4 August, 2024

Corporate Relationship Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001

Script Code: 543981

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1,
Block G, Bandra – Kurla Complex,
Bandra (East), Mumbai – 400 051

Symbol: RRKABEL

<u>Sub.: Submission of Transcript of Earnings Conference Call held on 31 July, 2024</u>

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Conference Call held on 31 July 2024.

Kindly take the same on your record

Thanking you,

Yours sincerely,

For R R KABEL LIMITED

HIMANSHU NAVINCHANDRA PARMAR

Himanshu Navinchandra Parmar
Company Secretary and Compliance officer
M. No. – F10118

"R R Kabel Limited

Q1 FY25 Earnings Conference Call"

July 31, 2024

MANAGEMENT: **MR. SHREEGOPAL KABRA – MANAGING DIRECTOR – R R KABEL LIMITED**
MR. RAJESH JAIN – CHIEF FINANCIAL OFFICER – R R KABEL LIMITED

MODERATOR: **MR. RONAK JAIN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY25 Earnings Conference Call of R R Kabel Limited. 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 touch-tone phone.

Please note that this conference has been recorded. I now hand the conference over to Mr. Ronak Jain from Orient Capital, their investor relation partner. Thank you and over to you, sir.

Ronak Jain: Thank you. Good afternoon, everyone. On behalf of R R Kabel Ltd., I extend a very warm welcome to all participants on Q1 FY25 Earnings Conference Call. Today on this call, we have Mr. Shreegopal Kabra, Managing Director, and Mr. Rajesh Jain, Chief Financial Officer. Before we begin this call, I would like to give a short disclaimer. This call may contain some of the forward-looking statements which are completely based upon our beliefs, opinions, and expectations as of today These statements are not guaranteed for the future performance and involve unforeseen risk and uncertainty.

With this, I hand over the call to Shreegopal Kabra, sir. Over to you, sir. Thank you.

Shreegopal Kabra: Thank you. Hello, everyone, and good afternoon. On behalf of R R Kabel Limited., I extend a very warm welcome to all participants on our Q1 FY25 Financial Results Discussion Call. On this call, I have with me our CFO, Mr. Rajesh Jain. I am delighted to share the news that we have reported our highest-ever quarterly revenue at the start of FY25. Following a robust performance in FY24, this significant revenue growth is driven by strong volume increase, reaffirming our strong position in the industry, and boosting our confidence to outperform industry growth rates.

Additionally, I would like to update you on the launch of our revolutionary product in housewire segment, where we have significant presence. Our new product, FireX LS0H-EBXL, represents a major innovation in safety standards. This product aligns with the new 2023 regulations by Central Electrical Authority (CEA), which mandates halogen-free wires for public and commercial buildings.FireX LS0H-EBXL is perfectly positioned to meet these critical safety requirements across India's construction sector, further contributing to our growth. Looking ahead, we remain focused on both our wire and cable and FMEG segments. We are undertaking numerous strategic initiatives, including capacity addition, the introduction of high-margin products, new product launches, and the expansion of our distribution channel.

These initiatives are designed to enhance our performance in the coming years. With this, I would like to hand over the call to Mr. Rajesh Jain to take this call further.

Rajesh Jain: Thanks, Shreegopalji. As India aims to emerge as a Viksit Bharat by 2047, the resilient real estate sector has proven to be a significant contributor to this growth. Looking ahead, the real estate market is poised to make a substantial impact on India's GDP, potentially achieving double-digit contributions.

This optimism is fuelled by the government's strategic focus on real estate and infrastructure development. Along with a comprehensive array of benefits for both rural and urban housing developments, these initiatives serve as a perfect cornerstone for India's emergence as a developed nation. Consequently, the growth and development of the real estate sector will greatly benefit the Indian electrical industry.

Our strong business presence in the housing segment gives us confidence in our growth trajectory. By continuously focusing on our strategic initiatives, we have cemented our position as the fourth-largest wire and cable company in India in FY24. Our commitment to innovation, capacity expansion and the introduction of high-margin products coupled with our efforts to deepen distribution channels are the key drivers of our success.

We believe these strategic initiatives will not only bolster our market position but also enhance our financial performance in the coming years.

Now, let's discuss the financial and operational highlights of Q1 FY25. The wire and cable segment remains the cornerstone of our business, contributing 87% to our revenue.

