



“Polycab India Limited
Q3 FY 2023 Earnings Conference Call”

January 20, 2023



**MANAGEMENT: MR. INDER JAISINGHANI CHAIRMAN AND MANAGING
DIRECTOR– POLYCAB INDIA LIMITED**

**MR. GANDHARV TONGIA – EXECUTIVE DIRECTOR AND
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**MR. CHIRAYU UPADHYAYA – HEAD, INVESTOR
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Moderator: Ladies and gentlemen, good day, and welcome to Polycab India Limited Q3 FY 2023 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, Chief Financial Officer, Polycab India Limited. Thank you, and over to you, sir.

Gandharv Tongia: Thank you, operator, and good afternoon, everyone. I hope you are having a fantastic start to the New Year. It is a pleasure to have you on the call. As operator mentioned, my name is Gandharv Tongia and I am the ED, CFO at Polycab India Limited. Thank you for joining us today to discuss our third quarter earnings.

During the call, we will be referring to the presentation, financial results, and condensed financial statements which are available on the stock exchanges, as well as Investor Relations web page of our website.

It can also be downloaded through QR code on slide 9 of earnings presentation. From our management team, we have with us our Chairman and Managing Director, Inder Jaisinghani. Let me now hand it over to him for his opening remarks.

Inder Jaisinghani: Good afternoon, everyone. We continued to deliver strong quarterly performance, registering highest-ever third quarterly revenue in Q3FY23. Moreover, we achieved the highest-ever quarterly PAT, as well as the highest-ever nine-month revenue and PAT in the history of the company. Our excellent performance demonstrated the strength of our execution capability, effectively leveraging our strong market position, robust distribution network and favorable market conditions.

Being committed to the highest standard of corporate governance, we have strengthened our board through the induction of two more directors. The new Board is more diverse, with 20% representation of women directors, in line with globally followed best-in-class corporate governance practices. I now request Gandharv to take you through our earnings presentation.

Gandharv Tongia: Thank you, Inder bhai.

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Before I take you through the quarterly performance, let me give you a flavor of macro environment. While the global economy continues to reel under recessionary pressure from burgeoning interest rate, high commodity prices and supply chain disruption due to Russia-Ukraine war, India's economy has held up strongly, drawing strength from its macroeconomic fundamentals and largely domestic consumption-driven economy.

Most of the high-frequency indicators are exhibiting sustained momentum and activity. Monthly GST collections have continued to remain above INR 1.4 lakh crores since May '22. CPI inflation nosedived for two consecutive months from 6.8% in October '22 to 5.7% in December '22. Festive demand has supported activity in both manufacturing, as well as other sectors, driving the composite PMI to an 11-year high, underpinning the economic outlook and positive sentiment. Recently released IIP figures also paint a similar picture, touching five-month high in November '22.

Furthermore, rural economy is bottoming out and is likely to see recovery through calendar year '23, supported by factors like better outlook for wages, crop margins, rising construction activity and government spending. The government has already achieved almost 60% of its budgeted capital spending of INR 7.5 lakh crores for FY '23 in the first eight months. Private capex is also showing early signs of improvement, supported by government measures, such as PLI scheme and optimum capacity utilization on the back of robust domestic demand. Private sector capex announcement for the eight months of FY '23 rose to INR 8.5 lakh crores, up 35% year-on-year and 52% above the pre-pandemic level. The real estate sector continued with its growth momentum with annual residential sales at nine-year high in calendar year 2022. All in all, the Indian economy is doing well despite global headwinds, setting up the stage for its continued economic outperformance in 2023.

Moving on to the presentation, please refer to slide number 4.

We finished the calendar year 2022 with a bang, registering record-high revenue for a third quarter, and achieving the entire FY22 profitability within the first nine months of FY23. At INR 37,152 million, revenue grew by 10% year-on-year and 11% quarter-on-quarter. What makes this revenue growth even more impressive is the fact that these numbers have been achieved in spite of high base, lower commodity prices and higher inflation on the back of healthy volume growth in domestic Cable & Wire business. As Inder bhai mentioned in his opening remarks, this is truly a testament of the execution ability of the Polycab team and which assumes significant importance in light of the massive opportunities on the horizon due to pickup in capex cycles. EBITDA for the quarter increased by 39% year-on-year and 18% quarter-on-quarter, with EBITDA margin improving by 281 bps year-on-year and 73 bps sequentially to 13.5%. Sequential growth in EBITDA margin was achieved on the back of better operating leverage, partly offset by input cost pressures and increase in A&P spend. During the quarter, we ran a number of branding campaigns across TV, digital, social and print media platform,

which increased our A&P expenses, roughly four times as compared to the last quarter. We also actively engaged with influencers, including electricians, architects and contractors, as well as dealers and distributors through various engagement programs to improve awareness among B2B customers. A snapshot of some of these initiatives are provided on slide 16 of the presentation.

