POLYCAB INDIA LIMITED
Polycab House, 771 Mogul Lane, Mahim (W), Mumbai – 400016
CIN: L31300GJ1996PLC114183
Tel : +91 22 2432 7070-74 Fax : +91 22 2432 7075
Email: shares@polycab.com Website: www.polycab.com

POLYCAB
Connection Zindagi Ka

Date: 29th July 2021

To
Department of Corporate Services,
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai – 400 001

To
Listing Department,
National Stock Exchange of India Limited
C-1, G-Block, Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Code: 542652 Scrip Symbol: Polycab
ISIN:- INE455K01017

Dear Sir / Madam

Sub: Transcript of Earnings Conference Call held on 22nd July 2021

In accordance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please be informed that the Company had hosted an earnings conference call with investors and analysts on 22nd July 2021 wherein the Senior Management of the Company had discussed the performance for the quarter ended 30th June 2021 followed by an interactive question and answer session.

In this regard, please find enclosed herewith the transcript of the aforesaid Earnings Conference call.

Kindly take the same on your record.

Thanking you

Yours Faithfully
For Polycab India Limited

Manita

Manita Gonsalves
Company Secretary and Compliance Officer
Membership No.: A18321

Polycab India Limited
Q1 FY2022 Earnings Conference Call

July 22, 2021

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

MR. GANDHARV TONGIA – CHIEF FINANCIAL OFFICER - POLYCAB INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Polycab Q1 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*: then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Gandharv Tongia. Thank you and over to you, Sir!

Gandharv Tongia: Thank you, operator, and a very good afternoon to everyone present on the call. I am Gandharv Tongia, CFO at Polycab India Limited. Thank you for joining us. On this call, we shall discuss our operational and financial highlights of Q1 fiscal 2022. Please note during this call, we will be referring to the presentation, financial results, and financial statements which are available on the stock exchanges as well as Investor Relations webpage of our website. It can also be downloaded through the link or QR Code on slide #8 of our earnings presentation. From our management team, we have with us our Chairman and Managing Director, Mr. Inder Jaisinghani. Let me now hand it over to Inder Bhai, for his comments.

Inder Jaisinghani: Good afternoon, everyone. First quarter performance has been encouraging despite challenges posed by lockdown in many states. We were able to record much better business compared to last year. We remain vigilant in managing cost and navigating the volatile demand environment. More importantly, we are progressing well on our strategic agenda and achieving new milestones which will drive transformation over mid-to-long-term. We continue to serve the communities and fulfill our purpose in meaningful ways. I now request Gandharv to take you through our earnings presentation.

Gandharv Tongia: Thank you Inder Bhai. As you all are aware the business environment has been very dynamic in the previous quarter. Despite that we have been able to achieve decent performance owning to resilient business model. On the good side construction activities continued for better part of the quarter, albeit at a slower pace. All thanks to a calibrated approach taken by governments in terms of lockdowns. Project and industrial activity started trending up as case load subsided from its peak. Our learnings from the past also helped us improve our supply chain and production which remain largely unaffected. Consumer sentiments remain positive, and we believe there could be some pent-up demand in coming quarters.

On the flip side. Raw material volatility continued. The inflation in our input basket was in low teens during the quarter and our blended price hike was in high single to just double digit. In mid June, sharp correction in copper prices caused further complications to an improving demand scenario as dealers refrained from stocking in anticipation of price cuts. Accordingly inventory levels in distribution channel dipped significantly with secondary sales tracking ahead of primary sales. Though we believe this a temporary sentimental setback and primary will eventually catch up with underlying demand.

Nevertheless, July seems to be panning out better then previous months. Retail outlets across the markets are largely open at the moment and activity is picking up. We continue to believe that second half is likely to be better than first half of the year, similar to last year, of course and assuming the third wave, if any, doesn't severely impede the economic progress.

Moving on to presentation with Slide #4 for the quarter ended June 30, 2021, our consolidated revenue was up by 93% YoY. EBITDA increased by 144% Y-o-Y, with 153bps improvement in margin. Cost saving initiatives were more than offset by unfavorable operating leverage and input cost volatility. This limited the EBITDA margin to 7.3%. Having said that, I would like to reiterate that the right way to analyze our operating profitability would be on annualized basis, as several dynamic factors can weigh on quarter-to-quarter margins. Our staff cost at Rs.959 million or 5.1% of sales was higher than last year but broadly at par with Q4. A&P spends at Rs.78 million or 0.4% of sales were optimized considering the subdued business environment seen in Q1. Our finance cost at Rs.122 million were lower by 25% Y-o-Y. Other income at Rs.253 million was down by 25% YoY due to one off interest income gains in base quarter. A detailed breakup of our other income and finance costs, have been provided on Slide 12 of our earnings presentation. Our profit before tax at Rs.982 million was up by 151% YoY while and PAT at 753 million was down by 36% YoY again on account one off gains in base quarter as explained on Slide 9. Normalized PAT is 10x of last year. PAT margin in Q1 stood at 4.0% against a normalized margin of 0.8% in same quarter last year.

