



“Finolex Cables Limited's Q2FY22 Earnings Conference
Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Finolex Cables Q2 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen Advisory. Thank you and over to you, sir.

Binay Sarda: Thanks, Lizan. Good evening to all of you and thanks for joining this Q2 FY'22 Earnings Call for Finolex Cables Limited. We have mailed the results to you. I hope you have received the same and we have also uploaded this on our website and the stock exchanges.

Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause future results performance or achievements from what is expressed or implied by such forward-looking statements.

To discuss the results and address the queries of investors, we have with us the management represented by Mr. Deepak Chhabria – Executive Chairman and Mr. Mahesh Viswanathan -- Chief Financial Officer. We'll start the call with a brief overview of the quarter gone past and then we'll open the floor over to Q&A Session. With that said, I will now hand over the call to Mr. Viswanathan. Over to you, sir.

M Viswanathan: Good afternoon, ladies and gentlemen. Thanks for joining in this call. We have with us today Mr. Deepak Chhabria -- Executive Chairman of Finolex Cables as well as myself.

So I will give a brief overview of the quarter that just went by, and then we can open up for questions afterwards.

In the meantime, I'm sure you've seen the results which have been posted in the posted on the websites of BSE as well as on our own website. We have this morning uploaded a small presentation on the quarter as well.

Briefly, for the quarter, the revenue numbers were up on a year basis approximately 46% and sequentially approximately 38%. For the six months period, the revenue was up by about 58%. Part of this is on account of the commodity price increases, but volumes have also gone up. If you've seen my note, you'd have seen that the Electric Wire volumes had gone up by about 5% during the quarter, Communications were up by about 4% other than Optic Fiber and Optic Fiber volumes were about 80% higher than in the corresponding quarter. All the new products that we have come out with have all shown positive volume growth, various business lines from between 6% to 15% in volume growth.

The profit for the quarter was about Rs.149 crores compared to Rs.69 crores in the corresponding quarter last year. Of course, in this quarter, we have also accounted for the dividend that was declared by Finolex Industries. Last year was a one-off case where the dividend for the year was declared ahead in the fourth quarter of '19-20 itself.

Some comments about the quarter: Economic activity definitely was visibly improving, most markets had opened up after June and we did see an improvement in the main segments that contribute to higher income from real estate as well as the automobile sector. Automobile today is facing another issue because of chip availability. But I think that is a matter of time before it is sorted out and it comes back to normalcy.

The second thing during the quarter that we noticed was a steep price increase on all commodities across the board. You name the commodity, whether it was copper, aluminum, steel, PVC, fuel, every item showed an increase. And as has been our practice, we try to keep the cost increases as a pass-through, and to the extent possible, we have changed our selling prices. And while there will be a small lag in doing so, effectively, we've passed on the price rise to the end customers. Temporarily therefore, because of the lag, there could have been some margin issues.

The one other point that I would like to mention here is that we have a joint venture with Corning. We've been running this joint venture together with them for the last 10, 11-years. So both the organizations have today got to a certain level of comfort, where we both believe that the structure of the JV is no longer necessary. So we have agreed to move out of that structure and engage directly. So as and when the regulatory and other approvals from shareholders, etc., is obtained, the JV will no longer be a physical entity, the transactions will happen directly between us and Corning.

With this background, I now open up for questions, so I'm happy to take questions from you.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

S Salgaonkar: Sir, how is the current demand scenario and the festive demand? And secondly, how is the channel inventory?

M Viswanathan: Festive demand I think was encouraging and we do see activity in the real estate sector happening. So, the likelihood of demand for our products in the coming months being strong is quite high. And as far as the channel inventory is concerned, I did see a report a couple of days ago, where the secondary sales for July, August and September from the distributors was close to 85% of their primary uptick. So, I don't believe therefore there is too much of an inventory at the distributor point.

