"Polycab India Limited Q3 FY 2021 Earnings Conference Call"

January 25, 2021

MANAGEMENT: MR. INDER JAISINGHANI – CHAIRMAN & MANAGING DIRECTOR, POLYCAB INDIA LIMITED

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Moderator: Ladies and gentlemen, good day, and welcome to the Polycab India Limited Q3 FY 2021 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 would now like to hand the conference over to Mr. Gandharv Tongia. Thank you and over to you, sir.

Gandharv Tongia: Thank you, operator. Good afternoon, everyone. And thank you for joining us. I hope you are having a fantastic start to the New Year. I am Gandharv Tongia – CFO at Polycab India Limited. On this call, we shall discuss the Q3 FY 2021 Results, which were approved in the Board Meeting held on Saturday. We will be referring to the Earnings Presentation, Financial Results and Financial Statements, which are available on the stock exchanges websites as well as Investor Relations page of our website. It can also be downloaded through the link or QR code on slide number 12 of Earnings Presentation.

Joining me today from the management team, we have our Chairman and Managing Director – Mr. Inder Jaisinghani; and our Director – Mr. Shyam Lal Bajaj, on this conference call.

Let me now turn the call over to our Chairman, Inder bhai, for his comments.

Inder Jaisinghani: Good afternoon everyone and I wish you a very good year ahead. We saw a great all-round performance in Q3 amidst lingering challenges. Business trends continue to improve and demand for B2C products remains strong with improving consumer sentiment. Accordingly, our top line has bounced back to growth along with healthy progress in return ratios, cashflow, financial position, distribution expansion and strategic initiatives. The results demonstrate the durability of our business model as well as our strong execution capability. Our focus on providing quality solutions to customers along with strong organization capabilities will augment Polycab's presence in the 'Electricals' ecosystem and provide a long pathway for profitable growth.

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

Gandharv Tongia: Thank you very much. As always, before delving into the presentation I will probably share few thoughts on macro. We have seen a good broad-based recovery across demand spectrum. Consumer businesses have particularly witnessed a healthy bounced back with life returning to normalcy. Construction and Infrastructure activities have picked up though the pace of new project finalization is still a bit slow partly due to funding constraints being faced by the government on account of the pandemic. Investments from private sector have started flowing in as the demand visibility improves and this is helping our B2B product portfolio. The input cost side has been particularly challenging in the previous quarter. Sudden surge in demand coupled with few supply side issues led to a global trade mismatch for many commodities resulting in sharp price inflation as well as unavailability. Our major raw materials like Copper, Aluminum, Steel, PVC on an average increased by 15 to 50% from September to December. Accordingly, we had to take calibrated pricing actions while balancing the demand momentum.

Macro indicators continue to point a decent recovery with many high frequency indicators like power consumption, freight etc. touching new highs. Now that we are at the cusp of normalcy it is time to recoup and rebuild the lost economic value. Hence, we are also quite hopeful of an infra focused union budget which will bode well for demand of our products in the near term. While the "U" and "A" i.e., Uncertainty and Ambiguity in "VUCA" is settling gradually, the "V" and "C" still prevails, and we are well positioned to deal with it and serve our customers in the best possible manner.

Moving onto presentation with slide #4. For the quarter ended 31st December 2020, our consolidated revenue grew by 12% YoY as against a decline of 6% YoY seen in Q2. On Quarter-on-Quarter basis our consolidated revenue grew by 32%. B2C categories continued its strong traction while domestic B2B wires and cables are recovering. EBITDA increased by 11% YoY with flattish margins vs last year largely on the back of leverage benefits and cost saving initiatives. Our staff costs at Rs 896mn or 3.2%% of sales were broadly stable on an absolute amount basis. A&P spends at Rs 372mn or 1.3% of sales were higher compared to Q2 largely on account of IPL related advertising spends. Other expenses were lower on cost savings, leverage benefits and partly aided by write-back of ECL provisions.

Overall finance costs at Rs 88mn were broadly inline in last year though interest on borrowings was higher due to Ryker. Other income at Rs 345mn was significantly higher as the base quarter had mark to market losses while current quarter had exchange gains. A detailed break-up of our Other Income and Finance Costs have been provided on Slide #16 of our earnings presentation. Our Profit Before Tax at Rs 3.5 billion and Profit After Tax at Rs 2.6 billion increased by 22% and 19% YoY, respectively. Our strategic Project Udaan has been progressing well. We have identified several areas of potential saving and many of these initiatives are currently being implemented. We are hopeful that benefits from this Project will start accruing over the next one to two quarters.

On slide #5, in the first nine months ended 31st December 2020, our revenue and EBITDA declined by 12% and 11% YoY, respectively, largely reflecting the severe impact of COVID-19 in previous quarter. PAT grew 9% YoY led by few one-off gains in Q1 as highlighted on slide #13.

Moving onto segments on slide #6. Wires and Cables, our core business, grew 6% YoY. The domestic business performed relatively better with wires posting healthy double-digit growth while Cables closing around last years levels. B2C wires continued its strong traction led by distribution expansion, festival led renovation activity and gains from unorganized segment.

