"Polycab India Limited

Q2 FY 2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Polycab India Limited Q2 FY 2024 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 star then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gandharv Tongia, Executive Director and Chief Financial Officer, Polycab India Limited. Thank you, and over to you, sir.

Gandharv Tongia: Good afternoon, everyone, and thank you for joining us. I hope all of you are staying healthy and safe. I am Gandharv Tongia, Executive Director & CFO at Polycab India Limited. On this call, we shall discuss the Q2 FY24 results which were approved in the board meeting held yesterday. We will be referring to the earnings presentation, financial results and financial statements which are available on the stock exchanges as well as on the investor relations page of our website. Joining me today from the management team, we have our Chairman and Managing Director – Mr. Inder Jaisinghani and our Head, Investor Relations – Mr. Chirayu Upadhyaya.

Let me now handover the call to Inder bhai for his comments.

Inder Jaisinghani: Good afternoon, everyone. Leveraging the strong demand environment, the business continued with its robust growth momentum during the quarter, registering the highest-ever second-quarter revenues as well as the highest-ever quarterly profits for the Company. In addition to being a remarkable quarter for the business, the quarter was also a memorable one for everyone at Polycab as we unveiled our new brand identity. The Company is on an exciting course towards a more promising future, and I am filled with enthusiasm for the path that lies ahead. With this, I request Gandharv to take you through our earnings presentation.

Gandharv Tongia: Thank you, Inder Bhai.

In a tentative world, where economic indicators are closely scrutinized daily to anticipate the future trajectory of the economy, India stands out as a notable exception. Here, the force of domestic consumption and beneficial government initiatives have cohesively formed a concurrent narrative of long-term sustainable growth. Latest high-frequency indicators suggest that domestic growth momentum continues to remain strong, with the services PMI at a 13-year high, industrial production at a 14-month high, manufacturing PMI being above 50 for 27 consecutive months, and a sharp recovery in domestic tax collections, particularly led by income and corporate tax. Payment systems indicate that business activity continues to be robust, with UPI crossing 10 billion monthly transactions, while IMPS transactions reaching a volume of 473 million in September. On the consumption side, there is an improvement in domestic demand, as policy rates have been stable and inflation has been on a decline. Bank credit growth touched 20% in September, while with improvement in consumer sentiment, demand for cars, two-wheelers, as well as travel has been booming. Moreover, investment spending is increasing even faster, particularly driven by government initiatives and real estate construction. These positive indicators reflect a strong and resilient domestic economy, making it an excellent backdrop for our quarterly performance review.

I would now handover to Chirayu to take you through the financial performance for the quarter.

Chirayu Upadhyaya: Thank you, Gandharv.

I would request everyone to refer to Slide 4 of the earnings presentation.

For the quarter ended 30th September 2023, our consolidated revenue grew by 27% YoY on the back of healthy volume growth in domestic Wires & Cable business. EBITDA grew by 43% YoY with EBITDA margins at 14.4%, a growth of ~160 bps YoY. Margin expansion was achieved through enhanced operating leverage and a favourable product mix. A detailed break-up of the other income and finance costs have been provided on slide 19 of our earnings presentation. The Company registered its highest quarterly PAT of ₹ 4,298 Mn, a growth of 59% YoY. PAT margin stood at 10.2%, an improvement of ~210 bps over that of the same quarter last year. Net cash position improved to ₹ 15,317 Mn over ₹ 10,132 Mn in Q1, while working capital cycle improved to 50 days, as inventory levels normalized and payable days improved.

On half yearly basis, our revenues grew strongly by 34% YoY. EBITDA was up by 57% YoY with margin expansion of ~220 bps to 14.3%. PAT grew by 69% YoY, with PAT margin expanding ~220 bps to 10.3%. I am immensely proud to share with you all that our H1 FY24 Revenue, EBITDA and PAT are the highest-ever in the history of the Company for a half-yearly period. Our outstanding performance reflects the strength of our execution capability, effectively leveraging our strong market position, robust distribution network and favourable market conditions.

Moving on to Slide 6.

During the second quarter, the wires and cables business grew by 28% YoY, on the back of 30%+ volume growth in the domestic business. The domestic distribution-driven segment sustained its strong growth momentum, while the institutional business witnessed remarkable acceleration buoyed by business being generated through our on-ground sales team. Geographically, the growth was broad based, with highest growth coming from North region, with states of Uttar Pradesh, Delhi and Haryana registering considerable growth.

In the first half of fiscal year 2024, Polycab has witnessed remarkable growth and success across various cable product categories. Notably, Polycab's Special Purpose Cables demonstrated a robust growth in the first half. A primary driver of this growth has been the increasing demand for cables used in the defense sector, the contribution of which soared to north of 21% in the first half of the year.

Polycab continues to demonstrate its commitment to innovation and growth across diverse cable product categories, positioning itself as a key player in the industry.