A detailed breakup of other income and finance costs have been provided on slide 13 of the presentation. Finance costs for the quarter stood at 93 million and other income at 397 million. Other income came in higher on the back of income realized through deployment of our excess cash in mutual funds and other interest-earning assets, as well as around 100 million realized through monetization of certain assets.

Our profit after tax for the quarter stood at INR 3,608 billion, increasing 45% year-on-year and 33% quarter-on-quarter. As Inder bhai mentioned, this is our highest-ever quarterly PAT. PAT margins expanded to 9.7% for reasons I just mentioned a while back. Our net cash position further improved to 18.7 billion as at end of December '22 from 16.7 billion last quarter. As I mentioned during last quarter's earnings call, this cash will be utilized in four ways. One is towards capex, for M&A activities, some retained as war chest and rest would be distributed to shareholders either through dividends or buybacks.

Herein, I would like to provide a very important update to all of you with respect to our capex guidance. During various past earning calls, we have communicated our intention of entering the high-voltage, extra-high-voltage space. With power demand multiplying across all Tier 1 and 2 cities, as well as with smart cities coming up, entire overhead high-voltage transmission line conductors will have to go underground, and thus, the demand for high-voltage, extra-high-voltage cables would grow exponentially. Also, due to ever-increasing load transmission system, we see 220 KV transmission lines moving to 400 KV and soon expect to even see the 550 KV transmission lines in India. Being a market leader in the cable industry and looking to capitalize on this opportunity, we are kicking off investment for a state-of-the-art EHV production facility in Halol, Gujarat. We will be putting in capex this year towards setting up this facility and expect the project to be completed and production to get started in 2025. Since EHV is high technology product, so we have tied up with a leading Swiss company, Brugg Cables, for the technology procurement. Brugg Cables was founded more than 120 years ago and has grown to be one of the world's leading cable manufacturers. Brugg has signed a technology know-how agreement with Polycab to transfer design, testing, production and installation technology to Polycab for up to 550 KV voltage system. The investment will open up INR 4,000 crores to INR 5,000 crores of potential HV, EHV domestic market and also a significant amount of overseas business for Polycab. Taking this investment into consideration, our capex for the 12-month period from Jan '23 to December '23 will be roughly INR 600 crores to INR 700 crores. Three-fourth of this will be utilized for wires and cables and one-fourth for the FMEG business.

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On slide 5, we have presented our numbers for the nine-month ended December '22. Our revenues grew strongly by 19% year-on-year. EBITDA was up by 58% year-on-year with margin expansion of 312 bps to 12.7%. PAT grew by 64% year-on-year with PAT margin expanding 241 bps to 8.7%. I am immensely proud to share with you all that our 9MFY23 Revenue, EBITDA and PAT are the highest-ever in the history of the company.

Moving on to segments on slide 6, our Cable & Wire revenue for Q3FY23 and 9MFY23 grew by 11% year-on-year and 20% year-on-year, respectively, driven by strong volume growth in both the segments. In fact, the production volume for the quarter and for the nine-month was the highest-ever in the history of the company. The distribution business continued to see strong growth momentum, having grown by 25% year-on-year in nine month FY '23 on the back of strong volume growth of over 26%. The outperformance was primarily on account of benefits being realized through the merger of HDC and LDC vertical last year. We have also taken various initiatives under Project Leap which are helping us outpace the market growth, such as: 1) we are targeting high-potential districts wherein Polycab has no or minimal presence; 2) we are also trying to activate distributors, which have been inactive for some time, or through whom sales have been on a decline; 3) through our real estate key account management initiative, we have been successful in generating higher secondary sales from our customers; and, 4) we are also realizing good sales momentum from our emerging India vertical. Revenue from exports business grew 32% year-on-year in 9MFY23 on the back of good demand from sectors like oil and gas, renewables and infrastructure. Overall, export business contributed to 5.9% of consolidated revenue in Q3FY23 and 8.6% in 9MFY23. We have a strong export order book and expect exports to contribute roughly 8% to 10% to FY23 consolidated revenue. Our focus on achieving double-digit top line contribution target, through exports, over the medium-term remains intact. EBIT margin improved sequentially to 13.8%, led by change in product mix as wire sales outpaced cable sales during the quarter and through judicious price revisions.

