

POLYCAB INDIA LIMITED

Polycab House, 771 Mogul Lane, Mahim (W), Mumbai – 400016
CIN: L31300GJ1996PLC114183
Tel : +91 22 2432 7070-74 Fax : +91 22 2432 7075
Email: shares@polycab.com Website: www.polycab.com



Date: 29th June 2021

To
Department of Corporate Services,
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai – 400 001

To
Listing Department,
National Stock Exchange of India Limited
C-1, G-Block, Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Code: 542652 Scrip Symbol: Polycab
ISIN:- INE455K01017

Dear Sir / Madam

Sub: Intimation of Revision in credit rating under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')

Pursuant to Regulation 30 of the Listing Regulations, we wish to inform you that India Ratings & Research vide its letter dated 29th June 2021 has upgraded the long term rating from 'IND AA' to 'IND AA+'.

Kindly take the same on your record.

Thanking you

Yours Faithfully
For Polycab India Limited

Manita Carmen A Gonsalves
Company Secretary and Compliance Officer
Membership No.: A18321

Encl: Letter of India Ratings & Research dated 29th June 2021



Registered Office:
Unit No.4, Plot No.105, Halol Vadodara Road,
Village Nurpura, Taluka Halol, Panchmahal, Gujarat-389350
Tel : 2676- 227600 / 227700

India Ratings Upgrades Polycab India to 'IND AA+' /Stable

29

JUN 2021

By Mahaveer Jain

India Ratings and Research (Ind-Ra) has upgraded Polycab India Limited's (PIL) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating/Outlook	Rating Action
Fund-based working capital limit	-	-	-	INR4,500	IND AA+/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Non-fund-based working capital limit	-	-	-	INR30,500	IND A1+	Affirmed
Term loan	-	-	August 2021	INR15 (reduced from INR80 million)	IND AA+/Stable	Upgraded

Analytical Approach: Ind-Ra continues to take a consolidated view of PIL and its subsidiaries, Tirupati Reels Pvt Ltd. (TRPL; 55% stake held by PIL); Polycab Australia Pty Ltd. (100%); Polycab Support Force Pvt. Ltd. (100%); Uniglobus Electricals and Electronics Pvt. Ltd. (100%); Polycab Electricals and Electronics Private Limited (100%); Polycab USA LLC (100%); Dowells Cable Accessories Pvt Ltd (51%) and Ryker Base Private Limited (RBPL; 100% with effect from 6 May 2020) to arrive at the ratings, because of its majority shareholding in these entities. However, the subsidiaries' contribution to PIL's revenue and profitability is insubstantial.

The upgrade reflects the better-than-expected improvement in PIL's operating performance in FY21, led by healthy growth in key segments such as housing wires, fast-moving electrical goods (FMEG), and the company's improving business-to-consumer (B2C) focus. The strong EBITDA margins and improved working capital management aided accelerated deleveraging in FY21. The business profile is likely to strengthen further on the back of the continued rise in the share of B2C in the sales mix and improved diversification, due to an increase in the share of FMEG in the sales mix, in the medium term. Furthermore, a low balance sheet leverage is likely to provide PIL with the necessary headroom for towards foraying into and spending on new growth areas.

KEY RATING DRIVERS

Healthy Improvement in Business Profile and Operating Performance: PIL is a leading company in the Indian C&W industry. As per the management, its market share increased in the organised markets by over 200bp to 20%-22% during FY21, led by shift in demand towards the organised segment. Despite a challenging economic environment and volatile commodity prices in FY21, PIL's consolidated revenue rose slightly to INR89.3 billion (FY20: INR88.3 billion), higher than the agency's earlier expectations. Amidst slower institutional business recovery, PIL's wires and cable segment reported a stable performance in FY21, supported by improving consumer demand in housing wires and higher realisations.

