



Finolex Cables Limited Q2 & H1FY21 Earnings Call Transcript

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Management of Finolex Cables Limited

Mr. Deepak Chhabria – Executive Chairman

Mr. Mahesh Viswanathan - Chief Financial Officer

Finolex Cables Limited
Q2 & H1FY21 Earnings Conference Call
19 November 2020

Moderator: Good evening, ladies and gentlemen. I am Vikram, the moderator for this conference call. Welcome to the Conference Call of Finolex Cables Limited arranged by Concept Investor Relations to discuss its Q2 & H1 FY21 results. We have with us today, Mr. Deepak Chhabria – Executive Chairman and Mr. Mahesh Viswanathan – Chief Financial Officer, Finolex Cables Limited.

At this moment, all participants are in listen-only mode. Later we will conduct a question-and-answer session. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note this conference is being recorded.

I now hand the conference over to Mr. Mahesh Viswanathan. Thank you and over to you, sir.

Mahesh Viswanathan: Good evening everyone. Welcome to this conference call. So, I will open with some brief statement on the quarter. As you all know gradually there has been a unlocking of the economy since July or in fact since June itself and therefore this quarter in comparison to the previous quarter was definitely much better. Volumes improved across all the product categories. However, we were still behind last year's numbers at this point in time. At September end we were still behind last year's numbers.

I think through the quarter we have seen improvement in various parts of the economy and for ourselves we believe that we are at about 85% to 90% of where we used to be in similar period in the earlier years. So that is our brief opening statement. In terms of numbers, we recorded a sale of about Rs. 639 crores in this quarter compared to Rs. 715 crores in the corresponding quarter of the previous year. So that it about 90% of what we achieved in the last year.

In terms of margins I think again we are coming back to our regular margin levels. Our gross margins this quarter was about 28%. Comparable numbers in the previous year was 27%. Last quarter was 25%, obviously was lower. Profitability again as volume picks up, profitability numbers should improve. We are about at PBT level we were at about 14% as compared to 17.5% in the previous year. But up from 12% in the previous quarter.

Segment wise again, electrical cables has done fairly well. We are at about 92% of last year's number. The lagger has been on the communication side but that as you know is a segment which is impacted by the financial constraints that all telecom operators are facing. So that

will take some more time to change and improve. What is positive about that segment is that while there is an issue on long haul cables being sold or higher fiber content being sold. More and more small fiber count cables are coming into play, so work from home has provided this opportunity and more and more cables around the FTTH operations are coming into play at the moment.

While the kilometer numbers would be large the value realization there would be lower because of the smaller count of fiber there. Positive thing again for us to report is that the new product segment which consists of fans, lamps, switches, switch gears and water heaters for us. That is showing improvement. And we are quite happy that the distribution effort that we have put in over the last year-and-a-half is now started to play out and we are able to see volumes coming in from this sector.

And I think as I have always maintained in the past as well, the moment we hit an annual turnover of let us say Rs. 125 crores to Rs. 140 crores we should be breaking even there. And I think that is still very doable.

So with these opening remarks, I now open it up for questions. We both here to take questions from you.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

We have the first question from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar:

Sir, my question is regarding your other non-operating income. We have seen a sharp decline on a Year-on-Year basis this quarter. Sir, could you throw some more light to that and what is the trend that we expect in other non-operating income going further into the coming quarters?

Mahesh Viswanathan:

Basically this is on account, our main non-operating income would come from dividends and as you know that we have considerable shareholding in Finolex Industries and Finolex Industries they declared a dividend in the month of March. That was the second dividend that they declared during the year 2020 and that amount later on the dividend that they were declared in March was later on decided by them as to be the final dividend.

So there was no inflow during the current quarter but in the March quarter we had that extra amount. So if you see the full year numbers, last year would have been higher by about Rs. 42 crores. So that is the only thing. Otherwise there is no major change.

Sonali Salgaonkar:

Sir, my second question is within the electrical cables and communications cable could you help us probably give a color as to which end user segments are now resuming better as compared in the B2C as compared to the B2B currently?

Deepak Chhabria:

Okay so we have seen growth happening in the wire segment which is going for housing and we believe we have post September of course reached pre-COVID levels. It has been steadily declining. We have seen lot of launches of projects may be in the South. I am still awaiting data from other places to know what is happening. But I do understand residential is doing better than commercial.