Please refer to slide number 7 for an update on the FMEG business. The FMEG business was almost flat year-on-year and grew 12% quarter-on-quarter, enduring a challenging business environment. On a nine-month basis, the FMEG business grew by 8% year-on-year. If we look at individual categories, fan business grew the fastest at 24% quarter-on-quarter, as distributors started restocking to take advantage of liquidation of non-BEE compliant inventory. Switchgears business, wherein we are channeling a lot of our incremental focus, also witnessed healthy growth as we reaped the benefit of our strong influencer incentive program. Pipes and fittings and switches business, too, posted double-digit growth quarter-on-quarter. FMEG profitability during the quarter was affected largely on account of higher A&P spends. As I had mentioned last quarter, one should consider FY23 as a base year for the FMEG business. We expect reasonable growth in the FMEG business to resume from FY24 onwards as we get done with the realignment of our distribution channel by the end of this financial year. Further, we are taking various initiatives, such as brand marketing, new product development, premiumization of offerings, influencer management program, more focus on higher margin business such as

switchgear and switches, which will aid in scaling up the FMEG business growth and margins going ahead.

On slide 8, we have given an update on the performance of our other segment, which largely comprises of our strategic EPC business. Revenue from other businesses witnessed a 20% quarter-on-quarter and 33% year-on-year growth. EBIT from the other business stood at INR 131 million, up 23% year-on-year with margins at 13.1%. We expect the annual sustainable operating margin in this business to be in high single-digit over mid- to long-term.

Overall, the financial position continues to remain healthy with debt-to-equity ratio at a miserly 0.02x and the business generating good cash flows. During the quarter, the company's working capital saw a slight increase as we had higher inventory during the quarter-end, having procured raw materials in anticipation of better demand in Q4.

So, that was the financial update for the quarter.

Polycab as a company has always been committed to the highest level of corporate governance. As another step towards achieving best-in-class corporate governance, Polycab's Board yesterday approved the expansion of the Board to strengthen it further and bring in more diversity. Polycab's Board will now comprise of 10 directors, with 20% representation by women directors, and only three members of promoter family on the Board. Our Board comprises of pre-eminent directors with rich experience in their respective fields and diverse set of skills for effective oversight over the company's overall operations, strategic initiatives, systems and processes and governance practices to achieve the growth mission of the company.

An area of focus for the company that goes hand-in-hand with good corporate governance is sustainable growth. In my earnings call speech of Q3 last year, I had mentioned that we had initiated a project with an external partner to create our long-term ESG framework, aligned with international ESG protocols, guidelines and standards. I'm happy to report that we have made considerable progress on this project. We have identified the material ESG-related topics for the company and are in the process of identifying and finalizing work streams and milestones within each category. Once completed, the framework will provide us sustainable outlook towards the environment and society alongside business goals. In our FY23 Annual Report, you will see a detailed disclosure on our ESG framework and work streams.

That was the update for the quarter. Thank you, and we are now open for questions.

Moderator:

We have our first question from the line of Atul Tiwari from Citigroup.

Atul Tiwari:

First of all, congratulations on a very strong performance, which almost exceeds, I think, any other player in the industry at this point. So, congrats on that. The question is on EHV initiative that you have. So could you throw some more light on the size of the market and who are the

current domestic players and which voltages are we exactly talking about here? And I think you did mention the total capex for this year but what will be like the expected capex on this initiative?

Gandharv Tongia:

Thank you, Atul. Thank you so much for your kind words. You know our company and our offerings, but as we are the only company in the entire continent, which has all the possible SKUs in Cable & Wire category in offering, right from defense, to automobile, to data, to electricity, to control and so on and so forth. The only whitespace we had was EHV. And generally, you know EHV business is done through EPC route and for that you need pre-qualification. And since we didn't have the strength in EHV, we didn't have those pre-qualifications.

So what we have done now is, we have got into an arrangement with a large international player who has almost 120 years of experience, the name of the group is Brugg Cable. And we have entered into a tech know-how agreement to transfer design, testing, production and installation technology. And this will be up to 550 KV.

This will open a market. If I were to take FY26 as a number, a potential of almost INR 4,000 crores to INR 5,000 crores. As of now, in the country, there are only two large players who are actively involved in EHV and we would be joining that group. And from the profitability and working capital point of view, this is likely to be accretive as far as the current Cable & Wire, business is concerned.

Atul Tiwari:

And sir, these two large players manufacture it themselves or they kind of import it, how does it work currently?

Gandharv Tongia:

They manufacture in-house. There are a few smaller players, but these two large players have significant market share in the country and they manufacture in-house.

Atul Tiwari:

Okay. And, Gandharv, my second question is on FMEG. So, obviously, now we are very close to the end of the distribution rejig. So could you shed some more light on what exactly you have done in terms of the rejig, where we are? And once this thing is over this financial year, from next financial year, roughly what ballpark of FMEG growth are we looking at? I mean, are we looking at like 10%, 15% kind of growth, or the aspiration is like 20%, 25% or even 30%? I mean, I'm not asking for any guidance but a rough ballpark would help.