- S Salgaonkar:** Second question is regarding gross margins. We have seen almost firm EBITDA margins year-on-year but there is a steep decline in the gross margins. Is this because of the lag effect of passing in the prices?
- M Viswanathan:** The gross margin today at a company level is about 24% and compared to the previous quarter it has actually improved from 22% to 24% and earlier on used to be around 26%, 27% on an average. But that as I had explained in the earlier calls also, if you recall, since COVID came in, we had started the practice of whatever costs we budget for schemes and so on, we had started the practice of giving it straightaway on the invoice to the customers. So earlier on, we used to budget about 8% and that 8% was straightaway given onto the invoice from last April onwards. The actual reality earlier than that was while we budgeted first 8%, our actual spends used to be around 5.5%, 6%. So, post-COVID, we have actually increased the benefits to the customers because of the disturbed market situation. As and when this normalizes, we should go back to what we used to do in the past and run schemes on a periodical basis, focused at different requirements in different parts of the year or at different markets. So that normalcy as and when it returns across the country, I think we should get back to it. But in the meanwhile, yes, margins are lower than earlier years by about two percentage points.
- S Salgaonkar:** Sir, thirdly, how should we look at the growth and the margins in the Communication segment? We had a weak margin this quarter Should we see this is a one-off?
- M Viswanathan:** This is a one-off. As you know, the Communication Cable segment is largely dependent on B2G sales. And B2G for us in this context represents BSNL, BBNL, TCIL, the likes of those companies. While the money will not disappear, timing of payment is something that nobody is able to control, and they pay when they pay. Standards require us to take provisions for expected time losses. And therefore, we've taken additional provisions in this quarter. But I don't believe this to be a recurring feature for all times to come.
- S Salgaonkar:** Sir, for the overall business to you still believe that the sustainable operating margin could be 15% to 16%?
- M Viswanathan:** At a company level, yes, possible.
- S Salgaonkar:** CAPEX guidance please?
- M Viswanathan:** So we're on track to complete what we had spoken about earlier. The only question mark is on availability of visas to Chinese engineers. Some of the equipment is from China. So as and when those visas are opened up, the installation of those equipments could take place. So barring that, I think everything else is on track. So, that's the only area where there could be a slippage or time delay.
- S Salgaonkar:** So in FY'22 and '23, how much do we expect the CAPEX outlay please?

M Viswanathan: We had announced Rs.200 crores over about 18 months this was six months ago. I think we spent probably around Rs.50 crores of that, the balance should still be spent.

Moderator: The next question from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, if you can talk about the FMEG part of it, that seems to have seen credible growth and also in terms of a broadly annualized number is more like 200 crores. So how should one look at that part of the business? At what threshold revenues, what margins you could do, if you can just probably talk about that segment it'll be helpful?

M Viswanathan: As far as the numbers are contained in the segment which we call others. So, that includes Fans, Water Heaters, Switches, Switchgear and PVC Conduit, and as of day before yesterday also Room Heaters. As we expanded our distribution footprint, we have seen volumes in growth. We noticed it last year, but then last year there were too many disruptions because of COVID. This year post-June, there have been hardly any disruptions and we can see the impact of that distribution starting to play out. As we connect more geographically and as we sign up with more retailers that is bound to pay off and we have seen volumes increasing. So, like I mentioned earlier, each of these product lines have shown volume growth, ranging from 6% at the lowest level to 15% at the highest level, and the trend seems to be continuing. And as we expand the Appliance basket, I think that is good for us as well. So, we have not seen as then just a one-off player, but we have seen then as somebody that is serious to be in the space. We have said in the past as well that our short-term aim is to reach a revenue number of somewhere around Rs.500 crores over the next two to three years and that seems to be something that is reachable now. Coming to margins, right now, margins reported are showing a very positive number there, but then we've also not spent much on advertisement and publicity in the last two quarters. As and when that spend happens, and I think we need to spend some more. And as and when that happens, the margins reflect differently. We have maintained that in the past at a turnover level of somewhere around Rs.150 crores, Rs.175 crores, we should be breakeven for the product lines that we have currently and I think we are still maintaining that number.

Abhishek Ghosh: Just one clarification there, on an annualized basis for the current quarter, we're already doing those kind of revenues. So are you kind of breaking even at that? I'm just trying to understand from that perspective.

M Viswanathan: Today, we are showing a profit. So if I spend on advertisement I would be breaking even, yes.