Institutional business continues to face headwinds from slower project activity and investments however distribution business held up well. Our exports business declined by 33% YoY, trotting a high base of a large order from Dangote Group which amounted to Rs1.4bn in Q3FY21 and Rs3.2bn in base quarter. Ex-Dangote exports portfolio continues to see good momentum increasing at 29% YoY led by Australia, Asia, and UK. OFC business remained sluggish however our special cables division has seen good progress as we received approvals for cables to be used in Defense, Railways and EVs. We also commenced supplies of inhouse manufactured high end cables used in Commercial and Passenger Vehicles which are currently being imported to great extent. On the profitability side, Sharp commodity inflation was a boon and bane. While it did aid our realizations it also created some input cost pressures. Segment EBIT margins stood at 13.5% in Q3.

On slide #7. FMEG is continues its strong growth trajectory. Revenue growth in Q3 was 41% YoY. The segment contribution to overall sales increased 215bp YoY to 10.8%. Apart from the competitive intensity, FMEG business faced many challenges like unavailability as well as sharp rise in input costs, supply chain and logistics issues etc. Despite that, buoyant consumer sentiment and our excellence in market operations led to healthy demand for our products across categories and regions. Within FMEG, Fans grew strongly gaining leadership position in few geographical clusters. Overall demand for Lighting products remained upbeat led by festive season. Switches and Switchgears witnessed healthy growth with resumption in renovation activities and improving situation in real estate. On the profitability side, segment EBIT margin increased from 0.6% in Q3FY20 to 5.9% in the previous quarter despite higher A&P spends and raw material inflation, led by cost saving initiatives, pricing actions and improved product mix. For the first nine months of FY21, FMEG sales is back in growth orbit while segment margin has increased by over 200bps to 4.7%. This is commendable achievement considering the first quarter of this year was nearly a washout with adverse operating leverage.

On slide #8, Others segment which largely comprises of our strategic EPC business, witnessed a decline on account of a higher base. Revenue was down by 53% YoY to Rs614mn. EBIT stood at Rs 86mn, down 71% on YoY basis.

The “Copper” segment as disclosed in financial results largely reflects Ryker Base which is our wholly owned subsidiary.

On Slide#9 let me introduce you to HOHM. It is a new brand from the house of Polycab comprising of a premium IOT based FMEG portfolio which will cater to evolving needs of consumers in this digital age. All of HOHM products are made in India. They are currently being launched in a phased manner in top 10 cities. By next month we expect it to be available online. HOHM is a significant step in our journey of innovation and transforming Polycab into an aspirational brand.

On Slide#11, Polycab was recently featured as a case study by the prestigious British Approvals Service for Cables (BASEC). Our swelling portfolio of global quality certifications proves our commitment to quality, consistency, and creditability. We also launched several consumer electrical accessories, new range of economy premium fans and several differentiated products across categories during the quarter.

Moving on to Financials from slide #11 onwards, our fundamentals and return ratios have strengthened. Our Net cash position at over Rs13.3bn has doubled while Debt to equity ratio remained at a comfortable level of 0.06x. ROCE for Q3FY21 stood at 30.6% inline with last year. On the working capital side, we continue to drive channel financing which is helping reduce receivables days. Our work on inventory optimization is materializing as reflected in the improved raw material levels. Having said that we aim to improve it further while maintaining a fine balance with payables which will result in better working capital management.

On the distribution side, we are taking significant leaps. As of December 2020, we have over 4,000 authorized dealers and distributors catering to over 150,000 retail outlets. Our key influencer connect program i.e., Project Bandhan, now touches over 170,000+ electricians and over 50,000+ retailers. Over the past decade we endeavored to build a robust distribution network which now spans across all states and union territories. We are now upping the ante with Sales Acceleration Program. This program adopts a 360-degree approach combining channel expansion with robust influencer management and process improvement. Our go to market strategy will be underpinned by thorough market and channel assessment, redesigned policies and procedures, and all supported by real time data analytics. We believe this program will significantly augment our reach in B2C business. It is currently implemented in 5 towns and we aim to reach 300 towns over a period of three years. Our work to penetrate in lower tier towns, semi urban and rural continues and we are quite optimistic that the efforts will payoff well over the medium term.

Our work on developing a five-year plan or Vision 2025, which I alluded to last time, is progressing well. Hopefully by next quarter we should be able to wrap up the exercise and share our thoughts with you. We have also put in significant efforts for meticulously aligning individual goals with company goals through an upgraded robust performance management system. We are extensively focusing on tapping the power of modern technologies and implementing it across all facets of our business. These initiatives will be steppingstones of healthy growth over mid to long term.

There is one recent development which I will probably highlight. Mr. Sai Narayana, who was our Company Secretary and Compliance Officer tendered his resignation on Saturday and the Board has accepted it. It was a mutual decision considering he is 64 years younger now! We thank him for all his contribution to the company made over the last 8 years. Manita Gonsalves who was Head of Legal was promoted as the new Company Secretary and Compliance Officer. This change was a part of our succession planning and the transition was in progress since last year.

