India

Under Review

Industrial - Overall

Assessing the scope of disruption in C&W

- UTCEM's foray into the cable & wire segment (C&W) should step up the heat for B2C/housing C&W players in the first few years of operations.
- UTCEM's revenue potential can be ~6% of the industry & ~9% of the Top-5 players by FY31F, with incumbents seeing margin compression, in our view.
- Henceforth, the coverage of C&W players stands transferred to the consumer, cement and paints team (Nishant Bagrecha, Rohan Kalle and Saurabh Singh).

A strategic foray by UTCEM; existing relationships can be leveraged

Ultratech Cement (UTCEM) has strategically announced its diversification into the cable and wire (C&W) sector, driven by the potential for distribution synergies and attractive returns. Management clarified the rationale behind this, and UTCEM is not considering any further investment for the next five years. UTCEM will invest Rs18bn, and management anticipates a RoCE upwards of 20%, with a target of 5-7x fixed asset turnover. Assuming 4-5x fixed asset turnover (avg. for the C&W industry), UTCEM can potentially reach ~6% of the C&W market and 9-10% of Top 5 players by FY31F, with incumbents likely to witness margin compression, in our view. From a product launch perspective, UTCEM will likely roll out its wire products in the first phase, followed by cables (no plans to enter HT cables) and leverage its building solutions network, which has over 4,432 touchpoints pan-India, in addition to strong relationships with large residential/commercial real estate developers to give it a head start across both B2C as well as B2C channels.

Housing/B2C incumbent players more likely to face the heat initially

Management alluded to targeting a 60%/40% sales mix from wire/cable segments, respectively, and considering that categories like power transmission and industrial cables require at least two-to-four years of pre-qualification, we foresee a higher impact for players in B2C and housing segments, as against cables, in the medium term. The close proximity to Hindalco's facility should aid in better inventory management & favourable raw material procurement. From a perspective of incumbents in the C&W segment, Polycab India (market leader in the organized C&W segment) should be relatively better placed as 65-70% of its sales are derived from the cable category while B2C/housing-focused players like Finolex Cables and Havells India (34-35% sales mix from C&W), who derive 65-70%/60-65% sales contribution from B2C/housing segments, respectively, should see a higher degree of the impact once UTCEM launches its products.

Entry may not be as disruptive as Birla Opus' foray into paints

The C&W industry is outpacing the paint industry in terms of growth, and UTCEM's capex is proportionate to the industry size, unlike in paints where it directly targeted a No.2 spot in terms of capacity & turnover. The industry may not be disrupted to a similar effect, as seen in the paint industry, because demand remains healthy for the C&W business.

Reset of valuation multiples likely; transfer of coverage

We are currently reviewing our estimates and valuation multiples for India's cable and wire OEM stocks under Arafat Saiyed's coverage. A fresh perspective will be shared soon. While the cable and wire market is growing at a 13-14% CAGR, UTCEM's entry could impact the segment, especially in house wires, leveraging its distribution network & existing relationships with real estate developers. Rising competition may lead to a consensus-driven reset of valuation multiples for existing players. We transfer coverage of cable and wire companies to a team comprising Nishant Bagrecha, Rohan Kalle & Saurabh Singh.

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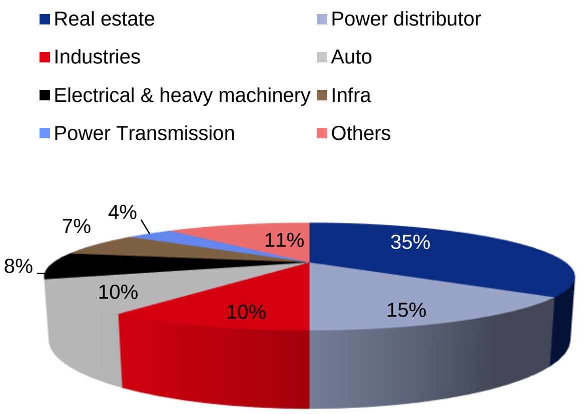
Assessing the scope of disruption in C&W

What can we expect from the C&W industry after UTCEM launches its product?

