



Polycab India Limited

Q2 FY2021 Earnings Conference Call

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MANAGEMENT:

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Moderator: Ladies and gentlemen good day and welcome to the Polycab India Limited Q2 FY2021 Earnings Conference Call. We have with us today the management of Polycab India 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gandharv Tongia, Chief Financial Officer. Thank you and over to you Sir!

Gandharv Tongia: Thank you, operator, and a very good afternoon, everyone. I hope you all are doing well. It is a pleasure to have you on the call. I am Gandharv Tongia, CFO at Polycab India Limited. Thanks for joining us today to discuss our Q2 FY2021 earnings.

During the call, we will be referring to the presentations, financial results and financial statements, which are available on the stock exchanges as well as Investor Relations web page of our website. It can also be downloaded through the link or QR code on Slide 10 of our earnings presentation. From our management team, we have with us our Chairman and Managing Director, Inder Jaisinghani as well as our Executive Director -Finance, Mr. Shyam Lal Bajaj. Let me now hand it over to Inder bhai for his comments.

Inder Jaisinghani: Good afternoon, everyone. Welcome to the call. I am delighted with our Q2 performance given the context of current challenging business environment. Overall demand trends are encouraging and many of our consumer facing businesses have started seeing growth compared to last year. At the same time, we have tightened our belts to improve profitability without bargaining on long term brand development and innovation initiatives. While we remain optimistic of robust economic potential over mid to long term, government initiatives and reviving consumer sentiment should support demand in months to come. We remain focussed on augmenting our brand positioning in the Electricals space and creating long term shareholder value. I now request Gandharv to take you through our earnings presentation.

Gandharv Tongia: Thank you very much. Overall, Q2 has been quite good for us in many ways. I will try and highlight a few of these during the presentation. On the domestic demand side, we are surely seeing signs of improvement with unlocking. Infrastructure and construction activities are back in action, and labour does not seem to be much of a concern now. Tier 1, Tier 2 and below towns saw healthy double-digit growth. Large macros are still facing impromptu restrictions in many states, which is dragging the overall momentum. However, on a sequential basis, we have seen considerable recovery here as well.

In Q2, we also saw a surge in new infra investments. Requirement for wires and cables is generally back ended in the construction cycle. Hence, materialization of these projects will bode well for the demand in near term. Investments from private side continue to remain soft. However, improvement in consumer sentiment and reviving demand in end-user industries, will instil confidence on business outlook and boost investments. Macro indicators like IIP, manufacturing PMI, power consumption, etc., are also charting a broader recovery path and hence, overall, we are quite optimistic and believe the worst is now behind.

In fact, we have kicked off the new quarter on a positive note. As of now, we are witnessing healthy growth in all segments despite the fact that we have a strong base of last year. Having said that, it is also worthy to note how many developed countries are witnessing a second wave of contagion and lockdowns. Hence, we will remain cautious and adopt a well-calibrated approach to ever-evolving dynamics of the market.

Moving on to presentation with Slide 4 for the quarter ended September 30, 2020, our consolidated revenue was down by 6% Y-o-Y as against -50% Y-o-Y seen in Q1. B2C category posted a healthy double-digit growth, while B2B wires and cables are on a recovery path. EBITDA increased by 16% Y-o-Y, resulting with a strong 272 BPS Y-o-Y improvement in margin versus last year on the back of higher contribution and cost-saving initiatives. Our staff cost at Rs.897 million or 4.2% of sales, and our A&P spend at Rs.134 million or 0.6% of sales were broadly in line with last year. Our A&P side, we continue to participate in TV media during IPL season, in line with our long-term brand development objectives. Our finance cost at Rs.114 million was lower by 10% Y-o-Y. Other income at Rs.327 million was higher due to exchange gains. A detailed breakup of our other income and finance costs, have been provided on Slide 14 of our earnings presentation. Our profit before tax at Rs.2.88 billion and profit after tax at Rs.2.21 billion, increased by 25% and 14% Y-o-Y, respectively. Also, please note that Q2 FY2020 had a tax write-back of Rs.243 million for prior period due to reduction in statutory tax rate. Adjusting for that, PAT would have grown by 31% Y-o-Y in Q2 FY2021, which reflects our overall improved profitability.

Let me also take this opportunity to highlight our cost optimization program with BCG, which we have internally named as Project Udaan. Project Udaan has been progressing well. While we are still in early phase, we have started identifying and plucking low-hanging fruits. Success of this project will be one of our key strategic priorities in the near term. We are quite optimistic that it will help us build a lean cost structure, which is sustainable and also institutionalise new ways of working.

On Slide 5, in this first half ended September 30, 2020, our revenue and EBITDA declined by 26% and 25% Y-o-Y, respectively, largely reflecting the severe impact of COVID-19 on Q1. PAT grew 3% Y-o-Y, led by few one-off gains in Q1, as highlighted on Slide 11.

