"Polycab India Limited
Q1 FY 2024 Earnings Conference Call"
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MANAGEMENT: **MR. INDER JAISINGHANI – CHAIRMAN AND MANAGING DIRECTOR – POLYCAB INDIA LIMITED**

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Moderator: Ladies and gentlemen, good day, and welcome to Polycab India Limited Q1 FY 2024 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 telephone. Please note that this conference is being recorded.

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

Gandharv Tongia: Thank you, operator. 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 and CFO at Polycab India Limited. On this call, we shall discuss the Q1 FY24 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 and our Head Investor Relations, Mr. Chirayu Upadhyaya. Let me now hand over the call to Inder bhai for his comments.

Inder Jaisinghani: Good afternoon, everyone. We have had an excellent start to Fiscal Year 2024, registering strong sales growth as well as robust profitability. Favourable macro-economic environment along with supportive structural measures have translated into healthy demand for our product categories and which bodes well for the future as well. The commendable work done by our teams, within Project LEAP, through focus on customer-centricity, various GTM initiatives as well as new product development have synergized well with the encouraging market conditions, resulting in our highest ever first quarterly revenues and profits in the Company's history. With the current on-ground demand and market outlook, I am confident that this year will be highly rewarding for us, creating significant value for all our stakeholders.

Now I request Gandharv to take you through our earnings presentation.

Gandharv Tongia: Thank you Inder bhai.

Before I take you through the quarterly performance, let me give you a flavour of the macro environment. Amidst the heightened global uncertainty, Indian economy has showcased remarkable resilience, with growth surpassing many large economies. Favourable domestic policy environment and government-led structural reforms have positioned India as a promising economic bright spot. Key indicators such as manufacturing and services PMI have consistently exceeded long-term averages, while growth momentum is also evident in GST collections, diesel consumption, air & rail passenger traffic etc., reflecting India's robust economic standing during challenging times. Furthermore, the domestic demand environment has started to realize the benefit from receding inflation, which has now remained within the RBI's tolerance band of 2%

- 6% for four consecutive months, raising hope for an end to the tightening cycle. Consumer demand in urban markets remains steady, and a potential pickup in monsoon will further support the rural markets, which have been showing signs of recovery in recent months.

Moving on to the earnings presentation, please refer slide number four.

For the quarter ended 30th June 2023, our consolidated revenue grew by 42% YoY on account of strong volume growth in the wires and cables business. EBITDA grew by 77% YoY with EBITDA margins at 14.1%, a growth of ~280 bps YoY. The Company registered PAT of ₹ 4,028 Mn, a growth of 81% YoY. PAT margin stood at 10.4%, an improvement of ~230 bps over that of the same quarter last year. As Inder bhai mentioned in his opening remarks, this is our highest ever first quarterly revenue and profit after tax. As evident, this quarter's performance surpasses even our third-quarter figures from last year, a feat unprecedented in our history, highlighting the remarkable scale of our achievement. However, do note, that the growth percentages seem visibly higher, on account of a soft June last year, whereby sales were affected due to a sudden decline in commodity prices. A detailed break-up of the other income and finance costs have been provided on slide 21 of the earnings presentation.

Moving on to slide five.

The wires and cables business accounted for 89% of our sales during the quarter, with FMEG contributing 8%, and other segments, which mainly comprises of the EPC business, accounting for the remaining 3%. If we slice up the business on geography, the domestic business contributed to 91% of the total sales for the quarter and the international business contributing the remaining 9%. We will now go deeper into business performance of each segment during the quarter.

Please refer to slide number seven.

During first quarter, the wires & cables business grew by 46% YoY, on the back of strong volume growth of 50-60%. Domestic distribution driven business sustained its strong growth momentum, while institutional business exhibited remarkable growth acceleration. Geographically, growth was broad based, with highest growth coming from North region followed by West, South and East. In terms of contribution, highest revenue came from west, followed by south, north and east.

The wires and cables industry is witnessing robust domestic demand supported by government measures, improving private capex and strong real-estate off-take. Government's capex plan of ₹ 10 trillion investment in FY24 for infrastructure growth is running at full throttle. By June 2023, i.e. within the first 3 months of the financial year, 54 Central public sector enterprises (CPSEs) and five departmental arms of the Central government, with an annual capex target of ₹ 100 crore and above, have already utilized 32% i.e. ₹ 2.34 trillion of their FY24 capex target of ₹ 7.33 trillion. The Ministry of Road Transport & Highways had made significant strides, utilizing 38% of its ₹ 2.58 trillion budgetary capex allocation. Meanwhile, the Railways has already spent 33% of its ₹ 2.4 trillion budgetary capex allocation, signaling strong progress in capital utilization. Additionally, the government has set its sights on achieving an impressive 80% utilization of budgetary capex by December 2023, underlining the commitment to growth of the nation through infrastructure growth.

