

POLYCAB INDIA LIMITED

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Date: 29th October 2021

To
Department of Corporate Services,
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai – 400 001

To
Listing Department,
National Stock Exchange of India Limited
C-1, G-Block, Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Code: 542652 Scrip Symbol: Polycab
ISIN:- INE455K01017

Dear Sir / Madam

Sub: Submission of Transcript of Earnings Conference Call held on 25th October 2021

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 25th October 2021.

Kindly take the same on your record.

Thanking you

Yours Faithfully
For Polycab India Limited

Manita Carmen A Gonsalves
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Polycab India
Q2 FY2022 Earnings Conference Call

October 25, 2021

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

**MR. GANDHARV TONGIA – CHIEF FINANCIAL
OFFICER – POLYCAB INDIA LIMITED**

- Moderator:** Ladies and gentlemen, good day and welcome to Polycab India Q2 FY2022 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 “*” and then “0” on your touchtone phone. We would like to remind you that certain statements made by the management in today’s presentation may be forward looking statements. These forward looking statements reflect management’s best judgment and analysis as of today. The actual results may defer materially from the current expectations based on a number of factors affecting the business. Please refer to the safe harbor disclosure in the presentation. Please note that this conference is being recorded. I now hand the conference over to Mr. Gandharv Tongia. Thank you and over to you, Sir!
- Gandharv Tongia:** Thank you operator. Hello everyone and thank you for joining us today. I am Gandharv Tongia, CFO at Polycab India Limited. On this call, we shall discuss the Q2 results which was approved in the board meeting held on Friday. We will be referring to the earnings presentation, financial results and financial statements, which are available on the stock exchanges as well as investor relations page of our website. It can also be downloaded through the link or QR code on slide 9 of earnings presentation. Joining me today from the management team, we have our Chairman and Managing Director, Mr. Inder Jaisinghani on the conference call. As always, I will request Inder Bhai to share his thoughts before moving onto to the presentation. Over to you Inder Bhai.
- Inder Jaisinghani:** Good afternoon everybody. We had a healthy Q2. Robust sales growth was underpinned by market share gain across categories. Given the strengthening microeconomic fundamentals, we see a massive opportunity to spread our wings across B2B as well as B2C categories by leveraging on our strong brand equity and increased consumer affinity for our products. Structural reforms focused on infrastructure development augurs well for most of our product categories. We are also in the process of building Polycab of the future. A company with robust governance practices, top talent, strong business model, a customer centric culture and a purpose to serve the communities. We will strive to continue the path of profitable and sustainable growth and contribute to the success of all our stakeholders. I now request Gandharv to take you through our earnings presentation.
- Gandharv Tongia:** Thank you Inder Bhai. Looking at the economic environment Q2 has been reasonably good. The sequential improvement we saw since unlocking last quarter has largely persisted. Overall demand in B2C category like wires and FMEG remains upbeat in line with improving consumer sentiment; however, increasing retail prices has been a slight hindrance, but these are also the times which breeds the innovation. Our cables business is seeing higher competitive intensity as the demand environment though improving, continues to remain albeit suboptimal. Having said that increasing governments focus on infra activities, strong real estate demand and good demand visibility across various end user industries will likely improve the sales momentum further in the coming quarters. We have noted

relatively better levels of new CAPEX announcements in the past three quarters, more so from the private side. As these projects come under execution phase, we do expect it to provide a fillip to cables and wires demand. Also we are quite optimistic about structural reforms like the recent Gatishakti National Master Plan or National Infrastructure Pipeline, Revamp Distribution Sector Scheme, etc. We believe it is likely to create a very conducive environment for infra-activity over the medium term.

Inflation is a word we have been hearing quite often of lately and rightly so because we have seen unprecedented levels of commodity price volatility in the recent past. Most of our key raw materials like copper, aluminum and PVC still continue to trend up. While it is difficult to provide an outlook on inflation, we are certainly prepared with what we can do and what is in our control. We are trying to cut a fine balance between managing profitability and customer affordability, but overall for this year we believe our main priority will be aggressive market share gains as against margin improvement. This will also be supported by our new growth initiatives in Project Leap.

Moving on to presentation with slide four. For the quarter ended 30 September 2021, our consolidated revenue grew by 48% year on year. On quarter on quarter basis, our consolidated revenue grew by 66% while if we were to compare it with pre pandemic Q2, we have realized a 40% growth. For us, it the highest Q2 numbers we have ever recorded and even higher than March total which typically be seasonal advantage. These numbers really reflect our acute focus on driving top line supported by distribution expansion initiatives. EBITDA declined by 3% year on year on a relatively stronger base. Margins though lower on year on year basis has improved by 237 bps compared to last quarter with favorable operating leverage. A&P spends were broadly stable while our staff cost at Rs.1 billion or 3.4% of sales were lower due to higher top line performance. Other expenses were lower on account of cost savings and better absorption of fixed costs. Overall financial cost at Rs.88 million were lower versus Q1 while other income at Rs.264 million was largely stable. A detailed breakup of our other income and financial cost has been provided on slide 13 of our earnings presentation. Our profit before tax at Rs.2.6 billion and profit after tax at Rs.2 billion decreased by 7% and 9% year on year respectively.