Abhishek Ghosh: Sir, the whole thing about this Rs.500 crores of revenue over the next two to three years, if you can just take us through in terms of the Rs.50 crores that you've done for the current quarter, which are the key contributors and in that Rs.500 crores, will there be new scaling up of some of the new products or how should one look at it, some color that will be helpful?

M Viswanathan: As revenues typically come from Lights, Fans and recently the PVC Conduit also, these would be the larger numbers there. I think at a Rs.500 crores level we should be more than Rs.100

crores in each of these product lines and right now we are looking to see how to improve the PVC Conduit business because the response has been extremely encouraging. We have this plant at Goa. So, currently the services are geared towards the southern markets. Going by the response, we are actually looking to see whether we need to expand the facility in Goa as well as look at additional lines maybe at another location. So, those are currently works in progress. And once we hit Rs.100 crores in Fans, then I think we are ready to bring the manufacturing in-house.

Abhishek Ghosh: Lastly, if you can also talk about the whole retail channel mix you have set up, that 500x300 metrics where you have moved into something like, you're supposed to reach a target of 1,50,000 retail touch points, how is the journey there, how is the flavor of the business from the active 60,000, 70,000 retail touch points whatever it is, if you can just talk about it, it will be helpful sir?

M Viswanathan: Active distributors as at the end of September were about 520. So that actually takes us beyond the potential of 150,000. For the quarter, we have had unique billings of about 49,000 retailers. This is only during this quarter. So this 49,000 retailers, some of them have been billed once, some of them have been billed multiple times. In comparison, the previous quarter was about 28,000. And in comparison, the whole of last year was about 90,000. So I think we are on track to cross the 100,000 plus for this year for sure and maybe we'll be very close to the 150,000 number.

Abhishek Ghosh: I missed the number, 49,000 retailers you have billed in this quarter...

M Viswanathan: 49,000 have been billed in the current quarter, many of them have been billed multiple times, many of them have been billed single time. So 49,000 touch points have been covered during this quarter. In comparison, the previous quarter, that is the April-June quarter was about 27,000 or 28,000 numbers. The number of retailers registered has crossed 110,000.

Deepak Chhabria: When you say registered, registered an one-time sale that they bought the materials from us is close to 110,000. But some of them buy depending on the retail counter and how fast moving it is, some buy twice a month, some may be once in two months or once in three months. So he is trying to say in the last quarter it was 49,000 who actually purchased out of the registered customers who have at least bought one from us, which has reached 110,000.

Abhishek Ghosh: You are saying out of the total universe, 50% of them have actually bought?

Deepak Chhabria: 50% are regular customers, means they buy on a routine basis.

Abhishek Ghosh: And sir, you mentioned 28,000 in 1Q FY'22 and you also mentioned one more number we have taken up, I think 21 quarters?

M Viswanathan: No-no, what I said was in the previous quarter against this 49,000, the number was 28,000

and last whole year was about 90,000.

Abhishek Ghosh: So from this current quarter's number, there can be substantial improvement this 90,000 will sometime come back at some point in time for the current year?

M Viswanathan: 90,000 was for the whole 12-month period. 49,000 is only for a three month period.

Abhishek Ghosh: Lastly, in terms of some color, because growth seems to be coming back for you all. So if you're analyzing internally, is there a market share shift, if you can talk about certain regions because of this retail expansion, is there any traction that you're seeing in the region or is it an unorganized, organized game?

Deepak Chhabria: Well, we don't have any concrete data, but thumb rule tells us that the way the prices have been rising, so for the unorganized sector, it becomes more difficult, in a sense for the cash flow and arranging for funds for manufacturing. But on the other hand, they also get a higher delta in terms of branded products pricing and their pricing because unorganized people normally are using scrap copper or scrap PVC and manufacturing and branding and selling it in their names. So there's a mixed reaction. We don't have any substantiated data to tell us exactly how much unbranded may have gone down and benefited the organized sector. But I think there is some movement for sure organized sector must have benefited. I don't know much.

Abhishek Ghosh: I think, two or three concalls back you had spoken about your medium term revenue target, but then the second wave hit and there was a lot of turmoil into the market. Any thoughts on it, what are the key strategies, anything that you'd like to share?

