



“Finolex Cables Limited  
Q2 FY '24 Earnings Conference Call”  
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**MANAGEMENT: MR. MAHESH VISWANATHAN – CHIEF FINANCIAL OFFICER – FINOLEX CABLES LIMITED**

**MODERATOR: MS. MAMTA SAMAT – PERFECT RELATIONS**

**Moderator:** Ladies and gentlemen, good day, and welcome to Q2 FY '24 Earnings Conference Call of Finolex Cables Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Mamta Samat from Perfect Relations Private Limited. Thank you, and over to you.

**Mamta Samat:** Thank you, Yashashri. Good evening, everyone, and thank you for joining us on Finolex Cables Limited's Q2 FY '24 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Mahesh Viswanathan, Chief Financial Officer.

Before we begin, I would like to say that some of the statements that will be made in today's discussion may be forward-looking in nature. We will begin the call with the opening remarks from the management, after which we will have the forum open for an interactive Q&A session. I will now request the management for the opening remarks. Thank you, and over to you, sir.

**Mahesh Viswanathan:** Thanks, Mamta. Good evening, everyone. Thanks for joining us on this call today. As usual, I will make a brief introductory statement. I'm sorry that this time the call has been a little delayed. I was away on some personal work, so I could only take it up today.

So as far as the quarter is concerned, we had a reasonably okay quarter. Revenues were up about 9% in total, while it was slightly below last quarter, the immediately preceding quarter. And on a 6-month basis, the revenue was up about 14%. Where I think we did well was in improving the gross margins. We now have, in the quarter, a 23% gross margin as against 21% earlier in the previous quarter and 19% in the comparable quarter. On a half yearly basis, margins were about 22%, slightly above the previous 6-month period of 20%.

Coming to the segments. In volume terms, Electrical Wires volume was up by about 10%, while Power Cable was up by almost 37%, although we had a low base in the previous corresponding quarter. Communication Cable segment, the metal-based products were stable, whereas the fiber-based products actually saw a dip, primarily because the tenders that we were awaiting have not yet been announced.

You might recall that the government had announced a plan of approximately INR140,000 crores to be spent on upgrading the BharatNet network over the next 2 to 3 years. We were expecting some of those tenders to open up. That has not yet happened. We now understand that those tenders would probably come to the bidding stage somewhere around December or January. So there's been a delay in that. And consequently, there has been also a shortfall in revenue.

As far as the new product offerings are concerned, the volumes were very good in both Lighting as well as Conduit products. Switches were also positive, while the other appliance product lines were muted. I think the appliance line, there is still a fallout of the inflationary trends that were there. While overall inflation has gone down, it has still not gone down to the

extent that possibly people expected. And there has been a little bit of sluggishness. We hope that during the festive season, this gets reversed.

Profits for the year for the quarter was about INR165 crores compared to INR136 crores in the corresponding quarter. That's an improvement of 21%. The other piece of information that we have is that the JV with Corning, the liquidation proceeds have been received and we recognized a profit of about INR12.5 crores in the quarter.

With this brief statement, I open it up for questions. I'm happy to take questions from you.

**Moderator:** Thank you very much. We have our first question from the line of Shivam Mittal from Purnartha Investment Advisors. Please go ahead.

**Shivam Mittal** Sir, first, a couple of clarifications before coming to questions. First being on the capex side. Like last quarter you guided us, INR250 crores capex will be done in FY '24 and INR100 crores will be done in FY '25. And when I see annual report, and in AGM also, Deepak sir told that INR500 crores will be executed in the next 18 to 20 months. But when I see cash flow statement, cash capex, it is just INR60-odd crores. So these numbers are actually not just adding up. So if you could just clarify on the capex, sir.

**Mahesh Viswanathan:** Some of these expenditures will be -- they will not be front-ended. The payments will happen as the projects get to completion. So what we said in the previous call was also that the major projects that are ongoing right now are the projects on e-beam, the project on optic fiber preform, and added to it the expanded capacity on optic fiber cabling as well as the fiber draw towers.

The e-beam project, some of the money was already spent in the previous year. So probably when Mr. Chhabria spoke, he also included the money that was spent on the project, but not yet capitalized. So all included. The e-beam project is currently expected to go live by first quarter next year, that is first calendar quarter next year. The equipment is expected to arrive here sometime towards the end of December, and then installation, commissioning and testing will take the next 2 to 3 months. So we expect that we should close that project by end of March next year.

