

Case Study: Cost Optimization and Expansion Strategy for Polycab India Ltd.

Background

Polycab India Limited, a prominent player in the Fast-Moving Electrical Goods (FMEG) sector, has consistently demonstrated growth and innovation in the field of electrical cables and wires, electrical products, and home automation solutions.

The company, founded in 1996, has evolved from a modest manufacturer of electrical cables into one of the leading brands in India's electrical industry. Polycab has built a significant market share not only in its core business of cables and wires but also through diversification into various electrical goods and systems, such as switches, fans, and lighting products.

History and Evolution of Polycab India Ltd.

Polycab was established with the mission of providing high-quality wires and cables to meet the growing demand for electrical infrastructure in India. The company initially focused on cable manufacturing and distribution, but over time, it expanded its product portfolio to include a wide range of electrical products, from power cables to advanced consumer electrical appliances. This expansion was crucial in positioning Polycab as a leader in the Indian FMEG (Fast-Moving Electrical Goods) segment. By 2000, Polycab had developed a solid domestic presence with a nationwide distribution network. It went on to diversify further by entering newer markets, including the solar and automation sectors.

In the last decade, Polycab has accelerated its expansion with a stronger focus on branding, retail marketing, and e-commerce, growing its market share through extensive product innovation and strategic partnerships. In recent years, the company has focused on expanding its footprint in urban and rural markets, tapping into growing consumer demand for sustainable and energy-efficient products. Its emphasis on research and development (R&D) has enabled Polycab to stay competitive, offering innovative products that appeal to both residential and industrial sectors.

In FY24, the company had a 25% share in the organised market and an overall market share of 16%. It is focused on growing its presence in the B2C market while also broadening its footprint in unexplored B2B sectors.

CFO and Marketing Head Discussion on Cost Optimization and FMEG Expansion

As Polycab India has entered a new phase of expansion in the FMEG segment, the company's Chief Financial Officer (CFO), Mr. Rajesh Sharma, and the Head of Marketing, Ms. Anita Verma, have been discussing the next strategic steps for the company's growth. CFO's Perspective: Budgeting and Cost Optimization Mr. Sharma has been reviewing the latest industry reports, particularly focusing on the rapidly growing FMEG sector. He realizes that in order to maintain Polycab's market leadership while continuing to expand, the company must optimise its costs without sacrificing product quality or market penetration.

Key points from the CFO's analysis:

- **Rising Input Costs:** Mr. Sharma has observed that raw material prices, especially copper and aluminium (key materials in wire manufacturing), have been volatile. The price fluctuations could significantly impact margins, especially with the expanding demand for cables and wires in both the urban and rural markets. The central bank has forecasted inflation to increase to 4.5% for FY 2024-25. This shall be factored in while budgeting Operating Expenses under the annual plan.
- **Manufacturing Efficiency:** Polycab has established a strong manufacturing base, hence Mr. Sharma believes in using the common size analysis of FY 2024 as a base for budgeting operating expenses in the FY 2025 P/L.

After reviewing the industry report and performance metrics, the CFO plans to create an annual budget that emphasizes cost control, operational efficiency, and sustainable growth in the FMEG sector. CFO Plans to use data gathered from Industry reports to forecast its annual sales. (Refer Exhibits 1 and 2)

Marketing Head's Perspective: FMEG Expansion Strategy

Ms. Verma has been leading the marketing efforts to build Polycab's brand presence in the competitive FMEG market. She emphasizes the importance of expanding the company's product range, especially in categories such as switches, fans, lighting, and home automation, which have seen increasing demand as consumers seek integrated electrical solutions.

Recognising the pivotal role of influencers in the FMEG sector, Polycab has scaled up its Influencer Management (IM) programme. It now has a dedicated team of about 100 influencer managers, ensuring a one-to-one mapping with major electricians. A part of this initiative focuses on the specialised onboarding of electricians and includes a bespoke training programme tailored to their needs and the technical specifics of our products. To provide better support to influencers, the Company has also developed a digital first platform. By doing so, it aims to empower the influencers with the knowledge and tools necessary to advocate effectively for Polycab's products, thus driving sales and enhancing brand loyalty

A major part of the marketing push will be to educate consumers about the advantages of Polycab's products, particularly in terms of quality, safety, and energy efficiency. Training electricians and building partnerships with them will remain a core strategy.

