



**“Polycab India Limited Q1 FY 2020 Earnings
Conference Call”**

July 29, 2019

**MANAGEMENT: MR. INDER JAISINGHANI -- CHAIRMAN AND
MANAGING DIRECTOR
MR. RAMAKRISHNAN RAMAMURTHI -- CHIEF
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MR. SHYAM LAL BAJAJ – WHOLE-TIME DIRECTOR
AND CHIEF FINANCIAL OFFICER
MR. GANDHARV TONGIA -- DEPUTY CHIEF FINANCIAL
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Moderator: Ladies and gentlemen, good day and welcome to the Polycab India Limited Q1 FY 2020 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 phone.

I now hand the conference over to Mr. Gandharv Tongia -- Deputy CFO. Thank you and over to you, sir!

Gandharv Tongia: Thank you, operator and a very good morning ladies and gentlemen. I am Gandharv Tongia -- Deputy CFO at Polycab India Limited. Thanks a lot for joining us today to discuss our Q1 Earnings.

During the call, we will be referring to the presentation that is available on our website as well as on the Stock Exchanges’ website. From our management team, we have with us our Chairman and Managing Director -- Mr. Inder Jaisinghani; our Director (Finance) and CFO -- Mr. Shyam Lal Bajaj; and, our Chief Executive -- Mr. Ramakrishnan Ramamurthi.

Let me now hand it over to our Chairman, Mr. Inder T. Jaisinghani to provide us with his initial remarks.

Inder Jaisinghani: Thanks, Gandharv. Good morning, everyone and welcome to our Earnings Call. We have performed well during the quarter. Our revenues have grown by 15% on a Y-o-Y basis to Rs. 19,330 million. Our PAT for the quarter increased by 76% Y-o-Y to Rs. 1,353 million and PAT margin of 7%. We continue to remain well-positioned to capture all emerging opportunity in the sector.

I will now hand over to Gandharv to take you through the details.

Ramakrishnan R.: This is Ramakrishnan here. I want to welcome everyone who is on the call. Obviously, we are all aware of the macroeconomic environment. And we are all aware of the overall economic and financial performance related situation across corporates.

Quarter one has been a period where Polycab has witnessed reasonably good growth. And more importantly because of internal operational efficiency, tightening up of the belt, improved revenues, improved margins and better control in terms of overall cost, we have been able to turn in a reasonably good performance in a difficult environment.

I would now request Gandharv to kindly walk you through the presentation.

Gandharv Tongia: Thank you, Ram. Before I dwell upon our performance, let me highlight the macro environment. The market has witnessed slowdown due to various sectors as all of us are aware of - elections,



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real estate, liquidity crisis and lower consumer spending. However, we have been able to reach a decent growth in the current quarter particularly due to efforts made in the last few years, such as focus on channel expansion, business orientation towards B2B and B2C. The market remains challenging and we will continue to make efforts to improve our performance. We believe that the government initiatives will help in propelling the growth in general.

We will now walk you through the details of performance. If you go to Slide #06 of the presentation, our revenue grew by 15%, Y-o-Y to Rs. 19,330 million, driven by growth across all segments.

I am happy to state that our EBITDA margins including other income increased by close to 188 bps Y-o-Y and close to 256 bps Q-o-Q to 13.3%, driven by improvement in sales mix, expansion in contribution margin and other income.

The reclassification of our lease expenses to depreciation expenses as per the new accounting standard on leases which is IndAS 116 also contributed to an increase of 16 bps in our EBITDA margin.

Our other income was up by 125% Y-o-Y, due to an increase in government grants and interest income received on our investments in mutual fund and fixed deposits during the quarter.

To give you some color on government grants, when we import raw material against an export order, the Government gives us duty benefits. During Q1, the quantum of these benefits has increased as we have received export orders for which we have imported additional raw materials.

Our PAT margins increased by close to 240 bps Y-o-Y and close to 140 bps Q-o-Q to 7% driven by increase in EBITDA and decline in finance costs. Detailed breakup of other income and finance costs have been provided in Slide #14 of our presentation.

I would also like to point out that Q1 is typically a soft quarter and normatively there is a pick-up in revenue as the year progresses. To that extent, June quarter is not comparable with March quarter.

If you look at the revenue trends over the past three years, Q1 revenue accounts for less than 25% of our annual revenue.

Moving to our segmental result on the next slide, Slide #07. Top-line in our wires and cable business increased by over 7% Y-on-Y to Rs. 16,156 million, primarily driven by growth in cables segment. The cable business grew, among others, with the support of export and institutional sales.



