“Polycab India Limited Q4 FY-2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Polycab India Limited Q4 FY2020 Earnings Conference Call. As a reminder, all participant lines will be in 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 evening everyone. Thank you for joining us. Before I start, let me quickly introduce, my name is Gandharv Tongia, and I sincerely hope you and your loved ones are healthy and safe. On this call, we shall discuss the Q4 and FY20 results, which were approved in the board meeting held today via video conferencing. We will be referring to the earnings presentation, financial results and financial statements which are available on the websites of the Stock Exchanges, as well as Investor Relations page of our website. It can also be downloaded through the QR code given on slide 12 of our earnings presentation. Joining me today, from the management team, we have our Chairman and Managing Director, Mr. Inder T. Jaisinghani and our Director - Finance and Accounts, Mr. Shyam Lal Bajaj on the conference call. Let me now hand it over to our Chairman Inder bhai for his comment.

Inder T. Jaisinghani: Good evening everyone I hope you all are doing well. We achieved healthy underlying performance with improved profitability in FY20. Polycab maintained its dominant position in Wires and Cables and continues to expand its presence in the Electricals ecosystem. The year was marked with strong business momentum despite significant headwinds however the outbreak of COVID-19 pandemic and its severe economic implications partly tapered growth. We are undertaking all necessary measures to ensure safety and well-being of our employees, partners and to support, dealer, distributors, customers and communities across India. Our financial stability, inhouse backward integration, wide distribution channels and quality human capital, positions us well to deal with any challenge and succeed. I now request Gandharv to take you through our earnings presentation. Gandharv please go ahead.

Gandharv Tongia: Thank you very much Inder bhai. Moving on to presentation on slide #4. In the year ended 31st March 2020, our consolidated revenue growth has been healthy at 11% year-on-year, led by decent performance across segments. EBITDA grew by 19% year-on-year and margin at 12.8% improved 87 bps year-on-year versus FY19. Our staff cost at 4.1% of our sales were higher by 38 bps year-on-year due to adverse leverage and onetime credit in the base year. Advertisement and publicity spend were party curtailed given the virus outbreak and remained flat at 1.2% of our sales. Our profit before tax grew by 34% year-on-year driven by decreased finance cost, reflecting the lower borrowings compared to previous year. A detailed breakup of our other income and finance cost have been provided on slide #16 of our earnings presentation. Our profit after tax at Rs.7.66 billion has been strong up by over 53% year-on-year, partly aided by a deduction in a statutory income tax rate. Moving on to specifics of quarter four on slide #5, our revenue from operations at Rs.21.3 billion declined by 14% year-on-year, reflecting severe impact of COVID-19. Excluding COVID-19 impact sales could have been higher by approximately Rs.6.1 billion, implying a potential 11% year-on-year growth in Q4 FY20 based on our estimates. EBITDA excluding other income was Rs.2.9 billion, up 20% year-on-year in Q4. EBITDA margin at 13.8% was higher on year-on-year basis, led by better product mix and contribution. However, I would like to reemphasize as I did in previous quarterly earnings calls that the correct way to analyze our operating profitability would be on annualized basis as several dynamics can weigh on quarterly margins. Historically, we have noted that our annualized sustainable margin in wires and cables business typically tends to hover in the range of 11 to 13%. Our profit after tax is up by over 53% year-on-year driven by decreased finance cost, reflecting the lower borrowings compared to previous years and lower income tax expense.

Moving on to segment on slide #6 wires and cables, which is our largest business grew, by 9%, year-on-year in FY20 despite challenges. Domestic business environment continued to see sluggishness with prevailing weak economic condition coupled with falling commodity prices. Virus outbreak and subsequent lockdown in late March further impacted business as that month is usually the busiest period from sales perspective. Consequently, overall wires and cables industry is estimated to decline by almost 14% in FY20 with significant impact on unorganized trade. Higher sale through optical fiber cables and exports, which grew strongly on the back of a large order offered some momentum. We are also seeing increasing traction in few developed geographies. For example, USA, where our sales in FY20 has increased almost 41 times as against last year. The EBIT margin in this segment was higher by 26 bps year-on-year due to improve sales mix. The business in fourth quarter was significantly impacted due to virus outbreak in prime sales period.

Moving to FMEG on slide #7. FMEG segment contributed almost 9.4% to our business in FY20 versus 8% in FY19. The FMEG robust momentum was slightly halted by virus outbreak. 6% decline in Q4 tapered annual growth of this business to 30% year-on-year. Fan, lighting. luminaries continued to grow at healthy pace, despite challenging marketing conditions, led by our distribution strength, in-house manufacturing ability and improving portfolio mix. Fans posted strong growth in months of Jan and Feb. Margins improved on the back of calibrated pricing actions. Lighting and lumen posted healthy performance with improved profitability led by a refined strategy. If reducing price erosion in B2C lighting products continue, it could further support margins in this business. Growth in switchgears and switches continued to remain muted. Considering the widespread fear and uncertainty around jobs and income, consumer sentiments have dwindled. While the pent-up demand is expected to bounce back as movement restrictions ease, some downgrading in the near term seems imminent. We believe our strong distribution network, value and quality proposition put us in a sweet spot to gain from such development. In the coming years, we will continue to build our new product pipeline with focus on technology and energy efficiency.

