Polycab India Limited
Q3 FY2020 Earnings Conference Call

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Management:	**Mr. Inder T. Jaisinghani - Chairman and Managing Director – Polycab India Limited**
	Mr. S.L. Bajaj - Director Finance and Chief Financial Officer – Polycab India Limited
	Mr. Gandharv Tongia - Deputy Chief Financial Officer – Polycab India Limited

Moderator: Good morning ladies and gentlemen. Welcome to the Polycab India Limited Q3 FY2020 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gandharv Tongia. Thank you and over to you sir!

Gandharv Tongia: Thank you operator. Good morning everyone and wish you a very Happy New Year. Thank you for your interest in Polycab. I am Gandharv Tongia, Deputy CFO at Polycab India Limited. On this call we shall discuss the Q3 as well as nine months' results for the fiscal 2020 which was approved by the Board of Directors yesterday. We will be referring to the presentation that is available on our website as well as on the Stock Exchanges. From our management team, we have with us our Chairman and Managing Director Shri Inder T. Jaisinghani and our Director Finance and CFO Shri S.L. Bajaj. Let me now hand it over to our Chairman Inder bhai for his comments.

Inder Jaisinghani: Good morning everybody, we have delivered yet another quarter of resilient growth. Our top line growth remains resilient across segments helped by our robust pan India distribution network coupled with exports while profitability improved sequentially on the back of enhanced and evolving product mix and various strategic initiatives which we have implemented over the past few years. As we enter the new decade we will continue to build on our current strengths while acquiring new ones to stay competitive and drive profitable growth. I now request Gandharv to take you through our earnings presentation.

Gandharv Tongia: Thank you very much. Before we move into our presentation, let me share our perspective on the macro front. The domestic demand environment continues to remain challenging with tough liquidity conditions. Growth in electricals industry as a whole has remained sluggish since the past two quarters. These headwinds were felt more in some of our product categories. Having said that, I am very happy to state that our top line growth continues to remain healthy driven by decent demand in our B2C business from non-metros', improving momentum in exports, coupled with all the efforts and initiatives we have undertaken in over the years to build resilience during such tough times. Please note that our financial results, presentation and interim financial statement are available on the Stock Exchanges as well Investor Relations page of our website. These can be also downloaded from the link or QR code on slide # 9.

Now getting to presentation, coming to slide # 4. In the first nine months ended December 2019 our consolidated revenue growth has been strong at 21% year-on-year led by healthy performance across segments. EBITDA grew by 18% year-on-year with 12.4% margin. While the margin may seem optically lower versus the same period last year, I would like to point out to the fact that our current nine-month EBITDA margin is about 50bps higher than what we had achieved in fiscal 2019. Alluding to what I had suggested in the last quarter call that our business needs to be looked at on a 12-month horizon. Our profit before tax grew by 32% year-on-year driven by decreased finance cost, reflecting the lower borrowing compared to previous year.

A detailed break up of other income and finance cost have been provided on slide #13 of our earning presentation. Our profit after tax at Rs.5.5 billion has been robust, up by over 53% year-on-year, partly aided by reduction in statutory tax rate. It is very delighting to note that in the first nine months of fiscal 2020 we have already surpassed our last year's profit after tax.

Moving on to the specifics of Q3 on slide #5, our revenue from operation at Rs.25 billion has registered a growth of 24% year-on-year lead by healthy contribution from all business segments. EBITDA excluding other income was Rs.3.4 billion up 6% year-on-year. EBITDA margin at 13.5% was lower year-on-year basis but 150 bps higher versus Q2 and 160 bps higher compared to fiscal 2019. We had an exceptionally strong EBITDA margin in Q3 of last year which was driven by a confluence of favourable factors like pricing actions, better product mix and better leverage on fixed cost. However, I would like to re-emphasize that the correct way to analyse our operating profitability would be on an annualised basis as several dynamics can weigh on quarterly margins. Historically, we have noted that our annualised sustainable margin in Wires and Cable business typically tends to hover in the range of 11% to 13%. Our staff cost in Q3 were lower by 60 bps year-on-year due to better leverage; however, it was offset by 72 bps of higher A&P spends. We are now revisiting our marketing strategy with an objective to improvise our visibility evenly throughout the year. Our profit after tax is up by over 14% year-on-year driven by decreased finance cost reflecting the lower borrowing compared to previous year and partly aided by recent reduction in the statutory income tax rate.