Now if you look at our end user products range, we have automobile wires also in there, these wires are going for harness making. In that segment last couple of months we saw a surge taking place in the wire requirement by the harness makers probably because of the uptick in the cars and two-wheelers which we see is happening. Then there are sectors like agriculture because of the monsoon, a very good monsoon all over the country, a large segment of 3 core light cables and winding wires which goes for the agriculture sector was subdued for us.

Rains have gone more than normal and the market has been opened up as yet but we do believe it will in the next 15 days it should open up and we should start seeing good business there again. Then we will come to the communication sector, we see a good demand in LAN cables for computer networking. That segment we are running full out. We are in fact expanding equipment and capacity in that segment.

I think a lot of demand is coming because of the COVID and people working from home and they wanting high speed communications. So for high speed Internet neither having lan cables or fiber to the home. So there is a demand for LAN cables and there is a lot of demand for small fiber count one or two fibers designed for fiber to the home. In fact we ordered more machinery to expand for the small fiber count cables as well.

And this trend will continue even if COVID goes away because people are getting used to working from home. So those segments are doing pretty well. In the power cables little bit and flexible which is the panel wiring we still see subdued demand not picked up as much as yet.

And of course the new product lines as Mahesh explained because of our distribution efforts we are seeing good growth over there though the base is small but we are seeing a hefty growth because we are able to touch more retail outlets now and place our products there and so we are trying to go from 50,000 retail outlets to 150,000 retail outlets by the end of the year and so we do believe we will do some good growth there as well.

Sonali Salgaonkar: Sir, how much is LAN and FTTH accounting to our communication cables revenue is right now?

Deepak Chhabria: LAN is roughly about Rs. 100 crores a year and see in the fiber part there is we have seen in the communication segment a drop I think was 35% drop is what we have seen. That is mainly because of the telecom companies are not expanding as they used to, a lot of tenders of the state governments which were for center and state sharing basis they have slowed down.

There are some new tenders coming in from Tamil Nadu where we have quoted. There are like the Prime Minister had announced in 1,000 days to connect all the Gram Panchayats. Those tenders I think are out and still to be quoted. So there would be some demand coming in there. But telecom is always a bigger demand in the communication segment which right now is not doing very well. Even the fiber prices have dropped from \$6 to \$3 this is because of the phenomenon of China Mobile suddenly scrapped 100 million fiber kilometer tender the worldwide prices dropped.

And of course we all are aware of the AGR issues and all that of the private telecom companies and hence their ability to wanting to expand and spend money. Based on that telecom right now is having a lower sales and even if you go on buying or selling a lot of small fiber count it will be a very small percentage of the sale lost because those fiber counts are going 48, 96 of that type and here we are talking 1 and 2 fiber.

So the ratio is completely different. Nevertheless it is a new product line which will grow for us but not in the same proportion until telecom kick back in.

Sonali Salgaonkar: Sir, thirdly on the CAPEX we did maintain our earlier guidance of 2 billion CAPEX over the next 18 months though we had differed by about 6 months. Any update on that?

Mahesh Viswanathan: It is not changing, in terms of numbers it does not change in a big way. It is more or less around the same number. Timing wise there could be some changes depending on when the international travel really opens up, when the technicians from overseas can come and commission certain lines. So that could be the only difference. Otherwise the timing is pretty much the same give or take a couple of months here and there, it should be the same.

Sonali Salgaonkar: Sir, and lastly, how much of our revenue is emanating from B2C right now versus B2B? And also sir, mentioned that we will be increasing the retail outlets from 50,000 to 150,000 by the end of the year. I mean that is pretty ambitious target. How do we go about doing the same? That is it from my side.

Mahesh Viswanathan: So if you recall we have been saying now for close to 4- 5 quarters that we have been spending a lot of time on improving the distribution reach. So our initial target was that we should have a distributor strength of about 500 numbers. Each of them covering approximately 300 retailer each. And that is where the 150,000 number comes from. So as we stand today at the beginning of this month the distributor count was 488 and the opportunities that they had to cover has crossed 110,000. Unique billing has crossed 50,000 numbers.

