



**“Polycab India Limited Q1 FY-21 Earnings Conference
Call”**

July 22, 2020

**MANAGEMENT: MR. INDER T. JAISINGHANI – CHAIRMAN &
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*Polycab India Limited
July 22, 2020*

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY21 Earnings Conference Call of Polycab India Limited. We have with us today Mr. Inder Jaisinghani – Chairman and Managing Director and Mr. Gandharv Tongia – Chief Financial Officer. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Gandharv Tongia. Thank you and over to you sir.

Gandharv Tongia: Thank you, operator. Good morning everyone and thank you for joining us on Polycab India’s first quarter financial year 2021 conference call. I hope you all are doing well. I am Gandharv Tongia, CFO at Polycab India Limited. On this call, we shall discuss the Q1 FY21 results, which was approved in the board meeting held by video conference yesterday. We will be referring to the earnings presentation, financial results and financial statements, which are available on the stock exchanges, as well as investor relations page of our website. It can also be downloaded through the link or QR code on Slide #8 of our earnings presentation.

Joining me today from the management team, we have our Chairman and Managing Director – Mr. Inder Jaisinghani and our Director – Mr. Shyam Lal Bajaj on the conference call. Let me now hand it over to our Chairman, Inderbhai for his comments.

Inder Jaisinghani: Good morning everyone I hope that you and your families are safe and healthy. Quarter one was significantly impacted by headwinds of COVID-19. However, we saw progressive signs of improvement as the restriction in movement eased and this could improve further as India unlocks gradually. Despite challenges we improved our liquidity position and remained profitable, which I believe is a strong sign of our organisation’s capabilities. We continue to prioritize safety and well-being of our employees, partners, and customers. Polycab is proactively supporting society and communities across India. Our strengths coupled with new strategic initiatives will enable Polycab to maintain its dominant position in Wires and Cables and expand presence in the ‘Electricals’ ecosystem. I now request Gandharv to take you through our earnings presentation. Thank you.

Gandharv Tongia: Thank you very much Inder bhai. As you all are aware, we are going through extraordinary times. But as always, let me try and provide you with a general overview before discussing the first quarter performance, we continue with all supportive measures I had highlighted in the previous quarter call. And in fact, we have only augmented it further with the help of several NGOs. Our efforts have been appreciated by many, including local administrations. From an operation standpoint currently all our factories, warehouses, and offices are operational, adhering to relevant guidelines from local and national authorities. Our distribution channel is fully active, but the larger dealers, distributors and retailers in metros and Tier 1 towns continue to be impacted by the outbreak. On the macro front, it is a kind of mixed bag. While infrastructure and construction activities continue, which is a good sign, many projects are facing



*Polycab India Limited
July 22, 2020*

labor shortages, which is delaying the execution. Most of the offices of companies and large dealers are located in metros and due to erratic lockdown orders are not getting finalized at the pace it should. On the other hand, if we look at many high frequency data points like power consumption, manufacturing PMI, or unemployment rate, there are clear signs of economic activity picking up. Even we are seeing good momentum in towns with less than 10 lakh population. Currently, the sales in large metros would be 30-40% of the normal levels, while in Tier 2 towns and below it would be close to 80%. Average normalization level in Tier 1 town is somewhere in between. This could possibly be because of relatively lesser impact of virus and higher movement of goods and people and ample availability of labour in these geographies vs metros due to migrations. We close June month with about 15% decline in sales on a year-on-year basis. While in July, we are seeing slight growth at this juncture. Having said that, our assessment suggests that bulk of this could be attributed to pent up demand and some stocking due to rising copper prices. The first wave of lockdown which started in March impacted demand as well as supply. As we started unlocking gradually around mid-May trade sentiments temporarily improved and demand started progressing. However, the ongoing second wave of erratic micro lockdown is breeding a lot of uncertainty. So we should wait for one or two quarters for a clear trend to emerge. But all-in-all, we are optimistic and we believe as and when economy start to unlock the recovery will be faster than general anticipation. Going ahead, we expect every quarter to be better than the previous assuming things don't deteriorate drastically. As, I had mentioned in last quarter, we are undertaking several initiatives like conserving and augmenting our liquidity position through judicious cost management, deferring non-critical spends and availing additional credit lines. Result of this is somewhat visible in our improved cash balances, working capital and our overall financial position. Never the less we truly believe there is always some space for further improvement and accordingly we have commissioned a strategic project, partnering with a reputed strategic consultant to drive cost optimization across the organization.

