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Date: 26th July 2024

To
Department of Corporate Services
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai, MH - 400001

To
Listing Department
National Stock Exchange of India Limited
C-1, G-Block, Bandra-Kurla Complex
Bandra (E), Mumbai, MH - 400051

Scrip Code: 542652 Scrip Symbol: Polycab
ISIN: INE455K01017

Dear Sir(s) / Madam(s),

Sub: Submission of Transcript of Earnings Conference Call held on July 19, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Conference Call held on July 19, 2024

Kindly take the same on your record.

Thanking you
Yours Faithfully

For **Polycab India Limited**

MANITA CARMEN ALBERT GONSALVES

Digitally signed by MANITA CARMEN ALBERT GONSALVES
DN: c=IN, postalCode=400104, st=MAHARASHTRA, street=FLAT NO 8BUILDING NO 9PIRAMAL NAGAR S V ROADMUMBAIBESIDES PATEL PETROL PUMP 400104, l=MUMBAI, o=Personal, title=9350, serialNumber=e9923616fb581748338360a9dcca7ddbef53792338962e492591c02f91606f5f, pseudonym=93502023051211157429, 2.5.4.20=d6b37cc9b008ba4c44a5e26aead891e74cc85aea24a8e6ad4562fa78a0802a6d, email=MANITA.GONSALVES@POLYCAB.COM, cn=MANITA CARMEN ALBERT GONSALVES
Date: 2024.07.26 18:17:08 +05'30'

Manita Carmen A. Gonsalves
Company Secretary and Vice President Legal
Membership No.: A18321
Address: #29, The Ruby, 21st Floor, Senapati Bapat Marg,
Tulsi Pipe Road, Dadar (West), Mumbai, MH-400028

"Polycab India Limited
Q1 FY 2025 Earnings Conference Call"
July 19, 2024

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

MR. GANDHARV TONGIA – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER – POLYCAB INDIA LIMITED

MR. CHIRAYU UPADHYAYA – HEAD OF INVESTOR RELATIONS – POLYCAB INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Polycab India Limited Q1 FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Gandharv Tongia: Thank you so much, Moderator. Good afternoon everyone and thank you for joining us. I hope all of you are staying healthy and safe. I am Gandharv Tongia, Executive Director & CFO at Polycab India Limited. On this call, we shall discuss the Quarter One Fiscal 2024-25 results which were approved in the board meeting held yesterday. We will be referring to the earnings presentation, condensed financial results and statements which are available on the stock exchanges website as well as on the investor relations page of our website. Joining me today from the management team, we have our Chairman and Managing Director – Mr. Inder Jaisinghani and our Head, Investor Relations – Mr. Chirayu Upadhyaya.

Let me now hand over the call to Inder bhai by for his comments.

Inder Jaisinghani: Good afternoon, everyone. We are pleased to have commenced the year on a strong note, achieving the highest ever first-quarter revenue in the Company's history. Our operating margins too remain healthy, reflecting our ability to adapt and succeed in a dynamic market environment. The robust domestic economy, supported by structural reforms focused on infrastructure development, promises strong growth for our diverse product categories. As the demand landscape continues to show strength, we are fully prepared to capitalize on these significant opportunities and drive sustained growth.

Gandharv Tongia: Thank you, Inder bhai.

India continues to be a bright spot on the global map, as is evident from the fact that most high-frequency indicators indicate that the domestic economy continues to remain resilient. Both manufacturing and services PMI rebounded after moderating in May 2024 from the high in March 2024, driven by a sharp rise in new orders. UPI transactions have shown a steady upward trend since their inception, continuing to remain near a record high in June 2024, while credit growth remains healthy at 15.6% year on year in June 2024. GST revenues stood at ₹1.74 lakh crore, marking an 8% growth on a YoY basis, and thus remained above the ₹1 lakh crore mark for 28 consecutive months. Furthermore, the RBI has upgraded the FY25 GDP forecast to 7.2% from its earlier projection of 7%, indicating strong prospects for the domestic economy going forward. This growth was propelled by the ongoing strengthening of manufacturing activity, positive trends in the construction sector, and a gradual recovery in the rural segment. These factors are anticipated to enhance the prospects of household consumption in the future. However, infrastructure and construction growth slowed down in May 2024, mainly on account of lower government ordering activity due to elections in April-May 2024 and labour shortages. This was a temporary phenomenon and should reverse as government spending picks up in the coming months. With stability at the centre, we anticipate policy continuity to drive the overall economic momentum further, with a sustained focus on infrastructure, capital expenditure, and manufacturing, which will occupy centre stage. Furthermore, the improved balance sheet position for the corporate sector and financial sector, alongside a rise in capacity utilization to an 11-year high of 76.5% in March 2024, is providing support to the nascent recovery in private capital expenditure. Meanwhile, alongside structural policy initiatives such as reduced corporate tax rates, PLI schemes, and the global shift towards multipolarity, encouraging procurement diversity, we foresee these cyclical and structural shifts sustaining a positive cycle of increased investment.

I would now hand over to Chirayu to take you through the financial performance for the quarter gone by.

Chirayu Upadhyaya: Thank you, Gandharv.