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Sale of optical fiber cables during the quarter also contributed towards better top-line and margins in this segment. Revenues in the wires segment were relatively muted due to the slowdown in the real estate sector and other sectors which are impacting the economy.

EBIT margins in the segments increased by 180 bps Y-on-Y and over 130 bps Q-on-Q to 11.5% driven by improvement in sales mix, expansion and contribution margin, and other income.

Moving to our FMEG segment. We forayed into FMEG segment almost five years back. Last year FMEG contributed to 9% of our top-line and this quarter, FMEG's contribution to our top-line is almost 12%.

In the current quarter, we have also launched new portfolio of fans, including premium fans. We have also launched complete end-to-end portfolio for consumer lighting and we have also introduced complete range of pumps for domestic as well as agricultural segment. Due to this, FMEG segment grew almost 60% Y-o-Y and 26% Q-o-Q to close Rs. 240 crores. On a Y-on-Y, this has primarily been driven by over 70% growth in our fans segment and over 100% growth in our switch and switchgear business.

At an EBIT level, margins have increase to 3.7% from 1.2% in FY 2019. On the EPC side, revenue have increased by over 100% to Rs. 1,226 million due to increase in order execution during the quarter, including the contract which we won in the last fiscal such as for laying OFC cables in Bihar.

Our supply chain network has grown to over 3,400 dealers and distributors, which was around 3,100 in the last quarter. Our retail base is now over 1,15,000 in terms of count, which was close to 1 lakh in the last quarter.

Our project Josh initiative now covers 120 plus locations. Project Bandhan, which was launched in April 2017 has already touched almost 90,000+ electricians and almost 31,500+ retailers as of June 2019.

We have also augmented our management team in the current quarter by inducting Mr. Vijay Narayanan as President (Strategic Marketing). Vijay has significant experience in marketing and brand development. And he has worked in several large organizations including companies in our sector. He will play an important role in our brand building and B2C initiatives.

Coming to the balance sheet which is on slide #09. Our return ratios have improved significantly over the period. Our ROCE and ROE is about 23% as 16%, respectively. I would like to also highlight that improvement in ROCE is despite an increase in our capital base post our IPO by almost Rs. 400 crore.



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Our debt to equity ratio is strong at 0.06x and we are at net cash of around Rs. 668 crores. Our operating cash flows have improved significantly to close to Rs. 366 crores.

On the working capital side, which is on slide #14, our net working capital days have improved significantly to 29 days, this has been computed on base of the quarterly numbers. This is on the back of an improvement in our receivable days as well as increase our payable days.

On our payable days as explained in the last quarter, there is a change in the financial instrument which we were using for the purpose of procurement of our raw material. This is now classified as trade payables which was hitherto classified under borrowings. Acceptances as of 30th June, 2019 was close to Rs. 923 crores.

We are working on further initiatives to improvise and optimize our working capital and we will update you about the same in the coming quarters.

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

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: How have the exports moved on a year-on-year basis? And in our FMEG, was there a significant EESLs execution which was executed during the quarter? Just these two, can you highlight, sir?

Gandharv Tongia: Kirti, we were able to understand your first part of the question, which was on exports but we could not understand the second part. Could you please repeat?

Kirti Jain: Sir, last time you told that EESL is a seasonal and lumpy thing which got executed for us last time as Ram sir had highlighted in the quarterly call. Anything as such lumpy EESL works have been executed in the current quarter?

Gandharv Tongia: The EESL is not there in the current quarter. Coming back to the exports, it is close to Rs. 50 crores in the current quarter. In June of 2018, it was close to Rs. 45 crores, so, to that extent there is an improvement in exports in the current quarter.

Kirti Jain: Can you highlight anything about the fiber optic cable? How much is its contribution which you had highlighted in the wires and cable growth?

Gandharv Tongia: So, OFC is a strategic business for us. It is more profitable than our cable and wire business. We are executing several contracts in India. To give you an example, there is a contract where we are supplying in the western part of the country as well as the eastern part of the country. Generally speaking, OFC is much more profitable than the cable and wire business.