Now moving onto presentation with slide #4. For the quarter ended 30th June 2020, our consolidated revenue declined by 50% due to severe impact of COVID-19 and restriction of movement. Business for first 40-45 days was essentially lost due to lockdowns. EBITDA declined by 75% YoY with 571bp lower margin vs last year due to adverse operating leverage. Our staff costs at Rs812mn were lower 12% YoY largely due to lower variable pay and incentives. A&P spends were curtailed given the virus outbreak and were 0.3% of sales. These spends may remain muted for the next one or two quarters, depending on the market conditions, however over the mid-term it will be restored at normalised levels as we continue to invest behind our brands. Our higher finance costs emanate from borrowings availed by Ryker and some credit lines we explored to improve liquidity position in near term. Other income was Rs 336mn for Q1. A detailed break-up of our Other Income and Finance Costs have been provided on Slide #12 of our earnings presentation. Our Profit Before Tax & exceptional items declined by 86% YoY. Our Profit After Tax at Rs1.1 billion is lower by 13% YoY. I would like to highlight that the current quarter profit includes three one-offs. Number one refers to 839 million



*Polycab India Limited
July 22, 2020*

adjustment on account of a favorable order received from income tax appellate tribunal in the current quarter. Second, refers to interest on this particular order which amounts to 164 million, which is sitting in other income. And third one pertains to gain on previously held equity interest in Ryker amounting to 97 million which is an exceptional item. The three adjustments are provided on Slide #9 below the P&L. Adjusting for these, normalize PAT would be about 75 million.

Moving onto segments on slide #5. Wires and Cables, which is our largest business, declined by 51% YoY in Q1FY21 due to slowdown in economic activity on account of outbreak of virus. Rising commodity prices did provide some support in the last month, especially in wires which is seeing very good growth. Sales to Dangote were nil in Q1 as the project in Nigeria is facing some execution delays. Despite that exports continued to show resilience and was over 2x the base quarter. Optic fiber cables were insignificant during the quarter as the execution was delayed due to lockdown and subsequently due to onset of monsoon. The profitability in the segment was down due adverse operating leverage.

On slide #6. FMEG segment contributed 14% to our business in Q1FY21. The segment declined by 43% YoY in Q1 however June was flattish. Recovery in Lighting and Luminaires and Agro pumps was relatively better. Sales during seasonal months for fans business ie. April and May, were lost. Segmental profitability was impacted by deleveraging. Some of our new launches planned in Q1 were deferred given the market environment but we aim to push it into trade at opportune time. While the consumer sentiment is weak at the moment we will continue to strengthen our core capabilities and proposition to outperform the market. I'm very pleased to highlight that during the quarter our Polycab experience centre in Mumbai received an award for best retail store design.

Others segment which is largely our strategic EPC business, witnessed a decline in revenue and margins due to delay in executions owing to lockdowns. I feel immensely proud to announce that Polycab recently received an award for Excellent Digital infrastructure company in 5th International ICT Excellence Awards 2020 held in Geneva. We will continue to scout for opportunities in large digital infrastructure projects including Smart Cities, Surveillance, BharatNet and Digital Village.

The consolidated financials of this quarter also reflects Ryker Base which is now a wholly owned subsidiary. Accordingly, we have created a new segment "Copper" and disclosed in financial results. However, the impact is insignificant at the moment.

Moving on to Financials, our balance sheet remains healthy with Rs2bn of net cash position as of June 2020 vs Rs 1,6bn as of March 2020. We continue to work on our long term strategic and structural initiatives like increasing channel financing, inventory rationalisation, debottlenecking of processes, increasing automation, augmenting supply chain operations with technology and



*Polycab India Limited
July 22, 2020*

building data analytics capabilities. These initiatives coupled with specialised support will certainly help us improve efficiency and strengthen our market positioning.

On the distribution side, our direct reach remains strong at over 3500 authorised dealers and distributors across geographies. Retail outlets reach increased to over 1,30,000 as of June 2020. Incrementally, our focus is to drive reach in lower tier towns, semi urban and rural where our presence is limited at the moment. We have commenced a pilot project with same agenda in mind. We continue to enhance our key influencer connect through Project Bandhan which now has over 1,41,000 electricians and over 43,000 retailers onboard.

Lastly, I would like to reemphasize on the fact that our company, brand and fundamentals are well positioned to circumvent the ongoing challenges. We remain stubbornly optimistic of the medium to long term development potential of our nation and the growth opportunities it offers led by structural drivers and government push. But at the same time, we would be cautious and agile in our approach in order to deliver sustainable and profitable growth for all stake holders.

With this, I request the operators to open the line for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from line of Atul Tiwari from Citi group. Please go ahead.

Atul Tiwari: Sir, you said that in the month of July so far you have seen some kind of marginal growth in top line, could you give some more on your individual segment especially the retail B2B and exports, how are they panning out in the month of July on an individual basis. And what would be the blended capacity utilization in your plant as of now?

Gandharv Tongia: Let me pick up your second question first, the capacity utilization as of now is hovering between 50% to 60% and if there is a need we can certainly increase the capacity utilization. On the first part, the B2C business, which is retail wire as well as FMEG business, is getting good traction from the market. On the cable side, the institutional business is not gaining momentum at this stage because that's dependent on several factors including signing off of projects, availability of decision makers in the offices and so on and so forth, which is bit erratic as of now because of lockdowns.