Moving to slide #8 other segments, which is largely our strategic EPC business, witnessed healthy growth in revenue and profitability led by execution of profitable projects. Though we expect margins in this business to remain in high single digit on annualized basis, which we believe is sustainable. During the year, Polycab, along with its consortium undertook projects under BharatNet phase two projects in the state of Gujarat and Bihar and connected almost 4700 gram panchayats or villages in a period of about 10 months. Being an established leader in electrical manufacturing domain, we aim to replicate our project management skills and actively pursue large digital infrastructure projects, including Smart Cities, surveillance, BharatNet and digital village.

Slide #9, highlight some of the key initiatives we undertook to help society and communities. We have embedded a video showcasing various hygiene measures we have undertaken at our factories. I would urge you to watch it if you haven't already. Slide #10 and #11 though these are self-explanatory and provide color on business implication of COVID-19, let me just give you thoughts on how Polycab is traversing through such exceptional times and share our assessment of current situation. As you all are aware, COVID-19 poses a unique challenge and has impacted lives and livelihoods of people. Amid these defining moments, our priorities have remained the same, safety of our employees and partners is foremost. Foreseeing the risk, we deployed our business continuity plan in mid-March. All office-based employee's transitioned to work-from-home environment with little to no disruption. And, following the government directives on nationwide lockdown, we had completely shut our offices and factories. Currently, all our factories have resumed operations with limited capacity and follow a stringent standard operating protocol. We are continuously monitoring the situation and will ramp up production on need basis. Our local and regional offices, warehouses in non-containment zones are open. We are also in touch with our channel partners to extend support and help them in whatever ways we can. Furthermore, we are generously supporting the community at large as these are the times when they need help the most. Our company is not just contributing to various government and industry funds, but we are directly helping society by donating ventilators to government hospitals, collaborating to set up quarantine facilities and distributing food packages and essentials to hundreds of families every day around our factory locations and offices. Every Polycab employee donated one day of her salary, or his salary, to PM care fund. We aim to continue to extend our support even after normalization by coordinating and partnering with various NGOs.

On the macro environment, the virus outbreak has caused significant economic disruptions, with heightened level of uncertainty. Markets are already struggling with tight liquidity conditions, weak credit growth and slowing industrial production, amongst other waning macros and the pandemic has further aggravated the stress. Volatile commodity prices was another headwind for our industry during the quarter. Nevertheless, currently we are surely seeing some signs of progress. Many infrastructure, construction as well as real estate projects have resumed activities across the country or planning to do so immediately. We started billing in early May, and it has been progressing well. While it is much below normalized level at the moment, opening of markets is definitely helping. Most of our authorized dealers and distributors and retailers are currently operating. However, major dealers in metros are still facing issues due to restriction of movement and lockdown. While we are working with several projections and scenarios to prepare ourselves in such dynamic environment overall, we believe it will take at least one or two quarters before demand takes on a normal footing. During this period, we also focused on conserving and augmenting our liquidity position through judicious cost management, deferring non-critical spends etc. From a financial position standpoint, we are quite comfortable. We have healthy cash balances and significant amount of unutilized credit lines. CRISIL has given us AA positive long term rating and A1 positive short term rating. Having said that, I would like to recall one of the Einstein's quote which I read recently, and that's the opportunity you get when you're working from home. And that quote is, "in the midst of every crisis lies great opportunity", and I believe this quote is more relevant now than ever. I feel the current one will also put forward plenty of opportunities for small and large businesses across sectors as COVID-19 transforms from the orthodox business models. Work from home has become the new norm and is likely to be a win-win for companies as well as employees in the longer run. This will not just require higher investment in IT infrastructure, but also increase demand for high speed digital connectivity in non-metros and perhaps even in rural areas. The ongoing reverse migration may give a push to automation, as industries face labor shortage and if the movement sustains we may see alteration in conventional consumption pattern with more clusters of developed rural. Companies across the world have been fixated to China as a low cost manufacturing base for a long time. COVID-19 will surely provide a fresh basis for them to reconsider and reorganize their global manufacturing footprint. This along with government impetus to indigenous manufacturing and make India self-reliant economy will create jobs and spur industrial and infrastructure growth. Overall, we are very optimistic of our nation's robust outlook and long term economic prospects.