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

For the quarter ended 30th June 2024, our consolidated revenue grew by 21% year on year, driven by steady performance in Wires & Cables business, ably supported by strong performances in the EPC and FMEG businesses. EBITDA grew by 6% year on year, with EBITDA margins at 12.4%. The notable decline in EBITDA margins was influenced by a shift in our business mix towards segments with lower margins. Specifically, the contribution from our higher-margin international business declined from 8.9% in the same quarter last year to 5.3% in quarter one of fiscal year 2025, while that from our lower-margin EPC business increased from 3% last year to 10% in the current fiscal. The contribution increase from EPC business was accompanied by its own margin decline of ~150 bps year on year, which further added downward margin pressure. Additionally, domestically, our lower-margin institutional business grew at a faster pace than our channel business, which further dampened margins. Our profit after tax stood at ₹ 4 billion, with PAT margin at 8.5%.

Overall finance costs stood at ₹ 413 million and other income at ₹ 584 million. A detailed break-up of our other income and finance costs is provided on slide 17 of our earnings presentation. Net cash position improved to ₹ 16.3 Bn over ₹ 10.1 Bn in Q1 of the previous year, while working capital cycle, at 64 days, was higher than our comfortable range, due to finished good inventory build-up in the Wires & Cables business. The finished goods inventory build-up was due to sudden fall in demand towards the end of the quarter on account of the sharp decline in commodity prices. The inventory days are expected to normalize in the coming quarters.

Moving on to slide six.

The Wires & Cables segment recorded a steady 11% year on year growth, with the domestic business registering a 15% year on year growth. The past quarter witnessed high volatility in commodity prices, with the sharp decline in the 2nd half of the quarter impacting channel sales. As the commodity prices now seem stable and channel inventory at normalized levels, we expect an improvement in sales performance in the forthcoming quarters. Our optimism stems from the resilient demand environment in India, which continues to outpace many global counterparts, as highlighted in Gandharva's macro commentary. Looking ahead, we believe that the upcoming Budget will proactively set the tone for economic development in the coming years, aiming for a "Viksit Bharat" by 2047, building upon the transformation witnessed over the last few years. The real estate sector too continues to maintains its impressive growth momentum, as it stepped into 2024 with sales in H1 2024 scaling an 11-year high in terms of half-yearly sales. The sales volumes achieved in the first half of the year, despite the general elections being conducted in quarter two of this year, showcases the strong undercurrent of demand in the market. Project launches too are on a very strong footing. The calendar year 2023 witnessed a 10 year high in-terms of beginning of construction in new projects. The first 6 months of this calendar year has already surpassed 80% of the last year's numbers. All such projects will require wires over the course of next couple of years, aiding an accelerated industry growth.

Meanwhile, our international business registered a 28% year on year decline, resulting into a contraction in its contribution to the Company's top-line. Further, elevated freight costs compressed the margins in this business.

Overall, the shift in business mix from distribution to institutional sales, coupled with lower international business revenue, contributed to a reduction in margins in the Wires & Cables segment.

Moving on to slide 8 for an update on the FMEG business.

FMEG business recorded solid growth of 21% this quarter, driven by strong demand for fans due to heatwave across several parts of the country. The fan business achieved its highest quarterly sales in the past couple of years. Both the switches & switchgears and conduit pipes & fittings segments showed robust growth, supported by healthy demand in the real estate sector. Besides, our switches business continues to benefit from improved availability through in-house manufacturing, while the switchgears business continues to reap the benefit of our new product development initiatives. The lights & luminaires segment continued to face challenges due to pricing pressure and weak consumer demand. In terms of profitability, we've seen a decline in losses, attributed to lower advertising costs, and boosted by higher contributions from switchgears and conduit pipes & fittings product segments. At an annual level, our advertising and promotion spends will continue to be within our guided range of 3% to 5% of the B2C top-line.

Moving on to slide 10.

This slide provides an update on our other businesses, which primarily comprises of our strategic EPC business. We achieved revenues of ₹ 4,815 Mn in Q1, marking a 292% year on year growth. Profitability increased by 244% year on year, while segmental margin registered a decline of ~150 bps to 11%. The robust growth within the business was driven by strong execution of the RDSS order book. Looking ahead, we expect this business to maintain its contribution in mid-to-high single-digit range to the Company's consolidated top-line. The annual sustainable operating margin for this business is expected to remain in the high single digits over the medium to long term.

To conclude the financial update, the industry is experiencing robust demand environment and Polycab is well-positioned to capitalize on this favourable market dynamics. Looking ahead, we anticipate sustained demand momentum throughout the remainder of the year.

As an update on our continuous efforts to improve on corporate governance practices, the Board yesterday has reconstituted its Audit and Nomination and Remuneration Committees. Both these committees will now fully comprise of Independent Directors, in-line with globally accepted best governance practices. This change underscores our commitment to maintaining transparency, accountability, and integrity in our corporate governance framework.

As another positive update, India Ratings has improved the outlook on our credit rating to "positive" from the earlier "on watch with negative implication".

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question from the line of Praveen Sahay from PL India. Please go ahead.

Praveen Sahay: So, the first question is related to the domestic Wires & Cables business, where if I look at around 15% of the value growth you have reported, can you give some colour on how much is the volume number? Because raw material or copper and aluminium prices also elevated for the quarter quite significantly. So that is the first question.