Atul Tiwari: Okay. But on an overall basis, I got this part right that so far in July the top line has grown marginally year-on-year it has not declined?

Gandharv Tongia: The other thing which is worth highlighting at this stage is export growth I'm sure you would have noticed that in the first quarter our exports grew over 100%. In the base quarter it was almost Rs.50 crore and now it's Rs.100 crore. And important thing is both of these numbers do not include Dangote sales. So, without Dangote we have been able to increase exports. So, that's



*Polycab India Limited
July 22, 2020*

helping and we expect that will continue to help. And the demand is broad based but particularly FMEG and B2C which is the retail wire is helping us.

Atul Tiwari:

Okay. And just the last one, obviously in the month of July we have seen some more lockdowns across various places in India at a localized level. So, what is the color on that, has it significantly impacted your distribution and demand or this is still manageable if it continues like this. So, the point I'm trying to kind of get from you is that if these intermittent lockdowns continue say for another two, three months. Do you think that this flattish kind of revenue or some marginal increase in revenue will sustain or we may dip into year-on-year decline again?

Gandharv Tongia:

That's very interesting one. Let me afford to be slightly bit more optimistic now than what otherwise I should be there on the investors call. Let's understand what is the pattern in Q1, we lost almost one and a half months or two months because there was a complete lockdown. I don't expect that would happen. Since last week or so we are hearing about positive development on vaccine and even if there are lockdowns they will be localized lock downs. So my expectation is that things will only improve from here. Q2 is going to be better than Q1. But at the same time, we should be cognizant of the fact that even if there is a lockdown which is localized, it would have some bearing on the performance. So I don't expect an absolute growth coming in, in immediate quarters, but my sense is Q2 is going to be better than Q1 at this stage. Another important thing is export market where not necessarily the lockdown is having severe impact would probably help us. So, overall my sense is Q2 is going to be better than Q1 and H2 ideally should be significantly better than H1. Atul I've taken liberty at this stage, when the cost of being optimistic and cost of being pessimistic is same it's better to be optimistic, right. So, that is what I am sharing with you as a friend.

Atul Tiwari:

No, great. And to be very frank in the first quarter, congratulations on managing your balance sheet and cash flows very well. P&L obviously, was widely expected will be weak, but balance sheet and cash flows did quite well in a very tough environment so congrats on that.

Gandharv Tongia:

Thank you. I'm glad that you're pleased.

Moderator:

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

Aditya Bagul:

So, I have three questions. Let me take the first one, it's largely on export. So we've seen a particular increase there. I wanted to get your sense on what has led to this increase, especially given that Dangote execution will not happen this quarter, so what has led to it and what are the key markets and what are the key products. So something on that would be helpful.

Gandharv Tongia:

Sure. Do you want to give me other two questions as well and then I can take all at one go?



*Polycab India Limited
July 22, 2020*

Aditya Bagul:

Fair enough. So the second question was with regards to our B2B business, which is your institutional business, cables business, projects business, et cetera. Just wanted to understand that all of these business the execution has been largely stalled for the last three months and likely to be stalled for another couple of months. So, just wanted to understand that how do we see whenever that implementation wall sort of begins to roll, do you believe that we get a demand and gusto when in we get a huge pent up demand towards September, October and that will sort of, fuel growth much more than what we lost out earlier. So that was question number two and question number three was largely on our long term order in terms of the FMEG because the other two pieces are cables and wires business both domestically and export is doing reasonably well both in terms of top line and margin. So just wanted to get your true sense on how do you see the FMEG scale up, especially on the margin front?

Gandharv Tongia:

Sure. Thanks a lot Aditya. So let me go in the same order. Export in this particular quarter got support from geographies like US and Australia. In the base year as I mentioned to Atul it was almost closer to Rs.50 crore of export revenue is now almost Rs.100 crore and I'm sure you are aware that recently we have incorporated subsidies in US and Australia. And these are going to work like trading arms of the group. In last few months, we have secured approvals from large key customers, for example we have approvals from the metro companies in Australia and there are similar several such examples. So, the export business is looking positive, the only thing which we should bear in mind and which is what I was alluding to in the previous question as well, that if there is a significant lockdown in any particular geography, for example in US and Australia, which is of course beyond our control, it could have impact or bearing, but if I normalize that the export is going to grow from here. Another important thing which is important to note at this stage is anti-China sentiment, across the globe, which is helping us in improving, our overall traction in the market. If we take a very broad global macro view, if China is going to get a setback because of anti-China sentiment, then a country like India should get some advantage out of it. And we as a market leader in cable and wire business should be able to maximize growth from that avenue. So, overall export was positive, Dangote though we couldn't execute anything or supply anything in previous quarter, but we expect in a quarter or two, we would be able to complete the contract depending on the things in the Nigeria and that will help us in improving our export line or export top line further.