Moving on to segments on Slide 6; Wires and Cables, which is our largest business, saw decent recovery with improving economic activity, but closed at about 7% lower versus last year. On the domestic side, distribution channel performed better than the institutional business where we had to pass on some margin dilutive business. Geographically, north and east has been better for us in the last quarter. Robust momentum in exports continued despite the weak economic sentiments, underpinning our efforts to expand our global reach. We received approvals as well as orders from several large multinational energy and infrastructure companies in developed countries. We also made inroads into CIS countries during the quarter. On the whole, export revenue grew by 47% Y-o-Y and contributed almost 10.7% to overall top line in Q2 despite a stronger base. Sales to Dangote amounted to Rs.440 million for the quarter and excluding that from current and base quarters, export was 5x of last year, led by a good traction in U.S., Australia, Asia and Middle East. OFC business faced some sluggishness due to postponement of new projects. However, we are positive on good order flow in current quarter from domestic and abroad for OFC business. On the profitability side, segment EBIT margin grew 387 bps Y-o-Y, supported by better contribution.

On Slide 7, FMEG made a strong comeback with sales growth of 25% Y-o-Y growth in Q2. The segment contribution to overall sales increased 268 bps Y-o-Y to 11.4%. Growth was fairly resilient across most categories and regions. Fans grew strongly despite higher competitive intensity. Easing price environment in lighting business helped value growth as well as profitability. Pump sales more than doubled on Y-o-Y basis, helped by channel expansion and product quality. Switchgears saw a revival; however, switches remained muted due to operational issues. While FMEG growth has been quite resilient, our teams have done a commendable job on the profitability side. FMEG segment EBIT margin rose from 3.3% in Q2 FY2020 to 8% in the previous quarter, led by calibrated pricing action, premiumization, productivity improvement and working capital intervention. While this level margin may not be sustainable in the subsequent quarter as we expect a bulky charge of IPL-related advertisement cost, for the year as a whole we expect the margin to be better despite the Q1 hit. For the first six months of FY2021, margin improved from 3.5% to 3.7%.

Having made our mark in the FMEG space, we are now stepping up on the innovation pedal in a meaningful way. In about a month's time, we are launching a totally new portfolio of premium products, which are IoT-enabled with voice command capability.

With a blend of functionality and design fused with technology, it will cater to evolving needs of new age consumers. This portfolio will cut across FMEG categories and function on a common Polycab IoT platform. We are very excited to roll this out into the market, and we believe this will be a pivotal movement in uplifting Polycab into an aspirational brand. We are also launching host of electrical wiring accessories, including extension boards with USB ports, multi-plug holders, etc. These are entry-level products at every electrical counter and will help seed new consumers. In summary, we will continue to augment our brand and capabilities to outperform the market while progressing towards achieving industry level profitability over the medium term. FMEG will be a key value driver for us over the long term.

On Slide 8, others segment, which is largely our standard EPC business, witnessed a decline on account of a stronger base. The revenue was down by 65% Y-o-Y to Rs.580 million. EBITDA stood at Rs.92 million, down 60% on Y-o-Y basis. The copper segment, as disclosed in the financial results, largely reflect Ryker base, which is a wholly owned subsidiary.

As I alluded to earlier, we did not shy away from investing in brand building activities even during such challenging times. Accordingly, we continue to be an associate on air sponsors during Indian Premier League 2020, or IPL, for the fourth consecutive year. We also conducted various on-ground promotional activities for several FMEG categories, for example, Fans, where we launched 14 new products and over 40 new SKUs in past 6 months.

Moving on to financials from Slide 11 onwards our balance sheet grew stronger with nearly Rs.6.3 billion of net cash position as of September 2020 versus Rs.2 billion as of June 2020 and Rs.3.4 billion as of September 2019. ROCE as well as ROE in Q2 stood at 26.6% and 21%, respectively. On the working capital side, while receivables have come down considerably, led by robust cash collection, inventory levels remained high, primarily due to purchase of raw materials in the last month, in anticipation of improving demand environment and were in transit as of September-end. Nevertheless, this is one of our key focus areas, and we are aggressively working towards inventory optimization. Our inventory optimisation program, which is named as Project Sankalp, is especially targeting this issue. If I were to dive deeper into its progress, then on the finished goods side, we are in the last leg. Our fill rates and DoT rates have improved across SKUs and regions with optimal level of inventory. So, it is looking in a good shape now.

On the raw materials side, we have identified the key enablers and are in the process of implementing it. My sense is that by end of this fiscal year, we should be on a better

footing here. A key hurdle here is goods in transit. Since we procure a lot of copper cathodes from abroad, the RM is in the sea for nearly 30 to 40 days, which is difficult to trim. Even the current higher inventory level could be partly attributed to GIT or goods in transit. But on the whole, we are confident of seeing improvement in this area in subsequent quarters.

On the distribution side, our retail outlet reach as of September 2020 increased to over 137,000 outlets with over 3,650 authorized dealers and distributors across geographies. Our key influencer connect program that is Project Bandhan, now touches over 154,000 electricians and over 47,000 retailers. Lower-tier towns, semi-urban areas and rural hold great potential for a well-established brand like ours. While affordability and awareness are increasing, availability is a key challenge, and we aim to address this issue by developing an active distributor network in towns below 5 lakh population for all our B2C products. The pilot project, I mentioned in the last quarter, is underway in 3 markets, and we are also seeking help of a reputed strategy consultant on effective implementation and strategy.

Talking further about strategy, I would also like to share another recent key development, which is still in a very nascent stage, but is likely to be as a crucial strategic lever and an inflection point in Polycabs growth journey. While Project Udaan, the cost optimization program is the first leg of our transformation story, which primarily focus on the cost structure and organization capabilities, we have commenced early diagnostic work on sales augmentation and roadmap for the medium term. Our vision is to become a premium global player in wires and cable space and one of the top players in domestic FMEG space over the next 5 to 10 years. For this, we will maximize our core by adopting next-generation go-to-market strategies and add new muscles by expanding into emerging agencies as well as solution-oriented business models.

