

POLYCAB INDIA LIMITED

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Date: 25th October 2022

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

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

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

Dear Sir / Madam

Sub: Submission of Transcript of Earnings Conference Call held on 19th October 2022

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Conference Call held on 19th October 2022.

Kindly take the same on your record.

Thanking you

Yours Faithfully
For Polycab India Limited

Manita Carmen A Gonsalves
Company Secretary and Compliance Officer
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“Polycab India Limited
Q2 FY2023 Earnings Conference Call”

October 19, 2022

**MANAGEMENT: MR. INDER JAISINGHANI – CHAIRMAN AND MANAGING
DIRECTOR - POLYCAB INDIA LIMITED**

**MR. GANDHARV TONGIA – CHIEF FINANCIAL OFFICER -
POLYCAB INDIA LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to Polycab India Limited Q2 FY2023 Earnings Conference Call. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gandharv Tongia - Chief Financial Officer from Polycab India Limited. Thank you and over to you Sir!

Gandharv Tongia: Thank you operator and good afternoon everyone. I hope all of you are doing well. It is a pleasure to have you on the call. As operator mentioned my name is Gandharv Tongia and I am the CFO at Polycab India Limited. Thank you for joining us today to discuss our second quarter earnings. During the call we will be referring to the presentation, financial results and condensed 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 QR code on slide #10 of Earnings Presentation. From our management team, we have with us our Chairman & Managing Director - Inder Jaisinghani. Let me now hand it over to him for his opening remarks.

Inder T. Jaisinghani: Good afternoon, everyone. We continued with our strong business performance in Q2, posting highest ever 2nd quarter revenue in the current year. More importantly, we are also progressing well on our long-term strategic agenda of focusing on sustainable value creation across B2B and B2C businesses. Strong domestic economy with structural reforms focused on infrastructure development augurs well for most of our product categories. Driven by our ‘i-POWER’ values, I believe, we are ideally placed to take advantage of the market opportunity and grow steadily to achieve our FY26 LEAP goals. I now request Gandharv to take you through our earning presentation.

Gandharv Tongia: Thank you Inder bhai. Before I take you through the financial numbers for the quarter, let me give you a flavour of the macro environment. The macro has been a bit of a mixed bag during the quarter. Global economy is in choppy waters, facing twin shocks of a slowdown in economic growth accompanied by high levels of inflation. The three major world economies US, China, and the Euro Zone are facing growth decapitation, while emerging market economies (EMEs) are impacted by currency depreciation, reserve losses and foreign fund outflows besides the ripple effects of global and domestic inflation. Over the past 1 year, the global economy has gone through a fundamental shift from one of relatively predictable economic environment with low interest rates and low inflation to a world with more fragility, greater uncertainty and geopolitical confrontations.



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Despite these global challenges, Indian economy is relatively stable with improvement in capacity utilisation, buoyant formal job creation, significant bank credit expansion and government's continued thrust on capital expenditure. The central government's spending on rural development, roads and railways has progressed at a relatively healthy pace. Capacity utilisation of manufacturing sector improved from 73% in Q4 FY22 to 74.3% in Q1 FY23 and is at the highest level it has been over the past three years. We believe that the domestic economy is likely to remain resilient in H2, with rural demand catching up and urban demand likely to improve further with the typical upturn seen in the second half of the year.

Moving on to the presentation, please refer to slide number 4. For the quarter ended September 2022, our consolidated revenue grew by 11% YoY. Please note here, that this growth has been achieved on a high base of last year, whereby, high commodity prices had helped the sector post good sales numbers. In comparison, the current quarter sales have been achieved in a decreasing commodity price and increasing inflationary environment, primarily on the back of strong volume growth in the Cable & Wire business. EBITDA margin for the Company improved by 307 bps year-on-year and 149 bps quarter-on-quarter to 12.8% on account of strong growth in exports and judicious pass through of the benefit of decrease in commodity prices. A detailed break-up of the other income and finance costs have been provided on slide 14 of our earning presentation. PAT for the quarter increased by 37% year-on-year with PAT margin improving by 154 bps year-on-year to 8.1%.

On slide #5, we have presented the key numbers for the first half of the year. Our revenue in H1FY23 grew strongly by 25% YoY; EBITDA was up by 73% with 12.1% margin and PAT grew by 82% YoY. The growth percentages are seemingly higher on account of a weak base.

Moving on to segment-wise performance, please refer to slide #6. Our wires and cable business continued the strong momentum, with sales growing 13% year-on-year on a relatively healthy base, despite softness in commodity prices. Both domestic distribution as well as institutional business posted healthy growth. Revenue growth was driven by volume sales growth, which grew in double-digits on YoY basis. The highlight of the quarter was the strong momentum in the exports business which exhibited a remarkable growth of 75% year-on-year on a healthy base, led by strong orders from USA, Europe and Australia. Globally, we are seeing good demand from sectors like Oil & Gas, Renewables and Infrastructure. Overall, exports business contributed to 13% of the consolidated revenue in Q2 FY23, up from 6.7% last quarter. Our focus on achieving consistent double-digit contribution target over the medium-term for this business remains intact. EBIT margins for



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Cable and Wires segments increased by 304 bps year-on-year to 11.7%, mainly driven by exports and judicious price revisions.