Deepak Chhabria: See, some of the strategy was on the new products that as we reach Rs.100 crores as a target number in trading activity, we set up a plant and we get value addition in the organization itself. So, some numbers now we are coming closer and we may then start setting up those plants. In the case of conduit, being in the business and knowledge, we didn't start with any trading activity, we set up a plant. The plant is doing about Rs.8 crores a month at the moment. And we are servicing only the south because trade costs are high for moving of PVC pipes, it's got air inside it. So, our plan is to have four such plants in four regions. So we are actively looking at setting up a second plant. We're also looking at enhancing capacity in the present plant in Goa which is servicing the South, because we already filled up, I mean, we are running at full capacity. There is space in the building where we can maybe increase the capacity by another 25%, 30% just by adding new machines. So that will happen going forward. So I think this new products wherever we hit 100 crores, expansion of PVC Conduit, and we have still not been able to do an acquisition, we looked at some options but we have not been successful in closing an acquisition which we want to do. So that's where we were looking at how to grow the company.

M Viswanathan: Also in the meanwhile, we had already planned to increase the wire capacity both at our Urse and Goa plants. And that is on track. In fact, we should probably have everything up and running

by the end of this fiscal, which means as demand returns, our capacity is also able to handle the increased loads.

- Deepak Chhabria:** Those equipments and all have already come into India. They're on installation right now.
- Abhishek Ghosh:** What will be current utilization of the Wires and Cables plants broadly and it's a difficult one?
- M Viswanathan:** I think currently we are running at close to 80%.
- Moderator:** The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.
- Rahul Agarwal:** So I had four questions largely revolving around top line margins, cash and Corning JV. Some of that partly were answered but I'll just try and squeeze that. From the revenue, sir, if you could help understand how do you foresee all three key segments -- Electrical Cables, Communication Cable, SMG for the full year of fiscal '22. If you talk about largely volume growth for the entire year for cables, growth led by penetration, you spoke about something on that and communication cable order pipeline, how does that look at and what should we expect in terms of revenue for these three segments?
- M Viswanathan:** I typically do not give a guidance on the revenue numbers because future market conditions is something that one doesn't really know, but going by what we are seeing today, the recovery seems to be across the board in the Wire and Cable segment. We are a very small player in the Cable segment as you know, but in the Wire segment, all the applications that we are looking at, whether it is construction or whether it is auto or whether it is industrials, all three are seeming to do well. So that momentum if it continues, I think you can see similar numbers in the next two quarters also, provided the price holds where it is. Does that give you a sense?
- Rahul Agarwal:** Yes, that helps. Anything on the Communication Cable side with the order pipeline, how does the telecom market looks like?
- M Viswanathan:** On the communication side, there is a lot of need for fiber-based communication solutions. However, the players are not many. So you have government on one side which is about 50%, 60% of total market and they don't have the money to spend. Not only do they not have the money to spend, the time delays in decision-making is also extremely high. So while projects are announced, the realization of those projects seems to be slipping all the time. So, for example, if you recall, there was a statement from the government made in last year, saying that for the next 1,000 days, all villages would be connected. And they came up with a plan sometime in June this year, where they wanted a PPP model to operate. So the winning bidder would have won either because he has quoted the highest premium or he has asked for the least support for about 17-circles in different states. And the proposal was that the winner of these bids would be allowed to operate the existing network there as well as would be required to complete the remaining pieces in that area so that every village, every town is connected and would be allowed to operate that area for a period of I think 15-years. Charging revenue basis, the services that he

provides. So that tender was supposed to open in mid-August. Then there were so many questions. They deferred the opening to 30th, November. Even as on date, there are about 7,000 questions to which responses are not in there from DoT. So basic questions like what would be the mechanism? How would the prices be regulated? What kind of services would be allowed to be given? There are quite a few doubts there. When we saw the tender, our estimate for just this one piece was approximately 10 million kilometers of fiber. So there is a huge opportunity. But timing of when this would actually realize into reality -- whether it is going to be '22, '23, or much later? That is something that we are not able to predict. That's the problem with the OFC. I said 50% is with the government, the other 50% is run by private players like Bharti or Reliance or Vodafone. The good thing that happened during the quarter was Vodafone has got a lease of life. So it is not going to disappear as one feared maybe sometime in July, August. But the other part is that CAPEX still has to happen. And for that, the funding is at least to us it is not really visible. So while the opportunity sizes are growing, funding issues seem to take the timing horizon beyond the one, two, three year mark. So consumption wise, the need is there. We just had a meeting with our partner, Corning, and they shared the global data. Globally, the consumption of Fiber has increased in calendar '21 as opposed to calendar '20 by about 12%. Currently, therefore, the global consumption is somewhere around 660 million kilometers or 670 million kilometers. And China has actually consumed more, and their consumption is up by about 19%. The rest of the world is I think 14% or so. So that's why the average is about 16%. And demand seems to be picking up everywhere. Countries are rolling out on their 5G conversions and that will take fiber consumption up by a lot more. However, those are areas where funds do not seem to be that much of a constraint, whereas that seems to be our main issue.