Moving on to segments. On Slide # 5. Wires and Cables revenue doubled over last year despite the multiple challenges. In Domestic business, Cables outperformed Wires in Q1 but that was partly on account of relatively favorable base. Distribution as well as Institutional business grew over 100% YoY with Institutional being marginally better again on softer base. Though, from an overall market perspective, we believe the institutional business still continues to see remain subdued due to relatively lower number of large-scale projects. As I mentioned earlier, in June we saw a sharp correction in copper prices. This impacted the trade sentiment, particularly for primary sales of retail wires, just when markets had started to open up. Exports business grew 12% YoY. Its share of overall revenue improved sequentially to 6% in Q1FY22 vs 4.5% in previous quarter. The growth was driven by Asia, Australia, UK and Africa. Logistical challenges due to shortage of containers globally continues. Overall segmental profitability for wires and cables was impacted by raw material inflation and adverse operating leverage.

On Slide 6, FMEG revenue increased by 39% YoY. The business momentum was affected by closure of retail shops across many large cities. Distribution expansion continued with greater thrust on digital marketing campaigns. Innovation driven product development and improving competitive positioning remains key focus areas. We have a healthy pipeline of new products across categories. Fans, which is our largest category in FMEG, grew in healthy double digits. However lockdowns in April and May, which are key summer stocking periods, impacted for a second consecutive year. Within Fans, portfolio mix continued to improve towards premium. Lights business grew with higher emphasis on augmenting portfolio across price pyramid. Switchgears saw strong growth however switches remained subdued. With learnings and success from strategic intervention in switchgears, we are now in process of integrating switches with Lights business which help us unlock synergies through operational advantages and distribution overlap. Solar and Conduit pipes saw healthy traction. Overall segment profitability was largely impacted by adverse operating leverage. Raw material inflation is being counterbalanced by pricing actions and cost consciousness.

While many of you maybe aware of this, but for the benefit of larger audience, I would like to update you all that last month we acquired Silvan Innovation Labs. It is a Bangalore based technology company focused on providing cutting edge automation offerings for homes, offices, banks, retail outlets, hotels and other spaces. Silvan pioneered the concept of home automation in the Indian residential building market and has a proven track record with many prominent real estate developers. Acquisition of Silvan augments our R&D and innovation capabilities. It will enable us to address evolving consumer needs. Hohm and Silvan put together gives us strong foothold in IOT space and is line with our ambition is to become a forefront consumer centric company.

On Slide 7, Others segment, which is largely our strategic EPC business, clocked Rs 575mn in revenue up by 19% on YoY basis but decreased by 25% on a sequential basis due to impact of pandemic. Segment margin stood at about 11%. The copper segment, as disclosed in the financial results, largely reflects Ryker base, which is a part of our backward integration initiative. We continue to explore options to improve utilisation rates at Ryker Plant in order to optimise production cost structure.

Moving on to financials from Slide # 9 onwards. Our Net Cash position stood at over Rs 6.7bn, as of June 2021 end, which was 3.3x of same period last year. Working capital is a mixed bag. While receivables levels have been quite good, inventory levels were higher than normal as we were anticipating better demand scenario in June.

Our numeric distribution metrics continue to trend positively. Even during lockdowns we were able to onboard many new dealers, especially on the B2C side. Project Shikhar which is implemented in five markets in its first phase is helping us penetrate new retail outlets and improve shelf space. This was supported by aggressive digital marketing campaigns which helped in increasing brand awareness and connect with consumers. These campaigns, across various digital formats, have cumulatively made over 24 crore impressions during the quarter. Project Leap continues to make good progress and we hope to share some updates next quarter.

I am also delighted to highlight that our Power Cable Test Laboratory at Halol is accredited by National Accreditation Board for Testing and Calibration Laboratories or NABL. It is possibly the only private laboratory in India having a wider scope of more than 4000+ tests covering multitude of National & International Standards. It is also the first laboratory capable of testing a single cable length from 50 meter to maximum up to 4 km. The test certificate issued by this lab would be accepted worldwide as per agreement with NABL.

Lastly, given the kind of building blocks that we are putting in place and our strong brand equity, we are very optimistic of a stronger performance on top line as well as bottom line in coming quarters, particularly the second half of the year. With a clear strategic focus, we remain excited about our future growth prospects.

With that I conclude my opening remarks and we would be pleased to answer your questions now. Over to you operator.

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: Thanks for taking my question. My first question is with respect to the price hikes that on a blended basis that we would have taken over the past six months in the cables and Wires business?

Gandharv Tongia: Ravi, you know our business model. In the case of Cables and Wires business generally we revise our price list on a monthly basis and there are two variables which are considered while deciding the price list. One is the increase in average copper LME prices in the previous month and second is the change in the foreign exchange rate both were considered even in the current quarter. On a blended basis the raw material cost would have increased by in early teens whereas the price hike which we have taken is just touching the double digit so there is a bit of a negative delta there, which is also getting reflected in the contribution margin in the current quarter period.

Ravi Swaminathan: Would we wait for commodity price to cool off over the next six months or is it likely that we will go ahead and take the differential price hike which is yet to be taken?

Gandharv Tongia: Yes, so the model which I just elaborated is essential to our business so we will continue to follow the same model but Ravi we have discussed this several times, in our business, what happens is on a quarterly basis there are at times some dynamic factors, which can weigh in on quarter-to-quarter margins so that is the only thing. But if I were to take an annualized view, I do not expect any material change in the contribution margin and if you recollect even in last year first half the contribution margin and EBITDA margin was slightly softer but in the second half of the year and overall for the entire year it was competitively a better number. So we will have to, at times, take an annualized view but directionally, I believe that in quarters to come particularly in the H2 the numbers are going to be relatively better than what we are seeing today.