Moving on to segments on slide #6, Wires and Cables which is our largest business, grew 20% year-on-year driven by healthy growth across categories. Growth in cables was largely driven by export which grew strongly on the back of a large order as well as increasing traction seen in few developed geographies. Higher sales of optical fibre cable compared to previous year further contributed to the growth. Channel sales in Q3 was soft, impacted by ongoing slow down and weak economic sentiments. Institutional cable sales in Q3 were down sharply, partly due to higher base.

On the other hand, Wires which is sold largely through our distribution network witnessed strong double-digit growth during the quarter buoyed by healthy demand from non-metro cities. Green wire campaign which was launched across over 40 national and regional TV channels in Q3 has garnered good response from customers while improving overall brand awareness across geographies. The EBIT margin in this segment was lower on year-on-year basis due to higher base as well as higher brand investments in Q3.

On slide #7, FMEG segment which we forayed into about 5-year back, continued its healthy momentum growing at over 34% and 46% year-on-year, in Q3 and nine-months of fiscal 2020, respectively. This segment contributed almost 10% to our overall topline in nine months fiscal 2020. Fans, lighting and luminaries continue to grow at healthy pace despite challenging market conditions, led by our distribution strength, inhouse manufacturing ability and improving portfolio mix. Growth in Switches and switchgears remains soft. Benefits from increased operating leverage were offset by higher advertising expense which dragged profitability in Q3 against Q2. Going ahead, we expect the FMEG business to sustain healthy momentum helped by new launches in segment like home automation, fans, switchgears.

On slide #8, other segment which is largely our strategic EPC business witnessed healthy growth in revenue and profitability led by execution of profitable projects. Having said that we expect margins in this business to remain in high single digit on an annualised basis, which we believe is sustainable.

Moving on to financials, our return ratios continue to improve directionally. ROCE for nine-month FY2020 stood at 26% up 53 bps year-on-year led by improving underlying profitability. Our balance sheet has strengthened further with over Rs.6.4 billion of net cash position as of December 2019 and debt to equity ratio at mere 0.03x. Our working capital, on closing basis, has improved in Q3 led by lower inventory levels. We continue to work on several initiatives like increasing channel financing and inventory rationalisation to improvise and optimise our working capital. We are also undertaking several strategic programmes which will boost our supply chain operations, enhance data analytics capability and increase automation to push us forward in the journey of digitalisation.

Lastly, we continue to augment our distribution backbone with direct reach of over 3,450 authorised dealers and distributors across geographies, indirectly serving over 1,25,000 retail outlets as of December 2019. Project Bandhan which is our flagship CRM programme now has over 1,15,000 electricians and over 38,000 retailers on board.

To end my presentation, I would like to say that we will continue to build on our strength and leverage opportunities to deliver consistent and profitable growth. While the demand may continue to remain soft for next one to two quarters, the structural drivers like favourable demographics, formalisation of economy, government thrust on infrastructure and investment reinforces our confidence of healthy growth over medium to long-term. Before I hand over the session to the operator, I would like to mention that in case we are unable to attend any specific questions or if you wish to have a separate discussion with us please feel free to reach out to us at investor.relations@polycab.com. Now we will be happy to take any questions. Over to you Operator!

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question from, is the line of Vishal Baradia from Aviva Life Insurance. Please go ahead.

Vishal Baradia: Sir, could you guide us as to how has the working capital moved for you this quarter separately for Wires and Cables and for FMEG?

Gandharv Tongia: The consolidated numbers which are presented on slide #13 are reflective of both the businesses proportionately. Improvement is seen in both the businesses equally.

Vishal Baradia: If we exclude the exports number for this quarter, what has been the growth on Wire and Cables?

Gandharv Tongia: Let me give you a complete break up because I am sure that would be point of interest for others as well. Let us split Cables business in two parts, one is domestic and second is export. If I take third quarter as our base, our export business has increased from a base quarter of Rs.94 Crores to Rs.439 Crores. That Rs.439 Crores is largely coming from Dangote, which is a large order that we are executing, as well as our recent entry to few large economies where we want to get into distribution business. If I talk about the domestic business in Cables, there are two categories ie. channel and second is institutional. In case of institutional, there was a significant degrowth primarily due to two reasons, one is we were sitting on a large order or large base, and second is the slowdown, liquidity challenges, as well as the deferment of the projects, which all of us are aware of is impacting the institutional sales and it has reduced quite significantly in the quarter period. Coming to Wires, it has registered healthy double-digit growth across all the geographies with top contributor generally being west and south, followed by north and east. These facts are broadly in line with what we have witnessed for the nine months period as well.

