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Date: October 25, 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),

Subject: Submission of Transcript of Earnings Conference Call held on October 18, 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 October 18, 2024.

Kindly take the same on your record.

Thanking you
Yours Faithfully

For **Polycab India Limited**

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"Polycab India Limited

Q2 FY '25 Earnings Conference Call"

October 18, 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 the Polycab India Limited Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Gandharv Tongia: Good afternoon, everyone, and thank you for joining us. I hope all of you are staying healthy and safe. I'm Gandharv Tongia, Executive Director and CFO at Polycab India Limited. On this call, we shall discuss the Q2 FY '25 results, which were approved in the Board meeting held yesterday. We will be referring to the earnings presentation, financial results and financial statements, which are available on the stock exchanges as well as on the Investor Relations page of our website.

Joining me today from the management team, we have our Chairman and Managing Director, Mr. Inder Jaisinghani; our Head, Investor Relations, Ms. Chirayu Upadhyaya. Let me now hand over the call to Inder bhai for his comments.

Inder Jaisinghani: Good afternoon, everyone.

Building on a strong market demand, our business achieved remarkable growth, setting new revenue records for the second quarter and first half of the year. This outstanding performance underscore our exceptional execution capabilities and the strength of our extensive distribution network. Our ability to adapt and respond swiftly to evolving market dynamics has further enhanced our growth trajectory. As is typical, demand is expected to pick-up in the second half of the year, and we are fully prepared with the right team, capacity and operational expertise to capitalize on the opportunity. With ₹100 billion of revenue achieved in the first half, we are set to achieve our Project LEAP goal of ₹ 200 billion revenues a year ahead of the targeted FY26 timeline.

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

Gandharv Tongia: Thank you, Inder bhai.

India continues to shine on the global stage, as evidenced by recent projections from major international organizations. Moody's Ratings has revised India's GDP outlook upward to 7.2% for the current fiscal year, an increase from its previous estimate of 6.8%, and has also raised its FY26 forecast to 6.6% from 6.4%.

Supporting this optimistic outlook, GST collections have shown a healthy run rate of over ₹1.8 crores in the current fiscal and have remained above ₹1 lakh crore for 31 consecutive months, indicating sustained domestic demand. Additionally, a higher-than-normal monsoon and an increase in kharif sowing suggest improved prospects for rural demand in the coming months, with festive demand expected to further bolster momentum.

The services and manufacturing sector PMI has consistently remained above the threshold of 50 since the last 38 months and 39 months, respectively, indicating an expansionary phase. Although the services PMI slightly slowed in September due to cost pressures and subdued international orders, major firms still reported solid job creation and improved business confidence. Further, the recovery in rural demand, coupled with the acceleration of private consumption and a pickup in government expenditure signals continued growth momentum during the remaining part of the year.

The Reserve Bank of India in its latest MPC meeting last week shifted its stance on monetary policy from "Withdrawal of Accommodation" to "Neutral" by unanimous vote – the first change since April 2022 and has also retained its FY25 inflation projections unchanged at 4.5%. Further, RBI remains positive on the country's growth outlook, maintaining a GDP projection at 7.2% for FY25. Expected interest rate cuts in the 2nd half of the year by the RBI, in-line with global counterparts is expected to further boost the demand momentum.

Overall, the combination of positive growth projections, supportive government policies and improving demand dynamics positions India for sustained economic momentum moving forward.

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 September 2024, our consolidated revenue grew by 30% year-on-year, driven by strong performance across all the business segments. EBITDA grew by 4% Y-o-Y with EBITDA margin at 11.5%. The sequential decline in EBITDA margins of ~90 bps was on account of 3 reasons: first, decline in FMEG segment margins due to increase in advertising and promotional (A&P) spends relative to the first quarter. This is in-line with industry A&P spend trend, where spends pick up gradually during the year, especially ahead of anticipated festival and seasonal demand. Over and above that, increase in employee expenses, as we added manpower to create vertical-wise sales team, also negatively impacted the margins. Secondly, within the retail wires business, we witnessed heightened competitive intensity as players looked to maximize volume growth during the heightened demand witnessed in the later part of the quarter as copper rallied by 14% cumulatively, leading to margin compression. Third, the high growth in our lower margin institutional business relative to the channel business on account of continued commodity price decline in July further impacted margins for the quarter.

On a year-on-year basis, the EBITDA margin decline was because of 4 reasons: 1) Within the Wires & Cables segment, lower contribution from the higher margin international business, 6.1% this quarter versus 9.3% in Q2 of FY24 led the bulk of the contraction; 2) As mentioned in the quarter-on-quarter reasoning, margin compression in wires, because of the sharp commodity uptrend added to the compression; 3) Higher losses in the FMEG business on account of higher organizational expenses was the third reason, and; 4) higher contribution from the lower margin EPC business also added to the decline.

At the PAT level, our Company achieved its highest ever quarterly PAT of ₹ 4,452 million with a PAT margin of 8.1%. Finance costs for the quarter stood at ₹ 453 million, while other income totalled ₹ 762 million. A detailed breakdown of finance costs and other income is provided on slide 18 of our earnings presentation. Further, our net cash position improved to ₹ 24.3 billion, compared to ₹ 16.4 billion in Q1FY25. In addition, our working capital cycle improved to 44 days, facilitated by the clearance of finished goods inventory built-up in the Wires & Cables business at the end of the previous quarter and improvement in payable days, supported by the increase in acceptances. Furthermore, our capex for Q2 FY25 stood at ₹ 2.9 billion, accumulating to ₹ 5.7 billion for the first half of the year, in-line with our guidance of doing ₹ 10 billion to ₹11 billion of capex during the year.

