Q&A with the CFO

Polycab plans to maintain capex levels between ₹10-11 billion annually over the next three years, enabling it to not only meet current demand but also positioning the Company for sustained growth and market leadership in the future

Gandharv Tongia

Polycab completed 5 years since its listing in 2019. How has the Company transformed since its listing compared to the period before going public?

Since its listing, Polycab has undergone significant changes, marking a distinct evolution from its pre-IPO status. While the structured journey towards improvement began for Polycab with the infusion of investment by the International Finance Corporation in 2009, laying the groundwork for a shift from a promoter-led entity to a professionally managed Company, the transition has meaningfully picked up pace post listing.

Over the past 5 years, Polycab has strategically recruited seasoned professionals from prestigious companies, enhancing its leadership pool with diverse expertise. The day-to-day operations of all business segments are now overseen by professionals who assume full P&L responsibility, mirroring the role of a CEO. While promoters remain on the Board to provide guidance, their focus has shifted primarily to strategic decision-making, effectively functioning as change catalysts. Further, collaborations with esteemed global consultants such as Bain & Company and Boston Consulting Group have provided valuable insights and strategies for growth and efficiency.

Polycab has embarked on a continuous journey toward implementing best-in-class corporate governance practices, evident through various initiatives. The Company's commitment to transparency and accountability is reflected in its long-standing partnership with Big 4 auditors for both external and internal audits, ensuring rigorous scrutiny of financial practices. With half of the Board comprising Independent Directors, and all major committees chaired by them, Polycab demonstrates a commitment to fostering transparency and effective oversight.

These efforts have translated into improved business performance for the Company, with Polycab consistently increasing its market share year after year, achieving industry-leading growth and profitability. In fact, over the past two years, Polycab has been the most profitable Company in the electrical industry. Furthermore, Polycab has identified new growth opportunities by expanding its international business and focusing on the special purpose cables market in India, positioning itself for sustained future growth.

Overall, Polycab's transformation post-IPO underscores its dedication to operational excellence, strategic foresight, and robust corporate governance, positioning it for sustained success in the market.

The Company has increased capex multi-fold in FY 2023-24 as well as have guided higher capex levels for the near term. What is the rationale and at what levels will it stabilise?

The Company's decision to substantially increase its capex for FY 2023-24 and forecast higher levels in the near term is grounded in several key factors related to our estimates of demand and supply.

India is in an Infrastructure upcycle. With the government's heightened focus on long-term infrastructure development, marked by increasing budget allocations, extended planning by various infrastructure ministries, and an improved execution pace, this accelerated growth is expected to sustain, driving strong demand for cables. While generally the infrastructure cycle in India is 8 to 9 years long, we expect this cycle to be different and longer this time around. Favourable economic conditions, including continued government capex, controlled inflation, deleveraged corporate balance sheets and higher capacity utilisations are expected to stimulate private investment in the near future. This resurgence in private capex, combined with government initiatives like 'Make in India' and production-linked incentive scheme, will fuel demand across various sunrise sectors, including renewables, electric vehicles, data centers, and defence. The ongoing upcycle in the real estate sector is anticipated to drive higher demand for wires over the next 6 to 8 years, further contributing to the need for expanded production capacity. The cables and wires industry is already witnessing robust growth, growing at early double digits, from mid-to-high single digits earlier, and this momentum is projected to continue at an elevated pace over the next decade.

As the country undergoes this transformational phase, Polycab remains committed to contributing to nation-building, as we have done over the years. To effectively deliver on this promise, we have augmented our capital expenditure to enhance our manufacturing capacities. Previously averaging between ₹3-4 billion per annum, we have reported an increase in capex to ₹8.58 billion for the current year. Looking ahead, we plan to maintain capex levels between ₹10-11 billion annually over the next three years. This strategic investment is aimed at not only meeting current demand but also positioning the Company for sustained growth and market leadership in the future.

When can we anticipate the unveiling of updated targets for Project LEAP, considering the Company's notable advancements towards its initial objectives?

