"Polycab India Limited

Q4 FY 2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Polycab India Limited Q4 FY24 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 phone. 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 evening, everyone, and thank you for joining us. I hope all of you are staying healthy and safe. I am Gandharv Tongia, Executive Director and CFO at Polycab India Limited. On this call, we shall discuss the Quarter Four and Full Year 2023-24 results which were approved in the board meeting held earlier today. 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 hand over the call to Inder bhai for his comments.

Inder Jaisinghani: Good evening, everyone.

Before we discuss our financial performance, I would like to provide an update on the recent development in the respect to the Income Tax Search event.

Further to the sequence of events that happened during the last fortnight of the previous calendar year, the Company has received requests from the Income Tax Department for filing certain details and providing explanations, all of which are being diligently complied by the Company. As of the present date, we want to emphasize that no tax demand notice or any other order has been issued to us by the Income Tax department.

We are confident of our compliances and remain committed to maintaining full cooperation with the department's investigative process, extending all necessary assistance as required. Our priority continues to be ensuring transparency and adherence to all regulatory requirements. We appreciate the continued support and understanding of our stakeholders during this period.

With that, I turn to the main agenda item.

This past year has been nothing short of extraordinary for us, marked by milestones, growth, and a commitment to excellence that defines our journey. The Company surpassed the monumental milestone of ₹ 180 Billion in revenues during FY24, marking a significant win for our entire Polycab family. This achievement underscores our unwavering dedication to innovation, quality, and customer satisfaction. In addition to our impressive revenue growth, we also achieved the highest-ever yearly profits in our Company's history, further solidifying Polycab's position as the most profitable Company in the consumer electrical industry. With the demand environment expected to remain strong, we are fully prepared to capitalize on this momentous opportunity.

With this, I would request Gandharv Tongia to give you a flavour of the macro environment.

Gandharv Tongia: Thank you, Inder bhai.

The Indian economy continues to outperform global counterparts, underpinned by a plethora of high-frequency indicators showcasing robust resilience. From strong forex reserves to improving industrial production, higher tax collections and credit growth, the Indian economy remains on a solid footing. Particularly encouraging are the significant milestones achieved in the manufacturing and services sectors, with PMI readings reaching multi-year highs. Furthermore, the housing market has been a standout performer, witnessing robust growth in both volume and value terms, signalling a promising trajectory for the medium term.

On the consumer front, there is encouraging discourse surrounding signs of rural demand resurgence, translating into improved sales for FMCG products. The RBI's consumer confidence index reinforces this sentiment, surging to its highest level since mid-2019. With anticipated normal monsoons, declining inflation rates, and expectations of a rate cut within the calendar year, consumption-driven demand is poised to gradually ascend, resulting in enhanced sales for consumer products and an upswing in private sector capex to bolster capacity in anticipation of the projected demand surge. In conclusion, the Indian economy stands steadfast on a robust trajectory, poised for continued growth and resilience.

Against this backdrop, let's delve deeper into Polycab's performance during the fourth quarter and full year 2023-24.

I would now handover to Chirayu to take you through our financial performance.

Chirayu Upadhyaya: Thank you, Gandharv.

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

For the quarter ended 31st March 2024, our consolidated revenues grew by 29% year-on-year, on the back of healthy volume growth in the Wires & Cable business. This was the first time ever that the Company surpassed ₹ 50 Bn of quarterly revenues. Moreover, our top-line of ₹ 56 Bn for the current quarter is also the highest within the consumer electrical industry. EBITDA for the quarter grew by 26% year-on-year with EBITDA margins coming in at 13.6%, a ~50 bps improvement quarter-on-quarter, on the back of better operating leverage and lower Advertising and Promotion spends, partly offset by lower gross margins on account of increase in contribution from the lower margin EPC business. The Company also registered its highest quarterly PAT, exceeding the threshold of ₹ 5 Bn for the first-time ever, growing 29% year-on-year. PAT margin stood at 9.9%.

For the full year, our revenues grew strongly by 28% year-on-year, surpassing the ₹ 180 Bn mark, which brings us strikingly close to our Project LEAP target of ₹ 200 Bn in annual revenues. EBITDA was up by 35% year-on-year with margin expansion of ~70 bps to 13.8%. Margin expansion was achieved through improved gross margins resulting from strategic pricing revisions as well as a favourable change in product-mix. Profits After Tax grew by 41% year-on-year, with PAT margin expanding ~90 bps to 10.0%. As mentioned in the opening remarks, our revenue, EBITDA, and PAT for the year are the highest yearly numbers in the history of our Company. A detailed breakup of the other income and finance costs have been provided on slide 27 of our earnings presentation. Net cash position improved to ₹ 21.4 Bn over ₹ 18.9 Bn in Q4 of the previous year, while working capital cycle, at 48 days, showed a tad improvement over the previous year.

Delving deeper into the business-wise performance, please refer to slide 10 of the earnings presentation.