Please refer to Slide 7 for an update on FMEG business. The quarter was soft for FMEG business as it de-grew 12% year-on-year on account of subdued demand environment due to high inflation, especially from rural markets. This was further exacerbated for us as we are in the midst of re-alignment of our distribution strategy, which I had explained during the last quarter's earnings call. This transition is a multi-quarter journey, which is expected to be completed by the end of the current fiscal. So, one should consider FY23 as a base year for FMEG business and expect the business to post decent growth from FY24 onwards. During the quarter, the fans businesses, which has been our largest revenue generator in FMEG product portfolio, was additionally affected on account of an off-season. The switch business, which was affected due to supply side challenges, regained its growth momentum in Q2FY23, as we started production in our own manufacturing plant, posting 123% quarter-on-quarter growth. We expect strong sales momentum to continue in H2FY23 as well.

Last year, we took a strategic decision to merge the HDC and LDC verticals. We have started to realize the benefit of this merger in the form of operational efficiencies and cross-selling. With similar thoughts, we have taken two very important strategic decisions during the quarter of merging the Fans vertical with Lights & Luminaries vertical; and merging the Retail wires vertical with Switches and Switchgear vertical. We found significant overlap between the distribution channels of these verticals, which we can optimize by merging them, as well as generate higher business through cross-sell, availing larger share of the customer's wallet. Team optimization will also help in faster rolling out of GTM initiatives at a leaner cost base. We can also streamline the marketing and influencer management platforms to increase efficacy.

Moving on to slide 8, which gives an update on our other businesses, which largely comprises of our strategic EPC business. We clocked revenues of Rs 826 mn in Q2, a growth of 4% year-on-year. Segmental margin for the same stood at 17.0%. Annual sustainable operating margin in this business is expected to be in high single digit over mid to long term.

Overall, our financial position continues to remain healthy with debt-to-equity ratio of 0.02x and net cash of around Rs 1,660 Crore. Our efforts to optimize working capital is also taking shape well as we are seeing good optimization of receivables as well as inventory.



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Slide 9 is a new slide, wherein we have given a break-up of our sales mix between B2B and B2C as well as through Dealers & Distributors vs Institutional vs Exports. During our recent NDRs to London and Singapore, we found a lot of confusion in the minds of the investors on what can be classified as B2C. A lot of them confused B2C with dealers and distributor generated sales. So, we thought we should explain the difference between the two. A B2B or B2C sale is based on the product's end user. If the end-user of the product is an individual-consumer, it is classified as B2C, and if it used by a business, then it is B2B. So, on the FMEG side, our entire product portfolio, and on the Wires & Cables side, housing wire business are included in B2C. The remaining products, viz. HDC, LDC and other cables and the EPC business are categorised as B2B. Polycab has been historically a B2B driven business, and since FY14, when we introduced the FMEG business, we have been incrementally shifting to a B2C driven business. As can be seen from the charts, contribution of sales through B2C medium has increased to 38% in FY22 from 34% in FY19. A completely separate classification of business can be through the means of sale, which is either through dealers and distributors, directly to institutions or via exports. Strong distribution channel has always been our strong point, with its contribution in generating sales having increased to 84% of the total sales in FY22.

Now, let us delve deep into the key updates of transformational "Project Leap". To recap for everyone, under Project LEAP, we are working on four key strategic themes, namely Customer Centricity; Go-to-Market Excellence; Winning with new products; and Setup of organization and digital enablers.

Under our Customer Centricity approach, as I referred earlier, we had merged the HDC and LDC segments in FY22 with a view to redesign the operating model of the B2B business and making it more customer centric. We have started to realize the benefit through this merger in the form of incremental cross-selling revenues within H1FY23 itself and which will scale up in the future. Also, under the customer centric operating model, we have now been able to map 39% of primary sales to end-customers. This has helped us to have deeper insights into customer dynamics, enabling us to generate 1.1 times secondary sales from these customers via repeat orders.

Under the agenda of improving our Go-To-Market strategy, we have been focusing on expanding reach to whitespaces such as regions where we have no presence or marginal revenue generation. In H1FY23, we penetrated 120 new cities, generating Rs 112 Cr of incremental revenues from these districts. Geography-wise, the penetration has been quite board based, with the break-up of new cities being 30% from South, 26% from North, 16%



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each from West and Central and 13% from East. We also added 115 new distributors in retail wire business and 187 new distributors in FMEG business in the current year.

As part of winning with new products strategy, we have identified gaps and opportunities and have created a product portfolio roadmap of 300+ new products to be launched in the coming future across large B2C businesses. Most of these new products will be in the Fans and Lights verticals, which will leverage the merged operational efficiencies of common distribution network to increase cross-sell. Another important strategy under this theme has been to increase our presence across price points to cater to complete set of customer's demand. Under this, we have been focusing on premiumization of our offerings, especially in the FMEG category. I am very happy to inform you that during the first half of the year, contribution of premium products in the Fans and Light segments have increased to high teens of the total revenues generated through channel distribution. ETIRA wires, an economically priced wire segment that we launched in FY22, has also been very well received with the product contributing 11%+ of overall sales of retail wires in the 9 months of CY22.

