"Finolex Cables Limited Q4 & FY-22 Earnings Conference Call"

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MODERATOR: MR. ARYAN RANA – VERITAS REPUTATION

Moderator: Good evening ladies and gentlemen. Welcome to the Finolex Cables LimitedEarnings Conference Call arranged by VeritasReputation. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aryan Rana from Veritas Reputation**.** Thank you and over to you Mr. Rana.

Aryan Rana: Thanks, Neerav.Good afternoon to all of you and thanks for joining this conference of Finolex Cables Limited to present and discuss the Financial Results for the Quarter and Full Year Ended March 31st, 2022. Established in 1958,Finolex Cables is India's leading manufacturer of electrical and telecommunication cables. It has recently diversified into the fast-moving electrical goods segment to become a complete electrical products company.Company's over a five-decade long journey is anchored on the pillars of manufacturing excellence, innovation, focus and technology based.We have sent you the results I hope we have received the same results and investor PPT is also available on company's website and the stock exchanges.

Before we proceed to the call, let me remind you that this discussion may contain forward-looking statements that may involve unknown risk and uncertainty and other factors. It must be viewed in conjunction with our business risks that could cause future results performance or achievements from what is expressed or implied by such forward-looking statements.

To discuss the results and address the queries of the investors, we have with us the management represented by Mr. Deepak Chhabria –Executive Chairman and Mr. Mahesh Viswanathan – Chief Financial Officer of the company. We will start the call with a brief overview of the financial quarter and the year gone past and then we'll open the floor over to the Q&A session.

With that said, I will now hand over the call Mr.Viswanathan. Over to you sir,thank you.

Mahesh Viswanathan: Thank you Mr. Rana. Good evening everyone. And welcome to this call from Finolex CablesLimited. As Mr. Rana mentioned, the financials are already available on the website of the company, as well as on BSE. Also, you must have seen the presentation that we hosted on the website this morning. But before we go to the questions, just a brief outline on how the year panned out for us.

The year started in the background of the second wave hitting the country. The first quarter was difficult as both manufacturing activity was hit to some extent. So, was the marketing activities. Things started picking up from around July as the second wave started waning. And with the vaccination improving across the country, we started seeing buildup of volumes of various products. As we neared quarter three, we felt that we were on the way back to pre-COVID levels. But then there was a fear of the Omicron variant sweeping through the country.

And that had a slight impact on the volumes in the month of January and February. Further, the invasion of Ukraine by Russia also created issues in terms of galloping commodity prices. And while we did take pricing action, the margins were under pressure in the last few months.

Having said this, for the full year, our revenue went up on comparable terms by 36%. So, we clocked a revenue of Rs.3768 crores against Rs.2768 crores in the previous year. In the quarter, we hit a revenue of Rs.1186 crores it’s the highest that we’ve ever done in the quarter so far, against Rs.921 of the comparable quarter and Rs.972 of the previous immediately preceding quarter, both recording a jump of 29% and 22% respectively. So, while revenues were up, volumes were also up in the fourth quarter wires volume were up by about 22% on a comparable basis, so quarter four of 2020-21 versus quarter four of 21-22. But margins like I mentioned earlier were under severe pressure.

Overall, we registered a gross margin of about 21.5% this year as against 25% last year. The profit for the quarter was at Rs.126 crores slightly lower than the profit for March 2021. Like I mentioned that was primarily due to the price pressure that we were facing,rather the cost pressure that we were facing.For the full year,however,profits were at Rs.526 crores up 34% as against Rs.392 crores in the earlier year.Post-tax profits for the year were Rs.404 crores against Rs.282 crores in the previous year up 43%.We had during the year spend considerable time and effort on controlling the working capital we reduced our inventories,we reduced our, we maintained our debtors position in spite of the increase in revenue and overall, we were able to contract working capital by almost 150 crores. So, that cash flow in that sense definitely did improve.

Segmentally electrical cables we close the year with Rs.3193 crores against Rs.2310 crores of the previous year about 38% higher. Communication cables was about Rs.380 versus Rs.321, 18% higher and the others which comprise of the appliances as well as the conduit pipescame in with Rs.176 crores against Rs.113 crores about 55% higher than the previous year. Like we’ve been saying over the past few quarters, the efforts that we put on distribution seem to be taking us in the right direction. We are still hopeful for a higher rate of growth there, but we are moving along in the right direction. EBIT levels on electrical cables were about 13% for the full year as compared to 15%. And here the result is primarily because of the cost pressures that I was talking about. In communication cables, you will see a negative number there that is primarily due to provisioning that we’ve taken towards a government debt that has been outstanding for a very long time. While we do hope, and we have enough evidence to ensure to be sure of collecting the money. The standards require us to make provisions basis the time that has elapsed #A for the interest loss that that has occurred, and #B also for the time delay. So, therefore, we’ve taken a provision as a precautionary measure. However, we are hopeful of recovering this money over a period of time. But that has resulted in a negative EBIT for communication cables. The only other point that I would like to talk about here is in terms of we talked about the electrical cables volume being higher, communication cables, optic fiber for the full year has definitely been higher at about 30% higher than previous year. But in the quarter was lower than the fourth quarter of March 21 primarily owing to lack of investment from either the telecoms or the government during this particular period. We are hopeful that, that business should pick up from now on.