Lastly, we will strive to improve the momentum we have created with unfolding market recovery. Our actions and initiatives are aligned with our strategic priorities which will enable us to lead the pack and delivery healthy returns to our long-term shareholders.

With this, I hand over to operator and we can open the floor for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go away.

Ravi Swaminathan: A bookkeeping question. The Wires and Cable revenue in the press release is Rs. 2,400 crores, whereas in the PPT it is Rs. 2,270 crores. So, what's the difference there?

Gandharv Tongia: That's because of inter-segment elimination. Any transfer between Polycab India to Ryker requires elimination and that is the reason why it has been eliminated.

Ravi Swaminathan: Okay. The difference of inter-segmental of Rs. 200-odd crores which is shown below the total of all the segments?

Gandharv Tongia: Yes. And if you wish, Ravi, you can use the condensed financial statements which has been posted on our website as well as on the stock exchange website. There you would be able to see the detailed reconciliation which is given under segment reporting.

Ravi Swaminathan: Got it, sir. And secondly, with respect to our gross margins, it has been roughly more than 200 bps compression, around 300 bps compression. So, is it because of the fact that the export Dangote order it has come down in revenue, and that carries better margins? And that is also one thing, and commodities going up is also one thing?

Gandharv Tongia: I think the real reason is because of commodities. I don't think that Dangote has any major role to play in this contribution. As I alluded to in my opening remarks, across the board, all the raw material prices increased very significantly in the last three months, between September to December quarter. Copper and aluminium, both increased almost by 15%, and PVC has increased almost by 50%. So, what we did is, we took a conscious call not to pass on all the cost inflation, considering the market environment as well as leverage benefit which we would expect from better demand momentum. On a consolidated basis, the overall cost impact was in high teens, we increased our prices in low teens, and there is a delta because of some change in mix as well, that is the delta which is getting reflected in contribution margin.

Having said that, you know this for sure that we have always maintained that we have been playing between 11% to 13% of EBITDA margin in Cable and Wire business on annualized basis. And we expect that we will continue to do that. On the FMEG side, the contribution as well as the EBITDA margins have improved. It's also getting reflected in EBIT margins, which were reported in December 2020 results. And we expect that over a medium-term, the FMEG margins will reach to high-single-digit probably within two years or so.

Ravi Swaminathan: Got it. And it is a pretty early days, sir, I mean, just 25 days gone in January, but copper prices have been on one-way direction. So, is there any possibility of further price increases that we can expect in Cables and Wires? And the next one is, so basically, how much amount of volume growth on a blended basis, roughly could have been there this quarter, third quarter, wires, and cables?

Gandharv Tongia: Yes, so let me take the first one. You know the model, the way all the large players in this particular industry work is that they generally take copper movement of the previous month as well as foreign exchange rate movement in the previous month, and that is how they devise the sales price in the first few days of the month. We will continue to follow the same model. I think it got impacted just because there was a very significant increase in the cost. So, I don't expect that there would be a significant change in the contribution margin. But wherever the scope is, we will continue to take price hikes.

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

Devansh Nigotia: Sir, just had start two questions. Sir one is, in case of acceptances, so how does that work with regard to our raw material procurement? Because since we are holding cash and borrowing acceptances which is in the nature of borrowing, so is there some kind of interest arbitrage? And second, if you can help us understand what is the interest percentage on the acceptance? And is it dollar denominated or in INR?

Gandharv Tongia: Yes. So, before I deal with your question, let me give you a broad big picture, how the metal procurement is done. Commodity and metal across the world come with a zero-credit period. And that means on day one itself it becomes interest bearing, and that is what we do. These are the acceptances wherein the vendor gets borrowing from its bank and we settle the liability 90 days, 120 days from the date of delivery. So, that is how it works. It is not strictly a borrowing; it is acceptances that is where it is required to be treated differently in the financial statements. There is significant scope because these are dollar denominated as well as these are LIBOR linked generally, whereas the Indian interest rate is significantly higher, and that is where you get an arbitrage benefit. But all along, our objective has been to maintain and improve the working capital. You would have noticed that working capital has improved significantly over the last few quarters.

And there are two or three things which we are trying to do and that would probably help you understand what we are trying to do even on acceptances. One, on the receivables we want to ensure that we increase the channel financing penetration, both in Cable and Wire, and FMEG. In Cable and Wire it is hovering around 60%, 65% and FMEG it has increased to almost 25% now, which was around 17%, 18% last quarter. That will help us in reducing our receivables. Our inventory, we were around 130 days or thereabout last quarter and we have been able to reduce that to almost 109, 110 days. Now, what we want to do is we want to further optimize the inventory levels and maintain payables in line with whatever inventory levels we have. That would mean that the net working capital would be nothing but a net receivables, which are expected to go down in the quarters to come. And that is how we want to monitor as well as optimize the working capital levels in the company.