As far as setup of digital enablers is concerned, we are now moving to completely transform our Company into a digital first organization. We have segregated our IT into two sections – first, the current IT team, which will continue to look after the back-end technological requirements within the Company. And second, we have now created a separate Digital vertical, which will be focused on advancing our business initiatives by focusing on: 1) end-to-end digitization of front-end sales; 2) enhancing customer experience; and 3) enabling access to relevant data to perform deep analytics to better understand customer demand. To drive this initiative, we have recently hired our Chief Digital Officer, Mr. Ritesh Arora, from one of the large Indian organizations.

So that was the update on Project Leap for the first half of the year. We will continue to share periodic updates on the progress we make and are excited to see how rest of the year pans out. Thank you and with that I hand it over to operator for Q&A.

Moderator:

Thank you very much. We will now begin the question and answer session. We have a first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan:

Hi! Sir, congrats on a good set of numbers. My first question is with respect to the kind of volume growth that would have been seen in the wires and cables business given the fact that second quarter copper prices have dropped by 16%-17% year-on-year was our volume growth more than 20%-25% kind of growth in wires and cables business?



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- Gandharv Tongia:** Thank you Ravi for your kind words. You are right, whatever revenue growth we are seeing in value terms by and large has been driven by the volume growth and this mainly is coming from the cable and wire business. HDC and LDC vertical, it would defer from product-category to product-category, but generally, I would believe that the growth is between mid-to-high teens across the product categories. The second reason of the growth is exports which I was alluding to in the opening remarks. Exports, in the first half, was almost 10% of our topline and there also there is a broad-based recovery of growth, we have traction from geographies like US and Australia and with countries like Spain and EU, so it is a combination of both exports as well as domestic. And domestic would be generally between mid to high teens depending on the product category.
- Ravi Swaminathan:** Our working capital has come off a lot so basically from 60 odd days it has come down to 44 days any reason behind that?
- Gandharv Tongia:** When we spoke last I was trying to explain you how we are trying to optimize the working capital and there are two or three elements of that particular thought process, one is on the receivable the objective is to improve the channel financing penetration. In the cable and wire business, it is almost 75%. In FMEG business, it varies from product category-to-product category, but it would be generally between 60% to 70% and that has helped us in improving the number of days of receivables, which is hovering around 25-26 days now. The second part is on inventory and trade payables. One is we want to optimize the inventory which is currently around 90 days which is sustainable and second is we want to broadly map or marry our number of days of payables with inventory with a gap of 10-15 days and that is how you can see the number of days of working capital which is around 40 or 45 which is nothing but 25 days of receivables and 20 days of delta between inventory and payables. I would believe 45 to 50 days is sustainable number for at least few quarters from now.
- Ravi Swaminathan:** Got it Sir thanks I will come back in the queue.
- Moderator:** Thank you. We have our next question from the line of Atul Tiwari from Citi. Please go ahead.
- Atul Tiwari:** Thanks a lot, and congratulations on a good set of numbers. Just one question on FMEG business. So could you flesh out in a little bit of a more detail, what exactly is being changed in the distribution channel and why has it impacted the sales so much because one would have thought that pre-festive season, despite this kind of interruption, probably, FMEG revenues should have been a little higher and second question from that is that once

you are done with all these changes this year, so in FY24 and FY25, what kind of revenue growth can one expect in FMEG business on this year?

Gandharv Tongia: Let us pick up the first question first. We forayed into this FMEG business almost seven years back and we took several decisions which were relevant and apt for the first phase of FMEG growth. Today, we are at Rs. 1,250 Crores topline business with complete almost all in-house manufacturing facilities almost 2,000 dealers and distributors in our team, but if you want to further scale this business we have to make some changes. To give you an example, the few of the dealers and distributors who helped us in journey phase one of FMEG not necessarily would be able to help us in scaling this business to say 5x from now in few years and that is where we have done a very scientific analysis of our current dealers and distribution network. We have picked up a few areas where we believe we need to probably up our game, in few of the cases we had to replace the existing dealers and distributors or in few of the cases we have to help them in accelerating the pace of the growth and that is what is getting reflected in current quarter's number. My sense is this will continue for at least till March of the next year and from next year onwards we should be able to get to a regular routine growth trajectory. I won't be able to give you a specific guidance on a number for the next year at this stage but safe to assume that FMEG would play a very significant role in achieving Rs.20,000 Cr of topline by fiscal 2026.

Atul Tiwari: That is fair and my second question is on cables and wires, so if I remember correctly in the last quarter the volume growth was impacted because of channel destocking so would you attribute some of this mid to high teen growth to channel filling and what is the level of inventory, has it normalized or is the channel filling is it still continuing?