Quickly moving on to financials. Our fundamentals remain on course of improvement. ROCE, return on capital employed for FY20 stood at 26.4%. While underlying profitability has improved, as reflecting in better operating margins versus last year, ROCE seems optically lower year on year basis due to IPO proceeds deflected in FY20. Adjusting for that, current year's ROCE would have been about 150 bps higher. Our balance sheet remains healthy, with over Rs.1.6 billion of net cash as of March 2020, and debt equity ratio at a mere 0.04x. Our working capital deteriorated due to inventory pile up in anticipation or generally high demand in March, and higher receivable on account of lockdown. However, we believe it will even out as market conditions improve. We will continue to work on our long term strategic and structural initiatives like increasing channel financing, inventory rationalization, debottlenecking of processes, increasing automation, augmenting supply chain operations with technology and building data analytics capabilities. In fact, this lockdown has granted us some additional time to provide extra thrust to these initiatives. I'm sure it will help us reinforce our market positioning and thrive in times to come.

On the distribution side, this pillar of our business model remains strong with direct reach of over 3500 authorized dealers and distributors, across geographies, indirectly serving over

125,000 retail outlets as of March 2020. We continue to enhance our key influencers connect through project Bandhan, which now has over 135,000 electricians and over 41,000 retailers on board. That was broadly on this company performance. Now, I wanted to share a couple of developments which took place after the period closing.

First, I'm sure many of you may be aware of this. We bought out Ryker from Trafigura early this month. Ryker, as you know was a plant which was initially envisaged and pursued by our Chairman and Senior Management team to complete backward integration of our all key inputs. While the plan was shaping up, Trafigura had proposed to partner with us and hence a 50:50 JV was created to build a state of the art facility, which conforms to global production standards with minimal environmental impact. However, post Trafigura's recent global strategic decision to exit from value added manufacturing businesses in India where it is a JV partner, their 50% stake was offered to us and we decided to acquire it making Ryker a wholly owned subsidiary of our company. The purchase consideration was around US $4 million or Rs.30 crore and the transaction has now been closed. Ryker Financials will be fully consolidated from this current quarter. The second development, which is more recent, Mr. Shyam Lal Bajaj, who is our Director of Finance and Accounts and Chief Financial Officer has tendered his resignation from the post of CFO with the closure of the business today onwards and Board has accepted it. Mr. Bajaj will continue to guide and mentor us as Executive Director. This transition was in progress from last year or two in line with our company wide succession planning process. To conclude, I would like to emphasize that our company's brand and fundamentals are well positioned to navigate through such extraordinary time. We will continue to operate with a high level of agility and responsiveness, government stimulus, front loading of various spends, structural reforms and regulation will certainly help the broader economy and consumer in the near term. And we will work to leverage our strong business model and achieve sustainable, profitable growth over medium to long term. Thank you all for joining us today. On this note, I hand over the session to the operator and we will be extremely pleased to take your questions.

Moderator: Shall we open the floor for question and answer?

Gandharv Tongia: Yes, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Just wanted to check with you regarding the value and volume growth for this quarter and fully in the cable business, if you can share it will be great?

Gandharv Tongia: Ravi couple of things which are relevant when we analyze companies in cable and wire industry. One is LME and FOREX has a significant bearing on the top line because most of the large players assume and pass it on to the end customer and there is no risk which is retained. So, if LME goes down or FOREX goes down, it impacts the top line or bottom line accordingly. The second thing is, volume is not relevant, because if I talk about one kilometer of aluminum cable and one kilometer of copper cable, though the unit would be same which is one kilometer, but the value would be significantly different. Having said that, since the LME and FOREX has softened up in the current year in comparison to last year which indirectly indicates that there is an upside movement. The wire and cable business in the current fiscal has improved almost by 9%.

Ravi Swaminathan: 9% is the revenue growth you telling?

Gandharv Tongia: Yes, it's revenue growth.

Ravi Swaminathan: But volume growth would have been higher, though we can't exactly calculate it given the drop in copper prices, so at least in Q4 it would have been higher?

Gandharv Tongia: Yes, it's best not to compare the volume growth because it could be misleading and that is where I feel that it's better to go by value. At best, for the purpose of analysis and evaluation, we may bring an additional factor of FOREX and LME which has considerably reduced in the current year vs last year, which indirectly means, that the overall revenue growth is significant beyond what is being visible from the financial statements.

Ravi Swaminathan: Got it sir and in term of share of wire, as a percentage of overall portfolio. So, would it have gone up this year compared to last year and roughly by how much?

Gandharv Tongia: Yes, it has not significantly undergone a change. Wire business is more or less flattish in the current year. But another element which is important to consider is, the denominator would include the export business, which is like elephant in the room. So, if I bring that amount into denominator it would lead to an impression that wire contribution slightly decreased, but if I normalize it, it continues to be in the same range.

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

Aditya Bagul: Sir two questions from my end. One is over the period of last three months after the COVID has sort of broken out, what are the initiatives on the cost front that we've seen, what is the change in the thought process there? Question number two is, can you talk a little bit more in terms of working capital, especially the payables and acceptances, because as I see in your cash flow statement, that is the delta between 19 and 20?