So, with these brief statements, I open the floor for questions

Moderator: Thank you very much. We now begin the question-and-answer session. The first question is from line of Avinash from Profit Mart Securities.Please go ahead.

Avinash: Good afternoon sir and a very good performance in the light of significant headwinds, which all of you have faced during the year, I have two questions,first is if you could give us some color on what is the outlook on your main raw material that is copper, because copper constitutes a major cost component for you. So, if you could give us some color as to what is the outlook as of now on the commodity copper. How long do you think prices could stay elevated? And how is the company facing this challenge in the very near term. And secondly, I wanted to understand, that typically now since working capital has significantly reduced, will this be sustained in the current year or can we expect some further improvement on that front in the coming financial year?

Mahesh Viswanathan: Okay, on copper, on commodities generally. The ability of most people to forecast which way that will swing is, it's going to be hit and miss. Because the prices there, the cost there are impacted by things happening all around the world. So, nobody can forecast with any predictable accuracy as to what might happen three months from now, or six months from now. What we do therefore is, we don't take a long call on the metal pricing at all, we buy the metal on the month average. So, for cash flow purposes to make a settlement with the supplier, we agree on a pro forma price. And that is what he bills it to us at and we settle those invoices immediately. But when we have, since we have booked the metal on average, at the end of the month when the average is really known there is a settlement between the supplier and us, depending on which way the metal prices have moved. How it helps us is, we therefore moving our cost in-line with what is happening on the market. And secondly, as we buy and convert the metal, we still have an opportunity to change our selling prices if required. Now, if there are continuous price pressures, like it happened in the last year, while we make take pricing actions to change our selling prices, sometimes the change cannot always be elastic, the market absorbs a certain amount. But beyond that, that might come and hit back,hit your volumes negatively. So, at some point in time we might have to take a call as to whether we sacrifice the margin for a temporary period, or do we continue to increase our selling prices. So, that's a call that has to be taken at any given moment in time and that is what we do. So, that's broadly on the metal. And this holds good also for other commodities that largely affect our costs, like polymer, or steel, wherever it is required. The second question that you had I'm sorry, can you repeat the second question again?

Avinash: No, I was wanting to know that on the working capital management side, you all have done a very commendable job by cutting down your collection period getting down the net working capital period almost by half. So, can we assume that this will be sustained going forward because this definitely is going to help you generate more cash flow generation.So, I was wanting to know can it generally be sustained at these levels so that cash flows are generated at a healthy level even in the coming two years?

Mahesh Viswanathan: Yes, the business that goes through the channel. These numbers are definitely sustainable. When it comes, however to businesses, which have a longer gestation period, like let us say an optic fiber business with the likes of Bharti or Reliance, then there are set credit periods and those credit periods may be 60 or 90 days depending on which company it is. And again, if there is exposure to government, then that number can climb more although the tender says whatever it says, the government is not the best paymaster in terms of times.

Deepak Chhabria: Can I add, let me add something more for a thought. Copper, pre COVID used to be around $5,000 roughly, and then it rolls all the way up to $10,500 at the LME. It slightly pullback in the last one month average about $9,500 now.So, if going forward copper keeps dropping back to original levels, then you will see that impact on the inventories and cash flow. And that's most likely scenario as things stabilizes, the commodities may come down to what they should be at. So, I hope that helps.

Avinash: That's really nice of you sir. Sir one more question, now post COVID what is the kind of demand scenarios if you can give us some color on how is business shaping up in the first few months of FY22-23. Some broadly on the demand trends considering that now COVID cases, have significantly reduced, business normalcy has come in. So, do you assume that the growth in the current year wouldbe definitely,be significantly better than last year and what kind of growth could you expect in all the businesses apart from the wire and cable telecom business, even in the fast-moving electrical goods segment where Finolex is a very large player in the market?