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- Kirti Jain:** So, what is the revenue mix in that? Anything you wish to highlight, very small?
- Gandharv Tongia:** It was almost nil in the last year, in the current year, it is close to Rs. 60 crores.
- Moderator:** Thank you. The next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** Sir, on the FMEG again, there is no EESL. So, can you provide some light as to on which segment or which product category performed relatively better as compared to last year? You mentioned that the performance was driven by a new product introduction in fans and electric lighting. So, can you provide some more color on how each segment is growing? Each product category is growing?
- Gandharv Tongia:** Fan is the business which is contributing close to 50% of our top-line followed by lighting luminaires and then other products. In fan, we have witnessed a significant growth of almost 70%. And in other businesses also we have seen significant growths. What I mentioned earlier is we have started optimizing as well as expanding the portfolio on all these products. And to a certain extent we have already availed the benefit, in the coming quarters we expect that we will continue to get benefits. You know this business is a focus business for us at Polycab, I mean, we will do whatever is required to be done to ensure that this business gives us maximum momentum both in top-line as well as bottom-line.
- Chintan Seth:** Right. And fan usually is a seasonal product category, given the summer sales are higher than the rest of the year. How do you see other product category contributing significantly as we move forward? Any EESL we are expecting to be executed over the next couple of quarters that will keep the growth momentum going?
- Gandharv Tongia:** So, as you know, all the subsectors, in this particular business are growing at a rapid rate, the range is in low-teens to high-teens and we are the lowest or smallest player, the industry size of FMEG is almost Rs. 60,000 crores. And last year we did only Rs. 650 crores, which is a approx. 1%. So, industry is going to grow and the unorganized sector will move into organized sector. With the help of the experienced team and with the help of the new product which we are introducing regularly, we expect that across all the business categories we will continue to improve our top-line as well as the bottom-line.
- Ramakrishnan R.:** If I may add on the FMEG side, clearly, we are seeing traction in terms of fans, some new models that we have introduced have been received extremely well and even in terms of the retail demand for Polycab as a brand for fans, we have seen a significant uptick thanks to the presence in IPL and things like that. Even on the LED lighting and luminaire business, we have seen significant traction probably the growth is in the vicinity of about 40%. So, I would say that FMEG side is poised for steady growth and improvement in terms of performance. The



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operational performance has also shown pick in terms of the FMEG business. So, there is a reason for cautious optimism.

Moderator: Thank you. The next question is from the line of Ritesh Chedda from Lucky Investments. Please go ahead.

Ritesh Chedda: Sir, in this 7% growth, which is reported for the wires and cable, if you could give some color on, what would have been the wires growth rate, what would have been a B2B and B2C growth rate? And this optic fiber cable which you mentioned in the presentation, how relevant or as a percentage of this segment it is and if you could give some color there as well in terms of the skewness of growth?

Gandharv Tongia: So, we do not give element wise break-up in our businesses as of now. But just to quickly attend your question, the wire business is muted and is almost flat. And the OFC business as I mentioned earlier was almost nil in the last quarter, which is close to Rs. 60 crores this year, and the balance has come from cable.

Ramakrishnan R: Let me add. You see, we all know that the construction industry is going through its own set of challenges. We all know that in terms of the builders, the demand related constraints that they are seeing, the ability to manage their balance sheets adequately to be able to fund newer projects and things of that nature. So, to some extent, the demand in terms of wires is a little muted. But fortunately for us, what we have been able to do also is that on the cable side we have kept up the momentum. And consequently, I would say that we have also continued activities in terms of network expansion, our work with electricians, our work in terms of demand generation activity, retail expansion, expanding the Josh initiative, and things of that nature. What you must also keep in mind is when it comes to wires, there is a certain degree of channel destocking given commodity related softness that is there in terms of the wire side. I would not be excessively alarmed by it. Hopefully, with the GDP kicking-in and some element of government spending kicking-in in future quarters, I do see this improving as we go along. But suffice to say, in the first quarter we have managed a 7% revenue growth despite a lot of softness in terms of commodity price.

Ritesh Chedda: Last quarter, you had received Rs. 1,000 crore order from Africa on the export side. What is the execution cycle there? And did that order have anything in terms of triggering slightly better growth for you in this quarter? And did you call out that the export was Rs. 60 crores versus Rs. 40 crores or the number is different?

Gandharv Tongia: Yes. So, we have not actively started supplying on the export order which you are referring to, because it was close to Rs. 1,000 crore order for which we received an advance of Rs. 400 crores in March. We expect supplies from the Q2 of the current financial year. And the export numbers what you are referring to is right, Rs. 60 crores in the current quarter as against Rs. 45 crores on the corresponding quarter.