Furthermore, even the state governments are joining the capex upcycle after lagging behind in FY23. By June 2023, Centre has already disbursed over ₹ 300 billion of the sanctioned ₹ 600 billion 50-year capex loans to states, with a clear focus on boosting state-level capital expenditure. The government is further planning to sanction the entire ₹ 1 trillion of non-tied budgetary capex and disbursing half of it by July-end. Capex done by states till May-end was higher than similar period last year and is expected to increase to be around ₹ 8.4 trillion during FY24. This financial support has the potential to create a ripple effect, invigorating local economies and fostering holistic development across the Country.

As consumption gradually improves, the private sector too has increased its capex plan. In FY23, private sector capex announcements surged to an impressive ₹ 26 trillion, nearly doubling from the previous year's figures. Sectors such as Chemicals, Air Transport, and Renewables have been leading the charge in these robust investment decisions. In Q1 FY24, private sector capex addition amounted to approximately ₹ 5 trillion, with transport services, chemicals, and power sectors playing a significant role in this growth. The healthy capacity utilization of the manufacturing sector, recorded at 74.3% by the end of CY 2022, has spurred corporates to move beyond "maintenance CAPEX" to "discretionary CAPEX." This shift is reflected in the capex to depreciation ratio for listed corporates, which rose to 1.6x in FY23 from 1.3x in FY21, demonstrating their willingness to invest in expanding their operations. Notable private players are anticipating substantial growth in their order books.

The real estate sector too sustained its impressive growth momentum, helping our wire sales. According to a report, the top eight Indian cities witnessed the highest volume of residential launches in H1 CY2023 compared to any other half-yearly period in the past eight years. Residential unit sales were equally robust, registering the second-highest sales volume in almost a decade. As per another report, out of the total 2,181 acres of land transacted between January 2022 and May 2023, around 84% or 1,822 acres has been allocated for proposed residential developments, showcasing the confidence of real estate developers in continuation of the real estate upcycle and which bodes well for our wires and housing electrical appliances segments. Office market transactions too are showing improvement in momentum, with 14.8 Mn sq ft transacted in Q2 CY 2023, the highest quarterly tally since Q1 CY 2021.

In conclusion, the current landscape presents a highly conducive environment for exponential business growth in the wires and cables segment in the medium-to-long term.

Internally, the Company has undertaken various initiatives under Project LEAP to take the maximum advantage of this ongoing opportunity and achieve industry leading growth. On B2B side, we continue to increase our presence in under-penetrated districts, enhancing our distribution reach. In FY23, we expanded to 146 such whitespaces, and we are targeting to penetrate further 140 whitespaces during the current year. We are also employing surgical targeting of select weak markets with different GTM strategy as well as region-specific targeted product development. Our NPD efforts are also bearing fruits, as Class 5 wires, including Etira, which was introduced to capture the price sensitive customer segment in the semi-urban and rural areas has been received extremely well. Our premium segment wire "Green Wire" too is doing well. To further enhance efficiency, we have also established various focused go-to-market verticals across various sectors, which will yield meaningful results over the next few years.

Our goal has always been to achieve growth without compromising on profitability. And this has allowed us to not only maintain margins but improve on it whenever the opportunity arises. During the quarter, profitability within the segment was robust, with EBIT margins at 14.8%, an improvement of ~330 bps over last year. Better margins were driven by judicious price revisions, better operating leverage and strong growth in international business.

Now moving to slide number nine.

Revenue from international business grew by 88% YoY, contributing to 8.9% of the consolidated revenue. This growth was primarily fueled by strong demand in the USA, Australia and Europe, with key sectors like Renewables, Oil and Gas, and Infrastructure driving the momentum. During the year, the Company leased its first warehouse in USA, on the eastern coast, and will gradually lease more warehouses to cover all geographies, in-line with its strategy to shift to a distribution-led model in the international business. Over the years, we have invested significant efforts and resources in building robust capabilities for international business expansion, and we are now realising substantial and tangible benefits from these endeavors. As a testament to our progress, the Company has successfully expanded its global presence to cover 72 countries.

Please refer slide number eleven for an update on the FMEG business.

FMEG business had a soft quarter as weak consumer sentiment weighed down on sales. However, the segment showed 3% year-on-year as well as sequential growth as benefits of channel realignment started to play-out.