Deepak Chhabria: So, sure.I think that the worst is over and things are coming back to normal. In the last two years, we've seen pricing going up but volumes not going up. And we would see, people who assumed that we are doing well, because you have a higher sale number. But in reality, the volume wasn't actually up it could have been in a negative position also. But now things are quite more stable we see volumes which are climbing.Major issues normally we foresee and we are reacting on a daily basis are, because of supply chain sometimes certain raw materials are not available on time. But the market is quite good at the moment,it's not bad. I just hope it keeps improving in this way, and it should be good year.

Mahesh Viswanathan: And then we don't have a fourth wave. So, those are things which we are not able to predict right now. In fact, just about five minutes ago, I got a message saying that Maharashtra has re-imposed the mask rule across the state, so things keep changing like this. But if let's say if that threat is no longer there, then we should see generally improved economy and obviously that would mean more construction, more opportunities for improving volumes for us.

Deepak Chhabria: And since you were asking a question based on different product lines, so broadly housing is doing well at the moment automobile is doing well. We are seeing number which are climbing,telecom is not up to the mark we are unhappy with the volumes at Telecom we have a lot more capacity. But the consumption is not happening, it should happen in our country. But in the long term with 5G there would be a lot of demand for fiber optic cables. But in the short term, it doesn't look that beautiful or rosy. The new products are doing well the base may be small, but you can see that percentage numbers are growing. We are working strongly on the brand image and network expansion. We've even come up with some new ad films and we are trying to spend money to project the company using the Bollywood star power let's say to attract people towards your products. So, overall, it looks positively.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Capital.Please go ahead.

Rahul Agarwal: Sir, three questions,first on outlook on the overall gross margin and the wire division. Basically, we thought copper is easier to pass through, it's a short cycle business, you're not taking any call on the metal, your peers have reported some kind of meaningful recovery in margin on the cable wire side. I'm not able to figure out why at a company level, our gross margins are 19% for the quarter, lowest in so many year and I thought you have brand it very, very strong in South and West. Could you help to understand what is the path to normalization here, there are some explanations in the past about extra dealerincentives, that 6% to 8% kind of thing it's still continued there and where are we headed for FY23 that's the first question?

Mahesh Viswanathan: Okay, should I answer that before you go to the next one?

Rahul Agarwal: Yes, please.

Mahesh Viswanathan: Okay.So, the overall 19 is on account of partially what you mentioned, the dealer incentives being fully passed on. And that process continues even as we speak today. The second was that we had also taken some provisions for material that has been with us for a long time, certain SKUs which had not moved. So, we have booked a provision there and so that is also depressed margin by about 1.5 points there, so had that provision not been there, that would have been much better.

Rahul Agarwal: And the outlook for the next year?

Mahesh Viswanathan: Since we have taken those provisions the outlook for the year coming forwards. If there is not too much of volatility in the metal pricing, then we should slowly head back towards the 22%, 23% numbers.

Rahul Agarwal: Got it. Secondly on the FMEG side, so we saw some new ads during the IPL season. 2 billion kind of run rate now in almost 200 crores in sales. In terms of revenue mix, how is it right now and your strategy in terms of your mind what are you thinking in terms of product launches for this year,distribution you already mentioned that you're working hard and moving in the right direction. So, you already mentioned earlier the two, three years you should be targeting about 500 crores in sales but could you help us understand the current revenue mix and the product launch strategy, which will be the large categories to focus on this year, fiscal 23, which all appliances?

Mahesh Viswanathan: Okay. So, within the appliances the larger two product lines would be fans and lighting. And then also the conduit pipes are also now picking up fairly well. These three put together now have a run rate of more than 12 crores. So, those would start picking up and those would be the three areas that we would be focusing on. There would be variants in all these product lines coming in during the year that there is work being done by the marketing team and in improving the existing variants plus adding newer variants as well. Besides that, we are also looking at increasing the overall basket of appliances. So, today we are in fans, water heaters, switches, switch gear and so on. So, there will be addition to this family. Since in the next three to six months, the additional appliance.Within the next three to six months, you should see additions there. I'm not naming those appliances at this point in time because we've not gone public about them. But we should have newer products coming inquickly.

Rahul Agarwal: So, 12 crores a month is basically fans,lighting and pipes put together?

Deepak Chhabria: So, that's about 150 run rate that's right.

Mahesh Viswanathan: Yes.

Rahul Agarwal: Okay. And thirdly lastly on the publication cable side, so you mentioned the margins are impacted because of provisioning, could you help what is the total receivable on that account from the government, that is one and the second part to that question was in terms of revenue growth, it's largely moving into that 400 crore run rate annually. Would you foresee this year growing at 20% with a positive margin numbers here?