Devansh Nigotia: And sir, then in case of acceptances, so based on last three to five years, the interest rate on acceptances is lower than the surplus cash that we earn through liquid funds? Is that the reason why we are holding it?

Gandharv Tongia: I mean, it would vary from quarter to quarter, I don't think I would be able to give you a generalized response. But overall, from a P&L perspective, it makes sense to carry acceptances to the extent it is broadly in line with the inventory, not beyond.

Devansh Nigotia: And in case of domestic cables, so given that infrastructure spends are robust so is it a conscious decision that you are taking of not going very aggressive in this segment or is there something else, if you can just throw some light on that?

Gandharv Tongia: We are a market leader and continue to be market leader, both in cable and wire separately, and cable and wire both put together. We are maintaining the same amount of momentum which is getting reflected in our top-line growth as well. There are a few opportunities which are available where we could have played a slightly different plate, for example, in the case of cable domestic institutional business where there are a bit of slowness in overall demand, where we could have become a bit more aggressive, but there was also availability challenges of material, because material cost had increased significantly and then global logistic problems were there because of which containers were not available. But I think overall if I take a balanced view, I think we are as aggressive as we are generally expected to be. And that’s getting reflected in the top-line as well. This quarter, incidentally, is the best quarter in the history of the company, Rs. 2,800 crores of top-line and Rs. 260 crores of bottom-line is best in the history of the company.

Devansh Nigotia: Okay. And any new order wins in exports or traction, if at all you can elaborate on that?

Gandharv Tongia: Yes, a couple of quarters back I alluded to the fact that we want to move away from one-off orders like Dangote, and we want to have broad based sustainable export contribution to top-line. And expectation is that at least we should get 10% of top-line from exports, which is what we have been able to achieve in this quarter as well. We are getting support from countries like US, UK, Middle East, and slowly and gradually we are venturing into new geographies, for example, Eastern Africa, Russia and we are getting good traction from Asia as well. I alluded to the fact that the global organizations are taking notice and recognizing the quality products which we are manufacturing, for example, BASEC also covered us in a case study and talked about the type of cables which we are manufacturing. So, all these things will help us in in improving the export top-line. The second thing which is equally important is import substitute. In the current quarter, we have received some approvals from defense, railways, and some clearances for EVs, that will also help us in offering what are internally called import substitutes, and that will also help us in improving our overall top-line.

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

Aditya Bagul: Heartiest congratulations and good set of numbers. Gandharv, I have two or three questions. First, if you can talk about the competitive intensity in the cables and wires industry, right? If you look at the last few years, we have grown ahead of the industry as a whole. I just wanted to understand how has that happened over the last nine months? And what is our outlook for the immediate future, especially when we look at cables and wires in the domestic context? That's my first question.

My second question is on the margins in the FMEG segment. Just wanted to understand, if there is a huge difference in terms of margins of some of our matured categories like fans, which are now reaching close to double-digit levels vis-à-vis some of the newer categories which are still in low-single-digit. So if you can throw some light on that, that would be helpful.

Gandharv Tongia: Thanks, Aditya. Thanks a lot for complimenting us and I am glad that you liked our performance. I think your first question was around the competitive intensity in the industry. I think if we pick up any business there would be always competition and this particular sector is not an exclusion to that rule. I think two, three things which are important when we analyze cable and wire sector. One is overall, the share of unorganized participant is reducing over the period and I think the rate of reduction has hastened in last few years. It started with demonization and then the GST, but particularly because of the pandemic, availability of capital, cost of capital and availability of labour probably pushed the unorganized sector to a point where recovery is very difficult for them. So that is where on the large players, including us, are gaining some market share. And you know this already, Aditya, we are largest manufacturer of cable and wire in India, we enjoy almost 18-20% market share of the organized market. So, that is where it is helping.

There is a bit of a competition which is there, but I think the fact is, we have been able to achieve a decent amount of growth over the period in the current quarter, reflects the aggression which we have followed, which is expected from us. I think two, three things which are core foundation of our business. One is availability, and we have ensured that we continue to make investment and augment our distribution. As of now, we have almost 4,000 dealers and distributors and 151,000 retailers, and we will continue to make investment. And I alluded to the sales acceleration program which will further help us in augmenting our availability and top-line.

Second is quality. And third is cost, which is acceptable to the end customer. So, we are maintaining on that, which I think has helped. And the other thing is, a few years back and even earlier in this decade, I think there was a thought process in the end customer where cost was more important than quality. But over the period, I think things have improved. The end customer has started realizing the fact that good quality product means safety. And that is where they don't mind spending some higher amount, and which is helping all the large players, including us. So that is on competition intensity.

I think on FMEG margins, I alluded to this in the last quarter and the quarter before that as well. Our objective is to ensure that all the large sub-segments which we have in FMEG, for example, fan, light and switchgears, we continue to make a good amount of top-line growth with healthy bottom-line. And that is what is getting reflected in the bottom-line of FMEG. For few small product categories, there of course the focus is there on the top-line, but we are a bit more relaxed as far as the bottom-line is concerned. So, pipes and agro have been able to achieve a decent amount of top-line growth. They are EBIT and EBITDA positive, but they are not as lucrative or as healthy as our other business segments. But over the medium-term, in two years from now, I would expect FMEG on a combined basis to at least deliver high single digit EBIT margins.

