

February 10, 2023

The Manager Listing Department, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001	The Manager Listing Department, National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra- East, Mumbai- 400 051
Ref: - Scrip Code: 532953	Ref: - Symbol: VGUARD

Sub: Transcript of earnings call pertaining to the Financial Results for the quarter ended December 31, 2022.

Dear Madam / Sir,

This is with reference to the intimation dated January 24, 2023, filed with the stock exchanges in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 regarding the earnings call to discuss the financial results for the quarter ended December 31, 2022, which was held on Friday, February 3, 2023.

The audio recording was filed with the stock exchange. We are enclosing the transcript of the Earnings call.

The same is also being uploaded on the website of the Company under <https://www.vguard.in/investor-relations/shareholder-information>

Kindly take the information on record.

Thanking you

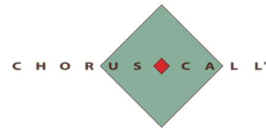
For **V-Guard Industries Limited**

Mithun K Chittilappilly
Managing Director
DIN: 00027610
Encl: as above





“V-Guard Industries Limited
Q3 FY '23 Earnings Conference Call”
February 03, 2023



MANAGEMENT: **MR. MITHUN CHITILAPPILLY – MANAGING DIRECTOR – V-GUARD INDUSTRIES LIMITED**
MR. RAMACHANDRAN V – DIRECTOR AND CHIEF OPERATING OFFICER – V-GUARD INDUSTRIES LIMITED
MR. SUDARSHAN KASTURI – SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER – V-GUARD INDUSTRIES LIMITED

MODERATOR: **MR. PRASHEEL GANDHI – NIRMAL BANG EQUITIES**



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Moderator:

Ladies and gentlemen, good day, and welcome to the V-Guard Industries Limited Q3 FY '23 Earnings Conference Call hosted by Nirmal Bang Institutional Equities Private Committed. 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. Prasheel Gandhi from Nirmal Bang Equities. Thank you, and over to you, sir.

Prasheel Gandhi:

Thanks, Aman and good afternoon, everyone. Nirmal Bang Institutional Equities welcomes all of you to the Q3 FY23 earnings conference call of V-Guard Industries Limited. I would like to thank the management team for giving us the opportunity to host the call.

From the management team, we have Mr. Mithun Chittilappilly, Managing Director; Mr. Ramachandran V, Director and Chief Operating Officer; Mr. Sudarshan Kasturi, Senior VP and Chief Financial Officer. I now hand over the call to management for opening remarks, post which we can take questions from the participants. Thank you and over to you, sir.

Mithun Chittilappilly:

Thank you. A very warm welcome to everyone present on today's call. Thank you for joining us today to discuss the operating and financial performance of our company for the third quarter of FY '23. I trust all of you have had a chance to refer to our investor presentation, which was shared yesterday. We reported revenues of INR 981 crores in Q3 FY '23, higher by 1.4% on a Y-o-Y basis. Revenue growth has been impacted by the high base in the corresponding quarter of last year. Over the last three years, the CAGR for revenue is 15.8%.

During the quarter, the South market de-grew by 5.2% Y-o-Y, while the Non-South market grew 10.5% Y-o-Y. With continued strong growth from Non-South markets they contributed 45.6% of the total revenue in Q3 FY '23. Higher than 41.8% in Q3 FY '22. We are making sustained progress in growing our business in the Non-South markets and they are now making a sizeable contribution to overall business within all our segments.

Within our segment, the Consumer Durables segment led the growth trajectory for the quarter. In this segment, we market Fans, Water Heaters, Kitchen Appliances and Air Coolers. The Q3 revenues registered a Y-o-Y growth of 4.5% and 17.8% for Consumer Durables. This segment has now gained reasonable scale in top line and will begin to contribute more meaningfully to profitability going forward.