Mahesh Viswanathan: Yes, see this provision that we had to take to was, we had taken a provision about 26 crores that is receivable from government which has been pending from a long time. And like I explained in my initial part, the reasons for taking the provision so had the provision not been there, the EBIT would have been positive there. So, since we are fully provided for that we don't have to take further provisions going forward. There are three- four companies from the government sector which are involved in this business. One of it is what we have provided for the others are paying, albeit little delay but they are paying that money. So, we are not too worried about that part.Going forwards we expect the overall segment numbers to climb. What also happened this year was while the metal prices went up, the fiber prices went down. So, what was ruling as a fiber price let's say one year ago approximately$6, $6.5 per kilometer, went down to between $3.5 to $4 per kilometer. So, while the actual consumption and quantity went up, the revenue did not go up by an equal number. So, that was kind of an issue in the last quarter. But we do expect and we've been told by our partners as well that there is likely to be a supply difficulty in the coming years. And therefore the price levels are expected to go back maybe not to 6.5 levels, but these 5, 5.5 levels, that would mean improving the revenue. So, Rs.400 crores or above that is definitely a possibility and for sure with positive margins.

Moderator: Thank you. The next question is from line of Shubham Agarwal from InCred Capital.Please go ahead.

Shubham Agarwal: First question is actually is to ask on the distribution. So, how's the distribution wires changed over the last one or two years and in your opinion have we lost any market share in wires over the past few years in our core markets, that's the question?

Mahesh Viswanathan: I don't believe we've lost any market on wires. In fact, we would have increased our reach over the last two years with distributors selling our products as well as the channel partners selling the products.

Shubham Agarwal: Okay. So, I understand the reach has improved for wires as well.

Mahesh Viswanathan: Definitely.

Shubham Agarwal: Okay. Just a follow up on this. Now, with respect to the margins wires, we were earlier trending around 15.56%. And now we're at about 12% do we, I believe that 2% hit because of the R&R being converted to discounting still continues to be trend back to 14% kind of margin over the next one year. Let's say that the volatility in copper is not that high?

Mahesh Viswanathan: Yes, I think so.Even if 13 if you look at us and compare with our peers, we still I looked at it a few days ago, in comparison to our peers, we still top of the list.

Shubham Agarwal: Okay. Sir with respect to the communication cable margins, just wanted to check what should we expect going forward in the very short term over FY23, what is your judgment of the margins for communication cable, I believe you got out of manufacturing and you're getting into trading is what I understand. So, the margin should become broadly stable right because the raw material increase or decrease will stop affecting us?

Mahesh Viswanathan: No, we are still in manufacturing where did you get the impression that we are in to, we stop manufacturing and going into trading?.

Shubham Agarwal: Sorry, it could be my, it's my bad then. So, would you stick to the margins that you see going forward?

Mahesh Viswanathan: In the short term it would be in the mid to, between 7% and 10% but now it has climbed back to around 11%, 11.5% as volumes improve.

Shubham Agarwal: Over the next one year 7% to 10%?

Mahesh Viswanathan: Yes.

Shubham Agarwal: Okay, great. And just a last one, on the CAPEX is there any guidance on the working capital?

Mahesh Viswanathan: In the CAPEX there is no change, there is no change on the CAPEX guidance as compared to what we said earlier. In the last few calls we've been saying that by end of 23, we would have spent about 200 odd crores in various expansion projects those are ongoing we've not added anything new to the list since then,but those are ongoing.

Moderator: Thank you. The next question is from the line of Ashwani Sharma from ICICI Securities.Please go ahead.

Ashwani Sharma: Two questions. First is on the, I'm sorry if it is a repetition, I wanted to check on the volume growth and price hike that you would have taken during FY22 across the products.

Mahesh Viswanathan: Okay. So, for the full year on wires the volume increases about 7%. On communication product lines, different product lines have different growth rates, but the most significant one is optic fiber where the growth is about 32%.

Ashwani Sharma: And on the price hike?

Mahesh Viswanathan: Price hike, I think five or six price changes that we made during the year. And each time it was between sometimes it was 3%,sometimes it was 3.5%. So, overall maybe about 14% to 15% would have been the change.

Ashwani Sharma: Thank you. Second question I had was on the profits from the associates. So, if you look at Q4 number, it has seen a very sharp jump up of around 157 crore. So, the question is that what led to this growth and then what is the sustainable number going ahead**?**

Mahesh Viswanathan: You're looking atthe consolidated number from.

Ashwani Sharma: Yes, sir.

Mahesh Viswanathan: 327 crores is that what you're talking about?

