“Polycab India Limited Q2 FY20 Earnings Conference Call”

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Moderator Ladies and gentlemen, good morning. And welcome to the Polycab India Limited Q2 FY20 Earnings Conference Call. As a reminder, all participants will be in a 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 the 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 – Deputy Chief Financial Officer. Thank you and over to you, sir.

Gandharv Tongia: Thank you operator and a very good morning to everyone. It is a pleasure to have you guys on the call. I am Gandharv Tongia – Deputy CFO at Polycab India Limited. Thanks for joining us today to discuss our Q2 Earnings. During the call, we will be referring to presentation that is available on our website, as well as on the websites of stock exchanges. From our management team we have Mr. Bajaj who is our Whole-time Director and CFO. Our Chairman and Managing Director is likely to join us in a few minutes, but in the interest of time we will continue with the presentation.

Before I take you through the presentation, let me give you a flavor of domestic macro environment. While the recent government impetus bodes well for overall economic industrial infrastructure growth in the country, the sluggishness in demand from various end user industries, which we highlighted in the last quarter as well, largely continued in Q2. Adverse weather conditions in several pockets of country further alleviated this stress. Having said that, if we look at our performance, it has been very pleasing. Our top-line growth in the quarter has been, driven by various strategic initiatives that we have undertaken over the past many years, like strengthening of our distribution channels with the help of focused initiatives such as the Project Josh and Bandhan, diversification of our portfolio and revenue streams, backward integration and improved brand awareness.

While the market conditions may remain challenging in the near future, we believe our sustained efforts to improve our market condition, along with government's proactivness to rejuvenate demand investment is likely to drive healthy and consistent growth over medium to long-term. Before moving on to specifics of the quarter, I would also like to inform that our financial results, presentation and the interim contents, financial statements are available on the Investor Relations page of our website. These financial statements and results have been reviewed by the statutory auditors. It can also be downloaded through the link on Slide #10 of our presentation.

I will now take you to slide #4. We saw a strong top-line growth of 24% year-on-year, driven by healthy performance in cables and wires, as well as FMEG segment. Our revenue from operations stood close to Rs. 22.4 billion compared to Rs. 18.1 billion last year. And EBITDA, excluding other income, was close to Rs. 2.7 billion in Q2. EBITDA margin improved slightly by about 25 basis points year-on-year and almost 60 basis points on quarter-and-quarter, predominantly led by changes to mix and realization. Having said that, we would like to emphasize that the right way to analyse our operating profitability would be on annualized basis, as several dynamic factors can weigh on quarter-to-quarter margins. Overall, we believe our annualized sustainable margins in wire and cable business typically tend to hover in the range of 11 to 13%.

Our profit before tax grew by 66% year-on-year, driven by decreased finance cost reflecting the lower borrowing compared to previous year. A detailed breakup of other income and finance cost has been provided in Slide #14 of earnings presentations, as well as in the condensed financial statements which have been uploaded on the website. Our profit after tax more than doubled growing by over 117% year-on-year, partly aided by recent reduction in statutory tax rates.

Moving on to the first half ended September 2019, our revenue, EBITDA, PAT grew by 20%, 28% and 98% year-on-year respectively, driven by robust growth across segments, higher contribution, lower finance costs and reduction in tax rates.

The quarter is yet another example of how the diversity of our growth levers come into play. Wires and cables which is our largest business saw a strong top-line growth of 25% year-on-year, led by healthy channel as well as institutional sales. Export grew strongly, led by a large cable order which we started supplying from the current quarter. Cable witnessed healthy growth led by exports and institutional sales. Wires, which is largely sold through our distribution network grew in double-digit. Higher sales, optical fiber cable in Q2 compared to previous year provided a further fillip to top-line and margin in this segment.

The EBIT margin in this segment declined to 10.7% largely due to unrealized foreign exchange loss and higher brand investment in the second quarter of the year. SME segment which we forayed into almost five years back continues its healthy momentum growth at over 42% year-on-year during the quarter, contributing about 9% of our overall top-line. This is optically lower compared to previous quarter, primarily due to seasonality factor in our fan business. Fans and light business saw healthy traction in the quarter. On a half year basis, FMEG segment group 52% year-on-year driven by portfolio augmentation and distribution expansion.

Recently, we launched our first ever Polycab Experience Centre in Mumbai and Pune. These centers will enable consumers and trade constituents to experience and choose from a wide range of products. They are placed in iconic electrical market hubs, which also serve as important feeders to the western India market. We aim to set up more search experience centers across key cities in due course in order to deepen the connect with direct customer and retailers. We also bolstered our consumer lighting portfolio with several new panels and energy saving sensor battens. As a result, our lighting business saw strong off-take. Fans, which is one of our larger business within FMEG continued to see healthy traction on a year-on-year basis. We expect the healthy growth in business to sustain on the back of strong product innovation pipeline. During the quarter, we also commissioned a new water heater manufacturing facility which will help us improve our product offerings.