Lastly, our culture, guided by simplicity, customer centricity, steady execution and innovative efforts really resonate with our ability to deliver even during such challenging times. We will remain thoughtful in our decision-making and actions to deliver sustainable and profitable growth for all stakeholders.

With this, I hand over the call to operator, and we can open the floor for question and answers.

Moderator:

Thank you. We will now begin with the question and answer session. The first question from is the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Thank you Sir. First of all, congrats on continuing with strong performance in otherwise tough environment, it is quite heartening. I had two, three questions, if I am allowed. First is on the very strong margins that the company has been posting. So, the question is how much of this is sustainable? This quarter obviously your raw material costs are down as a percentage of sales sharply. So, how much sustainability as far as margins are concerned to be factored in going ahead? Then I will ask a couple of more questions.

Gandharv Tongia: Thanks, Atul. Thanks a lot for your kind words, appreciating the performance. Atul, we have had this discussion several times in the last few quarters. The best way to analyse our performance is on annualize basis. Having said that, we have taken several steps in the last couple of quarters. If I talk about FMEG business to begin with, we have increased our focus on premiumization whereby we are able to improve our contribution and same is true for several other businesses within FMEG. To give an example, say Fans, Premium Fans and all that. In the Cable and Wire business, the B2C business which is a retail wire is more profitable than the regular B2B Cable Business and in the current quarter, B2C Wire Business has recorded a double digit healthy growth whereas the B2B Cable and Wire Business has registered a degrowth and which is also helping us in improving our overall margin. But I will probably go back to the previous quarter when we discussed about the performance, I think for the purpose of your modelling, you can continue considering a range of 11% to 13% of EBITDA margins which is sustainable and if we follow that for your modelling purposes probably you will not have any negative surprises. Having said that I think the cost initiatives which we have taken in the recent past including what we are doing in Project Udaan is slightly getting reflected in our profitability and I am hopeful that in the coming quarters Project Udaan and other cost saving initiatives would get reflected in our P&L both at contribution level as well as in the bottom line.

Atul Tiwari: In this FMEG margin of 8%, which is obviously quite good on your small base still, is it repeated sustainably because it went sharply?

Gandharv Tongia: Yes. So, as I mentioned in my opening remarks, in the third quarter, we are expecting a charge because of IPL, which will probably, will give us benefit in the subsequent quarters as well. But from the accounting point of view, we will have to book that cost in the next quarter. But by and large, if you remember, until last quarter or until March of 2020, we were generally talking about 100 to 150 bps EBIT margin increase every year. On the basis of whatever initiatives, we have taken in last almost 100 days, I now believe that we would be easily achieve a number which is better than 100, 150 bps. I think we should wait until end of this year to firm up this guidance. But at this stage, I feel that to a great extent, whatever we have recorded in this quarter, would remain sustainable, barring couple of

percentage points because of IPL spend and change in mix of sales because one of the large business is fans, which is slightly seasonal in nature.

Atul Tiwari: That is helpful. Sir, the second one is on the -- on your comment about growth in October. So, you did mention, I think, in passing, that in the month of October, across your business segments, you are seeing year-on-year growth. So, I mean, any colour on what kind of growth you are talking about? It is more like 5% or 10%, 15% or 20%? I mean, any rough indication, low single digits, high single digits, low double digits?

Gandharv Tongia: Yes. Atul, a couple of things. One, probably 24 days in the quarter are not necessarily reflective of the performance. We will also have a Diwali break coming in, in this particular quarter, in the month of November, which could have a bearing. But as of now, if I just slice and dice the number on the base of first 23, 24 days revenue, the FMEG business is in healthy double-digit growth, followed by B2C wire and after that, it is a B2B cables. Institutional business is still a challenge. There is a significant amount of progress, from a Q1 to Q2 perspective. If you remember Q1, our institutional business degrew almost by 70% to 80%, whereas in Q2, it has degrown at max by around 30% to 40%. So, this business is still seeing a bit of a challenge. We are a distribution company. But overall, the B2C business is reflecting good growth in double digit, followed by B2B business and institutional business I think, is in red.

Atul Tiwari: Sir, my last one is on the Dangote order. How much of it is left to be executed?

Gandharv Tongia: I think we have to do around about Rs.150 Crores rounded off between October and by December. In last 25 days, we would have supplied almost Rs.40 Crores in the month of October. So, we need to do around Rs.100 crores or thereabout. But the good thing is, Atul, Dangote has given us a follow-up order of almost \$10 million. And this is in addition to what we were talking about in the last quarter, that we are focusing now on distribution-led export growth. So whatever growth we have registered in this current quarter, if I exclude Dangote, both from the current quarter as well as in the base quarter, export has increased almost by 5x. And if you remember, I was talking about in the last quarter that we would like to have at least 10% of revenue coming from exports, which we have achieved in this quarter itself. So, we would like to make it sustainable and the follow-up order we have received from Dangote is required to be supplied in next couple of quarters.

Atul Tiwari: So, this Rs.10 billion of follow-up orders will also be supplied fully by March2021?