Gandharv Tongia: Give and take few percentage points, I would believe the inventory in the channel is by and large comparable between second quarter and first quarter and I will tell you why because we believe that our channel partners, they need not to carry more than optimum level of inventory since we are any which ways carrying inventory for them. We have strengthened our SCM over the period and now we have ability to supply goods immediately or within one or two days and that is why I would believe that whatever inventory levels we have today in the channel are optimum, it should continue in the quarters to come. The another thing is in which I am sure you would be able to relate is if they carry higher level of inventory with referring to channel they are exposed to price fluctuation which is an unwarranted risk whereas if we are carrying we have a established hedging framework and we know how to mitigate that risk and that is also the reason why we are persuading our dealers and distributors to optimize the inventory level, work on better return, work on higher turnover or higher turn and get more returns from the risk.



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- Atul Tiwari:** Great thanks a lot.
- Moderator:** Thank you. We have our next question from the line of Sonali Salgonkar from Jefferies India. Please go ahead.
- Sonali Salgonkar:** Thank you for the opportunity and congratulations on a great set of numbers especially the margin expansion given the copper volatility. My first question is regarding the current demand scenario any updates you would like to give on the current demand especially the feelers you are getting from the festive demand?
- Gandharv Tongia:** You know this already India is a consumption powerhouse and from one or the other pocket you will always have good traction on demand side. As of now we are seeing fair amount of traction on the private capex and that is where our institutional business has also registered growth in the second quarter. Having said that, generally speaking, second half of the year for our industry as well as for our company is better than the first half and I would expect in the third quarter and fourth quarter to have better performance on what we have already achieved in the first and second quarter.
- Sonali Salgonkar:** Could you help quantify the price revisions that you have been talking about in both cables and wires and FMEG?
- Gandharv Tongia:** I think broadly it would be in the mid teens, there is a delta of ranging between 1% and 2% between the decrease in input cost at the product basket level vis-à-vis the changes which we have made in our selling price both would be in mid teens and the price reduction is slightly lower than the benefits which we have received on the procurement side.
- Sonali Salgonkar:** One bookkeeping question our other non-operating income this quarter has come out to be negative so any thoughts on that?
- Gandharv Tongia:** So other income has two elements one is sustainable income which we are getting on the deployment of surplus cash either in fixed deposit or mutual fund and that is in line with the expectation and trends. The other part is mark-to-market accounting which we have to do as per IFRS and which again is a mark-to-market has no cash implication but it is in compliance with the accounting requirement.
- Sonali Salgonkar:** Last question from my side, so your cash position has almost doubled on a year-on-year basis, any thoughts on the utilization of cash or are you revising your capex guidance at all?



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- Gandharv Tongia:** You are right we have been able to improve our cash balance to almost Rs. 1,600 - Rs. 1,700 Cr now because of two reasons, one is the business itself is generating fair amount of cash and second is we are slightly more focused than what we were earlier on the working capital, and you can see the working capital has reduced to almost 44-45 days now. Having said that, I think there are two or three opportunities for us for deployment of this cash. One is capex, we have been doing around Rs.400 Cr of capex every year and we expect that we will continue to incur something similar in years to come. Having said that, we are in discussion internally as well as with the BCG team and we are in the process of identification of additional opportunities where we can make more investments to get better returns. The second is M&A opportunities. You are aware we did a very small transaction last year in the form of Silvan, which was acquired in June of last year as a 100% subsidiary and coincidentally, the Board has also approved merger or amalgamation of the subsidiary with the holding co. So, we will continue to scout for opportunities and up our game on M&A side. The third is dividend payout ratio. Since the time we got listed, three-and-a-half years back, every year we have increased the dividend payout ratio and we expect that we give adequate returns to our shareholder as part of dividend payout and whatever is then left, as part after getting something for war-chest, we would like to then give it back to shareholders.
- Sonali Salgonkar:** Got it Sir, very clear. Thank you and all the best.
- Moderator:** Thank you. We have next question from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Hi good afternoon Gandharv. My first question is on the changes that you had made on the FMEG business, just want to understand it a little better are these changes being made largely at the dealer end or at the end of the sales team?
- Gandharv Tongia:** It is across and the idea is to get closer to the customer. So if you think from the Polycab's end, the sales teams are being merged. Earlier we used to have separate teams right from the BU head to the TSI and we are now trying to merge that at our end. So if you visualize a particular geography you will have a particular person who is getting the requirement of both the businesses lighting as well as fan and similarly is true for retail wires, switches and switchgears. On the distribution side the way we have started doing cross-selling of HDC and LDC dealers we will continue to do something similar in these merged businesses of fan and lighting as well as retail wire, switches and switchgears. So it is both, integration of team at our end - sales team, plus integration of cross-sell at the dealers end.



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Aditya Bhartia: Why is it leading to this kind of a disruption is it that channel inventory is going down or we are taking away certain dealers without being able to appoint new dealers and distributors in the same area at the same time where exactly is the challenge?