With three years elapsed since the inception of Project LEAP, the Company has made significant strides towards achieving its Project LEAP targets and gained substantial insights into which goals are likely to be attained and which may require adjustments. Encouragingly, on account of the robust demand being witnessed in the cables and wires business, the Company is on track to surpass its top-line goal of reaching ₹200 billion ahead of the initially projected timeline of FY 2025-26, showcasing commendable progress in revenue generation. The goal of enhancing international business' contribution to the Company's top-line is also poised to be met, prompting consideration for a revision upwards given the substantial opportunity for international business growth, which could significantly enhance the Company's overall revenue trajectory in the mid-to-long term. However, achieving profitability targets for the FMEG business appears challenging, indicating potential revisions in this segment.
On account of the cable business' outperformance relative to wires and FMEG, the targeted B2B:B2C mix of 50:50 too will be delayed.

The Company emphasises the efficacy of setting mid-term goals, spanning three to five years, as an ideal approach to business growth. Such targets not only provide stakeholders with clarity but also instil confidence in the Company's strategic direction. Within the current financial year, the Company plans to unveil its next set of mid-term goals, signalling a commitment to transparency and future planning.

In summary, while the Company has made commendable progress towards its Project LEAP objectives, adjustments and refinements are anticipated based on the evolving business landscape and performance dynamics. The forthcoming announcement of revised mid-term goals underscores the Company's proactive stance in navigating towards sustained growth and value creation.

International business registered only marginal growth during the year. What is the reason and the near-to-mid term outlook?

To ensure higher and more profitable long-term growth, the Company is undergoing a significant business model transformation in its international operations, starting with its largest export market, the USA. Similar to the successful transition experienced in India a decade ago, the Company is transitioning to a distribution model in the USA. This is a time-consuming exercise. The Company anticipates this transition to take approximately 3-5 more quarters to stabilise. Additionally, during the second half of the concluded financial year, external factors such as the Red Sea crisis have impacted delivery timelines to the European region, leading to delay in fulfilment of orders from these geography.

While the international business exhibited lower growth this year, the Company remains optimistic about its mid-to-long-term prospects. Once the newer distribution model stabilises and temporary disruptions subside, the Company anticipates a resurgence in international sales, contributing meaningfully to its top-line growth.

The anticipated growth in FMEG has faced yet another delay of a year. What strategic changes is the Company implementing, and what are the expectations regarding top-line and bottom-line growth following these adjustments?

Over the past three years, as part of Project LEAP, the Company has focused on four key areas to enhance the FMEG business: distribution expansion, brand building, new product development & innovation, and influencer management. While the strategic blueprint remains sound, we are working on some incremental improvements to enhance execution quality.

A crucial aspect of this adjustment involves restructuring the vertical. The Company is transitioning to a streamlined structure with one B2C head supported by deputy business heads, each overseeing specific product categories. Majority of the deputy business heads have already been onboarded. This restructuring aims to enhance focus, accountability, and agility in decision-making, thereby accelerating execution pace and improving outcomes. Furthermore, the Company will look to decentralise decision-making. This shift is expected to empower local teams, foster innovation, and enhance responsiveness to market dynamics.

Collectively, these changes aim to enhance the agility and effectiveness of the FMEG business strategy. The new team will need 3 to 4 quarters to execute the strategy effectively. After stabilisation, the Company anticipates robust growth in the FMEG segment, surpassing industry averages. Additionally, profitability is expected to gradually improve, with the target of achieving a 10% EBITDA margin range being reinstated over time.

These strategic adjustments reflect the Company's commitment to unlocking the full potential of the FMEG business and driving sustainable growth and profitability in the long run.

In last couple of years, the business has seen a significant improvement in EBITDA margins. What factors will influence the future direction of these margins?

The noteworthy enhancement in EBITDA margins observed over past couple of years can be attributed to a variety of factors, including changes in the business and product mix, operational leverage gains and improvement in gross margins through strategic initiatives. Looking ahead, several variables will shape the trajectory of these margins.

