



“Finolex Cables Q1 FY20 Earnings Conference Call”

August 21, 2019

MANAGEMENT: **MR. DEEPAK CHHABRIA – EXECUTIVE CHAIRMAN**
MR. MAHESH VISWANATHAN – DEPUTY MD & CFO

- Moderator:** Ladies and gentlemen, good day and welcome to the Finolex Cables Q1FY20 Earnings Conference Call hosted by YES Securities Limited and Concept IR. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tarang Bhanushali from YES Securities. Thank you, and over to you, sir.
- Tarang Bhanushali:** Good afternoon, everyone and I welcome you all to the Q1 FY20 Earnings Call of Finolex Cables Limited. At the onset, I would like to thank the management for giving us this opportunity to host the call. From the management side, we have Mr. Deepak Chhabria – Executive Chairman & Mr. Mahesh Viswanathan –Deputy MD & CFO. I would like the management to give their opening remarks and then we can start with the Q&A. Over to you, sir.
- Mahesh Viswanathan:** Good afternoon, this is Mahesh this side. We have done two things. I am sure you must have all seen the earnings data on BSE as well as the newspaper and we have also hosted a presentation in our website today. So, brief outline of what happened in the quarter has been mentioned there. I am sure you have already gone through the numbers. So, instead of taking too much of time on my talking here, I would rather that we jump into the questions right away and we are open to questions. So, shoot.
- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** So, just wanted to get some outlook from your side on the demand scenario because some of your competitors have started speaking about growth slowing down, demand slowing down and what we also understand is that wholesalers and distributors in the market have also started reducing their inventory levels. So, are these trends that you are also absorbing?
- Mahesh Viswanathan:** Definitely, construction, yes. In fact, if you see in my presentation on our website, we have also mentioned something similar. There is reflection of the slowdown in the construction industry on building wire volumes. Where we did well during the quarter was on the agricultural applications. But, on building wire and automobile related wires, the slowdown definitely has had an impact.
- Aditya Bhartia:** Is the demand scenario worsening or improving from these levels?
- Mahesh Viswanathan:** You mean from June to July?
- Aditya Bhartia:** Yes.
- Mahesh Viswanathan:** I think it is continuing. It continues even now.

- Aditya Bhartia:** And in this kind of a scenario sir, how is the competitive intensity shaping up? Has there been any change on that and in terms of pricing discipline, have you seen that persisting the way it used to be?
- Mahesh Viswanathan:** Competition intensity definitely has increased. We are not seeing any major change on the printed prices, but probably discounting is increasing.
- Aditya Bhartia:** And lastly sir in the last conference call you had spoken about delays in getting some of the communication tenders, some of the optic fiber tenders. How the progress been over there?
- Mahesh Viswanathan:** That continues. The situation is not any different from what we spoke in May. Even today there was a news item about some support trying to be given to BSNL and MTNL, but while you keep hearing this on the ground not much is happening.
- Moderator:** Thank you. The next question is from the line of Sonali Salgonkar from Jefferies. Please go ahead.
- Sonali Salgonkar:** Sir, my first question is would you be able to give an approximate segmental breakup further into your electrical and communication cables?
- Mahesh Viswanathan:** Electrical in broad terms, if electrical is 100, then construction is about 60. Agriculture, industrials, auto and power are about 10, 11 each.
- Sonali Salgonkar:** And communication?
- Mahesh Viswanathan:** And within communication, the bulk will be optic fiber. Traditionally, that has been around 70% and balance is made up of multiple product lines. There is coaxial, there is LAN, there is CCTV related, there is telephone cables. So at least 5-6 product lines. The coaxial and the land lines for us are slightly larger volumes whereas the other ones are nascent ones. They are still growing. And in the quarter, the dip was in OFC, not in the other lines. All the other lines grew in double digits.
- Sonali Salgonkar:** Sir, secondly, could we have the FY19 that is last full year volumes in electrical and communication cables?
- Mahesh Viswanathan:** Volumes, I will have to get back to you separately on this. I do not have it at the top of my head. I remember we talked about it in the last call, but I can get back to you separately on this. It will be there in the annual report. The report should be going out anytime now.
- Sonali Salgonkar:** Sir, thirdly, you mentioned even in your opening remarks that construction was quite weak this quarter. Sir, just to understand urban construction specifically has been weak over the past quite many quarters. So in this quarter, have we seen further signs of weakening especially into the say semi urban or affordable part of it?