Ravi Swaminathan: Got it Sir and with respect to the FMEG business so basically there has been an EBIT level loss which has been there. Is it because of the fact of lack of operating leverage because of lower than past turnover and or is it because of a combination of also delays in taking price increases across products?

Gandharv Tongia: You are absolutely right. It is primarily because of a negative or adverse operating leverage. One of the reasons is the employee cost. Ravi, you would be able to recollect that last year we did not offer any increment to our employees whereas in the current year we have given that and partially it is more like a two-year increment instead of a single year increment so that is where your fixed cost for the contract labour as well as our employees has gone up. The second one is the A&P spend though it was calibrated, it is slightly higher than the base quarter and which is also getting reflected because A&P is primarily attributable to our B2C business, not to B2B business and that is where the numbers are allocated to the segment. So these are the two main reasons. Operating leverage is low because of fixed cost as well as A&P. On the contribution there was no significant or material difference.

Ravi Swaminathan: My final question is with respect to the capex Sir for next two years that is FY2022 and 2023 what kind of capex we are likely to do it will be the 300 Crores range per annum?

Gandharv Tongia: Absolutely, also in the current year we are anticipating almost Rs.300 Crores of outflow. In the current quarter we would have incurred close to Rs.80 Crores or thereabout and next year I think it is slightly early to give any guidance. We will probably wait for couple of quarters towards the end of the year we will come back to you for the next fiscal but this fiscal I think it should be around Rs.300 Crores broadly.

Ravi Swaminathan: Thanks.

Moderator: Thank you. We take the next question from the line of Naval from Emkay Global. Please go ahead.

Naval Seth: I have couple of questions, first if I compare your FMEG revenues with the market leader who also reported numbers yesterday. On a higher base they are like flattish on two years CAGR and we are like down around 11% so on a low base also this is a weak kind of number so can you elaborate was this because of regional specific things where you are heavy on west and west was more impacted with Maharashtra for lockdowns or there were something else over here? So that is my first question.

Gandharv Tongia: Thanks Naval. Naval we are in this business since last six years, comparatively we are a smaller player. The industry size is almost Rs.60000 Crores and we made almost Rs.1000 Crores which is around 1.5% of market share. We have across several product categories. Within that the largest is Fan and Fan sales got impacted because of localized lockdown in this particular current quarter. Second is since our base is growing year-after-year you would have seen the revenue CAGR hovering between 35% and 40% on a past five year period that is also impacting the overall numbers but on the growth of B2C business including FMEG and retail Wire we remain positive. The project like Leap is also going to help us in augmenting the topline. We are in the process of augmenting the distribution more particularly in the smaller towns. And in the quarters to come by I am sure all these initiatives for example Leap or Shikhar, would help us in improving the overall topline. That was on distribution side. On the product side the brands like Hohm or the Silvan acquisition which we have done recently would also help us in augmenting the product portfolio and we would be able get into the premium product category because IoT is going to be a premium offering so overall looks like that we are yet to experience the best of consumer business both at retail Wires as well as FMEG and we remain positive on both these businesses.

Naval Seth: Second question on other operating expenses although you have given the schedule so any specific reason sales are down 38% sequentially while other operating expenditure down only 18.5% so if you want to put give your insights whether this is one off and operating leverage will bounce back strongly once the revenues recovers or there were something else to it?

Gandharv Tongia: You are right, Naval. Primarily it is operating leverage only because, as I mentioned to Ravi also in the previous question the increase in fixed cost in the form of employee remuneration as well as payments to our contractors was effected from the current quarter whereas the topline was not necessarily good from that perspective and that is where it has impacted negatively on the operating leverage. Other than that I do not think there is any specific line item which requires a specific mention. Other expense are broadly in line with what we had anticipated.

Naval Seth: Lastly, can you give your insights on the region specific momentum in sales or demand recovery what you have seen in 1Q east, west, north, south and how they are trending in the current quarter?

Gandharv Tongia: As far as current quarter is concerned, it is too early to comment. It is barely 20, 21 days but sequentially it looks like that the current month is better than the previous month. The other thing which I should clearly call out is that not necessarily reflective of the overall monthly performance because not necessarily 20 days would be reflective of the entire month performance. On the regions, I think south got impacted other than south all other regions have done well and south I think we can attribute to the localized lockdown which were there in the southern states but other than south I think almost all the regions have recorded a significant growth in across all the product categories.

Naval Seth: Thank you. I will come back in the queue and all the best for ensuing quarters.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir can you give us the outlook on the Wires and Cables business separately what do you think about each segment and also you mentioned the institutional demand is lower so just more clarification on that and just more of the demand levers for the cables business given the spending by the government is going on there are lot of spending happening on the solar park as well so I assume there will be some new demand coming from that segment as well and we are leaders so what sort of demand visibility do we have for this year and the next year along with exports and then I will come to the second question.