And the second question, sir, on the international business. So as the international business are down by 28%, and in the last call also, you had mentioned about the 3 to 5 quarters, it is going to be impacted, so the current quarterly run rate to be maintained in the rest of the year, how to look at? And also in earlier quarter, you had given a guidance of a 10% contribution by FY26. So, is that an impact or no?

Chirayu Upadhyaya: Sure. Thanks, Praveen. On your first question, as far as the volume growth is concerned, the domestic Wires & Cables business registered a volume growth of about 10% while the value growth, because of the increased commodity prices, was there but to a large extent, it was negated because of the effect it had on sales – largely on the channel sales. So that is where the volume growth was. And one needs to take into account that this is on a very high base of previous year. So that is where we believe that the wires & cables business has done reasonably well in this quarter.

On your international business related question, one needs to look at the yearly run rate in this business. So, as against the domestic business, wherein we supply our products within 24 hours or in a matter of few days, an international business has a transit time within that. And as a result, the numbers that one has in a particular quarter is largely the end of the quarter number, but there might be some revenue accruals that might be delayed and will come in the second quarter. So that is where one needs to look at a yearly number as far as the international business is concerned.

But having said that, yes, we've guided that there is a bit of demand softness in one of our largest geography. That is where the international business numbers are a bit softer as compared to previous year. But we believe that this will improve gradually going ahead. As far as the contribution to the overall top-line is concerned, we will continue to work on what we have guided. We want the international business to contribute 10% of the company's top line.

Praveen Sahay: Okay. And lastly, if you can give any guidance related to the Leap Project for ₹200 billion revenue for FY26, so is that going to be preponed or how is the target going to change?

Chirayu Upadhyaya: So, Praveen, as you are quite aware, we had this target of reaching ₹20,000 crores of top-line by FY26. We exited the previous year at a top-line of about ₹18,000 crores. And that is where we believe that we should be either able to achieve or beat the guidance ahead of its time. As again we've guided in our previous calls, we are in the process of calibrating our new mid-term guidance. And we will be releasing the new guidance during the course of this financial year.

Moderator: Thank you. The next question is from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta: My question is primarily on mix. Would it be possible to share the margin differential between your international and domestic and even between domestic distribution and institutional? The context is that somehow 200-250 basis points contraction in Wires & Cables seems that there is some other element at play as well. Possible to elaborate it on this?

Chirayu Upadhyaya: So Umang, on our domestic business, generally, we make EBITDA margins somewhere between 9% to 11%. And on our international business, the margin profile is a bit better. But this is what plays out in a normal scenario. The last quarter was a bit different, where the commodity prices were quite volatile. This has a material impact as far as the channel sales are concerned, but not as much on the institutional sales, wherein we have back-to-back pricing.

So, the margin profile for the past quarter will be a bit different than what we normally have. But again, as we've commented, this is something that we believe should normalize as the commodity prices now seem stable and even the inventory levels in the channels have normalized. So going ahead, we believe we should be able to resume back towards our margin profile. Even now, we are at the higher end or at a bit higher than our guided margin range within the wires & cables business, and we should be able to improve upon that in the quarters to come.

Umang Mehta: Understood. Sir, just one clarification, so 11% to 13% is your guidance in wires & cables. But last year, I understand we benefited lot from higher capacity utilization. But it would be based on when the commodities are stable, doing better than the top end in the coming quarters. would that be fair to say?

Chirayu Upadhyaya: See, our guided range on cables & wires for the long term is 11% to 13%. But we also think that because as of now, we are realizing better operating leverage, we should be able to generate somewhere between 12% to 14% at EBITDA level. And that is where even now our EBITDA margins are in the first quarter. So, we believe that this level of margins should be able to continue, as well as improve upon as the entire issue with channel sales, which happened in the first quarter, moves away if the commodity prices continue to remain stable.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang.

Natasha Jain: Sir, I have a couple of questions on wires & cables. Firstly, your comment and your peers, too, you said that there was a very sharp inventory destocking by the channel in June. So while I understand this reasoning, there was also a very sharp rise in copper prices from mid-March onwards until May end. So going by that logic, channel must have even restocked inventory at a very high rate. So ultimately, this should actually negate that and not further depress the margin. So sir, can you please comment on this phenomena that how does it play out?

Chirayu Upadhyaya: So, Natasha, your understanding is quite correct. In the first couple of months, the offtake was very good because the copper prices were on the rise. And that is where industry had or the channel had stocked up on inventory. June saw a very sharp decline in commodity prices. And that is where the channel, they kind of went slow as far as new orders were concerned, and utilized the inventory that they had stocked up in the first couple of months. That is why we believe that now, at the channel level, the inventories are at a normalized level. If the commodity prices will continue to be stable, as we've seen over the past few days, then hopefully, that should mean that there should be an improvement in sales as well as margins going ahead.

Natasha Jain: Understood, Chirayu. My second question is on the international business. While that registered a degrowth, so all this while, we've been saying that we're moving to a distribution-based model in the U.S. And now a new commentary is that there is a demand slowdown in that market. So just trying to understand, is it one-off election-based or the dynamics are changing fundamentally there?

Because if that is the case then, are we going to further lose out on order booking in the international market? Is there a preference for other players or other global players and not Indian players? So a little bit if you can touch on how U.S. market is panning out in terms of cables?