Aditya Bagul: That is very, very helpful, Gandharv. Just one point of the competitive intensity, I was just trying to link your comment earlier that you have not passed on the full impact of higher input cost to the customer. So I was just trying to wonder whether it was linked to a higher competitive intensity and hence you are looking for a better growth in Q3 and Q4 and Q1, and hence, we have not passed on the input cost. Is there any truth to that?

Gandharv Tongia: Yes, I think we can attribute a part of it to that. But practically, when there is a significant increase in prices, you have to ensure that there is no significant disruption in channel. And that is where you have to take calibrated pricing actions. So, there would always be a lag effect, which is getting reflected in this quarter. The other thing on a consolidated basis, you know this Aditya, we have a small copper business which has significantly lesser contribution margin, which is also getting reflected in the consolidated number. So, I think what you are saying is correct, but to only a certain extent or a small extent. By and large, it's the timing of the increase in the raw material costs and the sudden spike which is getting reflected in the contribution margin, coupled with the copper business, which is getting consolidated because Ryker is now a subsidiary, which earlier used to be a joint venture.

Moderator: Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Congratulations, Gandharv, on the performance. Two, three questions, continuing from Aditya's question. As you stated that there is mismatch with the commodity price increase and a lag in the customer price increase, so will it be the same scenario in 4Q also where we would not intend to pass on the entire cost inflation to customers? That is first question. Second, on the new brand, what you have launched, if you can share some insights on what kind of realization difference would be there as compared to the current portfolio? And what is the aspirational target as this would be more of premiumization in terms of offering going forward, how you are looking at it?

Gandharv Tongia: Yes. So, thanks a lot, Naval, for your compliment. I am glad that you liked our performance. On the mismatch, I think two, three things which we should take a note of. One is, whenever there is a sudden increase in the input cost, considering the inventory which would already be there in the channel, we, as a large manufacturer, will have to pass on the increase in cost in a phased manner and which is what we did last quarter. You know this already that copper LME increased almost by 15% and same is true with aluminum between Q2 and Q3. I don't think we are going to have a rerun of this type of increase in cost in the current quarter. And if that is the case, I don't think that we are going to witness similar trend, what we witnessed in Q3. I think we should be able to come back to the regular contribution margins which we generally used to experience in earlier quarter.

The other thing is, Naval, in our business it's best to analyze our numbers on an annualized basis. And on annualized basis, the last few years, we have been able to maintain EBITDA margin in Cable and Wire between 11% to 13%. And even now, despite facing a significant increase in the raw material costs, we are fairly confident that we would be able to maintain that in the foreseeable future. The second thing, on a consolidated basis, because FMEG margins are improving, we expect that overall margin should gradually start improving in the quarters to come.

And your second question was around Hohm, which is the IoT portfolio, which we are in the process of launching. This, as you rightly alluded to, is for the premium customer, who would like to have better experience in the digital era. We expect that margins are going to be better in this particular business. I think it would be too early to talk about the impact on the bottom-line and top-line. But we are very confident that this is going to be a game changer innovation product as far as our FMEG business is concerned. I think we should wait for a couple of quarters and see what the reaction of the market is. And then from there, we can further talk about the growth potential of these products. But there are only few companies who have the complete FMEG portfolio under IoT, and all of our products are manufactured in India. And that is where we feel that we would be able to meet the expectation of the new-age customer.

Naval Seth: Understood. On this new brand, all these products will be manufactured in-house or we are also outsourcing some work?

Gandharv Tongia: Almost all of them will be manufactured in-house, barring few where we don't have manufacturing facilities. So, for example, the large one, for example, fan, switches and all that will be manufactured in-house.

Naval Seth: Got it. And lastly, as your cash generation has improved substantially if we look at, any thoughts on now dividend distribution policy, formal policy, which can be announced in future? Or how are you looking at dividend payouts? Can it increase with a strong cash generation also?

Gandharv Tongia: So Naval, we already have a dividend policy. It is more qualitative policy, and it does not talk about quantity at this stage. We are clear that as far as cash is available, we would like to keep it only for three things. One is for supporting our CAPEX requirement. I alluded to defense and railways and another approval, and for export business as well as for supporting B2C business growth we will have to continue to make CAPEX investment. So that is one area where we are going to use our cash. The second thing is acquisitions, we have been actively searching for good opportunities, both in FMEG business as well as on EHV side, on Cable and Wires business. So that's the second area where we are going to use cash. After that whatever is left, a part of it will be kept with the company as a war-chest and the balance we would like to distribute to the shareholders. We don't want to increase the size of the balance sheet because that would adversely impact return ratios.

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

Atul Tiwari: Congratulations on yet another very solid quarter and good cash generation in the business. Sir, my question is on, again, the new product introduction, okay? And it's more of a medium-term question. So now that you have fans and switches and water heaters also, so what is the next product we can look forward to in terms of addition to the company's portfolio, like kitchen appliances, etc.? Could you talk about how you guys are thinking about new product introduction over the next two years?