Fans business exhibited healthy growth sequentially as older non-BEE compliant inventory with channel partners was mostly sold off, leading to fresh sales of newer BEE compliant inventory during the quarter. From January to June this year, since the transition to the BEE norms, we have introduced 80 new SKUs in the market, with 20 more in pipeline to be launched in the second and third quarters of this financial year. Switchgears and Conduit Pipes & Fittings businesses too showed sequential growth, tapping on the continued strong momentum in the real estate sector. Within switchgears, pricing revisions we undertook in 10kA MCBs last quarter has helped us improve price realization in this quarter. Moreover, the new 6kA category MCBs launched last quarter is already contributing to 20% of incremental sales done during Q1 FY24. Post merger with the wires vertical, we are focused on improving switchgears sales through cross-selling. For this, we have identified top retailers of wires business which are not yet selling switchgears and will be aggressively pursuing cross-selling through them. Switches business continued with its impressive growth as benefits of improved availability through in-house manufacturing continues to play out. The Etira segment launched in the switches category is generating good response from the market. Lights & luminaires business de-grew marginally, on a sequential basis, on account of the continued pricing corrections in the LED segment. Till date, prices have corrected by almost 10-12%, with further correction expected as well. In this business, we have plans to launch about 50-60 SKUs in the second and third quarters of the current year.

On the geographic front, Western region, the Company's stronghold, demonstrated positive growth both on year-on-year as well as sequential basis, while Southern and Eastern regions too showed sequential growth.

Segmental EBIT during the quarter continued to be in the negative territory saddled by fixed costs in the absence of scale. However, the quality of earnings have improved, with channel finance penetration now at 91% for the FMEG segment. The Company continues to invest in brand building through increased advertising and promotions such as sponsorship of ICC events, TV commercials, distributor & retailer meets, digital marketing etc. The Company is committed to improving both top-line and bottom-line in the business through our focus on areas of product innovation, influencer management, premiumization and distribution expansion, among others.

Now, let's move to slide thirteen, which gives an update on our other businesses, which largely comprises of our strategic EPC business. We clocked revenues of ₹ 1,227 Mn in Q1, a growth of 63% year-on-year. Profitability grew by 47% YoY with segmental margin at 12.5%. Annual sustainable operating margin in this business is expected to be in high single digit over mid to long term.

So, that was the update for the quarter.

To conclude, the Company's dominant wires and cables business continues to experience robust demand, and we are well-prepared to capitalize on this favourable opportunity. Looking ahead, we anticipate the momentum to persist throughout the remainder of the year, helping us achieve growth over the strong base of last year.

Thank you, and we are now open for questions.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from the line of Atul Tiwari with Citi Group. Please go ahead.

Atul Tiwari: Yes, sir. Thanks a lot and congratulations on yet another very strong quarter. So my question is on FMEG business. So obviously we understand that the demand was a little soft and as a result the revenue growth was about 2%-3%. But one would have expected slightly higher revenue growth, especially given your smaller base compared to some of your peers in the marketplace.

And even in the last year, we had a flattish revenue as the company was undertaking the distribution channel overhaul. So, could you throw some light on what kind of growth we can expect this year and the next year in the business, given that the channel rejig is over?

Chirayu Upadhyaya: Sure. Thanks, Atul. On the FMEG side, what is continuing to play out is that the consumer demand is muted, as has been the case for the past two to three quarters. While the inflation is on its downward trend, what is generally the case is that whenever people have more cash in hand with them, you generally see them making more small-ticket size purchases, discretionary spending in the beginning and then going towards more higher-ticket size spending.

So that is something that is going to play out. We expect that going forward, maybe in Q2 or Q3 onwards, you will start seeing consumer demand come up in the FMEG segment as well. As far as our internal issues are concerned, we are done with the channel rejig, and we are in the process of further improving our channel distribution. We are, as Gandharv mentioned in his opening remarks, introducing new SKUs, which are lined up for the next couple of quarters. So through all of this, we expect that our top line as well as bottom line will start improving gradually from this year itself.

As far as growth is concerned, as you are aware, we have committed that we want to achieve an EBITDA margin range of about 10% in the FMEG segment by FY26 and we will continue to work in that direction.

Atul Tiwari: Okay, sir. And my second question is on working capital. So obviously, we understand that when the growth is very strong, it is kind of natural to expect some working capital buildup. But I'm just trying to clarify whether this buildup is temporary or whether we should expect slightly higher working capital this year.

Chirayu Upadhyaya: No. So, this increase in working capital that we have witnessed for this quarter is temporary in nature. As you would have seen, our inventory on books has increased, and that is something that we have done on purpose because we are expecting that kind of demand going ahead and we don't want to be caught off-guard and not be able to supply cables whenever there is an opportunity in hand.

So whatever increase in working capital you have seen this quarter is temporary in nature. Going ahead, 50 to 55 days of working capital cycle that we achieved a couple of quarters back is something with which we are very comfortable that we will be operating in that region.

Moderator: Thank you. Our next question comes from the line of Ravi Swaminathan with Spark Capital. Please go ahead.

Ravi Swaminathan: Good afternoon, sir. Thank you. That's a very good set of numbers. My first question is with respect to the growth in the cables and wires business. How has the growth been this quarter? What has been the growth in the cable side and the wire side, and the mix of cables and wires?

Chirayu Upadhyaya: Sure, thanks Ravi. So both cables and wires have done exceedingly well. Both have grown in excess of what was anticipated previously. But yes, cables have grown faster than wires, and for that, if you recall, for FY23, our mix between cables and wires was at about 70%–30%. This quarter, cables would have gained about 100–200 bps on that.