In our Electronics segment, comprising of stabilizers, inverters and UPS systems, we reported revenue degrowth of ~4.3% Y-o-Y and a CAGR growth of 5.8% for 3 years. In the Electrical segment, comprising Wires, Pumps, Switchgears, Modular Switches, we registered a growth of 1.5% Y-o-Y and a 13.2% CAGR for 3 years.



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Input prices have stabilized, but still remain higher than their long-term averages. We are also carrying a higher stock of inventory in both RMs and finished goods at higher costs, which had an impact on the gross margin for the quarter. The gross margin stood at 29.6% in Q3 FY23 which is an improvement over the immediately preceding quarter, but lower than gross margin of 31.2% in the corresponding quarter of last year.

The EBITDA margin was at 7.3% during the quarter and has improved slightly on a Q-on-Q basis, but remained lower than pre-COVID levels, especially in Durables. There is some impact of advertisement and promotional spends, which have returned to normal levels after 2 years of lower spending during COVID.

With inventory levels having come down, we should see margins reverting to pre-COVID levels in the next 1-2 quarters. We have made substantial progress in reducing inventory back to normal levels. Inventory days for the quarter were at 92 days compared to 105 days in Q2 FY '23 and compared to 134 days in Q2 FY '22. We expect some more reduction to happen in the coming months.

We have concluded the acquisition of Sunflame in January. We have placed the initial team to run the operations. In the next couple of months, we will have the full management team in place and start the integration process.

With that, I conclude my opening with comments. I would like to thank the team at Nirmal Bang for hosting this call and would like to request the moderator to open the floor for Q&A.

- Moderator:** First question is from the line of Rahul Agarwal from Incred Capital.
- Rahul Agarwal:** Three questions. Firstly, the South degrowth, is it more of a base issue or are you seeing more competition there? That's the first question.
- Mithun Chittilappilly:** The South degrowth is mainly a base issue. Last year, in Q3, the South markets grew substantially faster. I think the recovery was faster post COVID for us in South. So if you look at YTD South growth is about 15%. So, we think it's a base issue and not a competition issue.
- Rahul Agarwal:** Got it. Secondly, on gross margins, I think quarter-on-quarter, they have largely stayed flat. So recovery of margin, obviously, is right around the corner, but my sense is, do we go back to 30%- 31% of pre-COVID level or should it be higher because you will have more in-house manufacturing going forward?
- Mithun Chittilappilly:** No. I think initially, we will look at going to the pre-COVID levels. The manufacturing facilities, for example, for Fans, it is already online, for Inverter and Compressor we are commissioning the plant as we speak. There are 2 more facilities that are coming online in the next financial year. So, I think it will be in a phased way when we get improvement in margins. So immediately



for us, we should look at going to the pre-COVID level. Then after that, in the longer term, we should look at more improvement due to own manufacturing.

Rahul Agarwal: So, own manufacturing takes the gross margin up? Is that understanding correct? Directionally?

Mithun Chittilappilly: Yes, directionally, it will take it up, of course.

Rahul Agarwal: Lastly, on the segment margin, both for Electronics and ECD, again was that an inventory problem and hence, the margins were low or is there any other reason?

Mithun Chittilappilly: We had planned for a much higher growth in, let's say for example, in a category - Water Heaters, we have planned for a very high growth this year because for two years, we had lost market share. Although we have regained a lot of the market share that we've lost, we have not still hit the numbers we wanted to hit. So, in Water Heaters, this is the case. There is high-cost inventory sitting in and Stabilizers, which is almost like maybe 25% of the overall sales. The other products, not so much. Most of the high-cost inventory is absorbed. I think this quarter on we are seeing some improvement.

Rahul Agarwal: Maybe I'll squeeze in 1 short question. So, demand obviously has been weaker. I mean that's the commentary across. Any thoughts on how you expect demand to basically pan out and what could be like a few reasons here, like why are you seeing demand going weak?

Mithun Chittilappilly: I think the general consensus is that there has been sustained price increases, not only for our products, but also, for fuel, for food items and for everything else. There have been sustained increases across. So basically, expenditures of every household have increased substantially. This is a kind of a shock for a consumer and they have maybe not experienced this kind of an inflation in a long time.