Furthermore, the share of PIL's B2C segment grew by around 700bp yoy to 39.4% in FY21, led by the 20% yoy growth in the housing wires business. This is also likely to increase the company's ability to pass-on the volatility in raw material prices to end-customers. The W&C segment's contribution to the total revenue remained flat at 83.5% in FY21. Furthermore, the FMEG segment recorded growth of 24% yoy, and its contribution to the revenue grew by 290bp yoy to 11.4% in FY21. Under FMEG, all categories witnessed a healthy improvement on a yoy basis, including switchgear, pumps, pipes/fittings, fans and lighting despite stiff competition, and cost-push. Fans/appliances and lighting account for two-third of the FMEG segment's revenues. The segment is likely to continue growing at a healthy pace in FY22 driven by a strong recovery in consumer demand and the improving execution in the FMEG segment.

Resilient EBITDA margins: PIL's consolidated margins (excluding other income) have been healthy and stable despite business cycles and raw material price volatility, resulting from fluctuations in metal prices, plastic and rubber components and forex movements. The EBITDA margin rose by 22bp yoy to 13.1% in FY21, higher than agency's expectations of around 11%, as a result of improved sales mix (increased share of B2C in the total revenue and growth in FMEG), realisations, and cost management. The C&W segment contributed the highest margin of 14.3% in FY21; and the agency expects the segment's margin to moderate to 12%-13% in FY22 on a sustainable basis. In FY21, the FMEG and EPC segments' margin contribution to the overall EBITDA was around 6.4% and 3.7%, respectively.

The FMEG business's EBITDA margin almost doubled to 7.2% in FY21 (FY20: 3.6%), higher than the agency's expectation of 3%-4%, led by pricing actions, operating leverage, premiumisation and cost-optimisation despite cost inflation. The segment's margins are likely to improve to higher single-digits over FY22, propelled by continued increase in volumes as well as market penetration. The EPC and other segments reported lower profitability in FY21 due to the impact of the pandemic and a higher base. The company's other income increased by INR0.4 billion yoy to INR1.3 billion in FY21 on account of an increase in interest on financial assets and forex gains.

Substantial De-leveraging Despite Capex Intensity: PIL continued to deleverage over FY19-FY21, led by improving operating cash flows and stable working capital requirements. During FY21, the company turned net cash positive (net leverage (net debt/ Operating EBITDA) in FY20: 0.7x) at the consolidated level, led by a substantial growth in free cash & cash equivalent to INR11 billion (INR2.2 billion). This was driven by sustained EBITDA levels and substantial release of working capital, and is likely to continue over the medium term.

PIL's capex strategy is prudent and growth-centric, with capex plans of around INR2 billion-3 billion every year, which would be funded completely through internal accruals, to support 10%-12% CAGR growth. PIL incurred a capex of INR2 billion in FY21 (FY20: INR2.9 billion; FY19:INR2.86 billion) and the agency expects the company to undertake additional capex of around INR2.75 billion-3.25 billion per annum over FY22-FY24. Two-thirds of the capex would be directed towards the C&W segment, mainly for capacity expansion for the emerging business and exports; the balance is likely to be directed towards the FMEG business for de-bottlenecking and digitisation. The ratings factors in the management's intention to avoid relying on debt for its expansion plans in the medium-to-long term. Any significant alteration from Ind-Ra's assumptions on the size and funding of capex would necessitate a review of the ratings.

Liquidity Indicator - Superior: The agency expects the company's liquidity to remain comfortable in FY22, supported by healthy operational cash flows and cash and cash equivalents of INR11 billion at FYE21. During the 12 months ended March 2021, the company's monthly average utilisation of the fund and non-fund-based limits was 5% and 73%, respectively. The unutilised fund-based and non-fund based working capital limits stood at INR4.5 billion and INR9 billion, respectively, at end-March 2021. Furthermore, the company's cash flow from operations increased to INR12.4 billion in FY21 (FY20: INR2.4 billion), 2.4x higher than the agency's expectations, led by higher operational cash flows and a release in the working capital requirement by INR2.5 billion (negative INR6.2 billion). As a result, the free cash flows rose to INR10.3 billion in FY21 (FY20: negative INR2.4 billion). PIL's consolidated interest coverage (operating EBITDA/gross interest) is likely to remain healthy above 20x (FY21: 22x; FY20: 23x) over the medium term. It has scheduled debt repayments of INR0.6 billion per annum during FY22-FY23, with a debt service coverage ratio of over 8x.