Gandharv Tongia: That is quite comprehensive. Thanks for asking. Let me talk about the macro driver, cable and Wire if we visualize consumed in almost all the sectors. Think of any infra project any new expansion Greenfield, Brownfield any new office everywhere you will need cable and Wire and we are the only company in the country which can provide all types of cables and Wires and our distributors are well placed to attend almost all the requirements which a consumer would have. The other thing is, generally speaking, we have ability to provide the required material just in time or within a day or two and that is a significant differentiator between us and our peers in the industry. You are aware about the initiative which the government is taking in terms of reforms I would not like to spend time on that in this call but I am sure you are well aware about that, that would continue to help us in improving the GDP, the overall consumption of cable and Wire and the sector as well as the company like us which is the market leader by far. On the supply side and the GTM side what we are doing as part of project Shikhar and project Leap is we are focusing on increasing our reach, increasing our number of dealers and distributors, catering to the requirements in the geographies where we do not necessarily are present or currently under index for example smaller towns and both the government initiatives and our initiative in penetrating the market would help us in improving the reach. You would have already seen our March presentation where we have talked about that cable and Wire we expect to grow on a five year basis at 1.5x of the industry growth and it could differ from a year to two but overall on a five year horizon we are hopeful that we would be able to do that and that is where we are working with BCG under the project Leap framework to do that. So that was on the overall Cable and Wire.

Dhaval Shah: Now like if you look at FY2020 we were at like around 7500 Crores topline now and 2021 was 7600 Crores so now here we already have like a 30%, 35% of inflation built into this when we talk about the future numbers so what sort of guidance would you give us in terms of say by next three year period where do we see this business reaching building in the inflation?

Gandharv Tongia: This is what we had covered as part of project Leap and I presented to the investors after the March results on five year basis we expect that we would be able to touch almost Rs.20000 Crores of topline maybe core of our business will grow at 1.5x of the industry growth. We have factored in the inflation or movement in the commodity prices when we have computed this number of 20000 but as I mentioned in the March call as well allow us to come back to you with next level of detailing in the second quarter where I would be able to give you additional color on these numbers.

Dhaval Shah: On the Cable side you do not see any sort of problem in terms of your demand right like coming from the new factory is being built or all your demand drivers are seems to be in place.

Gandharv Tongia: We are confident on the growth. India is a multi-decadal story so it is not only at the company level even at the industry level we are confident of the growth.

Dhaval Shah: Now and my second question with FMEG side we did around 192 Crores topline this quarter and compared with like in second quarter FY2020 also we were around this level only but there we did not go into loss so is it at a large part of the price hike is yet to be passed on plus and also we have a larger cost structure compared to the two years back and that is why we have a loss in the FMEG?

Gandharv Tongia: As I mentioned to the earlier participant, it is primarily because of increase in fixed cost and that has also increase in the employee cost or the contractor cost. Last year we did not give any increment to our employees which was given this year and this was slightly more than which otherwise you would expect on annualized basis so that is one reason. The second is the A&P spend has slightly increased and A&P predominantly is for our B2C business. Of course, B2B business gets a bit of a rub-off effect of A&P, but primarily it is for B2C business. So these are two major reasons because of which the EBIT margins have gone into negative trajectory but I am still confident of the guidance which we provided in the last call that in two years period we should be able to get to high single digit EBIT margins for FMEG business.

Dhaval Shah: Great Sir. Good to know. I will come back in the queue again, Sir. Thank you.

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

Rahul Agarwal: Good afternoon. Congratulations for a decent set of results. I have two questions, firstly wanted to understand contribution margin a bit better for Polycab. To start with is there any link between copper prices and gross margins because we as analysts try to link that in quarter-on-quarter obviously as you said it is better to understand on annual basis but overall is it fair to say that a rise in commodity scenario where copper going up gross margins fall and if is vice versa it is true is that correct?

Gandharv Tongia: Not really. As I mentioned to Ravi, as part of his first question, we have broadly two or three types of business in Cable and Wire. I am talking from channels perspective. One is distribution where we factor in previous month's foreign exchange rate USD and INR as well as copper LME and revised the list price. The second was the export business where the dynamics could be different where you quote the price up and then according to price in and third is institutional where generally you take back-to-back position. So these are the three things which we follow consistently. At times you take calibrated approach in the pricing and this is what was done in the current quarter as well. The increase in raw material cost at the basket level was almost in early teens whereas the price hike which were taken in the current quarter was just touching the double-digit and that is when you can see a delta or a negative delta on the contribution margin but generally speaking on annualized basis, we have not seen significant difference in the margins and that is what is important. The other thing is at times there is a mix change if you are attending customers which are far away from your plant you end up incurring some additional freight cost and if there is an increase in the export business which is generally there in few of these quarters there the freight incidence also plays in. So there are few dynamic factors but probably we are aware about this we are probably the largest consumer of copper in India and we have pricing ability to price the copper at the most appropriate time and that is where we do not generally see any significant risk because of the risk management framework which we have in place.

Rahul Agarwal: Is it fair to say that the normalized level of 25% obviously comes back as and when the entire pricing thing is passed through and overall we see a normal sale environment in India broadly we should be back in terms of cable and wire gross margins should be back to normal level fair to say that?

Gandharv Tongia: Absolutely.

Rahul Agarwal: Second question was on inventory 2600 Crores looks very high than normal for Polycab given the history and debtors at 900 Crores obviously looks very low versus history versus normal levels could you help us understand this change?