The demand environment in India's economic landscape remains robust, significantly bolstered by government measures and improving state capital expenditure. The real estate sector is experiencing healthy off-take, providing an additional impetus to the market. The government has allocated ₹ 10 trillion of budgetary monies towards infrastructure growth in the Country. To achieve this goal, various ministries and public sector enterprises are making substantial progress. The Ministry of Road Transport & Highways has already utilized 46% of its budget by August. Similarly, the Indian Railways has spent 59% of its budget by September. Moreover, large Central public sector enterprises too have made remarkable progress, reaching 42.5% of their budget by August. Key players like Indian Oil Corporation, ONGC, NTPC, HPCL, Bharat Petroleum etc have made significant contributions toward their respective capex targets.

At the state level, capital expenditure has witnessed substantial growth. The combined capex of 17 major states increased by 45%, reaching approximately ₹ 1.67 trillion by August 2023. Notably, the government has played a vital role by providing ₹ 400 billion crores out of the sanctioned ₹ 850 billion i.e. 65% of the budget estimate, in 50-year capex loans to states, aimed at boosting state-level capital expenditure.

Leading private companies are also displaying strong capex plans and order books, which further contribute to the positive economic outlook. The largest domestic EPC company anticipates significant growth opportunities, with a promising pipeline of prospects amounting to ₹ 10 trillion. Key growth sectors for the Company include transportation, renewables, water, and the hydrocarbon industry. Additionally, the renewable energy arm of a state-run power generation entity is planning a capex of ₹ 100 billion for renewables this year.

The residential real estate sector too continued with its strong growth momentum. According to a research report by a leading real estate consultant, the top 8 Indian cities witnessed a remarkable 23% YoY growth in the number of residential project launches done during Q3 CY2023, surpassing the 2x sales growth. This trend is particularly significant as it showcases the developers' confidence in future sales. The number of launches in the quarter was 1.5x times that of the pre-COVID period, in the 2019 quarterly average, highlighting the resilience of the market. Land acquisitions have also seen an uptick, with land deals increasing over 50% in 2023. Over 72% of these land deals are for residential purposes, including high rises, plotted developments, and townships, indicating a positive outlook for the residential real estate sector.

Supported by robust demand as well as a series of strategic initiatives undertaken by the Company, our wires business too achieved good growth. One key initiative has been to implement a price laddering strategy to cater to diverse customer segments effectively. We have introduced the Etira, Optima and Green Wire ranges over the past few months to cater to customers across different segments. In the first half of the year, these ranges combined made substantial contributions, collectively accounting for 30% of the sales.

The Company has successfully pursued a targeted approach in the Southern region, which has translated into impressive growth. Sales from the Southern region have surged by 19% YoY in the quarter, outpacing other regions. The success is highlighted by contributions from key states like Karnataka, Telangana and Tamil Nadu.

These developments reflect Polycab's dedication to expanding its reach and influence within the Retail Wires segment while maintaining a strong focus on product innovation.

The international business registered a growth of 14% on a sequential basis and 18% on a half yearly basis. During the quarter, the international business contributed 9.3% of the consolidated revenue of the Company. We also expanded our global footprint to 76 countries.

Please refer to slide number eight for an update on the FMEG business.

The FMEG business registered marginal growth, with segmental revenues growing by 8% YoY during the quarter. This growth can be attributed to the benefits of channel realignment, new product development, developing in-house capacity and various other initiatives implemented over the past few quarters, which are now beginning to materialize. All major segments, with the exception of fans and lighting, have experienced good growth, both on a yearly and quarterly basis.

The Switchgears business exhibited robust performance, aided by the Company's focus on specific categories, such as 6kA MCBs and RCCB. Polycab's strategy of leveraging cross-selling through wires distributors has shown positive results.

For switches, our in-house manufacturing capabilities have continued to enhance product availability, resulting in an impressive sales growth of nearly 2x over Q2FY23. The Etira series, a low-cost offering, has contributed significantly, to the sales during H1. Similarly, the Levanna series, a premium product, has made substantial contributions.

Our Conduit Pipes and Fittings business too has shown robust sales momentum, primarily due to continued healthy real estate activity. Again here, the South Zone has emerged as a notable growth leader.

The Luminaries division witnessed a remarkable growth, benefitting from the set-up of its separate GTM vertical.

Despite muted consumer sentiment, Polycab's fans division has continued its efforts to innovate and cater to market needs. The Company introduced three new fan ranges in Q2, including two in the premium segment and one in BLDC segment, demonstrating Polycab's commitment to product diversification and energy efficiency. The launch of the Silencio Mini, a new BLDC fan, in select cities has garnered an excellent response.

Pricing revisions in the LED segment, primarily due to the Driver-on-Board technology, has impacted the top line. Approximately 25% in pricing corrections have already taken place, with almost 10% to 12% being done in quarter 2 of this fiscal year. We believe the pricing corrections have bottomed out and expect some relief from here onwards.

Segmental EBIT for the FMEG business continued to remain in the negative territory during the quarter, impacted by fixed costs, in the absence of scale. However, with the product-mix changing towards higher margin products, the decline in bottom-line was contained, despite higher A&P spends done during the quarter.

Let's now move to slide number 10, which gives an update on our other businesses, which largely comprises of our strategic EPC business.

We clocked revenues of ₹ 1,608 Mn in Q2, a growth of 95% YoY. Profitability grew by 26% YoY with segmental margin at 11%. Annual sustainable operating margin in this business is expected to be in high single digit over mid-to-long term.

So that was the financial update for the quarter and first half of the fiscal 2024.