Firstly, the mix between domestic cables and wires will be crucial. While domestic cable business yield lower margins compared to wires, the former has been experiencing higher growth rates. Additionally, the level of advertising and promotional (A&P) spends will play a significant role. The Company has committed to increase in its A&P expenditures, to spending between 3% & 5% of B2C top-line every year on A&P. In FY 2023-24, the Company spent 3.7% of its B2C top-line towards brand building. Margins may be impacted positively or negatively depending on the relative spend levels year-on-year.

Moreover, the contribution from international versus domestic business will influence margins. Currently, international operations contribute to higher margins; however, the future performance of this segment will determine the overall margin direction. Furthermore, operational leverage, which was bolstered by robust utilisation levels of 70%-80% in FY 2023-24, has been instrumental in margin improvement. However, as the Company expands its capacity through increased capex, utilisation levels may decrease, exerting some downward pressure on margins.

Despite the impending capacity additions by peers in FY 2024-25, the Company remains optimistic about demand growth outpacing supply, mitigating any material pressure on margins. Moreover, the long-term EBITDA margin guidance for the cables and wires business remains steady at 11%-13%. Additionally, the gradual improvement in profitability of the FMEG business is anticipated to contribute positively to the Company's overall profitability.

In summary, while various factors may influence margin direction in the future, the Company remains focused on sustaining and optimising margins through strategic initiatives and prudent management of operational dynamics across its diverse business segments.

What are the Company's strategic priorities in the near to mid-term?

In the upcoming near to mid-term period, our strategic priorities revolve around optimising performance across both domestic and international segments, leveraging the robust demand momentum witnessed in the cables and wires business while enhancing our foothold in the FMEG business.

Within the domestic cables business, our primary focus remains on outperforming competitors by expanding distribution reach, enhancing product offerings, pre-emptively investing in capacity expansions, accelerating new product development, and expediting product approvals, particularly for emerging sectors.

Similarly, in the wires segment, our strategic emphasis lies in brand enhancement initiatives, implementing a price laddering strategy to cater comprehensively to diverse customer segments, and capturing market share in Tier 3 to 5 cities by leveraging our ETIRA wires offering to displace unorganised players.

Internationally, our strategic focus centers on obtaining certifications and approvals in additional countries and securing partnerships with new end customers to expand our global presence.

In the FMEG business, our immediate objective is to streamline execution processes and adhere rigorously to the identified roadmap. Subsequently, our focus will shift towards achieving market share gains by targeting growth rates better than industry averages and steering the FMEG business towards profitability.

Overall, our strategic roadmap for the near to mid-term underscores our commitment to capitalising on market opportunities, enhancing operational efficiencies, and driving sustainable growth across all business segments.

What are the latest developments regarding the Company's ESG strategy?

The Company's ESG strategy has seen significant advancements since its inception. Last year, we formulated a comprehensive ESG framework and Charter, outlining our commitment to addressing material ESG topics. This year, notable progress has been made on the ground across all identified material topics.

To bolster our ESG efforts, we have engaged the expertise of an experienced consultant to provide guidance across various aspects of ESG implementation. This strategic partnership has enabled us to gain valuable insights and streamline our approach towards sustainable practices.

Additionally, we have undergone assessment by a prominent global ESG agency, S&P Global, to gauge our performance and adherence to ESG standards. This evaluation serves as a benchmark for our progress and helps identify areas for further improvement.

Looking ahead, we remain dedicated to enhancing our ESG compliance by identifying innovative approaches and implementing them rigorously. The Company is committed to continuous improvement and proactive measures to ensure our ESG initiatives align with our long-term sustainability goals.

What final message would you like to convey to the readers?

As I reflect on the past year, it fills me with immense pride to acknowledge the industry-leading growth achieved by the Company. This remarkable accomplishment has been made possible by the unwavering support and trust of our esteemed stakeholders, including shareholders, distributors, retailers, suppliers, bankers, Board members, and employees.

Moving forward, the management remains steadfast in its commitment to driving the Company's progress and positioning it to seize the vast opportunities that lie ahead across all business segments. With a dedicated focus on innovation, customer satisfaction, and operational excellence, we are poised to elevate Polycab into a globally recognised brand, resonating with customers and stakeholders worldwide. I express my heartfelt gratitude to all who have contributed to our success and look forward to continuing this journey of growth and excellence together.