Rahul Agarwal: So essentially to understand, as of now the 100 crores run rate per quarter for Communication Cable continues till the point this tender gets fructified or either the state or central government start spending or you get something from Bharti, Jio or something else. How do we look at it? Rs.100 crores per quarter stays right as of now?

M Viswanathan: Right.

Rahul Agarwal: Secondly, on the margin side, so you partially answered that in terms of recovery not happening to the long-term average of 27%, that's the question I had. But have enough price hikes been taken? Anything left for third quarter? EBITDA margins for first half were about 11.8. At least we should maintain last year's level of 13.4 for full year? I understand Electric Cables are doing okay. But Communication Cables had a one-off issue. FMEG, obviously, right now is profitable. But once you start ASP, that again will go back. So any thoughts here?

M Viswanathan: So I think we should be on track to maintain the EBITDA numbers. I don't think that should be a major concern.

Rahul Agarwal: But 13 and 13.5 is what we should maintain, right, at least...?

- M Viswanathan:** I don't believe that should be a major concern.
- Rahul Agarwal:** Third on the cash. So about Rs.1,500 crores is obviously liquid with us. Capacity utilization, you said is about 80%. What is the plan to use this cash going forward? Obviously, we are looking at M&A, we are looking for expanding capacity, but it's impacting the ROE, ROC of the company since quite a while. Any long term thought in terms of how do you see this number going forward?
- M Viswanathan:** Well, this cash has been accumulated primarily for looking at acquisitions. But the valuations right now that we are seeing are horrendous and we don't really agree with those valuations. So that's been an issue. We will still look for quality acquisitions. But eventually, the money can only find its way in three places -- on acquisitions, on CAPEX or on dividend returns to the shareholders. We realize that keeping the cash especially in today's condition when the return is not very high, impact the ROC, ROE numbers. But I think we need a little patience to get quality acquisitions and bring them into effect.
- Rahul Agarwal:** Would you like to add what areas are you looking for -- when will it be FMEG or whether it's possible for any import substitution opportunity into Cables itself or will it be largely FMCG?
- M Viswanathan:** It could be FMCG, FMEG, it could be areas that we are currently not present in the Wire and Cable market, it could be any of those areas.
- Rahul Agarwal:** One small question on the Corning JV side. So how does it change lives for Finolex Cables, I mean, if you don't have a JV, how does the financial or the cash movement works now? Obviously, we have the tech. So we'll keep on doing the fiber with them and then we will do the cables side of it. But do we have any royalty agreements here or how that work?
- M Viswanathan:** The JV was the conduit through which Corning had access to the India market. And we provided that access in return for upgraded technology and Fiber source. So, the technology has already come. The Fiber source remains. And the JV basically was an administrative entities taking up time from all of us. So, over a period of time, you grow in confidence with each other, your relationship has grown, and the trust level is fairly high that we thought that particular entity to pass-through is no longer necessary and we can deal directly. So life should not really make a big change. So any fiber that we require in excess of our capacity, we should still be able to purchase from Corning. We will have those agreements in place.
- Rahul Agarwal:** Lastly, on this Communication Cable. You mentioned that some provisions are made based on expected freight loss. What was the amount here...?
- M Viswanathan:** Rs.8 crores.
- Rahul Agarwal:** So this is provided as a cautionary step that because it got delayed, hence we are providing it, it could be reversed when we get the payment, is that correct?