On a half yearly basis, I'm immensely proud to share with you all that our H1 FY25 Revenues, EBITDA and PAT are the highest-ever in the history of the Company for a half-yearly period. Our revenues grew strongly by 26% year-on-year, surpassing ₹100 billion milestone, setting us up to achieve ₹ 200 billion revenue goal during the current year itself. EBITDA was up by 5% year-on-year with EBITDA margin at 11.9%. PAT grew by 2% year-on-year with PAT margins at 8.3%.

Moving on to slide 6.

The Wires & Cables segment recorded a robust 23% year-on-year growth with the domestic business registering a remarkable 28% year-on-year growth, supported by mid-teen volume growth. The domestic distribution-driven business, while slow in the first couple of months, picked up pace during the end of the quarter. Institutional business continued its strong growth momentum on the back of robust demand.

For the first time in many quarters, wires growth has outpaced cable growth. Our efforts on increasing penetration in the emerging markets as well as expanding the product offering are now bearing fruits. Contribution of ranges launched over the past 2 to 3 years contributed almost half of the retail wire sales during the year. Geographically, growth in wires was driven by the Western and Southern region with substantial contribution from the states of Maharashtra, Telangana, Karnataka and Tamil Nadu.

Looking at the broader economic landscape, the demand environment remains robust across key sectors. Government spending and infrastructure investments have picked up following the general assembly election, providing positive momentum. The government is expected to increase its spending over the remaining months of the fiscal year to meet budget targets, which will serve as a significant tailwind for growth.

The real estate market also remains on solid footing, driven by low inventory levels, rising prices and healthy project launches. H1 FY25 recorded the highest number of half yearly new project launches and sales in the last decade. These ongoing projects will continue to drive demand for wires over the next few years, contributing to accelerated industry growth. Further, the expected interest rate cuts over the next few quarters will further boost real estate uptake.

The international business registered a 36% quarter-on-quarter increase, resulting into improvement in its contribution to the Company's top-line to 6.1% in this quarter compared to 5.3% in the previous quarter. Order book in countries, excluding the U.S., remained healthy with significant new demand getting generated across countries and sectors. We expect second half of the year to show improvement in international business sales compared to the first half.

On the margin front, we discussed the reasons for the decline a while back. It is pertinent to note that in spite of the contraction, the Wires & Cables business continued to generate margin within the guided EBITDA range of 12% to 14%. Structurally, second half of the year is always margin accretive, and we expect a similar trend this year as well.

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

The FMEG business recorded a robust growth of 18% year-on-year despite being a traditionally weak quarter. This growth was driven by success of Company's initiatives on channel expansion, product architecture enhancements and implementation of the influencer management program.

The fans business registered a robust growth year-on-year, albeit on a lower base. Our focus on premiumization within the segment is progressing well with premium fans contribution in high 20s to the overall fans sales during the year. An initiative in the same direction is driving sales through e-commerce, which has seen decent uptick during the year.

The Switchgear segment continued to register heavy growth, supported by strong real estate demand. The Lights and Luminaires segment recorded healthy volume growth, driven by the introduction of 60-plus new SKUs and addition of ~100 distributors and ~4,000 retailers during the year. However, sales value registered a decline due to ongoing price erosion. Pricing in bulbs and battens remained almost stagnant during the quarter, however, pricing in non fall-ceiling downlights witnessed 5% to 10% correction during the quarter.

Taking a near to mid-term view, we believe FMEG demand should pick up next year, fuelled by robust real estate growth.

Margin contraction in the segment during the quarter was discussed during the initial comments.

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 ₹ 5,488 million in quarter 2, marking 241% year-on-year growth. Profitability increased by 263% year-on-year with segmental margin registering a growth of ~80 bps quarter-on-quarter to 11.8%. The robust growth within the business was driven by strong execution of the RDSS order book. Looking ahead, we expect a similar quarterly run rate over the next 2 years, as we execute our RDSS order book. The business contribution to the Company's consolidated top-line is expected to be mid-to-high single-digit range. The annual sustainable operating margin for this business is expected to remain in the high-single digits over the medium-to-long term.

So, that was the update for the quarter.

To summarize the key takeaways, we expect the demand momentum to remain strong in the Wires & Cables business, with second half to be better than the first half. Margins, too, are expected to improve in the second half of the year to be within the guided range of 12% to 14% at EBITDA level. The Company is confident of achieving the ₹ 200 billion top-line goal in the current year itself and is working on its next 5-year goals, which we intend to disclose by the end of the current financial year.

Thank you, and we are now open for questions.

Moderator: Thank you very much. The first question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan:: My questions, many of them are related to the breakup or mix in the cables and wires business. First is, if you can give a breakup of the cable and wires categories, how it is in the first half of this quarter and how it has changed compared to the earlier quarter or the previous quarter in the earlier year?