On slide five, in the first six months ended 30 September, 2021 our revenue grew strongly by 62% year on year. EBITDA was up 19% with 8.8% margin despite adverse operating leverage seen in the Q1. PAT was down by 19% due to few one off gains in Q1 FY2021 as highlighted on slide 10.

Moving on to segmental slide six, our wires and cable business grew 46% year on year and 35% on pre pandemic Q2. Overall demand environment continued to stage a sequential recovery and is inching towards normalization. In terms of products, growth was broadly uniform on year on year basis across cables and wires. From a channel perspective domestic distribution driven business sustained the healthy growth momentum. Institutional business continues to remain subdued however

green shoots were seen in the month of September. Improving investments in infra and construction projects along with our business development initiatives under project Leap gives us some optimism to believe that our business will improve over the near to midterm. Export business grew 12% year on year contributing 8% to overall revenue in the Q2 of this fiscal. Excluding a large order in the base period growth was healthy at about 50% year on year led by USA, Australia and Africa. Logistic challenges related to unavailability of containers continued resulting in higher cost and execution delays. We remain committed to double digit sales contribution target over the medium term for this business. During the quarter, overall inflation in our raw material basket was in mid single digit largely emanating from aluminum and PVC, while our blended price hike was in the low single digit. Despite this, profitability has improved on a sequential basis on account of better operating leverage. We are facing tremendous amount of volatility in most of our key inputs, something which we have not seen in a long time. This coupled with deleveraging on account of lower sales during lockdown has led to consolidated EBITDA margin of 8.8% in the first half of the current year. This is of course lower than what we believe is a sustainable rate however with improving demand environment, we are hopeful of a better second half for both topline as well as bottom line. For the full year, we may be around the lower end of the normalized range. Having said that as things normalize over the end of this year we do believe there is a potential upside to improve margin in the coming years.

On slide seven, growth momentum in FMEG business improved further. On year on year basis the business grew at 41%. On a biannual basis it posted a strong 75% growth. While improving consumer sentiment helps, the strong performance was demonstrated in an otherwise challenging environment marked by raw material inflation and seasonality. Our strategy intervention to unlock latent synergies have been playing out well and we saw good bounce back in switches and switch gear. Fans which is our larger business was affected during the quarter on account of seasonality. Lights, Conduit Pipes and Pumps business posted healthy growth while other businesses including switch gear, solar and water heater were about 2x on last year base. Customer centricity and proactively engaging the influencers remain an important focal point to drive long term saliency of Polycab brand. CRM tools are being augmented to increase the retain efficiency, improve data analytical capabilities and drive meaningful innovation in the market. Profitability has improved sequentially on account of improved operating leverage, pricing action, and premiumization despite severe input cost inflation and higher A&P spends.

On slide eight other segment which largely comprise of our strategic EPC business witnessed a 37% year on year increase in revenue to Rs.796 million. EBIT stood at Rs.145 million up by 58% on a year on year basis.

The copper segment as disclosed its financial results largely reflects Ryker Base, which is our wholly owned subsidiary. While the revenue grew by 83% year on year the utilization levels of our Ryker plant continues to remain relatively low as the capacity is higher than our internal consumption.

Having said that we will continue to explore various options in terms of increasing external sales, strategic partnership, etc., to optimize production cost and improve operational efficiency and thereby improving our returns.

On the balance sheet side, our fundamental continues to remain strong. Net cash position has increased sequentially to Rs.8.7 billion. Debt to equity ratio is comfortable at 0.05x. Working capital days have improved compared to March and June. We will continue to calibrate this going forward.

On slide 16 and 17, we have introduced Project Leap in our Q4 results around mid May and are happy to share some more progress updates today. For the benefit of everyone, Project Leap is a multiyear program that includes a range of strategic teams and initiatives focused on growth, profitability and long term capability building for the organization across B2B and B2C businesses with a goal of achieving greater than Rs.200 billion or Rs.20,000 Crores sales by FY2026. We have partnered with global management consulting firm BCG who will help us drive this transformation. We are about six months into the project and things are progressing well. In order to build up this early momentum and set up for long term success as the program broadens in scope and execution we have setup a transformation management office comprising of people with diverse knowledge and capabilities across our business and function and who will be fully dedicated to and accountable for the success of this program. We are creating internal KPI desk board that starts from the top and cascades down the organization - putting in place a structured and rigorous system to measure and assess progress will allow us to provide you with regular updates on actual performance of the program initiated versus our target. This will also enable us to be agile as we execute - continuously measuring impact, evaluating performance and repivoting early as and when appropriate. While we are still in the very early stage of the program and a number of things are in planning stage, we have launched execution for some key workstreams and are already seeing quick gains being realized that puts us in a strong position for the months ahead. We are excited to share some specific details on some key themes of the transformation program and our progress to date as follows.