So we still have 5 more months to go so we are expecting that in the next four, five months the opportunities that we have given to the distributors to be able to reach those 120,000 odd retailers they should be able to capitalize on them and take the unique billing up.

So we are tracking this on a daily, weekly and monthly basis. So there is quite an amount of interest around it because as you are able to have larger footprint in the market, your volumes will also improve. So that is basically what we are trying.

Sonali Salgaonkar: And this is exclusively for the new products, right?

Mahesh Viswanathan: No, it covers our existing products also so it does not mean that they are only selling fans or water heaters or lamps. There are also people who are selling wires.

Sonali Salgaonkar: What is our B2B, B2C mix?

Mahesh Viswanathan: See typically the optic fiber sale would be B2B largely and power cable would be B2C. Some amount of flexible sales which is the industrial wires that would also be through rate contracts. So that will be B2B and auto cables are B2B. So if I take all of them a traditional mix would be around 65:35 or 70:30.

Sonali Salgaonkar: Sir, and just one last clarification. You mentioned that fiber prices dropped from \$6 to \$3. What would be the timeframe?

Mahesh Viswanathan: Over the last 7, 8 months it has been dropping and currently it is, if there are some people who come and offer you ridiculous prices like \$3. There are some who say, no, I want to cover for the exchange and so that number changes to may be \$3.5 or \$4. So it is in that range is what he was trying to say.

Sonali Salgaonkar: Right, so \$6 was probably about 7, 8 months back?

Mahesh Viswanathan: Yes.

Moderator: Thank you. We have the next question from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: First question relate to your gross margins. No doubt we are seeing some inflation in lot of commodities including copper and all. So are we be able to sustain this gross margin in coming period?

Mahesh Viswanathan: We have always treated our raw materials, the major raw materials at least as a pass through. So there may be a time lag but eventually the cost of those items moves on to the customer whichever way it is. If it is going down also we reduce prices, if it is going up we also increase prices. The timing may differ. There is more pressure on the downward side from the market whereas more pressure is from us when the costs are going up. But with a small lag the price changes are transmitted to the market.

That is why you will see not just now you will see across multiple quarters, our gross margin numbers are more or less steady unless it has to do with big change in the mix. Otherwise the numbers will be more or less steady.

Sunil Jain: Okay so the normally the time lag is at quarter also?

Mahesh Viswanathan: No, it does not go for a quarter. It is a month may be. At the longest is about a month. It is a couple of weeks. We just want to make sure that any change seems to be like a change which is a sustainable change. It is a permanent change. One day blips we do not make changes but something that we will be able to absorb over a couple of weeks then we make the choice.

Sunil Jain: And sir, second question was you are targeting to increasing your distributor to say 500. So will there be any change in your credit terms to them or it will remain in your segment?

Mahesh Viswanathan: It is the same across all product lines. The credit terms are the same to whether he is a distributor or a channel partner who has been with us from early times. We are very clear that we are not a bank that credit risk is something that we do not want to take. We are happy to offer the customers a choice of financing but without any recourse to the **(Inaudible)** That is basically how we do it.

Sunil Jain: And sir, last question from my side is related to your expansion of distribution networks. So are you also planning to support these expansions with some sort of advertisement or something is there any budget for that for the next six months?

Mahesh Viswanathan: Yes, in fact we have been spending and increasing the spend on advertisement over the last few years. This year of course with COVID hitting everybody our discretionary spends have come down a little bit. But in the long run, yes, we will need to support them and whatever

support is required in terms of and/or any other marketing support, those are the things that we will continue with.

Sunil Jain: So generally how much is the percentage of sales you are targeting in these kind of?

Mahesh Viswanathan: Leave out this year, the average couple of years, it was about 1.5%.

Moderator: Thank you. We have the next question from the line of Ajay Sharma from Cycas Investment Advisors. Please go ahead.

Ajay Sharma: In the last con call you mentioned that the working capital of the industry had improved in general even your competitors were not really offering much credit. Now I just wanted to ask, is this situation still prevailing or is the industry gone back to the pre-COVID level of working capital and the channel financing and all that stuff?

