Q&A with the CFO

A tête-à-tête with Gandharv Tongia

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What are your key learnings from the last two years of disruption due to the pandemic?

One key learning from our experiences in the recent past is that it is not enough to be agile and resilient if a corporate has to gain significant competitive advantage. These are now a given for any organisation trying to navigate its way through the dynamic and complex business environment of today. In fact, these attributes must be deeply etched in the corporate culture to enable it to be nimble and intuitive in its functioning. What is increasingly becoming evident in a world marked by disruptions is that organisations have to maintain a fine balance of self-reliance and dependence across its value chain. Another key learning is that organisations have to self-disrupt and make themselves future ready. This consideration of being proactive towards change is what made us design Project Leap – a programme to not just unlock our latent growth potential but also reinforce organisational capabilities by leveraging data and technology, strengthening relationships with trade partners and influencers, and creating a tangible positive difference for communities and the environment among other things. We have partnered with global management consulting firm Boston Consulting Group (BCG) who will help us to drive this Project. At Polycab, the pandemic has also prompted a rethink on how to create a wining work environment which prioritises work-life balance while fostering creativity and innovation.

How is the business recovery shaping up post the third wave?

I think the vaccination drive, along with the government's calibrated approach to contain the spread of infection, has been successful in creating a positive economic environment. Despite the sharp rise in cases during the third wave, there was limited impact on business activity. Barring a few pockets like Institutional business, we saw steady, broad-based recovery across our businesses. The fact that volumes were up in all four quarters despite inflationary pressures suggested that the demand environment was healthy. The government's policy support and reforms have helped. Policy reforms targeting infra development, if implemented correctly, can kickstart a virtuous Capex cycle, which bodes well for our business. However, rising inflation can have ramifications on consumer demand. Hence it imperative for us to innovate, to have the right products at right price points. Regardless of the near-term challenges, our central focus remains on being a part of India's long-term growth story and riding its robust consumption narrative to achieve industry leading growth.

Some M&A activity was visible during the year. Can you provide some rationale for it and how are you looking at it going forward?

We executed two transactions during the year. In June 2021, we acquired 100% stake in Bengaluru-based Silvan Innovation Labs Private Limited (Silvan). Silvan's IoT based automation products and solutions portfolio, coupled with our robust go-to-market capabilities, show great synergy. Furthermore, the two brands – Silvan and our organic smart home automation brand, Hohm – put together, give us a strong foothold in the IoT space. We have leveraged Silvan's technology to upgrade our existing FMEG portfolio with new features. Now, with most of the integration done, we are in the process of consolidating this subsidiary into Polycab.

In November 2021, we executed one of the largest deals in Polycab's recent past by divesting 100% stake in Ryker Base Pvt. Ltd. (Ryker) for an enterprise value of about ₹3,230 million. Ryker played a strategic role by manufacturing and supplying copper wire rods, and thus providing a key input for the manufacture of wires and cables. However, considering the suboptimal utilisation of capacities and focus on our core business, we decided to exit this venture. Having said that, we simultaneously executed a multi-year tolling arrangement with Hindalco, which is also the buyer parent, by which Ryker will continue to process and supply high quality copper rods to us at mutually beneficial commercials. This ensure that our strategic agenda of having a robust visibility over a key input remains protected. The divestment was also a decisive step towards disciplined and optimal capital allocation.

As far as inorganic growth strategy is concerned, we still don't see any multinational or large acquisitions in the near term as Project Leap leaves us with enough organic growth opportunities to explore. However, we are keen on exploring partnerships or deals with technology driven and B2C companies which can help augment our portfolio.

We initiated a project to create our long-term ESG framework, which will be aligned with international ESG protocols and guidelines.

How do you look at ESG and what are the steps the Company is taking in this direction?

As I mentioned earlier, creating a tangible positive difference for our communities and the environment is one of our key priorities. While we have been passionately working on several sustainability initiatives, we realised that if we structure our initiatives effectively, we will not just improve the efficacy of our efforts but also push ourselves to do more. Accordingly, we have made ESG one of the four pillars of Project Leap. Subsequently, around December 2021, we initiated a project to create our long-term ESG framework, which will be aligned with international ESG protocols and guidelines. This framework will provide us a sustainable outlook towards the environment and society alongside our business goals. We have partnered with a reputed management consultant who is helping us assess the materiality of various factors, evaluate gaps, develop long-term targets, and integrate ESG-linked KRAs into the business strategy. While we have a long way to go, we are clear that we want to champion this cause and also achieve industry-leading ESG scores as a testament to it.

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We have created a strong centralised governance system which will ensure timely execution of all initiatives and the overall plan.