Gandharv Tongia: Yes, so both of these numbers are not sustainable. Let me deal with receivables and then I will come back to inventory. After softening of copper prices in mid of June slowly sales started getting impacted adversely and that is where we continue to collect on the outstanding of the sales which have made in the earlier months but there was a dip in the overall sales in the month of June and that is where the number of days of receivables or the absolute amount of receivables is slightly looking lower. I do not think it is a sustainable number. Of course, with the help of channel financing penetration we would be able to bring it down but not on the basis of what we just experienced in the quarter gone by. On the inventory, I think two, three things. One is since softening of copper prices adversely impacted our sales it has indirectly resulted in increase in our finished goods and second is we were expecting and we are still expecting that in the quarters to come we will have uptick in demand and this is what if you recollect the experience even in last fiscal where the Q2 was better than Q1 and H2 was better than H1 so that is where there is slight aberration in our inventory levels. As I mentioned in earlier quarters as well inventory is continues to be a focus area for us. We learn that during the IPO period as well that working capital is the area where we can do better and I firmly believe that we can do that better in the quarters to come we should be able to normalize it and have a better handle on it.

Rahul Agarwal: There is no case of obviously there is some built-up because of temporary issues which will obviously normalize over the next nine months and broadly there is no case of inventory write-off right it has never happened in the history right.

Gandharv Tongia: Never.

Rahul Agarwal: Okay perfect. Thank you so much, all the best Gandharv. Thanks.

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

Devansh: Thank you for the opportunity. Sir just wanted to understand on two opportunities. One is EV Cables and the second is the telecom cables, which can be for 5G next year. So in both if you could just elaborate on the technological preparedness on the manufacturing preparedness as of now and how are we seeing this opportunity and what is the kind of interest that we have in participating in these opportunities?

Gandharv Tongia: I am sure you would have heard about the telecom division which we have, we already have optical fiber manufacturing facility and we have executed several projects, one in Gujarat, another in Bihar for the optical fiber. We are slowly and gradually expanding our telecom footprint. These are early days to give you any specific guidance, but we remain positive on the overall growth potential of this particular vertical and as I mentioned as response to one of the questions I think by the second quarter we should be able to come back to you with nitty-gritty's of few of these items where we can give the information publicly.

Devansh: That is it from my side. Thanks.

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

Atul Tiwari: Thanks a lot. Again one question on margin, I am just trying to understand sort of volatility that we have seen in this quarter. So from the time when this commodity rally started how much your RM cost have gone up in percentage terms and how much price hikes we have taken and how much more price hike we need to take to kind of fully pass on everything so that is one, and if you could just kind of walk us through that why did company not take enough price hikes to kind of maintain 11% or 12% kind of margin so why was there a bit of a mismatch I mean we understand that on a full year basis the mismatch will be kind of made up but why it could not happen during the quarter what was the operational issue or strategy even this time?

Gandharv Tongia: Probably Atul, you will feel like I am repeating what I mentioned to another participant but in the current quarter, at the RM basket level the cost price increase both of copper, aluminum and the raw material together was in low teens whereas the price hike which we have been able to take was almost touching the double-digit and that is where there is a negative contribution delta which you are seeing in the P&L. Now the specific in the current quarter what happens is when we are working in a dynamic period where you want to manage both profitability as well as topline growth at times you take decision of balancing the two with an assumption that higher sales will help you in getting better margins at the EBITDA level. What do I mean by that is if I am able to increase the topline I would be able to utilize my plant more effectively that would mean that my fixed cost absorption would be better and that is where the EBITDA margins would be slightly better so it is a play between contribution and EBITDA and at times we do that and this quarter was also one of those quarters where the pandemic impacted several of the geographies and we have all types of cables we have retail wires as well as we have cables which are used by industrial houses, B2B products and all that, so all of those reasons impacted the margins slightly in the current quarter but as you would have seen even in the last year the H1 margins was slightly lower at EBITDA level but on annualized basis as well as if you consider the H2 margins were better. So we are still confident of going back to our normal margins as we progress in the current quarter.

Atul Tiwari: Just one last one what would be the number of dealers and distributors and the retail touch point that the company is reaching now and what are some of the medium-term targets on that and how much of that channel is now covered the channel finance that is my last question?

Gandharv Tongia: So we are around 4000 odd dealers and distributors at the country level and around 165000, 170000 retailers. In terms of channel financing in cable and wire we are hovering around the same percentage of 65%, 70%; however, in the case of FMEG we have been able to make some progress there and now we are hovering between 25% and 30% we are hopeful that in FMEG we would be able to further penetrate channel financing and improve this by the end of the year.

Atul Tiwari: Thank you and that is all.

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

Charanjit Singh: Thanks Sir. Sir just one thing one in terms of in our overall business split what is the proportion which is coming from the institutional segment and in terms of general price hike that we talk more than the institutional segment at what pace it follows, is it coming with a big lag that generally in the other normal channel what we have seen is that the pricing is being passed on at a very rapid pace in the cables and wires segment especially, so how the pricing side and what specific on the institutional side?

Gandharv Tongia: Thanks Charanjit that is an important one. So generally 85% is distribution and 15% is institutional and institutional generally you take the copper price as and when you get the approval on the sales from institutional clients which means practically back to back and that is where there is no lag. The lag I was talking about on a monthly rest was for distribution business where you increase the list price on a monthly rest after factoring in the LME as well as on exchange rate which was there in the previous month. But there is no such mechanism in the case of the institution, it is order-on-order basis and generally take back-to-back position on the basis of orders confirmed by the client.