In Q1 FY25, we recorded our highest-ever quarterly revenue of approximately INR 1,808 crores, reflecting a growth of around 13% on a y-o-y basis. This growth was driven by increased volume in our wire and cable segment, despite the challenges posed by slow economic activity due to elections, heatwaves and copper price volatility. Our EBITDA for the quarter stood at INR 95.4 crores, with the profit after tax at INR 64.4 crores.This decline was preliminary due to a reduction in contribution on account of raw material price volatility and an increase in advertising and other expenses. We continue to be the largest exporter of wire and cable from India, which is contributing approximately 24% of our total revenue.

Now, focusing on segment-wise performance, our wire and cable business recorded a revenue of INR 1,578 crores in Q1 FY25 compared to INR 1,423 crores in Q1 FY24, making an 11% growth in revenue on a Y-o-Y basis.This growth is preliminarily attributed to approximately 13% volume growth. If we further break down this geographically, the domestic volume growth is approximately 20%, mainly coming from cables. While export business remained flat due to delay in shipments and container shortage.

However, the EBIT decreased by 9.3% in Q1 FY25, reaching to INR113 crores due to volatility in raw material prices and slowdown particularly in domestic wires. We reiterate our guidance to improve our EBIT margins by 60 to 80 basis points in FY25, driven by increased export of value-added products and operational efficiencies. We will continue to enhance our market share and retail presence in domestic markets through Project Karma.

In the FMEG business segment, we achieved a revenue of INR 230 crores in Q1 FY25, representing an impressive growth of 32%. This growth was driven by volume increase mainly in fans, appliances and switches. In the quarter, we have undertaken significant advertisement campaign towards brand transition, towards RR signature.

Despite higher advertising expenditure, we managed to limit losses in this segment. Our revenue growth in the FMEG segment is ahead of the industry and we anticipate achieving break even in the next three to four quarters. This will be driven by new product launches, minimization through our RR signature brand and investment in distribution channels.

Through Project Lakshya, we are expanding our distribution for fans and lights via field sales officers and successfully transforming into the RR signature brand.

During Q1 FY25, the company maintained its working capital days at 67 and going forward we are working towards improving this further, demonstrating our commitment to sound financial management.

Our strategic initiatives including expanding our product categories and increasing our manufacturing capacities have positioned us well for continued growth. The planned capital expenditure of INR 500 crores, said to be completed by March '25, will further help us to maintain our healthy volume growth targets.

With this overview, I would now like to open the floor for questions. Thank you for your attention and continued support.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Praveen from Prabhudas Lilladher. Please go ahead.

Praveen: Thank you for taking my question. So the first question is related to the volume growth. As you had mentioned that 20% of volume growth is there in the domestic market. Can you give some indication how much is the cable contribution in this growth?

Rajesh Jain: So almost like 50% came from cable and 7% from wire in domestic.

Praveen: Okay. And in the opening remark, you have mentioned 60 bps to 80 bps improvement. So that is for the wire and cable margin profile you had indicated or overall?

Rajesh Jain: This is for wire and cable segment like on year-to-year basis. On yearly basis, we are targeting to improve our margins by 60 to 80 basis points.

Praveen: So in that, sir, last year we had done a bit margin of 8.5% and then you are talking about 60 to 80 basis point improvement. But if I look at the first quarter where you had done in the range of around 7%. So ask rate for the next nine months seems very high. So you are still sticking to that and you will achieve that?

Rajesh Jain: Yes. We will try our best to achieve this margin improvement because see what happens on quarter on quarter always we have seen some volatility or difference in performance but when we see collectively over 12 months then these are achievable range.

Praveen: Okay. And second question on the realization because if I look at copper and aluminum prices for a quarter has been on the higher side increased. But your realization down in wire and cable. So apart from the product mix towards the cable is there any else has changed?

Rajesh Jain: See product mix why it is important since we have grown more in cable and which is mainly in aluminum. So if you see aluminum prices are in the range of INR 250 per kg while copper is almost INR 850 per kg. So there is always difference between volume growth and value growth.

As I indicated that in wire we have grown by 7% while in cable it is growth is almost 50%. So that will result into 11% revenue growth compared to 13% volume growth. I hope this will explain your theory.

Praveen: Yes, so only because of product mix your realization is down and that also resulted contraction in the margin.

Rajesh Jain: Yes.

Praveen: Okay, and in the FMEG portfolios that you indicated that the advertisement has increased and which again has elevated your losses. So how much is the advertisement and as you also guiding for three to four quarters breakeven. So how can you give some you know qualitative information how you are expecting this to breakeven?