Inherent Industry Risks: PIL's major raw materials include copper, aluminium and polyvinyl chloride compound. While copper constituted 61% of the raw materials consumed in FY21 (FY20: 57%), aluminium and polyvinyl chloride compounds constituted around 15.1% (13.5%) and 13.2% (12.7%), respectively, of the same. To mitigate the raw material price volatility between procurement and selling, PIL has a 90-day window from its major suppliers to pass on the same at the time of selling. The volatility is also passed on by way of a periodic adjustment in selling prices. PIL carries significant unhedged forex payables; however, the risk is partly mitigated by a demonstrated pass-through of input price movements.

Intense Competition: The CW industry is characterised by the presence of several organised and unorganised players, leading to intense competition, and hence, pressure on prices. From the organised sector, PIL has stiff competition from players such as Havells India Ltd., KEI Industries Ltd (IND AA-/Stable), Finolex Cables Ltd and RR Kabel Limited (IND A+/Stable). Furthermore, the unorganised sector has been stocking up inventories, thereby creating high supply-low price risk in the market.

Historically, the industry has witnessed a considerable presence of unorganised suppliers. Over the years, however, there has been a gradual shift in demand towards organised players from unorganised ones. The shift has accelerated in the wake of the COVID-19 outbreak, as supplies in the unorganised space were disrupted severely due to pandemic-led challenges such as working capital shortage, unavailability of labour and gaps in supply chain. Furthermore, imports were adversely impacted, causing disruptions in the operations of those who had been providing substandard imported items in the market. The preference of end-consumers has also been structurally shifting towards branded and quality products, which augurs well for the organised players' strategy to continue investing in research and development, brand building and manufacturing.

RATING SENSITIVITIES

Positive: A substantial increase in the size and scale of business, led by a significant improvement in sales contribution from the FMEG and B2C segments, the operations margins exceeding 15%, along with a substantial improvement in the free cash flows while maintaining the credit metrics, all on a sustained basis, could lead to positive rating action.

Negative: The net adjusted leverage exceeding 1x on account of an increase in debt for the capex or organic/inorganic acquisition or increased working capital requirements, and/or deterioration in the margins, all on a sustained basis, could lead to a negative rating action.

COMPANY PROFILE

Incorporated in 1996, PIL (formerly Polycab Wires Private Limited) manufactures and sells CW and FMEG products and also executes limited EPC projects. It has 25 manufacturing facilities, spread across Gujarat, Maharashtra and Uttarakhand, and Daman and Diu, including three FMEG facilities.

FINANCIAL SUMMARY

Particulars	FY21	FY20	FY19
Revenue (INR billion)	89.3	88.3	79.9
Operating EBITDA (INR billion)*	11.7	11.4	9.5
Operating EBITDA margin (%)	13.1	12.9	11.9
Interest coverage(x)	22.0	22.9	8.2

Net leverage (x) including acceptances	-0.2	0.7	1.0
Sources: PIL, Ind-Ra			
*Excludes Share of profit/ (loss) of joint ventures			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating/Outlook	27 October 2020	27 September 2019	19 July 2019	14 January 2019	9 August 2018
Issuer rating	Long-term	-	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Term loan	Long-term	INR15	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Fund-based limits	Long-term/Short-term	INR4,500	IND AA+/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
Non-fund-based limits	Short-term	INR30,500	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital facilities	Low
Non-fund-based working capital facilities	
Term loans	Low

For details on the complexity level of the instruments please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/RATING-DEFINITIONS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND

METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Applicable Criteria

[Corporate Rating Methodology](#)
[Parent and Subsidiary Rating Linkage](#)
[Short-Term Ratings Criteria for Non-Financial Corporates](#)

Analyst Names

Primary Analyst

Mahaveer Jain

Director

India Ratings and Research Pvt Ltd Unit No- 1110, 11th Floor, East Wing, Raheja Tower, M G Road, Bangalore – 560001

+91 80 46666817

Secondary Analyst

Abhishek Rathi

Senior Analyst

+91 22 40356110

Committee Chairperson

Abhishek Bhattacharya

Senior Director and Head Large Corporates

+91 22 40001786

Media Relation

Ankur Dahiya

Manager – Corporate Communication

+91 22 40356121