Gandharv Tongia: Thanks Aditya. COVID has given us an opportunity to revisit almost everything and we as a company, are focusing on three or four key elements and we started doing that slightly before pandemic outbreak in India, but we are continuing that with greater focus. One is cost optimization, and this starts from zero based costing in a few of our productions as well as purchase initiatives. Second is the operational and manufacturing cost, wherein we want to reduce the cost which can be avoided. We have already carried out some evaluation and reduced costs in few of the line items. But we still believe that further cost optimization is possible. In a large organization, over the period, what happens is at times you start incurring some costs which are not necessarily adding value to your business. And that is why this particular crisis has given us an opportunity to revisit, we will continue to do that and reduce the cost wherever possible. The second is augmentation of cash, though we are supporting our dealers and that is our prime focus, but at the same time we are managing our cash to ensure that we have enough cash available. You would have already noticed that our gross cash as of Mar'20 is close to Rs.280 crore or thereabout. And you already know that dividend payout was also done in March. So even after that, we continue with extra cash. Thus, in few of the cases we have been able to get some additional credit from our vendors without any additional costs that we have availed, but which is not necessarily significant. And the last thing, which is the fourth part of the initiative is giving back to community which is about CSR. So, these are the four activities on which we are spending a lot of time and that remains our focus area.

The second thing was around the working capital. There were two items, which were always in our focus, but after the IPO, we learned that from all the investors. On inventory, we started our project with one of the management consultants. The objective was twofold, one is reducing the absolute amount of inventory which we are carrying on our books so that we can reduce the working capital involved. The second is, within that reduced amount, increase the number of SKU. So, you increase the availability and you reduce the amount, so you get twin benefits. That project is progressing well. We have already achieved a bit of success, though it is not clearly reflected in Mar'20 number because of COVID and higher level of inventory, but that is progressing well, and we are happy with whatever we have achieved so far. And we will continue to further monitor and optimize it. The second part of working capital is around trade receivables and as you can see in our presentation, the trade receivables are within the overall acceptable numbers. Having said that, we believe that channel financing which we introduced almost for four, five years ago would continue to help and we would be able to further penetrate channel financing both in cable and wires where it is hovering around 60, 65% to a higher number and in FMEG where it is in early double digit to a greater number. Both of these initiatives, one on inventory side as well as on the trade receivable side would help us in further improving the working capital.

Aditya Bagul: Right. Actually, what I was trying to understand is the delta between OCF last year and this year and that essentially comes from payables and acceptances. So, if you can give me the number of acceptances, it would be helpful?

Gandharv Tongia: So, acceptances last year were around Rs.803 crore in FY19 and in the current year Rs.816 crore there are two important things we should consider when we are analyzing our acceptances and liabilities. Last year because of Dangote we had received almost Rs.400 crore as advance in FY19, which we have adjusted against the supplies which we have done in the current fiscal and between FY18 and FY19 there was one time re-class of the financing arrangement which we have with our vendor, which was sitting in our liabilities. Which you can normalize when you are preparing your spreadsheet.

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

Atul Tiwari: Sir my first question is on the export. So, you have mentioned in the presentation that you booked about Rs.7.5 billion of exports in FY20. So two parts, how much of the Dangote order is left for execution and beyond the Dangote order, what is the outlook on exports, could you throw some light on some of the initiatives that you're taking to at least reach the similar level of export in FY21? And any guidance for CAPEX in FY21? I saw that the company has done about Rs.2.8 billion of CAPEX in FY20. So rough breakup of that number where did it spend etc.?

Gandharv Tongia: So, Dangote we have already done probably Rs.750 crore or thereabout billing in March 20 and around Rs.200 crore or so is required to be billed in the current year and we are progressing well there. The overall export is close to Rs.1100 crore. And we have received, in addition to Dangote, favorable support from countries like US and which has increased significantly. You would be able to recall that in one of the earlier quarter's presentation, I had mentioned that we are trying to get into a distribution business in exports including countries like US. We have incorporated a trading arm, a new legal entity in the US and that is progressing well. Globally, there is an almost $38 billion opportunity which is available in exports. Because of the COVID pandemic it looks like that shift from China would help countries like India and that could in turn would be able to offer some support to our industry and large players in this industry. We are focusing on large geographies and identified set of sectors globally and recently whatever we have seen it is encouraging. Having said that, I don't think I would be able to give you an assurance at this stage that we would be able to get a similar number of Dangote. But I can certainly assert with utmost confidence that the management team is doing whatever is possible to further improve the export and in medium term we believe that export can be almost 10% or thereabout of our top line.