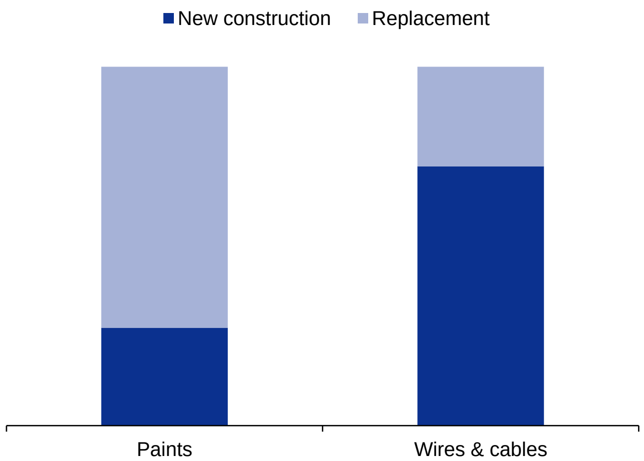
- Assuming the industry maintains its current growth rate, the entry of UTCEM is expected to cause incumbents' revenue growth to moderate to a 13-14% CAGR over FY27F-FY31F, compared to 16-17% over FY24-FY27F.
- The increased competition may also lead to margin pressure, as seen in paints, where Birla Opus is very aggressive in terms of schemes and rebates offered to dealers, contractors and painters. Incumbents also have planned significant capex deployment over the next two years, ahead of UTCEM's capacity coming on stream.
- UTCEM's management anticipates a RoCE upwards of 20%, with a target of 5-7x fixed asset turnover. Assuming 4-5x fixed asset turnover (avg. for the C&W industry), UTCEM can potentially reach ~6% of the C&W market size and 9-10% of top 5 players by FY31F, with incumbents likely to see margin compression, in our view.
- From a product launch perspective, UTCEM will likely roll out its wire products in the first phase, followed by cables and leverage its existing networks, in addition to strong relationships with large residential/commercial real estate developers, to give it a head start across both B2C as well as B2C channels.

Figure 1: Real estate sector accounts for 35% of the demand for C&W – where UTCEM is strong



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: New constructions account for c.72-75% of the demand in C&W industry – where UTCEM can leverage its long-term relationship with builders



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Assumptions based on Ultratech's Rs18bn capex outlay

Ultratech – C&W		**Scenarios**	
Assumptions (FY31F)	**1**	**2**	**3**
Capital employed (Rs bn)	18	18	18
Working capital (Rs bn)	12	12	13
Asset turnover (x)	**4**	**4**	**5**
Revenue (Rs bn)	**72**	**72**	**90**
EBITDA margin (%)	**11.0%**	**13.0%**	**12.0%**
EBITDA (Rs bn)	**7.9**	**9.4**	**10.8**
- Depreciation (Rs bn)	1.1	1.1	1.1
EBIT (pre-tax, Rs bn)	**6.84**	**8.28**	**9.72**
EBIT margin (%)	**9.5%**	**11.5%**	**10.8%**
Tax (Rs bn)	1.7	2.1	2.4
EBIT (post-tax, Rs bn)	**5.13**	**6.21**	**7.29**
EBIT margin (%, post-tax)	**7%**	**9%**	**8%**
RoCE (%, post-tax)	**17.1%**	**20.7%**	**23.5%**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: UTCEM can potentially reach ~6% of the C&W market and 9-10% of Top-5 players by FY31F

Rs bn	FY24	FY27F	FY31F
Ultratech	NA	NA	90
Top-5 players	410	624	981
Others	390	451	528
Total Industry size	**800**	**1,075**	**1,509**
UTCEM as % of Top 5 players			**9%**
UTCEM as % of Industry			**6%**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Not expecting a similar aggression as it was in the case of its foray into paints

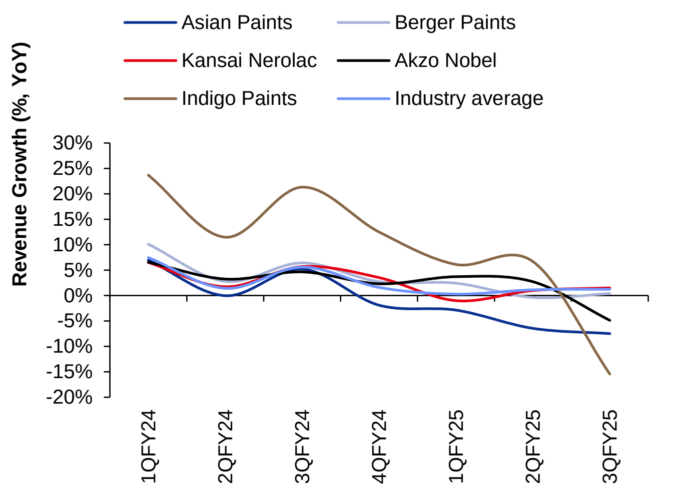
We note that the Birla group has been able to create an impact in the paint industry after the launch of its product under the Birla Opus brand and has been able to manage a mid-single digit market share within nine months of its operations, with very strong dealer addition, unlike in the past by any other paint player. In the case of paints, the underlying demand had turned sour, accentuated by the Birla group's entry in an aggressive manner (Rs100bn disruptive capex – 90% of which is deployed & a target of 50k dealers by the end of FY25F with a turnover of Rs25bn), causing a redistribution of market share across the industry (more visible for the market leader currently).