Moving to the other segment, which is largely EPC business witnessed healthy growth in revenue and profitability, led by execution of profitable projects. Having said that, we expect margins in this business to remain in high single digit on annualized basis, which we believe is sustainable.

Moving on financials, which starts with Slide #11. Our return ratios have improved. ROCE stood at 26.3% which is up by almost 220 bps year-on-year, primary due to improved profitability. Our debt equity ratio now stands at a mere 0.05x, and we have a net cash position of nearly Rs. 4 billion. On the working capital side, which is on Slide #14, our networking capital days on a trailing 12 month basis have improved to 46 days. This was largely on account of an improvement in our receivable days which manifests from higher contribution of channel financing. Our inventory levels have normalized as a pent up inventory as Ryker plant was consumed during the current six months. We are also working on several initiatives like improving channel financing in cable and wires as well as FMEG business, and inventory rationalization to improve and optimize our working capital, and we expect it to bear fruits progressively.

Lastly, we continue to strengthen our distribution backbone. Our retail outlet reach as of September 2019 stands at over 120,000 outlets with over 3400 dealers and distributors across geographies. Our Project Josh initiative was expanded further to 123 locations. Project Bandhan which was launched in 2017 now touches over 100,000 electricians and over 35,000 retailers.

Before concluding my remarks, I would like to highlight that we are stepping up our investments in innovation, marketing and talent. And this, along with our relentless focus on profitable growth gives us immense confidence to drive business on a sustainable upward trajectory.

With this, I would like to hand it over to the operator and we will be very happy to take any questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is on the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Basically I just want to understand on the FMEG side. So we have been delivering strong numbers, but can you throw some light on the secondary sales, like how the secondary sales have been turning out and what would have been growth over there?

Gandharv Tongia: So, the stock in the pipeline is not significant. Generally speaking, the stock levels are consistent when compared to last quarter. Whatever growth we are seeing is more or less reflective of secondary sales.

Manoj Gori: So, in terms of export orders, what have been the export contribution during the current quarter?

Gandharv Tongia: So, the most important export order is coming from Dangote which is almost roughly around Rs. 100 crores in the current quarter. Overall export number would be around Rs. 200 crore in the current six months.

Manoj Gori: Sir, in the current domestic market if we look at, which have been the key sectors that have been driving growth for us?

Gandharv Tongia: So, as you can see cable and wire, both have registered very good growth rate, predominately wire which has contributed growth in double digit, followed by cable. FMEG, our base is quite low, that has helped us in improving our top-line. EPC business, the growth is coming predominantly because of execution of several profitable projects. So it's a growth across all the business segments, product categories, as well as if we go geographically, across all the locations whether it is domestic or international.

Moderator: Thank you. The next question is from the line of Tarang Bhanushali from YES Securities. Please go ahead

Tarang Bhanushali: Sir, I wanted to check on the EPC business side, what would be our unexecuted order book at the end of Q2?

Gandharv Tongia: Tarang, as you know, EPC is a strategic business for us and we are not in this business, we are not an EPC company, we get into EPC business whenever we get some sort of leverage on our cable and wire business. And that is why we don't track EPC business order book. But just to give you a number, we have a healthy order book, but the correct way of looking at our EPC business is, it should to be around somewhere between 3% to 5% of our top-line, barring one particular contract which we are executing in Western India, which is helping us in optical fiber.

Tarang Bhanushali: So, during the quarter what would be the OFC share in the total execution?

Gandharv Tongia: So, OFC business there are two elements to it, one is the cables supplies and second is execution of EPC contract which I just referred a while back. So, execution business is accounted for in the EPC, whereas the supply of optical fiber is accounted for in cable and wireless segment. In the first quarter, the OFC supply was almost Rs. 60 crores odd, and second quarter the number is broadly in the similar range.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Just a couple of questions. Firstly, on cables and wires. If I am not mistaken, for the Dangote order, your total order book is about Rs. 1,000 crores and you have executed Rs. 100 crores, is my understanding correct on that?

Gandharv Tongia: That's right. Your understanding is right. The number is almost around Rs. 950 crores. This is a US dollar denominated numbers, so Rs. 950 crores is the correct way to analyze it. Out of that, approximate Rs. 100 crores is the revenue which we have recognized in the second quarter.

Aditya Bagul: Sure. And is it safe to say that a large chunk of this will be executed in FY20?

Gandharv Tongia: So, from the order understanding point of view, the expectation is to complete the supply in the current fiscal. But as you know, Aditya, these are large projects and there are several factors which are beyond the control of the customer. And not necessarily all the supplies will be done in the current year. But if they ask to supply in the current year, we have all the ability to do that, but depends on the factors which would play at the end of the customer.