Rajesh Jain: So like in particularly in this quarter also if you see we have grown by 31% in FMEG and even our gross margin has increased by 1% and further if we consider the extra expenses of INR 12 crores in this quarter in FMEG advertisement in spite of that we were able to achieve or we could able to maintain the losses to last year levels. And going forward also since this quarter was major advertising expenses for our brand transition going forward when it is come to normalized level of advertising and promotion expenses we are hope that with this kind of growth we will able to have breakeven in next three to four quarters.

Moderator: Thank you. Our next question is from the line of Rahul Agrawal from IKIGAI Asset Management. Please go ahead.

Rahul Agrawal: Hi, good evening. Thank you for the opportunity. This is Rahul from IKIGAI. Sir, first question on exports. Obviously, we had export issues across a lot of other industries as well because of continer shortage and freight pricing. Wanted some kind of outlook on full year exports. Will you recover whatever you have lost in 1Q over the balance 9 months? Because my sense is we were targeting to grow like 20% plus for the full year. So, any guidance please?

Rajesh Jain: So, Rahul, again see this what happened particularly in this quarter our shipment got delayed. Still we have very healthy order book and we have continuous order since our major exports are distributiondriven and regular order. So, there is not the problem of demand. The only thing in quarter one shipment got delayed and it got postponed to second quarter. It may have some later effect also but still on a yearly basis we are on line to have achieved this 20% volume growth in export as well.

Rahul Agrawal: Okay, perfect. So, second quarter you already seen the dispatch is done or it is still pending?

Rajesh Jain: So, like whatever spillover of quarter one we have covered in the month of July but still I am not saying that the situation has become normal. But since now it will be in cycle. So, quarter two will be like not flat quarter what we have seen in quarter 1. So, there will be growth and it will be in the line of our yearly plan.

Rahul Agrawal: And on cable and wires again I think domestic volume got 20%. I think it is a pretty strong number. So, largely going forward in terms of how do you see domestic wire market in any sense would you like to share in terms of how the wire demand is behaving? Obviously, we all know that it is not up to the mark but what is the feeling like you are getting in July?

Rajesh Jain: See, when we see break up from wire and cable perspective, then of course now cable is growing faster. In our case also since our base is small compared to wire. But even at industrial level also cable is expected to do better compared to wire. And even for this year itself it seems cable will grow faster than wire.

Rahul Agarwal: Sure. So this 20% volume what you've done domestic for first quarter, should that be a right number for the full year as well, like overall for domestic markets?

Rajesh Jain: This quarter, though bifurcation was 7% versus 50% but going forward the traction will be less. We may expect to grow wire also at 13%-14% and maybe cable at 30%, something like that.

Rahul Agarwal: Okay, got it. And lastly if you have the numbers, what was the operating cash flow for the quarter? Is it possible to share?

Rajesh Jain: That numbers are not handy with me.

Rahul Agarwal: Okay, no problem. I will fall back in the queue. Thank you so much. All the best.

Moderator: Our next question is from the line of Shubham Aggarwal from Axis Capital. Please go ahead.

Shubham Aggarwal: Hi, thank you for the opportunity. Just one question from my side. I wanted to understand -- so from what I understand, the copper pricing is generally passed on.it's passed on to the trade with a slight lag. In this period, in this quarter, we saw the prices of copper increase as well as decrease both of which would have been passed on to the trade with a lag.

I just wanted to know what actually goes and impacts the margin in volatile times. This is not the volatility we saw in COVID, so the magnitude has been lowered but still the impact on margin seems to be a bit more than what we were expecting. Just need to understand from your perspective how should we see it going forward from this?

Rajesh Jain: Thanks, Shubham, for your question. If you see, and rightly said by you, that it has some time lag impact while passing on the prices either going upwards or downwards. But particularly what happened in this quarter in the month of April and May, copper prices went up sharply but at that time also due to elections there were activities were less and that could not result to very high demand. And at the same time in the month of June, copper prices went down very sharply.

So that impacted demand also and passing on the price of increase could not be possible. But if, again, as we have seen in past also if you will see on a longer period of 12 months, then we will be able to pass on this impact to our consumers in a lagged manner. The only thing, see, whenever there will be very sharp correction either upward or downward, then it may seem as an impact on profitability for shorter term but not on consistent or regular term.

Moderator: Our next question is from the line of Manoj from Equirus. Please go ahead.