A perspective into what is happening in the paint industry post Grasim's entry:

Incumbents in the paint industry continued to remain under pressure in 3QFY25, which is expected to sustain in the near term

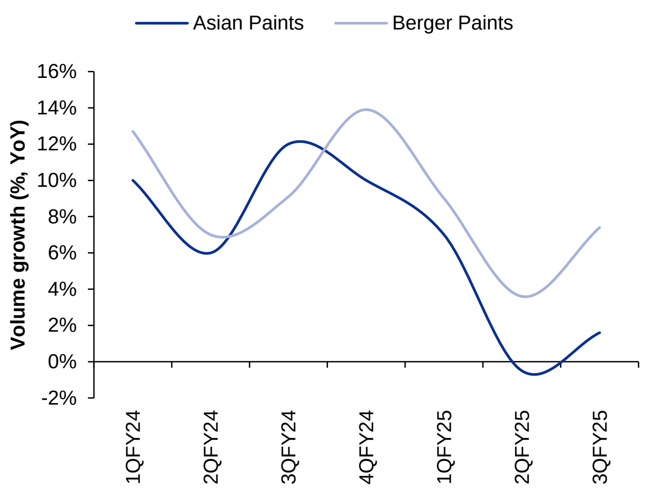
Growth continued to decelerate in 3QFY25, with most incumbents posting a sales decline or flattish/modest yoy growth, within nine months of the launch of Birla Opus. The industry continued to reel from muted overall demand for decorative paints, with a weak festive quarter (owing to early Diwali festival this financial year), accentuated by elevated competitive intensity from all players and aggressive ramp-up of the distribution network by the new entrant. These factors, coupled with an inferior product mix, led by better performance in mass/economy range, high volume/low value categories like putty, texture coatings, etc. and elevated rebating intensity for retail brand loyalty led to margin pressure for all players (offset to some extent by cost-saving initiatives).

Figure 5: Revenue growth of all paint majors remained under pressure



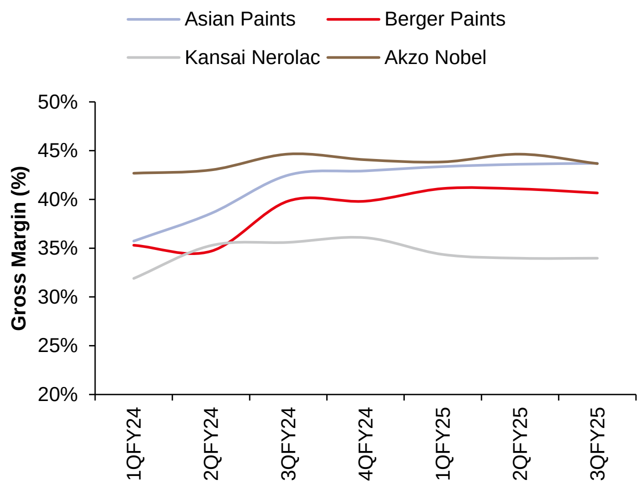
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Volume growth on a slower track



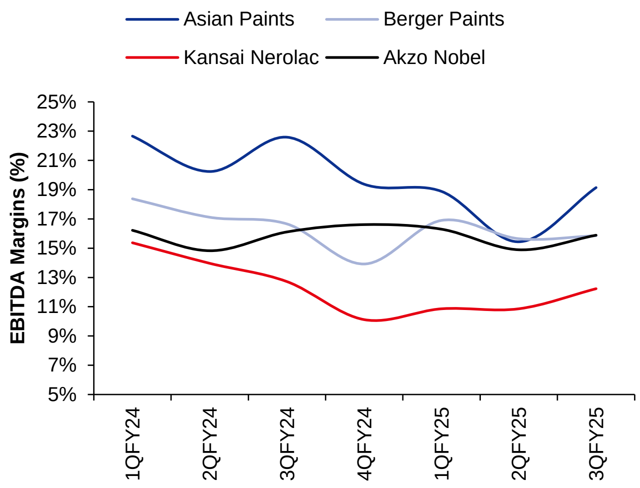
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Gross margin pressure is expected to sustain as rebating intensity stepped up post entry of Opus



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: EBITDA margin expected to remain under pressure owing to elevated competitive pressure



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Management commentaries from incumbents point towards another few quarters of sustained weakness; redistribution of market share, as demand recovers, will dampen the recovery for incumbents

Barring the commentary from Birla Opus, which is believed to have garnered a mid-single digit market share in just nine months of its operations and seems confident of achieving FY25F target (50k dealers & Rs25bn in sales), commentaries on the near-term outlook from all other players remained weak.