Gandharv Tongia:

Yes. So when we were working on FMEG and I'll probably take you back to our 2014 to 2021 journey, we did several things which helped us in achieving top line of INR 1,000 crores in FMEG. But we realized that there are few things which we could have done better. One was the entire GTM and ensuring the right set of dealers and distributors have FMEG offerings of Polycab. Second was new product development. In Cable & Wire, always we were doing new product development.

That is why we have almost all the SKUs, but I don't think we did enough NPD in first five, seven years of FMEG foray. Third was how do you interact with the influencers and other stakeholders. And fourth and important one is, how do you ensure that you have right optimum mix within FMEG category of several products which are available. For example, if switches and switchgears are more profitable business than others, do you have sizable contribution coming from such businesses? And slowly and gradually, we have started attending almost all of them.

We started with hiring the right talent and we would have hired almost 25 senior leaders in the last fiscal. We realized that we have to have several frameworks in place to implement these and then that will at least strengthen the entire governance framework within the Project Leap. We invested heavily in digital. We have now a separate vertical headed by a very experienced digital leader who is helping us in both the front-end as well as back-end to ensure that we are able to, not only utilize the technology, but we are able to exploit the technology.

While few of these things will continue to be implemented in next fiscal, my sense is from the first quarter of next fiscal we should start getting benefit from these. And in terms of the growth guidance, you are right, we generally don't give the growth guidance, but I would tend to believe that the options which you gave, option 1, 2 and 3, we would like to get to option 2 or 3, but suffice to say that we are looking for significantly better than industry average growth.

Moderator: We have our next question from the line of Achal Lohade from JM Financial Limited.

Achal Lohade: Yes, Gandharv, congratulation on your promotion and also the great set of numbers. My first question was, one of your competitors actually published, also published results yesterday. What they said is the B2B is doing better than B2C, while you were talking about B2C, the wires is doing better than B2B. Can you help us understand what has been the growth mix in case of 3Q FY23 and compare that against 2Q?

Gandharv Tongia: Sure, Achal. Thank you so much for your kind words and wishes. I have our Head of Investor Relations, Chirayu, as well in the room. I am going to request him to attend your question. Chirayu, over to you.

Chirayu Upadhyaya: Hi, Achal. So while B2B is doing very well, but B2C is also performing very well. And specifically, if you look at the wires, wires have major demand coming in from the real estate sector, and real estate sector have been performing quite well for the past couple of years. If you just look at the calendar year 2022, real estate registered 9-year high in terms of the sales of houses.

The launches that were announced and happened during the calendar year were higher than the sales that has happened, and this is something which happened last in 2014. So in that sense the real estate sector is doing quite well, and that is where the demand for wires are being generated

and that is helping us improve the growth rate of wires as compared to cables. Cables, of course, is doing very well. With all the infrastructure investments being done by the government, the pickup in the capex cycle from the private players, cables are also doing very well, but wires have outperformed that growth.

Achal Lohade: Can you help us understand the mix, how it was in 3Q and also in 2Q?

Chirayu Upadhyaya So Cable & Wire mix generally for us would have been around 70%-30%, it would have increased to about 60%-40% in this quarter.

Achal Lohade: You're saying 40% of the revenue is from wires as compared to, say, 30% in the last quarter, and that is showing in terms of the margins, right?

Chirayu Upadhyaya Right.

Achal Lohade: The second question I had is with respect to the volume growth. Can you give us some sense in terms of what has been the volume growth in the entire segment in wires and cables? And how do you see it going forward?

Chirayu Upadhyaya So as Gandharv said in his opening remarks, for 9M FY23, if you look at our domestic channel sales, the volume growth was higher than 26%. And this again like I said, on the back of various government initiatives, as well as private capex cycle. So this is something which we expect to continue.

The volume growth for Q4 also is looking good. And again, this calendar year being and this coming budget being the last budget before the election, we expect good announcements in terms of investments in infrastructure from the government. And again, this is something which will help in improving the volume growth for the industry, as well as the company.

Achal Lohade: Sorry. You talked about volume growth of 26% for 9 months. What was it for 3Q? Can you help us understand that?

Chirayu Upadhyaya: So if you look at domestic volume growth, it would be between 18% to 20% for us.

Achal Lohade: Okay. And is there any element of channel stocking which played out, which kind of helped, or you think this is absolutely normal levels of inventories in channel?

Chirayu Upadhyaya: No, there was no different scenario being played out. This is just plain vanilla demand, good demand being translated to good volume growth for the industry, as well as for the company.