Aditya Bagul: Understood. Gandharv, just one last question from my end. Even if exclude Rs. 100 crores from our cables and wire segment, the revenue growth for this quarter is 14% and that is a spectacular number, given that our competitors are doing to mid to high single-digit kind of a revenue growth in Q2. Just wanted to understand, given our size how are we able to gain market share so significantly? And especially in wires as they are growing ahead of cable.

Gandharv Tongia: So, Aditya, you know there are two important things in cable and wire sector, one is the growth of the sector itself. And the second is the shift from unorganized to organized. That shift of unorganized to organized is happening, is what we can see. And both of these things are helping us in growing our market share. Another important thing is, we have been able to penetrate the market sales by adding additional dealers, distributors and retailers. And that is also helping, because if you are available where eventually the customer is residing, then your ability to convert that enquiry in to order goes up. And Project Josh, Project Bandhan, these are the projects which are helping us in achieving these things.

Aditya Bagul: Interesting. Just one follow-up on that. Is there also a chance that most of our peers are operating at high utilization levels, and they have not put up incremental capacities in the last few years? So, is it because of that they are not able to pick up chunky orders and we are able to do that, is that also one of the reasons?

Gandharv Tongia: I mean, I would not necessarily have visibility in a formal call to talk about on the peers capacity utilization. But what I would like to certainly highlight is the spend which we have incurred in last four or five years, which almost Rs. 1,200 crores in CAPEX, is a significant positive for our company, and that's certainly helping us in getting additional inquiries and orders.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alpha Advisors. Please go ahead.

Rajesh Kothari: Just a few questions from my side. One is, you mentioned that the EBIT margins are lower because of the mark to market of FOREX loss, I thought that would come under the other income or other expense. So can you little bit elaborate on that? And also along with that, can you also give the breakup of other income?

Gandharv Tongia: So, the mark-to-market loss is considered in other expenses, which has been accounted for in the current quarter, is reflective as a separate line item in the other expenses. If you go through our financial statement you will be able to see that as a separate line item. The other income details are given on Slide #14 of our presentation, and you can also see numbers of other income, other expenses from there.

Rajesh Kothari: No, I am saying the breakup of that. So that other income, say apart from interest income, so what is the total FOREX loss, first of all?

Gandharv Tongia: In the current quarter the FOREX loss is almost Rs. 15 crores.

Rajesh Kothari: Compared to last year?

Gandharv Tongia: Last year, it was a case of gain.

Rajesh Kothari: How much gain is it?

Gandharv Tongia: Just give me a minute, I will give you the amount. But last year it was a gain, and this year it is a loss.

Moderator: Thank you. The next question is from the line of Anand Babnani from Unify Capital. Please go ahead.

Anand Babnani: Sir, your sharp improvement in working capital as compared to the year end FY19, do you anticipate that this improvement would be sustained as we close FY20? And is this improvement structural or is it more of like half yearly, if you can just help us understand that?

Gandharv Tongia: Working capital are very important area in our business, and in fact after IPO we learnt that working capital is an area where we have to pay more attention. There are two major important components of working capital, one is receivable and second is inventory. Receivables, we have been able to reduce the number of days consistently, predominantly because of, one, better discipline and credit management. And second, with the help of channel financing. This channel financing percentage in cable and wireless is hovering around in 60s today, in FMEG it is in single-digit to teens. These numbers can go up, and that is why we believe that overall receivable numbers progressively will reduce over the period. This number if you are seeing on Slide #14 of receivables used to be almost 70, 80 days four, five years back, so we have covered a bit of a ground on receivables in last few years.

Coming to inventory, inventory is a focus area. We are also taking help of an external management consultant just to ensure that we maintain and optimize the inventory level. At the same time, we are able to supply to the customer in minimal time period, so that we can reduce the lag period between the placement of order and actual delivery of the goods. Inventory is strategic, it will take a while to achieve what we want to achieve. But directionally we are very clear that working capital in our business can be and should be improved.

Anand Babnani: Sir, this Rs. 15 crores FOREX loss, was it on the commodity or was it on the FX rate itself, and for commodity how much was it for steel versus copper versus aluminium?

Gandharv Tongia: So, before I answer that question, let me give you a broader perspective. Our business, generally speaking, movement in commodity as well as movement in FOREX is a pass through. Because if I give you an example of the pricing in the case of channel, it is updated on a monthly basis, based on previous month average of LME as well as FOREX. What happens is ,when you are drawing up the financial statement, if you have an open position you have to do a mark-to-market accounting, which is unrealized. And that is the amount which is sitting in our P&L, most of it in Q1 and Q2. And it will be in all likelihood, generally speaking, the unrealized losses on these amounts is generally recovered whenever you sell the goods.

Moderator: Thank you. The next question is from the line of Udit Gajiwala from SMC Global Securities. Please go ahead.

Udit Gajiwala: Just one thing, what will be our CAPEX for the current year and the following year?