Vishal Baradia: What kind of growth are you targeting for the whole year for Wires and Cables for FY2020 and FY2021, and for FMEG?

Gandharv Tongia: We are the market leaders, cost leaders and price leaders. Our market position is such that, we as number one, is equivalent to our peers at #2, #3 and part of #4 combined. We as a company do not give guidance, but we would be pleased if we are able to beat the industry growth rate over medium to long-term.

Moderator: Thank you. We will move onto the next question that is from the line of Balchandra Shinde from Max life Insurance. Please go ahead.

Balchandra Shinde: Good morning. Sir, regarding Dangote order I would like to know is it complete or after that any big new orders we are expecting on Wires and Cables?

Gandharv Tongia: So, we have partially executed this order, almost 40%-45% in the current nine months. We expect that we would be able to complete the order by the first quarter of the next fiscal, ie. June 2020. Though it appears to be one-off, we are trying our level best to see if we can get repeat orders or similar orders, not necessarily of the same magnitude, from other customers. Having said that, another way of advancing the overall topline is to see if we can get growth from the developed economies, by way of exports, and with that objective we have started venturing into developed economies. These are baby steps, which we have taken. Over the next few quarters and years, we would be able to see whether it is contributing to the growth of the company or not. If we talk about the current nine months, we have recorded almost Rs.70 Crores of such sales in the export market and we will continue to monitor it very closely on a quarterly basis.

Balchandra Shinde: In PPT as we are showing that our exports have improved from 5% to 9% it is largely because of this order?

Gandharv Tongia: That is right. Dangote is almost Rs.319 Crores in the current quarter and almost Rs.435 Crores in the current nine months, which was not there in the previous comparable period.

Balchandra Shinde: But then it will be very difficult for us to repeat such kind of orders in exports?

Gandharv Tongia: That is where we are trying to foray into the other markets and the objective is to get into something what is called distribution led business rather than order led business. If you analyse our performance for last five years, we have slowly and gradually reduced our dependence on institutional business in the domestic market, and we are now a pure distribution play, by and large. And the same model we would like to replicate in geographies outside India.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Congratulations on very good set of numbers in very tough environment. Sir just one question, what was the acceptances numbers on the balance sheet as of the quarter end?

Gandharv Tongia: We had around Rs.640 Crores of acceptances as of December 2019.

Atul Tiwari: My second question is on the FMEG business, so the growth there continues, and you continue to breakeven at EBITDA level but any guidance or colour when we can see that margin which is close to 1% now going to somewhat industry comparable levels or at least to 2%, 3%. Where are we on that journey of increasing the margins in the FMEG business?

Gandharv Tongia: We have several advantages in our FMEG business through our business model. We enjoy economies of scale benefits because the raw material which we use in FMEG is in line with what we use in Cables and Wires, we have the distribution advantage in addition to management bandwidth and in-house manufacturing. Directionally, we believe that every year we should be able to improve our EBIT margin by almost 100 bps or there about. But these are challenging times, hence we will have to take a closer look at the improvement in profitability on quarterly basis to ensure that we are able to improve EBIT margins.

Moderator: Thank you. The question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Good morning. First of all, congratulations on a good performance in really challenging times. Gandharv, just wanted to know your thoughts, on the export business. We talked about getting into new geographies, just wanted to understand how easy or difficult is it to setup a distribution franchise there, are we tying up with distributors so what are we are doing exactly in the new geographies that we are entering as point number one and is it the same product profile that we are using for exports?

Gandharv Tongia: As I mentioned a while back, in India we started moving away from institutional business to dealers and distribution base almost 5-7 years back. This same model we want to replicate outside the country. And as far as easy or difficult, I think doing business whether in India or overseas is equally difficult. I do not think anyone can say that is easy, but at the same time I as well as all of us are very confident and comfortable on the quality of the management bandwidth that we have, we are pretty comfortable that we would be able to do it. Coming to the specific question on the product, broadly, products are similar but the way we must follow quality norms in India, we have different quality norms to follow in other geographies. So that would involve a bit of tweaking in the product but generally speaking product categories are similar but not necessarily same.