The second element was around CAPEX. We have invested almost Rs.280 crore most of it has been invested in debottlenecking. Some investment for export business because the certifications are very different and we need to have different set of machineries. Apart for FMEG for example, the facilities which are operating at a higher capacity utilization level and remaining is for regular upkeep. I am sure few of the other participants would be interested in knowing what the CAPEX outflow would be next year. Considering the uncertainty which we have, I think we would be very careful in spending CAPEX at this stage. We can assume a number of Rs.200 crore or thereabout, but that will be monitored at a regular interval and very closely and we will spend only when we have enough visibility on the business.

Atul Tiwari: Thanks sir. And sir very quickly what was the gross debt number on the balance sheet as of FY20 end, gross debt number?

Gandharv Tongia: Gross debt number is around Rs.157 crore in FY20 in comparison to FY19, which was around Rs.272 crore.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Two questions from my end, so firstly it will be EBITDA margin side. You kind of said that the average range should typically look in margin anywhere about 11 to 13%. If you look at it directionally, even in this year we have been improving our margin profile, first of all are we assuming the share of wires increase in the year FY21. And if in that case, what should be the margin outlook?

Gandharv Tongia: I think sustainable margin in our business, considering the overall proportion of cable and wire is anywhere between 11 to 13%. You are right Prashant, that in the current year the actual margin is slightly higher, but if I go by the historical trend, it has generally hovered between 11 to 13%. And for your modeling purposes, it's better to assume those numbers because in such a situation you will be left with positive surprises, hopefully.

Prashant Kutty: Okay. But in that case, what would have actually aided the margin in this year, if you could probably highlight that because you've seen a significant increase in broad margin numbers?

Gandharv Tongia: So, it's because of two, three reasons. One is change in the mix has helped us in improving our margins, as I explained a while back the overall composition of domestic and export, as well as some new products have changed this composition. The second thing is, we have taken some pricing actions as I was talking about for FMEG and other businesses. So, this is mainly because of change in mix and some pricing actions which we have purposely taken during the course of the year which has helped us in improving the overall margin.

Prashant Kutty: What was the pricing action taken sir, if you could probably**?**

Gandharv Tongia: Yes, that was the pricing action to improve the overall realization for few of the product categories. For example, as I mentioned about FMEG business in the case of fans and in the case of few of the other products in cable and wire.

Prashant Kutty: No, I just asked what is the quantum of price increases?

Gandharv Tongia: I would prefer not to talk about it considering this is a sensitive information for the industry. But suffice to say that it is a combination of both pricing as well as change in mix.

Prashant Kutty: Okay. The second question is on the overall mix in the cables and wires business, while about 35 to 40% of our businesses is on wires. You do have a proportion which is services to the industry and also some part of it, maybe the government as well, how does that takes the preceding in the year 2021 in the wake of CAPEX and all activities being lower how does the overall thing change in the year 2021 and could you give some sense on that?

Gandharv Tongia: So, I actually covered that a bit in the opening remarks, two things which are important in the current year. One is what would be the spend by the government and private CAPEX in the current year and which is dependent on several factors, including the most important factor being whether there is a cure for this particular pandemic. If we will get a cure for pandemic today, as well as government starts spending today, the growth would be phenomenal. But if any of these activities happen, a quarter or two down the line, it would have impact on the performance of all the companies in India, including our company, so that's a combination. We believe between a quarter or two, we should be able to come back to the normal demand levels. And from there, I don't think there would be any challenge.

Prashant Kutty: percentage in terms of utilization at this point of time, let say May is concerned or is typically?

Gandharv Tongia: Yes, so in the first 40 days, there was hardly any activity. Though we resumed our operation slowly and gradually after the year end, but because of lockdown and considering fact that almost all the markets were closed, there was hardly any other significant activity. After that we have seen a decent traction, particularly in B2C business and demand from rural or Tier II or Tier III towns.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, I wanted this Ryker is in terms of the gross margin, possibility and what will be the dividend payout policy for the company?

Gandharv Tongia: Pritesh, I missed your first statement is it around Ryker capacity?

Pritesh Chheda: Yes. So, the investment that we did the JV in which we took up our stake to 100% eventually when the plant becomes operational, what would be the benefit to the gross margins of the company?

Gandharv Tongia: Yes, so this plant is already operational. In fact, it got operationalized in the first quarter of FY20. And this is as part of our backward integration, it is helping us in two ways, one is we are able to ensure that we are getting the quality of the copper which is required to give the quality product for which we are known for. So we import copper from the overseas market in cathode form, and convert the copper in this particular facility into rods and from rods we draw cables and wires and since it is done fully in our supervision and in our control, in our manufacturing locations, we are able to ensure quality. So that is already being done. The investment which we have done has given us some additional capacity. The plant capacity is almost 225,000 tonnes and generally speaking, our requirement is around 75,000 to 1 lakh tonne and there's some additional capacity which is available. Having said that this 225,000 tonnes capacity can be achieved only over the period because this plant got operationalized only four quarters back. So we are working to ensure that we are able to optimally utilize the plant. The second thing is the arrangement between Ryker and Polycab would be on job work basis and wherein there is no significant impact which is expected on the gross margin of the company. But certainly because of better quality, we would be able to reduce the copper content which will help us in optimizing the cost of goods sold.