Aditya Bagul:

Sure. Gandharv just one more point on the export business would the margins at the export level also be similar to 11 to 13% that we've guided?

Gandharv Tongia:

Yes, broadly. It varies from product-to-product, but generally speaking we can take that as a base. So the second part was on B2B what we are seeing today. In the first quarter, we lost almost 80% of our institutional business because of impact on account of lockdown, I believe this will only improve from here. The decision making is impacted because of unavailability of key personnel in the offices for the large customers, but since slowly and gradually all of us have started going back to office, I expect this will only further improve. In few of the sectors, it could have slightly different reaction depending on liquidity, but we expect this will improve. Aditya



*Polycab India Limited
July 22, 2020*

was trying to understand specifically whether it will result into a specific pent up demand in a particular month, at this stage we cannot reject that possibility but to my mind that is dependent on the liquidity of the end customer and it will vary from case-to-case. Third one was on FMEG profitability. This lockdown has given us enough time to think about our strategy in FMEG. One thing which is very clear, we have to unlock the synergies and as a step in that direction, we have decided to merge our switchgear business with wires business, so that we have common agenda and we are able to consolidate and increase the cross selling. The second thing is, and let me split in two parts, lets cover businesses which are slightly large for example, fan business or lighting luminaires business. There now the focus is twofold. One is we want to drive profitability. We are getting good traction in the top line but the focus now is on profitability. And the second thing is we want to improve working capital significantly for these businesses, for inventories we have already taken some steps and we expect that will only improve on a go forward basis and the channel financing I expect will further increase. On the smaller businesses, we will continue to drive our growth agenda for example, pipe business where we would like to get into 1 billion revenue or there about. Then the product augmentation, we talked about IoT and home automation and getting into premium category. Most of these projects are available and will be launched in the immediate future. Another important thing is though that is applicable on the company level, but that would also help in FMEG business is around cost optimization. We are going to work with a large strategy firm which will help us in optimizing cost and that will help all the businesses including FMEG. I hope, I have answered your all questions Aditya.

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

Ashish Poddar: I'll ask on more on the strategy side. So, like we are focusing more on the liquidity, cash balance anything, even in the last quarter I saw some CAPEX of around 25 crore, if you can explain where has it happened?

Gandharv Tongia: So, this is actually in continuation to our last year CAPEX. We had decided to incur almost Rs.300 crore of CAPEX in the last year. Actual CAPEX was closer 270 to Rs.275 crore and that amount has been incurred in the first quarter. In this year we believe that our number closer to Rs.200 crore or thereabout should be okay. But we will revise it upward if there is an improvement in demand and this CAPEX is being utilized for broadly three things, one is debottlenecking for cable and wire business, additional capacities for FMEG business for example Fans and third is for exports business there is some modification which is required in our existing machinery and some new machinery, so as to maintain and meet the requirements, which are there in those geographies. So, these are the broad three categories where we are spending CAPEX.

Ashish Poddar: So, you're saying this year it will be minimum 200 crore?



*Polycab India Limited
July 22, 2020*

Gandharv Tongia: Yes, it still looks like around Rs.200 crore, but we will continue to monitor it and if we get better result in the subsequent quarters we will probably revise it upwards.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Sir my first question is regarding the industry. So, you mentioned that July you saw a slight growth in the top line, so ex-export market purely from the domestic point of view, are you seeing things improving which could have contributed to the growth in your top line?

Gandharv Tongia: Yes, Sonali that's true. Things are improving the only thing which I highlighted in my opening remarks as well is that it has an element of pent up demand and at this stage it's very difficult to segregate what is pent up demand and what is the underlying growth. We'll have to wait for a quarter or so to get to a clear view on this. But as of now things are apparently improving.

Sonali Salgaonkar: Understand. Sir my second question is regarding construction activity. Now we understand that the key driver for cables and wires, ex B2B business would be largely construction. As we understand, it's not, the off-take is not happening as much in the urban areas, but just wanted your view on how are you seeing construction activity shaping up x metros?

Gandharv Tongia: That's an interesting one Sonali in fact, what we're noticing slowly and gradually construction activities are improving in Tier II towns, Tier I towns because of availability of labor and largely these geographies are not severely impacted by COVID. So that's good, in fact our proportion of Tier I and Tier II town has increased in the current period. Tier I, Tier II probably would have contributed almost 40% to our channel sales in the base quarter, which has increased almost to 55% in this quarter. And if trend continues this will improve further. And because of this and otherwise as a part of our strategic initiative, we have now hired another consultant who is helping us in penetrating these geographies and we are going to pilot new initiatives in select geographies, in three states in next two, three months to see how we can further improve our penetration in these market and take all the products of Polycab to the end customer.

Sonali Salgaonkar: Understand. Sir my third question is regarding again from the industry perspective the inventories in the channel, now we understand that because of the lockdown imposed in March there were a higher amount of inventory starting of April. So could you just give us an update on whether the channels have completely liquidated the inventories or there are still some lying around?