Although in India, we have lot of inflation, this level of inflation, we had not experienced in sometime. So, I think it will take 1 or 2 quarters for people to get adjusted and then consume again. I think we are seeing slowly the food price inflation is coming down and that's good news.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Funds Management

Bhavin Vithlani: The question is on the margins, again, especially on the Electronics segment where from a pre-COVID level of 16.5-17%, we have seen 10.8%. What do you attribute to such sharp fall in the margins? What in your view are the sustainable levels?

Mithun Chittilappilly: Well, I think there are 2 particular issues in the Electronics segment. One is even in Stabilizer, which is the largest segment, we have had a small hit in margins. That, I think, is mostly due to the high-cost inventory issue that I talked about because we understand that in Stabilizers, we have used a lot of Electronic components. We are having an inventory of almost 1 year or 9 months of Electronic components. In the case of Stabilizers because of the supply chain issues



in Electronics, we are holding only Stabilizer inventories, but Stabilizer is our larger segment where we are seeing this issue.

We have also seen some margin pressures in the Battery segment. That is primary, what we could understand is that in Battery; the core battery companies, because of the higher demand in automotive batteries are basically enjoying better margins than the core automotive business and cross subsidizing their industrial Battery business, which is the Inverter Battery business. So, the 2 large core Automotive Battery brands in India, are aggressively discounting Batteries in this segment. We think this maybe a transformation and that it probably should get resolved soon.

Bhavin Vithlani: Sir, just a follow-up on this and correct me if I'm wrong, 2/3 is Stabilizers and 1/3 is the Inverters in this segment? Have we, within the segment, seen a loss at the EBIT level in the Inverters because your commentary is more negative on the Inverters when you're saying Stabilizers are marginally lower.

Mithun Chittilappilly: We don't give out the product-wise numbers, but the decline is almost similar. I think there is a 4-5% decline in Inverter business. It won't be negative, but there is a decline in the Battery side as well as the Stabilizer business. Both of them have declined by 4-5%. But we are less worried about the Stabilizer business because it is, like I said, the high-cost inventory issue and that's a transient issue.

The other 1 is an external issue. We are hoping that once, of course, we have also had increases in lead. So, basically, in the Battery business, the lead prices have gone up and price increases have not happened in the market by the Battery brands, that's the more worrying issue. We hope that as the summer approaches and season begins, the price increases will be taken and will move forward.

Bhavin Vithlani: So, in your view, is there a change in the margins that we have been seeing, 16.5-17% pre-COVID levels to your view on the new sustainable levels?

Mithun Chittilappilly: No, I don't think so. I think at least in Electronics, we should come back. The work that we are doing, is more on the margin improvement which is on the Consumer Durables side, where we need to do a lot of work on pricing transmission; in some cases, value engineering and all the other activities we have undertaken. So, the results we should start seeing in the next 1 to 2 quarters. I'm not that worried about the Electronics segment as of now.

Bhavin Vithlani: The second question is that, there is a lot of expansion underway. If you could give us any category-wise expansion that you have been undertaking, what are the kind of investments that you are doing; you have mentioned to get these the kind of incremental revenue potential out of those investments?

The second is a couple of quarters ago, you had highlighted that one of the reasons for the lower margins in the Durables segment is the TPW fans, where you are importing and now you are



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setting up local manufacturing or local sourcing. When do we see that getting corrected? What in your view are the sustainable level margins in the Durables segment?

Mithun Chittilappilly:

Yes. Ram, do you want to take this?

Ramachandran V:

Yes. I'm not sure what you're referring to by way of investment, but I suppose you're talking about the investments that we are making at the back end in the manufacturing capability. I think the investments in manufacturing are fundamentally driven towards improving our competitiveness, right? So, some part of it will translate into margin improvement. Some part of it will translate into competitiveness improvement, which basically means that we can price our products more competitively and participate better in the opportunity for which we are challenged today.