- Mahesh Viswanathan:** I think the affordable one seems still okay where we have observed big drops have been on the luxury homes, the super-premium ones. But, the trend of slowdown has been visible in the last couple of quarters. This quarter was even more that is what we mentioned in the press note.
- Sonali Salgonkar:** Sir, in the new products, what has been the capital deployed up till now and what has been the ad spends of the company as a whole this quarter versus Q1FY19?
- Mahesh Viswanathan:** Last year was about 6, I think. This year is around 15 or so.
- Sonali Salgonkar:** Sir, ad spends, absolute ad spends.
- Mahesh Viswanathan:** Yes, absolute ad spends. So the company in last year was somewhere around 6-6.5, this year is about 15 or so.
- Sonali Salgonkar:** Is that capital employed in new products segment?
- Mahesh Viswanathan:** So new product segments, I assume you are talking about fans, water heaters, switches, switchgear and this thing. So, if you see the other segment in the segmental results, the others segment, the net assets deployed will be there.
- Sonali Salgonkar:** Sir lastly, CAPEX guidance for because last time we spoke about somewhere around Rs. 100 crore, do we stick to that?
- Mahesh Viswanathan:** Because the building construction is going to take time. So if you do not start it now, we may not be populated with the equipment immediately, but we will still complete the construction because later on as much time as you push the building construction by that much we will be further odd when the economy starts improving.
- Moderator:** Thank you. The next question is from the line of Yash Agarwal from JM Financial Limited. Please go ahead.
- Yash Agarwal:** The other expenses is up sharply. I understand ad spends gone about Rs. 9 crore year-on-year. What are the other major reasons for this sharp increase in the other expenses?
- Mahesh Viswanathan:** This quarter, it was an election quarter. So, we have also contributed to the election funds.
- Yash Agarwal:** What amount would that be?
- Mahesh Viswanathan:** About 20.
- Yash Agarwal:** 20 crores?
- Mahesh Viswanathan:** Yes.
- Moderator:** Thank you. The next question is from the line of Ashutosh Adsare from SBI General Insurance. Please go ahead.

- Ashutosh Adsare:** Sir you mentioned that your B2B business has been slowing down. So how do you see your B2C business given that the upcoming festive season is just around the corner starting with Ganpati. So could you just throw some light on that?
- Mahesh Viswanathan:** On the B2C business, we have taken a different tact this year. We have been concentrating on improving our distribution, network and capacity right from March of last year. Our idea was to increase our retail reach. Earlier on, we used to sell through a channel of about 3,500-4,000 channel partners and our effective reach was probably around 30,000-35,000 retail points. Compared to some of our competitors, we were behind on that. So, we relooked at how our distribution could be improved and so from March onwards, we have been working on appointing distributors who only distribute; so that means they do not sell from the shop. They run a van, they service a particular market and they service the retailers in that market. So, from April till now, we have appointed approximately 140 such distributors. Each one of them would be covering on a week basis approximately 300 to 350 retailers. So, we worked on weekly **inaudible** for them, so each day of the week, they would cover a specific area of the market. We have made our understanding with the distributors that they will not be class selling that they will not impinge on somebody else's territory. We have put in software to manage that. So, we get some insight into what is happening in the secondary market. And that these people will not be dumping material in the wholesale market. That will do two things. One is it will improve our service to the customer, market availability of our products will improve. So, as we are spending money on advertisement, so if you see an advertisement and you go to a store and you do not find our product, then my sale is really not complete. So with this, we hope that our retail reach will improve and the target is that by the end of this year, we should be able to reach 500 distributors and retail touch point of about 125,000 to 140,000 retailers. That in itself would increase the throughput in the market.
- Ashutosh Adsare:** Sir, these dealers would be pan India or you are starting with Western India first?
- Mahesh Viswanathan:** No, this is Pan India. We have started in all the places.
- Ashutosh Adsare:** So on your advertisement spend, you have said that you have spent more in this first quarter. So going forward, will that be on the higher side or it will moderate down?
- Mahesh Viswanathan:** It will continue. The momentum will be kept up. For the entire year, our budget is about 50.
- Ashutosh Adsare:** Secondly, on your optic fiber cables, so could you just throw some light on the pricing on OFC cables?
- Mahesh Viswanathan:** What has changed in the market globally is between September-October last year and let us say December last year to January this year, there has been a major change. September-October timeframe we were talking about a shortage of fiber globally and fiber was just not available even at \$12 a km. China is a market maker in this line and if China sneezes, the rest of the world catches a cold. So, they postponed a couple of tenders and around November last year which resulted in approximately 100 to 125 million fiber kilometers becoming suddenly available. So, 100 to 125 is out of the global normal consumption of somewhere around 600. So, about a fifth

of the global capacity was suddenly available for sale, so that depressed the prices immediately and currently, prices are running at about \$4 per km.