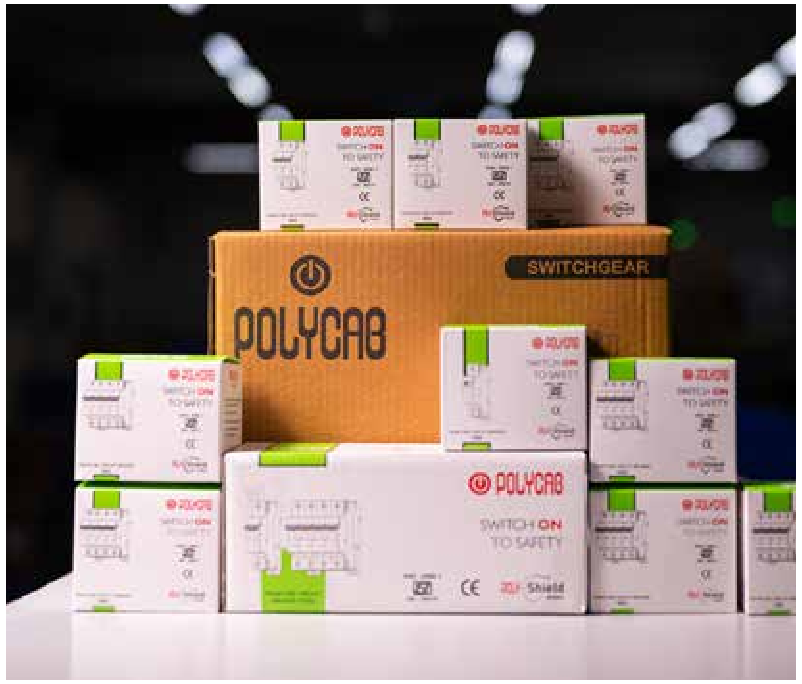
How is Project Leap progressing?

FY22 was an exciting year and we made significant progress on Project Leap. While there was a multitude of initiatives implemented across businesses and functions, broadly it revolved around four key areas – setting up the right organisation enablers, improving customer centricity, augmenting go-to-market and re-energising the product portfolio. Details on each of these areas will be mentioned in another section of this report. Essentially, we have created a robust platform by putting the building blocks in place. For instance, we now have the right team structure and operating model for most businesses. We have an exhaustive medium-term road map which clearly defines our growth drivers, margin drivers, new product pipeline, geographic penetration plan etc. We have also acquired and deployed state-of-the-art technology and digital tools. Furthermore, we have created a strong centralised governance system which will ensure timely execution of all initiatives and the overall plan. Internally, we are seeing rapid changes in the way we think and operate, and I am sure the business will continue to deliver market-leading performance over the medium term.

What are your Capex targets for the next few years?

We believe our annual business capex will likely continue to be in the vicinity of ₹3 billion-4 billion for the next few years. This will include maintenance as well as green and brownfield projects. Most of these investments are likely to go either into developing new products to expand our portfolio or expanding capacities wherever needed. A lot of our focus is on sweating our existing assets. All capital spends above a defined minimum threshold, are monitored and controlled to ensure they are value accretive to the Company. I believe this will encourage an efficient, scientific capital allocation which will result in higher asset turns as well as return ratios.

I would also like to highlight that towards the end of the year, we made a large one-off investment for buying office space in Mumbai. As we move forward, our teams are expanding, and the current Head Office building does not have the space to accommodate the growing team. At the same time, we are mindful of one other important element – the need to have adequate open spaces for cross-functional collaboration. Hence we have invested about ₹2 billion to acquire over 55,000 sq ft. of office space. A part of this cost will be compensated by monetisation of existing land and building. We are quite excited to move to our new Head Office, hopefully, by Q3 of the next fiscal.



In the backdrop of unprecedented inflation, how do see your margin trajectory?

Inflationary pressures which began building up in FY21 have largely persisted through FY22. Prices of our key inputs such as copper and aluminium have touched all-time highs while displaying significant volatility in the interim. While most of the inflation was passed on to the end-user, we took a tactical call to face the inflation in select categories within the cables segment in order to increase our competitiveness and capture market share aggressively. This is largely reflected in the 230 bps dip in the operating margin during the year. However, I believe the worst is behind us. We saw a healthy sequential improvement in margins through the last three quarters. And we are working towards better profitability in FY23 with a favourable operating leverage, premiumisation and calibrated pricing hikes.

What are your views on Corporate Governance practices at Polycab?

We have come a long way in building a robust corporate governance framework upon our cherished foundation principles of integrity, transparency, reliability and proactiveness. We have a well-defined risk management structure supported by detailed SOPs and policies. We have moved away from legacy controls by leveraging technology and implementing numerous automation initiatives. Our in-house designed compliance tool tracks over 4,400 activities, ensuring adherence to the highest industry standards in areas such as HR, manufacturing, taxation, secretarial and accounting etc. Our Board, comprising renowned Independent Directors, along with the executive management, is actively engaged in developing an effective business strategy and guiding the Company towards its vision. Project Leap is the result of this consistent drive. During the year, our technology efforts of implementation of several inhouse IT tools focused on strengthening governance, improving decision accountability and tracking business progress were acknowledged by Confederation of Indian Industry (CII) under CFO Excellence Award.

At Polycab, executive compensation is meticulously linked to individual and corporate goals through a robust performance management system. We are amongst the few companies globally which disclose condensed financial statements every quarter. We have won the prestigious ICAI Award for Excellence in Financial Reporting for FY21. Our credit rating was upgraded by Crisil as well as India Ratings in the past year and is just a notch below top now. All this recognition exemplifies our efforts to build our stakeholders' trust. I think given our relatively short history since listing, the general awareness about our activities are a bit low. But it is a journey, and we will continue to reinforce our values and stick to our principles.

CRISIL

India Ratings & Research

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Any parting message for readers?

We are on a mission to bring a positive change to communities, the environment, economy and everyone connected to Polycab. For that, we count on your unending trust and support. I would like to thank our Board, senior leadership, team members, trade partners and customers for their faith in our ability to create sustainable value.