Now this method of investment is fundamentally happening in four verticals. Stabilizer is one vertical and Inverter & Battery is one vertical. Then we are making investments for TPW Fans, and we are also making investments for Kitchen, mainly in the manufacturing of Mixer Grinder and Gas Stove and so these are the projects which are underway. This should benefit us. We should start to see the benefits flowing through in the case of, for example, a Stabilizer and Inverter should start to flow through more seriously from the next quarter.

I think there is some flow-through which has just started, but more of it will start to happen over the next year. I think in the case of the other 3, the plants are going to be up and running with a reasonable throughput somewhere in second half of next year. So that's in terms of the time frame.

We will benefit both ways. Margin improvement will be there, but most importantly, in some of these categories, we will be able to seriously participate, which will then mean that we should be able to grow those categories better. So, because our hands have been tied particularly due to Kitchen, TPW Fans and Battery, we should be able to see some of these structural challenges to participate as far as this is concerned. Sorry, I forgot your second question?

Bhavin Vithlani:

The second question you have partly answered it, like the Durable margins, when do you see back to the pre-COVID levels?

Ramachandran V:

Yes, the Durable margins have multiple issues. In the case of TPW, in the case of Ceiling Fans, we are hopeful to get back to our historical margins maybe in the upcoming quarters once we see how the energy efficiency Fans' pricing is transferring into market here. I think we should be able to see that. Hopefully, maybe, partly quarter 4 this year and then probably quarter 1 of next year, I think we should be able to see the picture back there.

On Fans, so while our own internal manufacturing capabilities will take some time, I think what has also simultaneously happened is that the freight rates have got normalized with some improvements to the extent that we are importing is what we will be able to see. So, I think TPW



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margins have got a bit better from where they were. But I think normalization is maybe another 6 months away. Also what happens is that there, most of the Consumer Durable businesses are seasonal and the timing of the improvements should coincide with the season if you have to see the impact and the benefit of that. In the case of Water Heaters, right, in the case of, I think, in the case of Air Coolers, I think the margins are coming back and we should see it in the upcoming quarter. I think we should see the margins normalize.

In the case of Water Heaters, what has happened is that it is a seasonal business. The season has not gone well and therefore, what has happened is that we are running behind plan, although we have regained our lost market share. Now on a higher plan, the inventory that we had procured, will be extending into the early Q2 of next year also.

That is why we are really taking some pricing corrections there on top of the commodity easing out, and we have some value engineering and other efforts which are underway so that we are able to restore margins. On a replacement basis, we should be able to restore margins by the time we get into the season. On consumption basis, this is actually what when from a timing point of view, when it will reflect in our P&L. That's something we are looking at now like for Q2 of next year. The Water Heaters will be the slowest, right? Because see, the 1 big challenge that happens is that any pricing transmission in seasonal category typically is coinciding with the commencement of the season, which is one of the reasons why in Battery, the margins earlier Mithun was talking about the prices started to increase towards the end of the season, last year.

Therefore, as we exited the season, the margin started to drop. The markets have not passed on because it's not conducive to the correct prices off season. So, we are open that some correction in some of these categories will happen as we enter the season also.

Moderator: Next question is from the line of Renu Baid from IIFL Securities.

Renu Baid: Yes. My first question is, given that now broadly the festive season is over, we have winter also approaching towards the end. How are we looking at demand outlook for summers on the backdrop and sufficient inventory of the non-default already built up in the system. If you can give some inputs in terms of the likely demand outlook and especially in the Fans segment ahead of the season where sufficient the inventory of the old Ceiling Fans and I would say our preparedness on the range, which is there.

Mithun Chittilappilly: Yes. V-Guard has been more proactive in preparing the transition into the range. To put it in context, we had very little inventory of non-BEE rated Fans by the mid of November, but I think by 15th of November, we had almost sold out whatever the Fans we had because we had planned the transition and we have stopped production of these Fans much earlier.