Ravi Swaminathan: So, cables would be 72%–73% and wires would be like the remaining?

Chirayu Upadhyaya: Yes

Ravi Swaminathan: Okay. And within the cable side, how much would be infra, how much would be industrial, and how much would be real estate, which is kind of a broader mix, and how has each of these segments and sub-segments grown?

Chirayu Upadhyaya: So, Ravi, as you are aware, on the cable side, we largely operate through our distribution channels, wherein it is actually the distributor who gets in the final order from the end customer. While we are moving in a direction wherein we are employing our own people on the ground and trying to get secondary orders from these clients, but that as of now is a comparatively smaller portion.

So, I won't be able to give you an exact pie or proportion of what amount or demand is coming from which sector, but certainly I can tell you that the top two to three sectors that are contributing to cables growth are your infrastructure, which includes roadways, highways, and railways, then there is electricity transmission and distribution, and there is real estate.

Ravi Swaminathan: Okay, have any of these subsegments grown by almost doubling or something similar this quarter, or is there a uniform growth across all sectors?

Chirayu Upadhyaya: No, so like I said, this will be the top three contributing sectors. We don't have a proportion, neither for this quarter nor for last quarter, that I can give you an exact growth number of which sector would have grown or contributed more in this quarter.

Ravi Swaminathan: And with respect to exports, do we have any revenue target for this year? For example, in the first quarter, we had done close to 300 Crore. Will the year-end target be around ₹ 1,500 Crore or something of that sort in terms of revenue? And are we seeing any large orders, one-off orders, or something that is in the pipeline?

Chirayu Upadhyaya: So, we continue to work on our international business, which has been an area of focus for us for quite some time. And we are now seeing the results of that continued focus. We are targeting to improve our availability and the number of countries in which we are present, every year. And in that sense, you'll see the amount of international business that we are doing gradually increase. Within Project Leap, as you are aware, when we started in FY21, we set the target that by FY26 we wanted to achieve about 10% of the contribution through the international business of the overall top line.

We are more or less very close to that target. We are operating somewhere in the range of 8% to 10% over the past two to three quarters. What we have realised is that the international opportunity is quite large, and it might be possible that the contribution might increase, but we will have to see and recalibrate that and we will have to come back to you. But yes, we are seeing very good opportunity in international business.

Ravi Swaminathan: Okay, and my last question is with respect to the gross margins. Usually wires carry better margins than cables, but cables seem to have grown faster than wires. But in spite of that, gross profitability has improved by around 150 basis points year-on-year. Is it that the entire profitability of the entire cables and wires portfolio has seen a significant improvement that has led to this?

Chirayu Upadhyaya: So definitely both of them have seen improved margins because, as you are aware, normally when commodity prices are on a decline, every player in the industry sees some kind of improvement in margin. And that improvement in margin is across product categories, so that is one thing.

The second is your scale. When your scale increases at this pace, your economies of scale kick in, and because of that, your operational leverage improves. Because of that as well, the margins have improved. And the third point is international business, which is again a better margin business and has improved as compared to what we had in Q1 of last year. So, all three of these combined have helped us improve our margins.

Ravi Swaminathan: Okay, exports have 200–300 bps higher margins at an EBITA level or gross level than regular business. Is my understanding right, or is it higher?

Chirayu Upadhyaya: So different product categories would have different better margins. For instance, renewable cables have much higher margins compared to normal power cables, which themselves have better margins than the ones we make domestically. But, overall, yes, it would have that kind of premium over what we make domestically.

Moderator: Thank you. Our next question comes from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thanks for the opportunity, and many congratulations on a strong set of numbers. My question here would be on the fact that, as you highlighted in your opening remarks, last year in June, we saw some channel inventory destocking, and accordingly, that would have positively impacted to some extent. So can you highlight that number?

And also, if there was channel destocking last year, it means that probably in Q2 or Q3 there would have been channel normalisation, which would have led to better primary sales as compared to secondary sales. So can we expect some impact, or should we probably see secondary and primary going in line in the coming quarters? That would be my first question.

Chirayu Upadhyaya: Sure. So, Manoj, in Q1 of last year, towards the end of the quarter, the commodity prices, which were very high post-Q4 of last year due to external circumstances, came down. For example, copper, which was at about $10,500 per metric ton, decreased to as low as $8,500 per metric ton, and a similar decrease was observed in aluminum.

This trend started to play out from June onwards. So, because of that, the base of Q1 last year was comparatively weakened. Yes, from Q2-Q3 last year, the commodity prices had comparatively normalized. So, in that sense, yes, that kind of base effect would be there. But in terms of growth, like Gandharv mentioned in his opening remarks, we are seeing pretty good demand on the ground, and we are also working on various strategic initiatives on Project Leap.