The second question, is on dividend. We have a dividend policy, which considers the internal and external factors you would be able to recollect in FY19, we had distributed almost 10% of our profit and in this year, we have already done an interim dividend payout in March and which is slightly more than the last year. We will continue to pay dividend after considering the cash which is available with us, the business performance of the period and the cash which is anticipated to be kept with the company for future needs.

Pritesh Chheda: Missed it, you said 10% payout you have done in 19 and 10% payout you done in FY20, so as of now?

Gandharv Tongia: It is slightly higher than FY19, the EPS is around Rs.50 and the dividend which we paid was Rs.7. So it is it is around 13, 14%. If I include the dividend distribution tax it is higher.

Pritesh Chheda: But you do not have a policy or say a formulated policy that I will pay out 25% minimum you do not have that type of a policy right?

Gandharv Tongia: We have a formulated policy, where in the decision making is left to the Board of Directors, which provide for qualitative factors which are required to be considered. We don't have a policy wherein we have a quantitative matrix saying that 25% or 20% is required to be paid out, but we certainly have a policy where we have a qualitative factors which are required to be considered and on that basis Board of Directors recommend dividend for approval to the shareholders.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Sir my first question is regarding resumption so, off our overall sales how much percentage is accounted by urban or Tier I cities? And in the opening remarks you mentioned that some of our shops have opened in the orange and green zones. So currently what kind of utilization or demand off take are they currently working at?

Gandharv Tongia: Yes, so Sonali that's an interesting one. And we have been internally discussing and deliberating what is the best way to define, urban and rural and we are still trying to get to a definition, which is acceptable. Internally, we have analyzed and we feel that our rural penetration is not necessarily very significant. And the recent few weeks, we have seen an uptick in demand from the rural economy. Having said that, most of dealers and distributors in non-containment zone are operational. But the key cities where from where we get our sales are in lockdown for example, a city like Bombay or Thane, and that is where, although the quantity or the quantum of outlet operational are significant there is a still challenge in overall utilization in terms of throughput.

Sonali Salgaonkar: Got it, Sir. And my second question is regarding the supply side. So you mentioned that, many of your factories have resumed operations. So currently what percentage of utilization are you operational at? And secondly, what is the kind of inventory that we have in the channels considering that the first 40 days of the lockdown had almost zero demand? That's it from my side.

Gandharv Tongia: Yes, so inventory in channel has as of now, while we are talking, has reduced significantly. There were certainly certain pockets, slightly higher inventory because they had inventory in anticipation of higher sales in the month of March. But that has been liquidated to a great extent already and there is no significant inventory, generally speaking, available in the channel. That was the one thing.

Sonali Salgaonkar: Sir your supply, in your current factories, what percentage of utilization are you currently operational at?

Gandharv Tongia: Yes, it's fairly low at this stage because there is no point getting into production where we don't have enough demand and as you could imagine. The large cities in India are still in lockdown and that has bearing on the overall sales. But we are totally ready in case if there's a demand to supply. And this government restriction and social distancing has also slightly impacted overall utilization in few of our factories because we can have only few identified number of employees in a particular shift. But if there is an increase in demand, we are already geared up to meet that demand.

Sonali Salgaonkar: And you do not foresee problems with the migrants supply, labor issue, in the coming quarters?

Gandharv Tongia: No, we don't anticipate any significant challenge. As you already know Sonali, we have presence in Gujarat as well as in Daman and where we are not witnessing any significant migration of the laborer so, that is not a challenge. And on the raw material side we any which ways have a very healthy supply chain and we are not witnessing any challenges from raw material. So labor and raw material is not a significant challenge for us.

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

Naval Sheth: Sir two questions, first you emphasized on automation. So, if you can give some numbers on what can be the CAPEX to be spent on automation and probably what can be the leverage on the margins from that going forward or whenever it is fully implemented?

Gandharv Tongia: So Naval, you look across the globe, automation is key, artificial intelligence, automation and technology. And we would like to replicate something similar in our factories. We were probably the first one to start with automation and we implemented robotic arms for managing our warehouse in Halol and if I'm not wrong, we were the first one in the industry. Though the automobile industry was using it, in our industry we were the first mover in that direction. The automation which I've talked about is being worked on as of now by this management team of the company, and probably, in quarters to come I would be able to give you additional details. Like any other automation, it is going to certainly help us in improving the quality of our products as well as would help us in reducing the cost and involvement of manual labor.

Naval Sheth: So, is it fair to assume large part of cost reduction would be on employees?

Gandharv Tongia: No.