- M Viswanathan:** It will be reversed when we get the payment
- Moderator:** The next question is from the line of Ajay Sharma from Maybank. Please go ahead.
- Ajay Sharma:** I had a few questions. One is on what was the growth difference between B2C and B2B basically in terms of the Electrical Cables?
- M Viswanathan:** Both were upwards of 20% on revenue terms. The B2C would have probably been a little higher.
- Ajay Sharma:** Your growth is really linked to new real estate construction, right, not the sale of existing inventory?
- M Viswanathan:** Yes, absolutely, there could be some of it because existing inventory whether the power lines have been drawn or not, we do not know, but it could go either way.
- Ajay Sharma:** The volume growth of 5% was still on the lower side compared to what you have achieved in good markets. So, I am just wondering do you see that pick up as the real estate market continues to improve?
- M Viswanathan:** Absolutely, absolutely.
- Ajay Sharma:** Was there any inventory gain in terms of the way copper prices have been moving?
- M Viswanathan:** No, our inventory buying practices policy is very simple. We don't take long calls. We only buy what we can consumed during a particular month and we priced it on a month average for most of the time. So, the production and sales cycle of three to four weeks allows us to modify prices if need be. So, there could be a small lag in changing our prices, but we keep the metal prices and the commodity prices as a pass-through. Because of pricing, we don't either gain or lose.
- Ajay Sharma:** The capacity of Wires which you're doing in the two plants, so, what is the magnitude in terms of percentage increase?
- Deepak Chhabria:** I think we are going from 18 to 24 lakh coils, that is total both; 18 is from Rourkee.
- M Viswanathan:** Total company goes up by a third.
- Ajay Sharma:** Just lastly any update on J-POWER. What is the outlook and the performance this year so far?
- M Viswanathan:** The performance of J-POWER YTD September, they have crossed revenues of last year. This year they have supplied and installed I think 129 or 130 kilometres of various grades of cables primarily in the 132 and 220 kV range. They have supplied to Kanpur Metro, they have supplied to Agra Metro, they have supplied some to Pune here, they have also supplied to Aircon in Delhi. So, their order acquisition is gaining strength. And as we speak, they're sitting on an order book of another 70 or 80 kilometers. The projects that we had won in Tamil Nadu, there were four of

them, two of them are nearing completion and the other two are likely to be completed in another four to six months. Currently, there is a small loss for the quarter, but I think they are on their way to erasing cash losses from maybe the March quarter.

Ajay Sharma: The ownership dispute is there. Any timeline to that in terms of the court process and where are we in that?

M Viswanathan: One cannot put a timeline there. The courts take whatever time they believe they need to take. So it's very difficult to predict if it's going to be sorted out tomorrow morning or two years from now. So that's unknown at the moment. Since I am not involved in it, I'm not able to comment beyond this.

Ajay Sharma: But is that disrupting the various AGM resolutions and the directors you want to appoint basically?

M Viswanathan: Yes, there are those pinpricks from time to time, but I think we've learned to manage it over the last three years.

Moderator: The next question is in the line of Santosh Yellapu from Asian Markets Securities. Please go ahead.

Santosh Yellapu: First question, if one looks at the first H1 FY'22 Electric Cable segment we have seen a 66% kind of growth. If you could please help me understand which segments within the Electrical Cable segment that is Housing Wires or the Power Cables or the Auto Cables or the other cables or Wires that go into the pump section all, which particular subcategory witnessed stronger growth than the segment level growth and which ones reported lower growth in the segment level growth?

M Viswanathan: Better performance has been the general wire, so that is construction, automobiles. These were the largest growth area. I think industrials had also grown but not to the extent that the other two had shown. Power Cables like I said earlier, we are a very small player and the numbers are not sizable to make a big comment there.

Santosh Yellapu: If you could help me understand like you had put up the Electrical Cable segment for this quarter volume still 5%, what was the volume growth for the first half of the year, sir?

M Viswanathan: First half, I think was about 7% ... I'll have to check back on that, I don't have that sheet in front of me, but I'll have to check back, I can come back to you.

Santosh Yellapu: This is more of a clarification to the first earlier question being asked. We did 90,000 dealers unique or repeat billing, both put together for the full year FY'20, right. I know that Q1 was more of a washout, in the sense of COVID, there are lockdowns and all. What are the challenges still we're facing for that 90,000 number going back to 48,000, 49,000 kind of a number?