Associated with that, that particular project will require special insulation material. So we are also putting up a compounding plant to supply the insulation material there. That will also be ready by March end, or latest by the middle of April that should also be ready. So this will complete 1 project.

The preform project, the building construction has started and associated licenses, clearances from various regulatory authorities have all been secured. And so we are expecting the building to be completed by June or so, and then for the equipment to be installed, tested and commissioned. So all that process, we expect to complete by somewhere around the second quarter, between September to November of next year.

The cash flow from that project will largely happen when the machine comes here, which is somewhere around June, I believe. So you will see that spend happening at that point in time.

And then the 2 other projects that I mentioned, the additional draw towers and OFC expansion. For the expansion project, the building is already ready. Again, that money was spent last year. It's only the equipment that needs to come in. And so as and when the equipment comes in is when the cash flow will happen. So you may not see a linear pattern of spending, you will see spikes in value from before.

**Shivam Mittal:** All right. Sir, on distributor count, like in February '23 con call, so you mentioned distributor count towards about 688 or 689, and in May '23 con call, you mentioned close to 700 distributor count?

**Mahesh Viswanathan:** Right.

**Shivam Mittal:** And when I see the annual report, so it is showing 600 distributors. So, 100 distributor count has been reduced, or something?

**Mahesh Viswanathan:** So, there might have been some weeding between February and March. If there is someone who is nonperforming, then obviously, you have to weed them out. So, that exercise would have happened. Currently, at the end of September, we have about close to 700 distributors who are performing. So, it's only a matter of housekeeping because you keep adding customers, but not all of them perform according to your expectations. And therefore, you do end up weeding off someone.

**Shivam Mittal:** Okay. Now, it is 700 distributors, right?

**Mahesh Viswanathan:** Yes. 690-something, so roughly 700.

**Shivam Mittal:** All right. Sir, some of our peers have actually shown better performance in terms of volume growth. We hold a significant share in organized wire market, like 22%. So, I mean where do we lack in terms of execution?

**Mahesh Viswanathan:** I think we have explained this in the past conferences also. We are a very small participant of the Power Cable business. We are less than -- we are probably around 1%, 1.5% of that market, whereas most of my peers are fairly large players and very, very large players on the Power Cable side also. So, if you -- unless you have the breakdown of their revenue numbers, then the comparison becomes a little bit awkward.

I think this time around, KEI has reported numbers by the product group. But the other peers do not report it. So, it's kind of difficult to make a one-to-one comparison. But we do know that some of them are very large. The cable market is approximately INR22,000 crores, INR23,000 crores per year, out of which, we are about INR200 crores. So, we do not participate in that. So, when you compare the performance numbers, it seems a little out of SKU, whereas on the wire market, we are doing fairly well, and that is our largest base.

**Shivam Mittal:** All right. Sir, just you mentioned KEI Industries. So, they have guided like 23% to 25% kind of industry growth in housing wires. So, largely on account of smaller participation of -- less participation of smaller unorganized players. So, how do you see, sir, housing wire growth like if industry is going to grow by 23%, 25%?