Gandharv Tongia: So, March inventory have been fully liquidated. In fact, in the June there was a significant increase in copper prices which led into some sort of a stockpile at the dealers end and slowly and gradually that is going down. In fact our sales to be very precise was comparatively better in the first half of June month and second half it started going down after we revised our prices



*Polycab India Limited
July 22, 2020*

upward because of improvement in copper prices. So as of now while we are speaking today it has started inching towards normalcy and from now it will only improve.

Sonali Salgaonkar: Understand, sir and lastly any thoughts on the upcoming festive season this is particularly from the point of view of our appliances. Sir, and one last question if I may squeeze in, any impact from China or any big import from China which you think you could de-risk from, that's all from my side. Thank you.

Gandharv Tongia: So let me pick up China first. We don't have any significant dependence on China. If I talk about cable and wire business, most of the materials are either sourced from countries like Japan or domestically if I talk about metal consumption. And in nonmetal we have negligible dependence on China where we have alternate supplies already available domestically as well as across the globe so that there is no dependence there. And in FMEG we are uniquely placed because all along we always believe in Make in India and we have almost everything manufacturing in house within the company. So, that's positive unlike few of the other players in the industry. For few of the SKUs in fan business, particularly premium fan, we have some dependence but the contribution of that would be hardly anything and for that also we have alternate supplies available in India as well as in countries like Taiwan and others. So overall my sense is it would be less than 1% or probably even lesser than that, as far as China dependence on the procurement side is there. On the sales side as I explained to Aditya a while back, it will probably help us in improving our export. So that is going to be slightly positive for us. On your first question, sorry I forgot the first question Sonali, you will have to repeat.

Sonali Salgaonkar: Sir your thoughts on the upcoming festive season, are you expecting a lot of demand, a lot of pent up demand to be unleashed especially into your FMEG categories?

Gandharv Tongia: Broadly, directionally the sales pattern should increase slowly and gradually in the subsequent quarters. Now, the festive things are dependent on how good or bad the condition is, so for few other regions even this period is festive, but because of COVID, I don't think they can step out and carry out celebration. So, if things improve on the COVID front, certainly it will help us in improving our top line.

Sonali Salgaonkar: Understand sir and are you seeing any excessive discounting in the industry in any particular category?

Gandharv Tongia: No, not at this stage.

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

Amit Mahawar: I just have two specific questions. Gandharv first one is for you, what's our FY21 focus in terms of specifically a working capital profile and balance sheet quality very specifically and second



*Polycab India Limited
July 22, 2020*

question is more for Inder. I can understand how do we look at exports, because capacity availability is pretty high for us, domestic entailed demand specially in wire is seems to be pretty weak. So, how far can we go on exports and Inder can also touch upon the global dynamics in terms of competing countries, which basically we have to keep in mind. So, these are two specific questions. Thank you.

Gandharv Tongia:

So on balance sheet there are two development needs which we have if I may use those words. One is we have to further optimize the inventory level and in the last call, I had mentioned that we are working with one of the consultants to optimize the inventory and we want to do two things. One is we want to reduce the overall amount and within the reduced amount, we want to increase the number of SKUs which are available. So that's moving in the right direction. In fact, if you recollect in the first three quarters of last fiscal, the inventory was slightly looking better than the year before that, in the fourth quarter we got some impact because of COVID, but from there it is only improving. If you can dissect our inventory numbers, we have been able to optimize the inventory at FG level, and at the RM level there is some higher level of inventory because of goods in transit. So directionally we believe that we have to further optimize the inventory and it will only improve from here onwards. On the receivables the channel financing in cable and wire businesses is in mid 60s, which can slightly go up. And in the case of FMEG it can significantly go up and that is where we'll continue to remain focus. So, that is how we will be able to improve the working capital. Before, I answer your exports related specific question, wire though there was a de-growth, but the de-growth was not as significant as what we noticed in the cable business. Cable business was severely impacted because of absence of institutional business. Institutional business almost de-grew by 80% or thereabout and wire business didn't de-grow at that rate. Exports, there are two things which we are trying to do. One is we have identified 10 geographies or customer sectors where we want to penetrate and in that direction we have taken steps by incorporating subsidiaries in Australia, as well as in US and we'll continue to further augment. The utilization is not directly comparable because in few of the product categories specifications are different and not necessarily the same machineries can be used for producing the output which is required for the export businesses. Over the mid to term we would like to have at least 10% of the revenue coming from export business.

Amit Mahawar:

Okay. And maybe lastly on the same question some dynamics with respect to how are, which are the competing, markets where we face competition and supplies of cables, especially in industrial and utility cables?

Gandharv Tongia:

So, in cables there are opportunities available in several geographies. As I mentioned couple of them, there are geographies available for example Africa where lot of World Bank projects are getting implemented and in these projects Amit the important thing is, there is no import duty and hence an exporter from a country like India is competitively on better footing. So these are the geographies which are available around 10 to 12 geographies or customer sectors you can built-in and that is where we will continue to work in the quarters to come. And on the product side it will be LV and MV cables.