But of course, that is only our story, but the other companies in this category have continued to produce these products, they continue to heavily discount and sell them in the market. So that overhang will be there. But our own distributors are very, very lean with inventory and we have



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already started the supply. We're one of the first who started supplying new Fans, 5 star or 1 Star or whatever in the market with the new price list and all that.

Definitely, we had an issue in the month of January because like we said, most companies have heavily discounted these products and retailers will be busy selling them in before they start picking up.

So, I think we will see maybe the demand picking up maybe end of February for Fans. Our numbers have not been bad, but they are less than planned. If you ask me, we are in a better position because we had a little less of the low star rated models. But wherever we have common distributors or wholesalers we have a problem because they are all stocked with inventory of other brands. So, they will be trying to liquidate that. I see this sale happening maybe by the end of Feb or beginning of March; we should start to see because they have given 60-days to sell out the old non-rated Fans.

Renu Baid: Right. Sir, what are the kind of price hikes that you have taken for this new range? Has the entire cost of the transition been passed on or it would be done over phases in the coming season?

Mithun Chittilappilly: Yes, Ram, you want to answer that?

Ramachandran V: I think we have communicated price corrections in line with the industry. It should overall average somewhere between 6-8%, higher in the premium segment and lower in the popular entry-level segment, right? Maybe at the premium level, it is also going in some cases to double-digit. This, more or less, we have taken a price increase in line with other players in the market.

I think on the pricing transmission, we will have to wait and see at what pace this is going to happen. But almost all players in the industry have communicated the price revisions we are hopeful to realize fully once we have initiated. This will cover basically the increase in material cost, consequent to the shift to energy efficiency.

Renu Baid: Got it. The second question is in the Large Kitchen Appliances, especially post acquisition of Sunflame. Could be a bit of repetition from the previous call, which was on the acquisition. If you can just help summarize now though we're in the initial phase of completing the acquisition. But what are the key strategies and the key integration targets that you would like to put in place for the initial 2 to 3 years in terms of integration and ramp up?

Mithun Chittilappilly: Ram, you want to take this?

Ramachandran V: Yes. We just closed the Sunflame transaction around on 12th of Jan, and we are just 20 days after that. I can give you some sense of at a high level on what we see as the key levers that we can continue to leverage, but on a detailed plan and outlook and view we will prepare it once the new management team of Sunflame will come into place, which is still a work in progress



because right now, with the integration, we have a crack integration team, which we have put in place and the long-term operating teams will move in.

As far as the growth levers are concerned, I think there are multiple growth levers for Sunflame. South is a huge opportunity for Sunflame when Sunflame is underrepresented in South, yes, e-commerce and organized retail where we have the organization and the business system, that's something that Sunflame can leverage. Sunflame brand shops also supporting the sale of built-in Hoods and Hobs; it is also a very interesting opportunity in the space. They have 8 to 10 outlets, and that can be scaled up.

These are some levers. Sunflame has been doing most of its general trade (GT) business on cash and I think there is a lot of opportunity to expand the network since they have been risk averse when it comes to going to market.

These are the significant levers that are available and there is also opportunity to transfer knowledge across both the organizations at the back-end and to leverage the sourcing capabilities and make capabilities on both sides, which should benefit both the portfolios. These are the broad levers, but we will probably somewhere in the June quarter, will have a better view, having done some more serious work to assess the opportunities and priorities and put the resources on the ground to drive the key levers.

Renu Baid: Got it. Lastly, just a book-keeping question for Sudarshan sir. If you look at the Electrical segment there, the margin is much better than the rest of the other segments with a slight improvement. So did that also include inventory gains in the Cables and Wires business with the commodity price inching up at the end of the quarter. Approximately what portion of the segment margin are you on inventory gains?

Sudarshan Kasturi: Does it include the stock gains? No, that's not the point, the margins in the Wires have been pretty stable, except when there was a significant drop in copper in the quarter and that impact we took during the last quarter. It's just that the margin compression of the margin gap is higher in Durables and Electronics.