And within the cable segment, you had mentioned 3 categories. So one is government, private, real estate. Any broad mix as to how this is within the cable space? And within government, if you can give further breakup, railways, roads, power T&D, airports? Even if you include data centers, how it is? So this is my first question, largely related to breakup of the demand. Even ballpark numbers are fine, broad numbers are fine.

Chirayu Upadhyaya: Sure, Ravi. Thank you. As far as cables and wires mix is concerned, as I mentioned, this quarter, the growth for wires was better compared to cables. The growth in wires segment was almost 2x of that in cables segment. But of course, because of the lower base on wires, the percentage improvement in mix is roughly about 1 percentage point. During the previous quarter or the Q2 of last year, generally, the mix for us as far as cables and wires is concerned was in the handle of 70 to 30. Of course, it keeps on moving a couple of hundred basis points here and there on a quarterly basis. So this time around, the gain in wires mix will be about 100 basis points.

As far as the second question is concerned on the demand from various end-segments - see, the demand is very strong across different sectors and we have presence across, irrespective of whatever sector you name, be it railways or roadways, highways, power distribution, manufacturing and so on and so forth. As you are aware, almost 90% of our sales are generally done through distributors and they are the ones who generally end up taking the orders from the end customer. So, in that sense, we wouldn't have an exact breakup of what sector is generating what form of demand. But we do know that on a relative basis, for us, manufacturing and real estate are the sectors wherein for us, the exposure is higher. Sectors related to energy, transmission, generation, distribution as well as oil and gas and mining are something wherein the exposure is slated to go up. But irrespective of the exposure, we have sales which are done across all the different sectors and we are seeing traction across all of them.

Of course, quarter 1 was something when the government was a bit slow in terms of ordering on newer investments, but again, that has picked up pace in quarter 2. And as I mentioned in the initial comments, we expect the government investments to improve in the second half of the year. Over and above that, the private investments are again something that we expect will pick up pace going ahead. We see a lot of stars aligning in that direction. Interest rate cuts have already started happening globally. And probably in the second half of the current year, we should see that in India as well. As interest rates goes down and borrowing rates for a private Company goes down, as well as the consumption improves as the inflation is under control, the private capex should again start improving. And that is again something that should stand us in good stead, because as I mentioned, for us that most of the sales are through distributors. Manufacturing and real estate are sectors wherein the end customers, they prefer to buy from distributors and that is where we have lower competition. Most of our other peers, they are more institutional in nature, so as and when over the next leg of the infrastructure cycle, when the private investments pick up, it is going to be much more beneficial for Polycab because we have much more exposure over there.

So to summarize, we are very, very bullish on the demand environment of wires and cables going forward, and it's across the different types of sectors, be it government or private.

Ravi Swaminathan: Okay. Specifically, power T&D, you can bifurcate it both our transmission and distribution and then renewables, that is solar and data center. These 4 subcategories, any sense on the exposure that you will be having from the cables and wires side?

Chirayu Upadhyaya: So the power side, we will have relatively lower exposure on the transmission side because largely the extra high-voltage cables are the ones which are utilized over there. Of course, a couple of years down the line when our new facility is up and running, we will have incremental exposures going ahead. But as of now, the exposure is lower. But we are very well present on the distribution side. As you already know, we have a lot of orders on the EPC side within the RDSS scheme, wherein we are supplying a lot of cables for power distribution infrastructure which is getting set up. So distribution is something wherein we have a very good exposure.

Of the other sectors which you mentioned, data centers is again something wherein we have approvals, and we are supplying incremental cables too. But of course, if you look at the overall cable industry size, data centers while growing at a very fast pace, is a very small part of the overall mix. So maybe 5 years, 10 years down the line, we can talk a bit more in detail as far as what it is that we expect from that opportunity. But as of now, it is a very, very small part of the overall cables pie and in all the other larger pies, we are growing at a very rapid pace.

Ravi Swaminathan: Understood. And distribution, when we say we have a good exposure, it will be like a high single digit as a percentage of overall revenue? I'm just pushing for numbers, so please bear with me. So will that be a sense? And any schemes that are there in the pipeline, which can further drive this growth?

Chirayu Upadhyaya: So, our exposure as a percentage of our overall cables and wires will be in double digits as far as energy distribution part is concerned. And of course, the RDSS scheme is something wherein we are very positive on and are applying for the same. And that is where our exposure at least over the next 2 to 3 years seems to be quite good.

Ravi Swaminathan: And next question is with respect to capex. This year, FY25 and 26, what kind of capex that we are building in? And my last question is with respect to the optic fiber business that you had talked about in the TV, ₹50,000 crores of orders that we are bidding. Is it something completely new or already we have a certain proportion of our cable and wire business from optic fiber? And if you can give some more clarity as to how much business we are already doing there and how much it can grow into?

Chirayu Upadhyaya: Sure. So, on your first question, for the capex for the year, we will do somewhere between ₹10 billion to ₹11 billion of capex for the year. Most of it will be for the cables and wires business. A similar run rate is something that we will have next year as well. And again, largely for the cables and wires business, but it will be spread across the different types of cables that we have. So, the domestic cables, which are generating very good demand, the cables that we export, the special purpose cables as well and the EHV facility which we are setting up.