To conclude, our performance in the initial half of the year has been truly remarkable, establishing a formidable benchmark for ourselves. This achievement reflects the unwavering dedication and tireless efforts of our entire team. Additionally, we have benefited from a favourable macroeconomic environment, with market conditions working in our favour and a consistently strong demand for our products and services. Given these advantageous circumstances, we acknowledge the importance of maintaining a rigorous approach and will continue to delve even deeper in our relentless pursuit of excellence.

Thank you, and we are now open for questions.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Congrats on a very good set of numbers. My first question is in terms of the volume growth that you had mentioned in cables and wires segment, which is around 30%. And in the press release, you had mentioned that the cables have grown faster than wires. Just wanted your thoughts on cables – where are we seeing such robust growth? Is it from the infra side, the industrial side or the real estate side? If it is from infra, how much from the central government's side, and how much is from the state government's side? If you can give broad break-up numbers on what is driving this growth, it would be great.

Chirayu Upadhyaya: Sure, Ravi. Thank you. So, within the cables segment, we see demand coming from across all sectors, particularly infrastructure, which is largely being driven by the government, and this includes roadways, highways, railways, and metro lines. We also saw demand coming from power transmission and distribution, and a good amount of demand coming from the real estate sector as well.

So, it is a mixed bag. It is from across all the industries. At our end, since we operate through our distributors, or a large part of our sales are through distributors, we don't have an exact proportion of the percentage coming from these sectors. But I can tell you that these are the top three or four sectors wherein the demand is being generated from.

Ravi Swaminathan: Okay. At least rough numbers - percentage; if you can give for these top sectors, it would be great. Power T&D means how much will it be out of the overall cable demand. Say, real estate, how much will it be; Railways, how much will it be; Metros, how much will it be. Similarly, for 5 to 6 sectors, is there a number you can put? I understand that the majority of your revenue would come from dealers and distributors, but you would have a sense, right? If you can give that, it will be great.

Chirayu Upadhyaya: So Ravi, the thing is that each type of cable has a different or end use from across all different sectors. So, at our end, even if you supply a particular type of power cable, we will not be able to gather that which end-industry is this being serviced to. So, it is ultimately the distributor who is actually gathering this demand and is servicing those customers. And then, at our end, we wouldn't have a particular idea about what end-industry these cables are being supplied to.

Ravi Swaminathan: Okay. And solar, is it a very big contributor to the overall cables growth? I mean, as a percentage of overall demand, is solar like significantly, a large chunk of the overall growth?

Chirayu Upadhyaya: So, investments in renewable energy sources, both domestically as well as internationally, have been consistently increasing. And it is very recently that various manufacturers in the country have started manufacturing these solar cables. So, definitely, the growth is there in solar cables, both domestically as well as internationally. But as of now, its contribution to the overall top-line is comparatively minimal.

Ravi Swaminathan: Okay. And the second question is, what kind of volume growth will you see in the second half? I mean, your sense, given the fact that elections are there in the next 6 months, is this 30% kind of growth sustainable? Or has there been some kind of front-ending in spends that has happened from the government that you sense? Your thoughts on that?

Chirayu Upadhyaya: So, Ravi, I wouldn't be able to give an exact number in terms of what kind of volume growth would be possible. But I can definitely say that based on the demand that we are seeing on the ground, the volume growth in the industry has been better than what it has ever been. And we believe that this case will continue in the future as well.

At our end, Polycab, we have always grown ahead of where the industry's growth is at, and we believe we'll be able to achieve that in the future as well. So that is how we see volume growth to be in the near future. But, we definitely believe that it should be much better than what it has been historically in the sector.

Ravi Swaminathan: Okay. And the cable growth and wire growth Y-o-Y, if you can build that quantification? Is it possible?

Chirayu Upadhyaya: Cable's growth again was north of 30%, while wire's growth was again near about 20%.

Moderator: So the next question is from the line of Manoj Gori from Equirus Securities. Over to you sir.

Manoj Gori: Chirayu, here I would like to understand on the realization part because obviously when you said like volume growth was around 30%. So probably, we are talking about increasing -- probably drop in realizations. But if I look at the copper prices as compared to Q2, those were on the higher side. So was there some impact because of the higher contribution coming from something like Etira or probably can you throw some light over here?

Chirayu Upadhyaya: Sure, Manoj. So when you're looking at value growth, you need to look at three things. One is how the copper price movement has been, how the aluminum price movement has been and how the USD/INR price movement has been. You need to take all three of these into account. And again, what also you need to take into account, specifically for our case, is that when we work with our vendors, we have those embedded derivatives in the contracts wherein we work on M-1 basis. So, it's a mix of two things. Whenever we have institutional contracts that they are back-to-back priced, whereas with those that we procure for distributors those are on M-1 basis. So, there's a mix of those two things. If you look in terms of the pricing, for the monthly as well as the quarterly average for copper, copper has increased by about 8%. But at the same time, aluminum was down by 8% and USD/INR rates were up by about 3% that was for the quarter.

If you look at M-1 basis, copper prices were up by 3%, while aluminum prices were down by 13% and USD/INR rates were up by 4%. So, if you take a mix of both these things and then you'll get to know that the value contribution because of whatever price variations that I mentioned was in low-single digits and hence, the growth that we have achieved is actually because of the volume growth.