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- Moderator:** Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.
- Aditya Bagul:** Firstly, on cables and wires, we are seeing that the overall industry and as you highlighted is facing an issue with it. We have seen that there is some amount of market share gains. So, I just wanted to get your view on how we see the balance of the year panning out. And what is the kind of growth rate that we expect maybe on a 18 months to 24 months basis on the cables and wires segment?
- Gandharv Tongia:** So, you know as a company we do not comment on the future performance because that is akin to giving you projections. But I would like to draw your attention to what we have been able to achieve in last five years, you know that industry grew by almost 11% in value terms. And our growth rate is around 14%. So, whatever strategic initiative we have taken, we are reasonably confident of our growth rate in current quarter as well as the year. Of course, everything is dependent on the overall cycle. So, if there is a momentum, it will impact the sector as well the companies like us.
- Aditya Bagul:** Fair. Secondly, while you highlighted a little bit on terms of EBIT margin expansion. Can you throw a little more light on margin expansion of those 130 odd basis points Y-o-Y? How much of this came through commodity led gains? And how much was this through efficiency?
- Gandharv Tongia:** So, you know our business model. Commodity, generally speaking, is a pass through. At times we get some opportunity to get some advantage or at times you are actually not able to do that. That is the business in which we are. We have our risk management strategies in place. And we very closely monitor that. I think, what we displayed is a combination of both. I do not think we have that data available. But what I can tell you is that the margin swing is not only because of moment in LME prices.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equis Securities. Please go ahead.
- Manoj Gori:** I just wanted to ask that on the wire segment, when we say that the revenues were flat on Y-o-Y basis, so going forward how do you read the situation? Whether you expect a similar kind of performance or it is going to further deteriorate or improve or any signs of revival?
- Ramakrishnan R.:** See, as an organization, we keep sufficient headroom for growth even in the wire segment without a doubt. There are large pockets in this country where we have opportunity for spreading ourselves into semi urban and rural areas. We have launched appropriate initiatives through Josh. We have significant opportunity for retail development and retail expansion, in terms of the Josh market. As Gandharv has pointed out, we have expanded Josh markets by approximately 18 or 20 in the first quarter and in the third quarter, we will add another approximately 25 markets. What happens when you make Josh as an initiative, your distribution improves, your part of



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purchase improves, your retail engagement with retailers improves and your connects with electricians improves, the Bandhan program becomes more strong and what we are doing in terms of sales force automation and in terms of distributor management system, the benefits of all of that starts kicking-in. So, fundamentally, the way we do our business improves. So, let me suffice it to say, for us please understand as a company, this quarter-on-quarter business is not the way we have so far built our company and our business. We have, in fact, looked at where are we in terms of let us say a 5 years span or a 10 years span. And we have built our company assiduously. I can only try to say that I mean being a listed company, we have this obligation of coming and speaking about the company performance on a quarterly basis. But we are building the company for the next three years and doing everything that we need to do even in the short-term without compromising on the long-term.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Your payable days have gone up to 150 from around 88 last year. Can you please quantify the reason for this?

Gandharv Tongia: Yes. So, in our last call we had explained that the instrument which we were using for the purpose of procurement of raw material has undergone a change and from the Accounting Standard point of view, it is required to be classified as trade payable as against the earlier instrument which was classified as borrowing. This is called acceptances in our financial statement; the amount is generally around Rs. 800 crores - Rs. 900 crores, that is the main reason for change in our trade payables.

Dhaval Shah: So, if you normalize that, what would be our payable days number?

Ramakrishnan R.: I do not have the data handy but I can give you the data point. Out of the Rs. 1,500 crores of trade payable around Rs. 900 crores would be acceptances.

Moderator: Thank you. The next question is from the line of Rhunjhun Jain from Nirmal Bang Securities. Please go ahead.

Rhunjhun Jain: Sir, I am new to the company. So, this question might not be new to you. But I just wanted to know the reason for the volatility in the FMEG margins, EBIT margins. What I can see is that last year, we have seen a good growth in the segment during the quarter but the margins have come down. So, is there any particular reason or is there seasonality in the margins and we should incorporate that going forward?

Gandharv Tongia: Yes. So, FMEG as you know we have just started only few years back and we are still working on expanding our base, recruiting the right talent. If we talk about in this particular quarter, despite incurring IPL expenses substantially for branding and advertisement, we have been able

to reach to an impressive EBIT margin, which is better than the EBIT margin of fiscal 2019. So, I think, that is the correct way of analyzing. I have taken a note of the fact that June 18 EBIT margins were comparatively better but was mainly because of the change in mix and the way we were presenting it in the financial statement. I think, our fiscal 2019 and June 2019 is the current way to analyze the EBIT margins.

Rhunjhun Jain:

So, is it right to say that the current margins could be the base going forward?

Ramakrishnan R.:

And it will improve is what we attempt to do.

Moderator:

Thank you. The next question is from the line of Kunal Shah from Kernel Capital. Please go ahead.