- **Asian Paints:** Cautiously optimistic about recovery in the near term. Management expects the demand weakness in urban markets to sustain for at least another two quarters. Rural and projects business, in addition to industrial business, is expected to support growth in the near term. Raw material prices are expected to soften/remain stable in the near term. Management maintained its guidance of 18-20% EBITDA margin in the near term.
- **Berger Paints:** Management expects value/volume growth to improve to mid-single digits/double digits, respectively, in 4QFY25F and maintained its 15-17% EBITDA margin guidance. The focus on urban distribution expansion and projects business has been yielding good results. The slowdown in the market should ease by Apr 2025F and management believes these challenges are temporary. Higher competitive intensity (pegs the new entrant's c.3.5% market share considering the data from six major players) should sustain, as per its management, and weigh on growth going ahead.
- **Kansai Nerolac Paints:** Management commentary pointed towards near-term weakness, beyond which it believes growth will come back to high single digits for the decorative business. The industrial segment is expected to remain relatively healthy led by passenger vehicles and two-wheeler segments, while the tractor segment (which has remained weak) is expected to show an improvement.
- **Grasim (Birla Opus):** Four out of its six plants are operational currently, with a capacity of 866mLpa. Trial production has commenced at the Mahad facility (commercial production expected from 4QFY25F) while the Kharagpur facility will start trials in 1QFY26F. 131 depots are operational currently (making it the second-largest depot network in India) with a coverage of 5,500+ towns. 90% of its total capex outlay of Rs100bn has been deployed. Management seemed confident of: 1) Achieving the dealer network addition target of 50k by the end of FY25F. Commentary pointed towards seeing healthy sellouts (as per the live data capture), with 65-70% of the inventory placed in the channel being sold out. Medium-sized dealer counters see healthy traction. Large dealers are also taking up the brand now and are seeing a healthy momentum gradually. 2) Good market response across geographies.

Channel check also points towards sustained weakness in decorative paints for incumbents

Our channel check also points towards sustained weakness in urban markets for core decorative paints, especially water-based paints (c.65-70% of decorative paints for industry). Our conversations with dealers, who were early adopters of Opus, also point towards the sales momentum improving at these counters. Opus has rolled back its extra 10% volume offer on 4L packs; however, it has retained the same for the 10/20L packs. Rebating intensity has stepped up across players, with the market leader also offering higher rebates on premium/luxury products. On the projects side, Opus has started picking up steam, with some dealers also saying that they are able to convert project sites from incumbents in favour of Opus. Considering that most incumbents have been focusing incrementally on the project business to deliver growth in the last few quarters, as Opus ramps up its project division, competition will also intensify in this segment for incumbents.

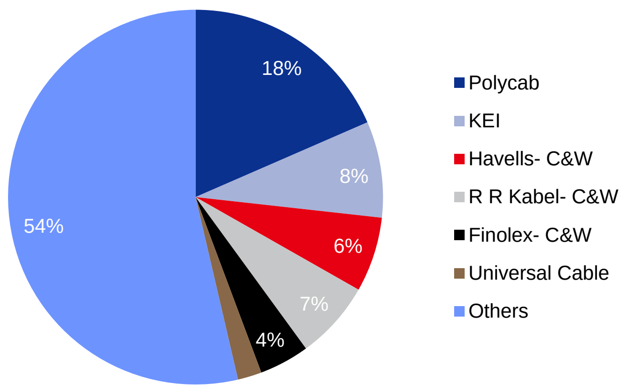
Interactions with experts in C&W industry point towards room for a new entrant

- Some experts pointed out that South India is a better market for cables and wires, especially in the residential/B2C segment, where consumers are more aware of the brands in this category. We note the Birla group's facility will commence operations in Dec 2026F in Gujarat, which provides some comfort from an immediate pan-India disruption.
- As per experts, entry into the housing/residential wires category is relatively easier than industrial categories (especially cables). The feedback points towards the fact that incumbents in the category of wires are very aggressive in terms of schemes and promotions. For Ultratech's C&W foray to garner mass adoption among distributors, the company will have to offer very strong schemes, upfront discounts or better-than-industry margin to dealers, and it may not be as challenging for the Birla group to get the required certifications from a product range perspective.
- Some experts believe that the Birla group can do well in this space because of raw material sourcing advantages via its group company (Hindalco) and close proximity to the upcoming C&W facility in Jhagadia. As a sizeable portion of Hindalco's copper & aluminum sales go towards cables and wires, and the company has operations under other cable categories via Birla Cables, launching the C&W business for Ultratech should be relatively less challenging vs. other new entrants.