So, the run rate for this year, next year and probably the year after that will be pretty much in the similar range of ₹10 billion to ₹11 billion each year. As far as the second question is concerned on the BharatNet project, yes, we have applied for tenders in the Phase 3, which were opened in August. We have applied for all 16 packages. While, of course, winning it or not is something that we will have to see when the results come out. But as of now, we do have optical fiber manufacturing capacity at our plant. Contribution to the overall top line of the Company is as of now very low, in low single digit. But if we do get some sizable orders from the BharatNet project, over the course of next 2 to 3 years that can be a much more meaningful number than it is right now.

Ravi Swaminathan: Understood. But can we assume a 20% strike rate in terms of these orders getting converted into order book?

Chirayu Upadhyaya: Ravi, very difficult to say. It's upon the government whom they give out the order to. So we'll probably have to wait out and see who wins what amount of orders.

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

Girish: Yes. Sorry, if I missed this comment. Can I get the growth in Wires segment this quarter versus Cables segment, volume growth?

Chirayu Upadhyaya: As far as the volume growth is concerned, in Wires it was between 20% and 25%, and within Cables, it was in early teens. As far as value growth is concerned, for Wires, it was close to 40%, whereas in Cables, it was about 20-odd percent.

Girish: Okay. Just on the media interview, the management had mentioned that the competitive intensity was on the wire side. I noticed the copper prices started going up, I think, in the last 2, 3 weeks of the September quarter.

So wanted to understand like what really happened there because that also is a reason on margins being slightly weaker on a year-on-year basis. So wanted to understand, normally, you guys take price hikes every 15 days in Wires segment. And I mean, if the prices are going up, then why did the competition resort suddenly to price cuts in an increasing price environment, input cost environment? That was the second question.

Chirayu Upadhyaya: Girish, generally, the price revision that we take are more on a monthly basis, and that is the generally followed method for us. As far as the price hikes or passing on is concerned, see, in cables, while we have a very good market share and we are way ahead of the second or third largest competitor, within wires, while we are the leader, the second and third largest competitors are pretty close as far as their market share is concerned. And all of them have a specific part of the country wherein they have very good stronghold on. So over there, it's very difficult for us to control the prices. We have to be in alignment with what the industry is following. In the last part of the quarter, specifically in September when the prices went up by almost 10% to 12%, the distributors, obviously, they wanted to cash in on this benefit because they wouldn't want to wait until October when the price pass-on would happen, and seeing the kind of demand that was generated, and as you are aware, within the wires industry, there is no capacity constraint - everybody is sitting on additional capacity – so, everybody wanted to optimize on their volume growth, and that is where everybody tried to gain on as much market share as possible.

Since we wanted to protect our market share, we also did as much of sales as possible, and that is where the margin compression has happened. But as I had mentioned in the initial comments, hopefully, such kind of high volatility or increase or decrease trend is something that we should not see. If a bit more stable fluctuations happen in copper prices, which has generally been the case historically, you wouldn't see any such material compression, et cetera, in margins. It's just that over the past 3 to 4 months, the fluctuations in commodity prices have been way higher. And because of this, you have seen a different kind of margin trend for the industry this time around.

Girish: So just a follow-up on that. So I believe Gandharv also mentioned that above $500 volatility is a lot more difficult to pass on, on the wires side given the capacity that exists. And cables that is not a problem today, I appreciate that point.

But would it be fair to say that with more cable capacity coming through and if there is such volatility, maybe you could have a similar situation in cables also if the volatility persists at these levels because we can't forecast the price of copper or aluminium, right? So I'm just trying to understand that the pricing discipline that exists today for cables and it got deviated for wire, can it happen in cables a few quarters down the road?

Chirayu Upadhyaya: See, Girish, the scenario on cables is completely different than in wires. In wires, all the peers or the entire industry is sitting on additional capacity. So in a particular quarter or a particular month if there is a way higher demand, everybody can actually utilize the capacities and start cashing in and do a lot more of sales. But that is not the scenario in the cables sector. Plus with the kind of demand momentum or demand which is expected going ahead, we genuinely believe that even the capacities which are being put up right now, those will fall short. So we don't envisage a scenario in which a similar thing plays out in cables, which has played out in wires in this quarter.

Girish: And just last question. I believe you guys have participated in BharatNet tenders worth ₹50,000 crores thus far. Obviously, this is subject to review and tenders actually getting awarded. And you also mentioned that margins will be similar to domestic Cables & Wires. Just from an accounting perspective, will this be more classified in the Cables & Wires domestic revenues whenever you win such tenders? Or will it be more EPC tenders? And what is the -- like a TAM here on a slightly more longer-term basis, if you can comment on that?

Chirayu Upadhyaya: So Girish, there will be a cable supply component of the contract and there will be an EPC part of the contract. The cable supply component will be classified within the Cables & Wires in the segmental classification and the EPC part of it will be within the EPC. It's pretty much similar to the RDSS project that we are executing right now wherein the cable supply gets accounted in the Cables & Wires segment, whereas the EPC part is in the other segment.

Girish: And roughly like a ballpark, ₹1,000 crores project here, could be how much cable versus EPC roughly, if you are to win a ₹1,000 crores project?

Chirayu Upadhyaya: It actually varies depending on which state tender you are winning. Once the tender is awarded to us, we'll be in a better position to answer that question.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: Sir, my questions were what Girish have already asked, so I don't have any further questions.