The Wires & Cables business exhibited a growth of 22% year-on-year during the quarter, capping off a stellar year wherein the business grew by 27% over the previous year. Robust domestic demand as well as strategic internal initiatives led volume growth drove the outperformance for the business. The domestic Cables & Wires business registered a volume growth of between 30% to 40%, both for quarter four as well as for the entire year. We believe Polycab has significantly gained market share during the year, with our share of the domestic organized Cables & Wires market increasing to about 25% - 26%, from the 22% - 24% estimated in the previous year. At an industry level, this should translate to a market share of between 18% & 19% for Polycab.

Revenue from international business bounced back during the quarter with a 60% sequential growth to stand at ₹ 4.3 Bn for the quarter. On year-on-year basis, the international business registered a de-growth during the quarter, which can be attributed to the transition in business model being undertaken in our largest demand geography, the USA. We believe this transition will take another 3-5 quarters to stabilize. During this time, we expect business from other geographies to continue to show robust growth. For example, in the fourth quarter, sales to Middle East, specifically, Saudi Arabia, UAE and others, contributed 60% of the sales for the quarter. We will continue to add newer geographies in our international business so as create further avenues of growth as well as to reduce any concentration risk. Overall, for the year, contribution from the international business to the consolidated revenue stood at 8.0%. The Company has expanded its global footprint to 79 countries spread across all the continents.

Moving on to slide 13 for an update on the FMEG Business

The FMEG business exhibited decent growth during the quarter, as we were able to capitalize on a seasonally strong quarter for fans, our biggest segment within the FMEG business. On YoY basis, the revenues grew by 17%, partly also supported by a lower base in quarter four of the previous year, which was affected due to high channel inventory on account of the BEE transition in the fans segment. Within fans, we launched over 90 SKUs during the year, with a majority of them in the premium and BLDC range, in line with our premiumization drive. We launched our new range of fans, Silencio, pan-India during the quarter and have received encouraging response. The premium range along with the BLDC range contributed to almost 28% of the fans sales during the quarter, a marked improvement from historical performance, as we derived benefits of focused initiatives to drive premiumization in fans.

The Switches & Switchgears segments continued their strong growth momentum during the quarter, riding on the back of uptick in real estate. Within both these categories, our New Product

Development initiative is bearing fruits, supported by our efforts on brand building, improvement in distribution network and focus on influencer management. Within the switches segment, the Etira range, which we introduced towards the beginning of FY24, contributed significantly to the sales for the year. Within the switchgears segment, the 6kA MCBs, again introduced during the beginning of FY24, contributed in early double digits to the yearly sales. As we have communicated in our previous quarterly result calls, we aim to increase the contribution of both these segments in the FMEG basket to improve our profitability, and based on the results so far, we believe we are progressing well in this direction.

Coming to lights & luminaries, the segment registered sequential growth during the quarter, although, the industry still saw a decline in prices in the range of 7% - 8%. We believe, there may still be more price correction in the offing. Within this category too, we are looking at improving the contribution of premium offerings such as panel, ceiling, cob, cove, down lights and so on in the sales mix.

The EBIT margins for the segment registered a significant decline during the quarter, largely on account of couple of one-time impacts. An impact of ₹ 105 million was on account of impairment of our investment in Techno Electromech, wherein we have a 50:50 JV. Due to the losses incurred by Techno on account of the continued pricing decline in lights and corresponding impact on business, the net worth of the Company has eroded completely. As a result, out of abundant caution, we have write-off our investment in the JV. The second impact of almost similar size was on account of provisioning we undertook on our aged inventory of lights and fans. Operational inefficiencies due to lower utilization of capacities further accentuated the margin decline.

Overall, as we communicated in our last earnings call, we are in the process of taking steps to improve our execution of the strategic roadmap. We are making good progress on that front. We anticipate the process to be completed by the end of this calendar year, post which we expect the FMEG business to start growing at a rate better than industry averages.

Let's now move to slide number 16, which gives an update on our other businesses, which largely comprises of our strategic EPC business.

We clocked revenues of ₹ 4,676 Mn in Q4, a 4x growth over the same quarter last year. For the year, the revenues in this business grew by 169% Year-on-Year, to reach ₹ 9,642 Mn. Largely, the increase is on account of the projects we've won under the RDSS scheme of the government, wherein, we now have a good open order book, which is to be executed over the next 3 to 4 years. We expect this business to continue to contribute in single digit to the consolidated Company top-line going ahead.

Profitability for the business grew by 605% Year-on-Year for the quarter with segmental margin at 8.5%. On annual basis, the profitability registered a growth of 156% Year-on-Year, with margins at 11.5%. Annual sustainable operating margin in this business is expected to be in high single digit over mid-to-long term.

That was the financial update for the quarter. Now, let us talk about our key transformational project called, “Project Leap”, which completed 3 years this month. As you all are aware, we embarked on this project post FY21, partnering with BCG, to work on a range of strategic themes and initiatives focused on growth, profitability and long-term capability building for the organization across both B2B and B2C businesses with a goal of achieving ₹ 200 Bn of top-line by FY26. Under the project, we have been working on various streams, clubbed into four key strategic themes, namely Customer Centricity; Go-to-Market Excellence; Winning with New Products; and Setup of Organization Enablers. We have made tremendous progress in each of these key areas over the past 3 years. I will highlight a few initiatives we’ve undertaken in the last year under each of these topics one-by-one.