Gandharv Tongia: I do not think there is any challenge. These are strategic decisions which we have taken and we are implementing it and that is where whenever you do a bit of a course correction you would witness some softness in the numbers. The another sector is external environment on the FMEG side is slightly softer. For example, fans, which contributes almost 35%-40% to our topline, this is slightly a non-season quarter for that particular business vertical and that is why it got impacted and as I was explaining to Atul a while back, that as part of our GTM revamp we have identified few dealers and distributors where we believe we need to either replace or support them and that exercise is taking some time and in such exercise you would expect some slowdown during the implementation phase. I would expect from the next fiscal we would be back to our regular growth trajectory.

Moderator: Thank you. We have our next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Hi Gandharv, thanks for taking my question. Just want your commentary on the export side because this quarter also exports have been very strong. So if we remove the exports and look at like-to-like on a domestic it is almost like just about 6% value growth and I think you have highlighted that mid teen volume assuming 15%-16% copper price decline is this number sustainable in export because generally you talk about order books when export comes in, so which we saw let us say in case of Dangote and also can you highlight that this number looks sustainable you have that visibility in order book for the exports that is my first question?

Gandharv Tongia: Even if we exclude exports, the domestic business would have almost like a double digit growth existing for volume and value. As far as exports is concerned, I was alluding to this in the last call, we are not looking for one off orders, what we are trying to do is have sustainable distribution presence in identified geography and this is what we did in India between 2011 to 2016. Our focus was to have distribution-led business rather than institutional led business. Today, almost 85% of our business is coming through distributors and something similar is what we are trying to do in overseas market. It will take a while, but we believe that is more sustainable. We have fair amount of presence now in countries like US and Australia. This quarter, we got some traction from Africa and Spain in EU. The objective is to get into additional geographies, ensure that you have all the relevant



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approvals in place and slowly and gradually set up own distribution channels in the key geographies.

Nitin Arora: Then from the domestic side the question was more that 8%-10% volume growth was also used to happen pre-COVID we generally used to be 10%-12% growth company the question here is despite you said the levers like private capex institutional business is firing is doing good we are doing the same volume growth which is good but I am asking from a perspective that where is that weakness which you are seeing because of the inflation or general slowness in the economy which you highlighted in the starting that would be helpful?

Gandharv Tongia: One is the growth numbers you mentioned are not comparable with the current period numbers, current period numbers are mid teens to high teens and to that extent there is a delta between the numbers you mentioned vis-à-vis what actually we have delivered. Second is I do not think we should take a view on half yearly basis we should wait for this year to pan out and after that we should ascertain the actual growth because generally speaking H1 is only 45% of the annual revenue and H2 would be almost 55% so we have to wait till the fourth quarter and then see what type of volume growth we are able to achieve.

Nitin Arora: Got it. Thank you Gandharv and all the best. Thank you.

Moderator: Thank you. We have our next question from the line of Shrinidhi from HSBC. Please go ahead.

Shrinidhi: Hi thank you for the opportunity. Just couple of questions from my end. So when there was a very impressive ramp up of Etira brand with almost double digit contribution of retail wire business just wondering in your view large part of this business that comes under this brand is an incremental business or it could be cannibalizing some of Polycab brand's revenue as well?

Gandharv Tongia: There is some amount of cannibalization which is there but by and large is incremental.

Shrinidhi: Just one more question here is export business some of the competition does talk about export business being a much lesser profitable business given the lot of trade costs involved in the distribution and all so just wondering in case of Polycab is this an incremental export opportunity that companies are targeting is it broadly a similar margin business that you have in domestic market?

Gandharv Tongia: Yes similar margin business but with slightly better working capital.



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- Shrinidhi:** Okay great. Thank you. Those were my questions.
- Moderator:** Thank you. We have our next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Good afternoon, thank you for taking my question. Just two of them one is can you help us understand what is the capacity utilization for both the segments?
- Gandharv Tongia:** In cable and wire, it is between 65% and 70%. As far as FMEG is concerned, because this quarter was soft, there is slightly lower utilization, but if I were to give you a historic view, Fan's Roorkee facility is optimally being utilized and the new facility like switches and switchgears is being ramped up to meet the current requirement.
- Achal Lohade:** You are saying you plan to incur 400 to 500 Cr of capex towards the cable and wire business. Is it in a particular sub segment or it is across the board?
- Gandharv Tongia:** Out of the Rs 400 Cr, around two third will go to cable and wire and one third for to FMEG. Within cable and wire, it would be broad-based including in some facilities which are required for export businesses, a bit of backward integration as well as some amount of maintenance capex and on FMEG it is primarily for adding new capacity for example switches or switchgear and like that.
- Achal Lohade:** Just second question there was one media article about the litigation with Atomberg can you help us understand this particular issue and what is the outcome and implication for us in terms of impact on the numbers?
- Gandharv Tongia:** Yes, there was a particular model of fan which contributes immaterial value to our topline both at the fan vertical as well as the company vertical. One of the peer companies opted for a litigation alleging that their model is similar to ours. We believe that we have a fair case the matter is currently sub judice, there was an interim order which was passed by the Honorable Court and the hearing is now scheduled I think next month and we will be able to present our side and then we will get guided by the court order. We are confident of our position. Having said that, the contribution of that particular SKU is immaterial to both fan business as well as to the company.
- Achal Lohade:** But at this point in time have we done any recall of the products, or it is still status quo?
- Gandharv Tongia:** So we are in complete compliance of the court order, we have not done any new transaction on this particular SKU.