So, we are confident that through all these steps we are taking, we will be able to get a hold of all the opportunities that are coming up in the cables and wires business and grow there.

Manoj Gori: Right. If possible, can you quantify what was the impact in the June month last year?

Chirayu Upadhyaya: We wouldn't be able to quantify, I don't have those numbers specifically in hand. But like I said, it was one month out of the three months, so you can maybe take an approximation over there.

Manoj Gori: My second question would be on the overall growth profile. We have been very strong, and given that the RM prices are largely steady, we have been reporting a strong set of margins. So even today, if you look at getting into Q2, probably it would be difficult to forecast the copper prices, but given the current trend, can we expect a similar kind of margin profile in the coming quarters because you continue to remain very upbeat on the demand scenario and RM prices are relatively far more settled as compared to the volatility that we were seeing in the previous year?

Gandharv Tongia: So, Manoj, you know our business. As far as copper price volatility is concerned, we have our hedging framework and risk management in place. And to that extent, any volatility in copper or aluminium prices generally has no bearing on our profitability on an annualised basis.

Having said that, historically, we have been working in an EBITDA range of 11% to 13%. We believe we'll continue to play in a similar range. A while back, Chirayu highlighted that we are getting the benefit of operating leverage. And if we are able to fully utilize that leverage, it's quite possible that there's at least one percentage point improvement in that range. But to answer your question, we don't see any impact on an annualized basis due to changes in the metal prices.

Manoj Gori: So that's what I was referring to. Probably now we are moving on to the higher end. So you answered that. And so on the FMEG side, probably going forward on a sequential basis, probably from Q2 or probably from Q3, should we see improving trends? Obviously, you have already indicated the first quarter trend on profitability and overall on the sales front, right?

Gandharv Tongia: You are right. So, until fiscal 2026, we anticipate that we will be able to get to a 10% EBITDA margin in the FMEG space. And I think year after year there should be some improvement. Not necessarily every quarter we would be able to register growth, but directionally every year we should be able to get positive movement between now and fiscal 2026.

Moderator: Thank you. Our next question comes from the line of Girish Achhipalia with Morgan Stanley. Please go ahead.

Girish Achhipalia: Yes, thanks, and Gandharv and team, congrats on a great quarter. I just wanted to understand one small thing from your annual report. I read that you are among the top 10 in the world in the cable and wire category and you aspire to be in the top 5. I wanted to understand what is the current gap in terms of dollars billion?

And secondly, because you want to ramp up your international business, are there any specific geographies and cable wire product types that you're likely to expand into? And finally, the related question was that given the growth that you're seeing, are you in the process of giving us a new capex assumptions for the next couple of years?

Gandharv Tongia: So, you know, in the global cable and wire business, India is very small in that, it's an almost USD 250 billion market; the U.S. is almost 20% of that, and India is in the low single digits, and to that extent, Indian companies are not necessarily comparable with the top five companies in the world. Directionally, what we have done over the last few years is that from being a simple cable company, we became the largest cable company and simple wire company to be became largest cable and wire company. And now we are trying slowly and gradually to have a sizable footprint across the globe, and directionally, we should be able to get to the top five companies in a few years from now.

As far as capex is concerned, I think we are comfortable with a guidance of around ₹600 Crore on an annualized basis. You are already aware that we are in the process of setting up a factory for EHV and we have a tie-up in place with a partner from overseas. We are setting up facilities to meet and satisfy export requirements and demand, and then some maintenance capex and some capex on the FMEG side.

The other thing that I would like to highlight is that when we were working on Project Leap and these were initial days, sometime in early 2021, we felt that since the annual turnover in those days used to be around ₹ 9,000 Crore, we felt that ₹ 20,000 Crore is a good target to have by fiscal 2026. Within two years, we have reached almost ₹14,000 Crore of annualized revenue. We believe that in the next three to four quarters, we will have to recalibrate that guidance and see whether we want to revisit a timeline of fiscal 2026 to achieve ₹ 20,000 Crore. And if that happens, we will also assess whether there will be any consequential impact on any other guidance that we have given so far, including capex.

Girish Achhipalia: Just one follow-up, Gandharv. While you were working on Project Leap, obviously we were just coming out of COVID, and your annual report also talks about supply chain disruption on the cable and wire front. So obviously, you have focused a lot more on exports in the last few quarters. I wanted to understand, directionally, if there are any specific geographies and any specific product segments that you are likely to target more.

Gandharv Tongia: Two sets of opportunities, one is in developed countries, where they have a reliance on imports. To give you examples, it is countries like the US and Australia, and there are some pockets both in the Middle East and the EU. And the second is large EPC players, because when they execute large projects, they need cable, and we are comfortably placed to meet their expectations and requirements.

So that's the overall outlook for exports. In terms of the product categories, I think this entire piece around green and renewable energy is an area where there is an active demand, and we have facilities in place to meet that expectation. And these are slightly margin accretive as well.