- M Viswanathan:** That 90,000 was spread over a 12 month period.
- Santosh Yellapu:** I'm assuming those 90,000 after the COVID gets open should come back for ordering, right in some other period of time. So the additional 45,000, 50,000, whatever is the number, would they take more than seven, eight months to come back to gain?
- M Viswanathan:** One is that 90,000 that we have, not every one of them is buying every month or repeatedly. So 90,000 was the number of unique billing that were done last year.
- Santosh Yellapu:** My question is what are we doing internally to get more of repeat billing from these one-time or two-time billing -- the special incentive package we're designing for them or any aggressive marketing plans we're rolling not for them, anything specifically that the management has thought to get more attention or more business in the form of repeat business from these distributors and dealers, because adding numbers won't lead us to anywhere unless we are able to get continuously their business, every year we're going to see the same kind of cycle that first quarter will be a smaller number than only the 90,000 or the full peak utilization of the network would be seen only by Q4, is that what we are seeing or can you see the change happening because of some internal initiatives?
- Deepak Chhabria:** Mahesh explained earlier on quarterly and then giving those yearly numbers for the retail network. He also talked about why the margins are less by 2%, because of schemes not being there and in the COVID times, we haven't pushed targets on most of our distributors, because it sometimes is going to demotivate them. We want to get the maximum sale. Nobody's putting targets now on the customers. So, as you go forward, the target will come back because the target drives a person to sell more and the schemes will also come back. Now, other than having schemes for distributors or channel partners, we are also looking at putting direct schemes on the retail counters. So, we worked in last few months on the software which is right now undergoing testing, where we are able to launch the schemes directly on the retailer and we are tracking the sale of the retailer from each distributor and the scheme money will be paid directly by us to the retailer itself. So, we will motivate them with direct schemes based on certain slabs and incentives, through that there will be repeat business and not just one-off sales. So...
- Santosh Yellapu:** So how is this different from the industry practices? Is it very unique from the industry practice or the schemes that we plan to roll out are going to be more unique to the industry or how?
- Deepak Chhabria:** When you earlier would give a scheme to a distributor, you would not know the real number and whether the distributor is selling to the retailer and that's why the scheme money is being claimed or he is bulk selling it somewhere else and just claiming the scheme money. So growing a distribution part, you want to know exactly how much is being sold through the distribution channel through the retailer counter. So now when you track on a computer, because the distributor is being tracked on our computer of how much he sells to each retailer, I can give a direct scheme to the retailer, who doesn't go to the distributor. And then you can ask slabs or various kinds of schemes basically. Schemes which maybe in a quarter. So it forces them to

come back and buy our product and trying to handle a competitor's product. So that way you will be able to garner repeat business from the retailer. And that's what we're trying to do.

Santosh Yellapu: One last question, I think it has two parts. Of the total 1,10,000, retailers network, what is the geographical mix in terms of Southeast, Northwest, one? And second thing, how many of them are pure Cable-based retailers? And how many of them are mix of FMEG and Cable Wire retailers? And how many are purely FMEG retailers?

M Viswanathan: So about 40% are pure cable guys and the rest are mixed.

Santosh Yellapu: What will be geographically mix? If one has to take a question, is it fair to say that 35% to 40% of it would be in the south, another 25% 30% would be in west?

Deepak Chhabria: You're right, we're stronger in the south, second strongest in the west and then followed by the east and in the north.

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

Suresh Juriani: I am an individual shareholder. Well, it may be too early to deliberate, but as far as the reports are concerned, the raw materials which are used by you like PVC, steel, aluminum, copper, of late started sliding. How do you see the margins shaping up in the current quarter and the quarter next?