Ashwani Sharma: Yes, for full year it was 27 and Q4 it was 157.

Mahesh Viswanathan: Okay.Basically, this profit comes from our participation in Finolex Industries. We own 32.5% of Finolex Industries. And so that is what gets reported out here. Now, how sustainable it is, will depend on how the oil market goes and how the polymer market goes. So, last two years, they've been having a good run. So, I hope it continues.

Ashwani Sharma: And last one question. What would be the breakup now as of today, between government and the private clients?

Mahesh Viswanathan: In overall business?

Ashwani Sharma: Yes, overall business.

Mahesh Viswanathan: Government would be maybe about 20%.

Ashwani Sharma: And balance private?

Mahesh Viswanathan: Yes.That 20% keeps changing sometimes it can go as low as 10%. Sometimes it can climb to 30%. It depends on how many tenders are being floated at any point in time by the government and how much we are participating.

Moderator: Thank you. The next question is from line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: I just have a couple of questions on distribution if you can split your revenue at least on the electrical and others there is FMEG segment. How much revenue is coming directly from our distribution channel? And if you can elaborate over the last three years we have been trying to expand our base. What is our base right now in terms of the retail reach and distribution network where we were three years back and now?

Mahesh Viswanathan: The second part is.

Deepak Chhabria: So, when you talk about the distribution rates three years, and now.Earlier, we used to have a distribution in terms of having channel partners, who are basically large dealers selling from their shops. So, we used to have about close to 4000 channel partners, who some of them would in turn sell it to small retail counters as well. In the last few years, we've changed our strategy. And we're working on a two tire network, wherein we have a distributor. And he is allocated a certain territory with about 400 retail counters. And we monitor his sale to each of these retail counters and try to promote a product on the small shops as well. So, here we are increasing the penetration, we're going into the smaller cities.We continue to service the channel partners well, but the distributor services, all the smaller shops, instead of the channel partner. And we've grown in the last three years, to about from zero to about 1.5 lakh retail counters. And we have about close to 600 distributors, who are distributing these products with these retail outlets, we continue to expand in that space and we have good targets for this year's expansion as well, so we will continuously work on expanding the network.

Chintan Sheth: So, how is the revenue split between the traditional channel partner who can now the revenue split between the new format wherein two tiers are distribution strategy, because that will drivethe growth going forward, that is the strategy we have?

Deepak Chhabria: Yes, so roughly it is 50:50 now between sale from channel partners vis-à-vis the distributors. But the distributor segment is growing and we can run sales promotion for the retail counters and retail counters for distributor and monitor it on a computer. So, it is actually quite effective. And it's been growing, and we would want to grow it even further in that sense. So, now you also asked whether I believe on the electrical wires how much is it sales to distribution and how much to other means. So, majority sale is through distribution, it is whether it's a channel partner or a distributor, we have a payment term of advance payment, and sales through them, there are about 10% of the business would be to project sale, but that would also majority of that would be funded through a channel partner. So, there is no credit really going in this distribution business to the end customer.

Mahesh Viswanathan: Half the electrical cable number of 3193 crores about 180, 190 is power cables and another 200 odd crores is for automobile applications. Barring that everything else is through distribution,if in fact out of the 180 a part of it goes through the channel partners.

Chintan Sheth: Okay, great. And what is our strategy to increase this two-tier distribution network, obviously retail will increase with our distributors is being placed. So, right now it's 600 what are our targets say three years down the line?

Mahesh Viswanathan: Okay,we haven't come out with a number first for the next three years. We our first initial target was 500, which we crossed last year, we will have to relook at the numbers, the idea is to ensure that our reach and penetration is across the country and that there are no gaps left. currently out of the 700 odd districts we are covered in close to 620 or so districts,there are some districts where we still do not have a presence which we need to catch up on. And some of the districts might have a requirement of more than one or two distributors. So, that's an exercise that we still have to complete.

Chintan Sheth: Right and typically how much time it requires to new distributor to scale up. What is our expectation from the existing network because that will drive our revenue aspirations right?

Mahesh Viswanathan: So, what we do is when we appoint somebody, we give them an opportunity size of at least 300 customers from whom we can generate business. So, it also requires the distributor to make daily, weekly calls to them and find out what the requirements are, stock sufficient products. So, that availability is given immediately and also extend credit at the last mile. So, these things take some time. So, over the last two years of experience there are people who have scaled up quite quickly, and there are also people who have fallen behind and have dropped out. So, there in business obviously there will always be some churn, but as long as the churn is something that is manageable, we are fine with it because at the end of the day you want to make sure that your product is positioned across the markets, it is available and to the retailer, there is a credit extend by the distributor. So, we have to keep working on it, like I said earlier our intention is to make sure that every geography is covered. And if you go back and look at peer history, there was a time when Havel's had probably around 80- 90,000 retailers in their books. Today they have maybe two, two and a half or three times larger than that so everybody is scaling up and we also need todo so.