Manoj: Thanks for the opportunity, sir. So my first question is in continuation with FMEG margin. So obviously you highlighted like during the quarter, the A&P spends were relatively higher and second major lever that you highlighted was on the operating leverage. But if you look at during the current quarter also, despite strong sales and obviously operating leverage would have benefited to some extent, but still the percentage loss has largely been maintained on y-o-y basis.

So just want to understand in detail, like apart from operating leverage and A&P spends, what would be the other trigger points for this breakeven that you are targeting by fourth quarter of FY'25? And also if you cut down on your A&P spends, could that have a risk on your top line performance on FMEG? First question on this, sir.

Rajesh Jain: So, Manoj, if you see on our advertising and sales promotion expenses, as I told earlier also, this was one-time brand transition expenses which was extra. Obviously for our FMEG business, we have to focus and we will keep continuing expanding -- spending on advertising and sales promotion.

But in this quarter if you see, first our revenue increased by 31% then gross margin increased by 1% and this INR 12 crores of extra advertising spend which is resulting to almost 5% of my revenue. That's why we were at the same level of last quarter. Otherwise, if you see going with this kind of volume growth, revenue growth and normal advertising expenses, we are expecting to achieve that breakeven by another three to four quarters

Manoj: Right, sir. And secondly, how has the response been from the channel? So obviously in the past you have indicated like it's going as per your plan. But any quality feedback that you have been receiving from the channel with regards to transitioning of the brand to RR?

Rajesh Jain: So two things are important here to note that like this 31% revenue growth itself indicates that our brand is transitioning in a very well and planned manner and having very positive impact of our signature brand. And secondly, if we see like we have introduced some new product and models in quarter four of last year which has contributed almost 18% in my revenue which is again a very good sign of new product development and acceptance by consumers.

Manoj: Correct, noted. Sir, secondly, on wires and cables, so I would just like you to repeat the reason why the wire and cable margins deteriorated because what I understand is your export margins are lower and that business has actually degrown. So in this context your overall impact on margins should have been limited. So just want to understand on that.

Rajesh Jain: So the major reason of reduction in margins is the raw material price volatility, one. And second, even as I have given the breakup of my wire and cable growth, so since cable has grown at a higher pace than wire and still we have to achieve the scalability in my cable segment. So cable margins are going to come lower compared to wire and that is the reason that we see -- this is two reasons; one higher growth in cable and less growth in wire, and secondly raw material price volatility. So this has impacted this quarter performance.

Manoj: Okay. And this cable growth faster, so that's in the domestic market where you have highlighted like your cable margins would be lower as compared to wires, correct?

Rajesh Jain: For time being, these are lower. But as we are on the path of getting scalability and availability of inventories, so we are expecting -- we are expecting margin improvement by year end.

Manoj: Okay. And sir, on cables capacity, how are things shaping up for the new capacity? And if you can outline any capex plans beyond FY'25 because obviously we have already highlighted till FY'25, how we are looking at the things overall probably from two years, three years point of view, what should be the product mix that you are aiming internally, that would be helpful, sir?

Rajesh Jain: At the beginning of FY24 we had made a capex plan of INR 500 crores that is spread over FY24 and 25 and I am happy to inform that we are on track and this will be completed by March'25 which will help us to achieve the volume growth of what 20% we have planned for next two to three years. At the same time now we are working on our new capex plans also which will start from April 25 onward. Right now we are making these plans and will be like finalized by this quarter end.

Manoj: Correct sir. Thanks a lot sir and wish you all the best.

Rajesh Jain: Thank you.

Moderator: Thank you. Our next question is from the line of Achal Lohade from Nuvama Institutional Equities. Please go ahead.

Achal Lohade: Yes, good evening sir. This is Achal Lohade here from Nuvama Institutional Equities. Sir, I wanted to understand in terms of the industry growth is it possible for you to comment for cables have we gained market share and for wires have we gained or lost market share if we work on a 12-month basis, trailing 12-month basis. Any comment on the same?

Rajesh Jain: So Achal, if you see from industry point of view of course industry is doing very good growth. We have seen very good traction in demand particularly in cable and wire also, but of course still cable is growing at a higher pace due to infrastructure or maybe green energy and various other initiatives. Cable is doing good. In our case normally if you see historically also we were always growing in volume terms ahead of the industry curve and even in last 12 months also if you see we have achieved volume growth of almost 18% to 20% which is like either at par or above the industry average of 13% to 14% or 15%.

And even going forward also it seems all the growth indicators are intact and we see based on this domestic demand and even the demand from export market it seems like next six to eight years are very good for this industry particularly for cable and wire will also grow simultaneously. So growth rate may be somewhere down in compared to cable.