Moderator: The next question is from the line of Achal Lohade from Nuvama.

Achal Lohade: Yes. My first question is pertaining to the industry. You did mention that the capacity addition in cables will probably be short of the demand what you're seeing at the industry level. Is it possible to get some sense where are we in terms of the capacity and terms of volume or value? And what kind of capacity addition are we seeing for Cables segment.

Chirayu Upadhyaya: So, as we've guided, we will be doing ₹10 billion to ₹11 billion of capex each year for the next 3 years. Majority part, roughly, let's say, about 70-odd percent of the entire capex will be towards the cables and wires business. The capacity addition for us will be something which will continue to happen in phases. Of course, a part of that entire capex is going towards EHV plant, which will be something that will become operational by the end of FY26. But for everything else, it is something wherein the capacity will be coming up in phases.

As of now, anyways, for us, capacity is not a constraint. We are having additional capacity in place. So for us, it's not something that derails our growth rate. But of course, looking at the future demand expectations, it's very important that we put up those capex ahead of time so that we are not in a scenario where there is demand, but we are not able to service that. So that is why we are doing the kind of capex that we are going to be doing for the next 3 years.

Achal Lohade: Correct. Sir, I'm trying to understand more from the industry perspective what kind of capacity addition are you seeing? Is it 40%, 50%, 70%? Or is just 20%, 25% you're seeing, which is giving comfort or conviction that the demand will outpace the capacity addition?

Chirayu Upadhyaya: So Achal, the calculations which we've done is based on the announcements with other listed players and our other larger non-listed players have made. We believe that going ahead, the growth rate in cables at an industry level will be somewhere closer to 2x of the real GDP number, which gives us a rough estimate of the kind of incremental demand, which will be coming up over the course of next, let's say, 3 to 5 years.

If you look at the kind of capacities and utilization rates of the larger peers, which are currently there and the announcement that made in terms of the newer capex that they are putting up for cable capacity, you roughly arrive at the conclusion that this is going to be lesser than what kind of demand which is estimated to be coming in. Over and above that, exports or international business is something which is a very, very big opportunity. And obviously, most of the larger players in the country are looking to take advantage of that as well. Again, we have to have additional capacity for that as well.

So looking at both the variables, one largely arrives to the conclusion that there will be a requirement for much more capacity. And I believe over the course of next 2 to 3 years, we will actually continue to hear much more capacity addition announcements from the industry.

Achal Lohade: Understood, understood. Any colour you can provide with respect to the demand momentum in the exports market? Are you seeing any sign of weakness, struggle out there? Or it is as robust as it was in the past year?

Chirayu Upadhyaya: See, demand momentum across different geographies will vary depending on whatever is the scenario in the country at that point of time. But being at the level that we or any other Indian player is, we are as of now quite small as far as the overall export or demand opportunity is concerned. So largely, any weakness or so in a particular geography shouldn't affect the kind of growth numbers that we should be able to exhibit.

Of course, there can be some internal things related to each Company and how they are operating, which might affect, for example, scenarios where the freight costs are much higher and if a certain trade route is closed. I mean, that can derail our exports to a particular geography. But in general, we believe that exports is a very big opportunity than what we have currently been able to tap into. And the growth rate within international business, if you take a 3- to 5-year view, that growth rates will be higher compared to the domestic cables growth rate that we'll be able to see.

Achal Lohade: Great. And just one last question, if I may. You did make a comment with respect to the wires, the competitive intensity was much higher in the September month. Is it fair to say that the impact of that on the Wires margin, which is probably the second highest segment for us in terms of margin hierarchy, the impact could be 3 to 4 percentage points and that's why the margin impact on the aggregate Cables & Wires as well?

Chirayu Upadhyaya: See, if you take a sequential view, our margins in the Cables and Wires are only compressed by 30 bps. So to that extent, it won't be as high as the percentage that you have mentioned. But of course, it is the major reason for the compression.

Achal Lohade: Right. But Q-o-Q, the exports also picked up, right? I mean, the scale is better. So, the operating leverage apart from the mix also, right?

Chirayu Upadhyaya: Yes. So, two parts over there: one, definitely, as you rightly mentioned, the international business has picked up quarter-on-quarter and that would have helped in terms of the margin. But the second point, which you mentioned was the operating leverage. So if you recall, in quarter 1, we had mentioned that we are operating at 70% to 75% of our capacity utilization. This quarter, the utilization rate is somewhere between 60% and 70% because a part of newer investment of capex that we did, the capacity came up for us. Plus, the second thing is, if you recall, by the end of the previous quarter, we had a lot of inventory, finished goods inventory on our books, which we couldn't sell because the demand kind of nosedived during the end of the quarter. We were able to liquidate that during the course of this quarter. And hence, we were not required to manufacture or utilize much more of our capacity as compared to what it was in Q1. So operating leverage to that extent would have been impacting negatively. So, all these 3 to 4 variables would have impacted the entire margin differential between Q1 and Q2.

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

Amit Mahawar: I have 2 quick questions. I understand the copper and the inventory part, very well understandable. But one of the biggest segment for us is underground cables under RDSS where we are, by far, having a higher market share possibly than the general cable and wire sector.