Ashutosh Adsare: That is OFC you are talking about right?

Mahesh Viswanathan: That is fiber.

Ashutosh Adsare: And OFC?

Mahesh Viswanathan: See, the fiber is probably depending on the cable construction. The fiber cost could be 40% to 70% of the cost. It depends on the cable construction.

Moderator: Thank you. The next question is from the line of Chirag Shah from Wealth Advisors. Please go ahead.

Chirag Shah: Sir, just one update. So, in the last AGM in September'18, there was a resolution part from Scrutinizer's Report stating that our appointment was defeated. How can the Chairman continue even after Scrutinizer's Report? Any update on the same?

Mahesh Viswanathan: At the end of AGM, we uploaded a whole bunch of information onto our website. There were serious errors in the way the Scrutinizer had concluded his report. We sought and obtained legal opinion. What the Scrutinizer had done is there in our upload into the website, but for brevity I will just explain it. The results were collected by electronic platform which was hosted by Karvy. So, Karvy had sent us that data. The Scrutinizer had tried to modify the data to defeat 3 resolutions. So we had sought legal opinion, the legal opinion that we got said you declared the results based on the way the votes were cast which means the basic data that we derived from Karvy. So, that is how we declared the results. The matter is subsequently, it has gone to High Court. It will be resolved by the High Court one way or the other. Hearings have not taken place, but the High Court is seized of this matter.

Chirag Shah: Sir by when, do you think that this case should be settle because it is ultimately impacting our stock wise performance?

Mahesh Viswanathan: The matter is listed. It is before the High Court. Whenever it will come up for hearing is when it will be decided upon by the court. So, that is something that we have little or no control over.

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

Kirti Jain: Sir, in terms of like cabling products which you are launching and new factories which are opening, sir when we expect ramp up and what is the potential business which you will be able to do from the new factory which will be putting up through the expansion?

Mahesh Viswanathan: The expansion activity is currently one project that is ongoing is on conduit pipes. This will be located as part of our Goa facility and we expect the construction to be completed in the next 1

or 2 months and then the equipment to be installed subsequently. So, maybe towards the end of fourth quarter, it should be available for launch. So either March or probably April, so this is one item. The other expansion projects are on enhancing the optic fiber cabling capacity in Pune as well as putting up lines for electron beam treating for cables which are meant for the automobile industry or for solar cables. Here, the construction work has to start now because of the monsoon we have held it back a little. Once monsoon recedes, then we will start the construction activity, so that should be available for market sometime towards the end of next fiscal.

Kirti Jain: All business put together, what is the potential for the throughput which these factories can provide us?

Mahesh Viswanathan: The throughput conduit pipes can reach a volume of about Rs. 50 crore and solar, optic fiber and auto that can generate additionally around Rs. 500 to Rs. 600 crore.

Kirti Jain: What would be the breakup between the 90 meters cable and 180 sir in wires, what would be the mix broadly?

Mahesh Viswanathan: About 70-30. 70 would be 90 meters and 30 would be the landlines.

Kirti Jain: Since our business is slightly slower now, any plan of getting into say second brand or something sir, any plans on that side? Many peers are doing like that.

Mahesh Viswanathan: Our brand carries a certain image in terms of its association with the certain quality. The moment I bring a second brand, then perception might change. So, we have to think about it, we have not really spent any long time on it.

Kirti Jain: But sir the addressable opportunity gets restricted like....

Mahesh Viswanathan: I understand where you are coming from. So, what I am saying is we have not spent too much of time on that.

Deepak Chhabria: Let me throw some light on that, this is Deepak. Some of the competitors have come up with a second brand where they have launched products which are slightly cheaper. So, the copper content is lower and the pricing is about 7%-8% cheaper. So, instead of taking a new brand and then trying to build on it and it will take a lot of money to build the new brand in the country, we have gone for product differentiation where we are launching in the house wiring, you have one product which is a gold box and the other is a silver box and the parameters of product differentiation are there in terms of the insulation and the conductor and the pricing also will be having a gap. So, consumers will have the same brand as Finolex, but having two product lines to take care of what you are saying for competing against the lower cost product of the second brand what others have launched.

Kirti Jain: Sir in terms of count, how we are progressed from the Finolex house model sir? The individual store which we have put like...