Kunal Shah:

I had a question pertaining to working capital itself. So, payable has been answered. I just wanted to understand the inventory base is also gone up from 109 days to 121 days. So, if you could throw some light on inventory days per se and also within inventory days, what is the breakup within the inventory? That would be the first question, sir.

Gandharv Tongia:

Yes. So, in our case, inventory also includes goods in transit which is a significant component. The way we have computed these numbers which are present in the presentation, these are on three months basis. If we do a trailing 12 months basis, which is also another acceptable way of presenting it. The inventory days would be around 106 days as against the way we have computed for three months which is 121 days. Having said that, inventory is a focused area, we want to reduce it. We have started taking several management initiatives including hiring of the third-party management consultant and we also have a person who is heading our supply chain, who has almost 30 years of experience. Going forward, we expect that our working capital will improve primarily because of improvement in inventory as well as trade receivables.

Kunal Shah:

If you could give the break-up of the inventory sir, I mean, in terms of raw material/finished goods?

Gandharv Tongia:

Raw material would be around Rs. 739 crores and work-in-progress around Rs. 211 crores. Finished goods around Rs. 670 crores, traded goods would be around Rs. 99 crores and the balance are others like packing material like scrap store and materials used for EPC contract.

Moderator:

Thank you. The next question is from the line of Rushil Selarka from Pioneer Investcorp Limited. Please go ahead.

Rushil Selarka:

I wanted to know what is the acceptance under trade payables and can you please explain a bit about how much fees we have to pay and all?



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- Gandharv Tongia:** So, that question has been just answered. This is acceptances for procurement of raw materials. The detailed note is given in the financial statement and offline you can get in touch with the management team. We will be happy to run you through the arrangement.
- Rushil Selarka:** Yes, sir. And one more question, so I wanted to know that in the coming days will we expect our inventory days to come down due to our backward integration at Ryker Plant once it is operational?
- Gandharv Tongia:** Ryker Plant has commenced production in the current quarter. Backward integration is one of the reasons but the other reason is the management initiative wherein we would reduce our inventory days, we expect that it will come down in the coming period.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.
- Atul Mehra:** Sir, on the CAPEX line item. So, we have done about Rs. 95 crores of CAPEX this quarter. So, will that CAPEX plan be as we guided earlier around Rs. 175 odd crores or do we have any other plans for this financial year?
- Gandharv Tongia:** You know, capital allocation is a prime objective when we are managing our financial statement, we will continue to monitor it on a very close basis. We will believe a number of anywhere between 200 crores to Rs. 250 crores is a good number to target in the current year. But we will continue to monitor it to ensure that the allocated capital and the returns are better than what we have been achieving.
- Atul Mehra:** Right. And sir, so any particular reason for this revision because last time we were at about Rs. 175 crores on the last call. So, any particular new CAPEX that we have envisaged for this financial year?
- Gandharv Tongia:** So, there is no revision as such, what we are trying to do is, we are ensuring that the allocation is appropriate. If we are sitting on cash, and we have better opportunities, that is what we are trying to manage so that overall we can maximize the returns which are available to the shareholder.
- Atul Mehra:** Got it. And secondly, in terms of FMEG, how has been the secondary sales moving on in terms of on the ground?
- Ramakrishnan R.:** We are able to track secondaries far better now, thanks to the long arm salesmen we are in the field as also the sales force automation software that gives us online, real time data in terms of productivity of the salesforce and things of that nature. I am going to say that we have retailed pretty well in the summer months that has been very good in terms of the FMEG side of the business – both lighting retail, as well as fans retail has done pretty well. Switches and

Switchgear, we would like greater traction which is likely to happen. We are looking at introduction of a new range of switches in the marketplace and when that happens, it will give us further traction because the product is economically a little more attractive. I must say the switchgear performance is really giving us a lot of confidence in terms of market response.

Moderator: Thank you. The next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: Yes. So, I have two questions. First is in terms of your export order, which you received last quarter where there were advances over Rs. 400 crores. Now as we execute this order, eventually and we run down these advances, how does your overall debt movement happen? And second is on your FMEG segment, would you be able to highlight top two - three costs in terms of percentage of sales over there? I mean, besides gross margin?

Gandharv Tongia: Yes. So, on the first question, we received almost Rs. 400 crores against of export order and I am sure you would have taken a note of that we are sitting on Rs. 668 crores of cash net of borrowing and gross debt is close to Rs. 200 crores, so the Rs. 450 crores, once transaction is consummated I do not expect that it would have a significant bearing on the borrowings of the company. On the FMEG, we have already given the EBIT break-up. I do not think we are giving product level break-up in the public domain as of now. We have taken a note of your comment and probably revisit it for the next quarter in terms of IR presentation.