When you export our cables, generally, are these interchangeable? So my point is, supposing temporarily there's a slowdown in underground cables and eventually picks up, can you divert towards higher export, just to understand? I know probably capacities are fairly fungible, but export market as a qualification in this market. So I just wanted to understand that fine, that's first.

Chirayu Upadhyaya: Yes, the capacities are fungible between the different types of cables. So, if there is a slowdown in a particular type of cables demand, you can use that capacity for other avenues including exports.

Amit Mahawar: Second question is more about last 3 years, there was a very strong unprecedented demand in both domestic and export market and maybe Polycab was the only player, which could see it come in, right, very clearly. Can we say next 3 years, especially in cables, the competition is far better ready and keen than it was in the last 3 years and it could have some impact on sector profitability in general. Is that statement correct?

Chirayu Upadhyaya: See, Amit, kind of profitability that we have been able to register over the past 2 to 3 years, –or rather the improvement, it's not just because we were the only player who had the capacity. There are a lot of variables that went into the play over there. We have been able to improve our sales through channel, which is a better medium in terms of profitability. Further, we have been able to change the mix of the kind of cables that we were selling domestically, plus the improvement in the contribution of exports. All of this have contributed towards the improvement in margin. So, it is not correct to say that even if going ahead, there are capacities coming up for our peers, we'll see any form of slowdown or compression in margins.

As I mentioned a while back, we do believe the kind of demand which is expected over the next 3 to 5 years is way ahead of what the capacities which are coming up within the industry. And to that extent, as of now, sitting on this particular day, we don't believe there should be any form of material margin compression because of whatever incremental capacities are coming up.

Amit Mahawar: And maybe a third quick one is, next 3 years, where will be our export volumes or maybe in value terms, what is that we're targeting in exports?

Chirayu Upadhyaya: Sure. So, I mean, the guidance on exports is something that will be a part of our next 5 years guidance that we are working on right now where we are trying to come up or release that guidance during the course of this financial year, and that will give you a very clear idea of what it is that you can expect in terms of contribution from international business as well as the domestic growth rate, et cetera and so on and so forth.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: A couple of questions on the RDSS business that you do. May I ask the current order backlog that you have in this part of the business? And second thing is, how is the whole order prospect pipeline looking like in this?

Chirayu Upadhyaya: Sure, Shrinidhi. So, as of now, as at end of September, the open order book of the RDSS scheme for us was roughly about ₹48 billion. That is something that we have to execute over the course of next 2 to 3 years and that is why we gave a comment that over the course of next 2 to 3 years, we'll see probably similar run rate on EPC or the other business in quarterly revenue.

As far as the incremental opportunity is concerned, there are still a lot of orders which are yet to be coming. We've applied for many of them. Of course, as of now, it is very difficult to say what it is that we will be able to get because again, it's similar wherein that the government, which is kind of awarding it because as and when during the course of this year, we get those incremental orders, we'll probably disclose the open order book, and that should give you an idea of what to expect on that front.

Shrinidhi Karlekar: And the second question is on the whole EBITDA margin that you generate, both what you book in your cable business and what you book in the EPC part of it. May I ask what is the blended margins that you get or some colour on what are the margin versus your portfolio margins?

Chirayu Upadhyaya: So cables business margin or the cables supply component margin is pretty much similar to what it is that we make when we do a normal cable sales in any other sector and all of that gets accrued in the financials, within the Cables & Wires segments margin and the EPC margin is something which gets accrued in the EPC component.

Overall, on the EPC part of the order, generally, you make somewhere in mid- to high single digits and adding up the cables component, that increases a bit.

Shrinidhi Karlekar: Great. And lastly, if I missed your comment on the export bit. Did you say that H2 export is looking higher than the H1 and you're also seeing some recovery in the U.S. market?

Chirayu Upadhyaya: Yes. In the second half of the year, we expect the international business to do well as compared to the first half of the year.

Moderator: The next question is from the line of Hardik Rawat from IIFL Securities.

Hardik Rawat: Broadly all my questions have been answered. One question was with regards to Switchgears. You pointed out that Switchgears has registered some strong growth in this quarter. Could you please help explain how is the market looking like for switchgears? Has there been a broader decline in margins from a business perspective? And where is our position with respect to other players in the market? And what are our aspirations with regards to the same.

Chirayu Upadhyaya: So, Hardik, switchgear is one of the areas within the FMEG business wherein we are very highly focused on. It is a segment wherein we want to increase the contribution of that particular product to the overall FMEG because the margins which we make within Switchgears segment is way higher compared to what we make on the fans and lighting. We had very good run rate of growth within the Switchgears segment over the past almost 2 to 3 years now, which started because of the demand that gets generated for switchgears from the real estate, which is coming up in India.

So, in switchgears, we are just present in the B2C segment. We are not selling B2B. We don't manufacture industrial switchgears. We are into MCB manufacturing, RCCB manufacturing and so on. And for us, within that segment, we are, as of now, relatively smaller player, so we will be somewhere between top 5 to top 10 as far as our market positioning is concerned. But we are witnessing good growth rate in the switchgears business. And as I mentioned, that is something which we are very much focused on.

For us, definitely, see whenever we target a particular business, the target is to be among the top 3 players within that business, and that is something that we are targeting even in the switchgears business. It might take us a bit of time. But probably over the course of next 5 years, that is something that we definitely will target to be one among the top 3 players.