Capex outlook of incumbent C&W players ➤

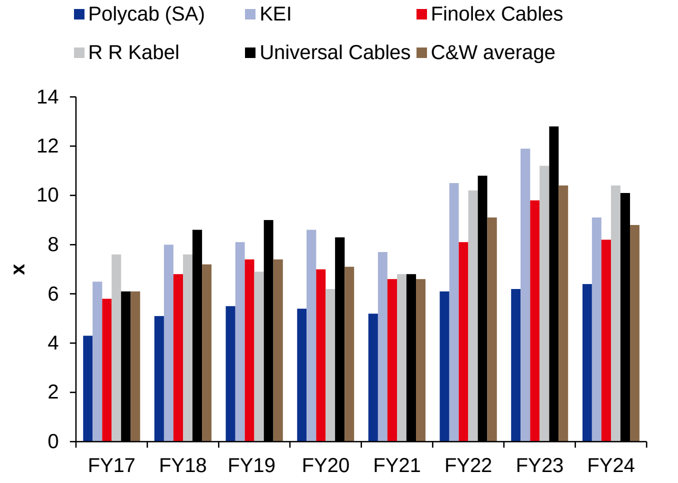
- **Polycab India has announced its next five-year plan – (a) Cable and wire:** 1.5x of market growth in core segments (India's cable & wire industry is expected to post a 12-14% CAGR over FY24-27F from Rs800bn to Rs1,150bn), 11-13% EBITDA margin and exports to contribute 10%+; **(b) FMEG:** 1.5-2x of market growth and 8-10% EBITDA margin; (c) Rs60-80bn capex; (d) >30% dividend payout.
- **KEI Industries:** The company incurred Rs4.3bn capex in 9MFY25. Key investments were in Sanand, Chinchpada, and Bhiwadi plants, with an additional Rs11-12bn planned for the Sanand greenfield project for LT, HT and EHV cables, targeting commercial production in the first phase by the end of 1QFY26F.
- **Finolex Cables:** Expected to deploy capex of Rs1-2bn for FY26F, with expansion of automotive cable lines in Roorkee (commissioning expected by the end of Dec 2025F).
- **Havells India:** The company is expected to incur Rs9bn capex in FY26F/27F, most of which would be towards expansion of capacity for cables & wires.
- **RR Kabel:** Expected to incur a capex of Rs12bn over the next three years, 70-80% of which would be towards cables and brownfield projects at its existing facility in Waghodia.

Figure 9: Polycab India has the highest market share in C&W business



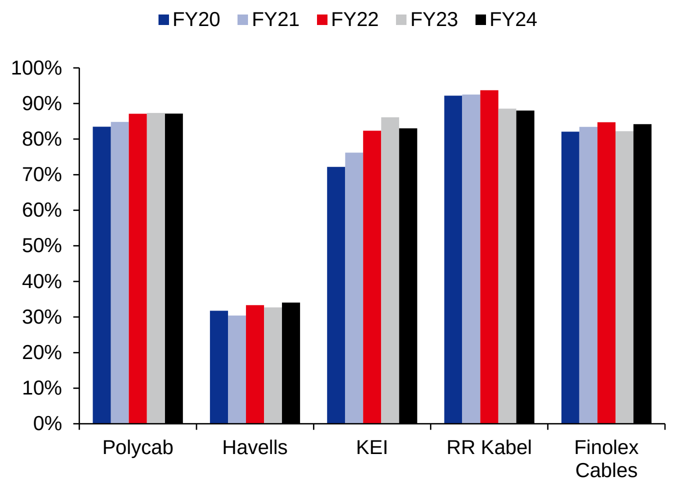
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Average C&W industry asset turnover stood at 8.8x in FY24



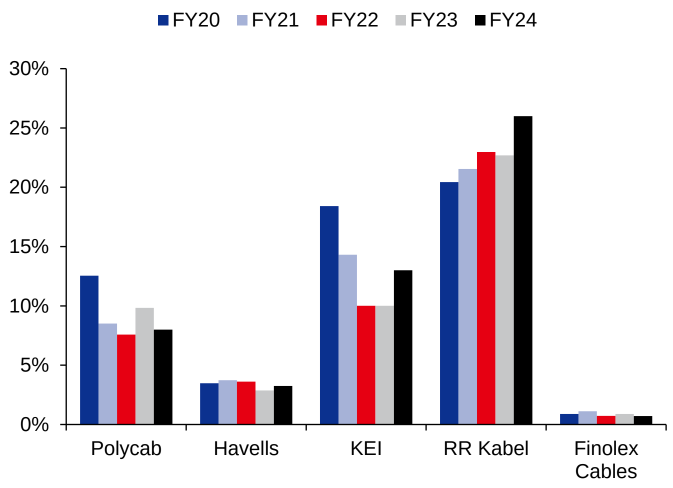
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Sales mix of the C&W segment of respective companies



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: RR Kabel has the highest export contribution



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Polycab India is the largest C&W player in India among the listed players

Revenue (C&W Total) (Rs m)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	9MFY25	CAGR 5Y
Polycab India	55,001	67,703	79,856	88,300	87,922	1,22,038	1,41,078	1,80,394	1,54,225	18%
KEI Industries	26,285	34,655	42,310	48,878	41,815	57,270	69,082	81,041	68,074	14%
Havells India - C&W	26,756	26,000	32,346	29,942	31,802	46,451	55,326	63,176	50,140	14%
R R Kabel- C&W	16,982	19,799	22,413	24,724	27,239	43,859	55,992	65,946	47,325	24%
Finolex Cables - C&W	21,778	23,062	24,944	23,611	23,100	31,932	36,835	42,216	31,080	11%
Universal Cable	8,182	11,809	14,166	15,690	12,807	18,135	22,020	20,207	17,435	7%
Top 6- Combined	**1,54,984**	**1,83,028**	**2,16,034**	**2,31,144**	**2,24,685**	**3,19,685**	**3,80,332**	**4,52,980**	**3,68,280**	**16%**