- Mahesh Viswanathan:** Sorry, your voice is a little difficult to understand. Can you repeat the question again, please?
- Moderator:** May I request you to use your handset mode, please, Mr. Mittal?
- Shivam Mittal:** Sir, KEI Industries has guided that house wire is expected to grow like 22%, 25% industry wise on account of lesser participation of smaller unorganized players?
- Mahesh Viswanathan:** Well, there are quite a few unorganized players in the general construction wire, because when you go to individual regions, there are regional players, there are smaller players. There is competition there. But in terms of growth potential, I do agree that there is a fairly large growth potential out there. We have often been saying this, housing and construction as an industry offers a fairly stable and steady demand for a long period of time to come. I mean, as a country, I think there is a large need for housing still to fulfil people's needs. And I think that sector will offer quite a large demand potential for some time to come. So, to that extent, I do agree, yes.
- Shivam Mittal:** All right. So, how much volume growth do we see like if industry is going to grow 22% to 25%? So, how much volume growth do you see in next two years, three years, like down the line?
- Mahesh Viswanathan:** I mean, we have to be definitely as good as the industry, if not better. Otherwise, we will lose share. So, that is something that we are conscious about. And that is another reason why we are ensuring that our plan of distribution comes out successfully.
- Shivam Mittal:** All right. Sir, in this quarter, copper price is up by 8% year-on-year. Like volume growth is 10%, and we almost like take 2.5% in terms of hike copper-wire. So, can we see the remaining 5%, 5.5% of kind of price hike in Q3 on account of copper price hike?
- Mahesh Viswanathan:** It depends on where copper is. So, if you look at October, prices fell, and I think the entire industry took a correction downwards. So, it depends on where copper is at any point in time vis-a-vis what the demand scenario is. It's something that one has to be watchful for on a periodical basis. The action that you talk about, it doesn't work like okay, there was X percent change in one period of time and that automatically translates into the similar increase...
- Shivam Mittal:** Yes. That is cumulative transfer...
- Mahesh Viswanathan:** Copper constitutes a certain percentage of the total product cost. So, if copper prices increase by 10%, it doesn't mean that I have to change my selling price by 10%. It doesn't work that way.
- Shivam Mittal:** All right. Sir, how much do we have lag in terms of passing like price or depending in terms of copper price to the end consumer? How much lag do we have?
- Mahesh Viswanathan:** Normally, our lag is not very long. I think the change will happen within matter of weeks. And like I mentioned, October, there was actually a price drop. So, if you see the prices today, they are at about \$8,200 per ton. A few weeks ago, they were at \$7,800, \$7,900 levels, and they

have dropped from \$8,700 to \$7,900 levels. So, October, we took a price drop. And I think the other players also have dropped their prices.

So, it depends on where copper is at any point in time. That is the largest factor that impacts prices both ways, up or down. But you have to look at it in combination with where PVC prices are, because these two are the two large components of the cost.

**Shivam Mittal:** All right. Sir, in this quarter, like as already mentioned, copper is up by 8%. So, if I see the cost of goods sold as a percentage of revenue, so it comes around 77.7%, and last two quarters were like 78.7% and 78.9%, so...

**Mahesh Viswanathan:** Sorry, I'm not able to get your question. Your voice is not very clear.

**Shivam Mittal:** Sir, in Q2, copper is up by 8%, and if I see cost of goods sold as a percentage of sales, it comes around 77.7%. And in previous two quarters, it was like 78.7% and 78.9%. So, I just want to know like copper price is up by 8%, but our cost of goods sold has reduced, so thus improving in the margins?

**Mahesh Viswanathan:** No, it is not one item. There are more than 2,000 SKUs. So, there will be certain items where the margins are better. And therefore, the composition of which unit has sold more during this period would make a change. Also, it might mean that during this period, there is also change in the PVC prices. So, probably, we've gained a little bit on that. So, it's a combination. It's not just only copper, don't look at just only copper. Copper is a major factor, I agree, but it's not the only factor. And in that way if you compare, one year ago, the cost of goods sold was 81%.

So, we've been able to bring it down from 81% to 77%. So, there have been efficiency improvements, there have been inventory gains, there have been purchasing gains, and there have also been some margin improvements on the product side.

**Shivam Mittal:** All right.

**Moderator:** Thank you. We have our next question from the line of Rahul Agarwal from Incred Capital. Please go ahead.

**Rahul Agarwal:** Hi, belated wishes for Diwali. First question on margins. Obviously, there's a catch-up still left about 1%, in my view. Just wanted your understanding because gross margins have recovered to 23%. My sense is, we are sharing some bit of it for the new distribution change which we're doing. So, is it possible to look at another 1% gain in gross margins and similar on the EBITDA margin side?

**Mahesh Viswanathan:** If the input prices are stable, then there is some possibility, but if there is volatility, then we'll have to make adjustments as we go.

**Rahul Agarwal:** Okay. Got it. A similar question was on working capital days. I think we used to be like 55 days, 60 days. Right now, it looks like last two quarters, 35 days, 40 days of sales. What could be a sustainable level? What should we assume?

**Mahesh Viswanathan:** Well, I think in the last call, we mentioned that we are working with an external consultant to see how we can realign our inventory holding capacities as well as ensure availability at a fairly high level. I think some of that work is starting to slowly pay off. But I would say that about 50 days should be something that is sustainable.

**Rahul Agarwal:** Got it. And you mentioned on the tender side, it's a bit delayed, I understand. And we expect in December-Jan, we're getting into elections...