Renu Baid: Right. So, the 8.5% kind of margins in this category is also driven by better performance, probably better performance of the Switchgears, Switches and Pumps portfolio or it would be by all 3 or Cables and Wires driving this improvement?

Sudarshan Kasturi: Wires is making steady margins and it is a fairly steady business. Switchgears, Switches and Pumps have been less impacted by the margin.

Mithun Chittilappilly: Pump margins are impacted, but this is lesser than what Durables have been impacted. The impact on Electricals is less yet.



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Ramachandran V: Just 1 more point I want to make – the Electricals business is a business which is stable and steady around the year, so margin recovery is quicker and faster because it's a 12-month product. The material is also getting consumed faster and because it's a 12-month product. In the Consumer Durable segment and to some degree, the Electronics segment where the sales are seasonal, so depending on the timing of your inventory purchase and the quantum of inventory, it takes longer to consume. For example, like last 3-4 months, from September onwards, the sales have been lower than planned. Our expected consumption of high-cost inventory has not happened yet, and it has carried forward longer. In some parts, it is like that and where in the last 3-4 months where lower sales have happened compared to plan, although if you look at last year, YTD, it been 22-23% growth.

But internally, we expected it to do better and that has not translated because of the change in sentiment. So that's extending some of the inventory, and that is amplifying the issues in seasonal categories because the consumption of the material is happening more in the season and that's when it's going to go out, right.

Also, any pricing action can happen related to the season's price. So these are the challenges. Whereas in the case of Wires, Switches and Switchgears, transmissions are fast because it's round the year business, right? So the input cost increase also with a lag of 2 or 3 months, you will see hitting the business. So I think we should see it like that.

Renu Baid: Most of the high-cost inventory which we have, which has been built up, that will be fully absorbed by the end of the March quarter or that will continue through April-May as well?

Ramachandran V: I think Water Heaters will take longer and some part of Electronics can go into the June quarter also. In Electronics, we have 6 months to 1 year, in some cases, right? What we will start to see is that the blended margins every quarter will start looking up slowly. For example, November or October, I think November was our bottom. December was better. January will be better than December. Like that, it will slowly keep it inching up, right? As more and more categories participate, this will keep moving up and rolling margins.

Mithun Chittilappilly: I think what we are saying is that we believe the margins have bottomed out and will see a sustained improvement. Now like otherwise to the question of high-cost inventory, it's more-or-less what Ram mentioned, I think most of it is over. Some will linger on like water heaters or Electronics but others would be more or less over.

Renu Baid: Got it. I'm not sure if I can ask 1 more – any indication on volume growth in Cables and Wires and in the Fans portfolio for us.

Mithun Chittilappilly: We don't give product-wise numbers, but we can say that the performance in Wires has been good. Like Ram has earlier mentioned. It is also because the fact that copper prices have gone up. In the expectation of price increases, dealers have up stocked also. Some of the volume growth has come from that actually. Fans volume growth was slower because there was a churn



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on what we call moving from the old to new. We unfortunately did not have much inventory of the old items. So, our numbers look a little less than what others would have done.

Dealers are buying only the old items because they were available for a good discount. The difference between the old price to the new prices also, like what Ram mentioned, 6-8% plus it is considered a huge gap, so which the dealers have taken advantage of.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, what is the 9M FY '23 vs. 9M FY '22 performance? Because we have seen many Kitchen Appliances companies also getting impacted, which had no real relation with the Fans issue. So how is the performance of Sunflame as a percentage? Secondly, how has the Water Purifier done in this quarter on a Y-o-Y basis?

Mithun Chittilappilly: We will not give any specific numbers, but we can give some colour, Ram.

Ramachandran V: I think from what I understand, I think it's broadly flat. There is some decline of 3-4%, which is driven by the Institutional business. In the Institutional business, there have been some changes in the Income Tax Act, which has affected the gifting business. There will be a significant drop in the gifting business. There is a better side, but minus of that, I think it's almost flat, is almost maybe 2-3% down.