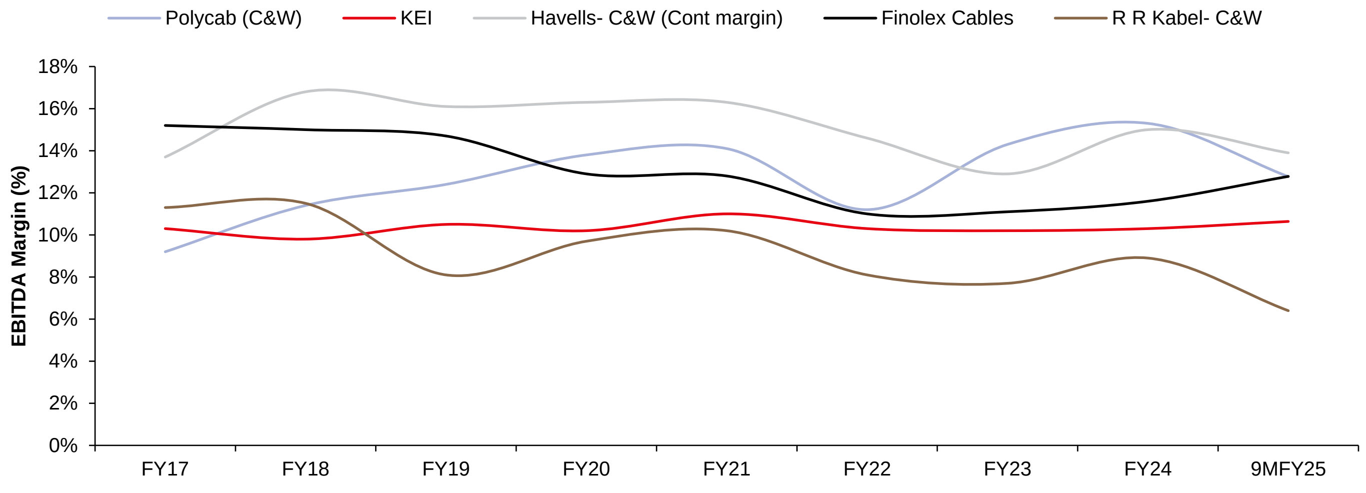
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Revenue growth for incumbents in the C&W segment

Revenue growth (%, C&W)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	9MFY25
Polycab India	7%	20%	13%	7%	-3%	43%	16%	28%	24%
KEI Industries	15%	32%	22%	16%	-14%	37%	21%	17%	18%
Havells India - C&W	9%	9%	24%	-7%	6%	46%	19%	14%	11%
R R Kabel- C&W	9%	23%	16%	2%	10%	63%	21%	18%	10%
Finolex Cables - C&W	4%	15%	9%	-7%	-4%	36%	19%	12%	7%
Universal Cable	9%	45%	20%	11%	-18%	42%	21%	-8%	20%

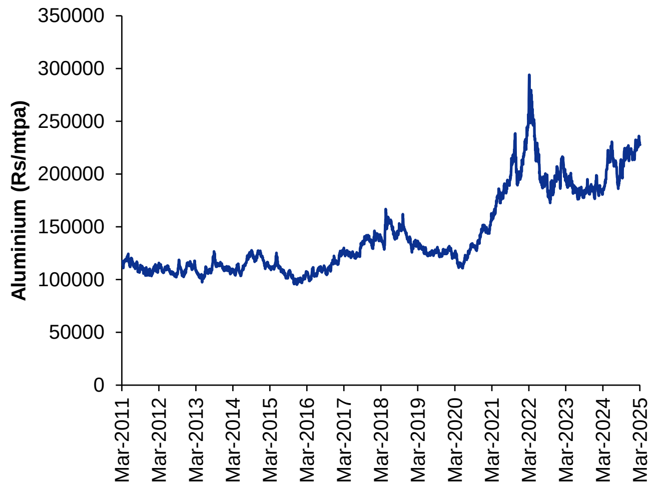
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: EBITDA margin profile of top-5 companies



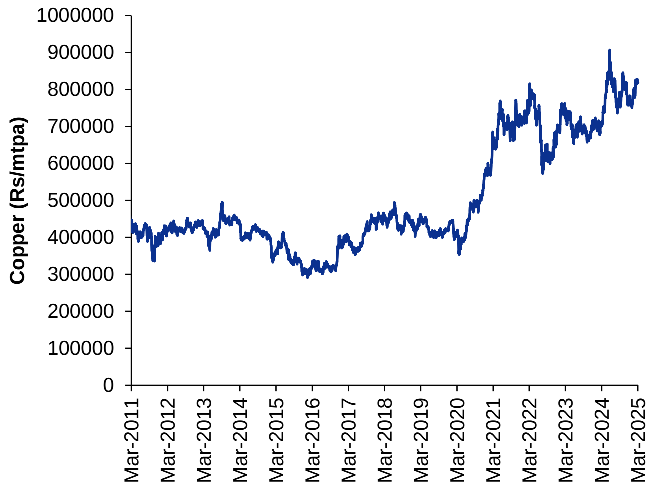
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Prices of aluminum remain firm