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- Achal Lohade:** Understood thank you and wish you all the best.
- Moderator:** Thank you. We have our next question from the line of Amit Bhide from Morgan Stanley. Please go ahead.
- Amit Bhide:** I had two questions, first is that I wanted to understand that the FPTPL adjustment in other income is that related to the commodity hedges that we do on the copper purchase side or is it something else?
- Gandharv Tongia:** I think you are trying to understand on FPTPL accounting. This is not hedging, this is for the ineffective portion and which is required to be done end-to-end and which is what we have done, this has no cash implication, this is only an accounting entry which is required to be recorded as of the quarter end.
- Amit Bhide:** It is not related to the commodity hedges that we are doing in the wires for copper purchases right?
- Gandharv Tongia:** It is not related to copper purchases it is an element of ineffectiveness which is required to be accounted and that is what did.
- Amit Bhide:** Other thing I just want to understand is that we have mentioned that FMEG business partly was affected also by the rural demand slowdown so how much is the contribution of rural in our FMEG business right now and apart from Etira what are the other plans to boost the rural presence?
- Gandharv Tongia:** We are working on both rural as well as urban market, we have started appointing our dealers and distributors in the rural market and Etira is offering which will help us in further penetrating the rural market. As far as contribution to rural business to FMEG is concerned, it is not very meaningful at this stage but I think these initiatives which we have undertaken in the recent past would help us in gaining some momentum as well as market share in the quarters to come.
- Amit Bhide:** That is helpful. Thank you.
- Moderator:** Thank you. We have our next question from the line of Akhilesh Bhandari from ICICI Prudential AMC. Please go ahead.
- Akhilesh Bhandari:** Thank you for taking my question. Sir my question is on the FMEG margin - so if you look at your revenue, it is broadly flat quarter-on-quarter, but the segment margin is negative and



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your A&P spend has also come off sequentially which coupled with whatever changes you are doing for merging the team, if anything, that should reduce the slack which is there in terms of opex so what explains the reduction in margin, is it only the additional cost for the new switchgear, switches facility or there is something else as well which is impacting the margin?

Gandharv Tongia: I want to clarify this merger which I had mentioned a while back is effective October so this September numbers are any which ways after considering the actual expenses which were incurred on these two separate verticals. Broadly the loss or slight negative EBIT number is because of reduction in topline. The gross margin is by and large comparable between first and second quarter and at the organization level the expenses have not gone up so it is just because we are not getting leverage because reduction in topline by 10% to 15% which is why the EBIT is negative.

Akhilesh Bhandari: If comparing quarter-on-quarter, quarter-on-quarter your revenue is same and your A&P spend is down so why would your EBIT from 6 Crores positive move to negative in the FMEG segment that is my question?

Gandharv Tongia: You are absolutely right that if you compare first quarter with second quarter there is a slight movement but if you actually see that exact number you are talking about mid-single digit number which in its large business is possible I had mentioned about some hiring which we have done which is getting reflected and there is some investment which we have done from the IT and digital, but I would like to emphasize that there is no contraction in the contribution margin which is the one of the important parameters in our FMEG business. It is only organization cost which is reflecting into this negative margin and as I was explaining to the another participant a while back we are confident of getting 10% of EBITDA margin by fiscal 2026 in this particular business.

Akhilesh Bhandari: So if you were to look at the broad pricing level of your products in FMEG segment that would be flat quarter-on-quarter or you have passed on some of the benefits to the consumers?

Gandharv Tongia: It would vary from product-to-product but it would have a combination of both of these factors and that is why I am saying there is no negative surprise on contribution margin. Contribution margin impact as a matter of fact a few of the product category is better in second quarter than the first quarter.



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Akhilesh Bhandari: Any broad range which you can mention of the price change which has happened on a sequential basis?

Gandharv Tongia: The net impact would be in low single digit or between 0 and 3% type of the change in the input cost vis-à-vis the change in selling price.

Akhilesh Bhandari: Got it Sir, thank you so much.

Moderator: Thank you. We have our next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Good afternoon, thanks for taking my questions and congratulations on a good quarter. Just two from my side. One was, I just wanted to clarify the mid to high teens volume growth number that you shared was that for the second quarter or for the first half and if it is for the quarter if you could please share the comparable number for the first half as well?

Gandharv Tongia: This was for the second quarter. I would not have that first half numbers handy, but to the extent even the first quarter was not comparable because in the base first quarter there was a COVID impact.

Abhijit Akella: Sure, understood thank you. And the other thing I just had was on the A&P spending line. Once we start to see some pickup in the FMEG topline starting fiscal 2024, should we expect significantly higher investment in the A&P next year and if so is there a ball park number you could guide us to?

Gandharv Tongia: Absolutely, in fact we have already started working in that direction. We believe as a B2C company we need to invest on A&P, we have already onboarded A&P consultants like Interbrand and Ogilvy. As of now, we are discussing with them our roadmap and execution should start pretty soon. We believe anywhere between 3% and 5% of B2C revenue is what we need to invest, and this will be done gradually over the period of time.