Manoj Gori: Right, right. Second, if you look at the advertisement expenses, obviously there has been a sharp increase, and that has really led to strong volume growth. So probably, if you look at you have been going very aggressively, you have sponsor in the World Cup as well. So does H1 account for those expenses or probably that would be purely coming into third quarter? And whether we would be booking it in the entire quarter or we'll be amortizing it gradually?

Gandharv Tongia: So, Manoj, these are period costs. As and when the event has occurred, this has been accounted for in the relevant period. So, till the 30th of September, whatever event has occurred, whatever advertisement has been done, whatever shots have been aired, those have been accounted for. And as the World Cup is continuing, the balance cost as and when it is incurred, it will be accounted for in the third quarter.

Manoj Gori: Sure. Thanks. Lastly, on the FMEG side, so we do understand that somewhat demand has been under pressure and probably there has been delay in revival because we were expecting somewhere around from FY24, probably FMEG on top line and on profitability should improve. So any comment over there? Like how do we see in the second half and probably from FY25, if you can throw some light? And lastly, on the Project Leap, if you can throw some light with regards to any revisions in your guidance or something like that.

Chirayu Upadhyaya: Right. So, if you looked at the FMEG basket, there are different product categories, and some of them are seasonal, some of them have demand across the year. So, if you look at the fans business, it is more a seasonal business. And very recently, there has been a change of energy norms. So, this is the first year post those energy norms. And hence the coming season will be the first year post those changes, and we believe that we should have good pickup as and when that season begins from October or November of this year.

If you look at the lighting segment, there has been kind of a pricing corrections that have happened over the past 12 months to 15 months, and which has actually affected top-line for all the players in the industry. Lighting does have a kind of a pickup in sales during around the festival season. So, we believe that whenever such festivals are there, there might be some pickup that will be visible. At our end, we will be ready for that. We will have our distribution in place. We will have our products in place. We will have our new launches in place so that we will be able to cater to the demand that will be coming during whatever seasonal demand is there.

If you look at switches, switchgears and other product categories, these are comparatively smaller for us. We are employing various initiatives so that the growth of this product categories is higher, and the mix improves more towards them. As we've given out in the earnings presentation, we've already realized good growth in this quarter for both switches and switchgears as well as conduit pipes and fittings. And a large part of the demand for these products is linked to real estate. And since real estate is doing well, that consumer demand continues to be there.

At our end as well, we have done a lot of work under Project Leap. So, the entire distribution realignment is something that we've completed. Over the past 12 months, we've launched various new SKUs in all those product categories as well. We are employing the price-laddering strategy and hence now have offerings across prices in those product categories. Wherever we don't have, we will be coming out with new product categories within those price points. We are also working a lot on influencer management as well. And as you are aware, our brand positioning is something that now we are very actively started working on.

So, we believe that based on all these initiatives that we have taken and will be taking, the FMEG will start showing growth, both top-line as well as bottom-line. It will be a gradual growth, but it will be a growth that we have guided the market towards.

In terms of the LEAP targets, we are in the process of recalibrating those targets. We definitely believe that the FY26 target of reaching ₹ 20,000 Cr of top-line is something that can be achieved ahead of timeline. We are recalibrating that, along with all the other targets that we had given out along with the top-line target. And we should be out with those recalibrated numbers in the space of a few quarters from now.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi. Please go ahead.

Atul Tiwari: First of all, congratulations on yet again, really strong performance. My question is again on FMEG, so just trying to kind of probe a little bit. So, the distribution realignment that we have done, that has been complete, right? I mean there is no further realignment happening on a major scale. I mean I know you can keep on tweaking the business, so just wanted to confirm that?

Chirayu Upadhyaya: Right, Atul. So, the distribution realignment is largely complete. Having said that, but we'll continue to improve our distribution across all the geographies. So that is something that will continue. But yes, on the last part, that entire realignment or tying up with larger distributors that we wanted to do, that is something which is completed.

Atul Tiwari: Okay. And my second question is on the EHV facility that you were setting up. So, what is the update on that? I mean when is it likely to be completed? And how much is the capex and once completed, how much top-line could we do; or what is the capacity; if you could share some vision for that?

Chirayu Upadhyaya: So, we have started incurring capex on that project. This year and next year, a large part of the capex that we'll be doing at the company level or for the cables and wires segment will be going towards that project. As we've guided in the past, we expect that the facility will be becoming operational by the end of FY26. And as of now, we are in line with the timeline that we had given out.

In terms of the revenue potential and everything, we'll be coming out with those specific numbers as and when we are closer to that time period. It's still two years away since that facility is expected to become operational, and we'll be coming out with specific targeted numbers for this facility once we are near that time.

Atul Tiwari: Okay. And if you could allow me one more. So, I mean, obviously, we understand that a lot of benefit has happened to the business because of the upfronting of capex by government this year. So once a quarter is over, I'm not asking for your numbers, but have you seen any kind of let up in the capex because of the election season, etc?

Chirayu Upadhyaya: I mean, definitely, the on-ground demand has been good. There has been various tenders that have been rolled out for various projects across industries and definitely, that has resulted into a better demand for cables. But this is not something which is this particular year's phenomenon.