Firstly on Organization Structure, we have identified a set of mission critical organizational enablers that will be core to successfully executing these initiatives and delivering our goals over the long term. One of them is recruiting and retaining best in class talent. We have recently hired for several senior positions in the digital supply chain, HR and businesses. We are delighted to have Vivek on board as Deputy Managing Director. He is an industry veteran with over 35 years of rich corporate experience and extensive knowledge panning across consumer, electrical and durable sector. We also have Vipul Aggarwal joining us as Executive Vice President Supply Chain. We are excited to have these new members of the team on board to help drive this exciting upcoming journey for Polycab and extend our good wishes to them. To sum it, we have started investing in our organization structure, which will enable us to realize our aspiration with robust governance and clear accountability.

The second area is Go To Market. We are currently conducting a nationwide reach analysis having already mapped over 600 districts to identify gaps and potential opportunities to expand our distribution reach and drive growth for our business. Distributor and dealers are being appointed in new towns as we significantly step up the paddle on expanding our distribution infrastructure. For example in our wire business, if you just look at the last three months versus the second half of the last year, the average pace of new dealers and retailer addition every month has doubled, but we are not just focusing on a numeric increase in distribution, we are also putting in a lot of effort and building capabilities to fundamentally change the way we use to operate. We are doing this by focusing on secondary sales rather than conventional primary sales driven approach. At this point, despite being a distributor driven sales model we have reached a stage where we are able to track over 60% of secondary sales in B2C business and nearly 40% in B2B business. We are also strategically reorganizing sales teams in every cluster as well as bolstering them with new business development support teams in order to improve our connect with end user and know the customer's needs better. This will certainly provide long term benefits as we inculcate a customer centric approach throughout the hierarchy. Our dealers and distributors are one of the crucial enablers of our growth. We have always believed in growing together and for multi-generations. Along these lines, we have now created a robust process framework that will help us identify the right partnership with common goals. It will also ensure these partners can earn optimal returns on their investment.

Third priority is Portfolio Optimization. We are conducting an important exercise to map our portfolio versus customer needs as well as current market offerings. The insights from this exercise are providing a strong clarity and focus on where to play and right portfolio line structure in order to deliver on our growth ambition. We have identified several white spaces in the economy as well as premium segments that need to be addressed. This is more relevant in current times when inflation has shifted price brackets and changing dynamics of customer affordability. Accordingly we have done the background work at design and production level and we will be launching several new products at different price points in coming quarters. Augmenting our brand architecture in B2C business goes in parallel to this exercise. Currently the focus is on improving brand appeal through targeted branding initiative, but we will also introduce new sub brands in select segments during this year. We have also commissioned multiyear brand intelligence studies, which will help us shape our brands architecture and energize new product innovation.

Lastly on digitalization, currently our key focus is to augment customer relationship management or CRM architecture. Data analytics will play a vital role in our journey and hence we are revamping processes and software which will help us improve data management and maintenance for better assessment of competition, improve our win ratios and enhance overall salesforce productivity. We are also delayering IT infrastructure in B2C business for seamless integration for primary and secondary which will enable better servicing of customers and outlet and provide increased demand

visibility. Project Leap is a long term transformational program and the initiatives we have designed will take some time to deliver results, but we are excited by the strong and sustainable value that it can create in the long term for our shareholders and broader set of the stakeholders. We look forward to engaging with you along this journey and will aim to share similar periodic updates as we continue to make progress towards our long-term goals. Thank you. With that I hand over the call to operator for Q&A.

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

Ravi Swaminathan: Hi Sir good afternoon. Thanks for taking my question. My first question is with respect to broad volumes/value breakup of the wire and cable segment. So basically we are seeing some 45% growth. So how much would be led by price increase and how much would be led by volume growth. I know a lot of sub products are there within wires and cable. If you can give us ballpark numbers it would be great.

Gandharv Tongia: Thanks Ravi. Thanks a lot for asking that question, so if we go business by business. I think FMEG is a fair balance of volume and value whereas in the case of cable and wire business, the overall growth most of it is coming because of the value, because of the increase in underlying cost and a part of it is only because of volume, but within the business the overall underlying numbers could vary for example LDC and wires would be slightly different from HDC because HDC is slightly dependent more on institutional business which still remains slightly suboptimal but overall FMEG I think the fair balance of volume and value in the case of cable and wire most of it is because of value.