Charanjit Singh: Sir now you also talk about this initiative with BCG on GTM and various other initiatives so if you can just elaborate in terms of by when we see that our targeted goal which we have to achieve with these initiatives what is the target timeline and if you can elaborate one on the GTM and any initiatives which are also on the cost price which we are trying to do through these consulting firms? That is the second question.

Gandharv Tongia: So there are three initiatives which we are running as of now. One is project Udaan which we embarked on almost a year back which is the cost optimization initiative, the entire cost base of the company is within purview of this particular program and we have already identified saving potential translating to 80 to 100 BPS and these initiatives are in the process of implementation and we should expect getting credit to our P&L accruing over the period of one or two years. That was the first on project Udaan which is cost optimization. The second one is Leap which is a multiyear transformational program. The end objective is to get to Rs 20000 Crores of topline by the end of fiscal 2026 which is five years and which is likely more than double of what we achieve in fiscal 2021, this covers almost all the facets of the organization. It is not only GTM, how we are going to shape the B2B, B2C what type of processes we will have, what type of digital footprint we will have, what type of organization we will have, what type of new product categories that what we decide to enter into we will get to, and in the March quarter I had mentioned that by Q2 of this year we will come back to all of you and highlight the progress and the third one is project Shikhar which is again our distribution program where we want to penetrate identified geographies and ensure that we are able to get higher share of wallet or higher share of sales from the identified distribution target which primarily would include channel expansion having engagement with the influencer and the expert program and this program will cover almost 300 cities in next two years.

Charanjit Singh: Sir just lastly on the Fan side. So our mix in terms of the base which is the value versus premium what is it right now and in terms of the in-sourcing versus the outsourcing how it will change in the next one year timeframe?

Gandharv Tongia: So premium fans are now almost in high teens and this proportion as we go along would go up. Most of the fans are getting manufactured in our Roorkee facility. We are also in the process of augmenting fan manufacturing facility and another facility is getting erected in Halol in Gujarat and expected to be operational later in the current year. There is very small amount of fans which are manufactured with the help of third-party suppliers but their contribution to the topline at this stage is insignificant most of it or almost all of it is getting manufactured in-house.

Charanjit Singh: Sir that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

Ankur Sharma: Good afternoon. Few questions. First on our Q1 numbers in the cable and wire segment how much was the volume growth and how much was the price growth in that 97% growth that we have shown on the topline?

Gandharv Tongia: Thanks for asking this. In our business slightly difficult to compare that way because 1 kilometer of aluminum cable will cost significantly different if you compare that to same cable if it is manufactured with copper and that is where volumetric data is not necessarily a best way to analyze our company's performance. If you were to analyze our performance there are two or three ways one is of course you can check a peer performance and our performance and second is you can check what is the movement in LME prices and for exchange rate and compare that with our growth. Volumetric data will probably give you misleading information.

Ankur Sharma: I think you said wires have not done as well as cable during the quarter so what is the mix of wires and cables in this quarter?

Gandharv Tongia: There is no significant change in comparison to previous quarter they are broadly in the same range. If you are looking for a specific number it would be around 50%, 51%.

Ankur Sharma: Sir I think on the margin outlook you said that while Q1 obviously margins are fairly weak because of the lag in passing on the higher copper and RM prices what do you believe would be a more sustainable number say 22, 23 do you go back to that 12% kind of EBIT margin range is that the number you have in mind?

Gandharv Tongia: On annualized basis generally we have been talking about 11% to 13% of EBITDA margin and if you see fiscal 2021 we were able to meet that guidance but as I mentioned to others that we are working on project Leap and give us time till second quarter it is quite possible that we would be able to give you more granular information on project Leap and then on actual basis on half yearly or yearly basis we will come back to you and update you on the actuals against that guidance.

Ankur Sharma: Just one last one if I may and I think this was discussed earlier in the call as well in terms of the recovery in demand on the cable side so if you could just talk about are you seeing large projects on the manufacturing side, on the infra side any pickup over there so primarily on the B2B that is starting to happen this kind of gives you confidence that over the next few quarters we start seeing a fairly sizable pickup on the cables business so to talk about either the inquiry level or how is the current demand situation.

Gandharv Tongia: You are right. So overall in the current quarter the institutional business has picked up. Having said that the larger project are probably still on a slow track but the smaller project we have some visibility and that is where we can see a bit of uptick in demand both at order level as well as at execution level in the institutional side of the business. Having said that I do not think we have reached to the pre-COVID levels and we will have to wait for some time before we finally conclude whether we have reach to the pre-COVID levels or not.

Ankur Sharma: Okay Sir, that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Satpati from Ampersand Capital. Please go ahead.

Sanjay Satpati: Thanks a lot for taking my question. You have been mentioned about your margin was this way that we should not really look at quarter one and look at the full year and you have mentioned that your margin was affected because of the copper price volatility can you just tell us that whether all those are behind us that is copper price stable and your pricing actions are more or less done and so that way Q2 will not have any such exceptional situations which was there in Q1?