As far as the margins are concerned, for us, the gross margin in the switchgears business are as of now around 40%. We still believe there is a bit of more improvement that we can have on the Switchgears margin front, and that is something that we'll be targeting over the course of next few quarters. Just the previous year, we've actually expanded our switchgear manufacturing capacity. As of now, the utilization rates are a little bit lower.

Since we are able to scale up that business at a good rate quarter-on-quarter basis, we expect operating leverage to start kicking in and again, margins to again improve. In fact, switchgears is one such business on the FMEG wherein we are already EBITDA positive. We've been EBITDA positive for a while now. And as and when the contribution of Switchgears continues to increase going ahead, I mean that will obviously add up to the segment profitability.

Hardik Rawat: Okay. That's helpful. One question with regards to how has our entry into switchgears and the kind of focus that we have in this space, are we seeing aggression from the current market players on price, for example? How is the competition dealing with our foray in this segment in a big manner?

Chirayu Upadhyaya: You're referring to our entry or someone else's entry? Sorry, I didn't get that part.

Hardik Rawat: No. So since Polycab is now so focused on this segment, how are the existing players responding to this? Are there any higher competition on price? Or are they responding in some manner?

Chirayu Upadhyaya: See, Hardik, as far as the switchgear product is concerned, we've actually been able to leverage a lot of our synergies within the existing wires business. If you do realize, the demand for switchgears and the wires from Real Estate are at similar time and we anyways have distributors who are distributing wires. We have the end customers, real estate players, whom we are supplying wires. So we are able to cross-sell our switchgears along with wires and that is how we are able to scale it up in a good way. Over and above that, the quality of our switchgears is something which has been appreciated in the market. We are also quite confident on its quality. And as a result of that, we actually provide 7 years warranty on our switchgears compared to the normal 5-year warranty which the other competitors provide.

So largely, we have a lot of levers available to us through which we are able to grow the switchgears business. And since the industry itself is growing at a good pace, we haven't actually seen any form of heightened competitive intensity from the existing players. We've been able to grow that business at a good pace, and it's been almost 2 to 2.5 years now that we have that business doing very well for us.

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

Natasha Jain: I have 2 questions. The first one on your gross margins. Now for FMEG, I understand there's a lot of channel incentives, promotional expenses, but ideally, that would be a part of your opex.

Coming to wires and cables EPC, I get it, but a 350 basis compression does not come from a 10% contribution business. So now coming specifically to wires and cables, both use copper and aluminium and because you've been making that commentary throughout that we do a lot of derivative hedging, so ideally if you hedge your contracts, you should not be impacted, right, in terms of volatility of your raw material.

So can you please explain again, what happened this quarter? And did we lose out on the hedging part? So first question is that.

Chirayu Upadhyaya: Sure, Natasha. So if you do understand the hedging part you realize that we actually price our raw material post we receive the order. For us, that translates into us not getting affected because of volatility. But you also have to take into account the competitors when you're looking at our products like wires, right? Over there, if there is a player or competitors who are looking to gain on market share and are willing to sacrifice on pricing just to gain on market share and the demand is way high, if as a player, you want to protect your market share, you have to compete here on pricing part as well.

So, that is the reason why, especially on the wire side, we had compression, but the 300 basis point compression that you are mentioning is on year-on-year basis, not on a sequential basis. On year-on-year basis, the margin compression is not selectively just because of Wires margin de-growth, it is a small part of the overall 3% degrowth. The major part is because of the international business. Year-on-year, the international business contribution is also much lower to the overall top-line. Phus the margins have also been affected in international because because of the hike in freight cost.

So that's the larger reason for year-on-year decline in EBITDA margin in the Wires and Cables business. The Wires' margin compression effect that happened is more of a sequential compression and that is just in the handle of 30 bps.

Natasha Jain: Understood. Just one more question, on your exports, last year, US contribution within your exports was close to 40%. This year, the way exports is moving, especially your U.S. contribution, I think that you guys probably will land somewhere below 10%.

Now in the offering with all the U.S. elections, it's a very macro level question at this point. given both the candidates have equal chance of winning, one of the candidates do not focus so much on renewables. Now I understand that renewables, oil and gas is the kind of cables that we export to the U.S.

So at a very broader level, have you worked out the strategy if whichever way the election goes, does that further give pain to our export cables in U.S. and especially renewable cables? So that's my second question.

Chirayu Upadhyaya: Natasha, what we have actually done over the course of last 5 to 7 years is that we worked out or gotten approvals for various different types of cables. So, solar cables are not the only type of cables that we export to the U.S. We have diversification in that manner as well. So, irrespective of which candidate comes and what is the focus on, specifically on renewables, there is a lot of investment happening in the other pieces as well. For example, the power transmission and distribution for the U.S. is getting upgraded after almost a century and that requires all the types of cables: low-voltage cables, medium-voltage cables, et cetera. And that is where we already have approval, and we will supply whenever the demand arises. So, specific to U.S., we'll have to see who comes to power, what are their policies, but it doesn't really impact our international growth rate because if you look at our international business, we have about 80 countries now wherein we export, U.S. is not the only one. During the course of this year, you've actually seen that we've been able to do a lot of exports to other countries as well. Middle East is something – where a lot of opportunities are coming up. Australia is also another country wherein we have been able to do a lot of exports. Europe is opening up in a big way. So there are various different geographies wherein we have the opportunity to supply to. And irrespective of what happens in a particular single geography like the U.S., it shouldn't derail growth rates of small international export players like us. So we are not very much worried on that front.