Ravi Swaminathan: So FMEG would be like 50:50 volume value, so that proportion would be something closer to the reality.

Gandharv Tongia: Yes it would differ from business to business but broadly yes that would be the range.

Ravi Swaminathan: Sure Sir. And second question is copper prices continue to climb up over the fast few days also or so, so just wanted your sense as to what kind of EBITDA margins that we might settle at for this year given the fact that commodity pressures are not relenting is there any chance of going back to 13% margins which we had done last couple of years or we are likely to settle somewhere between this quarters margin and 13%.

Gandharv Tongia: You are absolutely correct Ravi. Traditionally in cable and wire business we have seen an EBITDA range of between 11-13%. As of now considering the input cost pressure it seems that we would probably exit towards the lower end of this particular range as far this fiscal is concerned, but over the midterm to long term we believe that cable and wire margins will bounce back. Having said that in

FMEG anyways things are improving. In the last quarter FMEG recorded a loss. In the current quarter FMEG has done almost 5% of EBIT and we believe that as we progress, we would be able to further improve on FMEG EBIT and EBITDA margin. Profitability is a focus agenda as part of Project Leap, but as of now because of the pandemic we are trying to maintain a fine balance and equilibrium between the top line growth, utilization and bottom line and that is why you would see that our second quarter revenue is higher than the entire first half revenue of the last year.

Ravi Swaminathan: Got it. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Naval from Emkay Global. Please go ahead.

Naval: Thank you for the opportunity. Gandharv I have two questions. First on the competitive intensity what you alluded in the cable segment. Now what is your view. Is it short lived? Can this get extended to next year also. So any thoughts there because that will also define your margin improvement trajectory as well.

Gandharv Tongia: Broadly Naval it seems that this year because of the utilization level at the industry level and the pressure of raw material cost, copper, aluminium, PVC and steel, our company's EBITDA margins would be towards the lower end of the historical EBITDA margins of 11-13% but I think from next year onwards things would start improving and we should be able to go to the conventional 11-13% EBITDA margin range. And the recent new project which have been announced more particularly from the private side would also help us in improving the execution and profitability both at the industry level as well at the company level.

Naval: The competition is from small regional players or from larger players because if capacity utilization is low, commodity is hitting so I would imply that your smaller players in the industry will get evaporated, they cannot manage this kind of cost inflation unlike what a company at your level can.

Gandharv Tongia: Absolutely I think it is a fair observation. I think the larger players are able to improve their performance in these challenging times. The unorganized players are generally finding it difficult to survive more particularly because of availability of credit and higher input cost. So predominantly it is competition among the large organized players, the unorganized players are not necessarily able to play any active role at least in the current time.

Naval: And second question is on supply chain/procurement. Have you made any changes for procuring future copper in order to save guard yourself with continuing inflation or everything remains unchanged as we are operating right now

Gandharv Tongia: On supply chain there are two aspects, one is availability and second is pricing. Because of our long term association with our vendors, predominantly the international ones we do not necessarily see any major challenge in terms of availability and we remain probably number one customer for most of our vendors and the largest customer as well. On pricing anyways the industry has evolved over the period and there are standard processes which have been put in place at the industry level most of these are linked with international indexes. For example in the case of copper it is linked with LME and I think most of the players continue to get guided by that established mechanism of pricing.

Naval: Sure and last question is on FMEG. Now there is an increased focus on premiumization as well so any target on what can be the revenue contribution like you always give on exports. Anything on premiumization in terms of FMEG what can be total eventual contribution to revenue sales, if not in a year's time but two to three years down the line.

Gandharv Tongia: It is a great question. We are also internally deliberating and discussing about it. We are clear that premiumization is going to be one of the strategic lever to improve, one is our presence and second is improve profitability but I would probably like to park this particular question for the year end by the time we would have mature thought process in place under Project Leap and hopefully I would be able to give quantified target, but this remain are very specific target and focus area for us at Polycab.

Moderator: The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Thanks Gandharv for the opportunity and for the decent numbers given the circumstance. One question is on the current demand environment. Given the festival season is on play what kind of pricing pressure or competition we are looking specifically on the distribution B2C side of the business.

Gandharv Tongia: So overall the environment has improved, the customer sentiments are positive because of vaccination drive, unlocking and festival season. On the B2B side I think government focus on infra plus structural reforms are helping. In terms of B2C business we have been able to pass on almost all the cost increases. In the traditional cable and wire business we have not been able to do that, but it seems that as we proceed in this year we should be able to pass on most of the increases. You know this business model already. Generally for the distribution business the list price is revised once in a month, generally the first week of month, on basis of copper LME and USD to INR of the previous month and most of the players are following that. At times there is a bit of lag and at times because of competitive intensity you are not able to take the complete price hike but over the period generally the companies are able to pass on the cost increase or decrease to the customer.