Ms. Verma is enthusiastic about the potential for Polycab to expand into newer segments of the FMEG market and sees enormous growth opportunities in the untapped rural and semi-urban areas. The marketing team will need a larger budget to support these initiatives, and they have already begun aligning their campaigns with the company's overall expansion goals. Here are the details below for IM Marketing Budget.

Personnel Cost: The 100 influencer managers will require salaries, bonuses, and benefits. This is likely to be one of the largest components of the cost. Salary per influencer manager: ₹50,000/month

Training and Development: Content creation: ₹5,00,000 (one-time) paid at end of the fourth quarter

Training platform subscription: ₹12,000/month

Trainer fees: ₹16000 per month

Electrician onboarding (travel & logistics): Rs.50000 each quarter

| |
|---|
| Digital Platform Development & Maintenance: Development of platform: ₹15,00,000 (one-time) paid at end of 1st quarter Maintenance: ₹20000/month Hosting: ₹1,00,000/year (paid 50% at end of 1st quarter and 50% at end of third Quarter) |
| Marketing & Advertising Costs: Ad Spend for influencer recruitment: ₹5,00,000 (equally distributed in each quarter) Promotional Materials: ₹10000 per month |
| Event Cost: Event Planning & Logistics: ₹10,00,000 Travel & Accommodation: ₹2,00,000 (Both allocated at end of 2nd Quarter) |

After finalising the annual budget for the expansion of Polycab's FMEG segment, the CFO, Mr. Rajesh Sharma, alongside the Purchase and Marketing VP, Ms. Rekha Singh, has decided to implement a robust system for monitoring and controlling costs.

The primary tool for this will be a variance analysis between the Purchase Requests (PR), Purchase Orders (PO), and Invoice amounts, which will help identify discrepancies, optimise spending, and ensure that the budget remains within its set parameters. To ensure that the costs incurred by Polycab align with the budgeted allocations for the FMEG segment. Current month's expenses are tracked

Here's a summary of the expenses tracked for the month

| Here's a summary of the expenses tracked for the month | | | | |
|--|-----------------------|---------------|---------------|--------------------|
| Category | Budget Allocation (₹) | PR Raised (₹) | PO Issued (₹) | Invoice Amount (₹) |
| Raw Materials | ₹ 3,00,000 | ₹ 2,90,000 | ₹ 3,00,000 | ₹ 2,85,000 |
| Labor Costs | ₹ 2,50,000 | ₹ 2,20,000 | ₹ 2,40,000 | ₹ 2,30,000 |
| Equipment Maintenance | ₹ 1,50,000 | ₹ 1,40,000 | ₹ 1,50,000 | ₹ 1,45,000 |
| Packaging Materials | ₹ 1,20,000 | ₹ 1,10,000 | ₹ 1,20,000 | ₹ 1,10,000 |
| Transportation/Logistics | ₹ 1,00,000 | ₹ 95,000 | ₹ 1,00,000 | ₹ 90,000 |
| Utilities (Electricity, etc.) | ₹ 80,000 | ₹ 75,000 | ₹ 80,000 | ₹ 80,000 |
| Quality Control | ₹ 1,00,000 | ₹ 95,000 | ₹ 1,00,000 | ₹ 1,05,000 |
| Marketing and Advertising | ₹ 1,50,000 | ₹ 1,45,000 | ₹ 1,50,000 | ₹ 1,60,000 |
| Training for Labor | ₹ 1,50,000 | ₹ 90,000 | ₹ 1,00,000 | ₹ 95,000 |
| Miscellaneous Expenses | ₹ 1,00,000 | ₹ 90,000 | ₹ 1,00,000 | ₹ 85,000 |
| Total | ₹ 15,00,000 | | | |

As part of Polycab's fiscal planning process, Mr. Sharma has also decided to compare the final annual budget, the rolling budget is updated periodically to account for any changes in business conditions, market dynamics, and new insights into actual performance. Reviewing these variances, Mr. Sharma and Ms. Singh wants to delve into the reasons for variances and take corrective action