**Mahesh Viswanathan:** This is what we hear now. Things keep changing from that side. The original announcement that came in August was cabinet has cleared INR1.4 lakh crores, and very soon you will see the tenders coming out. So, it's now three months since then and the tenders are still not out. In fact, there is a -- I think they're calling the industry for consultations to talk about the design and stuff around that. That is slated for sometime early next month. And then they will release the -- I mean, and then they will float the tenders. So, you are right about the election part. So, I do not know how much of it will actually get done before May.

**Rahul Agarwal:** Right. So -- and I think this is pretty usual of how government works. And even last time, I think barred net tenders generally are -- we don't really know when they actually come through. So, there's a lot of volatility, right? So, what I'm trying to ask was essentially OFC, my sense was, last calls, we've discussed the growth is sustainable or not. When I look at last six quarters, it's about INR130 crores, INR140 crores run rate every quarter of revenue. That essentially means about INR550 crores of annual sales. Should we assume growth going forward or it is still contingent on, if we get these orders, great, if we don't, we're stuck. How should we think about it?

**Mahesh Viswanathan:** Well, eventually, there has to be spending on that. I mean, spending at this point in time, both from the government as well as from the private players has been muted in this quarter. And I think you would have seen this in the result of the other peers in this sector as well.

But if we are talking about 5G and other technologies, connectivity and so on and so forth, this spend has to happen. Whether it happens in the current quarter or next year, it definitely has to happen. And you cannot start preparing after the tenders are announced. You need to be prepared a little ahead. So, we are continuing, therefore, with our investment in this segment. And we believe that we will be able to compete more effectively when the tenders do get announced.

**Rahul Agarwal:** Got it. And lastly, on the EBM side, I mean, my sense is that plant is delayed quite a bit. Haven't we seen any cost overruns there?

**Mahesh Viswanathan:** No, we haven't seen any cost overruns. In fact, we have -- while there has been a delay, we were able to negotiate with the new supplier better rates and also more optimum efficiency machines. So I think we've been able to handle that part. So the machine is ready, available to be -- I mean, can be dispatched any point in time. The bunker in which it has to go in is being cast tonight. So we have asked the machine supplier to dispatch it sometime in December. So that by the time it comes here, the bunker is also ready.

**Rahul Agarwal:** Got it. One last thing on outlook. Essentially, on the wire side, what do you think about the market second half? How should one look at wire market? Because we understand inflationary pressures have created some kind of divide between cables doing better than wires. Obviously, we're not comparing power cables, but even low tension cables have done better. Your sense of next 12-month outlook in terms of wire demand B2C, maybe housing, commercial, what segments are doing better? Any views please?

**Mahesh Viswanathan:** I think one does see a lot more activity on construction side. So that should lead to more demand as those construction projects come towards the latter part of their cycle. So I think that should come back again. And typically, the second half of every year has always been a better half than the first half. So I'm hoping that this year is no exception.

**Moderator:** Thank you. We have our next question from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

**Sonali Salgaonkar:** Sir, my first question is regarding the margin expansion. We did a very good job of margin expansion this quarter, generally, which we have been trying to do for the past few quarters. So anything you'd like to update as in, has the product mix changed? Or these are just economies of scale when it comes to good volumes that we saw in electrical wires? And what is the sustainable level of margins that we should be looking at going forward?

**Mahesh Viswanathan:** I have always maintained, as far as electrical cables is concerned, that somewhere around 14% is a sustainable number. And I think we'll come back to that level. If you look at the last few quarters, I think the worst that we had was one year ago, we were just under 10% at that time. And from then onwards, we've been gradually improving. Last quarter was 13%, this quarter is now 14.25%. I think this is a sustainable level. You are right in that economies of scale do give us the benefit of better margins. But I think 14% is something that is sustainable. Barring any commodity shock, it should be possible.

**Sonali Salgaonkar:** Understand. Sir, on the communication cables front, you did mention that the tender has got delayed, which we understand for reasons beyond our control. But then going forward, if, say, there is a further delay, should we see weakness in the sales of communication cables even going further quarters? Or do you think that should catch up? And also your thoughts on the pricing of optic fibers globally?

**Mahesh Viswanathan:** Well, right now, fiber prices are low. While the government acted a couple of months ago by imposing AD, the impact of that is yet to be felt because I think whoever wanted to import had already imported the product in the second quarter. We have not yet seen the fiber prices climb back up. I think we should be able to see it in the next three months to six months.