Aditya Bagul: Fair enough. I think I will wait for few more quarters to get more granularity on this, as this business scales up. A book-keeping question, we have got Rs. 640 Crores of net cash on the balance sheet, just wanted to understand what are the capex plans etc.?

Gandharv Tongia: Until the last quarter we have guided around Rs.250 Crores of capex, this was before we had factored in the reduced income tax rate and I am sure you would have seen that that income tax rate deduction has helped our profitability. We feel that Rs. 300 Crores is a decent number to target in the current year capex. This will be used for further strengthening our backward integration in the current fiscal, a bit of debottlenecking, investment in few of the FMEG facilities, like, for example fans. And for the next year capex, we will probably come back to you during the year end. If we analyse our last 5– 6 years of capex generally speaking, we have been incurring capex in the range of Rs. 250 Crores – 300 Crores and Aditya you know that in those days our topline used to be in the range of Rs.5,000 to Rs. 7,000 Crores. Today when we are doing Rs.6,000 Crores -Rs. 7,000 Crores in nine months basis, our capex spend is similar. So, the capex intensity is certainly going down, but we will continue to monitor it very regularly to ensure that the capital allocation is just and fair.

Moderator: The next question is from the line of Shreyas Bhukhanwala from Canara Robeco Asset Management. Please go ahead.

Shreyas B: Two questions, one is on the EPC business, so was there any write-offs which led to higher margins and secondly, how much was contribution from the optic fibre segment?

Gandharv Tongia: There is no write-off in EPC business, in fact as a matter of fact EPC business has improved its profitability mainly due to execution of few profitable projects which we are executing. Coming to the second part of your question, in the case of optical fibre, we have done about Rs.150 Crores of top-line in the current nine months.

Shreyas B: How much was for this quarter?

Gandharv Tongia: Close to Rs. 50 Crores.

Moderator: The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Congrats on a good set of numbers. Just wanted to know, what would have been overall industry growth for cables and wires this quarter and on nine months, was its mid-single digit, high single digit or was it flattish, how was it in entire industry?

Gandharv Tongia: If we analyse business by business, I think there are mixed signals which we are getting, and Ravi I am sure you are tracking the performances of large companies. In cables, it looks like that there is a bit of a contraction in the cable industry, for wires it looks like there is some growth but not very impressive. Industry size, I think is better to analyse on twelve monthly basis once we have numbers of FY 2020. I believe nine months is not necessarily reflective of the overall industry movement, and the fact that there is a bit of challenge in overall growth in all the sectors of the economy has a bearing on our sector as well.

Ravi Swaminathan: Is there an assessment that the brands would have grown or rather a larger brand would have grown at a faster pace, unorganised to organised shift is actually happening to the industry nine months before?

Gandharv Tongia: Directionally you are right, that is what we have seen in last 5 – 6 years. Almost five years back as you know unorganised sector was almost 39% of the total industry, last year it was almost 34% as per one independent study, and it appears that it would be close to 26% by 2023. Generally, what we are seeing is that the movement is in that direction. Probably rate could vary but directionally formalised sector or the organised sector growth rate is significantly better than the unorganised sector.

Ravi Swaminathan: How was the mix between Cables and Wires in nine months or three months, vis-à-vis last year corresponding over the last year?

Gandharv Tongia: We are not disclosing this number externally and that is why we are not tracking it. But if we analyse last few quarters, the breakup is generally 55% Cable and 45% Wire, though in this period since wire has registered a growth rate which is better than Cable it is quite possible the wires is few bps higher.

Moderator: The next line is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: My question is on your backward integration. I believe that you have started the plant recently, so what is the progress there and what kind of benefits you expect in coming quarters? On the EPC side we have seen large fluctuations in terms of incremental revenues and on the margins, so what will be there in coming quarters, will it continue like that? Because my assumption was that you would not like to cross the EPC revenue from Rs. 400 – 500 Crores type, but looking at the run rate I think it will be much higher than that, your comments on that?

Gandharv Tongia: We as a company firmly believe in in-house manufacturing. Over the last few years, we have carried out several steps to ensure that we have adequate backward integration in place. Ryker Base is the plant you are referring to. It is a joint venture plant to process one of the key materials we use to manufacture cable and wire ie. copper. We procure cathodes from the overseas market, which is best in class across the globe, and convert it into rods. The mindset and the thought process of the company is to ensure that we get the best quality and that is why we have done that. Of course, when you are procuring the best quality raw material and converting it in-house, it gives you operational advantage as well as helps in improving overall raw material cost. But the way we see, and the way promoters and founders see it, is the quality, and that is the reason we are doing it. We expect that this will continue to help in improving overall quality for which our brand is known for last several decades.