Chintan Sheth: But are we seeing the demand pressure because of continuous price hikes in the distribution side. Are we seeing end consumer demand to getting deferred because of the increasing prices.

Gandharv Tongia: So it depends on the sentiments and the perception at times the customer feels or the end customer feels that the copper price will go up in the next month and that is where they will probably prepone the procurement or if they are vice versa then they will postpone the procurement. Generally on annualized basis it does not have any significant impact. As of now it seems that it will not impact the larger players like us but the smaller players will struggle to maintain their profitability and topline.

Chintan Sheth: And lastly on Silvan side any update you want to provide. How things are scaling up there after the acquisition.

Gandharv Tongia: So we have formed a team to integrate Silvan with our IOT offering. We have already completed our 100 days execution of the plan. Between now and the year end our objective is to integrate the traditional FMEG business with Silvan IOT business so that we can provide it to our customers as service & our Hohm brand will be a key aspect of this overall offering. I think from the next year we should getting some visibility on the business in terms of numbers. This year will be probably more on preparing for the growth and finalizing our GTM and related activity.

Chintan Sheth: And right lastly if I can take in the copper segment because it is very difficult to predict the quarterly numbers. If you can just guide us how can we look at both on revenue and profitability point of view?

Gandharv Tongia: Ryker is our wholly owned subsidiary and what they would do is just toll copper cathodes to copper rods and copper rods are then used for manufacturing of cables and wire. We are using broadly 1/3 of this total capacity and that is where this particular capacity is underutilized. We are exploring ways and means to either improve the capacity utilization by improving the internal consumption or looking for third party tie up through job work or other arrangement to improve the margins and cost of operation there. And we should look it as natural extension of our cable and wire business where instead of procuring copper rods we have decided to procure copper cathodes and we are trying to convert it now.

Chintan Sheth: But a broad guidance how should we look at for the full year in terms of run rate and revenue.

Gandharv Tongia: I think difficult to comment because utilization is significantly lesser than what otherwise we would expect considering the installed capacity but as I mentioned in my opening remarks we will continue to explore ways and means to improve the profitability. We as a business what we need is a good quality copper rod and that is where this particular unit is helping us, but we will continue to explore ways and means to improve utilization and improve the return ratio emanating from this particular unit in the copper segment.

Chintan Sheth: Thank you.

- Moderator:** The next question is from the line of Pritesh Cheddha from Lucky Investment. Please go ahead.
- Pritesh Cheddha:** Sir I have one question with respect to this 600, 700 basis point erosion in gross margin that we see, I just wanted to understand what is the lag in terms of the price increases that we have taken and what are they in the wires and cable side and what is the extent of the raw material price inflation for you. If you could give us maybe on an overall basis and usually in our past instructions our communications we have always mentioned the copper and the pricing is back to back so just wanted to reassess why this 600, 700 basis point of deviation and is that we need to take another 7% price hike to offset this or where are we on that cost curve vis-a-vis the price curve.
- Gandharv Tongia:** Thanks a lot for asking this and highlighting. As I mentioned in my opening remarks the product basket level, the increase in raw material between Q2 versus Q1 is in mid single digit. The price hike which we had been able to take is in lower single digit and that is where you would see the contribution contraction between Q2 and Q1. Q2 of last year we were sitting in a better base and that is where it was slightly different set of numbers, but another thing which I would like to highlight is copper and forex is what is generally considered at the industry level as well at the company level for the purpose of revising the list price, but this time around in the last few months we have seen price hike across or cost increase across all the commodities. For example you take steel, aluminium, PVC and that is where it becomes a bit of difficult thing to increase prices on account of all increase in key raw materials. The another thing is we have to balance top line, bottom line and utilization and that is where strategically we are trying to maintain an equilibrium between the three. If you see last year first half revenue it is lesser than the second quarter of this year's revenue and that is where we are trying to manage the two. Having said that historically we have played in 11 to 13% of EBITDA margin in cable and wire business. It seems that as of now we would exit this year towards the lower end of that particular range, but FMEG business has already started recovering from last quarters loss to this particular quarter 5% EBIT margin so over the mid to long term you should be able to bounce back to our regular margins and from there under Project Leap we should be able to further improve.
- Pritesh Cheddha:** Just clarifying here if it was for copper which is usually back to back and there is not much of lag in your opinion but because the inflation is going to other materials as well we are seeing this gap between the price increases and the cost increases is that the assessment.
- Gandharv Tongia:** Yes that is the current understanding for the second quarter.
- Pritesh Cheddha:** Is there any inventory loss in the quarter by a chance which also states up the gross margin brings the down margin number by a chance.
- Gandharv Tongia:** No because as you know when you procure copper at that stage you do not price the inventory, so there is no price risk which you carry when you have any inventory which is there are in your system.