Gandharv Tongia: So that's an interesting one, actually. In the previous quarter we had mentioned that probably we would like to incur around Rs. 250 crores or thereabout, on annual basis, for this year as well as for next two years. But recently there has been a tax rate cut, which will give us some additional cash. So we are working on it. We believe that there is an opportunity to improve the overall CAPEX spend. We will come back to you with a precise number, but it should be upwards of Rs. 250 crores, which was the guidance given in the previous quarter.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: My question pertains largely to a strategy side. So both in wires business and in FMEG business our growth is much faster than the industry. If you could give some idea as to what differently we are doing to generate that kind of growth rate? And within that, the second question is that, in cables adjusting for that export number even there the growth rate is much higher. So, if you could give some comments as to generation for such high growth rate and the market growth rate, if you have the number.

Gandharv Tongia: So, FMEG is a natural extension of our cable and wires business, because if I talk about the overall business for FMEG, we get significant leverage on the procurement side of it. FMEG consumes copper, steel, plastic, aluminium, and these are the raw materials which we consume for cable and the wire. And that is where we naturally understand the procurement side of it. The brand leverage is available for FMEG. The distribution is there, the influence for example, electricians and retailers they already know cable and wire and that is where we get support in FMEG. The other key differentiator for FMEG businesses in-house manufacturing. We firmly believe that in-house manufacturing gives you an opportunity to provide quality goods to the end customer, and the end customer is able to get the real value of the money which he is spending on our products. These are the factors which are helping us in growing our FMEG business.

But to give you a perspective, last year, March 2019 we did almost Rs. 640 crores of FMEG revenue, the industry size of those products in India is almost Rs. 60,000 crores. So we were almost 1% of the market. And that is where we are probably one of the smallest player, and the growth rate on a smaller base is looking slightly bit more impressive. On the cable and wire side, if we normalize for Dangote, it looks it is almost 14% growth, which is 13%, 14% which is the end of current quarter. This is again mainly because of the different initiatives which we have undertaken over the period, for example, expansion of distribution, we have almost 3,400 dealers and distributors in India, now 120,000 retailers. And we have improved our overall presence across the country. These are the sectors which are helping us in improving our top-line growth in cable and wire.

Pritesh Chheda: So, in wire and cable, its in your opinion more distribution driven lead growth? In your opinion, would there be market share expansion?

Gandharv Tongia: So I think market share is required to be analysed on 12-month basis, I think six-months data is not necessarily reflective of market share. The other thing which I mentioned earlier as close to Aditya's question is, the shift from unorganized to organized which is also an important element in this particular sector. So I think market share is required to be analyzed I think probably at annual interval.

Pritesh Chheda: So can you just help us with cables H1 growth rate and wires H1 growth rate, if you could have that number handy?

Gandharv Tongia: We don't give that granular information. But I can add color to that. Wire growth rate is higher than the cable growth rate, the blended growth rate, excluding the Dangote would be around 13%, 14%.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian Asset Management. Please go ahead.

Kunal Shah: My question is very much on the similar lines to the previous question. I mean, you had explained how we are able to grow. I mean, just taking it a little ahead, if you could explain region wise where south, north, where have we seen this growth coming from? Because some parts of the country were affected by the floods and all. So, I mean, the first question is if you could throw some light on the region wise sales and where have we gone in that particular region?

Gandharv Tongia: Generally speaking, Kunal, we have been able to grow across the country. But if I have to give you color on the regions, eastern and north, these are the two regions, they have helped us to a certain extent in growth, followed by other two regions.

Kunal Shah: Okay. So, I mean, when you say that, have we added cities particularly in these regions or have we kind of, because you saying wire is growing faster, so we have added distributors, we have added… I mean, the second question is, where is this demand coming from? It's more of a replacement demand, it's more of, I mean, if you could throw some lights on the sectors per se also which are helping our company grow?

Gandharv Tongia: So, the demand generation is not a direct function of addition for dealers in a particular period, because it takes some time. You add a dealer and you start grabbing the orders and there is a lag period to it. So it is not a function that you are adding to a dealer in a particular quarter and that will contribute to a top-line. What I mentioned a while back is, in the case of Eastern region as well as Northern region we have been able to get a good growth rate. But having said that, the growth is coming from all the regions, two regions probably in top two categories, which is East and North.

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

Aditya Chandrasekhar: Most of my questions have been answered, just a very quick one, could you tell us the amount of acceptances at the quarter end?

Gandharv Tongia: Typically, the amount is generally in the range of Rs. 800 crores to Rs. 1000 crores. I will give you the precise number. Just bear with me for a minute. So, it is around Rs. 875 crores as of 30th September 2019. You can go to the page #12 of our financial statement which are uploaded on the website.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Giric Capital. Please go ahead.

Ritesh Polaia: In FMEG what are the other product lines one can see the launches over next one to three years?