- Deepak Chhabria:** So, these stores we had planned to have 50 this year and so far, we have already launched about 11 or 12 last time. There are many more under progress of doing the interiors. By the end of the year, we do expect to reach the full 50 Finolex houses.
- Kirti Jain:** How is the response sir?
- Deepak Chhabria:** The response is very good because when a consumer, we are ensuring, we are putting this in a large cities either in the market or approaching the market. So, a consumer who wants to go and buy, he has an opportunity to enter the shop and he can actually feel the product. So, all the products are on display, the panels are there with actual products over there. So, basically they can touch and feel the product and experience the product before they buy. They can buy from that shop or they can buy it in the market. Both options are available to them, but it is not just a (inaudible) of buying, it is physical products available to see.
- Kirti Jain:** Sir just in our electrical cable sir, what is the mix between the wires and cables sir? Sorry if you have given the detail, I am sorry, I did not get the mix actually.
- Deepak Chhabria:** Cable is about 10% of total volume.
- Kirti Jain:** Sir any chance of increasing it sir because the market size is larger than the wires market right sir?
- Deepak Chhabria:** Cable is mostly power cable and the proximity in power cable is as high as in the wire. So, we have always concentrated on increasing the wire products and then the cable products and cable products are mostly sold to utility companies where even getting payment is a very difficult task. So, we have consciously kept our numbers down over there.
- Kirti Jain:** Sir just one last doubt. Sir, in terms of our Roorkee facility, now there is no GST or sales tax, nothing exemption is there right sir?
- Mahesh Viswanathan:** There are no fiscal benefits.
- Moderator:** Thank you. The next question is from the line of Siddarth Mohta from Principal Asset Management. Please go ahead.
- Siddarth Mohta:** Sir if you can provide some update on J Power?
- Mahesh Viswanathan:** What would you like to hear?
- Siddarth Mohta:** In terms of conversion of tender into order and in the month of March, there was one order from the Tamil Nadu a 440 kV. So, any update on that and number second is our PQ at a difference stage?
- Mahesh Viswanathan:** The order conversion is still slow because decision making is something that is outside our control. You can participate in tenders but when they come up for conclusion at the utility end,

depends on how much funds they have tied up and how they are going to release us. So, that is still slow. What we have seen in the last few months is that business in terms of interest seems to be more in the southern states. So, there have been tenders floated by Tamil Nadu, there have been tenders floated by Telangana. Andhra because of change in government, again there is a rethink on the tenders that are floated earlier and so on. But, activity seems to be around these 3-4 states. Delhi is another place where tenders are being floated. Other than that, for extra high voltage cables, not much of activity is happened in the rest of the country. As for the other point about the 400 kV tender, it is still awaiting technical evaluation by the tendering committee. So, we are expecting that results. They have been telling us it can happen anytime now. So, that is the same message that I had. What was the second part of your question?

Siddarth Mohta: Yes sir. Sir PQ and I would also like to add one more thing. Sir, in terms of this product and all, so we have now qualified for 440 kV. So, we will be only doing this product supply or we will also participate in EPC because what I understand that it can be a higher working capital segment.

Mahesh Viswanathan: This business in any case is a higher working capital business segment because utility tells you that they will pay you in X number of days, but reality is different. So, working capital requirements will be higher in this business and the trend that we have seen at least in the tenders that we have participated in is that EPC is a must. So, whether you do it yourself or you get somebody else to do it for you or you partner with somebody else, these are 3 options available. But, the number of supply contracts are fewer. So, in the tenders that we have floated, we have tied up with people like L&T, we have tied up with other large contractors in who have business volumes in some states. So that is how you try and meet the bid qualification requirements. The bid qualification requirements also do not seem to be static. It keeps changing from time to time. So, there are financial requirements in terms of the minimum turnover that you should have shown. So, sometimes it does essential for you to bid as a joint venture with somebody else. So together then you are able to show those financial qualifications or even the technical requirements, it keeps changing from state to state. Sometimes, even if you have the test reports, the tender's specified saying for this particular design unit has a type test report or a PQ test report. So, which means you will have to cost for those items in the tender and bid accordingly and when the order is issued to you, then of course you perform the test and certify and provide the certifications. So, there seems to be something that is not static, but dynamic depending on how competition moves there.

Siddarth Mohta: So, margins are quite high so that it can eat our high working capital because if I look at your standalone, you have been very disciplined as far as balance sheet is concerned. You have always focused on the working capital in spite of even if you want to sacrifice sales, so it is something not aligned with our standalone as far as J Power is concerned?

Mahesh Viswanathan: The nature of the business is different. It does not, consumer business where you are able to say penny first and then take the material. It is a different industry altogether.

Siddarth Mohta: So that is negated by margin or do you think the opportunity so large that you cannot live without it actually?

