
52-week high/low:	Rs. 7,607/3,812
NSE volume:	1.7 lakh (No of shares)
BSE code:	542652
NSE code:	POLYCAP
Free float:	5.5 cr (No of shares)

Shareholding (%)

Promoters	63.1
FII	13.5
DII	9.4
Others	14.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.5	-0.8	7.8	32.3
Relative to Sensex	1.6	6.5	9.5	24.1

Source: Mirae Asset Sharekhan Research,
Bloomberg

Capital Goods	Sharekhan code: POLYCAP			
Reco/View: Buy	↔	CMP: Rs. 7,263	Price Target: Rs. 8,300	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- The W&C segment is likely to see strong traction, backed by uptick in demand from power and real estate sectors.
- The company looks forward to invest Rs. 1,000-1,100 crore each year in the coming year majorly towards capacity expansion in the W&C segment.
- Polycab is set to overachieve a Rs. 20,000 crore FY2026 LEAP project target in FY2025. LEAP 2.0 (Next five-year plans) is expected to be announced soon.
- Strong government and private capex with a growing real estate sector augurs well for the company's growth. We expect revenue/PAT to register a CAGR of 20%/21%, respectively, from FY2024-FY2027, with a good RoCE of 32%. Hence, we maintain Buy with an unchanged PT of Rs.8,300.

Polycab has steadily grown its market share and now holds approximately 25-26% of the organised market. The company's emphasis on power cables (LT/HT) and control cables, which are in high demand, positions it strongly for future growth. Moving forward, Polycab is expected to continue expanding its market share, driven by the broadening of its product portfolio (such as the addition of EHV cables) and the ongoing consolidation within the industry, as smaller and regional players face difficulties in scaling up due to challenges related to capital expenditure and working capital. Additionally, Polycab is set to achieve the Project LEAP goals ahead of the FY2026 timeline. Management is now planning its next five-year strategy, considering the robust growth in the cable industry, and expected FMEG turnaround. The others segment reported a strong quarter due to robust execution of the EPC order book. Currently the EPC order book stands at Rs. 4,800 crore, which is to be executed in the coming 2-3 years.

The W&C segment is on strong footing: The company's W&C segment has grown at a 18% CAGR over FY2019-FY2024 and is expected to maintain its growth, backed by strong demand and upcoming capital expenditures in the power and real estate sector. The company has recently won large contracts worth Rs. 5,600 crore for the development of middle mile network under Bharat Net project. The contract spans three years, followed by a 10-year maintenance period, with maintenance capex set at 5.5% for the first five years and 6.5% for the subsequent five years. Management expects recovery in the international business in FY2026, backed by strong demand from the U.S., Middle East, and Saudi Arabia.

Capacity expansion to augur growth: Polycab plans to invest Rs. 1,000-1,100 crore for the coming 2-3 years with major allocation towards C&W capacity expansion. The company plans to have its EHV cable production facility in Halol up and running by the end of FY2026. The total capital expenditure for the project is estimated to be between Rs. 6-7 billion, spread over FY2024-FY2026. Once operational, the company expects to achieve an asset turnover ratio of 4-5x and anticipates operating margin in the mid-teens range for the EHV cable segment.

FMEG: The FMEG segment, which includes switches, lighting, and fans, has faced challenges and incurred losses. We believe a turnaround is expected in FY2026 due to product realignment, new product development, and premiumisation.

Our Call

Valuation – Retain BUY with a PT of Rs. 8,300: Polycab has successfully consolidated its leading position in the C&W industry by performing consistently. Going forward, a strong focus on government and private capex, a comprehensive product portfolio, scaling up of the FMEG business, and EPC are key growth drivers. We envisage a 20%/-21% revenue/PAT CAGR over FY2024-FY2027E, with a good RoCE of 32%. Hence, we maintain BUY with a PT of Rs. 8,300.

Key Risks

- 1) Fluctuating raw-material prices; 2) Increasing competition in the C&W and FMEG segments; 3) Continuing losses in the FMEG segment.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,108	18,039	22,187	26,564	31,355
OPM (%)	13.1	13.8	12.6	13.3	13.7
Adj. Net Profit	1,282	1,803	2,002	2,588	3,172
Growth (YoY) %	39.8	40.6	11.0	29.2	22.6
Adjusted EPS (Rs)	85.7	120.5	133.8	172.9	212.0
PER (x)	85.2	60.6	54.6	42.2	34.4
P/B (x)	16.5	13.4	11.2	9.1	7.4
EV/EBITDA (x)	54.2	39.6	35.1	27.6	22.4
RoCE (%)	28.6	32.8	30.6	32.2	32.1
RoE (%)	21.1	24.3	22.2	23.7	23.6