Chintan Sheth: But we do exclusive distribution through our distributors or they also sales co-branded products?

Mahesh Viswanathan: Exclusive is.

Deepak Chhabria: It's not exclusive, but they if they handle our product, they should not be handling our competitor's product. So, you may find a distributor with products which are not wire and cable probably or doing some other electrical products and going to the similar shops. But they would not be handling the same products which they are handling of ours for distribution, for the policy requirements.

Moderator: Thank you. Next question is from line of Anna fromAce Lansdowne**.**Please go ahead.

Anna: My question is again related to distribution only. So, correct me like if I may have mistakenly heard that we have this advance payment policy for distribution. Sir my question is now that the cash flows are improving so are we thinking about any schemes or any incentives so the distributor so that they can penetrate our product more than the competitors because, expansion of the retail outlet is one thing but then again penetrating our product into those retail counters is the second thing. And are we planning any channel financing in that term if this advance payment scheme is hurting our volumes. So, I want some your view on that?

Deepak Chhabria: So, our company has been on advanced payment terms right since I joined this company, and it's been like 40 years. That's been a company policy and our growth has taken place even with that. So, it's not a detrimental policy, it's a good policy. Because there are times when you go through difficult times when credit is given out and you're not able to recover the money from the channel partners. So, we continue with the same policy, but we do have, as you say channel finance. We have different schemes in channel finance to help them so that because lending money is the bank's job not the company's job. And so once we get them a good deal with the bank, and that too without any recourse to our company that works well for both of us, and we have those schemes in place. What was the other part of the question?

Mahesh Viswanathan: She talked about incentives?

Deepak Chhabria: Yes, we have incentives and schemes which we run for our distributors and channel partners, the different types of schemes that they run for the quarter and for the year, and for me to incentivize them, to penetrate further in the market. There are certain targets for them also, if they achieve certain sales targets, they get incentivized. And we not only work on an expansion on the network by adding more distributors at retail counters, we are also working on creating a market pull, so that when they expand they are able to get the business and be happy with the business. And so this year we are working on a massive advertisement program and we've as you heard someone mentioned, on the IPL there was a new film out with Karthik and KRR there are two more films which have been made which will be launched soon on the

TV network. So, from our side we are also working on creating a market pull for the products for the retailers eventually are able to sell and create their demand for the distributor.

Anna: Okay. And what will be the channel inventory with the distribution as of now like FY22?

Mahesh Viswanathan: March end would have been slightly higher because quarter end sales is there, but typically it is in the last few years we have seen that the channel inventories are not as high as they used to be before because of commodity price volatilities so probably they keep not at the retailer, but at the distributor level, probably maybe three to four weeks of stock.

Deepak Chhabria: But it varies like you see on the commodity pricing. For example, in the last one month copper has fallen and from what I talk to people they say they are keeping three to four days of stock. So, because on a falling market nobody wants to keep stuff and if the copper is going up, they would take it up to a one month stock level as well. So, it varies through the year.

Moderator: Thank you. The next question is from line of Sameer from Fair Deal Investments.Please go ahead.

Sameer: I would like to know which company has the largest market share in India in electrical cables. Our market share you mentioned is 22% and who is the other company which has a higher market share than us, and what is our position there?

Deepak Chhabria: So, in electrical wires, we would probably have the highest market share. Now, if you look at the market, about 60% today would be the organized market and 40% is unorganized market. This our estimate is and it’s anestimate we don’t have hard numbers from some institution. It used to be 50:50, the organized and unorganized and the organized has moved to 60 due to various reasons over the last two years, which is good for us. In the wire part we have probably the highest market share. But if you look at cables, we’re not very large in cable let say in power cables, we are actually 1% or 2% of the entire market. So, there are larger cable companies, but in wire we would be the leaders.

Sameer: And do we export electric wires also?

Deepak Chhabria: Not house wiring, you see the house wiring product is a multi-stand product which is not the standard in other countries. But there are some other wire products which we do export but not if you meant housewire no.

Sameer: No, because many of our competitors are exporting to many countries and their turnovers, etc., was quite substantially higher than us because they are very old player and very legend peer in this segment. And the other competitors have surpassed us because of their export markets so do we have any static on that we are not interested in increasing our exports?