- Mahesh Viswanathan:** Well, you have entered the business. So, we have worked into it with eyes open and unless you are able to change the way the customer behaves, that is how it is going to be and we realized that when you consolidate those numbers, it might have an impact on the total consolidated balance sheet. Secondly, as far as the margins are concerned, at higher voltage grades, the margins would be lucrative, but as you go down the voltage chain, so maybe a 66, today is probably a commodity.
- Siddarth Mohta:** And on this distribution strategy that you have mentioned, whether it will have any impact on the working capital whether there can be some reduction in working capital by 5 to 10 days once it is fully implemented?
- Mahesh Viswanathan:** I would look at it this way. If it is going to bring me higher revenues, then as a percentage, then obviously you would reduce.
- Moderator:** Thank you. The next question is from the line of Premal Madhavji from Investec. Please go ahead.
- Premal Madhavji:** I just follow-up on a question on this AGM of last year appointment of you as Chairman. The stock is down about 35% in the last 52 weeks and it clearly most of the institutional investors that we speak to are concerned stock being down 35% and the peer group has been fairly stable or slightly positive in the year. There is concerns on whether this legal issue which is being prolonged for the last one year has been an overhang on the stock and the erosion in the stock price and the wealth erosion is the resultant of this resolution dragging on for the last year and the concern that most of the investors that we speak to is there some sort of conflict of interest of the promoter group company that you are representing has negated your reappointment as a Chairman. So, just wanted to not really a question, but really wanted your views on as in the best interest of you the promoter group and the minority shareholders if this issue is sorted sooner rather than later and we get back the shareholders confidence and recover all the losses for the last one year?
- Deepak Chhabria:** Sooner the courts hear the matter is best for everyone including us. So from our side, there is no delay in trying to get a resolution done for that part, but as Mahesh explained earlier on the same question the problem has happened with the Scrutinizer. The voting which has done, the voting is carried out 3 days prior to the AGM and the voting which was done was hosted by Karvy on their computers. Scrutinizer was supposed to scrutinize the votes of the Karvy voting as well as there is some smaller voting which takes place at the AGM itself and he is supposed to consolidate both those voting and give a report to the management to host on the website. So the votes which were voted in our favor which is the report given by Karvy which is a computerized report, he has removed the votes which are saying "FOR" and put it on the opposite side as "AGAINST" which is completely illegal of what he is done. He has no authority to change the voting for anyone for that matter. He is supposed to just scrutinize the votes and added and give it. So there is a case on that basically, but the issue is we hosted it on the website that this is what has happened and that is how we passed the resolution. So now yes, it is a sub-judice matter and the courts will have to take a decision after hearing it. There is nothing much I can do to push it, though I do understand that everybody will like to see a resolution on the same.

- Premal Madhavji:** Absolutely. I think the concern is really that should you step aside, get this resolved and then come back in or how much of your time is focused on this sort of an issue rather than the day-to-day focus on the business and is that the reason the stock is down 35% in the last..
- Deepak Chhabria:** I do not know why that stock is down, but you should be looking at the results of the company. If the company is performing or not and that will tell you whether I am spending time for the company or not because the matters in the court are held by lawyers, not by me individually. So, this was explained even when we went for the voting, the previous 5-year term which was there, there was a growth in PBT if I remember right on a CAGR of some 26% which I think is pretty reasonably good. So why does this stock have to behave? I do not know.
- Moderator:** Thank you. The next question is from the line of Manish Agarwal from JM Financial. Please go ahead.
- Manish Agarwal:** Just for the electrical cable segment, if you could talk about in terms of the market size, the wires and cables, the addressable market size for us? And what is the market share for FY19 and second question was with respect to the margins on the electrical cable business. Given the other expenses have increased so much despite that the margins have held up, so I was just curious how is the allocation of the other expenses play out in our case?
- Deepak Chhabria:** I will take the second one first. The other expenses if you had heard my previous response, there were changes on two main accounts. One was the ad spend and the second one was on contribution to electrical bulbs. So the contribution to electrical bulbs has been shown as an expense which is unallocable and the second part was on advertisement. Bulk of the spend was on the newer segments. So if you see the EBITDA results for the other segment that would show a negative, so bulk of the ad spends, the cost has gone there because those were the products which were featured, so it could have been fans, lights, switchgear, any of those items. So that was one answer. Your first question, can you repeat that again, please?
- Manish Agarwal:** With respect to the market size and market share for our products in the electrical cables segment?
- Deepak Chhabria:** Market size, kind of difficult to still estimate it. There used to be a very large unorganized sector in this business, while it is reduced post GST introduction. I think there is still some amount of unorganized players in the market, maybe now it is not equal, maybe it is now 70:30, but it is a guesstimate, there aren't really any scientific or regular market updates like you have in other industries, whether it is auto or some of the other consumer goods companies. So, I will be guessing a little bit but our estimate is that the wire market is approximately, the organized sector would be around Rs. 10,000 to Rs. 11,000 crore and the cable market would be again Rs. 10,000 to 11,000 crore.
- Manish Agarwal:** And what would be our market share in respective?
- Deepak Chhabria:** In cable, we are very small, we are, I think 2% or so whereas in the wires, we should be around 20 to 21%.