At the heart of our customer-centric initiatives lies a commitment to excellence and innovation. We've bolstered our Key Account Management (KAM) strategy, ensuring that our complete portfolio reaches key builder accounts, thereby enhancing our relationship and service offerings. To amplify our support to influencers, we've assembled a formidable team while integrating a digital-first platform, facilitating seamless engagement and assistance. Moreover, leveraging CRM, we've significantly ramped up efforts by our TSIs, to enhance our outreach and service efficiency, to get better control over pricing, market dynamics and direct dealing with the customers for secondary sales. Leveraging the power of AI/ ML, we've developed a cutting-edge pricing engine, optimizing win rates and mitigating human errors, thus ensuring competitive pricing strategies that resonate with our customers.

In our pursuit of Go-To-Market Excellence, we've undertaken transformative initiatives to fortify our brand presence and market penetration. We've successfully completed a Brand Identity Refresh, unveiling the new brand identity "Ideas. Connected.", symbolizing our commitment to innovation and connectivity. Furthermore, we've intensified our Brand Building efforts by augmenting advertising and promotional activities, amplifying our reach and visibility. Based on data analytics, we've also adopted geography specific GTM initiatives to drive growth, ensuring sustained market expansion. Additionally, we've implemented targeted initiatives to unlock potential in untapped markets, fostering inclusive growth and market diversification.

In our commitment to innovation and meeting evolving market demands, we've embarked on a series of initiatives to drive New Product Development. Fostering product-led growth, we've expanded our brand portfolio across multiple price tiers in wires, ensuring comprehensive market coverage. The initiative has worked exceedingly well for us, with the new ranges of wires launched over the course of past 2 years, namely Etira, Primma and Green Wires, having contributed north of 30% of the retail wire sales during the year. Impressive performance of similar NPD initiatives within the fans, switches and switchgears have been discussed in our segmental commentary.

In our quest to enable organizational excellence, we've implemented transformative measures aimed at enhancing operational efficiency and strategic alignment. Embracing Vertical Specialization, we've created distinct verticals across all product portfolios in B2C, fostering strategic focus and agility in our operations. Additionally, we've recently launched a new revamped version of our loyalty app tailored for electricians and retailers, with improved functionalities, fostering stronger engagement and loyalty within our ecosystem. Moreover, through the revamping of our B2B CRM system, we've achieved a remarkable 80% reduction in enquiry time, ensuring swift and seamless customer service. Furthermore, by streamlining our back-office support functions, we've significantly slashed response times by two-thirds, thereby minimizing losses attributable to delayed responses and bolstering overall organizational effectiveness. A continuous endeavour within this arc for us will be identifying the right set of individuals capable of propelling the Company towards its objectives and unlocking its full potential.

On slide 19, we have presented the key themes and priorities for the Company under project Leap for coming years. We will be regularly updating our stakeholders of our progress on the same. We are swiftly approaching our project LEAP target of achieving an annual turnover of ₹ 200 Bn. As previously communicated, we will unveil our new mid-term goal plan during the course of the current financial year.

The previous month marked a significant milestone for us as we celebrated five years since our listing on April 16, 2019. We take immense pride in Polycab's pivotal role in nation-building, and in the process, being able to deliver remarkable growth and generate substantial wealth for our shareholders. Key performance indicators highlighting the Company's achievements since listing have been outlined on slides 7 and 8 of the earnings presentation, while slide 12 provides a brief overview of Polycab's contribution to powering India's development through the supply of cables and wires to diverse infrastructure projects across sectors.

Amidst a significant infrastructure upcycle sweeping across the nation, Polycab reaffirms its unwavering dedication to playing a pivotal role in the country's development journey. We steadfastly pledge to harness our extensive expertise and ample resources towards bolstering vital infrastructure projects critical for the nation's progress. To be able to succinctly deliver on this promise, we have augmented our capital expenditure to enhance our manufacturing capacities. In FY24, we allocated ₹ 8.6 Billion towards capex. Over the next 2-3 years, we will be investing between ₹ 10 Bn & 11 Bn, each year, to expand our capacities.

To give you a more granular picture of the capex that we've undertaken in this and coming year, almost 20% of the capex that I just mentioned, will go towards the EHV manufacturing plant in Halol. This will have an asset turnover of 5x to 6x at peak capacity. The plant is expected to become operational by the end of FY26, contributing to the company's top line from FY27 onwards. A further part of the capex will be utilized towards setting up plants for special purpose cables, cables used in our International business as well as OFC cables. All of this will be in our Halol facility. Over and above this, there will be expansion of facilities for high tension, low tension and other cables at the Daman facility. Across all the incremental capex that we are doing, we expect an asset turnover of about 5x to 6x, thus creating enough opportunities for the company to grow in the future and cater to the incremental opportunities coming in the market.

So, that was the update for the quarter and the year. Thank you, and we are now open for questions.

Moderator: Thank you very much. The first question is from the line of Natasha Jain from Nirmal Bang.

Natasha Jain: Chirayu, just wanted to confirm, you said the volume growth has been 30% to 40%, right?

Chirayu Upadhyaya: Cables & Wires business volume growth was between 30% and 40%, both for quarter four as well as for the entire year.