Deepak Chhabria: No, we would love to increase our exports and we are trying hard and trying to work towards it. The only issue that comes is, that you don't get, you can export and get a turnover but you don't get profitability. So, I'll give you an example in wire and cable manufacturing, the main raw materials are copper and PVC. Now copper is an imported item, India does not have that much copper deposits. So, even if you buy a local copper rod, the ore is still imported, even though you might have two large companies in India converting into cathodes and rods. So, if you compare and try to compete with other countries, there is no advantage of raw material with our country in terms of copper. And same is in terms of PVC. PVC is still an import item though it's manufactured in the country, but oil is not from India. So, the raw materials which constitute more than 80% to 85% of the cost of the cable are coming basically from outside and our is anindustry where the labor cost is about 3%. So, even if you have a cheaper salary, there is not much saving on labor to compensate for the freight cost and duty going in,if you have to pay while exporting to another country. Net-net, you don't end up making too much money in exports.

Sameer: If you get significantly higher, so it will not help us, our capacity utilization is how much now?

Mahesh Viswanathan: About +70% now we are reaching pre COVID levels.

Sameer: So, around 70% and now the communications cables where we have a large capacity but it is unutilized because of the many problems but, so is that communication cable facility also useful for, is it flexible we can also produce electrical cables from that?

Deepak Chhabria: No, those machines cannot make electrical cables they are different type of machines. In a communication segment, there are various products even in the communication for example I will give you, in a coaxial cables which have a cable TV application or we make LAN cables, which is for high speed internet, for computer connectivity and all that. Or we have fiber optic cables and even in each of these categories there are huge variety based on different, different applications. So, these machines all are of different types and dedicated towards those kinds of product lines. We've done well domestically in terms of profitability, we are trying to export on as per your question, it's not that we are not trying to export, over there even in fiber optic, we are trying to find ways to export, it takes a little time to get approvals in place for selling in telecom networks around the world and all that. So, we're working on that.

Sameer: Now regarding electrical goods where we have started about just a few years back, we have a turnover of 175 crore this year. But, so, that is a very big competitive segment. And so, unless our turnover grows substantially higher, it will be very difficult to make any profits there. So, how are we planning to go there significantly?

Deepak Chhabria: No, those new products even at present are profitable, we are not dealing in unprofitable products. And our aim is to first do the marketing, grow those products to a substantial volume, such that we didn't have a proper large size plant invested with automation which can generate large volumes and also high-quality products. So, we are on track there in terms of growth. We expect to reach at 500 crores level numbers soon. And based on that invest in backward integration for the plants. And we are moving in the right direction.

Moderator: Thank you. The next question is from the line of Swaminathan a Retail Investor.Please go ahead.

Swaminathan: Have you taken any pricing action in this financial year so far?

Mahesh Viswanathan: Yes, we have. In May we had to drop prices because commodity prices dropped. So, we also had to take price, we had dropped the price twice.

Swaminathan: Okay.So, how much was the total?

Mahesh Viswanathan: The price drop, both the price together was about 5%.

Swaminathan: Okay. And the other question is on theFMEG, of course just a while back you talked about the plants. So, when do you see this becoming meaningfully profitable? Right now, the EBIT margins are it's barely at breakeven level. So, when do you see that going into some meaningful numbers?

Mahesh Viswanathan: We are working on the top line. So, to reach 500 crores over the next two to three years, I had in my previous interactions also maintained that about 170 to 200 crores we should be breaking even and that is where we are today. So, any number above that should bring in positive results also accounting for any ad or other spends that we might have to do in this segment.The quicker we move towards the 500 number, the improvement in profitability would be that much faster. The second is also how many or what better ways we are able to bring into the market and how quickly we are able to bring that into the market. We're working on quite a few of these variants. So, the earlier we bring it into the market, the profitability would improve because many of these variants are going to look at the mid and higher end of the market and not just at the entry levels

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Capital.Please go ahead.

Rahul Agarwal: Just two small questions, one is on the investment just an update on the Corning joint venture. So, our investment in the joint venture was 14 crores is that correct,if you could verify that and secondly, once you exit are we getting any this money back what is the financial impact on the P&L balance sheet here?

Mahesh Viswanathan: Okay. The investment is 1.75 crores, the accumulated profit there is about 24 point something crores so our share of that would be half of that so 12.5. So, together we should get 14, 14.5 when we exit. And as we've mentioned in the press brief, we've appointed a liquidator and right now that process is ongoing. From what we hear from the liquidator, NCLT approvals are likely to be by end of this calendar year. That is the outer timeline that he has given us. So, by that time, that money should come back.

Rahul Agarwal: Got it Mahesh. And lastly, I am checking out of the balance sheet, the total cash and liquid investment should be now about 2000 crores?