Rolling Budget Details are as below

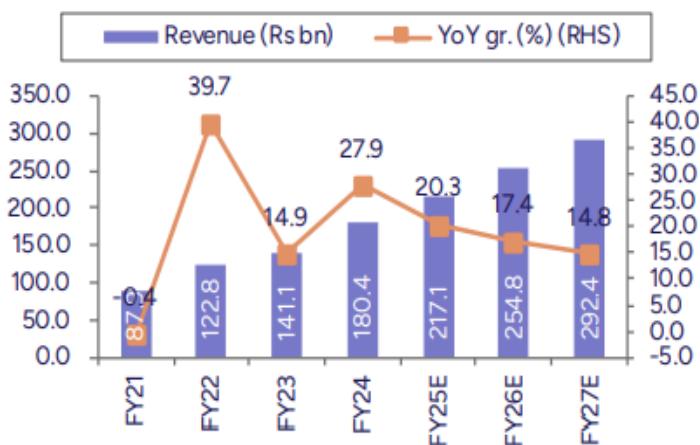
| Particulars | Amount(Rs in Million) |
|---|----------------------------------|
| Revenue from operations | 21706.1 |
| Other income | 2219 |
| Total revenue | 23925.1 |
| | |
| Expenses | |
| Cost Of Materials Consumed | 16244.94 |
| Purchase Of Stock-In Trade | 492.219 |
| Operating And Direct Expenses | 641.892 |
| Changes In Inventories Of FG,WIP And Stock-In Trade | -160.473 |
| Employee Benefit Expenses | 738 |
| Finance Costs | 144 |
| Depreciation And Amortisation Expenses | 301.7 |
| Other Expenses | 2417.441 |
| Total Expenses | 20819.719 |
| Profit/Loss Before Tax | 3105.381 |

In conclusion, Polycab India Ltd.'s proactive approach to cost optimization and expansion in the FMEG segment is a key factor in sustaining its competitive advantage in a rapidly evolving market. By focusing on efficient budget planning, diligent variance analysis, and strategic marketing investments, the company aims to mitigate the risks posed by rising raw material costs and volatile market conditions.

Through the concerted efforts of the CFO, Mr. Rajesh Sharma, and the Marketing Head, Ms. Anita Verma, Polycab has laid a strong foundation for growth in both urban and rural markets, as well as in the B2C and B2B segments.

Help the CFO with a clear action plan to address variances and adjust its strategies accordingly. This will help Polycab to navigate challenges effectively, optimize costs, and drive sustainable growth, further solidifying its leadership position in the FMEG sector.

Exhibit 1: Estimated revenue CAGR of 17.5% over FY24-27E



Source: Company, PL

Exhibit 2:

| Revenue Mix | Mar-23 | Mar-24 | Mar-25 |
|--|--------|--------|--------|
| Type of Goods or Services Wires & Cables) | 89% | 89% | 87% |
| Fast Moving Electrical Goods (FMEG | 8% | 7% | 9% |
| Revenue from construction contracts and others | 3% | 4% | 4% |

Exhibit 3

| Profit & Loss account of Polycab India (in Rs. Cr.) | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 |
|---|-----------------|-----------------|------------------|------------------|------------------|
| | 12 mths | 12 mths | 12 mths | 12 mths | 12 mths |
| INCOME | Actual | Actual | Actual | Actual | Actual |
| Total Operating Revenues | 8,806.91 | 8,736.36 | 12,097.91 | 13,911.57 | 18,050.85 |
| Other Income | 93.46 | 119.72 | 90.5 | 136.08 | 219.83 |
| Total Revenue | 8,900.37 | 8,856.08 | 12,188.41 | 14,047.65 | 18,270.68 |
| EXPENSES | | | | | |
| Cost Of Materials Consumed | 5,896.00 | 5,698.15 | 9,176.53 | 9,744.14 | 12,668.18 |
| Purchase Of Stock-In Trade | 405.68 | 624.05 | 600.01 | 456.32 | 350.14 |
| Operating And Direct Expenses | 317.45 | 108.31 | 111.47 | 135.15 | 474.35 |
| Changes In Inventories Of FG,WIP And Stock-In Trade | -236.87 | 70.19 | -468.62 | 59.03 | -93.27 |
| Employee Benefit Expenses | 361.73 | 349.3 | 394.84 | 442.86 | 586.61 |
| Finance Costs | 47.9 | 41.12 | 33.42 | 56.06 | 100.44 |

| | | | | | |
|--|-----------------|-----------------|------------------|------------------|------------------|
| Depreciation And Amortisation Expenses | 159.09 | 174.01 | 196.56 | 202.39 | 237.14 |
| Other Expenses | 945.95 | 795.49 | 1,043.69 | 1,263.02 | 1,628.39 |
| Total Expenses | 7,896.93 | 7,860.62 | 11,087.90 | 12,358.97 | 15,951.98 |
| Profit/Loss Before Tax | 1,003.44 | 995.46 | 1,100.51 | 1,688.68 | 2,318.70 |