Achal Lohade: Got it. And just last question if I may. Can you help us understand your sourcing, how much is domestic, how much is imports of the raw materials? And what is the typical inventory we keep in terms of raw material and finished goods?

Gandharv Tongia: So there is a mixed bag. In copper, most of the copper is being procured from overseas market. Though, there are supplies from the domestic players as well, but most of it is from international players. As far as aluminum is concerned, it's partially domestic and partially international, and steel is by and large domestic.

In terms of the overall inventory cycle, it is around 90-odd days, including from RM to FG, including WIP, and FG both at the plant as well as the depots. So that's the cycle which is there. And there is some scope for improvement as far as optimization of inventory days are concerned, but there's no significant improvement that is possible.

Achal Lohade: Okay. Understood. And in terms of I mean, we have seen a significant margin improvement. Is that a number one should look at as a new normal or you think there is an element of this mix which was kind of exceptionally high in this quarter, but it would, say, normalize in coming quarters or years?

Gandharv Tongia: So, let's go business by business. As far as Cable & Wire is concerned, I think it is safe to assume a number between 11% to 13% EBITDA margin for your model purposes. And FMEG, we believe every year we should be able to improve the EBITDA margin, so that we get to 10% or thereabout by fiscal '26. So that is how we should model. And if you do that, my sense is, we'll probably have chances of having positive surprises rather than negative surprises.

Moderator: We have our next question from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: So I just wanted to and congrats on a good set of numbers. I just wanted to check with you regarding the -- once again regarding the margin sustainability. So basically wires generally carry better margins than cables and that proportion has increased to 60-40. So, is there an opportunity of the -- first, the wires proportion going up from here? And what can be the reason behind that? And this 13.7% EBITDA margins in wires and cables, will -- can that sustain? So basically once again, because of the wires going up -- proportion going up?

Gandharv Tongia: Yes, thank you so much, Ravi, for your kind words and wishes. I think the way to look at our number is, you should assume that wires contribution will improve to the top line over the period and it won't happen overnight. And that is why the gradual increase in EBITDA margin is possible. But as I mentioned to the previous participant, we should assume a range between 11% to 13% of EBITDA margin for the Cable & Wire business. And for FMEG, certainly, we believe that we would be able to improve our performance on the bottom line, and every year we should anticipate some improvement, so that we can get to 10% by FY '26.

Ravi Swaminathan: And with respect to the FMEG business, the sales mix currently would be, how much is fans, how much is pumps, lighting, if you can give that breakup?

Gandharv Tongia: Between fans and lights and lume, we should assume that around 2/3 of the business. And the other businesses are comparatively smaller. Our endeavor is to change that mix and have higher proportion of switches and switchgear, for example, because these businesses are more profitable than the other businesses within the FMEG basket, and we expect that every year from next year we would see some incremental positive changes in that direction.

Moderator: We have our next question from the line of Rahul Agarwal from InCred Capital Financial Services.

Rahul Agarwal: Congratulations on the performance. And Gandharv, specifically your elevation to the company Board. Two questions. Firstly on FMEG, a 2-part question. Is 100% manufacturing in-house now? And if yes, what could be the peak revenue possible from that capacity, assuming no price hikes happen here on?

The second part of that question, essentially is, as you said that Project Leap is like three years out and EBITDA margins you've already guided for 10%, let's say, anywhere between 9% to 10%. Fiscal '24 has to see a meaningful uptick. So the reasons behind that to happen, because my sense is, right now we are almost at breakeven and that is purely because of fixed cost there and ad spends are higher because we're building up the market.

Next year, what will change for that margin to go up? These are two questions on FMEG. I'll come back on the last question.

Gandharv Tongia: Thank you so much, Rahul, for your kind words and wishes. FMEG, if the margins have to go up, there are three or four levers which are available. One is, we have to change the current product mix. This 2/3 of fan and light and lum has to undergo a change and it should contribute lesser than what it is doing today. And contribution from businesses like switches and switchgear should improve. And that is the reason why we have set up a new facility in Daman for switches and we are expanding our Nashik switchgear facility.

The second way of improving margins is ensuring that we have availability across the different price points, including a premium category. In the first six, seven years of FMEG foray, we didn't do enough on ensuring that we are available at all the price points, but now we are taking strategic and directional steps. If you would recollect, we acquired a company by the name of Silvan around two years back and this company is now helping us in doing R&D, new product development and innovation. And on the basis of the work which is being done at Silvan by the team, we should be able to offer better and newer products to our customers, and in few of those cases, we would be able to charge premium.

So, Rahul, what I was talking about and probably I'll repeat a bit of it because I don't know when we lost the connection. First is, we have to reorient the FMEG portfolio towards the better

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margin businesses like switches and switchgear and that is the reason why we have invested in facilities in Daman for switches and augmenting the facility in Nashik for switchgears.