Gandharv Tongia: Thank you, Atul. Thank you for complimenting us on our performance. I am glad that you are pleased with our performance. We would like to continue in the same product categories where we are present today, which is Cable and Wire, and FMEG. We don't want to venture into product categories, like for example, you mentioned kitchen appliances because there the GTM is totally different, the channel is different. We believe that we have enough scope to grow both domestically as well as in overseas market in our current business categories. The product which we have just launched is IoT-based product. I think in current digital age, all these smart products will continue to witness a fair amount or a robust demand. And that is where we would like to bring more and more technology into our product offerings. And second is, what I mentioned to other participants, in the case of export market we would like to ensure that we are able to increase our overall offering in cable and wire business so that we are able to serve all types of customers across the globe. So that is going to be our focus.

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

Chintan Sheth: Congrats for a good set of numbers. A couple of things. One is on B2C mix for the quarter and the nine months and comparable Y-o-Y number, if you could share that? Second is on the Ryker, how should we look at in terms of top-line which Ryker as a subsidiary can do? And thirdly, if you look at payables this quarter, excluding obviously the acceptances, our payables has increased a bit higher compared to if we look at our inventories on an absolute basis has declined. So if you can comment on how should we read that in the subsequent quarter?

Gandharv Tongia: Yes. So B2C, I think, is hovering around 40% now, if we take the total revenue of the company as 100%. Last year, it was in mid 30s, probably 33%, 34% or thereabouts. So there is an improvement in B2C contribution to the top-line. On Ryker, the prime objective is to ensure that we have a fair amount of stability on the supply side of copper, which is an input for us, and that is why we got into this business as part of our backward integration. Copper supply is not our core business, since we have some additional capacities available, we are evaluating and figuring out what is the best way to utilize that capacity. But having said that, copper is not our focus area and we would not like to get into copper business. Whatever numbers you are able to see now is just because we want to utilize the plant to a level where we get operational efficiencies and advantage.

The third one, I think your question was around payables and acceptances. The working capital has been a focus area for us. And during the course of the IPO also we learned that one area in the balance sheet where we have to make significant improvement is working capital. Receivables, I alluded to a while back as a response to another participant's question. On inventory, you would be able to recollect that we were working with a third-party consultant for optimizing the inventory levels. And you would be able to recollect, in December 2019 we were able to achieve a decent amount of progress on optimization inventory, but then it got slightly derailed because of pandemic in subsequent quarter. Again, in the third quarter, we ensured that we bring inventory back into shape, and inventory has reduced across the board. And the absolute amount probably would just give you a small hint about the decrease, but if you actually play with LME, there is a significant amount of improvement, which we have been able to register in inventory. In terms of number of days, it has reduced from 130 days to almost 109 days.

Now what happens is, when you are trying to optimize the inventory you have to also slowly and gradually recalibrate your payables number. And that is where there is a slight mismatch as of the balance sheet date. But on a mid to long-term basis, we would like to maintain inventory and payables hand-in-hand. That would mean that the net working capital would be nothing but receivables. And to the extent we are able to further optimize the receivable numbers, we would be able to further improve the working capital, which has been deployed into the company.

Chintan Sheth: Right. And just a follow-up one. This 40% is for the quarter or for the nine months on the B2C?

Gandharv Tongia: Yes. I think for the nine months it is 40%, but there is no significant difference even for the quarter. So ballpark, both the data point would take you to 40%.

Chintan Sheth: And the Ryker, we should look at Rs. 230 crores or there is an excess to which we can sell Ryker outside of what we can consume internally? Or gradually as we ramp up our manufacturing, this number will start to decline? That is what I was trying to understand. The Rs. 230 crore revenue we booked this quarter in Ryker.

Gandharv Tongia: Yes. So, let me give you a broad big picture, and then we probably can draw conclusions. Ryker has a capacity which is probably 2x of our current demand. And that is where the balance 50% capacity is required to be utilized in a manner so that we can reduce overall cost and increase operational efficiency. Whatever we are able to see here in terms of top-line is because of that balance 50% getting utilized for things other than required for Polycab.

Now two things could happen in the future. One is, we are able to increase our consumption because of increase in our top-line, and that is where we need not operate Ryker plant for third-party supplier. Second is, we continue to utilize Ryker plant by getting to third-party tie-ups and all that. So that is where some work is going on. We want to ensure that backward integration helps us in bringing operational efficiencies as well as availability of raw materials. And we will continue to challenge our thought process to ensure that we are able to maintain both of these things in our operations.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Incred Research. Please go ahead.