Gandharv Tongia: So, as you know, we have fan, light luminaires, switch gears, conduit pipes, bit of water heater, solar products, and pump, we will continue to play in these product categories. However, there would be a significant amount of innovation and entry of new product by us within these categories.

Ritesh Polaia: No new product launches?

Gandharv Tongia: No, nothing as of now planned for.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Manager. Please go ahead.

Ashish Kacholia: Sir, my question pertains to the export opportunity beyond Dangote. I mean, if we finish this Rs. 1,000 crores order this year, what can we expect as a ongoing export business?

Gandharv Tongia: See, export slowly and gradually we are trying to expand our presence. Dangote has given us this opportunity to go out in the market and grab opportunities. We believe with the help of Dangote and several such other projects we should be able to improve our export contribution to our top-line. As of now, it is hovering below 5%, progressively we expect that it will start inching towards higher single-digit in the years to come.

Ashish Kacholia: Okay. So when this Dangote order gets over this year, it is a Rs. 1,000 crores kind of an execution this year. Will you be able to kind of even reach Rs. 500 crores next year, or what should we expect?

Gandharv Tongia: As a company we don't give guidance on the exact number. I can give you directional thought process, which is that we want to increase the contribution of export sales for top-line which is as of now between 3% to 5%, progressively we will start moving up period after period.

Moderator: Thank you. The next question from the line of Bhavin Shah from Sameeksha Capital. Please go ahead.

Bhavin Shah: Sir, I think you addressed the question, but just broadly. I mean, I see that for two quarters now you are doing much better than your competitors. So, could you kind of explain what's happening? Because also there is broad signs of slowdown in end markets, and yet you have been delivering excellent numbers. So could you comment on that?

Gandharv Tongia: So as I mentioned in my opening remarks, as well as a while back in response to another questions, the growth is actually a function of several things. For example, someone highlighted on the CAPEX, we invested almost Rs. 1,200 crores in last five years in building our capacity which are world-class capacities. We invested our energy in distribution, we have hired best talent which is available. So, these are several factors, and of course, coupled with backward integration and in-house manufacturing these are several factors which are helping us. We want to ensure that we continue to maintain our market leadership position and I think we have to continue with the good work which we are doing presently.

Bhavin Shah: Well, I think most of the reasons you have given are from your side, I was thinking more from the demand aspect. Obviously, you mentioned about strengthening distribution, but is that the only factor that is driving such a strong performance, or is there something else that you could kind of help us? The other thing you mentioned are more of an improvement at you end, you have your own capacity, you have backward integration, etc., more of internal factors. I was talking more from the external environment standpoint.

Gandharv Tongia: See, external environment is challenging as we are already aware about that. In such an external challenging environment what is the most important thing is availability of product. And that is where the capacity utilization kicks in. And second is the distribution, and that is where we are scoring. I don't think there is any denial about the slowdown or the challenges which we are facing, that is there. I think in the mid to long-term we expect that things will improve with the help of the government initiative, which the government has recently announced. But in the current environment it is a difficult going.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: Sir, in the first half our top-line has grown by a healthy 20%, EBITDA has grown by even higher number. What kind of numbers you are targeting for this year, if you can help out? And I believe that from your commentary domestic market is export and OFCs are other newer segments which will add to the growth over FY20. So if you can help out with the total target and contribution of different segments in that? Thank you.

Gandharv Tongia: You know, we as a company we don't give guidance. I can give you comfort and we will do whatever is possible in our hands to ensure that we continue to deliver good growth and value to our investors and stakeholders. We don't give guidance.

Ashish Poddar: But if you can help out with this kind of number continue in the second half also or we have seen something one off type in the first half which will not occur in the second half from demand perspective?

Gandharv Tongia: If we analyze our current six months performance, Dangote is one order which we have partially executed, which is, as Ashish was enquiring earlier, the question would be whether this can be replaced by another order or not. Other than that, as I mentioned a while back, the current environment is challenging and is difficult to put a number to the growth. However, having said that, between mid to long-term, I think because of the government initiative and overall development in macroeconomic situation, we should be able to get to a good growth rate as a sector as well as a company.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Sir, I had just one question with the other EPC business. So, how do we look at it for the next few quarters? Will it drop down to again 3% of total revenues or if you can give us some color on the order book which is yet to be executed or something like that.

Gandharv Tongia: So EPC is, as I mentioned a while back as a response to one of the questions, I think probably Kunal was inquiring around that. EPC is a strategic business for us, we cater to EPC business only when we get some advantage in our other businesses. We don't expect, generally speaking, on annualized basis EPC to get a substantial share of our top-line, it will remain in mid single-digit. The EBITDA margin in current quarter is better because of execution of certain profitable projects. Having said that, I feel that sustainable EBITDA margin in EPC business would be in a higher single digit, I don't expect a significant increase in EPC business top-line on a go-forward basis.

Mayank Babla: Okay. And lastly if I could squeeze in, if you could explain the changes in inventory, which has a wide swing from Rs. 12.3 crores in last year same quarter to negative Rs. 131 crores?