Coming to the second part of your question on the EPC. When we analyse Others in our consolidated segment results, it includes EPC as well as some small contribution from other subsidiaries. Roughly speaking, 80% of others is EPC in our segment, which is broadly around 5% - 6% of our topline. Directionally we believe that we have to continue to operate in a range which is less than 5% - 6% of our topline. We know for sure that we are not an EPC company and we do not want to operate as such. The only thing is, we get operational advantage and leverage when we get into EPC for our main Cable and Wire business. For example, if there is an optical fibre cable contract which involves supplying as well as laying of cable, if it is healthy from the overall return ratios point of view, we will probably venture into such contract. This will help us both ways, one it will help us in improving our cable and wire supplies, second it will also help us in getting some revenue under EPC. So that is the reason why we are into EPC. We believe EPC business can continue to have high single digit or just low double-digit EBIT or EBITDA margins. Whatever we are seeing now is slightly better than these estimates predominantly, because we are executing few contracts which are comparatively better in profitability in general than the others.

Ashish Poddar: 8% - 10% kind of margin is sustainable according to you?

Gandharv Tongia: That is right.

Moderator: The next question is from the line Tarang Bhanushali from Yes Securities. Please go ahead.

Tarang Bhanushali: Sir, my question again is on the OFC contracts, so now what portion of the BharatNet project we have already executed and what is left with us?

Gandharv Tongia: There are several revenue streams within optical fibre cable, the contract which you are referring to is being executed with the help of a JV partner. A part of it has been executed already till December. By June, we expect we should be able to execute almost everything. Broadly speaking 60%-70% is what we have executed so far.

Tarang Bhanushali: Sir, on the cables front we have seen a sharp decline in this quarter, how is the current market scenario going into Q4?

Gandharv Tongia: We do not comment on the quarterly performance. Directionally, as I mentioned a while back these are challenging times. We have to find ways to improve our overall topline growth, find revenues either through geography or through new product categories and focus on strengthening our distribution market to ensure that our core continues to grow but these are challenging times.

Tarang Bhanushali: Sir, since you mentioned on the new products, last year we had OFC with us, so what new products are we looking at to introduce this year?

Gandharv Tongia: It is a long cycle because it requires development. We are working on few things, for example, import substitutes. If we can get some products under the import substitute category, that could help us in improving our topline by opening another revenue stream. But all these things are time consuming and it will take a while. OFC itself is a good business. I know it is dependent on several other sectors including what is happening in telecom, in terms of connectivity, Wi-Fi, IoT and all those things but that is one thing which could have some bearing on overall topline growth. Coming to consumer, automation, Wi-Fi, IoT all these things could help us in improving our overall product specification and thereby improvement in top line of FMEG.

Moderator: The next question is from the line of Tanuj Mehta from Dalal & Broacha Stock Broking Pvt Ltd. Please go ahead.

Tanuj Mehta: The EPC business that you are talking of, is it a private project or it is a Government project?

Gandharv Tongia: The large project, which we are talking about are either Government projects or funded by government and being executed by special agencies.

Tanuj Mehta: Okay, that would be around more than 50% of EPC business?

Gandharv Tongia: Much more than that.

Tanuj Mehta: Your view on the EBIT margins of FMEG business because they have been quite volatile for a time, like in the last quarter we had better margins than this quarter we again come down to 1%, any view on that?

Gandharv Tongia: When we are talking of volatility there are underlying elements which underwent a change. For example, if we take December 2018 as a base, the EBIT margin is slightly different than the entire year or six months of that particular fiscal, primarily because we implemented a new ESOP Scheme. We have a very highly talented management pool and to adequately attract such pool as well as reward them we implemented ESOP and that resulted in a charge. If we compare that FY2019 EBIT margin of almost 1.2%, in the current nine months, we are hovering around 2.5%-2.6%. As a reference to one of the earlier questions I had mentioned that we would like to improve EBIT margin every year by almost 100 bps, so directionally that is the thought process. In the current quarter there was also some increase in our advertisement spend, we launched a particular advertisement for switchgears featuring Ayushman Khurana and the overall thought process at the company level as well as at the consumer business level is to ensure that we are able to maintain our visibility throughout the year, which is slightly different than the last year. And if you see our advertisement spend on quarterly or nine-month basis, there is a bit of change there. So, that is the overall thought process. We believe that a 100-bps improvement at FMEG is what we should work for every year. Having said that these are challenging times, and no one can predict the overall profitability. All of us are trying our level best to ensure that we continue to have sustainable profitable growth.