Abhijit Akella: Thank you so much and wish you all the best.

Moderator: Thank you. We have our next question from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.

Gopal Nawandhar: Thanks for the opportunity. I have two questions, one can you just explain this MTM element which you have referred in the other income, what kind of hedges we are taking here?



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- Gandharv Tongia:** This is in compliance with Ind-AS accounting requirement as far as hedging framework is concerned. This is being done in a particular structured manner. When we procure our commodity, we get an option to price it at a date subsequent to the procurement date and that is how we manage commodity. In few cases when we get back-to-back orders, we have an option to also go to bank and take back to that position. On the sales side, we revise our list price on a monthly basis for cable and wire and that is how it becomes a pass through. Whatever accounting you are seeing is on because of end-to-end accounting of the ineffective portion which is in compliance with the Ind-AS requirement but it is not a cash item, it is a non-cash adjustment.
- Gopal Nawandhar:** What is the amount?
- Gandharv Tongia:** In the first half for the second quarter it will be almost Rs.15 Cr-Rs.20 Cr negative and for the first quarter it would be around Rs.25 Cr.
- Gopal Nawandhar:** The second question was on this BEE rating changes. How well we are prepared and how are the inventories for us or in the system for the older rating fans?
- Gandharv Tongia:** We are fully prepared. In fact, when we acquired Silvan last year, the objective was to be ahead of the curve. Slowly and gradually, we have our product portfolio in place, we have everything in place for BEE as well, we have in-house motor, we have other product offering, a few of the products have already been launched and as far as non-compliant inventory is concerned there is nothing material which is there whatever is balance is being offered to our customers or dealers and distributors presently.
- Gopal Nawandhar:** Same will be the case for other players or others might have higher inventory?
- Gandharv Tongia:** No, I don't have a view at the industry level at this stage but certainly I can assure that at our company level we do not have any sizeable non-compliant inventory as of now.
- Gopal Nawandhar:** Should one expect any pre-buying ahead of these rating changes?
- Gandharv Tongia:** Yeah, so any of these transformation changes would have one or the other implications. We believe changes like these would be positive because it will drive the sector to better compliances, better quality of the product and at a country level it will help us and we are getting into energy conservation. In the interim it is quite possible because all the players face some difficulty but I think for a large player like us we believe is a positive.



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Gopal Nawandhar: Lastly on FMEG side this decline in commodity prices and all should one expect better margins in H2?

Gandharv Tongia: I would probably take you back to our leap guidance which is for FY2026. We believe by then we should be able to get to 10% of EBITDA margin in FMEG space. I would not like to give you a particular guidance for the second half but you can practically assume from next year onwards every year there will be some improvement in EBITDA margin.

Gopal Nawandhar: Sure thanks.

Moderator: Thank you. We have our next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, my question is linked to your initial comments where bulk of the growth has actually come from exports for our company in the quarter and the domestic growth it is very low. I do not know how your calculation shows 6% but it is lower than that it does not coincide with then your commentary for domestic outlook if you could just shed some more light there and does this export growth have any impact extra or positive impact on the margin side?

Gandharv Tongia: Yes, of course we can do the math and happy to have an offline chat with you, but broadly, just to give you a specific, Copper LME and USD INR, exchange rate was significantly higher, blend of all of these things were similarly higher in the base quarter vis-à-vis what is there in the current quarter and that is where whatever growth you are seeing is by and large coming only from volume. As far as exports is concerned, exports the margins are generally comparable at times because of a mix and at times because of the realization we are able to get better profitability but I would not like to single out only exports as a reason for better contribution margin it is combination of everything including exports.

Pritesh Chheda: For these BEE rating products now, is the notification done and dusted and there is a deadline beyond which the non-BEE will not be sold or is still ambiguous?

Gandharv Tongia: As of now the way it has been notified by the government is done and dusted but if there is a revision by the government then there is a different thing.

Pritesh Chheda: What is the deadline now?

Gandharv Tongia: January 1, 2023.



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- Pritesh Chheda:** Thank you very much.
- Moderator:** Thank you. We have our next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddha Joshi:** Sir any update on Etira brand, apart from wires, have we introduced the product or the brand in any other segment and what would be total distribution reach of Etira that is one question and secondly in case of cables and wires do we have any different pricing as far as B2B and B2C is concerned most of the portfolio goes to the same distribution channel so is there any difference in the pricing policy as well as the margins of those products? Thanks.
- Gandharv Tongia:** Quarter after quarter it is getting more traction. It would have generated almost 100% revenue CAGR between Q4 of last year to Q1 or Q2 of this year. In fact, Q2 is slightly better than Q1 there from Etira. This is a focused effort and as I was explaining earlier this will help us in further penetrating the rural market or the cost conscious category of our customers and sorry I forgot what was the second part of your question?
- Aniruddha Joshi:** Is Etira launched in other segments too apart from wires?
- Gandharv Tongia:** So it is in wires and **switches** being done now which was a very recent development.
- Aniruddha Joshi:** In terms of the pricing in B2B and B2C cables and wires as well as a realization policy?
- Gandharv Tongia:** So let us take this in two product categories let us pick up wires first it is generally done only through distribution there is no B2B or institutional business for wires and the wires are generally more profitable than traditional core cable businesses. At EBITDA level, the margin difference could be as high as 3%,- 5%. On the cable side, institutional business is slightly inferior in terms of margin profile then the distribution business.
- Aniruddha Joshi:** Okay Sure Sir thanks.
- Moderator:** Thank you. We have our next question from the line of Arshia Khosla from Yes Securities. Please go ahead.
- Arshia Khosla:** Thank you. Sir congratulations on a good set of numbers. My question is with respect to Etira, just wanted to understand how is it placed versus the unorganized brands in terms of pricing, what kind of premium are you charging?