Natasha Jain: Got it. And in that, can you give me the split between wires and cable separately, if possible?

Chirayu Upadhyaya: So, cables have grown faster than wires. So, cables would be in high 30s whereas wires would be in lower 30s.

Natasha Jain: Okay. So my next question is on the capex figure that you said. So you've said in combination, it will be close to ₹12 Bn for 3 years, right, or each year? I could not get that clearly.

Chirayu Upadhyaya: Right. So initially our target for doing capex for next year was between ₹ 6 Bn to ₹ 7 Bn. But looking at the opportunities that are ahead, we believe that we will need to invest much more. And as a result, we'll be investing about ₹ 10 Bn to ₹ 11 Bn each year over the next 2 to 3 years.

Natasha Jain: Got it. And my next question is on copper pricing. So now we've seen a rise in copper prices. And given that the volume growth was 40%, there's clearly a pricing pressure also. So I want to understand, going forward, how do we, in combination, see the pricing pressure plus raw material price increase and therefore, what kind of gross margin can we expect?

Chirayu Upadhyaya: Natasha, we've been in such instances wherein there has been a rise in copper and aluminium in the past, but we have a very robust pricing mechanism within the industry. And we have not seen any material impact of any such rise in copper prices or aluminium prices in the past. So, we believe that even this shouldn't have any form of material impact on neither on our gross margins or on growth.

Natasha Jain: Understood. And in terms of your strong growth, now I understand that copper prices have been rising, and therefore, there has been an increased inventory stocking by the channel. And if that is the case, I just want to understand what kind of growth moderation can we expect in the immediate quarters as a result of this high inventory stocking which happened in the fourth quarter?

Chirayu Upadhyaya: So, Natasha, we don't believe that there is a material increase in the sales number just because of the increase in our copper prices, while there might be a bit of an impact, but we don't believe that it is material in nature. The growth that we have been able to achieve is rather more because of the demand environment, which is there. Over the course of the past one to one and a half years, there are various infrastructure projects which the government has started. We also started witnessing a good amount of progress in private capex as well. And across all the industries, we are seeing pretty good demand. So, we believe that as a result of all of this things, we are realizing good amount of sales, and there shouldn't be any material impact because of increase in copper prices that would have resulted into higher sales in this particular quarter.

Moderator: The next question is from the line of Venkatesh Balasubramaniam from Axis Capital.

Venkatesh B: The first question is, if you actually look at your cables and wires margins for the full year, it is at historic highs. So, if you look at the EBITDA margin, it is at 16%. If we look at the EBIT margins for cables and wires, it's at 14.7%. The first part of the question is what has driven these historic highs in margins in FY24?

And the second part of the question is, as you yourself have upped your guidance, you are expanding capacity. I think Havells' cable capacity is coming online in first quarter of the current year. KEI's greenfield capacity is coming online in one year. Do you think that will have an impact in terms of lowering your EBITDA margins because the supply will increase or it just doesn't matter because the demand is so strong?

Chirayu Upadhyaya: So first, answering your first question, the improvement in margins from the cables and wires business during the year has been on account of multiple reasons. First and foremost has been the good amount of operating leverage that we realized because of higher utilization of our capacity. Over and above that, we've been able to improve our margins because of change in product mix. For example, this is something that has played out over the course of the entire year. Between HDC and LDC cables, we've been able to grow the LDC cables at a much faster rate, which are better margin accretive. Other than that as well, in our exports basket, we've been able to get orders for such type of cables, which are better margin accretive. Even in wires, we've been able to realize good amount of margin. Within our FMEG businesses as well, across all the product categories, we have been able to improve on our gross margins. So, on account of all of these reasons, the change in product mix, a bit of change in business mix, all of that has contributed to better margins.

Coming to your second question, in terms of the capex that we're undertaking, it is largely because we see good amount of demand coming in for the next five or ten years, and we don't believe that the current amount of capacities, which is there with the existing players would be able to cater to this new higher demand which is coming up. If you look at various targets which have been laid out by different types of infrastructure sectors, for example, we are going to be increasing our highways by almost 33% over the course of next decade. We are going to be expanding our railways and investing almost ₹7 trillion over the course of next decade on that improvement. On the power side, we are going to be requiring much more power because there was an article just during the day that we are expecting there to be power deficit in India in June. So, there is definitely going to be a need for power capacity expansion. India is betting on the renewables in a big way, targeting to reach 500 gigawatts of energy generation through renewable sources by 2030. On PLI as well, there is a lot going, a lot of investment happening and that too will result into a lot of new set of private capex coming up. So, across all of these sectors, we see enough and more demand coming in over the course of next five to ten years. And as a result, we believe there is need for more capacities from domestic players. In spite of the other capacities coming up from other players, we don't believe that there will be any such case where there will be any form of pressure on pricing or growth because of capacities. We believe the demand is more than enough to support growth for all the players.

Venkatesh B: Now the second question is your cables and wires exports was a little bit weak this year, 4% growth. Now can you please explain why was it weak? And are those factors reversing next year? What is the outlook for exports growth, cables and wires exports growth for FY25?