Tanuj Mehta: Sir, which part of India you see this maximum growth coming from in terms of cables and wires and in terms of FMEG?

Gandharv Tongia: In our businesses, if we analyse Cables and Wires first, predominantly in Wires growth is coming from west and south followed by north and east. Cables has two elements, one is distribution and second is institutional. Institutional may not be analysed on geographical basis, and there is a significant degrowth there. On distribution, numbers are softer in north and flattish or mid-single digit growth rate for other geographies.

Moderator: Thank you. The next question is from the line Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: Sir, can you quantify the ad spend for the quarter and for the nine months vis-à-vis the same period last year and will it continue in Q4 and Q1 next year also, your comments?

Gandharv Tongia: We need to incur advertisement spend only for our B2C business. One way of analysing our topline could be that 35% is B2C and 65% is B2B. This is a broad ballpark number that I am talking about. Generally speaking, between 3.5% to 5% of B2C is what we generally spend for advertisement. The only change we have done in the current fiscal is instead of incurring such expenses once in a while, we have decided that we are going to ensure that there is visibility throughout the year, and that is a change. I do not expect that there would be a material change on the overall thought process which we have on the advertisement spend on annualised basis. Before I comment on the numbers, as I mentioned a while back in response to Atul's comment, we have also uploaded the detailed financial statements on our website which have been reviewed by the statutory auditors. These are pretty much like annual financial statements. This is what we are doing from the first quarter immediately after listing. This has all the data points. To your question was on the advertisement, we have incurred almost Rs. 90 Crore in the current nine months as against Rs. 61 Crore in the nine months of last year.

Ashish Poddar: For the quarter Sir?

Gandharv Tongia: It is almost Rs. 38 Crore for the third quarter and about Rs. 16 Crores in the corresponding base quarter

Ashish Poddar: So, you are saying that this kind of run rate will continue, you want to increase your focus?

Gandharv Tongia: Yes, that is right. To improve the B2C business we will have to continue to business anywhere between 3.5% - 5% for B2C business in advisement.

Ashsish Poddar: You are factoring this while commenting that 100bps kind of margin expansion will be there every year, so you are factoring and all these things?

Gandharv Tongia: Yes.

Moderator: The next question is from the Rita Tahilramani from Invesco Mutual Fund. Please go ahead.

Rita Tahilramani: Sir, I needed more in terms of understanding of the capex plan of almost Rs. 300 Crores and in extension to that what is the current capacity utilization which we are running across our multiple segments?

Gandharv Tongia: Generally speaking, we are hovering around 70%-75% of capacity utilization in our Cables and Wires business, where we have almost everything getting manufactured in-house. In FMEG, it ranges between 60% and 80%. For example, the fan factory, the utilization is comparatively higher because is the largest contributor to our consumer business. So that is the overall thought process. Within Capex, two-third will be for the Cables and Wires business and one-third for the Consumer Business, within that two-third will be used for further strengthening the backward integration, part of debottlenecking and addition of capacities including capacities which are required for meeting export market requirement. And in Consumer Business it would predominantly be in the product categories, where we have higher capacity utilization, for example, fans.

Rita Tahilramani: So, we will not do the incremental capex towards new products, but it will be more towards existing products, strengthening existing products, if I understand right?

Gandharv Tongia: A part of it will be incurred for addressing the requirements either through the geographies or the new product categories, for example, for the export market will have to invest some amount to ensure that we have the required machineries in place to meet the requirements of those geographies, and there are few small product categories where we have to invest some capex, which are comparatively new. But these are not necessary very significant on overall scheme of things.

Moderator: Thank you. The next question is from the line of Ravindra Naik from Sunidhi Securities. Please go ahead.

Ravindra Naik: Can you give some specific about the export strategy, whether we are going for entire product spectrum of Polycab? Only thing is that whether the export strategy is completely reserved to entire product system or only for this Cables and Wires?