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Ample scope for growth

The C&W industry contributes 40-45% to India's electrical equipment industry. The Indian C&W market is projected to grow to Rs. 90,000-95,000 crore by FY2026 from Rs. 68,000 crore in FY2023. Sectors such as power, railways, infrastructure, oil and gas, telecom, real estate, renewables, defence, and automobiles are the largest demand drivers for the industry. Organised players command a lion's share of the market, at roughly 70%, while unorganised players largely dominate rural geographies. The government has envisaged Rs. 111 lakh crore capital expenditure in infrastructure sectors in India during FY2020 to FY2025. The continued thrust of the government on infrastructure investment is expected to improve demand for the C&W industry. The Indian FMEG industry has many growth opportunities, led by macro drivers such as evolving consumer aspirations, increasing awareness, rising income, rural electrification, urbanisation, and digital connectivity. Products such as energy-efficient fans, modular switches, building and home automation, and LED lights are riding an ever-increasing wave of consumer demand. There is also a rising demand for various electrical appliances..

■ Company Outlook – Growth prospects bright

Overall, the outlook remains positive given the growth prospects in the infrastructure and real estate sector and through various initiatives taken by the company such as Project Udaan and Project Leap. Polycab has gained share in the organised market (25-26% from 18% in FY2020), auguring well for growth. The company has outlined its new initiative Project Leap through which it intends to achieve Rs. 20,000 crore in revenue by FY2026E on superior growth versus the industry in B2C segments (2x in FMEG and 1.5x in retail wires) and stronger position in B2B segments.

■ Valuation – Retain BUY with a PT of Rs. 8,300

Polycab has successfully consolidated its leading position in the C&W industry by performing consistently. Going forward, a strong focus on government and private capex, a comprehensive product portfolio, scaling up of the FMEG business, and EPC are key growth drivers. We envisage a 20%/~21% revenue/PAT CAGR over FY2024-FY2027E, with a good RoCE of 32%. Hence, we maintain BUY with a PT of Rs. 8,300.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About the company

Polycab manufactures and sells wires and cables and FMEGs besides executing a few EPC projects. The company is at the forefront of providing innovative, safe, and energy-efficient products to a diverse set of customers via a strong distribution network of 3,800+ authorised dealers and 205,000+ retail outlets. Polycab's business operations span across India through 28 manufacturing facilities, 13 offices, and 29 warehouses. The company has also served customers in 79 countries globally. The company has 4,800+ employees.

Investment theme

Polycab is the market leader in the wires and cables space with an extensive product portfolio and distribution reach coupled with accelerated growth in the FMEG space, which augurs well for growth visibility. The company's market position and success are driven by its robust distribution network, wide range of product offerings, efficient supply chain management, and strong brand image. Polycab's five-year roadmap to achieve Rs. 20,000 crore in FY2026E with more focus towards brand positioning, operations, and business growth along with strong emphasis on governance and sustainability outpacing the industry's growth provide healthy visibility ahead. Revenue from the W&C segment has seen a decent 16.8% CAGR during FY2018-FY2024 and FMEG posted a ~17.8% CAGR during the same period. Further, increasing market share of organised players, which grew from 61% in FY2014 to 66% in FY2018, has touched 70% in FY2023, which bodes well for industry leaders.

Key Risks

- **Fluctuations in raw-material prices pose a key challenge:** Any sharp increase or decrease in the prices of key raw material (copper and aluminium) could impact margins.
- **Increasing competition:** The C&W segment and FMEG industry are highly competitive. The C&W industry is witnessing increasing capacity addition from other players.
- **Continuing losses in FMEG:** Not being able to increase revenue materially in the segment will drag overall profitability.

Additional Data

Key management personnel

Inder T. Jaisinghani	Chairman and Managing Director
Bharat A. Jaisinghani	Executive Director
Nikhil R. Jaisinghani	Executive Director
Manoj Verma	Executive President and Chief Operating Officer (CE)
Gandharv Tongia	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Motilal Oswal Asset Management Co.	2.79
2	The Vanguard Group Inc.	1.29
3	DSP Investment Managers Pvt. Ltd.	1.26
4	Blackrock Inc.	1.24
5	UTI Asset Management Co. Ltd.	0.81
6	Norges Bank	0.77
7	Kotak Mahindra Asset Management Co.	0.7
8	L&T Mutual Fund Trustee Ltd.	0.43
9	ICICI Prudential Asset Management	0.34
10	Sundaram Asset Management Co. Ltd.	0.27

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai - 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai - 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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