If you've noticed, the government has been increasing the amount of capex that they've been doing for infrastructure every year over the past three years. And this is something that we believe should continue going ahead as well. Of course, the caveat being that the current government comes back to power. But at our end, we do believe that this is something which is a structural story and structural demand driver for the country.

Very recently, I believe yesterday itself, there was a news article that the Ministry of Highways has come out with a 2047 pipeline wherein they will be spending or are thinking of spending somewhere closer to ₹20 trillion in terms of capex. I mean this is the kind of growth story, or the path which is there ahead, in terms of infrastructure growth in the country. And we believe this is a long-term story. This has nothing to do with the pre-election year or something of that sorts.

Moderator: Thank you so much. The next question is from the line of Shubham Aggarwal from Axis Capital. Please go ahead.

Shubham Aggarwal: Just two questions. The first one is on exports. This quarter, the exports trend seems to be weakened a bit. We are at about ₹ 390 Crores this quarter. Can you give us a sense what kind of exports are expected going forward and the decline, we've seen a decline this year, and we saw a similar decline in Q3 of last year as well. So, is this a one-off? Or do you see that the exports will pick up going forward? That is the first one.

Chirayu Upadhyaya: Shubham, we did around ₹ 400 Crores of export business this quarter. And herein, it was actually an 11% growth to what business we did in Q1. If you look at the H1 numbers as well, it is actually an 18% year-on-year growth. So, we do believe that the international business holds immense value for the company, and at our end are geared up to capture that opportunity.

We have those capacities available. We have those approvals available in various geographies, and we are incrementally looking to add new geographies as well. So, in the mid-to-long term, we believe that international business can be a big revenue generator or a contributor to the business top line and bottom line.

Shubham Aggarwal: So, any sense, like this next year, let's say, will like this 10% contribution go up to, let's say, 15% or do you think it's a stretch? Just a broad sense?

Chirayu Upadhyaya: I mean we are recalibrating those numbers, as I mentioned to the previous participant. All those guidelines or all those targets that we have given as a part of our Project Leap numbers, and the 10% of contribution from exports being one of those goals, is a part of our recalibration process and we'll be out with those revised calibrated numbers in a matter of a few quarters.

Shubham Aggarwal: Okay. Just coming on to the second question. Sorry if this has been asked earlier. I missed; I got dropped off the call. So, I just wanted to ask that H1 growth has been very strong for the company and for wires and cables as a whole. And that has also a lot to do with the front ending of the government capex. We might continue to see this growth in Q3 as well. But what is the sense you see as soon as we approach elections? Will this growth probably slow down a bit entering Q4 FY24 and Q1 FY25, could you give a sense?

And just related to that, since the base will be very high for nine months FY24. And the government, the next budget would spend the one-year budget in one year, there will be no front ending. Do you see that the growth would be relatively lower than, let's say, what we are doing right now, in FY25? Those are the two questions. Those are the two related questions, if you can answer that.

Chirayu Upadhyaya: Sure. So, at our end, what we have always been able to achieve, is that H2 has always been better than H1, and we believe this year will be no different. The performance in H2 should be better than what we have been able to achieve in H1.

In terms of front-ending of capex by the government, again, over here, we believe this is something which is a long-term structural story and not a one-year story because of being a pre-election year.

If you look at the cables as a business, whenever new orders are given out, it is not immediately that the requirement of cables come in. So, in that sense, all those orders which are being given out for the development of new projects right now, the demand for cables is something which will be coming in over the period of next one year. So specific to those particular months wherein the election will be happening, there's not going to be that kind of demand slowdown that might happen.

Second thing is, even if we look at the other avenue, which is the private capex, that is also something which is picking up. Because of all the government capex that has happened over the past three years, we are seeing that kind of crowding in of private investments coming in from the private payers. And that is also something which will support or add to the demand of cables going ahead.

So having said that, even if the 9M numbers for this year are high, we don't believe that next year should be difficult. It's a structural story. The demand for cables is rising structurally. And we believe that every year, we should be able to get pretty good growth on that.

Moderator: Thank you so much. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. Sir, thanks for the opportunity. Sir, two questions. While we are doing great work, obviously, we are getting helped by the, up move in the infra, real estate, capex, all those cycles. So just from your experience, in 2007 and 2008, we experienced similar situation. But post that, there was a sudden decline in overall capex, real estate activity, etc. So, from your experience, what was Polycab's strategy that time versus the strategy right now? Or do you see it's different this time and probably the capex cycle is going to last for a considerably more period of time, and so that there is more benefit possible for us? That is question number one. And question number two is the spend related to Polycab relaunch. So, whether all the spends are already in Q2 or H1 numbers. Or do you see some more expenses getting incurred in H2 as well? Yes, that's it from my side.

Chirayu Upadhyaya: Sure. Thanks, Aniruddha. So, in terms of the capex from the government, we believe that this time is different. As I've mentioned to many people that we believe that this is a structural story, which will play out consistently over the next few decades.