- Pritesh Cheddha:** Okay. Thank you very much and all the best to you.
- Moderator:** The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.
- Atul Tiwari:** So actually my question was on similar line. To your mind how many quarters it will take for the cable and wire business margins to reverse back to the normal. I mean the market dynamics are complicated and the commodity prices are also volatile so the situation is dynamic but as I understand today taking everything into account is now how many quarters it would take?
- Gandharv Tongia:** You know this industry Atul whenever there is an increasing trend in commodity prices that is where there is a slight impact on the EBITDA or contribution margin and whenever it is decreasing trend it positively contributes to contribution margin and EBITDA margin. Having said that I would like to reiterate that this year we would probably exit at the lower end of the traditional cable and wire EBITDA margin of 11-13% but over the next mid to long term we should be able to bounce back to historical margins and from there we should be able to improve with the help of Project Leap.
- Atul Tiwari:** Okay thanks.
- Moderator:** The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Jori:** So Sir first of all congratulations on good top line performance during the quarter. Secondly if you look at what I am trying to understand is what is happening on the cable side and obviously in the opening remark you sounded very optimistic on the mid to long term growth prospect, but when do you see the demand to normalize in volume terms and how do we see from next three to four quarters point of view.
- Gandharv Tongia:** Thanks Manoj. Thanks for highlighting and complementing us on our performance. As of now give and take few areas here and there we are already at pre pandemic levels for most of our businesses and we believe that because of positivity in the customer sentiments, unlocking, festive season, push by the government and increase in private capex the second half is going to be better than first half both in terms of top line performance as well as bottom line performance.
- Manoj Jori:** Right. So in this case when you say you would be delivering somewhere around 11-13% lower end of the range, so by and large we should be back to normalized margin level is this assumption right.
- Gandharv Tongia:** Yes we should be able to touch that in the midterm and from there we should be able to improve under Project Leap

Manoj Jori: Can you throw some light like any developments or any progress on the export side like how things are panning in US and the other market where you were trying to set up this similar kind of model that would be my last question?

Gandharv Tongia: Thank you. Export as you know remain our focus initiative. We had been able to develop several products which comply with the local jurisdictional requirement. For example for US, for Australia, in certain cases for EU. We have also identified dealers and distributors in few geographies and they would help us in expanding our local presence. We believe that exports would continue to increase in the near to mid-term and we should be able to get to at least double digit contribution from exports to our top line.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Sir my question in response to the price hikes versus market, how much there has been a gap what we have taken a price hike in cables and wire segment versus what you could have taken and in terms of competitive intensity if you can explain the market share what it is right now and this competition we are facing is what kind of players which has risen up. That's my first question.

Gandharv Tongia: Great. Thanks Charanjit. On the market share we believe we would have gained market share but I think to assess it in a quantified manner I think we should wait till the year end because that is when we will have visibility of data of all large players. On the pricing as I explained to the participants the input cost level if we see at the product portfolio, I think the cost increased by mid single digit and we were able to take price hike in lower single digit and that is where there is contraction in contribution margin. This is because we wanted to balance top line growth, utilization, as well as bottom line and as a result of which our second quarter top line is greater than the top line of the first half of the last fiscal. And it seems as of now that we should be able to have significantly better second half then the first half in terms of top line performance as well as bottom line performance.

Charanjit Singh: Sir my next question is on the FMEG segment, so on the FMEG segment if you can highlight what are the price hikes we have taken on that front in different category and in terms of our capability of plant for fans coming how that can help us scale up in the fans market that maybe especially catering to the southern market?

Gandharv Tongia: In terms of FMEG, we had been able to increase our prices in line with increase in the input cost and partly we got benefit from operational efficiency which we have unlocked as part of Project Leap as well as Project Udaan. The new capacity which is expected to commission in the current year would help us in improving our reach. We firmly believe that we can be top 3 player in the fan business and that is where this new facility will help us in getting into top 3 position.

Charanjit Singh: Sir lastly on this 20000 Crores of target by FY2026 if you can give us little bit more granular picture into what is our expectation on domestic and I think exports is also one of the very important filler for this growth so what is the kind of scale up which we are looking in export and how we are preparing ourselves for the export opportunity?

Gandharv Tongia: So it is a great question. Thanks for asking. I think other participants would also have similar thought. These are early days. We have broad roadmap for 20000 Crores level as of now but what we are trying to do now is challenge that internally and ensure that all the teams at the corporate level as well as business levels are totally aligned. I think there are few product category where we do not necessarily have significant presence to illustrate for example special cables or import substitute or EHV where we can see exponential growth and there are few product categories where we would see better than industry growth. But if you are okay Charanjit I will probably park this question for the year end and then we will come back to you give you more credible information.