Ramakrishnan R.: In terms of the Africa order, we are likely to supply about anywhere around Rs. 500 crores - Rs. 600 crores in the current financial year that is what we have kind of indicated in the past.

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

Ashish Poddar: Again, my question is on the wires and cable business. So, this quarter you are saying that the growth and margins were driven by the OFCs. So, will this revenue continue in the coming quarters? And if you can give some hint about the margin difference because I get a sense that in the wires and cable business the margin improvement was unlikely in the quarter, if you can throw one highlight there? My second question is related to the FMEG business. This quarter, we saw margin improving vis-à-vis the full year of last year. So, what is the margins you are looking for the full year in current financial year? Thank you.

Ramakrishnan R.: See, we do not provide excessive granularity more than what the needs of the business are. So, to that extent, we will not be giving you break-up in terms of margins at optical fiber level and things of that nature. We are building a robust business. We are working towards gaining share. We are working towards managing our EBITDA margins, and we are doing a good job of it in terms of total portfolio.



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- Ashish Poddar:** Sir, my question is, will this OFC revenue come in the coming quarters as well?
- Gandharv Tongia:** Yes. Answer is yes
- Ramakrishnan R.:** We have the strength in order book and we are supplying against this book. So, till depending on, how the project is going on, the supplies will continue in a certain way. But I do not want to make anything that is forward-looking in this call.
- Ashish Poddar:** So, if you can quantify what was the OFC revenue for the full year last year, which is around Rs. 62 crores in Q1 2020. What was this number for the full year last year?
- Ramakrishnan R.:** You get in touch with us offline on this, if we can share with you, we will. Send us an email and we will respond.
- Ashish Poddar:** Okay. Any comment on the FMEG margin for the current year, sir? Your guidance on the FMEG business?
- Ramakrishnan R.:** See, FMEG side, I will go back to what we have stated on the road show. We have said that every year we will try to look at 100 basis points to 150 basis points improvement in terms of FMEG EBIT. We are reasonably optimistic and we should be able to do that consistently over the next four years or so. If there is a positive surprise on that front, do not blame us for it. But we will be happy doing about 150 basis points improvement on the FMEG front.
- Moderator:** Thank you. The next question is from the line of Bismith Nayak from RW Advisors. Please go ahead.
- Bismith Nayak:** I just joined the call. So, could you explain the jump payable days from 88 days to 150 days?
- Gandharv Tongia:** Yes, so sir, we had explained that a while back. In the case of payables, they are change in the financial instruments and thereby the way we presented the financial statements. Now this was presented as trade payable which hitherto was presented as a borrowing and that is one of the reasons of changes in the payable.
- Bismith Nayak:** So, in the FMEG segment, we see a good growth of 62.1% Y-o-Y. But out of those four segments that you have mentioned in the presentation, which ones are growing really fast and which ones are dull as of now?
- Gandharv Tongia:** In this FMEG, Fans is probably 50% of our overall FMEG business in the current quarter and which has increased almost by 70% and the balance has been contributed by other verticals for example switchgear, pipes and lighting.



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- Ramakrishnan R.:** Growth in the quarter has been driven by fans and LED lighting, both of which have done pretty good. There was a question on optical fiber, I will just give an indication FY 2018 - 2019 we would have had roughly about Rs. 65 crores in terms of OFC product supply.
- Moderator:** Thank you. The next question is from the line of Govind Saboo from IndiaNivesh PMS. Please go ahead.
- Govind Saboo:** Just two questions. One regarding the wire and cable growth numbers. So, since construction industry is undergoing a substantial slowdown, are there any other industries from where we are seeing some traction in that business? And secondly, regarding the EPC business which has substantially doubled?
- Ramakrishnan R.:** Okay. See, what we have done on the cable and wire side over a period of time, on cables, whether it be optical fiber, whether it be electron beam product, whether it be certain specialty cables, we have built-up a portfolio of products which are under various areas of approval or already approved with many customers. As a consequence, growth sectors like mining, infra, renewable, telecom, railways, we are getting a lot of approvals and finding a lot of traction. Plus, the foray in terms of the orders from Africa plus an opportunity to penetrate the US market, through a distributor that we have appointed in the US market are all activities that will give us traction in cable as we go along. Now, when it comes to the EPC side of the business, what you must understand is, there is a certain portfolio, we have explained that for us, it is a tactical business, we do not intend picking up orders of Rs. 1,000 crores and Rs. 2,000 crores, we have no vanity on the EPC side. What we try to do is pick up orders where the cable content is around 40% or 50%. Now our focus is execution. We are trying to ensure that the pipeline of orders that are in an advanced stage of closure, we close that and we get our money out fast and we do proper business on the EPC side with a focus on profitable growth. But we are not driven by growth in that segment. It will be a tactical business which we will keep in the vicinity of between Rs. 300 crores to Rs. 500 crores in each year.
- Moderator:** Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.
- Aditya Bagul:** Just one question to Gandharv. In terms of our OCF, OCF has actually increased by Rs. 150 crores odd on a Y-o-Y basis. I believe Rs. 90 crores of this would come on account of working capital release. Does that math sound right?
- Gandharv Tongia:** Yes, I think, broadly you are okay.
- Aditya Bagul:** Perfect. Secondly, just on the A&P spend, we have got Rs. 38 crores to Rs. 40 crores spend in this quarter, which is broadly 2% of top-line. Can you split this between FMEG and cables and wires and how do you see this number going forward?