Rahul Agarwal: Congratulations for a good set of results. Sir, essentially, my question was, I have been attending calls and listening to FMEG companies who are listed. And essentially, the common thread into that is gain of market share from smaller players, unorganized markets, there have been some pre-buying as well because of price hikes taken in January and a lot of market share gains, which has happened in these players. Overall in the FMEG space, I go through your website, I can also see appliances now dry irons, geyser, cooler, pretty much a broad plethora of products into FMEG. So, I just wanted to get a top-down opinion as in over the next three to five years, how are we placing ourselves into the fans, lighting and switchgear businesses, larger segments, basically, what's the real game here? And how does the market share eventually get divided? Because Crompton, Havells, KEI, a lot of cable and wire players, as well as FMEG players are talking about market share growth as well as industry growth with a much higher numbers. So that's my first question. Thank you.

Gandharv Tongia: Yes. You know this already, we are the fastest-growing player in FMEG. We have forayed into FMEG business almost 5, 5.5 years back. And give and take a few crores, we are almost Rs. 900 crores of top-line FMEG player. Now I think there are two or three things which we want to ensure. In the large product categories, we want to reach to top-three market players in midterm and eventually number one. Inder bhai and other promoters, they ventured into this business almost five decades back. We were no one when we entered this business, but slowly and gradually we became number one in cable business. Then in 1996, we started wires business, and now we are number one in wires business. So our DNA and our thought process is very clear that if we are in a particular business, we want to become number one. Now only time will tell that whether we are able to do that or not. But to answer your question, what is our overall thought process? Our thought process is get into top-three players in FMEG in each of the product categories where we have presence, and from there get to number one.

To a certain extent, we have been able to do that in a few of the geographies already. For example, Northeast or East where we have displaced the number three there and we are inching towards number two and number one. But I think at the country level, there's a long way to go, and we will continue to do that. And to support that, we have recently embarked on a program, which is Sales Acceleration Program. This is the program where we want to ensure that we are able to expand the channel. We are able to meaningfully engage the influencers like electricians, contractors and architects. We have piloted this program already in five towns. And over the next 30 to 36 months we would like to cover 300 towns, which are really important from the country's consumption point of view. And that would help us in further improving our FMEG as well as B2C penetration. This IoT product which I have talked about, will take us to the premium segment where digital is important, and that will also help us in augmenting overall FMEG top-line.

Rahul Agarwal: Yes. Perfect. Got it. So just to conclude this question, so basically on the new sub-brand which you launched, IoT based, you said it will be available online. Just two sub-questions to that. One is, will it be available on our own portal as well, apart from third-party sellers? That is one. And secondly, on the Hohm side, how about servicing of these items, right, because it leaves a lot of customer service post-sale, after-sale service, right? So I just wanted to understand these two things.

Gandharv Tongia: The second one has already been built in, in this product launch. So this will come along with a fair amount of service support and all that. On the first one, we are still exploring what are the best ways to do it. Certainly, it would be available through e-commerce as well as through our website, but we will continue to explore and find ways and means to increase reach of this product as rapidly as possible. And these experience centers which we launched around 12 to 18 months back in few towns of the country, these experience centers will continue to increase, and all these experience centers will also have all our products, including the IoT product, wherein the consumers can go and experience the product and then place orders online or through our website.

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

Viraj Mehta: Congratulation for the results. Sir, just wanted a breakup, if you actually take Dangote out and if I were to look at the Wires and Cables business for the quarter, even taking out Dangote, then we seem to have underperformed the peers in terms of sales growth. Can you throw some light on that?

Gandharv Tongia: I don't think so. Are you comparing December 2020 with December 2019?

Viraj Mehta: Yes, the growth of December 2020 on 2019 vis-à-vis comparing it to peers. And I understand there was Dangote large in Q3 2019, so I took out Dangote, I took out the export order and then did the math. Like one of the competitors grew 28% in terms of revenue, I think we are closer to 18%, 20%. So just wanted to understand, if there is any material increase in competitive intensity that you are seeing or anything else?

Gandharv Tongia: I understand what you are saying. So I think before I specifically deal with your question, let me give you a perspective on December 2019. December 2019 quarter was one of the best quarters till that time, right? It was almost Rs. 2,500 crores or thereabout at the company level. So, we are comparing December 2020 performance with December 2019, which is a higher base. And that is where probably the conclusion of what you are drawing is indicating that there is a degrowth. But if you see on a two-year basis and on a normalized basis, across all the businesses there is a growth. I think the FMEG business and retail wires business is leading the pack, followed by cable and wire exports and after that cable and wires domestic. The only degrowth or a flattish broadly number what we are able to see is because of cable institutional business. But other than that, there is a growth across.

Viraj Mehta: Sure. And just one last question. If I look at your five-year history or even 10-year history, you have grabbed market share from everyone. Your market share increase is the highest in the industry. Now the place that you are today with 14% market share or 15% market share, do you see that repeating over next, let's say, four, five years that you grab the highest pie of the incremental market share? And if yes, what are the two or three major things you need to do to get that done?

Gandharv Tongia: That's a very interesting one, Viraj. And this is a question which internally also we are deliberating in our internal Board and Executive committee meetings. I would just request you to allow us a quarter's time. We are almost in the final stage of clearing our Vision 2025. And by end of this quarter, we should be able to finally shape it up. My answer would be that we would be able to do it, and we would be able to do it in a very convincing manner. But if you are fine, I would love to come back to you in the next quarter and give you a more holistic picture of what Polycab would look like or should look like in 2025.