Chirayu Upadhyaya: Right. So, as you are aware, within our International business, we are trying to move to a distribution model, similar to something that we did in India a decade back. We believe that there are a lot of advantages of operating through a distribution model, that is why we want to replicate it in our International business as well. We have started implementing that model within the US, which is our largest demand geography.

Now any business model transition takes some time to stabilize. We are within that phase wherein we are trying to get to know or trying to engage with as many distributors as possible, trying to get to know which products are required in which geography and then manufacturing and stocking within the warehouses of the those geographies. Until the entire stabilization continues, the sales to the US geography will be a bit soft.

But having said that, demand from other geographies is very robust, and we'll continue to add newer geographies to our International bouquet. We keep on adding one or two newer countries every quarter to our international bouquet. And that is where we believe that a lot of growth will be coming up. A very good example of it is in our Q4, which as I mentioned in our initial comments, while the sales to the US was relatively soft, but we were able to grow a lot in the Middle East. Similarly, we see a lot of demand coming in from Europe, Australia and other countries as well. So, we believe that we will continue to grow in our International business. Specific to what amount it will or what rate it will be growing at, I wouldn't be able to comment. But largely, we believe that under our project LEAP, the target that we have taken that we wanted International business to contribute about 10% of our top line by FY26, we should be able to achieve that within that time frame.

Venkatesh B: Okay. Just one small data question. What was your capacity utilization in cables and wires, separately? That is also one.

Chirayu Upadhyaya: So, we don't give out separate utilization rates, but largely combined for cables and wires, we were operating in mid-70s during the quarter.

Moderator: Thank you. The next question is from the line of Girish from Morgan Stanley. Please go ahead.

Girish: Thanks for the opportunity. Just wanted to understand the sustainability of this 15% EBIT margin in the cables and wires business because always you've spoken about at a lower number, but the number keeps going up.

And then the second question is on EPC segment. In the presentation, you said high single digit, but for last 2 years you've been doing 11% EBIT margin in the other segment. I wanted to know the backlog and what should be the sustainable margin in EPC business?

Chirayu Upadhyaya: Sure, Girish. So, on the margins for the cables and wires business, we believe that about 12% to 13% is the margin profile that we should be able to consistently deliver on the cables and wires business. Depending on what kind of product mix, business mix we are able to achieve on quarter-to-quarter basis, the margins might have a positive trajectory. But largely, in the long term, 12% to 13% margin profile is something that we should be able to consistently deliver on.

Coming to the EPC part. Yes, we have been able to deliver better margins in that business, but we have been very selective in that business until now. Going ahead we are seeing a lot of opportunities coming. For example, we have mentioned the RDSS project undertaken by the government where we have received good amount of orders. We have an open order book of almost ₹48 billion in that business which we have to complete over the next 3 years to 4 years. And we believe that if you take a mid to long-term view we should be operating in mid-to-high single digits in that business.

Girish: Okay. And then maybe on the FMEG side if you can help us on an annualized basis, what is the kind of contribution by fans, switches in other segments. And you said that contribution margin has increased broadly for the quarter and probably for the year in FMEG. Can you quantify like what has been like, is it 200 bps delta through the year for FMEG on gross margin level or is it more than that? If you can help on that.

Chirayu Upadhyaya: Sure. So, on your first question, a question of segmental mix. Largely, the fans and lights business both combined would have contributed almost 50%. Both of the segments used to contribute about 60% of the FMEG top line, but because of de-growth that we witnessed in the light segment, the contribution would have fallen to about 50%. The contribution from other segments or business product lines will be almost similar with a bit of improvement in contribution from switches and switchgears segment.

On the contribution margin front, yes, we've been able to realize a good amount of improvement, but we are still lagging a lot as compared to where the industry peers are operating. We are still a long way off as far as what we visualize the gross margins coming in from those product categories should be. So, once we are within reach, we'll be giving out exact numbers of the contribution margins within these product categories.

Girish: Just in terms of your key sectors contributing to cables and wires, if you can help the top two or three sectors which are there and how much they would have contributed for the full year? And on exports the percentage of revenue that is there for FY24, do you think based on your comments that it will probably take some time so how should one think about will it be similar contribution or maybe there is a big step-up in FY26. How should we think about exports contributing?

Chirayu Upadhyaya: So, Girish on the exports front, as I mentioned, we had this target of reaching 10% of contribution from International business by FY26. Based on the demand environment that we see within all geographies wherein we are able to export, we believe that we should be able to achieve that target within that time frame. So largely, I believe over the course of next couple of years we should be able to improve the contribution from the International business. Sorry, I forgot, your first question was on?

Girish: The key sectors contributing to cables & wires growth, if you can quantify the top two, three sectors based on your assessment?

Chirayu Upadhyaya: So, Girish, it would not be possible for us to know which end-sector is exactly contributing to what amount of demand since almost 89%-90% of our sales are done through distributors. Only in about 10% of the sales it is wherein we're directly getting in touch or deal with the customers. And the breakup of those 10% might not be equivalent to the 100% mix. So, it will be difficult for us to give the exact end-sectors which are contributing to the demand.