*Polycab India Limited
July 22, 2020*

- Moderator:** Thank you. The next question is from the line of Aditya from Investec. Please go ahead.
- Aditya:** You mentioned that channel financing proportion for wires and cables would possibly be somewhere around mid-60s. And for FMEG business it's likely to be lower. Could you just give us an indication how this would have stood maybe four to five years back?
- Gandharv Tongia:** It was almost nil five years back.
- Aditya:** Understood. And on the power cable side, is it possible to share the proportion of cable sales that comes from power ACB?
- Gandharv Tongia:** You know our business model. So, what we do is almost 80% our business come from distribution and our dealers and distributor they in turn supply to the end customer. So for us, it would be very difficult to give you that bifurcation.
- Moderator:** Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.
- Chintan Sheth:** On the industry side cables and wires, how the industry has grown or compared to industry how I just wanted to understand the relative performance of Polycab, that is one and second on the FMEG side, if I look at our growth we did, you say lighting and agro pumps are doing better fence lost the peak season. How are things on other product categories, you mentioned pipe you want a 1 billion target by when you are targeting that. And similar guidance on the longer term what's our target in terms of each product category revenue?
- Gandharv Tongia:** So the first one at the industry level, almost everyone has de-growth in this particular quarter because of lockdown. The impact has been more severe for the unorganized players because of unavailability of funding and other associated issues. We should wait for other companies to declare their results and then we can take a view on the industry de-growth. On FMEG, actually two things which are important for us, one is in whichever business category we are, we want to be market leader we have to reach into top three and eventually to move towards number one position. As, I explained a while back there are two things which we are trying to focus on the businesses which are slightly larger within the FMEG business, we want to increase the profitability there and improve the working capital so that we can improve the overall ROCE, return on capital employed. And for the smaller businesses we want to increase the growth rate and first get them into 100 crore club and from there then we want to monitor their growth on the financial metrics.
- Chintan Sheth:** Right. So, 100 crore for pipes, what I would target where are we right now in terms of fans, lighting and switchgears if you can or your near term, medium term target in terms of revenue?



*Polycab India Limited
July 22, 2020*

Gandharv Tongia: No, I won't be able to give you a number, as a company we are not giving guidance, I can share with you directional thought process what we want to achieve and that remains that for the large businesses. We want to improve the profitability and improve the ROCE by optimizing the capital employed in large businesses. And for the smaller businesses we want to further up the growth rate in top line. It doesn't mean that the growth will come at the cost of profitability, profitability would certainly be there but once you reach to a scale you can further improve the profitability and this project on cost optimization which we are doing will certainly help us in further augmenting the profitability.

Chintan Sheth: Sure. And lastly, if I may, on the regional mix how the revenue has moved from West already impacted because large markets like Maharashtra, Maharashtra has been under severe lockdown, how that revenue mix has moved and geographically where the growth is coming from. You mentioned Tire II has been growing faster, but if you can provide North, South, East, West where the growth is coming?

Gandharv Tongia: So let's split that into business. If I talk about cable & LDC business, and to a great extent wire business, the de-growth is across all the regions almost in the similar range. In the case of FMEG business, the South and East would have de-grown by 20 to 30% and North and West would have de-grown by 50 to 60%.

Chintan Sheth: Sir and how they're panning now currently?

Gandharv Tongia: So, as of now almost all the regions are showing signs of recovery.

Chintan Sheth: Southwest maybe, Southeast maybe faster compared to Northwest?

Gandharv Tongia: 20 days data is not necessarily good enough to reach to that conclusion, we'll have to wait for at least a month and two before we conclude.

Chintan Sheth: No, I was just thinking about June and July not only July number, June how has been the response?

Gandharv Tongia: You'll have to wait for a month or two before we conclude and comment on July performance.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

Sabyasachi Mukerji: So two questions from my side, first of all you said that industry business continue to remain weak. If you can split between the government and private entities the reason behind asking this question is, few days ago, few weeks ago, government actually pushed the public entities to announce their CAPEX plans and if that has anything to do with on the order inflow and order finalization?



*Polycab India Limited
July 22, 2020*

Gandharv Tongia: Sure. So we as a company don't deal with the government customers directly. On annualize basis contribution of government customers to our top line would be around 1 - 3%, not more, our dealers and distributor certainly supply to government. On the private, we have sizable customers available, but it's quite possible that they in turn are also executing large government orders and both of those put together has de-grown significantly in this particular quarter by almost 80%. And as I mentioned in my opening remarks, it is expected that the recovery should start soon, because most of the offices has started resuming and decision making probably will start happening.

Sabyasachi Mukerji: Okay. Second one bit on the industry, even pre COVID situation we saw industry declining in double digits in the last financial year, in every quarter it was declining. What is the near term and medium term outlook from your side on the industry and what kind of, are you seeing any kind of consolidation happening in the industry?