The current government, the prime minister, they have been very vocal in terms of what they want to achieve in the next couple of decades. They want India to become an advanced nation by 2047. And they believe that, infrastructure growth will have to be a big or a primary driver of this growth. And so, we believe that, going ahead as well, the kind of capex that the government has been incurring over the past three years and the kind of improvement that they have been doing in terms of the numbers that will continue to go on. In terms of the real estate cycle, generally, the real estate cycle in the country is about six to eight years long. We are in the second or third year of the current real estate cycle. And so, we believe at least the next three years to four years should be good from the real estate point of view as well. So, I guess that is on the capex side.

On the cost for the relaunch, as Gandharv has mentioned, whatever costs have been incurred during the quarter, they have been accounted for during the quarter itself. And as and when those costs will be incurred going ahead as well, they will be accounted or taken into financials in those quarter itself. We have already incurred the cost, a part of it on the relaunch, but we'll continue to increase our expenses on advertising and promotion.

As we've guided that incrementally 3% to 5% of our B2C top-line will be spent for brand positioning. So, we'll continue to incur this kind of costs, and that is something that will happen pan-years, not in a one month or two months or one quarter or two quarters, but it is something that will happen across the year and all the years going ahead. And they will take them into finance as and when those are incurred.

Moderator: And the next question is from Aadesh Mehta from Motilal Oswal AMC. Please go ahead.

Aadesh Mehta: Sir, my questions have been answered. Thank you.

Moderator: Thank you so much. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Sir, just one thing. Can you explain in your corporate presentation where you have given that the margin protection will be through embedded derivatives in short term, it would be protected against commodity price volatility through access to embedded derivatives from suppliers? So, in long run, what kind of support and protection you are getting. You can throw some color on it; it would be really helpful?

Chirayu Upadhyaya: Sure, Rahul. So, when we work with our vendor, whom we procure our raw material from, we have embedded derivatives within the contracts. What this contract allows us to do is that it gives us a particular time period to firm up the price of those raw materials. What I mean by that is that, when we place an order with the vendor, the price that is prevalent is a provisional price. But we would have a time period of around three months to finalize the price of those raw materials.

So, what will happen is that from the time that we place the order, we receive the material, we convert it into whatever cables and wires that we wanted to manufacture, until the time that we sold to whatever end customer that we wanted to sell to, whatever changes in the prices of raw material would have happened, that will be completely passed on to the end customer, since we have this time period to decide or firm up the price at a future date. Because of the embedded derivatives, the commodity prices for us will be a complete pass-through. So, irrespective of whether the prices went up or down with the time that we placed in order to the time that we sold the cables and wires, whatever changes would have been there, that volatility would be negated because of the embedded derivatives.

And that is how it has played out over the past many years. So, if you look at our margin trajectory, it has been comparatively very stable, irrespective of what the copper price or aluminum price movement has been.

Rahul Maheshwary: And just a follow-up question on that. In terms of percentage or range, how much is the backward integration in the wires and cables for you, currently?

Chirayu Upadhyaya: Almost 100% for cables and wires.

Rahul Maheshwary: Okay. And just one connected question, as you have entered more into the renewable cables, data center cable, the difference between the realization of the margins, can you give some color that how big is the difference between the normal cables, which is wires which have been used in real estate or normal cables compared to the emerging sectors, which you are seeing?

Chirayu Upadhyaya: So, the differential in terms of margins will vary depending on what cables you are looking at. But all such cables, which have traditionally been imported, and it is now that the demand for them has been increasing domestically and hence have been started getting manufactured over here, what internally we call special purpose cables, for them, margins are definitely better than what we make on the other types of cables. But again, it will vary depending on which cables we are looking at.

Moderator: Thank you so much. The next question is from Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Yes. Hi, thank you for the opportunity. Congrats on another quarter of super performance. Sir, two questions, please allow me to ask them very short. Firstly, on channel finance. My understanding is the balance sheet has improved quite a bit on working capital, purely because our channel finance percentages have increased into FMEG as well as cable & wire. The question essentially is if the channel pays you faster against cash discount, does that mean lower gross margins just from an accounting perspective? That's question number one.

Chirayu Upadhyaya: Sure, Rahul. So no, that doesn't translate into lower margins, because whenever we revise the prices of the cables and wires, we definitely take into account that this is the kind of cash discounts and what kind of the channel financing we have with our distributors. So, we take that into account while revising our prices and hence, that doesn't transmit into lower gross margins for us.

Rahul Agarwal: Okay. And the second question is on overall margin. Cables have done better than wires again, but the margin trends are reversed, that they're holding up Q-o-Q, also margins are 14.4%. Your guidance earlier been 11% to 13% sustainable range. On TV today, you said 12% to 14% sustainable range. I understand it's more conservatism, but my sense is ultimately, we're expecting this to normalize, right? So eventually, it should trend down towards 12%. I don't know when it happens, but that should be the reality for the industry. Is that the right way to understand?

Chirayu Upadhyaya: I mean, Rahul, we believe that 11% to 13% range is something that we'll be able to achieve irrespective of what happens in terms of commodity price movement and all and hence, that has been what our guidance has been.

What we have been able to achieve over the past few quarters has been because of various reasons. It might be because of the mix that we have been able to achieve within the cables. It is because of the higher percentage of contribution from exports as well, which is a better margin product. It is also to a large part now because of the scale at which we are operating. So, because of various reasons, we have been able to register better margins than our guidance. But in the long-term or in the mid-term, if you are putting it into your model, you should definitely put or take into account the guidance that we have provided, and then you'll never have a negative surprise on that.