Gandharv Tongia: Yes, so let me just explain the business model so that you are able to appreciate what we are doing here. 85% of our business comes from distribution, and because of distribution business, the list prices generally revised on monthly rest and when we do the revision, we factor in two things one is change in LME prices in the previous month as well as change in exchange rate. So there is one month lag which is there and in dynamic situation like these you take calibrated approach while balancing the price hike and profitability and as well as the topline growth. This is what we have witnessed but generally in our experience generally speaking pluses and minuses are offset within the fiscal and if you see on an annualized basis the margins are not significantly different from earlier period and that is what I was mentioning to the other participant that if you take an annualised view you will not see a significant change but because of this one month lag and at times dynamic approach of balancing topline and bottomline at times you would see some aberration between one quarter and the other.

Sanjay Satpati: That I understood I am saying that are those kind of behind us is just a small maintenance kind of a question from a near-term point of view that we have got I was trying to kind of understand. The second thing that I wanted to understand is that there are the peers are also reporting results and their numbers and your numbers are appearing as very different and I understand that it could be because of some technical factors like your geographical mix or many other such things. So what we really want to understand here is that your competitive position and your strategy of growth and gaining market share, are you confident that are you be able to kind of silence your critics or whatever you face, sometime very soon, and you are fairly confident that you are doing better than your peers because you have a superior business strategy in terms of growth?

Gandharv Tongia: Thanks for highlighting that. As I mentioned in my opening remarks we remain absolutely confident and comfortable on our strategy and execution. We have any which way highlighted our ambition on the project Leap which is 20000 Crores topline in five years from now and the growth in one product category of 1.5x of the industry and another product category of 2x. And I have no reason to doubt our ability to achieve those numbers.

Sanjay Satpati: Thanks a lot.

Moderator: Thank you. The next question is from the line of Boby Jairam from Falcon Investment. Please go ahead.

Boby Jairam: Can you just talk a bit about how you are going to penetrate the FMEG market categories like fan given larger players like Havells and Crompton's are all very well established so what is your strategy that is pricing led or product led, if you can talk a bit about that?

Gandharv Tongia: I am sure you are aware we are already in top six or seven in fans. We forayed into this business five, six years back and since second or third year we are EBIT positive in fan business. We are working on several initiatives one on the GTM we want to ensure further penetration both at distribution and retailer level. Second is on the availability of our products across different pricing pyramid, third is in-house production which gives us confidence on the quality as well as the value for money for our consumers. You will be pleased to note that our field returns in fans are lowest in the industry because of the quality, excellent quality parameters we have in place, and the another important thing is the recent initiatives both on the IoT side through Silvan and Hohm and the ecommerce initiative where we want to get to the next generation of the consumer. We are extremely positive on the uptick in the demand in the fan business for our company.

Boby Jairam: What is the IoT fans or appliances? What differentiates that from the products in the market?

Gandharv Tongia: There is a complete basket of offering where app based products are available which can be operated with the help of app or with the help of web. And this is not only limited to fans, but almost all the products whether you think of water heater, you think of lighting or fans almost everything can be operated and this is being marketed under the brand Hohm. The recent acquisition of Silvan will help us in getting to home automation and that is where the entire home automation product portfolio will also help us in improving our FMEG product sales which would include among others and these are the products which are manufactured in-house, Made in India with strict quality supervision and that is where the field returns are best in the industry.

Boby Jairam: Yes, the question I have is that this kind of automation is something that is demanded by consumers because even in advanced markets, I do not see these kind of products well somehow buy the fan they essentially want a fan that is breezy, does not break down and is price reasonable. They do not want a lot of fans to settings and IOT and all that. So is it customer driven or are you buy any fans over engineering used that?

Gandharv Tongia: Yes, I understand from where you are coming. And that is probably one school of thought but if we go by the broad understanding of the IoT market it was almost 2600 Crores in 2020, it is expected to grow at 30% CAGR and I wont be surprised if it reaches 10000 Crores by 2025 and it could well very much continue in that trajectory after 2025. And in this pandemic all of us have experienced that IoT or web based applications and rising connectivity is the only way to look at the product development that will help.

Boby Jairam: Thank you.

Moderator: Thank you. The next question is from the line of Kedar Kailaje from Fortress Group. Please go ahead.

Kedar Kailaje: Sir my first question is again on the FMEG business so if I compare your Q1 FY2021 revenue that was about 137 Crores and we have almost 20%, 30% higher revenue so actually operating leverage should have been much better as compared to Q1 last year so why is it that our loss is more than double at the EBIT level in the FMEG business?

Gandharv Tongia: The absolute amount are slightly misleading because of the base but if you see the type of organization which we have in place for FMEG and the increment which we have given that is where the operating cost has gone up in comparison to last year and that is where you can see the EBIT margin is in negative territory. Another thing which I could specifically call out is A&P spend which has moved over the period for example we used to incur IPL spend which was got reflected in few of the quarters P&L in this particular quarter also we have incurred some A&P spend which is getting reflected in the P&L of FMEG business on the base quarter the A&P spend was almost negligible.

Kedar Kailaje: Sir second question is on the EPC business on the other segment that is the EPC so are you confident of maintaining this revenue run rate in EPC and the margins would it be stable at around 11%, 12%?

Gandharv Tongia: The EPC is not a core business for us. We do it as a natural extension of cable business. It is not focus. We are cognizant of the fact that we are not an EPC company we are a B2C company whatever small business we do as natural extension of cable and wire we are hopeful that we would be able to continue with high single digit, low double digit type margins.

Kedar Kailaje: Thank you Sir. That is it.