Having said that, offtake from both the government and non-government customers has been very muted over the last six months. From the government side, I think there will be delay in the tender finalization. But even the private players, their spends on cables in the last two quarters have been slightly low. I don't expect this to continue forever. I do expect this to catch up at some point in time. Now whether that happens in one quarter or two quarters or three quarters is something that's anybody's guess, but it should catch up and improve some.



- Sonali Salgaonkar:** Understand. Sir, and YTD, what has been the correction in fiber prices, YTD?
- Mahesh Viswanathan:** I think we are still at \$3.15, I think, in terms of dollar prices.
- Sonali Salgaonkar:** Understand. Sir, you mentioned that we have taken price cuts in cables and wires in October because of the softening copper prices. Any quantum you would like to elaborate?
- Mahesh Viswanathan:** It came down by about 3% to 4%, depending on which SKU it was, between 3% and 4%.
- Sonali Salgaonkar:** Understand. And just the last question on our FMEG business or the other business. We saw, I mean, reasonably healthy volume growth -- reasonably healthy sales growth, though the margins are yet to catch up. So any ideas on when can we breakeven and what are the amount of sales that we require for breakeven?
- Mahesh Viswanathan:** That has not changed. I think we need to hit higher than INR200 crores to make profit. I think right now, the numbers are positive still, but that is only because some of the ad costs come towards the tail end of the year, so it is not showing up yet. As and when those ad costs are actually incurred, you might see a slightly different position there. But I think INR200 crores-plus is something that is possible -- that will result in a positive number.
- Moderator:** Thank you. We have our question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, you were mentioning about the lower OF prices and OFC prices. So if you could come again what has been the decline, say, for June to September? And even going forward, what are the price trends for OF and OFCs, currently?
- Mahesh Viswanathan:** No, that's what I said. The government acted on representation made by the industry. There was a lot of dumping coming in from China, Indonesia and Vietnam. So they have imposed AD. That was imposed sometime towards the end of August. So the impact was not immediately felt in the quarter. I'm hoping that as we go, then the imports will be more expensive and prices will stabilize.
- For the prices to pick-up, then the demand also has to pick-up. And so that is dependent on how quickly the tenders get floated because the quantity of fiber that is required for the BharatNet Phase 3, the original number was somewhere around 20 million fiber kilometers. I understand they have scaled it down a little bit. So now the latest figure that we saw was about 14 million fiber kilometers. But even that is a substantial quantity to be made available in two years. Our total consumption on a yearly basis is only about 18 million fiber kilometers. So we are asking almost 70% of that to come in two years. That's a big ask. So prices would then look up, I think.
- Now the question is what period do you give that? That would all depend on when the tenders are floated, when is the cable expected to be delivered, and when is it going to be made. So it could be as quick as six months to eight months or it could be longer than one year, 1.5 years. So it depends on those factors. And I don't think I'm in a position to get that right now.

- Saket Kapoor:** Sir, what is the current -- I think so many of the big -- large players domestically have ramped-up their capacity with greenfield projects also. So what should be the current OF and OFC capacity for the country? And sir, for the price trends, what are the current prices? If you could just...
- Mahesh Viswanathan:** I said no, fiber is I think -- the last I heard was \$3.15, I think, \$3.15. And capacity, nobody today officially publishes that capacity number, so it is a little difficult to guess. Countrywide, I think we have -- preform, there is only one person that makes preform in the country today. When our facility goes live, we will be the second. But fiber draw, there is Finolex, there is Sterlite, there is HFCL, there is Birla Furukawa, and I think Aksh. So fiber draw capacity is there. There is, I think, about 30 million-plus.
- Saket Kapoor:** 30 million-plus. And for OFC, sir?
- Mahesh Viswanathan:** OFC capacity is difficult to define because the construction of the cable, you're talking about some cables with 256 fibers, some with 96, some with 48, some with 24. So when somebody tells you in kilometers, they are telling you cable kilometers, and that doesn't really make sense because you might have a cable with just 1 fiber in it and you might have another cable with 96 fibers in it. So they're not really comparable. But I think there is enough capacity to consume the 30 million kilometers of fiber.
- Saket Kapoor:** And sir, the AD which was implemented, does it have a clause like that if a manufacturer is -- is it a plain vanilla type or does they have any specification for the implementation?
- Mahesh Viswanathan:** Sorry, I didn't get your question.
- Saket Kapoor:** Sir, this antidumping duty is a plain vanilla duty or if somebody goes for some customization and...
- Mahesh Viswanathan:** It's for a particular grade of fiber, which is the most commonly used grade.
- Saket Kapoor:** Okay. Right, sir. And last point was, sir, on the EHV part, sir, what percentage of our sales come from the Extra High-Voltage cables, sir, and what's the order booking and the outlook on the same?
- Mahesh Viswanathan:** The EHV business is conducted through a joint venture. So that is not reflected in the revenue numbers that we reported. It's a 50-50 joint venture. It's consolidated on -- it's not a line-by-line consolidation. It's only a participation consolidation that happens. Joint venture consolidations are slightly different as opposed to subsidiary consolidations.
- But the JV has an order book, I think current order book is about slightly under INR200 crores. Their revenue for the first half was about INR70 crores, I think. There still is a loss there. We hope that with this order book, they should be able to clean up that loss.
- Saket Kapoor:** And sir, what should be the bid pipeline for the segment?
- Mahesh Viswanathan:** The bid pipeline could be around INR1,500 crores to INR1,600 crores.