Rahul Agarwal: So, in terms of growth and mix, everything is sustainable, right? The mix is going to sustain ahead, the exports are going to be better. So, I think there is no reason for margins to come down if that doesn't change?

Gandharv Tongia: If we are able to sustain the current levels or the current scale that we are operating, if we are able to sustain the contribution from international business of HDC, LDC different types of mix, definitely we should be able to sustain the margin. But sitting at this point in time, we wouldn't be able to comment that 100% sure that is something that will play out. But 11% to 13% is something that we definitely believe that irrespective of what happens, that is something that we' should be able to achieve. And hence, that has been our guidance.

Rahul Agarwal: Perfect. Thank you so much. Thanks, Gandharv for taking up the question. All the best.

Moderator: Thank you so much. The next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay: Thank you for taking my question and many congratulations for a very good set of numbers. A few data points I need. So, can you give the capacity utilization in the wire and cable currently, as well as the contribution of cable and wire segments in the quarter? And the capex number for FY24 and FY25?

Chirayu Upadhyaya: Sure. So, in terms of capacity utilization, we will be operating somewhere in the vicinity of 65% to 70% on cables and wires. In terms of capex, as we've guided this year and the next year, we would be incurring capex of close to ₹ 600 Crores to ₹ 700 Crores and that guidance continues to stay as of now.

Praveen Sahay: Can you bifurcate FY24 and FY25, equally?

Chirayu Upadhyaya: Both years. So, ₹ 600 Crores to ₹ 700 Crores of capex each year.

Praveen Sahay: Okay. Each year.

Chirayu Upadhyaya: And in terms of mix between cables and wires, again, since cables has performed better than wires, it would have moved a few hundred basis points more towards the cable side.

Moderator: Thank you so much. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Yes, good afternoon and thanks so much for taking my question. I have just one on the capex position right now. So, 65% to 70% utilization we are at right now in wires and cables. Usually, what is the optimal or peak level we can go up to? And at what point would we need to start thinking about adding capacity beyond this EHV project that we are doing? Is there currently something besides EHV that's also going on in terms of capacity debottlenecking? Or is that something we need to consider as we get closer to optimal levels? Thank you.

Chirayu Upadhyaya: So, Abhijit, we can go as high as 95% in terms of capacity utilization. But what we have always done is that we have invested ahead of time in terms of capex, and we incur this capex every year. So, as you know, even prior to the ₹ 600 to ₹700 crores of guidance that we gave, we anyways used to incur about ₹300 crores to ₹400 crores of capex every year and hence, we continue to invest into expanding facilities every year. So that is something that we'll continue to do.

In terms of other projects, that we are doing other than EHV, we are also investing in expansion of our facilities for SPC, which is our special purpose cables and various other product categories. But yes, I mean we'll continue to incur that capex in terms of expanding those facilities every year, and we wouldn't wait to reach 80%, 90%, 95% of the capacity utilization to incur more capex.

Abhijit Akella: Got it. Sir, just to clarify this ₹300 crores to ₹400 crores that we keep spending on a usual basis, approximately how much capacity addition would it lead to on an annual basis? Is it like 10%, 15% or higher than that?

Chirayu Upadhyaya: I mean it will vary year-on-year. Roughly, about three-fourth of that goes into cables and wires and one-fourth goes into FMEG. So, on FMEG, we have been moving towards in-house manufacturing. So that is where the incremental capex has been used towards. And in cables and wires, that has been used for various purposes to increase the capacity of domestic cable, to increase the capacity of manufacturing cables which are exported and all and so forth. So, the expansion number will vary year-on-year depending on what we've spent it towards.

Abhijit Akella: Thanks a lot. All the best.

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

Natasha Jain: Thank you for the opportunity. Congratulations, sir, for a strong set of numbers. I just have one question on the A&P spends. So, do you bifurcate the A&P spend into cables, wires as well as FMEG? If yes, then can you please give us the split both for this quarter and same quarter last year?

Chirayu Upadhyaya: I mean, Natasha, we normally don't give out the split between the cables and wires and FMEG, but definitely, there is bifurcation that happens in financials as and when whatever that has been incurred for.

Natasha Jain: So just any sense, Chirayu, as to more spend is towards wires and cables or towards FMEG? A qualitative sense will do.

Chirayu Upadhyaya: I mean it will depend on what kind of spends we have done. So, for example, if there is a particular advertisement that we have come out for wires, for example, the green wires advertisement that we came out for last year, so those costs will be incurred in the cables and wires segment. If there is something that we are doing on the fans side, that will be incurred on the FMEG side. So, depending on where it is utilized, those costs will be accounted for in the financials.

Natasha Jain: All right. Thank you so much.

Moderator: Thank you. The next question is from the line of Nilesh from ICICI Securities. Please go ahead.

Nilesh: Yes, thanks for the opportunity. Hope I'm audible. My question is on lighting division. You explained briefly that the lighting division is undergoing difficult phase on change in pricing environment. So, could you please elaborate on the exact situation happening in the lighting division, both at company level and industry level, if you could so? Thank you.