Achal Lohade: Understood. Is it possible to give us some more sense with respect to when you say that all growth indicators are intact for next six to eight years which are those two, three key industries and how are we placed for those industries in terms of product offering? Are there any gaps which we need to fill or we just have to add capacity and start selling?

Rajesh Jain: The biggest growth area what we see in India is one is infrastructure, secondly even railway defense or maybe solar or alternative electrical manufacturing resources. So all will require wire and cable and if you see since we also have our plan to have capacity expansion in terms of power cable or even with a similar kind of machine is what we have. We can produce all kinds of wire and cable and we have capabilities, technical capabilities also. So we are on the right path to tap the growth sector what indicated by me.

Achal Lohade: Also in terms of approvals for those types of cables?

Rajesh Jain: For approval of course it is part of regular business process only. So whenever or wherever approvals are required we are on continuous working on those. We are not in a phase where any major approvals like which can take very longer time. So we are in regular growth area.

Achal Lohade: Got it. Sir just one more question with respect to capacity utilization for the quarter is it possible to give us some sense in terms of what was the utilization for wires and also for the cables?

Rajesh Jain: These are almost similar. Since we have grown by 13% and we have expanded our capacity by removing some bottleneck also. So even if I see a cable it is 90% to 95% and wire it is around 65% to 70% in that category we are okay.

Achal Lohade: Got it, understood. And just one more question. In terms of the capacity for the industry we see that almost all the players are talking about capacity additions. You think that will create any surplus capacity or we will be still at an industry level we will be still in shortage?

Rajesh Jain: At industry level still it seems the demand is much higher than the supplies or capacity building what is being done by industry players. At least as I told you for the next two years we see very good demand and secondly even whatever capacity building is being done still they are shortage and now every expansion will require another two to three years. So I don't find any oversupply position.

Achal Lohade: Understood. That's all from my end sir. Thank you so much. Wish you all the best.

Moderator: Thank you. Our next question is from the line of Vidit Trivedi from Asian Market Securities. Please go ahead.

Vidit Trivedi: Thank you for the opportunity. My question is regarding the wires and cables mix. Could you please give us a sense what will be the mix and what are the price hike taken in this quarter?

Rajesh Jain: Can you repeat please because your voice is not clear.

Vidit Trivedi: Okay. So I'm asking what was the price hike taken during the quarter and what is the cables and wire mix during this period?

Rajesh Jain: So like wire and cable mix is almost 70% comes from wire and 30% revenue comes from cables in my wire and cable segment. And if you see we have seen the price hike also in this quarter when in April and May there was almost 12% copper prices were on the higher side and at the same time in the month of June and July we have seen almost 20% decline also. So as per basic principle of our industry and company like whenever there is a hike of plus or minus 3% then we change our prices. So like these are directly related with our raw material prices.

Vidit Trivedi: Okay. And so what was the capex done during the quarter?

Rajesh Jain: So capex we are working on since this is a larger project so like it is continuous going on and it will be major part of this will be completed by March 25.

Vidit Trivedi: Okay. Got it. Thank you.

Moderator: Thank you. Our next question is from the line of Amol Rao from One Up Financial Consultancy. Please go ahead.

Amol Rao: Sir, good evening. You mentioned a figure of INR 12 crores for A&P advertising and promotion, sir. So is it correct to understand that this is a non-recurring A&P spend that the extent of the expense will not be so high in subsequent quarters? Is that what you were implying, sir?

Rajesh Jain: Yes your understanding is correct that this INR 12 crores was extra than our normal activity.

Amol Rao: Okay. And sir I don't want to drive home to find up a question, but is this so high because we advertise during IPL season and all that is why, I mean, was it so high? I mean we were doing a brand expansion exercise so is that because we did it during IPL the rates were so high?

Rajesh Jain: No, no, that was not the reason. If you see our background, like the 2 years earlier we took that Luminous brand, the home electrical business of Luminous and we had to do brand transition from Luminous to RR Signature.

Amol Rao: Okay.

Rajesh Jain: And particularly ahead of the Fan season or during Fan season we took this advertising and drive from Luminous to RR Signature. So that was the main purpose.

Amol Rao: Okay, sir. Sir, my question was answered, sir. Thank you so much.

Rajesh Jain: Okay, thank you.