- Saket Kapoor:** Okay. And sir, this is mainly to the state utilities and the metro rail category, we should assume that as a final consumer or...
- Mahesh Viswanathan:** Yes, so the large consumers would be the transmission companies. Some grades go to the metros. Sometimes there are also generating companies which require this to evacuate the power that they generate. So the largest portion of consumers would be state utilities and metros, but then you also require these in very large industrial places. Let's say, there is a steel plant coming up, that would require. Many of your infrastructure facilities would require -- airports, ports, these guys would require fairly large amounts of this cable. I think there is a need also in the oil fields. So there is application available everywhere, but then construction requirement or design requirements would be different for different applications.
- Saket Kapoor:** I missed your last point. You mentioned IV, I could not hear you properly.
- Mahesh Viswanathan:** So I said, besides the utilities, you have metros, you also have infrastructure projects. So large infrastructure projects like airports or seaports, those would also require it, plus huge industrial plants. Let's say there is a steel plant coming up or a fertilizer plant coming up. Those people would also require large gauge cables.
- Saket Kapoor:** Right, sir. And lastly, you mentioned INR80 crores was the revenue from the JV.
- Mahesh Viswanathan:** INR70 crores.
- Saket Kapoor:** INR70 crores for the first half or for the quarter, sir?
- Mahesh Viswanathan:** For the first half.
- Saket Kapoor:** For the first half?
- Mahesh Viswanathan:** Yes.
- Saket Kapoor:** And we have an order book of INR200 crores?
- Mahesh Viswanathan:** Yes. See, the business is slightly different as opposed to the business that is run in the Finolex Cables entity. While the major part of the business comes from supply of cables, the contracts that the utilities give out are usually turnkey contracts. So your requirement or responsibility is to supply the cable, lay the cable, join it where it is required, and also terminate it on two sides and charge the cable. So it's a turnkey job.
- And you can recognize revenue as you complete portions of the job. So I might have made the cables, but if the right of way has not been given to me by the customer, I am unable to recognize full revenue at that point in time, unless I lay it and complete that portion. So it's a slightly longer gestation period for each of these projects.
- Saket Kapoor:** But we are into the EPC play also. Not only we are supplying, manufacturing and...
- Mahesh Viswanathan:** Yes, we are into EPC. You have to be. Because the customer, the utility wants to talk to only one person.