Gandharv Tongia: So, if we dissect the industry growth rate or de-growth rate over the last few quarters, predominantly the growth or de-growth in fact in this case only de-growth is coming from unorganized sector, the large players are able to either maintain their market position or are able to gain and we are no exception to that we have been able to improve our market positioning. We believe that because of GST, de-monetization as well as liquidity crisis, which was witnessed in last fiscal, it will probably increase the proportion of organized business in this particular industry and that is where a large player like us would gain out of it. Over the midterm, generally this industry grows at 1.5x to 2x of GDP growth rate and that is how we should see the growth coming at the industry level.

Sabyasachi Mukerji: Okay. Last question if I can squeeze in on the financials, I was just seeing your operating cash flow of almost 300 crores this quarter. I was just trying to add things up from EBITDA to cash flow from operations, I was seeing almost a 140 crore dip in the other current assets, apart from that inventory, receivables and creditors were almost offsetting each other, this 140 crore dip in other current assets, anything specific over there?

Gandharv Tongia: So, when we procure our metals for example copper, it has an element of embedded derivative, which as of the balance sheet date, is required to be valued and classified as per the nature. For all practical purposes you can treat it as a trade payable. This is an accounting adjustment which is required to comply with the IFRS requirement, but practically it is nothing but trade payables. So, on overall basis broadly if I give you numbers, our receivables has given us around Rs.200 crore of cash in the cash flow statement, partly offset by around Rs.63 crore of inventory increase and trade payables including this derivative element which I have talked about has given us around Rs.120 crore which is then offset by almost Rs.35 crore of tax outflow. So, overall the number is around closer to Rs.300 crore.

Sabyasachi Mukerji: Okay. One question on the fixed assets. I see almost 250 crores of jump is it because of Ryker consolidation?



*Polycab India Limited
July 22, 2020*

- Gandharv Tongia:** Right, that's true. Ryker used to be a joint venture till 6th of May and we were following equity accounting as of 31st of March. Since now it's a wholly owned subsidiary we are required to do line-by-line consolidation and that is why this number has increased.
- Moderator:** Thank you. The next question is from the line of Mayank Bhandari from B&K Securities. Please go ahead.
- Mayank Bhandari:** Sir, I wanted to understand as you highlighted that this year CAPEX is going to be around 200 crore. How much you are going to spend on the fans particularly?
- Gandharv Tongia:** Broadly you can take around 35% amount will be invested in FMEG and balance will be utilized for cable and wire business.
- Mayank Bhandari:** The 35% FMEG?
- Gandharv Tongia:** Yes, that's true.
- Mayank Bhandari:** As you highlighted sir in normal base quarter 40% almost is coming from Tier I and Tier II, so how much will be from the metro cities?
- Gandharv Tongia:** So in the base quarter contribution of metro cities to the top line was closer to 60%, which has now reduced to almost 45%.
- Mayank Bhandari:** Okay, so 60% metro and 40% Tier 1, Tier II as you have classified?
- Gandharv Tongia:** That's right. 40% Tier 1, Tier II and below.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** My first question was, would it be possible for you to give a mix in terms of wire specifically for the first quarter FY21 and last year same quarter?
- Gandharv Tongia:** So wires and FMEG both put together constitute B2C for our purposes and that has significantly increased in the base quarter it was closer to 35% and it is now around 43%.
- Achal Lohade:** But you won't be able to separate it out in terms of wires specifically?
- Gandharv Tongia:** That has not been disclosed formally now.
- Achal Lohade:** Got it. And the second question I had is given Mr. Ramakrishnan has moved out, is there any change in terms of the management for the FMEG and the other businesses?



*Polycab India Limited
July 22, 2020*

Gandharv Tongia: So, Ram joined us in 2011 and he was instrumental in shaping Polycab version 2.0. And over the period we have hired several business managers and inducted them into our leadership team. In fact, probably today we would have almost 40 - 45 individuals who are drawing more than Rs.1 crore of salary. Idea is not to highlight this, the idea is to highlight the quality of talent which we have inducted in our leadership team. And these people are responsible for day-to-day operations of the company under the guidance of Chairman and Managing Director as well as the Board. In 2018, as part of succession planning Ram stepped down from the Board as well as the Joint Managing Director and continued as a mentor to these business leaders who were inducted as well to the second generation or the promoter family and he ceased to be a KMP in 2018. And since then, these managers are managing the business and I must say that they are doing a good job at this stage. Few months back Ram, as he was about to attain his superannuation age, wanted to devote more time for social welfare and he wanted to complete his PhD which is known to few of you already. So he decided to leave the company and 30th of June was his last working day with the company. And as I mentioned that he was in mentor role since 2018 and the large leadership team was any which ways managing the business, there is no impact on the business because of Ram's exit from the company. And certainly we value Ram's contribution to Polycab over the years.