Gandharv Tongia: That is the movement in opening and closing inventory. The detailed inventory schedule is given in our financial statement. There is just a difference between opening and closing inventory which is required to be presented in financial statement.

Moderator: Thank you. The next question is from the line of Sangeeta Purshottam from Cogito Advisors . Please go ahead.

Sangeeta Purshottam: I just wanted to get a sense of what is your CAPEX likely to be over the next two years? And what kind of free cash flow you are likely to generate? And any thoughts on your dividend policy?

Gandharv Tongia: So, in the last quarter we had given guidance around Rs. 250 crores annually of CAPEX, consistently for next three years. But in the current quarter there is recent change in the tax regulation where in the tax rate has substantially reduced. We are internally revisiting our CAPEX; in all likelihood this CAPEX spend will go up. I would not necessarily would be able to give you a number for free cash flow because that will be akin to the guidance but suffice it to say that we are working on both aspects, improving our top-line thereby improving our profitability as well as reduction in working capital. And that is where we expect that slowly and gradually, we would be able to improve our cash flows. On the dividend, we declare close to 10% of our profit as dividend in fiscal 2019, we will continue to monitor the dividend percentage. And progressively our thought process is, we should be able to improve the overall dividend percentage. But that would be a factor of several things, internal as well as external, including profitability, cash position and the CAPEX as well as acquisition opportunities.

Sangeeta Purshottam: So would you be sharing your new CAPEX plans in the next quarter numbers?

Gandharv Tongia: Yes, that’s right.

Moderator: Thank you. The next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: Just wanted one clarification on this OFC piece. So if I am not wrong, I think the amount of the OFC contract is a part of the EPC revenue, right? And you clarified that the cable portion of it, which is I think Rs. 60 crores in this quarter, just want to know whether that Rs. 60 crores is booked as a part of the cables and wires revenue or is it a part of EPC? And is this understanding is right that OFC is a particular number and Rs. 60 crores of that is the cables portion, and then EPC could comprise of some other businesses apart from this OFC. Just need this clarification from you.

Gandharv Tongia: Thanks, Trupti, for your question. So, the sale of optical fiber cable is presented in cable and wire segment. Any business associated with the EPC part of it, including laying of optical fiber cable and several other EPC businesses or contracts which we are executing, those are presented in EPC So, the optical fiber cable sale is in cable and wire, it is not in EPC second.

Trupti Agarwal: Sure. And this is Rs. 60 crores in this quarter and what was the number in the previous quarter?

Gandharv Tongia: Both the numbers are comparable, first quarter it was almost Rs. 60 crores, this quarter is also broadly in the similar range.

Moderator: Thank you. The next question is from the line of Rushil Silarka from Pioneer Investcorp Ltd. Please go ahead.

Rushil Silarka: Sir, my question was just want understand that we have grown in revenue terms by 17% quarter-on-quarter. So like we might have got some operating leverage benefit, and as well as we have grown well in wires which contributes a better margin compared to cables. So I wanted to understand that why we have seen the moderation in the margins in wire and cable business this quarter?

Gandharv Tongia: So as I mentioned a while back, the correct way to analyses is on annualized basis. Quarter to quarter there are several factors which could impact adversely or positively. On a 12 month basis, the cable and wire EBITDA margin we have generally seen generally hovering between 11% to 13%, which presently we believe is sustainable.

Rushil Silarka: And sir my second question was, like, how do we see the next six months? Like, are we seeing any slowdown in the demand in the wires and cable segment or in FMEG segment? And on what new products are we launching FMEG product?

Gandharv Tongia: So the current economic situation, as all of us are aware, is very challenging. It's very difficult to get top-line growth. And with the help of the good business model which we have, as well as the strategic initiative which we have undertaken over the last year, we have been able to get a good growth. Having said that, the current environment is challenging. However, from mid to long-term horizon point of view, we believe because of the government initiative there should be overall uptake in demand in the sector level as well as at the company level. FMEG, we are present in several product categories, for example, fans, light and luminaries, switch, switch gears, conduit pipes, solar products and conventional pumps. Presently, we don't expect to get into any new product category. However, because of innovation, we will continue to introduce additional and new products within these product categories.

Moderator: Thank you. The next question is from the line of Amarjeet Maurya from Angel Broking. Please go ahead.

Amarjeet Maurya: Just wanted to ask you on the FMEG segment, basically, you know, I just wanted to know the mix between what is a fan and lightning and switch gears? And apart from that, just wanted to know what is the market share in the fan segment? And what is your long-term strategy in this segment? So, suppose your fan segment is a big segment, so after that what product we will get which will contribute to your revenue? And apart from that, when are you expecting profitability on from this segment?