- Saket Kapoor:** Correct. Correct. And here, sir, also 1 concept for VCV line comes, sir, that, that is the only way through which the cables are manufactured and current with a V -- I'm missing the terminology?
- Mahesh Viswanathan:** Well, as you go into higher voltage grades and higher sizes of conductors, the vertical insulation technology that we use is definitely better. Because you get a conductor which is right in the middle of the insulation, which is completely and very clearly centered. If you use horizontal insulation processes, then the force of gravity acts on the insulation and you get a cable which is slightly oval in shape, which means there is more insulation on one side than on the other. And that leads to performance problems as well as issues over the life of the cable.
- These are very expensive cables. So if you're going to spend INR25 crores over a length of 5 or 10 kilometers, then you expect the life of the cable to be at least 25 to 30 years, right? So you want to ensure that the customer gets the right product and also the right life for it. So therefore, there, the vertical process is preferred, and we have the vertical process. At lower sizes, so 11 kV, 22 kV, 33 kV, then it doesn't make sense because it is much more expensive. And you can control the force of gravity to some extent and still get the product that is designed.
- Saket Kapoor:** Okay. So we have our VCV lines? Or sir, I think so only one manufacturer in the country...
- Mahesh Viswanathan:** We have a VCV line. We have provisioned for three. So as business improves, we can, with minimal investment, add two more lines.
- Saket Kapoor:** And sir, here, who are our nearest competitors in this segment?
- Mahesh Viswanathan:** Today, in the EHV segment, there is Universal, who is, by and large, the largest in the country. Then there is a Korean company called LS, who has set up a factory in India. There is KEI, and there is -- Polycab and Havells are not in the 220 and above grade, but they are in the 66 and 110 grade.
- Saket Kapoor:** All the best. So we are envisaging on a capex for the OFC segment from both the telcos as well as the government. Sir, for the telco, I think so they have done this provisioning of expenditures. So they are not spending the money currently on the same?
- Mahesh Viswanathan:** I think they are spending it, but they are not spending as much as I would expect them to.
- Saket Kapoor:** Because, sir, without the proper fiberization, 5G would not be in the same play. That needs the fiberization?
- Mahesh Viswanathan:** That is true. That is true. Because if you want the kind of connectivity that 5G requires, then you need much more fiberization.
- Saket Kapoor:** So they can delay it for the time being, but they have to do -- eventually have to proceed with it?
- Mahesh Viswanathan:** Correct.

- Moderator:** We have our next question from the line of Sonali Salgaonkar from Jefferies India.
- Sonali Salgaonkar:** Sir, two questions. Firstly, in the Electrical segment, around 60%, 65% is construction, and then we have agri, auto, industrial and power cables. So could you help us understand broadly and approximately what would be the EBITDA margins of each of these sub-segments?
- Mahesh Viswanathan:** Well, let me not get into the numbers right now, but I can give you in terms of which is the lowest and where it is better.
- Sonali Salgaonkar:** Sure. Sure.
- Mahesh Viswanathan:** Auto would be the lowest, there are industrial consumers, very thin margins, followed by industrials, agri, and then construction will be top of the heap. Power cable is -- there are 2 segments to it. Again, there is some that is going through the market through the distribution and some which are made-to-order. Made-to-order ones are all primarily B2B where the margins may not be very high. Once that goes through distribution, the margins would be okay.
- Sonali Salgaonkar:** Understand. Sir, and secondly, on the company's overall distribution, what is the current count, dealers, retailers? And how much of that is exclusively for FMEG, and how much overlaps with our cables and wires?
- Mahesh Viswanathan:** We have about close to 700 now, distributors. 66,000 retailers were billed in the quarter. The secondary sales through retailers in the quarter was about INR300 crores. And what was the other question?
- Sonali Salgaonkar:** Sir, how much -- if we have a quantification of how much is overlapping the distribution?
- Mahesh Viswanathan:** We have -- the only condition that we have put is if there is a retailer who is selling a competing brand in a particular segment, then we don't service that particular product. So let me give you an example. If there is a retailer who's selling Philips lights, then obviously, our lights do not go on his shelf, but our switches and cables can. So that's the only condition that we are focusing. As long as they do not deal in a competing product, we are fine.
- Sonali Salgaonkar:** Understand. So the 700 distributors, they are not exclusive, right? They are multi-brand? Is my understanding correct?
- Mahesh Viswanathan:** Multi-brand. Because at a retailer's point of view, if you say -- I mean, even as a distributor, if you say that you have to be exclusive, he doesn't make the ROI then. Those days of exclusive distributors, I think, there will not be many of them. There might be a few, but there will not be many. So what we have done, therefore, is to come out with these experience shops.
- We now have -- I'm sorry, I don't have a count of how many of these experience shops that we have. We started in Chennai, then we have gone in Baroda, in Mumbai, and in many of the other cities, we have an experience shop, where under one store, you'll get to see and feel all our product lines.