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

Shubham Aggarwal: Okay. So just a follow-up. Thanks for the opportunity again. Just wanted to help you recall that when we were paying some amounts to Luminous as royalty what is the amount per quarter now and when was it supposed to end? If you can just give a brief.

Rajesh Jain: As per our agreement, we had to pay already we paid 5 crores in 2022 for two years and since now already we have done brand transition so now we are not paying anything. So whatever payment was done that was upfront payment was done during the deal only. So now no recurring or any expenses we are paying to Luminous.

Shubham Aggarwal: So now nothing is being paid. So these margins are after royalty payment?

Rajesh Jain: No, no, no. See, first that whatever payment we done in 2022 was part of deal and it was part of overall purchase consideration only. So there was no separate payment.

Shubham Aggarwal: There was no recurring payment after that. Every month or every quarter or every year there is no recurring payment, right?

Rajesh Jain: There is no recurring payment.

Shubham Aggarwal: Okay. And there was a sunset, right? That you have to transition the brand up till a specific date. What date was that? Which year?

Rajesh Jain: Once we started the brand transition then we have a 12-month period and already we are passing through that period.

Shubham Aggarwal: Right. And when does this period end?

Rajesh Jain: This will be end by December.

Shubham Aggarwal: December'24.

Rajesh Jain: December'24, yes.

Shubham Aggarwal: By then you have to remove the Luminous brand in January, right?

Rajesh Jain: So already what we have done if you see our packing now it is like Luminous is now RR.

Shubham Aggarwal: Is now RR. Yes, I saw that in the channel.

Rajesh Jain: And Luminous is becoming smaller and smaller.

Shubham Aggarwal: Right, right. Okay. That was all. Thank you.

Moderator: Thank you. Our next question is from the line of Ashish from Citi. Please go ahead.

Ashish: So the first question is on the cable part. You said that the capacity utilization is already at 90%-95% and if you are forecasting a 30% kind of growth do you see a capacity constraint there and by when your capacity addition or commissioning will happen in cables?

Rajesh Jain: What capacity expansion we have planned for March 25th that is 100% like doubling our capacity in compared to previous year. So like this will be coming in phases. So a few machines will be operational in September, October also. So this will be fulfil my additional demand volume growth.

Ashish: Sure, sir. And second thing on the margins. So if I look at your earlier comments. So one, you know, copper prices still seems to be kind of coming off. And secondly, you know, I think cables continue to grow higher versus wire and export also. You continue to face the, you know, container shortage. So from that perspective, you know, when you look at your margin guidance of 60-80 basis point expansion, do you think it will be more, you know, loaded towards the second half and in 2Q also there could be some margin pressure because mix again may not be extremely favourable and RM prices are also volatile?

Rajesh Jain: So if you see even this industry as a whole, always the second half of the year remains some like heavier than compared to first half because in second half you have festive season, you have year-end where many projects get completed. So it is like normal phenomena that in second half of the year you get more business, more volumes. And secondly, like in this quarter our margin decline was mainly due to very sharp volatility in copper prices.

See, there will always be volatility, but anything which is very sharp impact our margins to some extent for a particular quarter. If we see on yearly basis, then we will be able to recover all these losses also and even volume growth like even for this quarter also, whatever like delay in shipments that will be executed in this quarter. So this quarter on volume growth, we are confident that we will be able to achieve and profitability will come to normalize and improvement at year-end.

Ashish: Sure, sir. That's helpful. Thank you.

Moderator: Thank you. Our next question is from the line of Manoj from Equirus Capital. Please go ahead.

Manoj: Yes. Thanks for the follow-up opportunity. So my question is on the distribution side. So probably since the time we have been listed, we have been emphasizing a lot on the distribution network expansion for both wires and cables as well as FMEG business. Can you share your insights like probably how things have progressed over the last six months?

How like any new markets we have identified? Any markets, sunrise markets where we are scaling up very well? Anything that you would like to highlight, the incremental data points on the markets and probably how we are shaping up for next two years?

Rajesh Jain: If you see our distribution like strategy, then we have focused approach separately for both segments like FMEG and wire and cable. In FMEG, of course, we have seen a good demand growth also just by focusing on new products and distribution channel and geographically also we are entering to new areas. Same way in wire and cable being electricians being our major influencers.

So our focus is there and we are doing continuous activity of adding new electricians or making more and more active electricians. So this will remain in focus being B2C business is the major segment and largest segment of our business. And this approach will continue for next two years also to remain and to improve our market share.