Gandharv Tongia: Yes, yes, USD \$10 million.

- Atul Tiwari:** USD \$10 million.
- Gandharv Tongia:** It is a follow up order.
- Atul Tiwari:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.
- Aditya Bagul:** First of all, Gandharv bhai and the entire team at Polycab, heartiest congratulations, really good set of numbers amid really challenging times. So my questions, I have three questions. I think all of them are on the FMEG segment. The first question that I wanted to understand from you is whenever we have reached a sizable base of Rs.800 Crores to 1,000 Crores annually in terms of FMEG. So with this base and the growth in margins that you are confident about, can you help us understand that split the margin performance into how much comes essentially because of premiumization? How much would come through cost control initiatives? Some colour on how the EBIT margins would improve and what is the colour on that? That is question number one. Question number two is again on FMEG. If I understand correctly, I think 18% to 20% of distributors are common between FMEG and cables and wires. So, I wanted to understand whether that number is likely to improve meaningfully? Or how do we think about that sort of a metric and the third question is far more long term. One of our peers has sort of multiple sub-brands within its own umbrella. That makes it a very, very, competitive player, especially within the FMEG segment. With Levana in, do we have some thoughts on sort of expanding our product baskets into multiple brands as well? So those are the 3 questions.
- Gandharv Tongia:** Thank you for your kind words. Let me go in the same order. FMEG, you are aware that we started this journey almost 5 years back and the focus was to establish a business and we launched almost all the products in a period of 12 to 18 months. Today, probably, we are the fastest-growing FMEG brand in the country, with a positive EBIT and acceptable level of working capital. I had mentioned it in the last quarter call that within FMEG, now we are trying to review our performances into two broad categories. One, where the business is slightly larger when compared to others. For example, Fans, Light and Switchgear, where the focus is on both, improving the topline as well as the profitability. The other smaller businesses, though profitability remains a priority, the most important thing there is to increase our topline. For example, pumps, which is a small business, but has registered over 100% growth in this particular quarter. So the focus is to ensure that in existing businesses, we continue to improve our profitability and which is getting reflected in our second quarter performance.

I mentioned about a few new products, which we are going to launch in around a month or so, which would be next-generation products, IoT based and those products would be placed around premium category and that would help us in improving our profitability as well as establish Polycab as an aspirational brand. Within the existing businesses, for example, fans, though we have entry level products or one which can be fitted into typical economic category, like for e.g. Zoomer, we are making a specific focussed effort to improve penetration of premium fans and that is also true for the other product categories. So, both in the existing businesses, we want to increase the premium contribution wherever possible and improve the profitability of the core FMEG business also by taking pricing actions. The second part is introduction of new products, new-generation products, IoT and all that. So, all these put together would help us in improving the FMEG margin. As a response to the previous question, I mentioned that generally, we used to give guidance of around 100 to 150 bps improvement in EBIT margin every year. On the basis of whatever work we have done in the last 90 to 100 days, I have reasons to believe that we would be easily be able to beat that guidance. But I think it is appropriate for us to wait until year-end before we revise that guidance. But I am now more hopeful than what I was last quarter in terms of improving margins of FMEG. The last thing before I come to the next question is on the working capital. In the current quarter, we have taken several steps to optimise the working capital levels of FMEG business. To give you an example, the inventory levels, we have been able to reduce significantly. The channel financing percentage of receivables has improved, and it is now in high teens, which used to be in low teens and this activity will continue on a sustainable basis in the coming quarters as well. This will also be reflected in the performance of FMEG P&L in the quarters to come.

You mentioned about the dealers and distributors. You are right that there are common dealers and distributors. But I think I am more excited about the recent initiatives, which we have taken, wherein we want to work on identified 3 states and ensure that we are available in all the key markets within those three identified states and provide all the Polycab products, whether it is FMEG or wires. I think between now and the year-end, we would have the results of this pilot, which we are working on. Depending on the learning from this pilot, we will probably replicate it across the country. That will probably take us to each and every corner of the country; however, having said that, it is a long-term project, I do not expect that we would be able to cover the entire country in a few quarters. But directionally, we believe that is the only way to ensure that we are available across the country.

The third thing is a very important one, this is about brand. This is a question which internally we are grappling with. I think we have reached to a stage where we can finalize

our position, what we need to do as far as brand is concerned, but I will probably defer it to the next quarter or the year-end and come back to you in terms of final thought process on that and I am sure between now and the year-end, we would be able to update you on that.

- Aditya Bagul:** I think that answers all my question. Best of luck for the quarters to come.
- Moderator:** Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.
- Chintan Sheth:** Gandharv, congrats for a very good set of numbers, to the entire team as well. Gandharv, on other expenses, if you can pull out any large items, which is resetting a strong savings this quarter because if I look at the numbers, sequentially, other expenses that significantly?
- Gandharv Tongia:** Chintan, thank you for your appreciation and kind words. The other expenses have slightly changed, if I could call out 1 or 2 items. One is the exchange difference, which was sitting in the base quarter as a loss, which is not there in this quarter. The second one is, because of Ryker acquisition till last quarter, Ryker cost used to sit in subcontracting expenses. But since now it is a wholly owned subsidiary, it is getting reflected in natural line item, for example, power and fuel. And that is also giving us some sort of benefit. Overall, if you see our power and fuel has slightly optimized. But other than that, I do not expect there are any major items, which can be highlighted to you at this stage. If you wish, you may go through the entire set of financial statements, which has a complete list of other expenses as posted on our website and happy to give you inputs if you want to understand any particular line item in the other expenses.
- Chintan Sheth:** Sure. Sure. And on the export, you mentioned \$10 million of Dangote orders. So, we must have received advance this quarter or it will come in third quarter?
- Gandharv Tongia:** No. This is a recent development. So, there is no advance which is getting reflected as of September 30, 2020.
- Chintan Sheth:** But we will receive some advance from that, right? I see, like in the earlier contracts, we had some 40% of the project early on before the price started.
- Gandharv Tongia:** Yes. So it is a combination of both. But Dangote is an existing customer now, and that is where we have additional level of comfort. But yes, you are right, it would have combination of both advance as well as security as LC.