Moderator: Thank you. Our next question comes from the line of Sonali Salgaonkar with Jeffries. Please go ahead.

Sonali Salgaonkar: Hi, team. Thank you for the opportunity, and congratulations on a great set of numbers. My first question is regarding the volume growth of cables and wires. Now, is it fair to estimate that the volume growth in your cables and wires business would be about 55%, and if so, how much of that could be contributed domestically and how much from exports?

Chirayu Upadhyaya: Thanks, Sonali. So, in terms of volume growth, you are correct. Depending on various product categories and geographies, the volume growth would be somewhere in the range of 50% to 60%. This is on a combined basis, considering both domestic and international sales. This was the average volume growth we experienced in this quarter.

Sonali Salgaonkar: I understand. Secondly, on pricing revisions, how many rounds of pricing revisions have you taken during Q1, and have there been any in July?

Chirayu Upadhyaya: Sure. So, during the quarter, the commodity prices haven't been that volatile, and we undertake revisions based on the amount of volatility. So, overall, the reductions that we would have taken during the quarter would have been in the low single digits.

Sonali Salgaonkar: Okay, and any activity in July?

Chirayu Upadhyaya: Nothing so far.

Sonali Salgaonkar: Got it. My third question is regarding the ad spends. Now if I look at your annual report, on an absolute basis, your ad spend in FY23 has increased by about 54% year on year and is at 0.9% of your sales, versus 0.7% last year. Where do you think they can normalize, considering that you are wanting to create stronger visibility in FMEG?

Chirayu Upadhyaya: Right, Sonali. So, we are increasingly investing in brand building, especially for our FMEG and B2C categories. We are taking various steps, some of which were mentioned by Gandharv in his opening remarks - we have tied up with ICC as a sponsor, conducting various influencer management meets, retailer meets, and so forth.

So, what we are thinking internally is that we will be increasing spending going ahead. So, we will be spending somewhere in the range of 3% to 5% of our B2C top-line as A&P spends. So it will vary in this range.

Sonali Salgaonkar: Okay, got it. And just lastly, on your B2B mix of your overall sales, is it still at about 65% or a bit lower?

Chirayu Upadhyaya: No, it is similar to where it was.

Moderator: Thank you. Our next question comes from the line of Renu Baid with IIFL Securities. Please go ahead.

Renu Baid: Yes, good afternoon team, and congratulations on strong results. My question is on the core cables and wires business. I see that in the last couple of quarters, because of very strong demand and insufficient investment by industry peers, the lead time for supplies has significantly increased. Because of this, Polycab was able to benefit.

So how is the situation now in the industry? Has the demand supply situation now relatively eased off? And in your view, this kind of imbalance is likely to persist until the next round of capacity expansion comes in?

Gandharv Tongia: Thank You. Renu, you know our company. We are known for our quality and availability, and we have always invested in these capabilities over the last several years. We believe that is our unique characteristic and edge, and we continue to develop it. I would not be able to comment specifically on what our peer companies are doing, but we believe that if we want to deliver industry-leading growth, we'll have to continue to build on these core capabilities in the organization.

Renu Baid: Currently, what capacity utilization are we running for the cables and wires overall?

Gandharv Tongia: So, it would be around 60% to 70%. In few of the factories, it would be slightly higher than 70%, but it is generally in that range.

Renu Baid: Sure. Secondly, when you look at the overall business, FMEG consumption has been fairly weak for the market itself. Now that we are coming out of the old inventory issues in the fans category, what is your strategy to have a much more steady market share in this phase, and what have been the kind of price increases that have taken for the new BEE-rated fans?

Chirayu Upadhyaya: So, in terms of fans, we are kind of working on two to three different things. We are working on our distribution channel. We are working on product differentiation. Like Gandharv mentioned, we've already introduced about 80 new SKUs since we transitioned to BEE norms. And we are also working on our influencer management. So, through all of these things, we are working on improving our market share in the fan business.

As far as price increases are concerned, no increases or revisions have been made in this quarter. Whatever increase happened in the last quarter, which was in the mid-single digit, that is the only thing in pricing revisions that has happened till now.

Renu Baid: And lastly, if I may ask, a lot of the strategic initiatives we have taken have been translating into significantly higher volume growth for us. Having seen the environment of macro tailwinds, do you believe this trend of double-digit growth, which is 20% plus growth, will continue for the next 5 to 12 months?

Chirayu Upadhyaya: So, of course, I wouldn't be able to give you a specific number or guidance in terms of what kind of volume growth we will be able to achieve. But what I can tell you is that our strategic initiatives that we've taken in Project LEAP are working quite well for us. And the on-ground demand that we are seeing is also on a good pace. So as and when the on-ground demand plays out, we'll be able to capture the maximum growth out of that through our strategic initiatives.

Renu Baid: And one more question, if I can ask, incrementally for the strong free cash that we're generating, apart from the capex plans and spending on A&P and product development, branding, etc., where do we plan to deploy this large cash that we are generating?

Chirayu Upadhyaya: So, the largest part will continue to be on capex. As we mentioned, we'll be investing more in setting up our EHV plant. We'll be utilizing capex to expand our FMEG facilities as and when required. We will be setting up new facilities for our exports as well. So, Capex will continue to be the largest utilization for our cash. Over and above that, as you are aware, our dividends year-on-year have kept on increasing, and that is our internal policy, that the absolute amount of dividends will continue to increase.

Third, utilization would be, may be, an M&A. If we come across some company in both either FMEG or wire and cable category, that can add significantly to our abilities, we are open to acquiring such a company. And of course, we'll keep some amount of cash as buffer on our balance sheet. So ,through all four of this, we'll be utilizing our free cash flows and the cash on the balance sheet.

Moderator: Our next question comes from the line of Amit Mahawar with UBS.

Amit Mahawar: Gandharv, congratulations on a great set of results. I have two questions. First, you also do a lot of direct project supplies for the domestic market for cables and wires. So, what would be the broad share of that, if you can help us?

Chirayu Upadhyaya: If you look at our domestic wires and cables revenue this quarter, ~9% was through institutional sales, and the remaining was through our distribution side.

Amit Mahawar: And second question, maybe Gandharv or Inder Bhai can comment. What are your thoughts on the channel-led export business that you're thinking about? Because branded wires is largely a unique phenomenon in India, So any thoughts on how we see the attractiveness of branded wires in a U.S. market or any other global market?

Gandharv Tongia: Amit, it is good to interact with you when you are part of a new organization. So as of now, the focus is more on the cable business. Wires are generally a very competitive market in most international areas. We believe we should continue to remain focused on the cable side of it. And probably in a few quarters from now, we will see if we can get to a slightly premium wire product portfolio, which would add value for the international customers. For the time being, the focus is on the cable side.

Moderator: Our next question comes from the line of Amarnath Bhakat with Ministry of Finance of Oman.

Amarnath Bhakat: Once again, congratulations for a consistent set of numbers quarter after quarter. I have two questions specifically. One, with respect to the BCG study, which you started, I think, two years back, has that study been completed, and where are we in terms of implementation or any recommendations coming out of it?

Gandharv Tongia: This is actually, in a way, not a report but a project, and it's a joint project that is being executed by Polycab as well as the BCG leadership team. In the first few quarters of the project, we laid out the priorities and defined the blueprint and strategy. This project was initiated in May of 2021.

And two years down the line, most of the strategies have either been implemented or are being implemented. And what you see as a result is the improved performance in the P&L for that matter, say, in fiscal 2023 or the first quarter of the current fiscal.

Amarnath Bhakat: Just follow up on that. What I'm trying to understand is that now it's been 2 to 3 years since Polycab went beyond the boundary of India and started switching and making products for the international market. And hopefully, it will become quite aggressive as time passes.

So, I'm trying to understand, in terms of Q2, whether there will be any product diversification strategies that may include maybe some premiumization of some of your existing products or entering into new products that can improve the efficiency in electricity or energy-related sectors, including emerging sectors like hydrogen or electric vehicles. So, in that study, if we are making plans to move Polycab from a current business to a much more value-added side of the business, especially considering the demand coming in India as well as from the export market.

Gandharv Tongia: That is, in fact, one of the objectives of Project Leap. There are some white spaces where we are not present, for example, Extra High Voltage Cables. To that extent, there's a bit of diversification which is being done now, and we are setting up the factory.

The second thing is that we have probably the largest R&D and product innovation team in the country. We have achieved a fair amount of backward integration over the period. Practically all raw materials are processed in-house, and that is when we convert those materials into finished goods. And that gives us the capability to innovate products at a rate that is better than the industry. And that's the reason we believe we have almost all types of SKUs, both in cable as well as wires, that one can think of, right from power to data and so on and so forth.

There are some additional avenues that are available, for example, EV cables or some opportunity that is available in terms of premiumization of wires and retail wires. And the same is true for products like fans and lighting, and we are making focused efforts to diversify to ensure that we are able to add value to our customers as well as well as we are able to get to better margins.

Another example is special cables. This is a business that we have recently developed in the last 2–3 years. To illustrate the type of achievements that we have done under special cables vertical, we supplied cables to INS Vikrant, which was a battleship that was commissioned by the Indian Navy. We have supplied cables to high-end power utilization industries, for example, refineries and automotive. So, to summarize, we are similarly working on diversification with a focus both on the domestic as well as international markets, and we'll continue to hasten the pace of such development.

Amarnath Bhakat: My second question would be, as you were guiding for a more or less consistent amount of capex for the next few years, and your ROE and ROCE dip in 2021 and 2022, probably due to low market conditions and higher capex, which probably increased a bit in 2023.

How will we look at the ROE and ROCE profiles as your capex continues for the next 2-3 years and your margin, which is so far fine, hopefully, as you are saying, will improve as well? So can you get a better return on capital considering the current scenario?

Gandharv Tongia: Yes. So, I see two parts to that question. One is how best we utilize our existing set of factories, and the second is whether there is scope for improvement in margins or not. Historically, we have been working within the range of 11% to 13%. And as Chirayu alluded to a while back, because of better operating leverage, it seems that we should be able to improve it by almost a percentage point.

The utilization of the factories has improved over the period, and we are now committed to capex closer to the required period rather than sooner, which is also helping us with better utilization. So directionally, it seems that these numbers should ideally improve.

I mentioned to one of the participants a while back that, as part of Project LEAP, we had guided for ₹ 20,000 Crores of top line by fiscal 2026. On the basis of performance in the last 7 to 8 quarters, we believe that we would have to recalibrate that guidance, and we should be able to come back to the investor group in three to four quarters from now. And if we do that, there will probably be a positive impact on almost all the ratios.

Moderator: Our next question comes from the line of Achal with JM Financial. Please go ahead.

Achal: Congratulations on the great numbers. Sir, just a couple of questions. One is, with respect to the mix in terms of copper and aluminum, is it fair to say that we would be somewhere around 65% to 70% aluminum wires versus copper? Would that be a fair assumption?

Chirayu Upadhyaya: As far as the mix between copper and aluminum is concerned, it will be 50:50 between the two.

Achal: And in terms of the channel financing, what is the quantum? You've mentioned some 83%. Is that in terms of the number of distributors under the channel financing arrangement, or in terms of the value of your sales?

Chirayu Upadhyaya: So, the number is in terms of value of sales.

Achal: So, is it possible to give the quantum? What is the extent of channel financing as of June 30th? Would that be like ₹ 700-800 Crore, or less than that?

Chirayu Upadhyaya: About 83% for cables and wires, and 91% for FMEG were through channel financing. You have the top line numbers, you can calculate it through that.

Achal: Just one more question. If we look at the volume growth, what you're implying is 50% to 60% for this quarter, and I think that has partly to do with the low base, like you mentioned. Is it possible to get some colour in terms of what a 4-year CAGR would be? Would that be 25%-30%, or 10% -15%?

Chirayu Upadhyaya: So generally, Achal, as you are aware, normally volume growth in the cable and wire business, ranges between 1.5x and 2x of real GDP growth. In years like this, wherein there is increased demand because of various reasons, you can witness higher volume growth. But otherwise, what we've been guiding will remain true for most of the time, being 1.5x to 2x of real GDP growth.

Achal: That's a long-term growth, right? I mean for the industry in general, right? 1.5 to 2x?

Chirayu Upadhyaya: Right. That is correct.

Achal: Both cables and wires.

Moderator: Our next question comes from the line of Praveen Sahay with Prabhudas Lilladher. Please go ahead.

Praveen Sahay: The first one is related to the gross margin improvement. One of the reasons you mentioned was the commodity decline, which led to the improvement. So, in the coming quarters, can we assume some price correction with the expected commodity trends?

Chirayu Upadhyaya: So, Praveen, I guess even you would agree that nobody will be able to guess where the commodity price movements will be, right? So, depending on where the commodity prices are moving, whether they are going up or down, we pass on those changes to our end-customers.

What generally happens is that whenever commodity prices are in a downward movement, we kind of gain on our margins. So that is something that has held true for this quarter, but that will vary quarter-on-quarter, and we'll have to see how the commodity prices play out going ahead.

Praveen Sahay: And the second question related to the inventory. So, the higher inventory is only because of anticipated higher growth? Or is there something else to that as well?

Chirayu Upadhyaya: No. The major reason is because of higher anticipated growth. And the second reason for that was that we are expecting a couple of smelters from where we procure the copper to go in their annual maintenance shut down. And because of that, we have preponed our procurement of copper for this year.

Praveen Sahay: Is it an annual maintenance or has something new come up?

Chirayu Upadhyaya: No, annual maintenance is something they undergo every year, and that is why, we normally, just ahead of when the annual maintenance is scheduled for, we increase the amount of inventory - raw materials – we procure copper ahead of time.

Praveen Sahay: And lastly, as you mentioned about meeting the export demand and considering expansion, what are the plans for the capex? Will it be a brownfield expansion or a greenfield expansion for catering the export demand?

Chirayu Upadhyaya: So, we have our facilities in place for manufacturing the cables that are required for various different geographies. As we anticipate an increase in demand, we'll need to add additional facilities, which can be both brownfield as well as greenfield, as and when we see fit and depending on what kind of requirements we have.

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

Gandharv Tongia: Thank you participants for taking out time and attending this call. In case if you have any follow-up questions, you can write to us at investor.relations@polycab.com, and we would be glad to attend your questions. Thank you so much. Have a great day.

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