Naval Sheth: Okay. Second question is on channel inventory what you mentioned that it has, come down significantly. So, what outlook as you stated that demand would normalize in one to two quarters, but when would your primary sales start, to the channel as inventory has started to, reduce meaningfully now?

Gandharv Tongia: It has already started, primary sales has already started while we are talking. The only thing is it's not necessarily meeting expectations, but that's the reality of the environment today where almost all the companies which are not an essential sector, are probably underutilized.

Naval Sheth: Okay. And lastly any outlook or guidance on Polycab, or any sense on what kind of revenue decline industry can see because demand is going to normalize in H2 only. So FY21 what kind of revenue decline we can see in cable and wires for the industry?

Gandharv Tongia: Naval, we'll have to wait for two things to happen. One is we'll have to wait for lockdown to end. We are still in the lockdown 4.0 and we don't know what would happen on 1st June. So we will have to probably wait for a quarter to come up with a point of view. But certainly, first half would be impacted and all the companies are trying their level best to reduce the impact and we are no exception to that rule and we are also trying to do that.

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

Rajesh Kothari: My first question is on your distribution strategy in the global markets. If you can elaborate a little on that and whether you will be also making the new round of CAPEX, when your distribution strategy comes in force. Second question is with reference to the B2B versus B2C, do you think probably for next few quarters, you might see a little bit stronger B2C versus B2B because there might be delay in project completion or some delay in the handover from the developers to the actual users and therefore that may result into the further delay in the ramp up?

Gandharv Tongia: So, on the first part of the question on the distribution in the export market, there is no significant amount of CAPEX, which is anticipated because all these companies which are being incorporated would continue to act like trading arm and would not require any CAPEX. Before I get to the second part, let me give you a broader perspective. The projects, though, we are seeing are getting delayed, but there is another important element which is already present in the minds of large construction contractors, infra project developers that they would like to recover or make good of this loss which they've already incurred in terms of time lost by almost three to four months. And they would like to immediately start the projects and there will be a bit of a pent-up demand. And all the large projects, which were announced in last year or were anticipated, are likely to get into execution this year. There would be some loss but not necessarily everything will be shelved. As of now, I am not aware of any of the large projects getting shelved. It's quite possible that they have not taken decision in terms of timelines, but none of these have been shelved. And in the case of large projects, almost 1 to 2% of their construction costs or the total project cost is generally for cable and wires, and we have visibility on few of these sectors and the projects which are going to help. So, it's not necessarily that only B2C is going to give us support, I still believe that B2B should be additional, and directive sales would continue to help our company. Having said that, through digital go-to-market strategy, as well as in Tier II, rural would have some level of higher level of support and which is what we are trying to leverage. These are challenging as well as developing time, and we feel that will probably slightly change the overall mix of the composition of our sales, but we'll have to probably wait for a quarter or two before we conclude our thoughts on that.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Motilal Oswal Asset Management. Please go ahead.

Aadesh Mehta: Sir, I understand that copper prices would have corrected significantly this quarter. So what could be the inventory loss we have booked in our P&L this quarter?

Gandharv Tongia: Yes, so that's an interesting one. Globally when metal is procured for example, copper, aluminum, it comes with embedded derivative, which provides an opportunity to the buyer to fix the price at a later date. Which is subsequent to the procurement date and because of which we don't carry any risk of inventory. So, whatever movement in LME has happened has not impacted the company. Generally speaking, from the business model point of view, the movement in LME as well as FOREX is a pass through which is generally passed to the end customer on a monthly basis.

Aadesh Mehta: Right. But sir I am just trying to understand that if you have this offsetting contracts in terms of derivatives, how can I see that your unitary costs have also come down in terms of the material you have consumed? I've seen a significant reduction in your costs as well. I'm just trying to connect these two dots.

Gandharv Tongia: Let's talk about the year P&L first, the cost of goods sold looks like that it has reduced a bit, but an element of subcontracted costs which used to sit in FY19 in cost of goods sold is actually sitting in subcontracting cost now. Because earlier the Ryker facility was not available with us and we used to procure copper rods from the vendor and that is why the procurement costs was slightly higher. Whereas now since we have our own manufacturing facility, the subcontracting cost or the cost which is paid to Ryker is sitting in our other operating expenses. So, if you normalize it that it is not a significant difference between FY19 and FY20.

Aadesh Mehta: Okay, so is it a fair way to understand that the gross margin expansion we're seeing could be the result of reclassification of this?

Gandharv Tongia: One element is classification. Second is what I explained in response to an earlier question, it's because of improvement in sales price realization. We have launched a few new products, where we have been able to realize a higher price and you would have noticed that the sales mix in terms of export and domestic as well as new products by optical fiber cable has also changed the overall mix of sales in the current year and that has also helped us in improving the sales realization, thereby improving the contribution margin.

Aadesh Mehta: Got it sir. And sir what could be the impairment on receivables we have booked for the full year, this year?