M Viswanathan: Like I mentioned earlier, we look at the pricing of all these materials as a pass-through. Very clearly, one is not able to forecast exactly, whether the price movement in copper will go up or go down, the volatility is too high. So, we do not take the risk of making long calls. The pricing that we enter into with our suppliers is one for average price of the month, which means that for cash flow purposes as and when we procure the material, we pay them a provisional price. At the end of the month, the actual price is discovered and either we reimburse them for any shortage in between the provisional price and the actual cost or they pay us back if the provisional price is higher than the actual cost. In terms of selling price, what we therefore do is changes in prices we pass it on to the customers, so, both upwards or downwards changes in the cost we pass it on to the customer. There could be a small lag when we change prices, but effectively we give it back to the customer. So, margins if you look at it, margin should be reasonably steady unless you got into a situation like last year when COVID disrupted much of the quarter and therefore, the fixed cost remained unabsorbed. Otherwise, the margins should be steady at about 14%, 15%. So, if you see the segment margins and you go through them for the last few years, you will find that they have been around the 15% to 16% number.

Suresh Juriani: Small clarification. Have you accounted dividend receipt of Rs.4 per share of Finolex Industries where cash flow was received on 4th October?

M Viswanathan: We have taken it in as a receivable and the cash flow was like you said received on 4th of October.

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

Rahul Agarwal: One question I had on the Housing Wire market. Obviously, Finolex Cables get a large share of Electrical Cables from that segment. We're looking at commentary from Polycab, KEI and other large national brands. They're all very aggressive on housing wire, they are very optimistic about demand, they want to increase their share, overall market share anyway shifting to organized branded guys. What are your thoughts because over the past decade obviously we've been a bit weaker relatively in terms of holding on our share. But going into next five years, what do you think is from a Finolex perspective in terms of gaining further market share into housing wires or not, at least losing to these guys, how would that really play out?

M Viswanathan: In terms of growth, the numbers are comparable. But, yes, everybody is becoming more aggressive. We have not compromised on the quality of the business, in the sense that our margins if you see are probably the highest in the peer group. So, that is something that we do not want to compromise on. People say give credit, reduce the price, and then your volumes will climb. But what you give away you'll never get back, at least that is our feeling. So, yes, we have to make sure that there is more geographical coverage, the distribution part that we have embarked on plays out well and that we do not miss out on opportunity, one can still lose an opportunity in competition, but we shouldn't miss out because we were not present in. So those are the things that we should take care of. But from the market side, I think yes, as activity starts building back, and as construction starts getting back to normalcy, the demand should improve.

Rahul Agarwal: One clarification on the capacity expansion. So you mentioned Rs.200 crores CAPEX in 18 months, Rs.50 crores already done, that leaves us about Rs.150 crores over the next 12 months. Is that correct?

M Viswanathan: Right.

Rahul Agarwal: Any thoughts on fiscal '23, '24? This Rs.150 crores doesn't include obviously the continued expansion?

M Viswanathan: No, we are still talking about it.

Rahul Agarwal: So overall, for this year total, we should look at like 150 crores over the next 12 months, six months of this year, six months of next year?

M Viswanathan: Correct.

Rahul Agarwal: And then the balance for further expansion on conduit, we'll come back on future conference calls?

- M Viswanathan:** As and when we finalize those arrangements, we will come back. And again, like I mentioned in the beginning if the visa window opens up early, then yes, you have the timeline that we talked about just now. But if the visa window is not going to open up anytime soon, it takes another year before that is fixed, then there will be some difference.
- Rahul Agarwal:** This you're referring to the E-Beam plant, right?
- M Viswanathan:** Yes, primarily that.
- Rahul Agarwal:** So if I understand correctly the Rs.200 crores was basically Rs.80 crores of E-Beam, Rs.80 crores of Tin Copper and Rs.40 crores of Conduit, of which Conduit Rs.40 crores done, and the balance, E-Beam is still pending, is that Correct?
- M Viswanathan:** Correct.
- Rahul Agarwal:** Earlier I had a question on price hikes. Anything left for third quarter, I mean, to be back to basically the gross margin of 25%, let's say, I am obviously reducing the 2% scheme part here, the 27% minus 2% is 25%. So, any price hike have to come back on this number?
- M Viswanathan:** We'll have to see what the market can absorb at this point in time. As demand is climbing and then if you jack it up too much, then maybe people go to somebody else. So one will have to take a patient call on that
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.
- M Viswanathan:** Thank you for being patient with us and thank you for an engaging call.
- Moderator:** Ladies and gentlemen, on behalf of Finolex Cables, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.