Chirayu Upadhyaya: So, Natasha, there has been no material change as far as any preference for particular country players are concerned. We don't believe there is any such sentiment that the country is preferring players from other countries. Largely, the demand slowdown or a slowdown in the sales that we have realized is because of the movement in our business model over there. Of course, we've guided that it will take some more quarters for the new model to stabilize. So once, hopefully, that is done, the sales from that geography should recover back to its normal levels.

Natasha Jain: So Chirayu, can we expect that the impact from moving to a distribution-led model is greater in terms of numbers getting depressed and lower in terms of really demand not picking up in the U.S.?

Chirayu Upadhyaya: To a certain extent, yes, that is what we can say.

Natasha Jain: Okay. And just one last question, if I may. So you also mentioned that domestically, the institutional business outpaced the distribution. First of all, can you explain is the company taking more orders directly and, therefore, there is more of institutional booking than GT?

Because if that's the case, we could probably see more sales and margin moderation because distributors are of the opinion that they prefer Polycab because they are not bypassed in the value chain. So just thinking out loud, if you can help why exactly institutional outpaced the GT this time, that's all. Thank you.

Chirayu Upadhyaya: So, Natasha, as I mentioned, in institutional orders, we have back-to-back pricing, so we don't get largely affected because of this volatility in commodity prices. And that is why the orders that we have taken in the past 3 to 6 months and where we had to supply cables, those are something that we continued to supply. Whereas the distributors, they take a view on where the copper prices are headed. Generally, the volatility in commodity prices or copper prices in a month is only about 4% to 5%. But last quarter, the volatility was quite high.

From mid-March to mid-April, it went up by almost 15%, mid-April to mid-May up by almost 11% and from mid-May to mid-June went down by almost 12%. So, the volatility was quite high. And that is where the distributors, they obviously would not want to miss out on the lower prices that might be available to them in the next month. And that is why there was a slowdown as far as channel sales are concerned. So largely because of this, the mix or the growth rate for institutional was higher than the channel.

Moderator: The next question is from the line of Rahul Agarwal from IKIGAI Asset Management.

Rahul Agarwal: Thank you for the opportunity. So, two questions firstly on the operating cash flow for the quarter it looks like the cash profit is about ₹450 crore-plus, but the operating cash flow is negative ₹200 crore. I think partially Chirayu explained about inventory being higher, but this thing appears to be larger than that. Could you explain this number please?

Gandharv Tongia: Your observation is right. As Chirayu mentioned a while back, because of change in volatility of copper prices in the month of June we witnessed a slowdown in demand particularly from the channel. We had a very robust run in the last fiscal, and in anticipation we had a slightly higher than actual required inventory at RM level as well as the finished goods level. So that is the reason why the working capital has stretched a bit.

And second reason which he mentioned a while back is the uptick in EPC business and institutional business. As you know, both of these businesses are not on channel financing, which has some impact on our receivable days. So by and large the cash flow which you are reading got impacted because of the change in mix and higher inventory which we believe is transitory in nature and in the quarters to come we should be able to normalize and go back to regular working capital cycle of 50 or 55 days or thereabouts.

Rahul Agarwal: Got it. Fair point. Secondly, on the balance sheet I'm referring to the March balance sheet there is some long-term receivables shown about ₹120 crores which are overdue 12 months. Just wanted to know the nature of these line items please?

Gandharv Tongia: Yes, sure. Your observation is right. As Chirayu mentioned we have a small EPC business. In general, if you were to reflect on the last year June it was almost 3% of our top line. This year it is 10% of top line. In the EPC business, there are some balances which are retained by the customer as retention money which ranges between 5% to 15% depending on the customer in contractual terms and these as per the accounting standards are required to be classified as long-term receivables. That ₹120 crores is comprising of such balances.

Rahul Agarwal: All right. So when does it get liquidated broadly 15 months or 18 months? What is the timeline there?

Gandharv Tongia: It ranges between 12 months to 24 months from the end of the contract and any which way, as part of the accounting requirements we are required to carry provision in the books for all types of receivables including short-term and long-term receivables. So that provision in any which way it comes is called expected credit loss provisioning.

Rahul Agarwal: Perfect got it. And just one feedback, not a question. If Inder bhai is on the call, we have been waiting for a Polycab analyst meet to be done from the company's side wherein we could spend some time with the BU heads as well as the next generation of the promoter family Nikhil and Bharat. We would appreciate that this might be helpful to understand what are their thoughts in terms of building this business ahead. So, if that is possible and practical, would request the company to essentially consider this whenever convenient?

Gandharv Tongia: Great feedback. Thanks a lot for using this forum to share this feedback with us. As Chirayu mentioned that during the course of the current year we will probably recalibrate the existing guidance. And I think it would make sense to have such interactions once we have the revised guidance in place. So, allow us some time and hopefully in the current fiscal, we should be able to do both of the things.

Rahul Agarwal: Appreciate that, Gandharv. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Sanidhya from Unicorn Asset Management. Please go ahead.

Sanidhya: So, my first question is on the part of the margins in the EPC business. So, as observed, the margins on the EPC segment has been quite volatile ranging from somewhere -- positive of 12% -- north of 12%, to currently at 11% stage. And some time back it was less than 10%, that is in single digit. So how do the margins in the EPC business look to us going ahead? And what kind of revenue share it could be in the total revenue?