Manish Agarwal: The other question I had with respect to the distributions, so you mentioned that you are trying to rework on the distribution where you have the distributors in between to take care of the distributing the product, will that cause any disruption where earlier you used to probably do the direct billing to the dealers, now that is routed through the distributor, would that have any impact in terms of the momentum of growth?

Deepak Chhabria: No, we are not disturbing the present setup the way it is, so we call those people who are buying directly from us as channel partners and they had shops, let us say in the market and selling in volume, large shop selling in large volumes because that sale continues direct from the company to them to the channel partner as it was. Now, these channel partners used to sometimes sell to smaller shops ahead and that is how we used to get some distribution. In that, if a customer goes in the market and ask for a price from the small retail shop, the price would be higher than this large channel partner shop, so the smaller shops were not inclined to keep stock of the products because he was always going to be out-costed. So, our distribution availability was weak in the market, so what we have done is while we continue to give directly to the channel partner, we started expansion of having distributors and retailers, a two-Tier-segment where we absorb some part of the distribution such that the final price on the retail shop, the small shops and this big shop is the same. So, a consumer when he goes out he will have the equal pricing and the smaller guys will be inclined to keep the product because they can sell it now in competition of the channel partner. I am talking of the internal competition of Finolex wires, so that will get a better reach and a better sale and the sales will go on increasing.

Manish Agarwal: So in effect, is the pricing for the distributor similar to the channel partner if not lower, would that be a fair assumption?

Mahesh Viswanathan: No, the pricing is worked out such that it is same, but the additional distribution cost where you have this vehicle who goes around to 400 shops that cost which is about 1.5 to 1.75% is absorbed by the company, so that the margins are coming same to everyone and the end result price is also coming same on the counter.

Manish Agarwal: And just last question if I may sir, with respect to the new products, the scale-up has been somewhat sluggish if I look at for last several years, I am not talking about a particular quarter, so what kind of mix are you looking at from this new products or new consumer appliances or consumer electrical product over next let us say, 3 to 5 years, what kind of mix one can expect?

Deepak Chhabria: So here also, the reason why we couldn't scale it up was we were trying to sell these products in a same channel partner shops which we had earlier which are purely electrical shops, while let us say an electrical shop will sell lighting product, it is not necessary that he sells a very large volume, there are many more outlets which will require lighting. So we needed to expand our distribution reach and no one tries to drive all the way to an electrical market to go and buy a bulb. He will go to the closest store outside his home and he is going to buy it. So, for these newer products, unless we got into distribution with wide retail reach, we were seeing that we were not making headwind and that was another reason why we wanted to start this kind of a network and then also create an advertisement increase to create the pull, so you have a pull from a consumer and you have the retail small shops pushing the product at the counter level,

because now they can make money on the product, so the push-pull trick should work and we should see some traction in the new product sales also going in this year. That is what we hope.

Manish Agarwal: Sir, just to clarify the distributor what you are pointing to reach out to the retail shops will also cover the new products as well?

Mahesh Viswanathan: Yes, he has to take all products that is one of the requirements of hiring him.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: On this new products, can you give a breakup of what has been done in terms of fans and lightings for the quarter and if possible for Y-o-Y number?

Mahesh Viswanathan: Sorry, come again, you wanted the breakup for fans and lightings, is it?

Abhineet Anand: Yes, among the new products, I think those are the two large ones?

Mahesh Viswanathan: Yes, those are the two large ones, I think fan was around 9 and lighting was around 7.

Abhineet Anand: And if you can give the same number for last year figure as well?

Mahesh Viswanathan: Last year, put together they were around Rs. 11 crore I think, I don't recall the individual numbers, I can get back to you separately.

Abhineet Anand: And the other thing is for the full year, now that some amount of work on the channel has been done which is great I suppose, for the full year earlier we have been targeting that 100 and 150 odd crore. On a realistic number, what do you feel for FY20, FY21 and when do we break even if you can give some thought on that as well?

Mahesh Viswanathan: Today, I think the reason why we are showing a negative result there is because we are charging the entire ad cost to that particular segment. So, if you remove the ad expenditure, then we are very close to breaking even, even on a quarterly basis, but if I were to absorb the entire ad spends also, then I am looking at about 125 to breakeven.