Gandharv Tongia: So FMEG, we launched the product category almost in flat 18 months five years back. And two years down the line we were at breakeven, till then we had been EBITDA positive. So even today we are generally between 3% to 5% of EBITDA margin and EBIT margin in this business. We don't expect to introduce any new product categories. On the breakup of FMEG product categories, we are not disclosing that in the financial statement as of now and that is why I would not necessarily would be able to give you a precise number. However, I can give you a color on a annualized basis, fan would be broadly 45% to 50% of our top-line of FMEG business, followed by light and luminaries, switch gears and then the rest of the order for categories will be there in the last quartile.

Moderator: Thank you. The next question is from the line of Govind Saboo from Indianivesh PMS. Please go ahead.

Govind Saboo: Sir, I just wanted to check, so overall the growth has been around 24%. So if I just have to break up the growth numbers, so around Rs. 100 crores growth is coming from exports, Rs. 60 crores is from OFC, Rs. 57 crores from FMEG, Rs. 60 crores from EPC, and Rs. 153 crores from the core business which is wires and cables. So is my understanding correct? I mean, does it mean that the like-to-like growth of wires and cables is 8.5% for this quarter?

Gandharv Tongia: I couldn't follow your numbers when you were talking about, but I can give you my data point that what I have handy. One is, optical fiber cable is not one off, it is that consistent business. We did some business first quarter as well as in second quarter. As you said that optical fibers are not significantly present in the year ended March 2019. The Dangote has contributed almost Rs. 100 crore to our top-line in the current six months, predominantly in the second quarter. So if I exclude Dangote, our cable and wires growth rate would be around 13%, 14% which are the combination of growth coming from both cable as well as wires.

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

Ankush Agarwal: Can you just tell me why is operating cash flow negative for this quarter?

Gandharv Tongia: Yes. So, you know, we were sitting on cash as of 30th of June 2019. And the net cash position was almost Rs. 650 crores, that is cash which we have accumulated as part of interval accrual as well as the amount which we raised during the IPO phase. This cash we have deployed meaningfully into the business, and that is where the deployment is figuring as a negative in the operating cash flow in the current quarter.

Ankush Agarwal: The deployment in business as specific, can you mention where?

Gandharv Tongia: In the working capital, in the settlement of trade papers predominately.

Ankush Agarwal: Yes, but if I see from June quarter to September quarter, inventory is stable, trade receivables are stable, trade payables are stable. So I don't see where it has gone in working capital.

Gandharv Tongia: The trade payable number has gone down, if you will analyses our June balance sheet with September balance sheet, you would see that our trade payable numbers have gone down.

Ankush Agarwal: It is around Rs. 100 crores.

Gandharv Tongia: Yes, that is right. And then there is slight increase in inventory between June to September, these are two predominant area where the working capital has gone up.

Moderator: Thank you. The next question is from the line of Shreyas Bhukhanwala from Canara Robeco Mutual Fund. Please go ahead.

Shreyas Bhukhanwala: Thanks for the opportunity. Just one question, of the OFC contract, that is optical fiber contract, so how much was the contract value and how much has been executed till date?

Gandharv Tongia: The contract value includes the components which are going to be executed by us as well as by our partners. With that, the split between us and our partner is not available in the public domain, and that is why I would not like to give that amount. The current quarter, as I mentioned, the total OFC business in the current six months is close to around Rs. 110 crores, Rs. 120 crores.

Moderator: Thank you. The next question from the line of Himesh Satra from Joindre Capital Services Ltd. Please go ahead.

Himesh Satra: Sir, just wanted one simple answer. Are we having any debt repayment plans?

Gandharv Tongia: We don't have any significant debt. As you know, our debt equity ratio is almost flattish. We have some short-term borrowings which are generally required on case to case basis. On a net-on-net basis we are a cash surplus company, we have almost Rs. 400 crores of cash.

Moderator: Thank you. The next question is from the line of Kunj Bansal from Acepro Advisors. Please go ahead.

Kunj Bansal: My question is more on FY19 annual report which came while ago. So, we have the tax payment of Rs. 255 crores in the P&L statement. And in the balance sheet we are showing current tax liabilities provision Rs. 167 crores. So does it mean that about 60% of the tax for the year was not paid as on 31st March?

Gandharv Tongia: Good morning. This is actually a provision which we are carrying in our books for tax litigation, from the accounting standpoint it is required to be provided from the conservatism principle. However, we believe that we have a good case to defend and that is where we are confident. But following conservatism, we are carrying that provision under our financial statements.

Kunj Bansal: But this provision has doubled from Rs. 82 crores to Rs. 167 crores.

Gandharv Tongia: That is the development of that year.

Kunj Bansal: And is it allowed to be carried over without making payments? General practice income tax as I understand is that they first make us pay and then they say you keep disputing.

Gandharv Tongia: So, we have already received favorable order from the adjudicating authority. The authority may go into appeal to the next level, and that is why it is prudent from a conservatism principle to carry that forward.