Natasha Jain: Understood. Just a small follow-up on that, Chirayu. So sequentially, when you say that you've grown close to 40% in your export revenues, can you please call out specifically which geographies did we expand on newer geographies that we took in? That's it.

Chirayu Upadhyaya: During the course of this quarter, we supplied a lot of cables largely to the Middle East and to Australia. We also added a couple of new countries as well. I wouldn't want to name those countries because that is of importance for the competitors as well. But largely, we've been adding new countries on a quarterly basis. We also have a couple of other countries to be added in the pipeline over the of remaining year as well.

See largely, we have a plan charted out. We have identified the geographies wherein there is a good amount of demand, and as of now, we don't have approvals. We have identified the geographies where we have approvals, but for very limited type of cables, and we will want to expand across all those different types of geographies. The diversification strategy is in place. We have a very strong international business team, which is working day in and day out to get approvals from these different geographies. And we don't foresee any challenge in us growing our international business even if there is a slowdown in a particular geography.

Natasha Jain: So, all geographies would command similar export margins in terms of cables?

Chirayu Upadhyaya: It varies geography-wise, it varies product-wise and depending on what type of cables you're supplying, in which quarter, which year to which geography your margins will be. But irrespective of that, as of now, the margin profile for international business is higher as compared to domestic. So irrespective of where it is that we will be exporting, which geography, we will be able to make better margins.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. Now in terms of the margins, we have seen our margins, which used to be in the range of 8% to 9%. Now they have reached as high as almost 14% now. So, do you believe that probably the margins have kind of peaked out at around 14-odd percent level? And on a structural basis, do you see further triggers to see expansion in the margins? And anywhere means maximum the potential in terms of margins, what that can be? That is question one.

Secondly, now the competitive intensity is likely to remain higher because one company is starting the new plant and one company is doing QIP. So probably, they may also expand the facility. So, net-net, if the competitive intensity remains higher in H2 and FY26, so what will be Polycab's strategy, whether it will be market share first or it will be margins first? Yes. That's it from my side.

Chirayu Upadhyaya: Sure, Aniruddha. So as far as your question on margin is concerned, we already have a guidance in place. In cables and wires business, we believe 12% to 14% of EBITDA margins is something that we'll be able to deliver. Depending on the kind of demand momentum that we see in a particular quarter or which type of product mix we are able to achieve, we will move between that guidance. But as of now, we believe 12% to 14% EBITDA margin is something that we should be able to deliver. Probably maybe in future, depending on whatever variable changes, we might revise the guidance. But as of now, this guidance holds.

As far as the competitive intensity is concerned, I'd like to make it clear once again that in Q2, the competitive intensity increase that we are referring to was specifically in Wires and that was for a specific reason, that the copper prices shot up very steeply in a very short frame of time. On the cables side, we don't see any increased competitive intensity. The comment that you mentioned that there are new capacities coming up, is kind of more relevant for the cable side. And that is, again, where I kind of made a comment that we expect the demand momentum to be very strong and the capacity within the industry to being just enough or fall short of being able to service that demand.

So, we don't expect any pressure on margins. So as of now, we don't need to take a call of whether we need to go for top-line or bottom-line. At least on the cables side, we are quite confident that we will be able to achieve both.

Moderator: The next question is from the line of Umang Mehta from Kotak Securities.

Umang Mehta: Most of my questions are answered. Just wanted one clarification. You mentioned that institutional business did better than distribution. And you also mentioned that Wires did better than Cables. Does this imply that you have done wire sales to real estate projects this quarter?

Chirayu Upadhyaya: I'm sorry, Umang, your question towards the end was not clear. I believe you asked, institutional was better than channel and Wires was better than Cables. And what was the last part of the question?

Umang Mehta: This is correct, right? You typically expect the domestic distribution to do better when your wire sales are outpacing cables. So, is there a difference in understanding here?

Chirayu Upadhyaya: No, Umang, you'll have to take into account the base, right? For us, institutional versus channel. Institutional is 10% and channel is 90%. Cables and Wires, the mix is 70-30. Now Wires has grown ahead of Cables. But mix is only 30% of the overall. So, it will have to grow over 2x of Cables for the growth rate of channel to be higher than institutional. Since that's not the case, our institution has still grown ahead of the channel. But on the cables side, it's more relevant, wherein institutional sales continue to happen, where, in the first month of this quarter because the copper correction was there in the handle of 12% to 15%, the channel sales were almost nonexistent.

So those are the 2 reasons, more institutional sales on the Cables side. And while Wires was seen growing higher than Cables, because of its mix being much lower as compared to Cables, it doesn't really impact the overall mix materially.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Mr. Gandharv Tongia for closing comments.

Gandharv Tongia: Thank you so much for joining us for this call. In case if you have any follow-up questions, please feel free to write to our investor.relations@polycab.com. We also take this opportunity to wish you and everyone at your home as well your team a very Happy Diwali and a joyous New Year. Thank you. Take care. Bye-bye.

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