Moderator: Thank you. The next question is from the line of Rajesh Kotari from Alfa Accurate. Please go ahead.

Rajesh Kotari: Good afternoon Sir. Sir I have two questions, one is, is there any inventory mark-to-market losses in this quarter?

Gandharv Tongia: There are no mark-to-market losses because we follow hedge accounting. In the case of hedge accounting if there are hedging relationships which are established then it is accounted in under OCI and that is where there is no significant impact but on a generalized basis always there would be some ups and downs because the inventory is linked with LME and in any of the month end quarter end that you would have movement in LME but there is no significant one-offs in the overall mark-to-market or hedge accounting in the current quarter.

Rajesh Kotari: Since you are saying since it is already hedged and therefore it does not impact the margins then why the higher raw material prices impact the margins and sorry I am little bit confused?

Gandharv Tongia: See the actual cost of procurement vis-à-vis the price hikes which we have taken were calibrated and that is where there is a delta which is getting reflected in the contribution margin. As I have mentioned to one of the participant earlier at times in a dynamic quarter like these where there are significant impact of wave two, you optimize on topline with anticipation of better margin because you would be better EBITDA margin because you would be able to leverage on the fixed cost and that is where you take these calls and the contribution margin if you see has dipped by 200 basis point in the current quarter.

Rajesh Kotari: Basically what kind of price hike is required to compensate for the higher raw material or might be that now it has completely gone because then the raw material cost has now already started coming down and therefore you may not able to do price hike so what is gone is almost loss kind of margin that is the right way to look at it?

Gandharv Tongia: That is why I highlighted in earlier responses as well that in our business is we have to see on annualized basis because there would be some pluses and minuses and overall on a 12 month basis we are generally able to maintain the contribution margins. If you see last year for that matter the first half EBITDA margins if I am not wrong was around 12% or thereabout but in the second half it was 14% and that is how the overall margins are comparatively maintained on annualized basis.

Rajesh Kotari: No that I understood. What I am trying to ask is little bit different. What I am saying is that the raw material cost has increased but you are not able to take the similar kind of a price hike due to whatever reasons so what was the difference that is point number one and point number two..

Gandharv Tongia: 2%, which is getting reflected in contraction in contribution margins.

Rajesh Kotari: The FMEG business there also we have seen the similar numbers but if I look at for example Havells another company probably in the similar segments there the margin profile and everything is quite significantly different compared to our company. So what would be the primary reason for FMEG segment apart from the operating leverage because the revenue decline is not that much?

Gandharv Tongia: It is mainly operating leverage. As I mentioned to the previous participant as well the increase in fixed cost predominantly increase in employee cost as well as the subcontractor cost and increase in A&P spend has impacted adversely the EBIT margin of FMEG business and as you would be able to recollect in the last quarter call also I mentioned and I am continuing with the same position that in two years from now which is fiscal 2023 we are confident of getting into high single digit EBIT margins.

Rajesh Kotari: Last question from my side in terms of the employee cost which is roughly about 92 Crores and there you mentioned that you have done some increase in employee cost something which I could not understand because the fourth quarter it was 96 Crores and in first quarter is 92 Crores so I could not see any increase compared to 4Q so is there does it include in any one off bonuses or any such elements?

Gandharv Tongia: So the first quarter last year was 81 Crores and the first quarter this year is Rs.96 Crores and that is where you can see that is the increment which is visible.

Rajesh Kotari: But on Q-o-Q basis there is no such increase so I was actually wondering that since the revenue decline so much there is no basically it has to reduce the other cost because if I look at for example revenue from 3000 Crores decline to 1800 Crores correct but if I look at the operating leverage actually to that extent there is no significant increase in your other cost so I am just trying to understand the picture here so is it that we are now basically become like a normal cost base and this cost base will work on?

Gandharv Tongia: I think two three things Rajesh, one is in our business always the fourth quarter would be best from the sales contribution to the annualized revenue. In our experience at times the fourth quarter has contributed anywhere between 28% and 32% of annualized revenue whereas the first quarter and I am not talking about the year affected by pandemic I am saying generally speaking the first quarter contributes only 22% of the topline and that is where it is slightly unfair to compare Q4 topline with the Q1 topline. The second thing is in the fourth quarter last year there was some incentive provisions which were accounted for and the details are that in the first quarter or June 2020 we decided not to give any variable to our employees considering the pandemic but considering the performance of the company on annualized basis management decided to continue with the variable payment which was accounted for in the fourth quarter so there are couple of such one offs including Ind-AS 19 adjustment like gratuity and leave encashment. And if you normalize that you can see that is the increase in employee cost for example June of 2020 was Rs.81 Crores and June of 2021 is almost Rs.95, Rs.96 Crores and on specific whether we have reached to the normalized cost yes and no, yes because we are there but on no because as I mentioned to another participant we will continue to make investment on our go to market strategy we will continue to expand on distribution penetrate the market where we are currently under indexed and for that we would need additional working hands and we will make that investment we will not shy away from making those investments.

Rajesh Kotari: Great Sir. Wish you all the best. Thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Gandharv Tongia for closing comments.

Gandharv Tongia: Thank you participants for taking out time and attending this call. In case if your questions are not attended please feel free to write to us at investor.relations@polycab.com and we would be pleased to attend your questions. Thank you, thanks a lot for your time. Stay safe and take care.

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