Chirayu Upadhyaya: Sure. So as far as the EPC business is concerned, you know this is a very strategic business for us, wherein we go and bid in for such a project where there is a good or a large element of cable supply. So, it has not been an area of focus. As and when, whatever quarter we come across such a project where there is a good cable supply we go in and bid for these projects and that is where the margin profile for that segment has varied.

Going ahead, we have a pretty good order book. And that's largely because of the RDSS scheme of the government. We've always guided that within the EPC business, the margin profile in the long term will be in high single digits. And that is something that we'll continue to guide the market. As far as the contribution to the company's top line is concerned, we believe that the contribution will range somewhere between mid to high single digits going ahead.

Sanidhya: So currently you were saying it is around 10%?

Chirayu Upadhyaya: Right. In the first quarter of this financial year, it is at a higher level, of 10%, but that's largely because the normal business, the cables and wires business, it registered a bit lower growth compared to what we generally do, but going ahead, on a consistent basis, if you take a yearly view, the contribution from the EPC business will range in mid to high single digit.

Sanidhya: Okay. So, you are suggesting a higher contribution in the top line from the other segments rather than the EPC for the year going ahead that would directly or indirectly help us in EBITDA margins?

Chirayu Upadhyaya: That's right.

Sanidhya: Okay. Thank you. And secondly on inventory days and inventory turnover so we are seeing quite a volatile nature there. In recent last 3 years as well, our inventory days have been continuously increasing. So is it due to the EPC business or it is on the retail side, distribution basically?

Chirayu Upadhyaya: See again over here you'll have to take a more yearly view rather than a quarterly view. Because depending on the business circumstances in every quarter the inventory days will vary. But in general what we have been able to achieve over the past four to five years is that the inventory days have come down. If you look at the inventory levels that we used to maintain while we got listed five years back, they used to be as high as 130- 140 days, but since last year, we are now generally averaging somewhere between 100 to 110 days of inventory.

We believe this is a more optimized level of inventory days. We've been able to optimize on that because of the advanced supply chain that we've been able to implement within our system in the country. Depending on what quarter you are looking at, it might be high. In the past quarter as I've already informed in my initial remarks, the inventory levels were high because of higher levels of finished goods that we had on our books because of the kind of demand that we were expecting in June.

But again, what we've guided is that this is transitory in nature and these inventory levels will moderate going ahead in the quarters to come. So, generally at a working capital day view, we believe 50 days to 55 days of working capital days is what is an optimum working capital cycle for us. Within that, the inventory days will be somewhere closer to about 100 days. The receivable days should be somewhere closer to 30 and the payable days will be about 20 days or so minus where the inventory days are. So that is where we believe we'll continue to operate in the mid- to long term.

Sanidhya: Lastly on the FMEG business so even though this was a great quarter for the FMEG business, but you're still not seeing EBITDA positive. So what's your take on this?

Chirayu Upadhyaya: So, we are working on the FMEG business. As we've been guiding in the past few quarterly calls, there are a lot of different things that we are doing within that business. We have a strategic roadmap in front of us on how we want to change that business. We have identified the four areas where we have to do a lot of work. We are working on improving our reach. We are working on new product development. We are working on improving our brand positioning and we are also working on influencer management. The goal going ahead for us will be to do a good job of execution on all these four identified areas.

As far as the profitability is concerned, that will also gradually improve with time. Over there, there are three levers on which we are working on. Within the product categories that we have in the FMEG business, historically, we've been focused more on fans and lights. But over the past year or so we've started working more on the switches and switchgear segment and both of them are such product segments wherein at an industry level the competitive intensity is relatively lower and hence the margin profile is better. So, we are working on increasing the mix of those two product categories within the FMEG business. We've had some success over the past years where the contribution from those two product categories have inched up. We'll continue to work on that strategy and that should result into an improvement in margins as far as the FMEG is concerned.

Within the larger product categories of fans and lights, we are working on the premiumization of our offerings. Through our new product development initiatives, we now have offerings across price points. Within both fans and lights, we have been able to improve the contribution from premium products. And that is where we are actually seeing improvement as far as the margin profile is concerned.

And third and again an important point is the scale in the business. As you are well aware, within our FMEG business, we manufacture everything in-house. As of now, the utilization rates are quite low, but as the business scales up and utilization scales up, we'll have operating leverage and that should again help on the margin front. So as far as the goals are concerned, in the near term our first goal will be obviously to curtail the losses and become break-even at an EBITDA level and then gradually enter into profitability.

Sanidhya: Okay. Thank you so much and all the best.

Chirayu Upadhyaya: Thank you.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Thank you for the opportunity. So, my first question is any update on the income tax issue?

Chirayu Upadhyaya: So, Sonali, as of now there is no further update than what we had communicated in our previous investor call. Even as on the present date, we have not received any tax demand notice or any other orders from the income tax authorities. Having said that, it goes without saying, that we are fully committed and we will cooperate with the income tax authorities as far as their procedure is concerned. Our priority still continues to remain transparent and adhere to all regulatory requirements and as and when there is an update to be given we will be very proactive and provide the same to the market as we have been doing in the past few months.