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- Gandharv Tongia:** Aditya you know, we do not give business break up of these expenses, what we give is EBIT margin. So, unfortunately, I would not be able to give that information.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equiris Securities. Please go ahead.
- Manoj Gori:** Just a quick question. Out of all the retail touch points that you mentioned, can you please share what will be the number of touch points for FMEG?
- Ramakrishnan R.:** It will be about 1,15,000 total number of retailers that we are tracking. I would say that the FMEG retail strength currently would be of the order of approximately around 75,000 retailers.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.
- Rajesh Kothari:** Just two questions from my side. One is, can you give some more color on this gross other income which includes Rs. 18 crores of government grant and Rs. 15 crores of fair value of financial assets. So, within this entire overall numbers, is it recurring in nature?
- Gandharv Tongia:** When we import something, which will be used for the purpose of exports, we get benefits. So, this is the way it is required to be accounted for under IFRS. The cost which is not paid by you is normatively added to the cost. And the corresponding income is added as other income so, it is a contra, one is in other income and second sits in manufacturing costs. As you would have noticed that we are sitting on a sizeable export order and because of that we believe we will continue to have this income on a go forward basis. Probably from quarter-to-quarter there could be some variation. And on the forwards, this is a part of our regular foreign exchange management strategy wherein we take several financial instruments to mitigate the risk of FOREX exposure which we have in our balance sheet and in accordance with the accounting standard, we are required to do Mark to Market accounting and that is what has been reflected in our financial statement.
- Rajesh Kothari:** Okay. And just one more question on the optic cable side, instead of very limited number last year FY 19, I think you said about Rs. 55 crores and in this quarter itself we have got Rs. 60 crores + so what is the reason for the strong growth in optic cable?
- Gandharv Tongia:** The Government of India is implementing several initiatives including initiatives such as connecting the villages through optical fiber so that e-governance facilities could be provided to the citizens and Polycab India is participating in similar contracts both in eastern part of the country as well as western part of the country and that is the primary reason for increase in OFC cable business in the current quarter.



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- Ramakrishnan R:** We have mentioned during the road show of a particular order in terms of Gujarat, for Panchayati raj institutions, etc. And we had an order and as a consequence of that, that order has come to an execution stage and that is what we are seeing as an uptick.
- Moderator:** Thank you. The next question is from the line of Abhishek Anand from Centrum Broking. Please go ahead.
- Abhishek Anand:** Yes, I just wanted to understand on the employee costs side. I see Y-o-Y and Q-o-Q increase just if you could explain, how should we see the trend and what explains this Q1 jump? Thanks.
- Gandharv Tongia:** It is primarily because of implementation of ESOP scheme before the IPO sometime in August last year where we implemented ESOP scheme wherein we are incentivizing our employee and as per the Accounting Standard, the cost is required to be charged over the course of the ESOP scheme which is why the numbers are not strictly comparable because in June of 2018 that particular scheme was not implemented.
- Abhishek Anand:** And trend wise, is Q1, the trend which you take for full year?
- Gandharv Tongia:** Yes, broadly, yes.
- Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Sir, your CAPEX is Rs. 96 crores, but in the Slide #13 there is a cash outflow from investing activities of Rs. 576 crores. So, what would be the balance amount?
- Ramakrishnan R.:** The balance amount has been invested primarily into the mutual fund.
- Ritesh Poladia:** Okay, that is about Rs. 400 crores.
- Ramakrishnan R.:** Yes.
- Ritesh Poladia:** And second on the advertisement there is some 7% decline? So, is this the IPL related advertisement?
- Gandharv Tongia:** Yes, is it IPL related primarily there are other expenses also in the current quarter. But generally, in June quarter the most of expense comes from IPL. This year the IPL started sometime in March as against in last year it started in April and that is why a part of the cost was incurred in March and accordingly it was expensed out in the March itself.
- Moderator:** Thank you. The next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.