Girish: And then the ₹3,000 crores capex that you've highlighted, ₹3,000 Cr- ₹3,300 Cr, how much of that is going towards FMEG?

Chirayu Upadhyaya: So, it will be a smaller part. We will be expanding our capacity for switches and switchgears plants over the course of next 2 years to 3 years. But yes, relatively, a large part of that ₹3,000 Cr of capex would be going towards cables & wires and a bit towards backward integration and a small part towards the FMEG business.

Girish: There is no new category that you are looking to invest right now?

Chirayu Upadhyaya: Not as of now.

Moderator: Thank you. The next question is from the line of Chandra Govindaraju from Ashmore Group. Please go ahead.

Chandra Govindaraju: Thank you for the opportunity and congratulations on great set of numbers. Sir, on the FMEG project and product side specifically on the fan side, if you could share the volume growth for the year and for the quarter. And in terms of market share where you stand at and how it moved in the last one year - two years?

Chirayu Upadhyaya: So, Chandra, on the fans, this particular quarter has been good for us because this being the peak season for fans, prior to the summer season. We've been able to deliver good growth, but largely, we shouldn't read much into it because the base was relatively smaller as well as we are a relatively smaller player in the fans segment. So, we will be one among the top 10 or top 8 within the fans segment. But we still have a long roadway ahead.

As you are aware, the DNA of the company is always to be the market leader in all the product categories that it is in. We've gone through that journey in cables and wires and we would want to go through a similar journey in all of our product categories within the FMEG business. So, we have a lot of work to be done on the fans side. So, because of our smaller size we might have been growing at a faster rate as compared to the industry or as compared to peers. But I mean, over the long run, the target, the ultimate target is to be first among the top five and then the top three players within each of the product categories.

Chandra Govindaraju: Honestly why I'm asking this question. In the FMEG segment which segment within that segment is contributing higher negative profits for you people either is it lights or fans or the switchgears?

Chirayu Upadhyaya: So, Chandra, on the top line, as I had mentioned in the previous question, the contribution from Fans and Lights combined would be almost 50% of the overall FMEG top line. Switches and Switchgears are the second largest, again, will be contributing in high teens also. And then other categories are pretty small as of now.

Chandra Govindaraju: Okay. When should we expect positive operating margins in this segment? Will it take another 1-2 years?

Chirayu Upadhyaya: So, Chandra, in this business, we operate a bit different than how our peers operate. What we do is that we manufacture everything in-house. As a result, over the course of past few years, we've invested a lot in building in-house capacities. As of now, the capacity utilization of this capacity is on the lower side.

Over the course of next 2 to 3 years, once we are able to scale up the sales across all of the categories and improve on the capacity utilization, we believe we should be able to improve on the operating leverage or operating efficiencies that we have in that business. Over and above that, what we are trying to do is improve the mix more towards Switches and Switchgears, which are, again, better margin product businesses.

Again, as I mentioned, as of now, it is contributing in high teens, but we will aim to increase their contribution even higher. Again, as we are able to achieve it, that should incrementally add to our profitability.

So largely, these are the levers which are available to us. So, we believe over the course of next 2 to 3 years as we are scaling up our FMEG business, we should gradually be able to deliver on profitability as well.

Moderator: Thank you. The next question is from the line of Shrinidhi from HSBC Asset Management, India. Please go ahead.

Shrinidhi: Thank you for the opportunity and congratulations on great set of numbers. A couple of questions on other segment. You alluded to some RDSS orders. Can you please elaborate this basically orders? And what is the real scope of work here?

Chirayu Upadhyaya: Right. So RDSS is a scheme which is undertaken by the Indian government, wherein the government is expanding on the power generation and distribution capacities as well as setting up new capacities in spaces where there is a need for one. Over here, there is a component of supplying cables to the projects as well. As a result, we have bid for this project and we've been able to gain a good amount of orders. Overall, the total outlay by the government within this scheme is of about ₹ 1 lakh Cr. And as of now, we would have roughly an open order book of close to ₹50 billion, which we have to execute over the course of next 3 to 4 years.

Shrinidhi: And would you have a lot of cable going into this ₹50 billion? Or it's just a construction contract?

Chirayu Upadhyaya: No. See, the EPC business for us, as you are quite aware, is kind of an enabler for the cable business. So, we wouldn't go and bid for a project if it's just an execution project. We've undertaken that project because there is a supply of cable element as well. So yes, there is a supplying of cable.

Shrinidhi: Yes. The ₹50 billion, is including the cable what you would be supplying? That's what my question was.

Chirayu Upadhyaya: Yes.

Shrinidhi: Okay. And here, you are in this order segment, you captured only the construction part of it right? For example, the ₹964 Cr revenue you have had in financial year 2024, that doesn't include cable. Is that understanding correct?

Chirayu Upadhyaya: That's right.

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

Amit Mahawar: Just one quick question. Congratulations on great year. In FY24, what's our retail house wires top line and market share?

Chirayu Upadhyaya: So, it will be difficult. We wouldn't have done that calculation as of now, probably we'll have to wait for other peers to come out with their results, and then probably we can have a bit more clarity in terms of what is our market share on retail wires, but we are definitely the largest within that segment. But perhaps we can wait for a few more days. And once the results of the other larger peers are out, we will be able to give a more concrete number as far as our market share in retail wires is concerned.