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

Anand Singh: Just wanted to come back to the exports potential. Now, you mentioned our target is to have 10% revenue from export or the medium term for that our margin is like two to three years. Is my understanding correct?

Gandharv Tongia: It is three to five years is probably I would broadly peg at this time.

Anand Singh: Yes. So sir three to five years 10% given that we're talking about shifting of interest towards India, from China for the rest of the world, is that 10% goal in three to five years is that an our base case expectation or is it kind of optimistic or is this, I am just trying to understand how should I put it in the context where the opportunity size is huge and if are just talking about number 5, 10 years, 3 to 5 years of 10%. So why is it guidance that you are kind of giving it relatively subdued with respect to the opportunity globally available?

Gandharv Tongia: So, Anand you know this company already, we have always given a guidance and generally we have delivered a better performance and that is why we believe that 10% is a good number to talk about and you and me are any which way are going to exchange notes on quarterly basis and yearly basis. So we can always revisit on the basis of actual numbers.

Anand Singh: And in terms of margins, given that this will be not mostly a B2B business when we do exports, is it fair that lower margin as compared to domestic business is that the expectation then?



*Polycab India Limited
July 22, 2020*

- Gandharv Tongia:** No, it's fairly comparable.
- Anand Singh:** Okay. So, very similar to the overall business margin in India. That we have seen in newer exports?
- Gandharv Tongia:** Yes.
- Moderator:** Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.
- Ashish Jain:** Sir my question is on again the cables and wires business. One is, is wires now contributing like one third of our cables and wires segment can you just confirm or comment on that?
- Gandharv Tongia:** So, wires and FMEG both put together constitute B2C segment for our internal analysis, which is almost 43%. Earlier it used to be around 35% or thereabout.
- Ashish Jain:** Understood and you spoke about, wires doing much better than cables during the current quarter at least. So, is that a trend in specific regions or geographies and are you seeing that trend moving as we speak, if you can just give some color on what led to a better performance in wires because I thought even that is very closely linked to new construction. So what will lead to the surprise in your view?
- Gandharv Tongia:** So, cable as I mentioned and alluded to that, in the case of cable institutional business there were a significant element of de-growth which has impacted the cable business growth. In the case of wire, the growth or de-growth is consistent across all the regions. There is no one particular region which is doing better or worse than others.
- Moderator:** Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.
- Chetan Gindodia:** So, my question is more on the institutional cable business. So the institutional cable business would now be contributing so 43% is wires and FMEG. So, rest of it would be entirely most of it would be institutional cable is my understanding correct. And secondly, what would be the driver for institutional cable business to improve from here if we get only the faster decision making that might be the driver here, that you might increase and especially with most of the companies cutting down on their CAPEX in FY 21. So is the outlook likely to remain subdued due to lower new projects?
- Gandharv Tongia:** Yes, so let me just take a step back and explain you the business model. We are not a typical B2B company, 80% of our business comes from distribution, which is true for cable as well as wire as well as for FMEG. So when I'm talking about institutional this is only balance 15-20% of business, which has been de-grown. Distribution business is totally different than institutional business. The private CAPEX is one of the drivers, of course the government CAPEX is



*Polycab India Limited
July 22, 2020*

important. But there are things like BharatNet project and all of us are aware that government wants to improve digitalization and get connectivity to each and every village of the country. So if a country wants to get to that level of digitalization, the government and private CAPEX will continue and that will help us in improving our top line. So, overall the business growth would come but we are not only dependent on institutional cable business.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Sorry, I couldn't have clarified it enough number of times in terms of cables and wires business, but just to probably specific apologies for repetitive. While you said that 25% of our businesses is the wires business and FMEG business and I assume export is also growing at an exponential phase. The institutional part of the business or let say the rest of the business whichever is x of wires and FMEG. What would be the kind of decline we are running at as far as that part of the business is concerned let say as of June, July is concerned would you just give us some sense on that?

Gandharv Tongia: So, for the first quarter minus that business across product categories, that number would range between 40% - 60%.

Prashant Kutty: And like to said that, if that number has been improving as July kind of improved from that minus 40 to let's say, an improving number or it's still where it is?

Gandharv Tongia: For July 20 days are not good enough to reach to a conclusion. My suggestion is, we should wait for a quarter in the next quarterly call we can deep dive into Q2 performance.

Prashant Kutty: Okay. No, the reason I asked because did you make a comment in the start of the call that you are actually seeing growth in July, that's the reason I asked?

Gandharv Tongia: Yes, that's right. At overall level July month is so far is positive on the basis of 20, 21 days revenue.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Gandharv Tongia for closing comments.

Gandharv Tongia: Thank you operator. Thank you all the participants for your time. In case if you have any question you can always write to investor.relations@polycab.com. I hope all of you stay safe. Take care.

Moderator: Thank you. Ladies and gentlemen on behalf of Polycab India Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.