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- Chintan Seth:** Yes. If we look at your net debt number in the presentation it is Rs. 667 crores versus on the balance sheet reported, there is a difference of Rs. 80 crores between the debt number and cash number. We got cash of around as per balance sheet it is around Rs. 861 crores and reported debt is Rs. 130 crores. So, Rs. 80 crores is sitting on current maturity in other current liabilities?
- Gandharv Tongia:** Yes, you are right. The break-up is, the cash is around Rs. 861 crores; FD and cash is around Rs. 406 crores; and mutual fund is around Rs. 454 crores and against that, long-term borrowing is Rs. 57 crores; short-term borrowing is Rs. 55 crores; and current maturity is around Rs. 80 crores - Rs. 81 crores and that is how the net cash is around Rs. 667 crores.
- Chintan Seth:** Got it. And sir, anything on Trafigura update anything on that, how that plant has progressing? Last quarter we mentioned that there were teething issue and we are ramping up. So, how that plant is performing right now?
- Gandharv Tongia:** When we spoke last in the month of May that plant was under stabilization. Now, we have commenced the commercial production in the current quarter and slowly and gradually the capacity utilization will be improved in that plant and that will help us in improving our consistency of the supply as well as quality of supply thereby improving our finished good quality.
- Moderator:** Thank you. The next question is from the line of Govind Saboo from IndiaNivesh PMS. Please go ahead.
- Govind Saboo:** Sir, just a follow-up on my earlier question regarding the cable business. So, are we seeing any significant change in the revenue mix with the new approvals and more B2B segment kind of mining, infra, renewable, railway, telecom these kinds of customers being added and export business being growing? And if so, what would be the impact on the margins or working capital side under the business dynamics?
- Ramakrishnan R.** I would not say that it is something that is changing our product mix very dramatically as optical fiber cable has been a bit of a kicker. So, you must understand vis-à-vis market demand, the power cable side, the industrial cable side, the routine range of products that we have, it is something that is really giving us a huge amount of momentum. So, these are important segments keeping in mind future and keeping in mind our competitive position vis-à-vis some of the other players who are focused on this segment. I will not be able to say that this business has grown exponentially and now it occupies 40% of our revenue stream as that does not have.
- Moderator:** Thank you. The next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.
- Kashyap Zaveri:** Sir, on this trade payable part you know, where there is a change in terms of reporting because of the accounting, this would be largely factoring, right by the vendors?



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- Gandharv Tongia:** It is UPAS LC, where in the vendor get the money and we settle the liability after the tenure is completed. There is a detailed note which is there in the financial statement in Annual Report for FY 2019, you may just go through it to understand the nitty-gritties of this particular transaction.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Kernel Capital. Please go ahead.
- Kunal Shah:** I just had one question if you could help understand, what percentage of our revenues would be through channel financing and what is your view on the same considering probably the liquidity crisis that we have seen?
- Ramakrishnan R.:** In the past, I can say as of 31st, March approximately 50% of our channel sales was covered under channel finance, okay? So, that is a very significant number, I do not know the exact position as of the end of the first quarter. But I think, there is a regular addition of people into the channel finance fold. You can expect it to be around the same with a marginal improvement. A quarter is too short a period for us to draw any conclusions. But the trend is from 10%, 15%, 20%, 25%, 30% we have improved it to about 50% coverage of our channel business and our stated objective is to take it to about 65% of our channel business.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now have the conference over to Mr. Gandharv Tongia – Deputy CFO for closing comments.
- Gandharv Tongia:** Thank you all the participants for taking out time today, this morning. We will be happy to connect with you, in case if you have any follow-up questions. You can reach out to us and we would be happy to take you through the businesses. Ram, you want to add anything?
- Ramakrishnan R.:** I also wish to convey my thanks. For us, these early times as a listed entity. I am glad that we have been able to report a good set of numbers for the quarter. But once again, as a word of caution, I would like to say that the way our business has to be looked at is as a 12-month cycle. So, even if you were to look at our July to June performance in terms of the 12-month period ending as of 30th of June, the cable and wire revenue growth are very-very healthy. So, we are building a business which over a period of 12 months gives a more representative picture than just a quarterly figure. I just want to emphasize that, before we wind-up the call. Thank you very much for your active interest in Polycab. We are all very grateful to you for your interest and for your questions.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Polycab India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.



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