Amit Mahawar: Sure, sir. Maybe the share of Cables & Wires, within that, what's the branded wire? At least you can tell that in FY24?

Chirayu Upadhyaya: I'm sorry, are you asking in FY24, what is the mix of cables?

Amit Mahawar: Yes.

Chirayu Upadhyaya: So last year, it was at about 70-30, 70 cables, 30 wires. This year, since cables have grown at a bit faster rate than wires, it would have moved by a couple of hundred basis points in favor of cables.

Amit Mahawar: Okay, fair. One parting question maybe quickly. We are the only Company which is able to pre-empt the B2B demand, especially on government projects across a few important states, who are spending on the underground cable or other sorts of cable, and the capacity advantage we have, we are the only player amongst, maybe one or two, more. In FY25, any idea of what kind of top line because you have the idea of your order book, in FY25 and FY26, any idea what kind of turnover we do on the domestic government projects?

Chirayu Upadhyaya: So Amit, as you are aware, we don't normally give out yearly guidances. We have closed this year at ₹18,000 Cr of top line. We had the target of reaching ₹20,000 Cr of top line by FY26. So, we'll revise or will come out with our new mid-term guidance on top line over the course of this financial year. Perhaps at that time, we can give a bit more granular information on what is the mix that we expect between cables and wires, and what level of growth can we achieve.

Moderator: Thank you. The next question is from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami: Sir, can you give some light on the EHV segment, where are you currently? And overall, there was a plan to merge with some foreign company and partner. So how are these things looking at? And if the EHV segment comes out, what kind of a margin accretion we can see?

Chirayu Upadhyaya: Right. So Anupam, we have started with this EHV manufacturing plant a year or so back. We've guided that we expect that this plant will become operational by the end of FY26 and start contributing towards the company's top line in FY27. We are on that part right now. We are moving in that direction. Yes, we have tied up with a large international player. It is a tie up to get the technology for manufacturing that EHV cables.

As far as the contribution from the EHV segment is concerned, we believe that this plant will help us or will give an asset turnover of between 5x to 6x. But yes, this is something that's at full capacity, but this is something that will become operational only in FY26 and start contributing in FY27.

On the margin profile, again, I mean, as of now, we only have a visibility of what our other peers who are within this segment are earning, but that might not be the case 2 or 3 years down the line. So perhaps maybe we can comment more on the margin profile that we expect from this business a bit closer to when our plants are close to becoming operational.

Anupam Goswami: Okay, sir. Thank you. I'll turn back.

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

Onkar Ghugardare: Yes. My question was regarding FMEG business. You mentioned that at the end of this calendar year, there will be turnaround in the FMEG business. I mean, could you list out some factors what exactly are doing because if you see quarter-on-quarter, it's been the losses are increasing? So, any specific points you can give on transformation when it can turn black?

Chirayu Upadhyaya: Sure, Onkar. So specifically, first, commenting on the margins or the losses, which are in this segment, as I've given more colour in terms of what led to these high losses. This was as a result of 2 onetime impacts. But again, having said that, we are on a path to improving profitability within this business. There are a few things that we are doing - we are going to do differently over the course of next 2-3 quarters.

A large change that we have done is that now we have merged all of the B2C business verticals under one business head. There will be a lot of decentralization of decision-making within that business. And over and above that, what we did was we've identified a few execution gaps that were there on the strategic road map that we had identified for this business within Project Leap.

What we are going to be doing over the course of next 2-3 quarters is allocating responsibility to these new heads who are responsible for this business to close out those execution gaps, and do more precise job of execution – on the improvement of distribution network that we are going to do, more focus on new product development, more focus on influencer management and so on.

So, over the course of next 2 to 3 quarters, this is the thing - these are the few changes that we are going to do. And hence, we believe that once this is behind us, the FMEG business for us should start growing at a rate which is better than industry average.

Onkar Ghugardare: So, I mean, you are quite certain that by FY26 will be in the black for FMEG?

Chirayu Upadhyaya: So Onkar, one can only believe and try to execute, and that is what we are trying to do. We believe, we have identified the gaps that were there in our execution. And hence, that roadmap is ahead of us in terms of what it is that we need to do differently over the course of next 2 to 3 quarters. If we are able to do what we are planning out to do, we believe that we should be able to start growing, at rate, which I just mentioned.

Moderator: Onkar, can you rejoin the queue for your follow-up questions? Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: HI, good evening. Sir, my first question is on the EHV. So where are we in terms of our product approvals and all that can it happen parallelly, I guess, for the EHV cables, sir?

Chirayu Upadhyaya: Ashish, there are a couple of things over here. One is, we are still in the process of setting up that manufacturing plant, and the plant will only become operational by end of FY26. So anyways doing commercial - sale of that will only happen from FY27.

In terms of approvals, yes, when there is case for EHV, generally what happens is that you have to get your product approved and you also have to be approved as an EPC Player. Both of this is something that we will be able to get. One of them is because we have a JV with such a player, who has been manufacturing EHV cables for a long time in India and as a result, we have this in place.