Manoj: I completely agree with that, sir. But I just wanted to understand how we are shaping up because if you look at some of the markets we were highlighting like where we are very strong, some of the markets we were looking to scale up our presence and strengthen our presence. So probably how things are progressing over there, just wanted to understand probably the new growth opportunities, the new markets that you have identified for next two years point of view because again that would be one major driver for your outperformance versus industry?

Rajesh Jain: Sure, Manoj. So this is continuous journey. As I last time also informed that we have made a very good base and network of my dealer distributor then retailers and electricians. Though every market have different nature and it may take some time in some area while some area we are already doing good. So we have equal focus on our all markets but at the same time wherever we have our presence is not that much or our market share is less. We have made the base and by regular focusing on that area, we will get new demand, which will be like higher than industry average what indicated by you.

Manoj: Correct, sir. Thank you, sir and wish you all the best.

Rajesh Jain: Thank you.

Moderator: Thank you. Our next question is from the line of Praveen from Prabhudas Lilladher. Please go ahead.

Praveen: Thank you for follow-up question. Sir, my question is pertaining to the export business. As you had mentioned that the July has covered your last quarter losses because of container unavailability. Is it possible to quantify those numbers and how because still I am hearing the container availability or the freight rate is challenging. How you actually seen the recovery in the July?

Rajesh Jain: So, Praveen, it is not recovery, complete recovery. And rightly said by you that still there are delays in shipment and container shortage also. But what I highlighted that whatever spillover of like say last quarter or Q1 of FY '25 that is now getting regularised in Q2. So still there will be leftover or some but like since in Q1 we had a heavy impact but now this will be spillover to next quarter and now we will be able to have that 15% to 20% of volume loss in export in this quarter also.

Praveen: Okay. And any geographical location you can highlight where you are largely exporting to?

Rajesh Jain: Our biggest market still is Europe and still it remains the same by large.

Praveen: Okay. And on the, again coming back to my earlier question on the margin, if I consider your guidance for the margin profile the next nine months you have to do around double digit of a margin for the wire and cable. So is it like what the confidence you are getting in the business to deliver such a very strong double digit margin in the next nine months?

Rajesh Jain: On a yearly basis, again what margin guidance we are seeing and to achieve that 60 to 80 basis point growth, we understand that we have to do better than what we have done last year but these are looking to our volume growth and looking to our product mix it is achievable seems achievable.

Praveen: Okay. And that September expansion like the first phase of expansion is planned so there is no concern on that, that will come up, right?

Rajesh Jain: Yes, so these are as per plan and this will help me to increase volume growth what we are planning in second half of this year also.

Praveen: Okay. And can you give some mix on the export like wire and cable, how is that?

Rajesh Jain: It's like almost in that line only like in export also our share is almost 70%-30% only, so since we have not done any volume growth in this quarter, so the ratio remains the same.

Praveen: Okay. Got it, sir. Thank you and all the best.

Rajesh Jain: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Naushad Chaudhary from Aditya Birla Mutual Funds. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity. Just a follow-up, one clarification on the margin side of wire and cable, sir. As we understand the growth for FY '25, which would largely be cable-led and with this also we are expecting 60-80 margin improvement. Can you give us some specific area where you see that would help you to gain this improvement on FY '24 base?

Rajesh Jain: What happened in our like cable particularly in cable business though our margins are lower historically at the same time when I am getting the scale of operations my inventory availability will be improved then I can expect good price recovery also and that will improve my margins. So though major growth will come from cable only and at the same time like this year we have also introduced that Firex LS0H-EBXL though that is part of my building wire but I can say that that is the best available product in the market from technology point of view. So we are quite confident to get that improvement in our sales also and profitability also.

Naushad Chaudhary: And this new product should contribute what percentage of your revenue by the end of this financial year?

Rajesh Jain: It will take some time, so it will be tough to predict right now the share but as awareness will increase in the market this will get momentum maybe at later half of the year but we have not quantified yet.

Naushad Chaudhary: Alright, sir. All the best. Thank you.

Moderator: Thank you. Our next question is from the line of Rahul Agarwal from IKIGAI Asset Management. Please go ahead.

Rahul Agarwal: Hi, thank you for the follow-up. Sir, could you talk a bit more on the new products and the new geography within India? How is the focus there in terms of let's say even in wires, what are the few states where you're focused on in terms of increasing your channel? And in terms of purely from a technological perspective do you see any -- what gaps are you filling up on the cable side, please, for domestic states?