Mahesh Viswanathan: Close to yes.

Rahul Agarwal: Right, so any decision on buybacks now, my understanding is if you just adjust for cash and Finolex industrial investment, the core business is getting very small valued any thoughts, if there's no real, very large reinvestment plan in the business, you can actually try and think about buyback right any thought sir?

Mahesh Viswanathan: No, thought as yet but we will look at the suggestion.

Rahul Agarwal: It's been some time right, you are carrying so much cash.

Mahesh Viswanathan: See, our intent has been to look for inorganic growth. We haven't found anything that we liked and so the money is still lying with us. But we will look at your suggestion as well.

Moderator: Thank you. The next question is from line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: On the similar lines. So, you mentioned that when we reached 500 crore of FMEG threshold in terms of revenue, we'll start working on putting up in-house plans for fans or lighting or other products. So, what will be the capital outlay for 100 crore revenue for each line, say, fans if we reach 100 crore and we have to put up anin-house plant to service that revenue, what kind of investments we are looking at because one is on the investments you're looking for inorganic growth, but at a later stage we also have plans to put up our manufacturing capacities for fans and lighting.

Deepak Chhabria: So, far fans thumb rule rough investment would be a 100 crores, for a plant that can generate volumes and turnover about up to 250 or 300 crores level. And we hope that at once at 100 we start investing in the plant, it takes about nine months to a year to get the plant operational and stabilized. By that time we grow more and then with the plant and the back, the sales will also hopefully climb, we will be able to have better service and better quality and variety to improve our sales. So, that's a rough ballpark number what you made study and kept, it will change at the time of investment obviously.

Chintan Sheth: Sure. And the 200 crore of this how much we have planned CAPEX, of which how much we've invested so far?

Mahesh Viswanathan: With the 200 about 90 or so has been invested.

Chintan Sheth: So, 110 will be for the next year remaining?

Mahesh Viswanathan: Yes.

Chintan Sheth: Okay. And lastly, in terms of efficiency in overall operations, gross margin it is not in our hand, we are trying to push our, create our market by a lot of below the line and about the line advertisement and discounts to dealers for advertisement. How do you see where we can further squeeze in terms of improving our fixed cost base, you mentioned for FMEG it's around 175-200 crore that's the breakeven point for cables and viruses it's the old plant, which is anyways very profitable, what more we can do so that even if we do more incentives, more ad spend, to create markets for our products we don't foresee or it doesn't impact our margins overall.

Mahesh Viswanathan: It depends on volume improvement and therefore capacity utilization, that could bring better efficiencies. And when you take smaller runs, your scrap to total volume is not always optimum.

Chintan Sheth: Correct. So, this 70% if we reach to 85- 90 that will the operating leverage will be much more visible in our numbers?

Mahesh Viswanathan: Yes.

Moderator: Thank you. The next question is from the line of Shubham Agarwal from InCred Capital.Please go ahead.

Shubham Agarwal: So, this is just on some clarification on the CorningJV, you said that you exiting so after we exit the CorningJVdo we still end up manufacturing communication cable or that's not the case,can you clarify?

Mahesh Viswanathan: No, that JV was for marketing fiber in the country. It had nothing to do with cabling, we partnered with Corning to market fiber in the country. And now we are shutting down the JV because over a period of 10 years, our relationship has matured in to such a manner that we don't need a JV structure to do that.

Deepak Chhabria: Now, solet me clarify further.We are in the business of drawing preforms to make fiber and then consume the fiber into a cable and sell cable for various applications. So, the joint venture with Corning was where Corning invested in a manufacturing facility, the JV was going to market that fiber which is being drawn in their door towers. And you would sell it all over India to our competitors as well. As well as have some understanding where we can get preform from Corning who's a world leader and their quality is the best in the world. So, we can use it on our towers and get fiber for our own home consumption from those preforms. Now our relationship is such like Mahesh mentioned we will still continue to get preforms from Corning. We don't need a JV for that and for the marketing purpose it was just a marketing, that's why the investment was only 1.75 crores. The marketing will be carried on by themselves Corning on their own, where competitors normally don't like to buy from each other raw material. So, it is better to separate out and they will continue on your own, but we will still have a relationship of a supplier with themand that's how it's closing down.

Moderator: Thank you. I now hand the conference over to Mr. Mahesh Viswanathan for closing comments.

Mahesh Viswanathan: Well, thank you all for attending the meeting. I hope the information has been useful to you. Thank you.

Moderator: Thank you very much. On behalf of Finolex Cables Limited and Veritas Reputation that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.