Abhineet Anand: This is including the ad cost the same?

Mahesh Viswanathan: Yes, all two.

Abhineet Anand: And any sense in terms of where could be in terms of revenues for the new products for, let us say this year and next year?

Mahesh Viswanathan: For the first quarter we have done 24, typically that is about 20% of what we have been achieving in the past, but then earlier on we did not have the distribution metrics that we are currently trying, perhaps, so I am hoping that will bring in additional results as quarters go by, so our internal targets are higher than 150 but I think it is the time that we reach that number at least.

- Deepak Chhabria:** I would like to add over here. Earlier when we were selling, we didn't have this reach on the secondary market with the retail shops. Now with this network, we are actually able to see the distributor selling to the retail shops and we are able to control that he sells at a particular price to those retail shops, so since we know the exact volume being purchased by each retail shop, we did even launch now retailer scheme where we give direct money or incentive to the retailer to sell the product from his shelf. These kinds of schemes have been launched from 15th of August, so I think this kind of approach also is going to help us because the retailer gets now link directly with the company.
- Abhineet Anand:** You must be having separate distributors of wires and new products and I believe that 100% might not be same, right, everybody is selling wire is not selling the new products, so if you can give a breakup of that broadly, even in percentage will work probably?
- Deepak Chhabria:** Everybody is selling wires that is for sure. When you go into the new distributors, about 140 have been already gone live and we are targeting 500 by the end of the year, they also have to carry all the products, but when they go to retail outlets, certain retail outlets maybe only of lightings, certain retail outlets maybe only carrying fan and some products and some may be carrying wires and other products, so the retail outlets will change, but the distributor has to carry all the products.
- Abhineet Anand:** So you are saying that these 140 distributors that you have that were appointed, they are carrying all the products?
- Mahesh Viswanathan:** Yes, correct.
- Abhineet Anand:** And earlier, let us assume by 19, this process that you said has started from April this year, right?
- Mahesh Viswanathan:** Yes.
- Abhineet Anand:** My question is, the distributors are new in that sense, earlier they were channel partners right? Now these channel partners, again I am trying to understand how much of them were for the new product, only 10% was there of the overall or how is it? I am just trying to understand whether the new products will get the same type of distribution going forward as your wires as well?
- Deepak Chhabria:** I will also throw you some additional information which you not asked for the question which may be give you little more clarity. As a company, we want the channel partner to pay in advance and take the product. Now, wire being a brand around of 50 years, it is strong enough to command that respect and get an advance payment. The newer products wouldn't get us that kind of a command in the brand, so the market is where people give credit and we as a company did not wish to offer credit because if we open credit, then everyone would come and ask the same for the wires also and so by going this model of distributor retailer, the distributor still pays us an advance and he is giving credit to the retailer in his circuit. So, now we have all the shops getting credit but the company is not giving the credit and there is no exposure to us, so that is an added incentive for working in this way. You get the reach, you can go to small shops, you

are not only in the major cities and big markets, and you are also in the great Tier-2, Tier-3 cities. So, as it expands you will see a lot of growth happening. It just started out, I think by the end of the year, you will see some good results.

Abhineet Anand: If I can just ask on what you said, so what is there in for the distributors to, let us assume absorb a bit of cost that you mentioned right now?

Deepak Chhabria: Yes, we are absorbing that little less than 2% cost, so he is at par with others and we worked out a mechanism for him, we are controlling the distributor selling to which retail counters, so there is no cross selling happening which drives the pricing down. Otherwise, these people try to kill each other and they don't get a margin and they are disincentivized to actually sell, so that control comes, we also get the secondary market schemes directly with the retailer to have bonding with him and we worked out and shown him some return of more than 20% on the money which he is investing, so he is quite motivated to actually stop the products and distribute it out because his money rotates pretty fast and so we are giving him that is why the advertisement support to make that happen.

Moderator: Thank you. The next question is from the line of Suresh Agarwal, an individual investor. Please go ahead.

Suresh Agarwal: Sir, what is the future outlook on OFC?

Deepak Chhabria: In the long run, it is very good because if you see that tomorrow we keep reading India needs to go for 5G, so in 5G you require there is a huge demand for OFC. From what I understand, the distance between two towers will become half for 5G which means that as much network which is already there in India will have to get replicated for 5G to work in a proper efficient fashion as what the world is moving towards, so that much demand of fiber optic cables will actually come up and even today, they say that not more than 30% of the towers are connected with fiber, so there is a huge requirement to connect fiber to them as well but at the end of the day, the company needs a lot of money to invest in this. So, short-term and long-term are two different things in terms of demand. The country has a need but at the moment we are not seeing too many tenders where it has been funded. The tenders are there, the demand is there, the calculations are there, but the funding has become an issue and you see a slowdown in terms of OFC pickup.