Rajesh Jain: So in wire, if you see from geographic point of view, we are very strong in the west and north part of the country. At the same time, we are growing and exploring our growth opportunity in the south and east region also. Still in a few of the states, we have very good market share in north and west part of the country. And secondly, even in cable since our base is very small, so still major supply area is west and north only. And since we do not have many large capacities, so south will be our it will be not top supply area.

Rahul Agarwal: I understand that, sir. What I was trying to say was, let's say within south and east, we have to just talk a few states in your mind, which take maximum mind share and maximum input. Like, which are the states you are working on to? That's one question. And second was, on the product gap side, I mean, what new products should we expect from RR Kabel on the cable side for domestic market going into next 12 months?

Rajesh Jain: So in cable, like we started our cable journey in 2011 and that HT cable, we started in 2019 only. And if you see from industry point of view still 65% of revenue comes from this HV LV cables and while wire is only 35%. So in that way, since we are very small, so first we have to complete that product and more growth will come from HV cables, where the utilities and institutionals are the bigger customers. So in that area, our major sales will grow.

And secondly, from geographic point of view, the good thing that in last 2 years, we have made very good distribution network, though my market share in few states are very less, but we have made the network of retailers and dealer distribution and getting connected with electricians. So now this is just a matter of time to convert our presence into sales and revenue growth.

Rahul Agarwal: So the cable gap, which you mentioned, that we are still under-indexed on cables, are the new capacity expansion, which will complete by March 25, that will take care of most of these products, or there'll still be gaps?

Rajesh Jain: So most of these products will be covered in this expansion.

Rahul Agarwal: Right, so we'll be starting sending that from October onwards, right? That's what you mentioned. Is that correct?

Rajesh Jain: If you like, as we have planned, almost 30% of my cable business will go at 30%, and we are already at 90%, 95% capacity utilization. So whatever capacity will be built in September, October, this will help me to fulfill this volume growth in second half also, and for next another 1 years or 2 years also. And as of now, if we see from our product capability point of view, then already we can manufacture up to 66 kV of Power Cable.

Rahul Agarwal: So moving ahead, on the growth rates, you clarified that cable and wire, we're still targeting 20% CAGR on volumes. This is including exports, right?

Rajesh Jain: Yes.

Rahul Agarwal: And in terms of FMEG, obviously we're looking at break-evens, but in terms of top-line growth, how should we see that segment, please?

Rajesh Jain: So at revenue, we are expecting 25%, 30% of revenue growth on yearly basis.

Rahul Agarwal: And at that growth rate, we'll still break-even, like the exit quarter of 4Q, we'll see zero EBIT loss is what you're saying?

Rajesh Jain: Yes.

Rahul Agarwal: And so from a capex perspective, just wanted to know, what is going to be the cash outflow on capex for fiscal 25 only, from a cash flow statement perspective?

Rajesh Jain: So even from cash flow point of view, this will be met through our internal accruals and reserves, what already we have. So there will be no, like term loan or great facilities for this. And this will be self-funded capex, which will be completed by March 25.

Rahul Agarwal: Yes, Rajeshji, that is, I'm absolutely clear on that. What I was asking was, how much capex, in terms of cash outflow, will the company do for fiscal 25?

Rajesh Jain: So like, last year we did capex of INR 200 crores, and this year, what already we have done and what is planned to do will be INR 300 crores of cash flow outflow for capex point of view.

Rahul Agarwal: Okay. And, one last question was on replacement capex, which basically is more maintenance, which gets capitalized in the balance sheet. Typically, on an annual basis, how much would that be?

Rajesh Jain: So, though that is not very big and this is part of INR 500 crores capex, what we have mentioned, few of this is like maintenance capex also, where we are changing one or two major machinery. Otherwise, major is new capex, but few of them are maintenance capex also.

Rahul Agarwal: Would you quantify that? Like INR20 crore s, is that a fair number?

Rajesh Jain: That will be not very specific. I do not have that kind of figure, but not very big, that I can say.

Rahul Agarwal: Okay, no problem, sir. Thank you so much.

Rajesh Jain: Sure. Okay, thank you.

Moderator: Thank you. In the interest of time, we will take this as a last question. I would now like to hand the conference over to Mr. Shreegopal Kabra, sir, for closing comments.

Shreegopal Kabra: Thank you, everyone, for joining this call. We appreciate your participation. If you have any questions, feel free to reach out to us. Thank you.

Moderator: Thank you. On behalf of R R Kabel, which concludes this conference, thank you for joining us and you may now disconnect your lines.