- Chintan Sheth:** Right. Any number you want to point out on the IPL cost, which will likely to accrue in the coming quarter? The run rate, how the percentage of sales will look likely, if not the absolute number?
- Gandharv Tongia:** I think we have incurred almost one-fifth of IPL spends in the September quarter and four-fifth which is 80% would be accrued in the next quarter.
- Aditya Bagul:** Thank you. That is all from my end.
- Moderator:** Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.
- Garima Mishra:** Thanks for the opportunity. Congrats on a good set of numbers. Two questions from me. First, have you thought about expanding your presence more across e-commerce? And what is the portion of your sales currently go through that channel?
- Gandharv Tongia:** Thanks, Garima, for your kind words. You already know that 80% of our business comes from distribution. 75% of the 80% comes from dealer portal, wherein our dealers key in their orders and then those supplies are made without any significant human intervention. So on the distribution side, we have already implemented it, and this 75% will only improve in the subsequent quarters. On the B2C side, we do not have such a facility as of today. But probably in a few months from now, we would have a typical e-commerce facility to provide our B2C products.
- Garima Mishra:** Second, my question is also on demand. Do you think the second quarter, you had any element of pent up demand because a lot of products, when not available in the first quarter and customers may have picked up some purchases? A related question to that, how sustainable do you think these current demand trends are because if you see from a very top down perspective, we are talking of negative GDP and incomes getting loss. So how does that tie with the very strong demand trends that you are seeing across your product categories?
- Gandharv Tongia:** Yes. I think that is an interesting one, Garima, thanks for asking. I do not think there is any significant element of pent-up demand in Q2. There was some to the extent of Q1 in the month of June or slightly partially in July, but not considerable amount in the second quarter. When we talk about GDP degrowth, I think the maximum component of degrowth is coming from this first quarter, which is behind us. And I do not expect that by and large, companies are going to witness the same amount of degrowth, which was there in the first quarter, in the coming quarters. It could vary from industry-to-industry and company-to-company, but I would be really surprised if any company goes back and

declares performance, which is more or less in line with what we experienced in the first quarter. And that is why we believe that the second half should be better than the first half. But as I called out in my opening remarks, there are some challenges, which are outside the influence of the company due to COVID environment. That is where I think we should remain slightly cautious. But overall, I think the second half is going to be better than first half.

Garima Mishra: Thank you.

Moderator: Thank you. The next question is from the line of Manoj Joshi, individual investor. As there is no response from the current participant, I have muted the line.

We will take the next question from the line of Devansh G from SIMPL. Please go ahead.

Devansh G: Congratulations on a very good set of numbers. Sir, my question was predominantly relating to the benefits, which have come from the RYKER acquisition. Sir, correct me if my numbers are right. I think we are seeing 3.5% savings in contract expense per quarter. And I think that translates to Rs.50 Crores, Rs.60 Crores. I think we did Rs.200 Crores acquisition for RYKER. So if you could just reclarify on those numbers again?

Gandharv Tongia: Sure. Thanks a lot for asking. Let me just give you a background about Ryker before I specifically deal with your particular question on saving. Ryker is a result of our thought process of having backward integration. For us, copper is the most important raw material, and Ryker converts a form of copper into another form, technically it is called copper cathode, which are generally procured by us from countries like Japan and Ryker then converts that form of copper, which is cathodes, and into rods and then these rods are used for the manufacturing of cables and wires. What we are comparing is not necessarily the correct way of comparing because till last year, this particular entity was a joint venture. As per the accounting standard, any expenses paid to a joint venture used to be disclosed as subcontracting expenses depending on nature of the item whereas now, it is a wholly owned subsidiary from May of this year, and because of consolidation principles, anything paid by Polycab to Ryker is required to be knocked off. But overall, there are savings on account of two reasons. One is we get economies of scale advantage and second is the overall quality of our purchase is under our supervision. Right from procurement to consumption, and that is where we get operational advantage. Ryker is going to help us in improving overall profitability, but I do not think the magnitude would be to the extent of what you had mentioned a while back.

Devansh G: Okay and another question was relating to exports. So probably, we used to do around Rs.50 Crores to Rs.100 Crores run rate. I think it is around Rs.190 Crores, Rs.200 Crores

this quarter. So if you can just throw some more light on the soft points on the way we are trying to build up this export business? And since we are a challenger in this export distribution-led business that we are trying to create, so if you can just throw some more light on that?