As far as the EPC is concerned, we've been in the EPC business for many years, and again, there are 2 more years until our plant becomes operational. So, by the time that our plant will become operational, we will be qualified to supply those cables to the end customers. And hopefully, that should start resulting to a good amount of contribution to the top line from FY27 onwards.

Ashish Jain: Okay. So approvals will not hold us in FY27 in particular, from a revenue point of view, we are confident about that?

Chirayu Upadhyaya: Right

Ashish Jain: Okay. And similarly, a similar question for our Switchgear business. That's another category which historically has been within select players because of the technicality maybe, at least. So where are we on that in terms of our technology partnership and all? What have we done there?

Chirayu Upadhyaya: So, in switchgears, we don't have any technology partnerships. We manufacture those in-house. We have our very robust R&D setup. As you'll be aware, a couple of years back, we acquired a small startup by the name of Silvan in Bangalore, and now that team is working as our R&D division for the FMEG business. So those guys are helping us in coming out with newer SKUs, newer products, on all of our FMEG products. And that is where we are also coming out with or filling all of our product gaps on the Switchgears business as well.

Ashish Jain: Got it. And last question on the cables & wires export, I know you gave a certain number of - as a percentage of revenue. But can you also talk about where do we see this potential in the next 3-5 years? Can it be a big thing? Or will this 10% as a percentage of overall revenue is the kind of gap we should think about? Or can it be much bigger than that?

Chirayu Upadhyaya: So, Ashish, again as I mentioned, the Project Leap top line guidance is something that we are very close to achieving. And as a result, we'll be revising or coming out with our new midterm guidance in this financial year, perhaps at that time, we'll be coming up with a revised guidance for the international business contribution and growth things as well.

Ashish Jain: Okay. Got it. Thanks a lot and best of luck.

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

Natasha Jain: So, my question - a previous participant already asked, but I'm still not able to clearly go into how do we see it. So, Polycab has consistently over a couple of quarters, rather, a couple of years, been giving guidance in a particular range and they almost always seem to exceed those guidances. Now even for EPC, the newer guidance that you've given, that is the high single-digit, but still we seem to exceed that guidance as well. Just a request, as to if you know, we could get more in line with the guidance rather increase the number if that is what we are going to sustainably achieve. That's just one request from our side because it's difficult to then estimate because you consistently beat your own guidances. That's it. No question.

Chirayu Upadhyaya: Thanks, Natasha.

Moderator: The next follow-up question is from the line of Girish from Morgan Stanley.

Girish: Sir, my question was on exports and the right to win in places like US. I know we are doing a lot of work there, but I wanted to understand that whether these geopolitics that is there right now, is there any taxes that are levied on US importing the Chinese wires or Mexican wires or anything of that sort which is helping us or which would help us in the next couple of years? Or is it like purely economical driven because they can import wires from or cables from any part of the world. So I'm just trying to understand what's our right to win as a country and as Polycab?

Chirayu Upadhyaya: So, Girish, there are multiple reasons through which we are able to win orders in the US. One is definitely the China plus one thing, as you mentioned. Definitely, US and other countries are looking to diversify their supply chain as they don't want to be over reliant on one single player. That is why they are looking for other alternatives.

Now when looking for other alternatives, obviously, they would want to look at a player who'll be able to provide them at a cheaper price point. And that is wherein they are looking at countries from Asia. And again, India is something that obviously comes among the top 3 in that list. If you look at other players within India as well, I mean we've been working on this geography for almost three, four years now. We need to get approvals for various different types of products that you want to supply or provide in that geography. And we have almost all the approvals for all the different types of products that we want to supply. So that is one major reason where we've been able to grow a lot on the US front.

Second thing, and this is something that will help us out in the future is that we establish our distribution network. We will be able to even curtail on our delivery timelines as compared to other exporter of cables. So as of now, how we operate or other people operate is that we manufacture it in India and then there is a transport time of a few weeks to transfer it to US. But once we have our warehouse there, our products will be stocked up over there, and we'll be able to deliver within a few days, similar to how we're operating in India. So that can be something that will help differentiate us in the future.

The third point, wherein we are able to win against, let's say, our Chinese competitor is that there is a lot of consistency in terms of the quality and the availability of our products, something which is not very well true or executed by the Chinese players. So even if, let's say, four years, five years down the line, the import duties, which are there on the Chinese cable is lifted up, there will still continue to be this differentiator in terms of the consistency of quality and product availability as well as the kind of service levels that we are delivering to the end customers. So, I believe it's a host of reasons, so all these host of reasons are the ones which gives us the right to win in US or rather in all the international geographies.

Girish: Thank you and all the best.

Chirayu Upadhyaya: Thanks, Girish.

Moderator: In the interest of time, that will be the last question. I would now like to hand the conference over to Mr. Gandharv Tongia, Executive Director and Chief Financial Officer, for closing comments.

Gandharv Tongia: Thank you so much for taking out time and reviewing our performance. We deeply appreciate your support over the years. In case if there are any unanswered questions, please feel free to write to us at our IR mailbox, and we will get in touch with you at the earliest. Thank you, and have a great day ahead. Bye-bye.

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