Gandharv Tongia: Predominantly Cables to start with. We are at the same time exploring opportunities for Wires and part of Consumer products, but predominantly it is Cable.

Moderator: Thank you. The next question is from the line of Vishal Baradiya from Aviva Life Insurance. Please go ahead.

Vishal Baradiya: In the export market generally how are the payments terms structured and as we have executed the large order in this quarter on export side, have you received the payment as well?

Gandharv Tongia: The large order which you are referring to is slightly different than the usual export order. In this particular large order, we received 40% as advance and as a matter of fact we received that advance in the last fiscal and we have started supplies only in the second quarter, so that was bit of benefit which we enjoyed. Having said that, generally speaking export is done on the basis of LC unless and until you are very comfortable with the party, if that is case you can give some credit, but it does not involve extended credit period.

Vishal Baradiya: Could you specify some factors that would lead to improvement in margins in Wires and Cables in coming two quarters?

Gandharv Tongia: We have been operating broadly between 11% and 13% of EBITDA margin in Cables and Wires, and we believe that this is a sustainable range. It is quite possible we are sitting slightly on the higher side as of now. But the sustainable margins are 11% - 13%. The overall margin at the company level could improve if our FMEG business starts generating EBITDA or EBIT margin higher than what is generating today. But overall it is small business, contributing only 10% to our topline.

Vishal Baradiya: One last thing, could you split the FMEG revenue into how much you get from fans, lighting, switches and switchgears and others?

Gandharv Tongia: We are not disclosing these numbers in our financial statements and hence I would not be able to give you a detailed breakup. But broadly on an annualised basis, our fans would contribute to almost 40%-45% of our topline followed by, two large product categories, one is lights & luminaires and switch & switchgears. These two put together would be almost next 30%-40% and the balance is all small product categories.

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

Chintan Sheth: On FMEG side any improvement on water heaters this quarter or how does that product category look, because winter has been very strong across country?

Gandharv Tongia: We commissioned a new water heater factory in the current fiscal at Nashik and after that we have started getting good response in water heaters. This business is comparatively small, but the growth rate, because of smaller base, is significantly better. We believe that this business will continue to give us momentum both in topline and bottom-line.

Chintan Sheth: On Trafigura, there are four countries got ADD on the import side, are we impacted on it or we get benefit because our Ryker Plant has been commissioned and that plant is sufficient for our requirement for copper rods?

Gandharv Tongia: Yes, Trafigura Plant is sufficient for our requirement. In fact, it is slightly more than sufficient.

Chintan Sheth: So, we will get benefit because ADD will cost now as the parties who were importing will have a higher cost base?

Gandharv Tongia: See benefit is dependent on how other domestic players are going to respond and that is what we need to wait and watch. But the fact is we have backward integration, which helps us in improving overall cost of production.

Chintan Sheth: But cathode does not attract any ADD right?

Gandharv Tongia: That is right.

Chintan Sheth: Lastly on the inventories which we have seen sharp improvement this quarter, is it a seasonal factor and can we expect some build up by Q4 end?

Gandharv Tongia: If you remember couple of quarters back, we had mentioned that we are working with one of the external consultants to optimise the overall inventory levels, we have started implementing few of these recommendations. Having said that, this project will probably take at least two or three quarters to completely review everything and come up with the suggestions. In the interim, we will continue to optimize. I do not expect any significant change in inventory level, but we have to wait and watch for the completion of this particular exercise on which we have been working on.

Chintan Sheth: So, it is maintainable at least for next quarter than next year we need to get back to you?

Gandharv Tongia: Yes, I think we will have a clear picture once we conclude this exercise of inventory optimization which will probably take three quarters from now.

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

Shrinidhi Karlekar: Congratulations on good set of numbers. Sir I have couple of questions, first on FMEG business, Sir I missed your comment on distribution reach in businesses, can you just repeat what reach you have currently in the FMEG business and what part of addressable market you think you have reached in like lightings and fans part of the business in terms of distribution reach?

Gandharv Tongia: We are a small player in FMEG even now though we did almost Rs. 650 Crores of topline in current nine months. The industry size is almost Rs. 60,000 Crores – 65,000 Crores, so we are only 1% - 1.5% of the overall industry size. Having said that, there are two regions which are contributing to overall sales predominantly, one is south and second is west then third is east followed by north that is the overall pattern. I think the new product which we are adding to our portfolio, for example a particular participant was inquiring about water heaters, and new product specification which we are adding for example in the case of fans we are thinking of automation and all that, is helping us. This is also being supported by our initiatives to penetrate Tier 2 or Tier 3 cities which helped in the quarter, though there is a long way to go.