Sonali Salgaonkar: Understood. Helpful, Chirayu. Second question is again on the exports because exports seems to be the main reason for the margin dilution this quarter. So, we understood that there is an interim transition of the business model to a distributor led model in the US. How many quarters do you think this impact can sustain?

Chirayu Upadhyaya: So, Sonali, it will still take us a bit of time as far as the geography that we're discussing is concerned, will take us a few more quarters. It's a large geography. And we'll have to have enough distribution in place. We'll need to have knowledge of the fast-moving SKUs and hence, it takes a bit more time to completely move to a different kind of a business model. But having said that, while that continues in the U.S., we continue to work on other geographies. Every quarter, we keep on adding new geographies, where we can supply our inventory to. And that is where we'll continue to scale up the business, or international business from the other geographies.

You're correct in your assessment that the larger decline in margins during this quarter has been because of the international business. So, while we had good sales happening in the other geographies, what has also happened is the freight costs have increased over the past few quarters. And hence, when you compare this, the margin profile of international business in Q1 of this year versus Q1 of last year, we had that additional impact. So even in the international sales that we've done in this year, the margin profile is a bit weaker than what we had in the past year. So that is contributing a bit more as far as the margin suppression is concerned.

But as far as the overall demand momentum is concerned, we believe that it's very strong and that's from across all the geographies. Us being a very small player, we still have a lot of opportunity to do over here and continue to grow. We'll keep on adding new geographies to diversify our risk over there and keep on adding newer approvals and that is how we'll be able to continue to scale up the international business.

Sonali Salgaonkar: Understood. And our target of exports reaching 10% of sales is by when, FY26?

Chirayu Upadhyaya: Yes. As part of the Project Leap, we target to reach 10% of contribution from international business for FY26.

Sonali Salgaonkar: Understood. And just one last question, any change in your earlier capex guidance?

Chirayu Upadhyaya: No, there is no change. As you would have seen, during the first quarter, we've done capex of about ₹280 crores. So, we are on track to do the capex on our guided range of ₹1,000 crores to ₹1,100 crores for the year. We believe it should be more towards the higher end of that range. But yes, we are on track. We believe the demand momentum in the domestic cables & wires business is very strong and believe will continues to be the case for many years to come. We believe there is enough and more requirement for large players like us to add on capacity for us to be able to cater to all the increased demand that will be coming over the next few years. And that is why we continue to work on the capex guidance that we've given.

Sonali Salgaonkar: What's our current average capacity utilization in cables & wires?

Chirayu Upadhyaya: For the first quarter, it was somewhere between 70% and 75%.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Hi sir, Good afternoon. Sir, my first question is my understanding for any particular project, cable & wire is like 4-5% of the total project cost. So what are these projects?

Chirayu Upadhyaya: You are not very clearly audible. Can you please repeat?

Ashish Jain: I think that to my understanding, for any project cable and wire is like less than 10% of the total project cost. So what are the kind of projects that we are taking where cable and wire is a substantial portion and it makes sense for us to take a full project?

Chirayu Upadhyaya: As we mentioned, within the EPC segment, we are largely taking the RDSS orders. The RDSS scheme is for revamping the power distribution infrastructure in some geographies and that is where the component of cable supply is high.

So generally, you are correct, in normal projects, the component of cable supply is roughly in low single digits somewhere between 3% to 4%. But in power transmission and distribution, the component of cable supply is higher. And those are the kind of projects we largely undertake in the EPC business.

Ashish Jain: Okay. So this is where the cable is being redone these are not new distribution lines being set up?

Chirayu Upadhyaya: Yes. So as of now, it's kind of an upgradation of existing infrastructure. But what has been guided by the government, is that it might be in the future, in the new RDSS scheme that they might take up post completion of this scheme, which might be also for new infra. Because as you know, in India the power infra has a requirement to be scale up, because of all the investments that we've been doing in the renewable space and the new infrastructure which is required over there. There might be such projects which come up in the future. But as of now, within the RDSS scheme, the outlay is for revamping of existing infra.

Ashish Jain: Right. Secondly, can you share a breakup of your cables & wires revenue between B2B and B2C and what it was, let's say for the whole of last year?

Chirayu Upadhyaya: So, cables versus wires, mix within the segment, cables would have contributed closer to 75% whereas wires would have contributed closer to 25%.

Ashish Jain: And what is this number for FY24?

Chirayu Upadhyaya: Again, similar, just a few bps lower. So again, as we mentioned, even in this quarter the cables have outgrown wires. And that is where the mix has again gone in favour of cables. But largely, pretty much similar contribution from cables & wires in FY24.

Ashish Jain: So just one housekeeping question between international and B2C, which is the higher-margin business for us?

Chirayu Upadhyaya: Yes. So, within B2C, the wires business is a better margin business. So generally, when the commodity prices are stable, we make somewhere between 15% to 16% at EBITDA level on the wires business, whereas on domestic cables, we generally make between 9% to 11%. International businesses is again much higher margin business. But within the B2C as of now it's the wires business which is of better margin. FMEG business is something that obviously in the future will have profitability coming in.

Ashish Jain: So, the exports is even higher than wires' margin?

Chirayu Upadhyaya: Yes, that is correct.

Moderator: Thank you. The next question is from the line of Swati Jhunjhunwala from JM Financial. Please go ahead.