Second is on the strength of new product development, innovation and R&D, and for that purpose we had acquired a company by the name of Silvan around a couple of years back. We had to offer better products to our end customers across different price points. Third is the economies of scale because not necessarily our fixed cost will go up in the same proportion, in the manner we are anticipating the revenue to grow. And the fourth one is, where we will have to probably invest more in advertisement and publicity. Last couple of years, because of COVID and others, we were slightly frugal, but between second quarter and third quarter, we have pressed the pedal. A&P spend in the third quarter was close to INR 64 crore, whereas in the second quarter it was close to INR 16 crore, so it's almost 4x increase. So because of these reasons we should be able to improve the margins in years to come.

On the second part of FMEG revenue, we'll have to go business by business in terms of the potential. So, for example, fan business, our Roorkee facility is almost fully utilized as of now, but the Halol facility, which will be up and running in the current quarter itself would probably open up almost equivalent to Roorkee facility capacity.

Switches, we are doing in phased manner, expansion. The idea is to not incur significant fixed cost ahead of the time, but switches facility is quickly expandable and as and when there is a need, within two, three months we can put up additional facilities. Switchgear is getting expanded now.

So what I was trying to allude to is, in terms of top line potential. In almost all the businesses, we have significant potential available. For example, the fan business, our existing facility is up and running and getting utilized almost fully which is in Roorkee. But the Halol facility will be operationalized in the current quarter itself, and which would be equivalent to the existing facility. So there's 100% increase potential which is available in Halol. Switches is being done in phases.

So as and when there is a need, we would be able to expand on switches. And as far as switchgear is concerned, we should be able to expand to almost 1.5x in the next fiscal itself. So FMEG, we don't have a challenge with the capacity. And I think the strategic initiatives which we have undertaken in last year or so under Project Leap would help us in driving the growth and to meet the growth requirement, as we will not face any challenge as far as production of back-end capabilities are concerned.

Rahul Agarwal:

So, is it 100% in-house now for all the products?

Gandharv Tongia:

Yes. Except very small categories, for example, agro pumps or solar, where we are -- we don't have in-house facilities. But other than that everything is in-house. And when I am saying in-

house, I am considering companies like Techno LED, which is a 50% joint venture and they supply LED lights to us.

Rahul Agarwal: So, it is not possible to aggregate everything and say that what is the peak revenue potential of whatever capacities we have, that's not possible?

Gandharv Tongia: Since this particular industry is as such that you can put up a plant within a month or so, or two months or three months in few of the categories, not necessarily that's a constraint. And that is why that peak FMEG revenue. See, this is unlike Cable & Wire where we need significant time. For example, EHV, which I alluded to in my opening the remarks, will take around 2.5 years. Whereas in FMEG, if I were to just give you example of additional line in switches, it can be done in two months. So, I don't think there's a constraint.

Rahul Agarwal: And lastly, just on the Cable & Wire side, obviously, you spoke about volume growth. Again, just to assess in terms of what growth should we expect here on, assuming that copper is stable. What kind of volume growth on a CAGR basis should we expect, like next three years? Very industry level, obviously, you're gaining market share. So it has to be higher than the industry, but on a volume growth basis, what would you expect?

Gandharv Tongia: I mean, if you were to ask us, we are a growth-hungry organization. Whenever I discuss this Project Leap, an ambition INR 20,000 crore, everyone internally is of the view that we can do it sooner. But when it comes to guidance, I think it is best to say that we would be able to achieve INR 20,000 crore of top line by fiscal '26, and in Cable & Wire, we'll do better than industry average.

In FMEG, things will be better than industry average. And I would probably leave it at that, so that you have enough instances of positive surprises in your model when you compare our actuals in quarters to come.

Moderator: We have our next question from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Congratulations, Gandharv, on elevation to the Board. Just one clarification I have on your media interaction with CNBC-TV18, wondering did you guide 20% growth in FY23?

Gandharv Tongia: Thank you, Srinidhi. Thank you so much for your kind words and wishes. We didn't guide for 20%. I think what we were trying to highlight in the call was that we will be able to register the growth, which is going to be significantly better than the industry growth in FMEG and Cable & Wire going to be better than industry.

Shrinidhi Karlekar: Okay, understood. And, Gandharv, you highlighted that -- hello? Yes, can I go ahead?

Gandharv Tongia: Yes. I was saying that we are very confident of achieving INR 20,000 crore of top line by fiscal '26 and that can be done easily, if we were to just follow better than industry average growth in Cable & Wire, and I think it will be better in FMEG.

Shrinidhi Karlekar: Gandharv, you highlighted that Wire business margins are materially higher than the cable business, about 15% in wire and about 11% in cable. Would it be possible to throw some light on how gross margins different for these product categories?