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Gandharv Tongia: The difference is not very significant, it would be at max mid to high single digit, but it is comparatively better quality or specification products and another important thing which is helping us is availability. Our products are available wherever we want them to be available and that is also helping us in getting some traction from the customers and market.

Arshia Khosla: Thank you. That is it from my end.

Moderator: Thank you. We have our next question from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Sir, I wanted to know about the civil ageing schedule which you have given in your annual report the other projects what are they pertaining to?

Gandharv Tongia: These are backend civil projects where some delays were there, but I expect all of them to be completed in the next 9 to 12 months.

Akshay Kothari: Can you touch upon the backward integration project. So how are they expected to give us benefit synergies if you can touch upon it?

Gandharv Tongia: Philosophically, we believe that if we have a complete control of the entire value chain we can get better quality and which is what is getting reflected in customer's confidence in our products over the period and that is also one of the reasons why we have achieved number one position in cable and wire business. We practically have 24%-25% market share today in organized cable and wires business or industry. Whatever backward integration we are doing either the copper or steel or on a familiar site for other components is expected to give us more confidence on the positive side, as a byproduct it is quite possible we get better margin. But the objective is not cost-led, objective is quality led.

Akshay Kothari: Who was the rest 25% in steel matrix?

Gandharv Tongia: There is a local promoter family involved and they have a business interest in this particular sector and the adequate expertise and that is why we have decided to partner with them. The project has not yet been initiated too.

Akshay Kothari: Okay thanks a lot and all the best.

Moderator: Thank you. We have our next question from the line of Nikunj Gala from Sundaram AMC. Please go ahead.



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Nikunj Gala: Hi! Good afternoon everyone. I have just two questions firstly in the wires and cables revenue if I just look at Y-o-Y there is 11% growth and I think as you mentioned the pricing revision is to the tune of mid teens then in the volume growth also is in a tune of mid teens then 11% growth I am not able to reconcile can you just help me with that?

Gandharv Tongia: When I was talking about mid teens, I was talking about Q1 to Q2 and I think what you are trying to consider volume growth is from base quarter to this quarter and this is where there is disconnect. Between first quarter to second quarter, the changes in the prices have been passed on to the end customer while retaining a part of it and that is where you can see improvement in contribution margin by a few basis points. As far as volume growth is concerned, between last base quarter to this quarter, in cable and wire, it has been just between mid teens to high teens.

Nikunj Gala: But even on a Y-o-Y basis the copper prices are down by 17%-18% so the same pricing revision would be on a Y-o-Y right in our end product?

Gandharv Tongia: Yes, you are right but then there is a difference between the price which you are taking because there is a price at the retail level of copper whereas what we get is the best price because we procure it from the larger suppliers worldwide. So, for our lender price is significantly different from what you get from the retail.

Nikunj Gala: Just secondly how big would be the retail wire contribution in our total revenue?

Gandharv Tongia: So, retail wire would be around 30% now and all businesses put together FMEG plus retail wire both put together would be around 40%.

Nikunj Gala: So just want to understand from the accounting of revenue perspective this retail wire till date was residing in cable and wire business right?

Gandharv Tongia: Yes, and even today also.

Nikunj Gala: I am saying when we have mentioned we will merge retail wire with the switch business so there would not be any accounting of revenue change from the business?

Gandharv Tongia: No changes. The reportable segment continues to be cable and wire and FMEG and that is how we will continue to report, there is no revision in the reporting segment.

Nikunj Gala: Only route to market we have done this merging of two businesses?



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- Gandharv Tongia:** Absolutely that is the correct understanding.
- Nikunj Gala:** Okay, thanks Gandharv.
- Moderator:** Thank you. I would now like to hand the conference over to Mr. Gandharv Tongia for closing comments. Over to you Sir!
- Gandharv Tongia:** Thank you so much for your time. In case if you have any followup questions please feel free to get in touch with us. You can write to investor.relations@polycab.com and we would be happy to assist you. I do not know whether I will get another opportunity to interact with you before Diwali and here I am wishing all of you, your team members and everyone at home a very Happy Diwali from me as well as everyone from Polycab. Have a great time ahead. Thank you so much.
- Moderator:** On behalf of Polycab India that concludes this conference. Thank you for joining us. You may now disconnect your lines.