Mahesh Viswanathan: I think channel financing everybody is going to use it as a means of reducing risk from oneself. Some of us do it like for us we do it with no recourse basis, others do it with certain percentage of recourse to themselves. But that is something that is there to stay. I think the larger companies I think few of them take a punt on the pricing. Most people would follow some of a hedging of debt.

So the takers in terms of how you manage your receivables and how you keep a tight control on inventories. So for example, we do not buy anything more than what we can consume in a month. So that is been our practice for a long, long time now and so our exposure to the changes in the market are therefore minimal.

How each company would do it might vary but broadly this is what we follow. But I think overall the trend in the industry is that they would like to see more turns and lower capital investment in inventories or receipts. Everybody is at the same space or not is a different matter.

Ajay Sharma: And on the same topic, you also mentioned in the last conference call that the company was looking at increasing their market share by catering to dealers that already had an outstanding credit balance with other competitors because you said that competitors were not tending over more products to the dealers until they clear their credit balance. So has there been any progress on that front, any change in the company's market share?

Deepak Chhabria: Yes, when we talk time that is what was happening in the market. The competition was going slow on giving them products. So we got a lot of the competitors dealers to buy our products. That helped us and it is providing us the growth in the retail counters what we are looking at because once you start a relationship with someone, even after sometime if the original supplier comes back the retailer does not really stop his relationship with the newcomer, he

tries to keep both. So we are hoping it does benefit us and we will continue to get business from them.

Ajay Sharma: My next question was what is happening with the J-Power Systems joint ventures? Have you seen any positives on that front? In your annual report you still said that your time horizon was 1.5 more years' subdued performance. Any changes there?

Mahesh Viswanathan: No, the performance is still subdued because while consumption at the retail end has shown an uptick. Consumption at a project level on newer public installations that is still slow. And decision making within the government machinery because if you see all these utilities are majority government hold. Decision making is still slow. So while tenders have come up, no major decisions have happened in the last four to six months.

Ajay Sharma: And my last question was if you could just tell me what is some of your internal goals are for the FMEG sector, your segment? Do you have any goals that like you wanted to be like 5% of revenue by certain year or what should we expect from that division going forward?

Mahesh Viswanathan: Which division?

Ajay Sharma: Your FMEG, your appliances?

Mahesh Viswanathan: Okay the newer ones. See traditionally if you see electrical cables has been approximately 80% plus of revenue. Communications have been around 15% and others has been 5%. So our idea was of getting into some of these products are (a) they were allied and (b) we wanted to de-risk the depending upon one product segment for a substantial part of our revenue. So I think the goal is over a period of time, bring this to a size which is equal to communication cables that we have.

Ajay Sharma: And any time horizon for that? Three years, five years?

Mahesh Viswanathan: Yes, about three years.

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

Hiren Trivedi: My question just got answered. I just have one quick question for the CAPEX. So what is your CAPEX plans for FY21 and FY22 and on the profitability of the FMEG segment a you mentioned that you are targeting around say may be 15% of the overall revenues in next three years. So on the EBIT levels any margin guidance or something that we can look at?

Mahesh Viswanathan: I will answer the CAPEX question first. We had said that we would be spending approximately Rs. 200 crores over the next 18 months to 24 months. And that still stands. So major part of the spend is going to happen on putting up an electron beam facility to cure cables for

industries which require pure cables. The second one was to add some backward integration there so tinning copper as well as copper clad steel.

So these would be two backward integration projects. There is the conduit plant which is more or less ready at Goa. We are waiting for the technicians to come in from overseas to commission it and some expansion on the optic fiber cabling equipment. So this is broadly the areas that we are spending money on and the time horizon was between 18 months to 24 months. That has not changed much in the last six months or so unless there are delays in travel opening up and restrictions still been placed on technicians coming in from overseas. Barring that we do not see any major change.

Your second question was on the newer product lines. So you have waited we would like to see it reaching a level of 15% of the revenue over the next three years. We think at a turnover of about Rs. 140 crores, Rs. 150 crores, it would be profit neutral. Below that the cost of advertisement etcetera would be a drain. But since it is a necessary investment we are continuing to do that. So once we reach this number of Rs. 150 crores I think we should be making money there. So does that answer you?

Hiren Trivedi:

Sure.

Moderator:

Thank you. We have the next question from the line of Raj Ojha, an investor. Please go ahead.