Gandharv Tongia: Within Cable & Wire, it's difficult to compare at contribution margin. I'll give you one example to illustrate what I mean. In fact, when cable is concerned, there is no need to incur ATL spend. For example, you know TV advertisement, whereas in the case of Wire, it would be natural expectation to incur such expenses.

And I'm sure you would have noticed you know a few of our advertisements in last few months. For example, you know what was done in the during the ICC T20 Cricket World Cup. So that is where I don't think it is comparable as far as gross margin is concerned. It is better to see at EBITDA margin level and that is where the wires business is better than cables.

Shrinidhi Karlekar: And last question from my end, Gandharv, would it be possible to throw some light on fiber optic cable business for Polycab? How large is it? How is margin profile in that business? And how is inquiry pipeline looking like in that business?

Gandharv Tongia: Optical fiber cable business is generally done under two arrangements. One is where the end customer is expecting laying of the cable and supply of cable, and in the few cases, even maintenance afterwards. We have done few of those projects under Government of India initiatives. For example, in the State of Gujarat, as well as in the State of Bihar in last few years.

We have another model, which is being strengthened now is direct supply of optical fiber cable to the end customer through our existing distribution. And the work on both is progressing well. Initiatives like 5G or digitalization augurs well with the OFC business. The only thing which I would like to highlight to you is, we don't have backward integration in place as far as optical fiber cable is concerned.

So, we don't have any manufacturing capability or capacity as far as optical fiber is concerned. What we do is we procure optical fibers and then manufacture optical fiber cables.

Shrinidhi Karlekar: Last one if I may. So, Gandharv, we are building these two new brands. One is on the mass, which is Etira and on the premium side Hohm. Would it be possible to update us on the progress, how these brands shaping as for Polycab?

Gandharv Tongia: I think both of them have helped us immensely in terms of improving our growth rate. While this is being done, we are fairly almost on the verge of completion of our entire brand

architecture. And I would expect by end of the current calendar year we should be able to get to a stage where we can launch our revamped brand and offer differentiation across the product categories on the basis of product feature or on the basis of end customers. But as of now, whatever we have done has helped us improving the top line in the last few quarters and the increase in spend is in line with that particular piece.

Moderator: We have our next question from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, most of the durable companies we are seeing are going and acquiring the kitchen appliances brands or companies and we have seen multiple such transactions in past 2, 3 -- 2-odd years. Whirlpool acquiring Elica, then Crompton and then V-Guard also. So what are Polycab's aspirations in kitchen appliances space? And is the company looking at any organic, inorganic route over next 1, 1.5 years?

Also, the export business, as I understand, would be a relatively low ROE business, considering it's largely a B2B business. So, is that the business company really wants to invest a lot from the medium to long-term perspective? So, what are your thoughts on these two?

Gandharv Tongia: Thank you, Aniruddha. Thank you so much. As far as kitchen appliances are concerned, we believe we have enough and more to do in the existing electrical ecosystem, and we don't believe that at this stage we need to think outside the existing electrical ecosystem. As I mentioned to couple of other participants, there is a fair amount of work which is being done in FMEG, and we believe that, if we do what we are expecting us to do, we should be able to get to top three market position within few of those FMEG product categories in years to come.

In Cable & Wire as well, one is exports market, but within that business in India is growing. New products like EHV provide us good opportunity. So to answer your question, we are not looking for any foray into kitchen appliances.

Having said that, M&A would continue to be an active driver for our growth because organic growth we will achieve, but for a large organization like us, if we want to fasten the pace of top line growth, we'll have to consider inorganic route and that is where we are doing lot of work and we are hoping that if we get a right asset in the right place at the right valuation, we would like to explore.

As far as exports is concerned, let me give you a broad overview. In last 4, 5 years, in addition to doing project-only export business, slowly and gradually we have started moving towards distribution business. This is what we did in the country as well in the last 10 years, till 2012 or thereabout, we were more institutional-driven business and distribution-driven business. And today, we are practically 85% distribution-driven business.

And we believe if we are able to do what we did in last 10 years, in the overseas market, we should be able to get to a respectable position in same year from now. And distribution business is equally profitable in overseas market the way it is in India, and that is where we are confident on both, growth trajectory of exports, as well as profitability of exports.

Moderator: We have our next question from the line of Abhineet Anand from Emkay Global Financial Services.

Abhineet Anand: So I have two questions, one on your EHV investment. How much -- I understand you said you indicated 2.5 years for this plant to commission. So, what could be the investment and revenue potential for this plant?