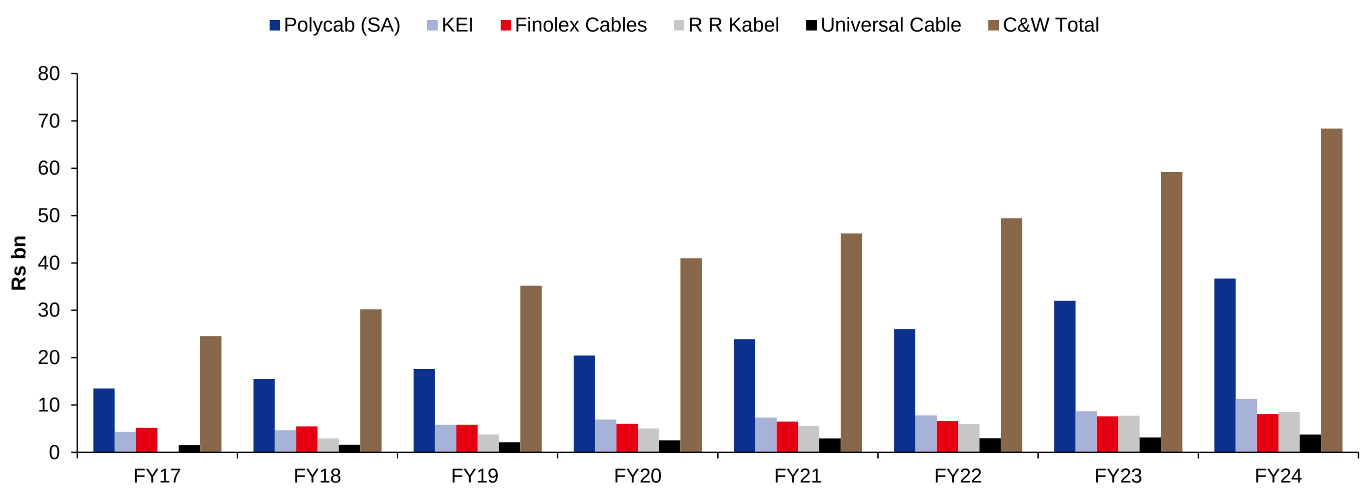
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 17: Copper prices continue to remain elevated



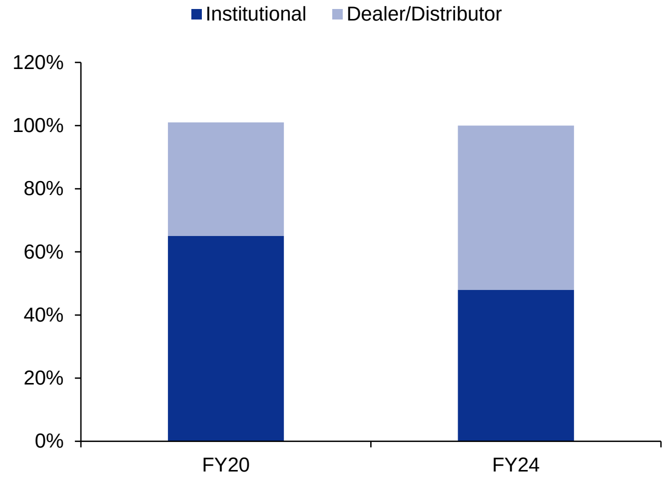
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 18: Gross block of top listed C&W players



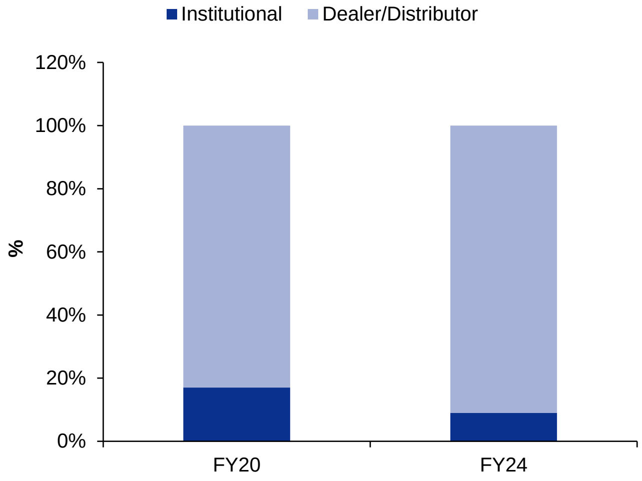
SOURCE: INCRED RESEARCH. COMPANY REPORTS

Figure 19: KEI Industries' sales are more balanced between distributors and institutional channels



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: Polycab India derives 91% of sales through its distributor network