- Sonali Salgaonkar:** Understand. Very helpful. Sir, just a last question from my side. In the volume growth terms, power cables, we have seen 37% growth. That's very encouraging. And in the electrical wires, it's 10%. Of course, 10% is also healthy. But do you foresee some kind of deceleration compared to the earlier quarters in electrical wires?
- Mahesh Viswanathan:** The second quarter was slightly lower than the first quarter. First quarter was much better as far as the wires is concerned, but I think that's partly a seasonal issue also. I do believe that as more of these projects come towards their conclusion, the wire sales should pick up.
- Sonali Salgaonkar:** Understand. Sir, and festive sales in the FMEG, any thoughts on that, any color? How has been the festive season?
- Mahesh Viswanathan:** I am still getting the numbers. So I think I don't want to pre-empt anything there.
- Moderator:** We have our next question from the line of Shivam Mittal from Purnartha Investment Advisors.
- Shivam Mittal:** Sir, other expenses as a percentage of sale was 5.4% in quarter 1, and Q2, it is 6.4%. So 1% increase. So any reason for that?
- Mahesh Viswanathan:** Other expenses, is it?
- Shivam Mittal:** Yes.
- Mahesh Viswanathan:** Okay. We have taken a small provision for the JV in that. So JV has been making losses. So we have made a provision for the loss.
- Shivam Mittal:** All right. Second is, sir, is the litigation costs already included in the quarter or yet to be accounted?
- Mahesh Viswanathan:** I'm sorry, what litigation cost?
- Shivam Mittal:** Whatever we have currently going on court cases.
- Mahesh Viswanathan:** That has got nothing to do with the company. That is between two shareholders.
- Moderator:** We have our next question from the line of Anurag Jain, an Individual Investor.
- Anurag Jain:** Sir, my question is like what is the current capacity utilization of the company? And do you think that in the next 3 years, you will need capital expenditure in different business segments? And if yes, like what would be the planned capital expenditure in the next 3 years?
- Mahesh Viswanathan:** So we have detailed our capital expenditure. We shared it in the last couple of calls. So most of the major expenditure is happening on the optic fiber and related areas. So we are setting up a preform plan. Preform is the basic raw material for draw fiber. We're setting up the plant, that the building construction has started. Other approvals from the environmental agencies all have been secured.

The machine is ready to be shipped sometime in March of next year. And we hope that the building construction will be over by around April or May when the machine will also arrive here. And we are expecting that commissioning to happen sometime around November next year. That's one project.

We have spent money on an additional factory for the optic fiber cable. We have not populated that with the machines as yet. So as soon as there is clear visibility on the tenders from the government on the BharatNet program, we will place orders for those equipment. So they have a lead time of about 7 to 8 months, and then installation and commissioning.

We also expect that from the time the tenders are announced, by the time the government completes the order issue formalities will be anywhere between 8 to 10 months. So that should coincide. In addition to this, we are increasing our fiber capacity. Our fiber draw capacity today is about just under 4 million kilometers a year. We are taking that up to 8 million. Those construction activities will commence maybe from January. So that's on one side.

On the electrical cable side, we are setting up an [EHV 0:56:27] plant. If you were part of the conversation a little ahead, you would have noticed that this particular project has been delayed. We initially selected a Chinese machine, but then because of the relationship between the two countries after Galwan, we were not able to get anybody from there to complete the installation. While the equipment is ready in China, it couldn't be shipped. So we had to change supplier.

We've now got in a Korean supplier who is supplying equipment and that equipment is expected to arrive sometime in -- it will leave Korea in December and will be here in January. The building for that is almost ready. So we should have the machine up and running by March of next year. So that would enable us to supply cables to the solar application, also improve our offerings on the auto cables and wherever thermal stability is required, wherever performance on -- where the requirement will be to handle different changes in atmospheric conditions, those will be required.

So there, I think we will be able to make our offerings. So all these programs effectively will cost the company approximately somewhere around INR400 crores, some of which has already been spent and the balance will be spent over the next 12 to 18 months. So these are programs already in place.

You asked me about where the capacity utilization is? At an overall level, it is slightly above 60%. Individual plants could be different. Auto cables, for example, is much higher, and we are expanding in that area. We are adding capacity at our Roorkee factory. That should be ready by next year. So these are areas where we are spending money.

The way we work is when we see that the capacity utilization is coming up to somewhere around 75% to 80%, we plan for the next expansion. So as and when that happens, we will plan for the next. Does that answer your question?

**Anurag Jain:**

Yes, sir.

**Moderator:**

Thank you. Ladies and gentlemen, that was the last question for today. On behalf of Finolex Cables Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.