Gandharv Tongia: Thank you, Abhineet. Thank you so much for your kind words and wishes. You are right, it will take around 2.5 years to construct, and a part of the investment will be done in the current year and the balance will be done in the following year. It would be difficult for me to give you a specific capex guidance for a particular project. But I can certainly tell you that we expect to incur around INR 600 crore in the current calendar year – INR 600 crore to INR 700 crore in the current calendar year, and 3/4 of that would be for Cable & Wire, and most of it would go for initiatives like EHV.

Abhineet Anand: And typical in EHV, what is the asset turn, if you can help us with that?

Gandharv Tongia: I mean, these are early days. We are still exploring and getting you detailing. The asset turn is generally comparable with the existing Cable & Wire business, but I think closer to the project commissioning we will have slightly better visibility and that is when probably we can decide in terms of what type of guidance we want to give.

Abhineet Anand: Secondly on this, raw material volatility has been one of the key concerns, right? Copper is again up almost 20% in the last two months. I mean, given that your requirements of copper and aluminum is so high and copper typically is being imported as of now. I mean, what is the strategy to avert any high inventory gain or loss? What is the strategy behind hedging in your case?

Gandharv Tongia: So, Abhineet, you know this already that as far as finished goods is concerned, for distribution business, the prices are revised on monthly basis depending on changes in commodity prices and USD/INR exchange rate. And to that extent, we don't have any material risks of volatility or changes in copper prices or aluminum prices or USD/INR exchange rate.

And that is what you can correlate as well with our performance over the last few quarters. Despite volatility between Q2 and Q3, there is no significant change in our margins, both at contribution level, as well as at the EBITDA margin level. So the effective hedging framework

which we have in place and the pricing mechanism, these help us in avoiding any negative impact on the EBITDA margin.

- Moderator:** We have our next question from the line of Abhijit Akella from Kotak Securities.
- Abhijit Akella:** I just have a couple of questions, one is on the Cable business, is it possible to give us a broad split between B2B and B2G, if there is any significant mix out there?
- Chirayu Upadhyaya:** So, Abhijit, we hardly do any B2G business in the Cable segment. Most of it is B2B. And again, the split between dealers and distribution business and institutional business, is broadly 85% to 15%.
- Abhijit Akella:** And with regard to the share of wires in the overall mix which you said has now gone up to 40%, is there a broad target we have in mind for our 2026 aspirations about where we want to take it?
- Chirayu Upadhyaya:** So when we think about our 2026 aspirations, we think more on the lines of B2B versus B2C. We want to take that to 50-50 by FY26, and that is wherein we are progressing. So B2C will consist of both of wires, as well as FMEG and B2B will be your Cable business and EPC business, and that is how we are looking at it.
- Moderator:** We have our next question from the line of Venkatesh Balasubramaniam from Axis Capital.
- Venkatesh B:** I had a couple of questions on the FMEG business and maybe one question on your Cable & Wire business. On the FMEG side, you have this Project Leap plan of INR 20,000 crores by FY26. How much of that INR 20,000 crores is – are do you think can come from FMEG? That is the first question.
- The second question is, I think we will close out this year may be closer to 1% or 2% kind of EBITDA margins in the FMEG. What kind of margin improvement is possible next year, given that you could possibly end up doing 20%-plus kind of revenue growth? So that is the first two questions on FMEG.
- Chirayu Upadhyaya:** Sure. Thanks, Venkatesh. So, like I said, in the previous question to Abhijit, we don't normally look at contribution from FMEG to overall. We more look at B2B versus B2C contribution and we expect that to go to 50-50 by FY26, and that is where we are working at.
- In terms of margins expectations for FMEG, what we have guided the market is that, by FY26 we want FMEG to be operating at a margin of about 10-odd percent and we have taken various initiatives, which Gandharv mentioned. And we are quite confident that we should be able to reach by about 10% of EBITDA margins for FMEG by FY26.
- Moderator:** We have our next question from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: So, first question on the fan. As you had mentioned 24% of a sequential growth you had observed, how much is the volume? And is there any price hike have you taken or plan to take?

Chirayu Upadhyaya: So there was no price hike which was taken. The price hike would be taken once the BEE-compliant inventory is given in the market, which is from 1st of January onwards. Last quarter it was non-BEE-compliant inventory. So, there was actually a pricing revision on the downward side which happened across the industry. So, price hikes will be something which will happen from this quarter onwards when BEE-complaint inventory will be out in the market.

Moderator: I would now like to hand the conference over to Mr. Gandharv Tongia for closing comments. Over to you, sir.

Gandharv Tongia: Thank you so much, participants for taking out time and attending this call. In case participants have unanswered questions, they can get in touch with us by writing an email to investor.relations@polycab.com and we will be extremely pleased to attend their queries. Thank you for your time participants. Have a good day. Bye.

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