Moderator: Thank you. The next question is from the line of Chetan from AlfAccurate. Please go ahead.

Chetan Gindodia: Congratulations on a very good set of numbers. My question is primarily on the FMEG business. So can you shed some light on the performance of the different components of FMEG business, lighting, fans and other segments? And secondly, what would be the contribution of just the lighting in the overall FMEG, if you can give that number?

Gandharv Tongia: Sure. I think it is a case of growth across. In all the regions we have been able to record a decent amount of growth and it is broadly comparable. But if I have to pick up a particular region, it would be east where the region has done slightly better than others, but it is comparable growth by and large across all the regions. If I talk about product categories, I think fan, certainly, it's gaining momentum, and we are gaining market share as far as fan is concerned. The second game changer business is lighting and lum, where we have been able to get to a very decent growth rate, revenue CAGR is mainly driven by distribution-led B2C business.

And the third thing is the switchgear business. You would be able to recollect and I talked about it in the June quarter that we have realigned switchgear business to our real-estate and wire business. The objective was to unlock the synergy and switchgear business has showed almost 100% growth in the current period. So that realignment is giving us benefits. I think second part of your question was around the contribution. I think fans would be around 40% of our top line, followed by lighting and lum, which would be almost 30% and then the other product categories like switchgear and pipes would follow.

Chetan Gindodia: Okay. And lastly, in terms of FMEG business, so since we were new into this business we had seen increasingly or for a long period of time very high-growth rates. But for the last quarter, I have been able to observe that our growth rate is broadly in line or slightly higher than our competitors, or the larger competitors in the ECD space. So has the competitive intensity increased in the FMEG space? Or are we focusing more on margin and reducing our intensity on increasing the top line. What is the reason for this?

Gandharv Tongia: So competitive intensity was always there and will continue to be there. In whichever business you are, that would be there. I don't think there is any material change in competitive intensity between second quarter and third quarter. As a matter of fact, we are gaining market share across the board. And on a five years basis, I think our revenue CAGR in FMEG would be close to 45%, 50%. And I think that's a decent performance which we have been able to deliver. With launch of new product, we feel that we would be able to maintain a very good high growth in FMEG vertical.

Moderator: Thank you. The next question is from the line of Mudit Kabra from KEM Securities. Please go ahead.

Mudit Kabra: Congratulations for great numbers. My first question is the breakup between Wires and Cables revenue percentage, if you can share?

Gandharv Tongia: Yes. So, I think cable is in early 50s, and wire is now in around late-40s or thereabout, that is the breakup.

Mudit Kabra: Okay. And regarding Dangote, are there any follow-up orders beyond the $10 million which you mentioned earlier, in the previous quarter? And if yes, till which quarter do we see this Dangote sales contributing to our top-line?

Gandharv Tongia: Yes. So Dangote, the first order we have completed and supplied. And after that we have secured a follow-up order. The supplies are expected to commence in the current quarter. But the first order has already been supplied fully.

Mudit Kabra: Any updates over and above the $10 million order which you have procured in the last quarter?

Gandharv Tongia: No, nothing in addition to that.

Mudit Kabra: Okay. And last quarter you also mentioned that you see growth in CIS countries in that region. So have you received any kind of business yet, or are there any future prospects regarding this?

Gandharv Tongia: Yes. I think we are witnessing a significant amount of traction across the globe, including the CIS countries. There is nothing material which has been translated into the P&L account. But overall, there is an impressive flow of inquiry. And as I alluded to the overall export thought process, we would like to ensure that we maintain at least 10% contribution of exports to our top-line on a sustainable basis. So including U.S. and U.K., other geographies, for example, CIS, Middle East, Russia and Africa would be a major contributor to our top-line growth in exports market.

Mudit Kabra: Okay. Thank you. And next question is like on the numbers. We have seen our business increasing Y-o-Y, but there is a sharp decline in certain forwarding expenses in our P&L. So any highlights on the same?

Gandharv Tongia: So that's a result of a change in mix and the cost-optimization initiatives which we have taken. You know that we started on a project, Project Udaan, wherein we want to optimize the cost, and this we are working with BCG. So across the P&L, we expect that slowly and gradually, we would be able to optimize the cost base. The one which you are talking about is mainly because of our change in mix. There is no significant other reason attributing to the movement in freight cost.

Mudit Kabra: Okay. The last question is any updates on entering into EHV business?

Gandharv Tongia: That remains a priority area for us. Internally, we have identified an action plan to tap this particular opportunity. I think by end of next quarter, when I come back to you with Vision 2025, I would be able to throw more light on this.

Moderator: Ladies and gentlemen, that was the last question for today. 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 you want to know more about our business, please feel free to write to investor.relations@polycab.com, and we will be happy to assist you. Thank you. Take care, and bye-bye.

Moderator: Thank you. On behalf of Polycab India Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.