Raj Ojha:

I just wanted to understand how is our demand scenario from real estate side like post COVID situation, so how is demand from the real estate side coming in?

Mahesh Viswanathan:

Can you repeat the question again, how is the demand from real estate, is it?

Raj Ojha:

Correct.

Deepak Chhabria:

Since the lockdown we were also wondering how much are we going to get affected and what we understand is earlier stage whatever was affected it was because of the labor which was moved out from various cities going back home. The effect was because of that and as the people came back wherever there are wiring projects were on, they continued because if you had in real estate sector anything which is under construction and started with wiring, it make sense for him to complete the wiring and complete the building and sell the product.

But what worries us is looking at the lockdown and its effects and demand for future, how many new projects would get launched and if there is a smaller amount of projects getting launched then we would face a wiring downturn at a later stage in life. So we have not really got a handle on exactly how much that effects will be at the moment.

Mahesh Viswanathan: Or when it could be.

Deepak Chhabria: So that time will tell us in that sense. But there would be also shake up in terms of organized and unorganized sector so while we may get affected on the demand side at the later stage we may also gain from unorganized sector business moving to organized sector. So exactly how that will pan out we do not have the correct number to share with you at the moment.

Raj Ojha: My second question is on the balance sheet, September 2020. Under the current where can I get the breakup of our Rs. 816 crores financial asset, is it possible?

Mahesh Viswanathan: Yes, that is mostly in fixed deposits or in money market funds.

Raj Ojha: What will be the proportion of that, sir?

Mahesh Viswanathan: About Rs. 800 crores is fixed deposit.

Raj Ojha: Rs. 800 crores is fixed deposit and remaining is your money market investment, right?

Mahesh Viswanathan: Yes.

Raj Ojha: And my last question is, like do we cater to railway sector as well because we are focusing more on the modernizing. So is there any scope coming in from that side?

Mahesh Viswanathan: There are opportunities so in certain product lines we are registered with RDSO. So on the fiber side we are registered with RDSO and on the cable side also our registration is pending with them. Their requirements are for standard electrical cables is not much but they do require I think certain cables which are rubber insulated which at present we do not make. So that is something that is a potential as we go forward.

Moderator: Thank you. We have the next question from the line of Ajay Sharma from Cycas Investment Advisors. Please go ahead.

Ajay Sharma: Just a quick follow up to the previous question. So the economy have been opened out for one quarter but you guys still are not really sure what is happening in the unorganized sector?

Mahesh Viswanathan: No, we did not say that. What he meant to say was there is a pickup in the real estate offering meaning our wires are getting consumed. But the understanding is that these wires are being consumed in projects which were left unfinished when the lockdowns happened. And now that people have returned to, the migrant labor returned so those projects are getting completed. But newer projects being commissioned or newer projects starting off from the ground that is still not very visible except if you go into certain areas in the South.

So what we said was if there is a slowdown there, then there may be a dip in the future for wires that going into residential construction. May be that might happen after a year later or 8 months to 9 months later.

Ajay Sharma: Just this one segment, right?

Mahesh Viswanathan: Yes, so what we are saying we would not be surprised if there is a dip going forward.

Ajay Sharma: So then the unorganized sectors are still not?

Mahesh Viswanathan: No, the unorganized sector what he said was while we will not be surprised if there is a dip going forward. There is the positive from gaining on to the unorganized sector because when lockdowns happened those were the people that were hit most. They did not have access to people.

Ajay Sharma: So they are still under stress, right?

Mahesh Viswanathan: They did not have access to people or money. So whatever volumes they were selling in the past some of it has come in to the organized space. So we must have gained some share over the last few months.

Ajay Sharma: My question was it is not going to go back to the way it was now like the impairments have happened in the unorganized sector it is permanent, right?

Mahesh Viswanathan: I hope so.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Mahesh Viswanathan for closing comments. Over to you, sir.

Mahesh Viswanathan: Thanks everyone. Thanks for joining in this evening. I hope we have been able to exchange the numbers as well as answer any questions that you have. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Finolex Cables Limited, that concludes this conference call. Thank you all for joining us and you may now disconnect your lines. If you have any further questions please write an email to gaurav.g@conceptpr.com