Swati Jhunjhunwala: I just wanted to understand, within the FMEG segment, what are the focus regions that we are looking at in terms of expansion? And do we have any target as to what will the 2,900 retail FMEG dealers that we have, any expansion plan on that? And also related to the FMEG business could you also give me a broad understanding of the mix within the FMEG segment?

Chirayu Upadhyaya: Sure, Swati. So, within the FMEG business, as of now, we have pretty good stronghold in the Western zone of the country and that is where largely our distribution is placed. But obviously, the idea is to improve it across the country. Those 2,900 dealers or distributors which are currently distributing our FMEG products, obviously the number should go up materially. And that is what we are working towards. This is something that will play out in the near future as and when we keep on tying up with newer distributors and dealers.

If you look at the industry leader, they have over 16,000 dealers and distributors. So, there's a lot of work that is required to be done by us on distribution expansion and we are working on that. We have identified the kind of distributors that we want to work with across all the geographies. And the idea will be to improve our presence in all the geographies across the nation.

As far as the mix is concerned, the fans and lights both of them are the larger contributors within the FMEG segment contributing somewhere between 50% and 55% of the FMEG top-line. Switches and switchgears would contribute in high-teens. A similar contribution will be from conduit pipes and fittings and the other businesses are relatively smaller contributing in single digits.

Swati Jhunjhunwala: And just one more thing, cables and wires, which is currently 75:25, do you expect this to materially change over the next 2-3 years? Or is it expected to stay within the territories given that there is significant real estate registration that we are seeing in the country?

Chirayu Upadhyaya: So, Swati, as far as the company's intention is concerned, obviously, we would want to improve the mix more towards wires, because wires is a better margin business. But ultimately, the growth rate depends on what kind of growth is being seen as far as the end demand and infrastructure or real estate demand is concerned. For wires, almost 70% of the demand comes from real estate. And that is where, continuous growth in the real estate is important for wires' case.

As far as cables is concerned, the demand is from across various infrastructure sectors as well as industries. And over the past 2 to 3 years, we've seen a lot of investments happening within that space. And as a result, we've seen that cables are outgrowing wires. But what we do believe is that we are now in that phase of real estate upcycle wherein the demand for wires should start picking up.

We've already seen a couple of quarters where we've seen the demand for wires improving than what we have witnessed over the past decade or so. And that is why we believe that if what we think will pan out, that is where the wires growth will also pick up. And that is where the mix might move more towards wires. So, it will be difficult to say as to what that 75-25 will look like in next 3 or 4 years. But we do believe that, that mix should change more in favour of wires.

Moderator: Sorry to interrupt, sir, but the current participant has been disconnected. The next question is from the line of Nikunj Gala from Sundaram Asset Management. Please go ahead.

Nikunj Gala: Just continuing on that part, so in this quarter, where you mentioned 10% volume growth in domestic business, how the growth rate would be bifurcating between Cables & Wires?

Chirayu Upadhyaya: So Nikunj, cables have grown faster than wires. So, it will be in double digits while wires' volume growth will be in single digits.

Nikunj Gala: Sure. So, in the last few quarters like we have seen wires the growth rates are pretty much lower than the cables. I understand, I take your point of real estate. But in the next few quarters, what's the outlook there? Do you see the real estate demand leading to a better volumes in wires?

Chirayu Upadhyaya: So Nikunj, that was what I was referring too. We do believe that there should be a pickup in the demand for wires over the course of the next few quarters. And if that pans out, there should be an improvement in the mix more towards wires going ahead. It will be very difficult to say whether it will be from the next quarter or a couple of quarters from now. But if we take, let's say, the next 4 quarters or the next 8 quarters view, one should definitely see a pickup in demand for wires because of all the real estate projects which are now undergoing construction across the country.

Nikunj Gala: Sure. And lastly, what would be our capacity utilization in Cables versus capacity utilization in Wires?

Chirayu Upadhyaya: So, utilization rates will be higher in Cables. See, at the company level, we were operating between 70% and 75%. So, cables will at the higher end of that range whereas wires will be at the lower end of that range.

Nikunj Gala: Okay, thank you.

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

Girish: Yes, hi gentlemen. Thank you for the opportunity. I'm sorry if I missed this, but a couple of questions. So my first question is to Inder bhai. I think promoter family sold 2% stake at the fag end of June. Outlook-wise, all comments that are coming through from the business are very positive. I just wanted to understand, it's not a small sum because it's almost ₹2,000 crores. If you can just probably highlight or want to comment on the use of funds and timing of the decision to sell the stake. That was first question.

Gandharv Tongia: Girish, why don't you continue and share all your questions, and then we will go on one-by-one?

Girish: Yes. The second one was this particular quarter, exports was reasonably explained. If you can just provide us some outlook for fiscal 2025 because this number obviously is sub-6%. Can we expect for fiscal 2025 to this number to be between, 6% to 6.5% of overall revenues? And the third one is more of I saw there are a couple of changes that have happened on the committee on where it's become more independent. Any initial feedback for the strengthening governance, etc. that have come through, if you'd like to share any of that update?

Gandharv Tongia: Thanks a lot. So, I'll probably start in reverse order. We got listed around 5.5 years to 6 years back and corporate governance is at the centre of whatever we do. And it's a journey, right, it's not a destination. So, in our recent interactions, we realized that there are still better practices than what we were following.