Gandharv Tongia:

Yes. So in the current quarter, we did almost Rs.225 Crores of exports as against the base quarter where we did almost Rs.153 Crores. But this export journey actually started almost 2.5 or 3 years back when the Chairman and Managing Director and other team members decided to ensure that we have all the required approvals in place. In India, you would have seen or heard some like ISI approval. Similarly, in developed countries, approvals are required. To give you an example, UL approval in the case of U.S. and that we started almost 2.5, 3 years back. Now we have almost all the approvals in place. There are a few, which we are still working on. But that is the effort which we took almost 2, 2.5 years back, and is getting reflected in the export topline now. The second thing, which we have done in almost last around 500 days or so in addition is to the Dangote sale orders which we secured, we have started penetrating the markets in the identified geographies. For example, Australia and U.S., now we have wholly owned subsidiaries in the U.S., as well as the Australia and the objective is two-fold. One is to have a local distribution presence in these developed economies, and this is what precisely we did even in India. Until 2010, 2012, we were a typical B2B business. Slowly and gradually, we started moving away from B2B to our distribution-led business. And today, we are only a distribution play. The same thing is what we want to replicate in the export arena as well.

The second thing when we are talking about export, in addition to distribution, is there are identified sectors where we want to ensure to be present, to give you an example, say, oil and gas. So we want to ensure that in the identified sector, the few select major players within those sectors should be our clients. And that is where we are making efforts. It is a long way to go but on the basis of whatever work we have done in last 2, 2.5 years, and the numbers, which we have been able to report our export revenue in the recent quarters, I think we have done a decent work there and the direction and pace is in line with what we initially contemplated.

Devansh G:

Sir, just a bookkeeping question. So this is regarding the travel and conveyance, which obviously now will be at a very low level. When do you expect this number to normalize? Because almost there is a Rs.5 Crores, Rs.6 Crores delta this quarter, which is one and also in rental cost, I mean, I think it is around normally around Rs.5 Crores, Rs.6 Crores. Over there, we have booked around Rs.1 Crores, Rs.1.5 Crores. So we have Rs.3 Crores or Rs.4 Crores delta over there as well. So if you can just reclarify on these 2 numbers.

Gandharv Tongia: So I think couple of things. COVID has changed how entire world is functioning, and we are no exception. The good thing is since last around couple of years, we started making investment in technology. The entire sales force is now on sales force automation tool and now they are not required to come to their physical offices. From their respective homes, they can directly go to the market, and we get reports with the help of technology, which we have implemented in like things like their beat paths, the number of retailers attended by them and so on and so forth. So we are leveraging technology, and that is where we feel that the travelling cost not necessarily would be a significant cost. But the export business may require some work of travel, and that is where it could almost like a comp off or an adjustment. But directionally, the use of technology will increase as a matter of fact, has already increased in the last couple of quarters. That is on this. On the rental one, I think one thing which I thought you would have already known, there is a new accounting standard by the name of Ind AS 116, and rent expenses in general are routed to depreciation line item unless there is a particular line item or particular lease cannot be covered under 116 and that is what is getting reflected in rent. But overall, rent expense is not significant in our case. And it is quite possible that rent expense on the offices would reduce in the coming quarters. I hope I have answered your question?

Devansh G: Yes. Yes, Sir, that was quite elaborate. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mayank Bhandari from BNK Securities. Please go ahead.

Mayank Bhandari: Sir, I have a question particular to your sub-contracting expense only. In FY2022, we had about Rs.199 Crores of subcontracting expense in the other expense, which was about Rs.66 Crores in FY2018. Sir, overall, what does this comprises of? Is it related to only your EPC business? Or it also as component from the cycle plant? Can you just break it down in terms of?

Gandharv Tongia: So this is the cost, which is paid to our contract employees and whatever work we get it done by third-party vendor as job work.

Mayank Bhandari: Sir, gone down significantly in this quarter. Any guidance for FY2021?

Gandharv Tongia: This has gone down because till last year, such cost used to be reflected in the P&L because it was a payment to Ryker, which used to be a JV entity. Now as a wholly owned subsidiary, it is required to be eliminated and is not required to be reflected. As a contrary to that, whatever expenses are being incurred by Ryker, say, for example, store consumption, power and fuel and all that, those have been added on line-by-line addition basis in accordance with the accounting principles as per Indas.

Mayank Bhandari: Sir, secondly, we have seen that we have done pretty good in terms of receivables in last 2, 3 years, the receivable days have improved. And we are continuously focusing on channel financing in FMEG also. Sir, next 2, 3 years, would you give any guidance for receivable like after the channel financing has increased in FMEG as well a level of, let us say, wire and cables, what you have? What would it look like overall in receivable space? Any guidance you have?

Gandharv Tongia: Yes. Mayank, we, as a company, generally, do not give guidance, but I can certainly add a few thoughts here. In the case of Cable and Wire, the channel financing percentage, our penetration is almost 60%, 65%, whereas in the case of FMEG business, it is in high teens. And that is where we have significant amount of improvement scope. In the coming quarters, our expectation as well effort would be to increase the channel financing percentage within FMEG business. I do not think it is quite possible to get to 100% channel financing. It is impossible. But even if we are able to achieve a channel financing percentage, what is there in cable and wire, in the FMEG business, this will significantly reduce the receivables because the contribution of B2C business is slowly and gradually increasing. If I talk about FMEG business, it is almost 10% of our topline. And if I talk about the B2C business, it is almost 40% of our topline. So in the years and quarters to come, I would expect this number to further improve.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Edelweiss. Please go ahead.