Shreenidhi Karlekar: Would you have some touch points or retailers you have, in say fans business and in lightings would you be having those numbers and similar numbers for industry?

Gandharv Tongia: We have almost 125,000 retailers that are catering to our B2C business which includes the Consumer Business, which is FMEG, as well as Wires business and this number is increasing quarter-after-quarter. These 125,000 retailers are being supported by 3,450 dealers and distributors. Our objective is to ensure that we are present in almost all the important markets in India and this will take a while. All these numbers are improving year-after-year but at the same time it is a long way to go to and ensure that you are present in each and every corner of the country.

Moderator: Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.

Hiren Trivedi: Thank you for taking the question. Congrats for the good set of numbers. Coming to your FMEG segment you said that EBIT margins were a bit lower as compared to earlier mainly due to A&P spends. I just wanted to ask whether you are witnessing any pricing pressure in any of the segments like lightings or switchgears and how does it look going forward?

Gandharv Tongia: There is a bit of pressure particularly in the lightings business, almost all the participants are witnessing it. It is the choice which each and every company has to make whether they want to be a party to price war or not. The way we look at it is that we want to improve the overall product mix, to ensure that overall profitability is maintained, and we have few products through which we are able to improve the profitability.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities Private Limited. Please go ahead.

Kaushal Shah: Sir my question has been answered.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, just to understand this number because we somewhere I think I must have missed the right number, in terms of exports we had about Rs. 400 Crores of exports in first of the current year and did we hear for nine months the total exports is Rs. 430 Crores?

Gandharv Tongia: That is right.

Rahul Jain: The Dangote order out of this Rs. 430 Crores is 319 Crores, executed?

Gandharv Tongia: Yes, for the quarter.

Rahul Jain: For the quarter? Sir, then our total export should be around Rs. 500 Crores plus?

Gandharv Tongia: Nine months number is Rs. 639 Crores; the third quarter number is around Rs. 439 Crores.

Rahul Jain: That is right. I missed. Secondly Sir, on FMEG segment, of course we have done exceptionally well on overall numbers put together, but when I look at the growth on year-on-year basis we had almost about 62% growth in Q1, 42% growth in Q2 year-on-year and Q3 has come down to 34%, is it because our base is becoming larger, the growth is somewhere slowing down to around 30% - 35% or is this just one quarter phenomenon on overall basis we can still look at around 40% - 45% growth?

Gandharv Tongia: If we analyse our consumer business almost 40% of there about comes from fans business and fans as we know is a bit of seasonal business because there are few months in the year where there is no significant sale of fans, so that is also one of the factors which is optically giving us a feel that the growth rate is slightly lower as compared to other quarters.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha AMC. Please go ahead.

Anurag Patil: Thank you Sir. Sir in FMEG segment, five years down the line what can be the revenue contribution from this segment we are expecting?

Gandharv Tongia: I can certainly talk about is directionally what is our thought process. The founders and the promoters, they started this business almost 50 years back and they were of the view that "We have to be a market leader". It took us some time, but we are market leaders in cables, we are market leader in wires and we also are market leader in cables and wires both put together. Directionally, our thought process is, if we are in a particular business we have to be a leader, we could be in top 3, or we could be number 1, but that's our thought process. I would not be able to give you comment on specifically on what is the overall thought process for five years down the line, but the management philosophy is if we are in a business, we have to be a leader.

Moderator: Thank you the next question is from the line of Manoj Gori from Equity Securities. Please go ahead.

Manoj Gori: Most of the questions have been answered but on one part may from channel financing, can you throw some light like what percentage of our channel partners would be covered under channel financing for Wires and Cables and if any in FMEG?

Gandharv Tongia: If you analyse Cables and Wires channel sales, almost 65% to 70% of channel sale is generally covered through channel financing. In FMEG, this number varies from high single digit to early to mid-teens. Directionally we believe, we should be able to further penetrate the channel financing in FMEG business.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for their closing comments.

Gandharv Tongia: Thank you everyone for your time. We look forward to having interactions with all of you. Please feel free to get in touch in case if we have not answered your question adequately and we will come back to you with the year end results sometime after the year ends. Thank you very much.

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

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