Charanjit Singh: Okay, no problem, thanks for taking my question.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Thanks for the opportunity. Just wanted to ask regarding this 200 billion revenue guided how much could be the contribution you are looking from FMEG, especially if you could mention that and secondly you have actually delivered industry leading growth in FMEG as well as in cables and wires over the last two years together if you see that as well not only one year growth but the margin performance has been weaker than peers. So are we looking on any strategic approach I mean focusing more on growth and gaining market share currently and then using the operating leverage in future to downstroke on profitability, what is the approach, will there be a change in approach for us?

Gandharv Tongia: As far as FMEG contribution to the top line target of 20000 Crores is concerned, I think growth in the B2C business priority. We have entered into FMEG business almost 5 to 7 years back and we have already delivered industry leading growth both at a top line level as well as bottom line level and we believe that we would be able to further unlock value there. As I mentioned to Charanjit, please give us time till the year end and we would like to then given you both granular information in terms of the breakup of 20000 Crores. On the profitability I think what we are trying to do in the current year particularly is maintain a fine balance between the top line utilization and bottom line. As far as mid-term outlook is concerned we believe we would be able to go back to traditional, historical 11 to 13% cable and wire EBITDA margin and in the case of FMEG we should be able to further unlock the value and I think by FY2026 we should be able to reach 10 to 12% type of margin in FMEG business.

- Abhishek Puri:** So margin guidelines you had already given just wanted to check your strategy basically are we looking at gaining market share or we are going to increase prices and sacrifice a little bit of top line growth for second half of the next year how are we thinking about it?
- Gandharv Tongia:** Over the mid term the objective is to ensure that we get industry leading growth while maintaining the margins in cable and wire business. As far as FMEG is concerned, we should be able to expand the margin. And under Project Leap this is one of the important agenda item where we want to ensure that we have healthy market share gain while maintaining and improving margins in all the business categories that we are present in.
- Abhishek Puri:** We stand by 12% guidance of margin with FMEG over the next three years right?
- Gandharv Tongia:** Yes. In 3 to 5 years under project Leap.
- Abhishek Puri:** Alright, great, thank you so much and all the very best.
- Moderator:** Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.
- Shrinidhi Karlekar:** Thank you for the opportunity and congratulations on good set of performance on top line and working capital. I just have one clarification question. In terms of margins are you guiding the full year FY2022 company should be able to meet lower end of EBITDA margin guidance of 11 to 13% which itself imply kind of a 12 to 13% margin in H2. Just a clarification on that.
- Gandharv Tongia:** The guidance is for the second half that we should be in the lower end of the margin it is quite possible the aggregated 12 month number is slightly lower than this, but these are interesting times we will try our level best and improve our margins but as of now we were to guide. - my guidance is that second half we would be more towards the lower end of the margin.
- Shrinidhi Karlekar:** Fair enough and the midterm guidance does not change at all right whatever you endeavor under your long term planning as well as short term that does not change with what commodities have changed right?
- Gandharv Tongia:** Yes absolutely.
- Shrinidhi Karlekar:** Okay there is a very good improvement on inventory just want to know is it structural improvement that you wanted to do or is it just that the growth at the latter end of the quarters are priced and that is why it is lower than optimum how should one read that it just appears like a very good improvement on inventory side is it something we have targeted or it is just an outcome of growth, latter half of the quarter.

- Gandharv Tongia:** Inventory is a focused and we are trying to optimize. We have to do two things one is we have to ensure that for the purpose of growth, our channel partners are able to get our supplies almost immediately and that is where we have to maintain finished goods inventory at the right places across the country whether it is depot or warehouse or the manufacturing location. The second aspect of it is optimize our inventory carrying cost can be reduced within the acceptable norms and this is what we are trying to do throughout that year. Recently we have strengthened the team, we have hired resources from leading companies in our supply chain and we believe that there is a scope for improvement on inventory more particularly on the RM and semi-finished goods level. As far as finished goods are concerned we will probably continue to carry inventory to ensure that we are able to meet our expectation in terms of availability and this is the result which you can see in the second quarter where the inventory levels are significantly reduced from the first quarter.
- Shrinidhi Karlekar:** Great and is it fair to say that relatively higher inventory on the raw material as well as semi finished good is in a way cause of relatively higher volatility on margin, is that fair to say, if your raw material and semi finished good inventory comes down with your targeted programs is it fair to assume that you the probability of your margin would be less volatile.
- Gandharv Tongia:** So generally speaking there is no correlation between the two because as you know this industry the commodity is procured at provisional price and it does not have any P&L implication whenever you price the inventory and when you do that when you have visibility on the selling price it becomes a pass through and that is why inventory level at RM or SFG level has no bearing on the profitability or contribution of that particular period.
- Shrinidhi Karlekar:** Fair enough. Thank Gandharv and all the very best.
- Gandharv Tongia:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.
- Rahul Agarwal:** Good afternoon Gandharv and team. Just couple of questions first under FMEG what feedback we are getting in collecting information from other companies that entry level competition under FMEG will increase and generally premium is done better, but demand is quite steady but entry level competition under fans and FMEG categories are quite high would you agree this and what is their analysis of competition there and going ahead does it really impact our own new products once it is there. That's the first question.
- Gandharv Tongia:** So this is true for all the businesses, particularly immediately after the pandemic because most of the businesses are trying to balance utilization top line and bottom line. We have seen in few pockets the

competitive intensity has gone up including the FMEG business, but you would have noticed that in the second quarter we had been able to improve on margins and we are maintaining our pricing points. Premiumization will probably help us in improving our performance but from a customer's point of view we want provide a better product at a price which is competitive.