Manish Agarwal: Congratulations on a great set of numbers. Sir, firstly, on the FMEG part. So we are seeing great advertisements, very catchy advertisement actually doing this IPL season on our arena of lighting parts and cable and wires as well. So on FMEG business, big picture question, like are you seeing some traction? I know it is very short-term to answer but is it leading to some traction? Is there some way we do measure the consumer demand or the consumer pull that comes along? Second question, Sir, on the cable and wire segment, sir. So Sir, what is your view on the extra high-voltage segment? I mean, how big are we there? Or is it a big niche market? Some colour on that part, Sir.

Gandharv Tongia: Thanks, Manish. Thanks for noticing our advertisement, and thank you for your kind words, appreciating our advertisement. I think if I am not wrong, what you are trying to understand is whether the advertisement will result into any short-term benefits in the topline. And if that is correct, answer is yes. The time frame is unknown. But we, as a company, we believe that we have to make and continue to make investment in strengthening our brand. We have achieved a fair amount of success in last 5 years. If I am not wrong, 6, 7 years where you used to spend only Rs.10 Crores on advertisement or

probably Rs.5 Crores, but last year we would have invested almost Rs.100 Crores. So that is where we are cautious that for a B2C-oriented business, we have no option but to invest in A&P, and we will continue to do that. And this will only increase in terms of absolute amount in the coming years because the B2C revenue will increase. That is where it is going to help us in over augmenting the top line of the B2C business. This also has a rub-off effect on the B2B business. So overall, it is going to be a positive for the topline growth of the organization.

The second thing, I think you were trying to understand our overall plan of action on extra high voltage. EHV typically is done in EPC arrangement and for EPC, the company should have PQs prequalification in place. As of now, we do not have any such prequalification or PQs for EHV business. However, since last few years, we have been working on EPC business, and we have obtained a few prequalification's, not in EHV. But over the period, we have strengthened our prequalification's in EPC but if we would be able to venture into EHV only when we have EHV qualification, which presently we do not enjoy.

Moderator: We will take the next question from the line of Ankur from HDFC Life Insurance. Please go ahead.

Ankur: Good evening and congratulations on the good set of numbers. I have 2 questions. One, if you could talk about the overall industry. Obviously, the degrowth you see on the cable side and domestic business, and the kind of growth the industrial that has seen on the wire. I am assuming just like you saw this good growth on the wire business, the industry would also have. So that is one, if you could comment on that.

Gandharv Tongia: Yes. Thanks. Let us split the industry into 2 parts, one is organized, and second is unorganized. In the first quarter of whatever we were able to gather, we believe that there was a significant amount of degrowth in unorganized sector but in the second quarter, there are some signs of revival in unorganized because a few of them have been able to manage debt capital issues, working capital issues and availability of labour issues. So there, I think there is a bit of a rebound within the unorganized sector. But overall, the unorganized sector has decreased over the period, including between last year and this year. On the organized sector, I do not think we should take a view on a six months basis because overall, the private capex spend has not increased in the first six months. First quarter was not necessarily was very impressive. Directionally, the private capex has improved in the second quarter on a sequential basis. So I think we should wait until end of this year before we take our view on the organized wire and cable market.

- Ankur:** That is fair. Sir, I was asking about the overall industry degrowth in cable, if you have a number in Q2? And similarly, any numbers you can share on the overall industry growth on the wire side would be...?
- Gandharv Tongia:** You have to wait for the results of the other large players before we take our view on the overall industry level. But it seems that large players would have increased their overall top line in the B2C wire category.
- Ankur:** Thank you. That is all.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Congratulations on a good set of numbers. Sir just wanted to understand a little more on the B2B cable segment. As you mentioned, October has seen a growth across all categories. Now would it be fair to say that from March onwards, given that there has been almost a stalled work in terms of institutional projects that will kind of start picking up? For the next 6, 9 months, they should logically be a strong growth for B2B cables? Or is that something, which will come actually more back ended and will still remain sluggish for the next one of the quarter? Second is on the FMEG margin profile that we saw at a very strong level of 8%. If I remember correctly, we were talking about 100 to 200 basis point margin improvement on an annual basis each year. So does this change that guidance or that kind of an outlook in any manner?
- Gandharv Tongia:** Yes. Bhoomika, when we are trying to study the pattern in B2B, we will have to understand the overall capex - government level as well as private capex. The private capex has certainly improved between first quarter and second quarter. But I think it can further be improved. And government has increased spend, which is visible, but it can again be further improved. But I think the worst is behind us. I do not think there is any two-view about it. It will only improve from here. It could take a quarter or two to overall get to the position where all of us would like to. But significantly, I feel that overall, H2 should be competitively better than H1 on B2B. As far as B2C is concerned, I think that is already visible. Whatever we have witnessed in second quarter as well as whatever witnessed in the first 20, 25 days of October month, so I think B2C is given. But the B2B, I think, directionally should improve, but we should just be cautious and monitor it at a regular interval. On FMEG profile, Bhoomika
- Bhoomika Nair:** Sorry, Sir, just one thing in month of October, like you said, 2Q saw about a 20%, 30% decline for us in terms of B2B cable, that trend would have continued in terms of a decline into October as well? Or is there an improvement?