Gandharv Tongia: So, as per expected credit loss method, which is required under IndAS has been followed. The carrying provision is around Rs.156 crore. And provision during the year would be around roughly speaking rounded off around Rs.26 crore.

Moderator: Thank you. The next question is from the line of Anand Lal from Unifi Capital. Please go ahead.

Anand Lal: My question ties with the previous participant. So, after this change of approach, whereby the cost gets shifted to other expenses and hence gross margin looks better. Is it fair to assume that going forward, the gross margin would be in the vicinity of 60 to 68% and it won't cross 70% from here on?

Gandharv Tongia: No, I mentioned that in my opening remark in our company, the EBITDA margin and contribution margin are best to be reviewed and analyzed on annualized basis, and that is why I would urge you to analyze on 12 monthly basis and not take our particular quarter as a base.

Anand Lal: And just trying to understand if the business were to resume normalcy post June let say for the last three quarters, how do you see the volume uptake year-on-year assuming normalcy between the last three quarters, and the first quarter?

Gandharv Tongia: Difficult to comment, because of too many uncertainties and most of them are beyond the control of the company. It's difficult to give you any quantified number at this stage.

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

Viraj Mehta: Just one question, if we look at last two years, we have in our cash flow it shows that we have written-off roughly 75 crore of receivables from our channel partners, post this lockdown do you see any significant jump in this number going forward. As in a onetime hit that you may face because of this?

Gandharv Tongia: Yes, so let me just clarify, what you're referring to write-off is actually not write-off, it's a provision and that is a provision which is required to be created under IND AS on the basis of, by and large, historical trends. And our company over the period has been able to improve the penetration of channel financing, but that has been done over the period. So the correct way of looking at it is what is the actual write off and if you would notice in the financial statements, which are available on the balance sheet, on the website of the company, as well as on NSE the write-off is Rs.14 crore.

Viraj Mehta: Okay. But do you see any trend change in that this year, because a lot of your distributors were locked down for two months and they would face a lot of credit crunch. Do you see any significant deviation from that this year?

Gandharv Tongia: I don't expect that to happen, considering whatever we know. Most of our dealers and distributors are with us since last 30, 40, 50 years and these are parties with significant good financial track record and we don't expect any challenges. And the second thing which is very important, I would like to highlight is, at the cost of duplication, almost 65 to 70% of our sales is routed through channel financing where we have no risk and the same number in FMEG is almost 15, 20%, which is important when we analyze the health and the quality of these trade receivables.

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

Chintan Sheth: One thing, I am just looking at the quarterly other expenses which has jumped quite a bit from 160 odd crore quarterly result to 195 crore. Any one off or any extra spend we have done, and how do we need to look at it? That's the first question. Second is on the export side. If you can break it up the wires and cables revenue, I think we have booked around 180, 190 crore this quarter. If that is correct, then we're seeing a domestic revenue with declining around close to 20%. So, just to clarify on that export figure?

Gandharv Tongia: Yes. So, there is no one off in the other expenses except one particular element of unrealized foreign exchange gain and loss, and the details are available in the financial statements which have been uploaded on the website. Where we are comparing the top line movement, there are two, three elements which are required to be considered. One is what is the movement in average LME and FOREX in FY18-19 vis-à-vis FY19-20 and there is a reduction in weighted average between the two and that is where the overall sales number has improved. That is one, the second thing is though exports which have supported us in the current year. But there was bit of softening in few of the markets for cable as well as wire. If I talk about institutional sales in western markets, it was slightly soft in the current year because of a couple of reasons. One was the base year was significantly better because of the large projects and second is, there was a bit of softness in West. Having said that, in all the other regions we have been able to improve our top line growth. IEEMA which is the body for the Manufacturers in this particular industry has computed a de-growth of 14% in the current year and the assumption is that the organized sector has probably de-grown by high single digit, but the unorganized sector has significantly de-growth probably in high double digits and considering that the overall performance of the company after excluding export also is positive.

Chintan Sheth: Okay and the other segment any project the order book is left to be executed in the coming year or we will see some moderation because the execution has been quite strong in FY20?

Gandharv Tongia: Is that in relation to cable and wire or for EPC business?

Chintan Sheth: EPC, yes.

Gandharv Tongia: EPC we continue to have the healthy order book, but as I mentioned in earlier calls, EPC business for us is a strategic business and we are very choosy in terms of execution of such contracts. On normalized basis we expect this to be in the range of about 5 to 6% of our top line. Only exception could be optical fiber cable business, if we get some profitable contracts for that. But otherwise, generally speaking, the annualized number should be around 5 to 6% of our overall top line.

Moderator: Thank you Chintan. I would now like to hand the conference over to the management for closing comments.

Gandharv Tongia: Thank you all for joining us today. Thank you for your time as well as interesting questions and perspectives. We sincerely hope that you all remain healthy and safe in the coming time. And with that note, we take your leave. Thank you very much.

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

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