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Capex of leading cable and wire players

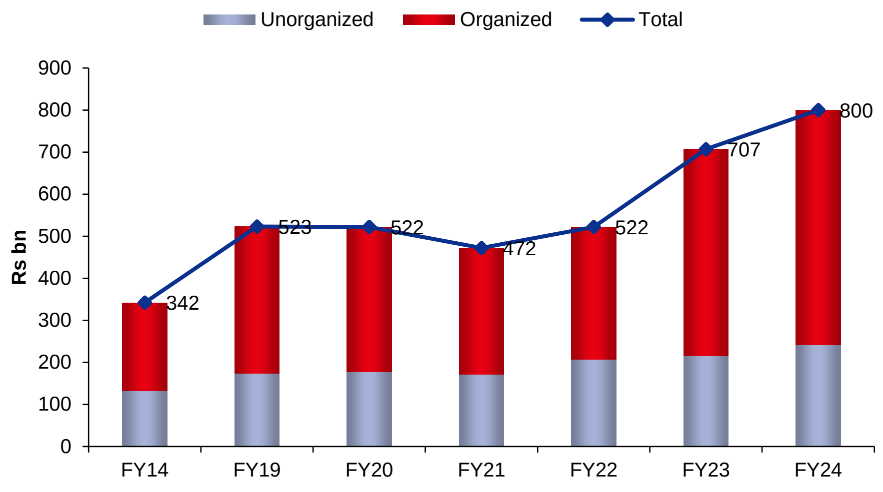
Capex (Rs m)	FY19	FY20	FY21	FY22	FY23	FY24
Polycab India	2,364	2,698	1,547	4,048	3,157	7,583
Havells India	791	1,050	270	210	200	2,510
KEI Industries	1,133	752	239	425	886	2,500
Finolex Cables	391	238	448	639	239	1,700
RR Kabel			474	682	1,083	1,900

SOURCE: INCRED RESEARCH, GOOGLE MAPS INDIA

Figure 22: Hindalco's (sister company) Dahej plant is ~70km away from Jhagadia, Bharuch where UTCEM will set up its C&W plant

SOURCE: INCRED RESEARCH, GOOGLE MAPS INDIA

Figure 23: Organized C&W players are expected to continue to outperform the unorganized segment



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights from the analyst call of UltraTech Cement

- The new manufacturing plant will be set up near Jhagadia in Gujarat and is expected to be operational by Dec 2026F. Bharuch is ~50-70km away from Hindalco's plant in Dahej, placing it at a significant inventory advantage apart from other synergies.
- Ultratech Cement or UTCEM aims to leverage its manufacturing expertise and customer base to provide high-quality cables and wires, targeting the demand across residential, commercial, infrastructure, and industrial applications.
- **Industry:** The cable and wire industry posted a revenue CAGR of ~13% over FY19 to FY24, and with rising formalization, the outlook remains strong. UTCEM believes this move will be value-accretive to its shareholders.
- **Cable & wire (C&W)** has been identified as a high-growth segment with substantial headroom for a new entrant. Residential market (major demand driver for both cement and wires) and contractor-led purchases align well with UTCEM's current customer base.
- C&W is a strategic fit due to UTCEM's strong presence in urban housing, infrastructure, metro rail, and industrial projects.
- **Investment & capacity:** Rs18bn investment for a new plant at Jhagadia in Gujarat (close to the group's copper facility).
- **Planned capacity:** 3.5-4.0m km across wires and cables.
- The focus will be on low tension, control, instrumentation, flexible, and rubber cables; UTCEM does not plan to enter the HT cable business currently.
- **Product mix target:** Sales mix comprises 60% wires and 40% cables.
- **Distribution strategy:** Pan-India distribution leveraging the existing UBS (building solutions) network and B2B relationships. Wires will follow a distributor-led model, while cables will adopt a mix of distribution and institutional sales.
- **Asset turnover and margin:** Asset turnover expected at 5-7x, with the EBITDA margin in line with the industry.
- **Capex & working capital:** No additional capex planned until FY30F-31F post initial investment. Working capital requirement remains minimal, with a goal of negative working capital.
- **Market dynamics:** Double-digit market growth ensures no pricing pressure despite capacity expansion by incumbents.
- **Competitive advantage:** UBS network, strong B2B relationships, and a 2,000+ technical services team provide a strategic edge in identifying and targeting ongoing projects.

- **Management aspirations:** Ramping up operations before considering further expansion. Build a scalable and profitable business by leveraging existing strengths and networks.
- Compared to the splash the Birla group made before venturing into paints (announcing aggressive targets for market share and being the second-largest player over three years, with a Rs100bn capex outlay), we found this announcement lacked punch in terms of a disruptive entry.
- **Challenger approach:** The Birla group is navigating multiple competitive challenges across sectors such as telecom, paints, jewellery, and apparel retail. A similar approach of aggressive capex and opex investments could be applied in the cable and wire segment to drive market share gains.

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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.