Gandharv Tongia: I think in the case of B2B business, we should not take up a view only of 20, 25 days because in our experience, we have seen at times, the supplies are done in the second fortnight into B2B business, and that is where 25 days sales is not necessarily be reflective. So I think we should park it for quarter and take a view on that. But directionally, what I am trying to allude to is, it looks like that B2B is now bouncing back. And in the coming quarters, we should be able get a comparatively better number what we have seen in H1. Coming to FMEG profile, Bhoomika, I do not know whether you were able to capture my earlier comment. What I was trying to highlight is, we have taken several initiatives. One is increase in the topline as well as profitability of the larger businesses within FMEG. Second, is the smaller business, where we want to increase our topline while maintaining their profitability. Third, is we want to launch new products, which are next-generation IoT-enabler product. And the fourth is focus on the working capital, where we have already reduced the inventories to a fair extent, but we can further improve there as well as increase the Channel finance percentage. So all these things put together, we feel we would be able to improve the overall FMEG profitability. I know that we used to give a guidance of 100 to 150 bps improvement every year. But it seems on the basis of whatever work we have done in the last 90, 100 days that that can be further revised upwards or on the higher side. But probably, we will wait for a quarter or two before we finally call out on the guidance. I am pretty confident on whatever work we have done so far and hopeful that FMEG profitability will continue to improve from here onwards. The only thing which I would like to call out at this stage is spend on IPL, which will be accounted for in the third quarter because the accounting standard requires us to account for it now, which from a business standpoint, probably you would agree is more like an investment. So that could slightly impact the profitability in third quarter. But overall, directionally, profitability of FMEG should improve from here onwards.

Bhoomika Nair: Thank you very much.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir. Pardon me, the questions were asked before as I joined the call today. Just one big, firstly, correct me if I am wrong, when you have highlighted around the last quarter, and also in a couple of conferences that we were tracking at a positive sales growth around August or so, July, August or so, we ended the quarter with a negative growth rate in the full year or in the 2 quarters. Anything that is deviated from that last 1.5 months or so, sir, if you could share your thoughts on that?

Gandharv Tongia: Yes. So probably, Prashant, we will have to go to the context in which we were having discussion. But on an average, if I see within the quarter on different periods a month 2 or 3, generally, the B2C business has registered growth. The B2B business predominantly because of institutional sluggishness, there is a bit of degrowth, which has been witnessed. So I am not able to recollect what was the context when we had the last discussion but broadly, the trend as of the end of the quarter is in line with what we really experienced throughout this quarter.

Prashant Kutty: Just a clarification, you said that October is now almost seeing a recovery in almost all businesses. I mean, a positive traction in almost in all businesses. Is that a fair assumption?

Gandharv Tongia: That is true. The only thing is, and this is what, again, I would like to call out, which I mentioned a while back. 20, 25 days is not necessarily reflective of the month or quarter performance. And second is institutional is still a challenge.

Prashant Kutty: Second question is on the margin part. So just wanting to understand over here if you look at it on the FMEG margins business, we far more looking at a more sustainable number, I think, reported about an 8% margin at an EBIT level. What do you think, is this clear of operations to be a sustainable EBIT margin level? I do understand your comments. You said that you will look to increase in your guidance is actually, you might even look to increase that as well. But looking at the scale of operation, and the kind of growth you are doing, I mean, even after considering, let us say, expensive IPL and so on and so forth. Let us say, a normalized basis, is 8% a sustainable number in, let us say, maybe from 1 year or two perspective?

Gandharv Tongia: Yes. So Prashant, over the medium term, we would like to get to the industry benchmark of margins. What I was mentioning to Bhoomika a while back that I think probably we will wait till the end of this year and come back to you with a revised guidance. But whatever work we have done in the last 90, 100 days gives us a lot of confidence and conviction that our margins would improve here onward but just bear with us till end of this year before we come back to you with the revised guidance on the EBIT margins of FMEG business if, at all, we need to make any upward revision.

Prashant Kutty: The last bit, sorry, is the pricing increase you have seen it rise. If you could highlight that, what was that for the quarter? I am sorry if you could highlight them.

Gandharv Tongia: Prashant, could you please just repeat? There was some disturbance on the line. I could not completely follow what you mentioned.

Prashant Kutty: Sorry. I was asking what was the pricing increase taken in wires business for this quarter?

- Gandharv Tongia:** Prashant, our business, in our case, it is a simple pass-through generally speaking. So whatever is the increase in copper, copper LME side as well as change in the foreign exchange rate in USD/INR, it generally passed on a monthly basis and that is what we have followed in this quarter as well. There is no exception there.
- Prashant Kutty:** Thank you. All the very best to you. Good performance.
- Gandharv Tongia:** Thank you Prashant. Thanks a lot for your kind words. I am glad that you liked it.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we will take that as a last question. I would now like to hand the conference over to Mr. Gandharv Tongia for closing comments.
- Gandharv Tongia:** Thank you all for taking out time for this call. In case you wish to know more about us, feel free to reach out to me or you can write to investor.relations@polycab.com. Lastly, let me be amongst the first few to wish you a very Happy Dussehra and Diwali, in advance. I hope you all have a great festive season ahead, filled with lots of happiness. Thanks a lot. Bye-bye.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Polycab India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.