Chirayu Upadhyaya: Sure, Nilesh. So, within lighting, especially in the LED segment, what has come about is that a new technology, which is known as Driver-on-Board technology has come about. And because of this, there is efficiency in terms of costing which has led to a pricing correction in this.

So, what has happened over the past 12 to 15 months, is that the pricing of LED lighting, they have gone down by almost about 24% - 25%. And that is why you've seen the top-line getting softer for us for other peers in this segment as well. So that is what is an industry phenomenon as of now. As of now, we believe that pricing correction should be done with and now going forward, that should be, but let's see how it pans out going ahead.

Nilesh: Yes. Thanks for the information.

Moderator: Thank you very much. The next question is from the line of Sandeep Agarwal from Naredi Investment. Please go ahead.

Sandeep Agarwal: Hello, Thank you, sir. My question is regarding, wires and cable side. Have you seen any material capex coming in the near future in India, wire and cable side?

Chirayu Upadhyaya: Sorry, Sandeep, are you asking for us in terms of capex?

Sandeep Agarwal: No, for the industry.

Chirayu Upadhyaya: I mean, if you look at across all the industries, so cables and wires have requirement across industries. If you look at roadways, highways, power transmission and distribution, real estate, each and everything. If a private player is constructing a new manufacturing facility for himself or schools are being constructed, houses, commercial real estates are being constructed, everywhere cables and wires are required.

So, in that sense, and that is the reason why you've seen the kind of volume growth that has been driven by the industry over the past few years because the capex as well as investments in infrastructure growth has been continuously increasing for many years now. And that is something that we believe will continue to go on for many years going ahead as well.

Moderator: Thank you so much. The next question is from the line of Onkar Ghugardare from Shree investments. Please go ahead.

Onkar Ghugardare: Yes. My question was regarding FMEG. You have been highlighting that it would be a 10% margin business. But given the state of the business currently and given the sentiments, I mean, what kind of a target you would be looking at for that? You have stated a target of 10%. And when it can turn into black? And excluding A&P spend, what would have been the profit this quarter or loss this quarter?

Chirayu Upadhyaya: Sure, Onkar, when we started Project LEAP, there were various different changes that we did in how we used to operate in the FMEG segment. One of them was the complete realignment of our distribution channel. That is something that took us almost one and half or two years to complete and which is now behind us. There are two to three other things that we are doing on the FMEG side, which should help us on improving numbers on that side.

For example, we are doing a lot of work on brand positioning. We're doing a lot of work on new product development. We are making sure that we have product offerings across price segments so that we are able to capture the opportunities that comes in the entire industry. We are working a lot on influencer management. If you look at FMEG as a business, the influencers are the one who actually decides or pushes a particular customer to decide a particular brand when they are buying a product. So, we are doing a lot of work on influencer management as well. Through all of this, we definitely believe that the growth in FMEG business should start picking up.

In terms of bottom line, there are two or three things which should help us. One is that we are now trying to change the mix of our product categories within the basket. Till now, fans and lights have been the largest contributor of top-line on the FMEG side. But what now we are trying to do is change the mix more towards switches and switchgears. Switches and switchgears as an industry has lower competitive intensity and hence much better margins than what can be made on the fans and lights side. As and when that mix change will happen, you'll start seeing improvement in margins.

Second thing that should help us is scale. We manufacture everything in-house, even on the FMEG side. And when you are operating at lower capacity, definitely your costs are higher and hence that affects your bottom line. As and when we are able to scale up the FMEG segment, the product categories, you should start seeing improvement in margins there as well.

The third thing that we are trying to do is premiumization. So, in all the product categories, we are trying to be present on the premium side, wherein, again, the margins are better. Traditionally, we have been only present in one price point but now we have offerings on the premium side in all those product categories. So again, as and when the mix changes more towards sales of our premium products, again, the margins will start to improve.

So, we believe, that going ahead both top-line and bottom line should start to see improvement. And it will be a gradual improvement, but we still definitely believe that 10% of EBITDA margins in FMEG is something that we should be able to achieve by FY26.

Onkar Ghugardare: Yes. And the clarification on normalized profit excluding A&P spend, what would it have been?

Chirayu Upadhyaya: So, if you exclude the A&P spends, definitely, there has been an improvement in profitability. I mean, it wouldn't be a significant number but definitely it has been better than what it was in the past quarter.

Onkar Ghugardare: But has there been a profit or a loss or you have broken-even or you haven't still?

Chirayu Upadhyaya: Again well, if you look at the combination we might have been in a bit of profit.

Onkar Ghugardare: Okay. And in the short term you expect that trend to continue to be in black.

Chirayu Upadhyaya: Definitely. Gradually we'll start seeing much more improvement happening on the bottom-line side as well.

Moderator: Okay. Thank you so much. Ladies and gentlemen, due to the time constraints that was the last question. I now hand the call over to Mr. Gandharv Tongia for closing comments. Over to you, sir.

Gandharv Tongia: Thank you so much for joining us today. In case if you have any follow-up questions, please do write to us at investor.relations@polycab.com and we will be extremely pleased to attend your queries. Thank you and have a great day. Bye-bye.

Moderator: Thank you. On behalf of Polycab India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.