Suresh Agarwal: Because all the domestic, actually this 4G players were actually running except Jio, so the possibility of investment in this infrastructure of 5G is quite remote in the domestic market?

Deepak Chhabria: So, that is why I said in the short-term, there is an issue, but eventually it will have to stable out and if the world is going in 5G and India also start implementing 5G, then I think the competitive scenario what is there today may change and the funding will happen, so it should come on the funding.

Suresh Agarwal: Sir, what is our ratio divided between domestic and export in this cable, OFC?

Mahesh Viswanathan: Not much, 98%, local.

- Deepak Chhabria:** Predominantly domestic.
- Moderator:** Thank you. Next question is from the line of Sarika Thorat from Union Mutual Fund. Please go ahead.
- Sarika Thorat:** I have a question, you mentioned the market share of the wire segment is around 20% and for the cable it is 2%, sir what was this number last year?
- Mahesh Viswanathan:** I don't think there is a big change in that. It is around the same range.
- Sarika Thorat:** And secondly, what is the net cash number as on Q1?
- Mahesh Viswanathan:** As on Q1, I think cash in deposits in liquid investments will be approximately Rs. 1,100 crores.
- Moderator:** Thank you. The next question is from the line of Jayanath Mathuradas, a shareholder. Please go ahead.
- Jayanath Mathuradas:** Sir, quite a few Directors have resigned; Namita, Ravi, Athi and Atul Choksi and now even as per the stock exchange, this thing on 14th August, Pradeep Rathi will not be appointed as Independent Director, what is the reason for everybody resigned?
- Mahesh Viswanathan:** I think it is just a coincidence, let me explain each one of those changes. Mr. Engineer stepped down because he had already crossed 75. Mr. Rathi is not contesting again because his two terms are over as Independent Director, in any case he cannot do that. Dr. Vachha is extremely sick, he has not been able to attend since February'18. He was diagnosed with stomach cancer, he was operated upon and subsequently his health has been very frail, so he has not been able to attend, so that is why he could not attend for 4 consecutive meetings and therefore the law does not allow him to continue. I think the first one to step down was Mr. Choksi, he also could not attend more than 4 meetings together, but he stepped down in early 2018, if I am not wrong, so that was quite some time back. The composition of the directors at one point in time had people in the age group of 60 and above, so for two reasons, one was the change in company's act which requires now that independent directors cannot be there for a set of more than 2 terms and also the age limitation, people had moved out. I don't think there is any other specific reason to it.
- Jayanath Mathuradas:** Sir, in case of this thing, who has been there for more than 2 times? Namita, Ravi..
- Mahesh Viswanathan:** Namita, she had some personal issues, so that is why she stepped down last year, otherwise the board had cleared her reappointment and it was also there in the notice, it is only later on that she decided to move because she is also the CFO in Emcure and she had additional responsibility there.
- Jayanath Mathuradas:** The controversy all started because of the existing last AGM which you replied that the voting part and your reappointment?

- Mahesh Viswanathan:** I don't believe that the changes in the directorships had anything to do with the voting, Dr. Vachha was ailing from last February, February 18 onwards he was ailing, so he could not attend. Our AGM took place in September last year, so I don't believe that there is any connection between the changes in the directorship and the AGM, no.
- Jayanath Mathuradas:** Because stock market is really concerned about the things which are happening as far as the promoter thing is concerned and it is reflected in the stock prices. As you said, you are responsible for it but the things which have happened has really caused the concern as far as the investor and the institution class is concerned.
- Mahesh Viswanathan:** I do not have an immediate response for that, but we also hope that this thing would get resolved as quickly as possible.
- Jayanath Mathuradas:** Yes, because Mr. Asher has resigned if I remember correctly.
- Mahesh Viswanathan:** Yes, he sent his resignation this year, again has sent us resignation saying he has other interest to continue.
- Moderator:** Thank you. As there are no further questions, I will now hand the conference to the management for closing comments.
- Mahesh Viswanathan:** Thank you for participating. I hope we have been able to answer your queries. I think there were one or two questions where I said you can contact me offline, please do so and I will try to respond you.
- Deepak Chhabria:** Thank you very much.
- Moderator:** Thank you very much. On behalf of YES Securities Limited and Concept Investor Relations, that concludes this conference. If you have any further queries please send a mail to gaurav.g@conceptpr.com. Thank you for joining us, you may now disconnect your lines.