Rahul Agarwal: Got it so essentially in terms of FMEG margins it will still continue to go up right even though the competition on entry level is higher?

Gandharv Tongia: Yes.

Rahul Agarwal: Ok got it and secondly any update on the channel financing for cable and wire and FMEG sectors and how is that progressing and what are your targets for this year, next year, thank you.

Gandharv Tongia: In cable and wire we are hovering 60 to 70% this can slightly go up. As far as FMEG is concerned depending on the business we are between early 30s to late 30s and we can take it up at least to 50% and we are hoping that we should be able to do that by the end of current fiscal.

Rahul Agarwal: Okay, all the best. Thank you so much for answering my questions.

Gandharv Tongia: Thank you Rahul.

Moderator: Thank you. The next question is from the line of Venkat from 3Sigma Financials. Please go ahead.

Venkat: Thanks for taking my question and congratulations on good set of numbers in this challenging time. The first question I wanted to ask you is are we having e-commerce sales and if we are having e-commerce sales are the margins very different?

Gandharv Tongia: We do not have traditional e-commerce presence as of now for example in the online e-commerce players, we do not have any significant presence. We have taken some baby steps in the last 10 to 12 weeks, but it will take a while to reach to a level which is acceptable from a brand and a company like us, but having said that in our traditional cable and wire business 70 to 80% of dealers and distributors place orders through our dedicated app and to that extent we have online channel available for them. On the e-commerce business the way it is generally construed and understood, we believe that we should be able to make a significant growth in the next five years under project Leap.

Venkat: This is from FMEG actually?

Gandharv Tongia: Yes our target is to get to 10% e-commerce contribution to our top line under project Leap and you are absolutely right it has more meaning associated with B2C business and that is where in the past

not necessarily we have taken any amount of step but in the last few months we have done bit of work, we have hired resources, we have invested on technology and having the right set of IT enablers and we expect that from next year onwards we should be able to get some business out of it which are meaningful.

- Moderator:** Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.
- Devansh Nigotia:** Thanks for the opportunity. Sir in FMEG if you can just highlight on the premium portfolio because there has been quite a lot of new launches in the last three or four months so how has that trend been and the product acceptance and the learning from it because premium category I think we launched in last three or four months.
- Gandharv Tongia:** Yes absolutely premium is focused agenda within fan business as I mentioned to one of the participant that by end of this year we should be able to give you a target number of premium business contribution to FMEG business but if I have to give more color to you. Within Fan I think we are in 20s or just about the thirtys as far as premium contribution is concerned which can go up. The recent acquisition in the form of Silvan and launch of Hohm would help us in improving premiumization and the last participant was enquiring about e-commerce, e-com will also help us in improving premiumization so as of now there are some products where we have good presence but I think as we go along we should be able to improve on premiumization across all the B2C categories.
- Devansh Nigotia:** In case of fans, I just want to re-clarify the new capacity were suppose to come up in that case the target margins that we have guided for 10% in FY2026 is not too conservative if you can just throw some light there?
- Gandharv Tongia:** Fan capacity will be operational in the current fiscal in the second half of the year and as far as the margins are concerned the guidance is that we should be able to touch almost the 10%-12% in five years from now and that is where you would have seen in the second quarter of this year our EBIT margins are significantly better than the first quarter.
- Devansh Nigotia:** Directionally if you can just throw light on other FMEG products other than the fans or things lights or smaller products like appliances.
- Gandharv Tongia:** So across all business categories we have been able to record a decent amount of growth, fan was slightly impacted because of seasonality but light, conduit and pumps recorded a healthy growth and if I talk about the smaller businesses for example switch gear, solar and water heater they were almost 2x for the last year base.
- Devansh Nigotia:** Thanks a lot sir.



Polycab India Limited
October 25, 2021

Moderator: Thank you. I now hand the conference over to the management for their closing comments.

Gandharv Tongia: Thank you for taking out time and attending this call. In case if you have any follow-up questions please feel free to reach out to us at investor.relations@polycab.com. We would be pleased to attend your question and provide you additional clarification and inputs. With that note wish you a very happy Diwali and please stay safe and healthy. Thank you.

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