In the case of these two committees, which you have rightly pointed out, we had a presence of Chairman in those committees as a member. Though these are perfectly totally aligned with the legal requirement and totally compliant, we realized that if you pick up the large companies in the country, there are only limited instances which are available wherein the Chairman of the company, who is an executive, is also a member of such committees. And we felt that in a step in the right direction would be to not have executive directors in the committees like Audit Committee or NRC. And that is why our Board yesterday decided to reconstitute the committee. Both of these committees now have only independent directors. And that is why that change was done. And we believe that's a step in the right direction. And we will continue to make efforts to further improve our corporate governance practices wherever we believe there is a scope for improvement. Having said that, I would like to call out, that the previous composition was exactly in-line with the legal requirement. So, it was anyway compliant.

Now moving to the first part of the question. Though it is for the shareholders to answer and it's a shareholder’s decision, since I'm privy to the decision-making process, I'll probably share that. It would be more comfortable not answering those conversations in a formal setup. But since you’ve raised it in the formal setup, I will probably attend to that question. So, the promoters raised the money as part of the IPO in 2019. And since then, there was no material transaction. Because it's a fairly large family, as Inder bhai, along with three brothers founded this company almost 50 years, 60 years back. And whatever money was earned by the company was deployed into the business. And over the period, now the second generation is also available, and they also want to do several other things. So, to meet the personal requirements from the second generation of the people who are not involved in the company, they decided to raise some money. Though on the face of it, it looks like a sizable amount, but it's not necessarily a sizable amount when you start thinking about the number of individuals who are involved. And they have their personal needs. They want to have better houses or properties outside of what they already have, few of them would like to explore investment outside of what they have. So, it's only for personal consumption. It is not for any other business ventures or otherwise. And I don't expect this to be a regular feature. This was done practically, if I'm not wrong, first time or second time since the time we got listed. I would tend to believe this is going to be a once-in-a-while-type transaction, not necessarily a regular transaction.

On the second part on exports, I'll probably defer it to Chirayu as he will take the question.

Chirayu Upadhyaya: So, Girish, as I've mentioned in my reply to Sonali, the last quarter was a bit weak because of softness in one of our larger geographies. And again, something which I mentioned to one of the earlier participants was that one needs to take a yearly view rather than a quarterly view as far as this business is concerned.

We believe if you look at our numbers going ahead in every quarter, you'll see an improvement. And that is why the contribution from international business to the overall company's top-line will also see an improvement compared to what we have been able to register in the first quarter of this year.

Girish: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Nirransh Jain from BNP Paribas. Please go ahead.

Nirransh Jain: Firstly, I just want to understand, what is leading to this high interest cost in Q1 ? And especially, I understand this might be on the back of higher channel financing, but my understanding is that we are already close to 20% to 25% of channel financing. So in that context, why do we see there's a sharp jump in the finance cost as compared to our top-line growth?

And secondly, my question is more on the margin front. Again, I'm sorry if this has already been answered. But I just want to better understand the major reasons that have been highlighted for margin contraction is on the higher contribution from EPC business as well as the decline in exports. But these two issues seems likely to be there at least in the near term for the next 2 quarters to 3 quarters. Your EPC business is likely to contribute roughly high single-digit versus what it used to be, 2% to 4%, in the last 2 years to 3 years as well as on the export side that, distribution model change has yet to stabilize. So, what is leading to our optimism on these margin expansion from here onwards versus what we saw in the first quarter? That's all. These were my questions.

Chirayu Upadhyaya: Thank you, Nirransh. On your first question on interest costs, interest costs are linked to our procurement, not to channel financing. And channel financing, it's a non-recourse facility, and the facility is between the distributor and the bank. We are not liable to pay any interest on that.

As far as the interest or financing cost is concerned, it's because the acceptances have been going up. So, when we procure our raw material, we would employ LCs over there, which is an interest-bearing facility. If you look at the acceptances number, compare it for past Q1 versus this Q1, you will see that there has been a material change. And accordingly, there has been a rise in the financing cost.

On your second part, on the margin of the company, you are correct on your two assumptions, where the EPC business will relatively contribute higher than what it has done in the past. But there are two other things to be considered as far as the international business and the domestic business is concerned.

Within quarter one, since the channel business was affected because of higher commodity prices, and that is where the contribution from that business went down, that had a material impact as far as the margin profile of that segment is concerned. Since the commodity prices are now relatively stable, we believe that this one-off instance, which happened in the past quarter, shouldn't be the case in the quarters to come. And that should result into better or improvement in the margin profile.

On the international piece, again as I've mentioned, there has been an increase in freight cost across the geographies. Again, this is something which is temporary. It should come down in the near future. As and when that happens, that should result into an improvement in margin profile.

So, both of this is something which will result into improvement in margin profile and gives us the confidence that we should be able to show an improvement in the quarters to come.

Nirransh Jain: Sure, sir. Thank you for the opportunity.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to Mr. Gandharv Tongia for closing comments.

Gandharv Tongia: Thank you so much for your time. We look forward to your continued support. In case if there are any unanswered questions, please feel free to reach out to our group e-mail ID, investor.relations@polycab.com. Thank you and take care.

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