Kunj Bansal: Okay. Second question, sir finance cost, Rs. 115 crores last year you have showed as finance cost, the breakup of which is Rs. 58 crores, others than interest is Rs. 57 crores. So, if I take only the interest part of Rs. 57 crores, which means on an average the debt was at a simple interest, I mean, average rate of 10% if I take, about Rs. 600 crores over the last year, while on the other side we see a lot of cash balances.

Gandharv Tongia: So, cash accumulation is actually a development in the later part of the last year, we received almost Rs. 400 crores as advance for an export order in the month of March 2019. And that was sitting in our balance sheet as of March. In the

June quarter, or in the month of April, we came out with IPO, and that gave us almost Rs. 400 crores into the business. So that is the reason of cash accumulation in last five, seven months, which is where we started deploying meaningfully in our business from the current quarter onwards.

Kunj Bansal: But in FY19 the debt was Rs. 600 crores.

Gandharv Tongia: Yes, that is available in the financial statement.

Kunj Bansal: There is no breakup given sir, only the interest part of Rs. 57 crores is mentioned. Of course, the debt figures are mentioned separately. And also, is it possible to get the breakup of others at Rs. 58 crores?

Gandharv Tongia: These are smaller balances.

Kunj Bansal: 50% of finance cost?

Gandharv Tongia: Oh, you are on finance cost. So this has several elements. For example, the foreign currency borrowings which we have, that is required under IndAS, the translation adjustments required to be included in that line item. The real bank charges are there. And in our case, in lieu of the liabilities, paid liabilities and interest bearing, predominantly with the metal liability. So these are the three reasons or three consequents of that Rs. 58 crores. The disclosure is given in the statement schedule under note #11, if I am not wrong in the annual financial statement.

Kunj Bansal: Okay, I didn't see that. And just to conclude, I don't get any response from the mail ID, investor.relations@polycab.com So would it be possible to kind of have a communication through that or any other…

Gandharv Tongia: You can send an email to that email id. If there is no response you can reach out to me separately, I will give you my email address.

Moderator: Thank you. The next question is on the line of Pratik Shah from IIFL. Please go ahead

Pratik Shah: Sir, my only questions was, as I see your CAPEX, it's averaging around Rs. 200 crores for the past five years or so, so just wanted to know where exactly has this CAPEX been invested?

Gandharv Tongia: Some of it has gone in our cable and wire business. We would have invested around Rs. 100 crores, Rs. 130 crores in our FMEG business, the rest has gone in cable and wire. Within cable and wire it has gone in expanding the capacity as well as for supporting our capabilities for product innovation and new product launches. For example, we were talking about optical fiber, that is the result of capex in the optical fiber machinery.

Moderator: Thank you. The next question is from the line of Supratim Basu from Americorp Capital. Please go ahead.

Supratim Basu: My question is again on the cash flow side, you have got a negative cash flow from operations of Rs. 128 crores, and when I look at the balance sheet the only item that really stands out is the payables, trade payables, that has gone down by Rs. 150 crores, Rs. 148 crores from June to September end, and your revenues have gone up and material purchases have gone up. So, are you seeing a lower credit terms from your suppliers or what is causing this?

Gandharv Tongia: So, in our business, in the case of metals vendors these are interest bearing. And as I mentioned a while back, we were sitting on cash as of March as well as of June. So, in the current quarter we had meaningfully deployed the funds which were available with the company to get advantage against the interest bearing liabilities. So, that is one component which is changing the operating cash flow. The second component which is not necessarily adding material is the slight increase in the inventory between June to September. You know, we are required to maintain adequate level of inventories, particularly in view of the likely sales. Having said that, as I mentioned a while back, working capital is a focus area for us, we will continue to work to improve our working capital cycle and overall number of days.

Supratim Basu: So just follow-up on this point, should we expect that this number on the payable side will continue to shrink going forward?

Gandharv Tongia: It's actually starting to decrease, because it's very easy to retire the liability, but it should give you arbitrage to your P&L. So if there is a positive arbitrage which is available by retiring the liabilities, we will utilize the funds available. Otherwise, we are happy with the investment in mutual funds and FDs.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now had the conference over to Mr. Jaisinghani for his closing comments.

Gandharv Tongia: So thank you, everyone. We have Inder bhai here also in the room, he joined us immediately after initiation of the call. We are now requesting Inder bhai to say a few words about our performance in the quarter gone by.

Inder Jaisinghani: Good morning, everybody. We have delivered another quarter and half year of robust growth. Our profitability has more than doubled during the quarter and our customer centric focus and robust distribution network have ensured that we maintain our growth momentum. Going forward we remain committed to delivering consistent and profitable growth.

Gandharv Tongia: Thank you everyone for taking out time. In case if you want to reach out to the company, please feel free to do that. I wish you all the wishes for the coming festive season. Happy Diwali.

Moderator: Thank you. Ladies and gentlemen, on behalf of Polycab India Limited, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines.