



Polycab India Limited
Q3 FY2022 Earnings Conference Call

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

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Moderator: Ladies and gentlemen, good day, and welcome to the Polycab India Limited Q3 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing “*” then “0” on your telephone. Please note that this conference is being recorded. I would now like to hand the conference to Mr. Gandharv Tongia, Chief Financial Officer, Polycab India Limited. Thank you and over to you, Sir!

Gandharv Tongia: Thank you, Bikram, and a very good afternoon to everyone. I hope you all are doing well. It is a pleasure to have you on the call. As Bikram mentioned, I am Gandharv Tongia, CFO at Polycab India Limited. Thanks for joining us today to discuss our Q3 FY2022 earnings. During the call, we will be referring to the presentation, financial results, and financial statements which are available on the stock exchanges as well as Investor Relation webpage of our website. It can also be downloaded through the link or QR Code on slide #9 of the earnings presentation. From our management team, we have with us our Chairman and Managing Director, Mr. Inder Jaisinghani. Let me now hand it over him for his comments.

Inder Jaisinghani: Good afternoon everyone. We saw the momentum continue in third quarter despite challenging business environment. We recorded the highest quarterly top line in the history of the company for the second continuous quarter which underlines our strategy to be agile, focus on robust execution and consistently deliver the best quality of products to our customers. We have revitalized our demand generation capability and go-to-market strategy with greater focus on emerging India clusters and new-age channels. We also commenced work on developing a robust ESG framework that will align us to the best global standards and serve as guidelines for sustainable business practices. I now request Gandharv to take you through our earning presentations.

Gandharv Tongia: Thank you Inder Bhai. Overall macro environment has been a bit of mixed bag during the quarter. We saw healthy demand in our B2B categories as well as institutional business on the back of an uptick in private CapEx. Demand visibility over medium to long term has been improving across sectors like real estate, infrastructure, renewable energy and manufacturing. This has led to a strong flow of fresh investment announcements and most of the companies are going ahead with their capital projects despite the ongoing third wave. At the consumer end while inflation is a bit worrying lower interest rates coupled with increased income is significantly improving affordability. However, on the flipside persistent volatility in our key raw materials and fear of lockdowns presented some headwinds to improving consumer sentiment. Having said that, gauging the current trade

sentiment we expect economic impact of the current wave to be limited considering less severity of omicron virus. While there may be hiccups in terms of localized lockdowns in the first half of Q4, second half is likely to be better. We remain watchful of trends on the ground and our teams are well prepared to come back strongly as the wave recedes. Overall we believe a trifecta of strong stimulus support economic infrastructure growth coupled with improving execution efficiencies through reforms like Public procurement rules or the Gati Shakti National Plan and favorable consumer demographics and trends will provide a long runway for growth. Our business and portfolio are quite uniquely placed to benefit from this favorable macro development.

Before we move on to presentation and financial review, I would like to highlight that the P&L and segment numbers for the current and prior comparable periods are restated due to divestment of Ryker Base in accordance with the applicable Indian Accounting Standard. All related gains and expenses on divestment are reported under profit from discontinued operations as seen on face of P&L in consolidated financial statements along with a few exceptional items of last year are also presented in slide #10 of the presentation.

Moving on to slide #4. For the quarter ended 31st December 2021, our consolidated revenue grew by 23% Y-o-Y and 34% on a two-year basis. On Q-o-Q basis our consolidated revenue grew by 12%. Q3 is the highest quarterly sales we have ever recorded. EBITDA margins improved sequentially by around 100 bps to 10.7% led by better operating leverage and price hikes, partly offset by three times increase in A&P spends and input cost pressure.

During the quarter we launched several brand campaigns across TV, digital and social media platforms. Seminars and influencers meets helped improve awareness among B2B customers, electricians and contractors amongst others. We also initiated rural outreach program through mobile vans where we connected with customers in hinterlands. As the business environment normalises we will continue with our branding spends.

Moving on, other expenses were broadly in line. Overall finance cost at Rs.78 million and other income at Rs.216 million were slightly lower. Additional breakup of our other income and finance costs has been provided on slide #13 of our earning presentation. Our profit before tax at Rs.3.24 billion decreased by 2% while profit after tax at Rs.2.48 billion increased by 1% Y-o-Y respectively. On slide #5, in the first nine months ended 31st December 2021 our revenue grew strongly by 41% Y-o-Y. EBITDA was up by 11% with 9.6% margin. Adjusted PAT also grew by 11% Y-o-Y. Please note the difference between adjusted and reported PAT is highlighted on slide #10.

Moving on to segment on slide #6. Our wires and cable business continued the sequential momentum. Sales grew by 24% Y-o-Y and 38% on a two-year basis. Normalizing the sales of a large order growth was better at 28% Y-o-Y in Q3. Delving deeper into sub segments, on a Y-o-Y basis cables grew faster than wires in Q3 supported by strong growth in institutional business. Having said that on a two-year basis growth is quite broad-based. The green shoots which we saw in the month of September in institutional business continued leading to nearly 2.5 times higher revenue. We are hopeful of sustaining this momentum in coming quarters.

During the quarter, wire business was slightly impacted by high volatility in copper prices in early November and fears of lockdown impacting the trade sentiment in December. Consequently, the inventory levels in trade were much below normal and overall cash cycle also slowed. Despite these challenges it is pleasing to note that blended wires and cables volume grew on Y-o-Y basis and is also higher than pre pandemic levels.

Export business contributed 8.1% to consolidated revenue but declined by 8% Y-o-Y largely on account of one large order in base year. Excluding that, the business posted a healthy 24% Y-o-Y growth led by Africa, Asia and Australia. We have put in considerable effort over the past two years in terms of new product development, getting approvals and penetrating new geographies. This is now materializing as we are seeing many repeat orders from large customers globally. Our focus on achieving double-digit contribution target over the medium term for this business remains intact. We have seen 155 bps sequential improvement in wires and cable segment margins during the quarter driven by price hikes and better operating leverage. Overall inflation in our raw material basket was close to mid single digits largely emanating from copper and aluminium, while our blended price hikes were slightly higher than that. Considering the continuing competitive intensity in select segments of this business the improvement in margins is encouraging.

On slide #7, our FMEG business grew by 11% Y-o-Y. October saw a robust momentum, however, December was impacted by weaker trade and consumer sentiments. Having said that, on pre-pandemic Q3 FY20 the sales are up by a healthy 57% and market share gains continued across categories. Fans had a slightly subdued quarter however growth in lights, pumps and conduit pipe business remains healthy. Switchgears and solar continue to witness strong demand. Our deep-dive initiative on widening distribution network has started delivering tangible benefits. Work on portfolio optimization, brand architecture and augmenting influencer management program is also progressing well. We have started clocking sales from e-commerce channel and we expect to ramp it up significantly over the next few years. Profitability in this business has been a bit volatile in recent past, but this is

largely because of a blend of external factors like unprecedented commodity inflation, demand disruption coupled with a lot of internal changes in terms of creating the right team, right infrastructure, right GTM strategy, brand investment, etc., which aligns with our aspiration. We strongly believe this alignment is necessary to achieve the next leg of profitable growth in FMEG which gets us to the podium.

On slide #8, other segment which largely comprises of our strategic EPC business witnessed a 21% Y-o-Y increase in revenue to Rs.745 million. EBIT stood at Rs.106 million, up 24% on Y-o-Y basis. While many of you may know this but just for the benefit of everyone I would like to highlight that during the quarter we divested our entire stake in Ryker Base which was our wholly owned subsidiary for an enterprise value of Rs.3.23 billion. Ryker played a strategic role in providing us high quality copper rods which are an input for manufacturing of wires and cables. It started as a JV but we had subsequently acquired the balance 50% stake when the other partner decided to exit. Consequently, the capacity became quite overwhelming and we couldn't fully utilize this state-of-the-art facility with our own internal requirements. Our limited experience and interest in metal business and a strong focus on optimal capital allocation also suggested it was prudent to divest. So after exploring various strategic options we believed this deal was a win-win proposition as we simultaneously executed a multi-year tolling arrangement with Hindalco which will ensure our operations and supply chain dynamics remain intact and we continue to deliver higher quality of products to our customers.

Consequent to this transaction, we have also withdrawn the copper segment in line with IndAS, all Ryker business income has been reported as income from discontinued operations in P&L. The P&L and segment numbers are restated for prior comparable periods. Our pre-tax gain on investment was around Rs.1.24 billion. On the balance sheet side, our financial position continues to remain healthy with net cash position of Rs.6.7 billion. Debt has reduced sequentially from Rs.2.36 billion as of September 2021 end to just Rs. 0.79 billion. Debt to equity ratio is low at 0.02X. On the working capital side, there are a couple of things to highlight; one, receivable days are at comfortable level of around 40 days. We are seeing decent improvement compared to FY2020 and FY 2021. We will continue to optimize this progressively with the help of channel financing. Second, inventory levels are higher than normal because of two reasons; one, we were anticipating better demand in December end, however, as I highlighted the trade sentiments went down a bit due to fear of third wave and dealers and retailers reduced their stock levels and second, we had done some pre-planned procurement for Q4 considering possible impact of omicron on supply chain. Having said that, we are calibrating our plans based on market demand and inventory levels to normalize by next month.

As part of transformation project, we are bolstering our organization structure with great talent across levels and business. We are creating new verticals, function and support teams. This will bring in new competencies and enable us to explore new business avenues which will make Polycab a future-ready organization.

Deepak has joined us recently from Tata group to lead the transformation management office under Project Leap. Tapas joined us from Havells to head our fans business. If you remember we had initiated few pilot projects to test the rural market. The results have been heartening. We believe with the right infrastructure, portfolio and people, we can leverage the immense demand potential of semi urban and rural India. Accordingly we have onboarded Deepak Mitra from Crompton to take this initiative further. We are elated to have all the new members joining the Polycab family and our good wishes are with them. Lastly, taking our sustainability initiatives a notch up we have initiated a project with an external partner to create our long-term ESG framework aligned with international ESG protocols, guidelines and standards. This framework will provide us sustainable outlook towards the environment and society alongside business goals. Thank you. With that, I hand it over to operators for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on your telephone. If you wish to remove yourself from the question queue you may press “*” and “2”. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. To ask a question please press “*” and “1” now. We have our first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Good afternoon. Sir, my first question is with respect to the volume value mix. What kind of volume growth we had seen either during the Q3 or nine-month number if you can give that it would be great? I know multiple products are there, but if you can give a broad sense it would be great Sir?

Gandharv Tongia: Thanks Ravi for your question. As you can see there is a significant amount of growth in value. Particularly if I were to add colour on the volume, I think there is a slight increase despite having Dangote in base predominantly from the business verticals like HDC followed by LDC. On FMEG also the growth is visible across all the product categories barring fans which was slightly subdued.

Ravi Swaminathan: Okay. So, volume growth might have been kind of mid single digit or high single digit or how was it?

Gandharv Tongia: I would say that most of it is because of value and only part of it is because of volume, and within that the HDC is leading the pack followed by the other businesses, cables and wires.

Ravi Swaminathan: Got it Sir. In terms of the demand, if you can give some colour on real estate-led demand, infra-led demand, more colour on that, and also how the demand is in urban and rural, how the demand for wire is, if you can give a broad thought process that will be great Sir?

Gandharv Tongia: Yes, let me split into two or three broad components. Let me talk about first the typical B2B business. As you would know that in first couple of quarters overall demand from the execution side was slightly subdued. In the current quarter, there is an uptick in the demand and institutional business has recorded almost 150% growth in the revenue followed by dealers and distributors on all the product categories across all the regions. If I give you colour on the export business, there is off course an element of repeat order but if I remove Dangote from the base there is an overall growth of 24% and Dangote also if I am not wrong in the last year December in the base quarter it had almost \$20 million of contribution to the top line and in the current quarter also there is a \$10 million contribution. Wires I would say is slightly less impressive than typical B2B business in the current quarter and on FMEG side across all the regions all the product categories there is growth barring fans which is slightly subdued. Fan now contributes to almost 35% to our FMEG top line followed by lighting and luminaries which would be roughly around 30%, and switchgears would be around 10% to 15% followed by pipes and fittings which will be around 10% to 12%.

Ravi Swaminathan: Got it Sir. My only question is basically not only for Polycab but for multiple electrical companies, on one side there are talks of real estate seeing a very strong recovery but products like wires, etc., they are not seeing very good traction. Any reason you can attribute to this as to why there is a dichotomy between real estate growing but wires not seeing that much traction?

Gandharv Tongia: We have seen a fair amount of growth on LDC and wire side, blended I would say is around 20% to 25% growth which we have seen in a few of these product categories. Overall, availability of credit and softening of interest is also helping the housing sector and building sector, and as we go ahead it appears in the Q4 after omicron the overall private CapEx would help us in improving the top line of the industry as well as large players like us.

Affordability I think has been at multiyear high and it should get reflected in the demand for cables and wires business in the quarters to come.

Ravi Swaminathan: Got it. My final question is with respect to the EBITDA margin. What kind of range that we can see in the next fiscal year? Can we go back to double digit kind of margins or are we seeing something similar to what it is likely to be this year, if you can give some thought?

Gandharv Tongia: Historically, in cable and wire, we have generally hovered between 11% and 13% on a sustainable basis. When we met in September quarter I had mentioned that slowly and gradually will start improving on the EBITDA margin. In the second half of the year the likely exit number would be towards the lower end of the EBITDA margin which we have seen historically of 11% to 13%. If you dissect our current quarter performance, you would notice that the EBITDA margins have improved in the Q3 in comparison to Q2 despite the fact that we have invested wherever we should have invested, like for example advertisement and publicity has increased from Rs.14 Crores to Rs.44 to Rs.45 Crores. It seems that next year margins would be better than what we have seen in the current quarter, but at the same time I would like to be cognizant of the fact that pandemic is still not over. If there is another wave of pandemic and it has significant impact on the business it could adversely impact the margins, but by and large it seems that we should be able to have better margins in the years to come.

Moderator: Thank you. We have the next question from the line of Atul Tiwari from CitiGroup. Please go ahead.

Atul Tiwari: Thank you Sir and congrats on pretty decent set of numbers in a tough environment. My first question is on the pricing. All the commodity price increases which have happened over the past year or so, have they been passed down into your structure of both cables and FMEG business or something still remains to be passed?

Gandharv Tongia: In our business on the B2B side particularly on the distribution business, we revise our prices generally on monthly rest after considering two variables; one is changes in metal prices of copper and aluminium. Second, is change in the foreign exchange rate of USD-INR and which is what we have done in the current quarter as well. On the other side of business, which is institutional and export we generally do it on back-to-back basis. As you can see, between Q2 and Q3 there is almost 70 basis points improvement in contribution margin which means that we have been able to increase the prices slightly more than the actual increase in the raw material cost at the product basket level and as I mentioned to

Ravi a while back we believe that in the quarters to come we should be able to improve our margins slowly and gradually.

Atul Tiwari: Would it be the right characterization to say that most of the commodity price hikes have already been passed on and from hereon whatever price hikes you take it will kind of trickle down to the margin number and we will get to the more normal 11% to 12% kind of margin. Is that right characterization?

Gandharv Tongia: Yes, I would like to add one element to your understanding that in our business the input cost is not constant. It undergoes change multiple times in a year as you know because copper and aluminium are traded on LME and that is where it is a moving price, but generally from an understanding point of view give and take few basis points here and there, we believe that we should be able to pass on the increase in input cost to our end customer and slowly and gradually we should be able to improve on margins both at contribution level as well as at EBITDA level. On a long-term view, you know this already Atul that we are working on Project Leap with the help of Boston Consulting Group and there are several enablers which are in place. Once those levers are used we should be able to improve our profitability both for B2B and B2C, however, it will take a while to fully achieve the true potential of these levers.

Atul Tiwari: Okay and my second question is on the channels. How many dealers and distributors you would have currently on cable and wire side and on FMEG side, and what is the portion of those are currently covered under channel financing, and how many or how much can we potentially cover under the channel financing?

Gandharv Tongia: Give and take some numbers we have around 4100 dealers and distributors in our family. 50% of them are on FMEG. In terms of value, advance plus channel finances put together in cable and wire we would be around 70% of our top line. In FMEG business, it has improved reasonably well and we are in late 40s, almost just shy of 50%. Theoretically speaking, this number can go right up to 80s and 90s, and that is where FMEG channel financing penetration should improve in quarters to come and there is an upside which is possible in cable and wire business as well.

Atul Tiwari: Okay, great, and my final one is obviously we have seen across the industry some tapering down of demand in December and after Diwali got over, so how are things now qualitatively, do you see demand bouncing back in Q4 from the retail category or will it take some more time, if you could share some broad qualitative colour on that?

Gandharv Tongia: Absolutely, you are right Atul. Second half of the quarter got impacted particularly the last two to three weeks of December got impacted because of omicron and pandemic. If I were to take a view today, sentiments are positive. Though in the month of December few of the dealers decided to reduce the inventory levels in the channel. As of today, the things have improved. Dealers and distributors are inching back to normalcy, and you know this data already that omicron wave in most of the large cities have already peaked or about to peak in the next few days. At this stage, it seems that the second half of the current quarter should be better than the first half of the current quarter. Overall, macro elements like uptick in private CapEx should also help us in improving and augmenting the top line of the company on cable and wire side. On the B2C side as well as on dealer distribution, we are focusing and improving our presence in all the accessible markets, helping our dealers and distributors, and all these initiatives would also help us in improving the top line. So, to answer your question, the sentiment got impacted in the month of December adversely a bit, but as of now things have started improving.

Moderator: Thank you. We have the next question from the line of Aditya Bagul from TATA Mutual Fund. Please go ahead.

Aditya Bagul: Thank you and good evening. Congratulations on good set of numbers in the challenging times. A couple of questions from my end, firstly with regards to the B2B segment it has seen a sharp recovery. Can you help us understand what are some of these end-user industries that is driving this growth and what is your outlook over a period of the next one year especially when it comes to the B2B part?

Gandharv Tongia: Thanks a lot for your kind words. On the B2B side, as I mentioned a while back, the improvement in the demand is emanating from private CapEx. As I mentioned to Ravi a while back, institutional business has recorded 150% growth which is a meaningful number in our B2B business. On the dealer side, there are several sectors where we have seen uptick in demand, whether it is coming from real estate, infrastructure, renewable energy or manufacturing, but I would say it is broad based and it is coming from most of the geographies, so it is not that only one particular region of the country is contributing to the demand, it is coming from the all the geography and that is where we have been able to also record a decent volume growth even if we consider Dangote in the base.

Aditya Bagul: Sure, I wish to process this a bit further. If you can help me understand is there a chunky nature to this B2B sort of institutional demand or is this more industrial CapEx like demand?

Gandharv Tongia: There is no particular one industry or sector which is contributing to this demand. I would say this is largely broad based. I think the private CapEx spenders are not shying away from making the commitment and incurring the cost which is benefitting us in terms of the improved performance in the top line.

Aditya Bagul: Understood, thank you for answering that. My second question is I am trying to understand the premiumization trend especially in our FMEG business, can you just throw a little light on how you see some of our premium products like Levana or Hohm and how do these fit into our Project Leap over a period of the next three to five years?

Gandharv Tongia: Premiumization is an important focus area as part of Project Leap. We are working on several elements. One is to ensure that we have the right product available in our product portfolio to meet the premiumization. Second is we should have right GTM and dealers and distributors who can cater to the end demand or end consumer, and that has helped us in slightly improving the overall contribution of premiumized product to our top line. Fan is hovering between 25% and 30%. Purocoat fan which was internally innovated has also helped us in improving the overall premiumization agenda within the fan business, and similarly for lighting we have recorded a growth in premiumization on downlighters and others. Hohm, Silvan and Smart – these are the areas where we are still working. I would expect that in the next fiscal and that too in the second half of the next fiscal we should have some meaningful numbers coming to our P&L through Hohm and Silvan IOT, and that remains a focus area for us. Overall, the idea is to have a balance of premiumization as well as regular products so that we have right EBITDA and EBIT margins in the B2C businesses and we are able to improve the margin from the current levels to almost 12% by FY2026.

Moderator: Thank you. We have the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: My first question is on the demand side, though you stated that value growth is also the large proportion, 99% as well, but just talking about the two quarters, the last quarter on a base of 5% decline we did 44% growth and the copper prices were up roughly 40% to 45%.

Moderator: Sir we seemed to have lost the line of Nitin Arora.

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

Charanjit Singh: If you can just help us understand one, in terms of the quantum of price hike exactly, how much you would have taken in cables and wires, and if we have to look at from a nine-month perspective volume growth in cables and wires what it was, if you can give the figures here?

Gandharv Tongia: Sure, as I mentioned to Atul and Ravi, most of the increase is coming from value, where some contribution coming from increase in volume and if I even consider Dangote in the base there is some improvement in volume. In terms of price hikes, in the Q2 there was some impact on the contribution and that is why there was a contraction in contribution margin. In the Q3, there was almost improvement of 70 bps. The raw material cost at the product basket level increased by mid single digit and the price hike we have taken is slightly more than that and which is what is getting reflected in expansion of contribution margin by 70 bps, and we will continue to take pricing action to offset the increase in input cost in the quarters to come.

Charanjit Singh: If you are to compare the price action what you would have taken versus industry, is there is a gap between this?

Gandharv Tongia: Are you trying to ask that whether the price hike we have taken is in line with the industry?

Charanjit Singh: Yes, that is the question.

Gandharv Tongia: In all fairness, we are the largest manufacturer of cable and wire in the country. We are the market leader, price leader and of course quality leader. I think we have acted like a market leader in the current quarter. We have taken the price hike which was required to be taken to ensure that we are able to offset the input cost. It is quite possible that a few of the market participants have followed what we have done. There could be some aberration where the market participants or peers have not necessarily followed what we have done, but by and large we have taken the price hike which we felt was necessary to offset the increase in input cost.

Charanjit Singh: Okay. Another question on the volume growth perspective. As you are entering into Q4, generally there are more infrastructure, construction, heavy and even from the industry perspective there is a thought process that the activity on the government infrastructure side should continue to remain strong, so any thoughts on what is the kind of volume growth which you can see in cables and wires side separately?

Gandharv Tongia: You know us, we do not give guidance on future performance. If I were to provide you a long-term guidance, we are fully committed to Project Leap agenda whereby we want to double our revenue in five years, fiscal 2026, which would mean that Rs.9000 Crores of top line of fiscal 2021 would be Rs.20,000 Crores by fiscal 2026, and it will come from all the businesses both B2B and B2C.

Charanjit Singh: Okay, just roughly on the FMEG front, we have built a very strong team and we are getting onto a journey where we expect to grow much more faster than the industry, so from FMEG perspective we have seen that the growth has not been as strong as what we have seen for the other larger players. If you can touch upon how this journey is panning out from FMEG perspective and this new team when you seen their activities starting to pickup, just on the FMEG journey if you can give some more colour on the future perspective, how do you plan to ramp up?

Gandharv Tongia: On a two-year basis if I see the FMEG top line performance we have registered a growth of 57% which would roughly mean 25% to 30% annualized growth. In terms of achieving the true potential of Project Leap agenda, there are several enablers on which we are working. One which I briefly touched upon in the opening remarks is having the right resources in the management team and that is where we have invested heavily in getting the best of the talent of the industry. In the last quarterly call, I had updated all of you that Mr. Vivek Sharma has joined us from Panasonic. He was the MD of Panasonic and after super annuation he has joined us as Deputy Managing Director. Tapas has joined us from Havells and he is heading our fans business. Similarly, there are other team members who have joined from other large companies like Crompton and other large B2C players. These management professionals with the help of BCG are in the process of revisiting and revising and revitalizing the product portfolio, GTM, geographical expansion and augmentation of dealers and distributors. We have already improved penetration in a few geographies in the current nine months. Once we implement all the items which we have identified in the blueprint I would expect that we would easily be able to achieve the top line of B2C business by FY2026. Also, we would be able to have meaningful improvement in the bottom line. I think we will have to give some time to the new team members who have recently joined our family and post that we should be able to get to the numbers which we want to achieve as part of Project Leap.

Moderator: Thank you. We have the next question from the line of Sathvik Jain from Generational Capital. Please go ahead.

Sathvik Jain: I have a couple of questions. The first is I guess you are in investment mode in the FMEG business. How are the internal targets at the business level? Secondly, you had briefly told about how you are passing on the inflation to the end consumer. If you could throw some more light on it across the verticals?

Gandharv Tongia: Sorry I missed the first part of the question. I think let me attend the second part and then you can repeat the first part. I think the second part is how have we passed on the increase in the input cost to the end customer and if my understanding is right on the question, the answer is for the dealers and distributors we reset or revise our list price on a monthly basis and that is what we have done, even in the current quarter, almost all the increases in the input cost had been passed on to the end customer. For the exports as well as institutional businesses generally it is on a back-to-back basis and that is where we have been able to pass on the input cost increase as well to the counterparty or to our customer. If that answers your second part of the question I would request you to just repeat the first part.

Sathvik Jain: Yes, that is helpful. The first part was basically you are led by the FMEG business that is on a scale up mode. Internal factors included targets at the FMEG level as such.

Gandharv Tongia: I think you are trying to understand ROCE target for the FMEG business. If that is the current understanding, objective is to improve profitability for all the businesses as well as have better capital allocation including for FMEG or B2C businesses. As of now, as you know there are two levers to improve ROCE, one is better profitability and second is better capital allocation. As far as better profitability is concerned, we are targeting to get to around 12% of margin by FY2026 and we are taking all the required steps to achieve that. The second is on capital allocation. Slowly and gradually we are increasing utilization of our factories in FMEG as well as in cables and wires. If I were to illustrate this with the help of one example is fan business where our existing facility is almost being fully utilized. We are in the process of setting up another facility which should be operational sometime in the Q1 of the next fiscal and that will also help us in augmenting the top line as well as the profitability. So, we will continue to make efforts to improve the profitability of the B2C business and ensure that our assets are sweated to get better returns.

Moderator: Thank you. We have the next question from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks for the opportunity. It might be a repetitive question, but when we are looking at the real estate demand and against that when we are looking at the demand from real estate ancillaries like fan, lighting and retail wiring, it does not add up. So, if you can help us

understand how does this lead and lag effect play out because is it that currently the existing inventory in real estate is being sold and the new construction is yet to pick up in a big way? If you can just share your thought process of how is it on your interaction with the customers and how is actually the demand shaping up?

Gandharv Tongia: Sure, as you have noticed that in all the businesses we have recorded a significant amount of growth, in cables and wires as well as in FMEG. The FMEG on a two-year basis has recorded a 57% of growth in top line and similar numbers are there in cable and wire businesses, of course the percentage is different because of higher base. I would not say that we are not able to see an uptick in demand or there is a disconnect between the real estate revival as well as growth in our sector, but we need to look at this construction cycle in its entirety because a few of our products are used towards the end of the construction phase and that is where we will have to dive deep into the greater details of the cycle of real estate and correlate with our industry.

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

Aniruddha Joshi: Thanks for the opportunity. Sir, just one strategic question, the FMEG business that you are working on is doing completely excellent. This is a highly competitive business, fans and all these are relatively far more penetrated categories. So, here growth is to gain market share which is again relatively a bit tough task. What is the management's thought process on businesses something like kitchen appliances where there are not many big players and even the top five players have less than 45% market share and I think the segment is also pretty fast growing segment. Considering Polycab's strong brand distribution, what is our thought process on that as a segment?

Gandharv Tongia: It is a great question Aniruddha. In the board room as well as management team, we have deliberated on this several times. Let me give you two perspectives. If you were to visualize all the products which Polycab is manufacturing and offering to the end customers and compare with the typical electrical/hardware store you would be able to see almost all the products. When we want to move away from this product category to something like kitchen equipment there are two or three things which are additionally required to be considered. One is the kitchen equipment's are not expected to be channeled through electrical/hardware stores. Second, the target audience is different. In electrical/hardware stores, generally man of the house would be involved in the decision-making, whereas in the kitchen equipment the lady of the house would have a say, and the last thing is the brand Polycab which we have today not necessarily would go well, and which is a matter of

discussion and deliberation even internally, with the kitchen appliances. So the current thought process for the time being is to ensure that we have complete coverage of all the electrical products and as part of Project Leap explore the exigencies and then monetize those exigencies as we implement Project Leap initiatives between now and FY2026.

Aniruddha Joshi: Okay, and what are the products if you can say that we would be focusing on in FMEG apart from fans and maybe geysers?

Gandharv Tongia: We have several FMEG products already available. We have fans and water heaters. We have lights and luminaries. We have switches and switchgears. We have conduit pipes. We have a bit of agro pumps and there are some adjacencies which are being explored, but nothing on the kitchen equipment side as of now.

Aniruddha Joshi: Okay, about air coolers or irons, etc., those kinds of products? Most of the other companies are not even in kitchen appliances, but still continue to do sell these products. So, any plans on completing this portfolio?

Gandharv Tongia: There are some products which are available in the product category which you have mentioned, but as I mentioned these are adjacencies and these are being explored, and we will continue to do that, but if you go back to my earlier comment the idea is to first cover all the electrical products and then explore if at all we have to go beyond that.

Aniruddha Joshi: Okay, last question, you said in the opening speech that multiple new professionals have joined the company. What are the key areas that they will be working on over the next two to three years? Is it like minimum 1% to 2% market share gain in each of the product categories that we are working on or is it improvement in the profitability and margins? What are the basic three to four key reasons on which they would be focusing on?

Gandharv Tongia: The new professionals who have joined the organization as well as the current leadership team totally focused on only one initiative or agenda which is Project Leap. The objective is to achieve Rs.20,000 Crores of top line, improvement in profitability, and there are several enablers to achieve this vision. For example, improvement in our dealers and distribution base, improvement in GTM, expansion and penetration of the geographies where we do not have meaningful presence, improved exports, but if I were to summarize and give you input in a single statement it is only Project Leap agenda which is what being targeted by all of us in the leadership team of Polycab.

Moderator: Thank you. We have the next question from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Thank you for the opportunity. I just want to know how far has the company reached in terms of human capital addition. I see very interesting hires from the industry for new as well as existing roles. I just want to know how far has the company reached? Is the top team already in place for most of the roles that have been identified under Project Leap?

Gandharv Tongia: I would say as part of the phase one of Project Leap most of the senior resources have been already hired. I do not think that at this stage under the phase one we need to do any additional significant hiring for the top leadership. Having said that, at the middle level and lower level we will continue to make an investment and that is required for initiatives like increase in overall dealers and distributors, further penetrating the geographies where we do not have meaningful presence, and so on and so forth.

Shrinidhi Karlekar: The second question is on the business and state distribution utilities. Any colour on how it has been recovering that pie of that market? How much of company's cable and wire business directly or indirectly comes from state distribution utilities?

Gandharv Tongia: We do not directly deal with government entities generally speaking. Government's contribution to our top line directly would be less than 2-2.5%. Of course, our dealers and distributors serve these companies. There is some improvement, but since this is a secondary sale I will not necessarily have adequate colour to give to you, but to answer your question from the primary sales point of view we do not directly have significant supply to government orders.

Shrinidhi Karlekar: I am just trying to understand would you have some colour on indirectly how much would it be?

Gandharv Tongia: I think there is some improvement over the period, but since it is secondary, it is difficult to give you a precise colour, but generally speaking power distribution reforms have helped and it will continue to help us in improving the demand at the industry level.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Gandharv Tongia for closing comments. Over to you Sir!

Gandharv Tongia: Thank you everyone for taking out time and attending this call. In case if there are any unanswered questions please write to us at investor.relations@polycab.com and we would



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be extremely pleased to attend your queries and provide clarification. Stay safe and take care.

Moderator:

Thank you very much Sir. Ladies and gentlemen, on behalf of Polycab India Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.