The big chunk is the Institutional business where the institutional customers have stopped buying because I think they are required, based on changes in the Income Tax Act, where they require GST and be charged where some trade is getting created. So companies who are typically buying for gifting, they have stopped buying. That's got a drag of 2-3% overall. The core business is almost flat, maybe plus or minus 1%, would be from top of mind as I remember.

Moderator: The next question is from the line of Rahul Gajare from Haitong Securities.

Rahul Gajare: I've got a couple of questions. First, congratulations on the Sunflame acquisition's closure. You have spent almost INR 680 crores in this acquisition. You are looking at adding more manufacturing. Could you indicate to us the kind of capex that you are doing in on the manufacturing front so we know how to shape up the balance sheet from here?

Mithun Chittilappilly: Sunflame has one large manufacturing facility, which I believe is only some 50% utilized; whereabouts 150,000 square feet of large plant in Faridabad where only half of it is utilized. So, and they have 1 more factory in Baddi which is mothballed, but it is also about 30,000 square feet and is not utilized.

We have almost 100,000 square feet of manufacturing space ready with all licenses and with everything. I don't see a capex investment for factories happening in Sunflame for at least 2-3 years. I think any capex will be mainly be for moulds and dyes for any new SKUs we launch, and that may not be that large.



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- Rahul Gajare:** I think you also mentioned about adding more assets in V-Guard so that is what I was referring.
- Mithun Chittilappilly:** V-Guard, yes. Our capex, like what we have mentioned will be spent at INR 50 crores to INR 70 crores annually every year. That will continue to happen. We have done that for the last year, this year and even next year and some part of the capex will happen. That's how we can look the balance sheet for V-Guard. The manufacturing, what we talked about will fall under this.
- Rahul Gajare:** I want to know that with this entire manufacturing and adding capacity in V-Guard, how much of your total revenue will come from your own manufacturing?
- Mithun Chittilappilly:** I think for us, I think close to 65-70% will come from one third manufacturing and that's what we see and Sunflame already has two thirds. So roughly 65% is own manufactured. It is going to remain between 65-70% as a comparative. Probably in the next 5 years, probably go to over 75%. We will still continue to work with some vendors in some cases where we are buying certain products where we find it better to trade than to manufacture.
- Rahul Gajare:** One of the reasons you indicated about having low margin on the Consumer Durables division is imports. But from what I recollect, I don't think the imports are very high. Maybe 20% is what it is for you. Correct me if I'm wrong on that imports number?
- Mithun Chittilappilly:** The margins in Consumer Durables is lower because as what Ram had mentioned is in Kitchen, we are working with Indian outsourcing vendors. When you work with Indian vendors or imported vendors, they also have their own margin. It's not because of imports. The import issue is mainly for Fans, which was really Table Fan and Wall Fan, which is now largely resolved. For the other segments, the issue in margin is also because our competitiveness is not there. That is what I think Ram was talking about in terms of putting up manufacturing for Kitchens.
- For example, we are selling Induction Cooker, Gas Stoves, Mixer Grinder roughly doing INR 130-140 crores of revenue, where we believe we are not competitively pricing the product in the market. That's what he was talking about.
- Rahul Gajare:** My last question is on certain book-keeping questions. I see cash of almost INR 130-odd crores in December. What is the cash level right now?
- Mithun Chittilappilly:** Sudarshan?
- Sudarshan Kasturi:** The cash would have been close to Rs. 400 crore.
- Rahul Agarwal:** No, that is as of 30th December, is it?
- Sudarshan Kasturi:** Yes.
- Rahul Gajare:** Current investment and cash book together will be closer to INR 400 crores or, but what would be this number now with this Sunflame.



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- Sudarshan Kasturi:** We've used the cash for the acquisition.
- Rahul Agarwal:** So, what is the cash balance on?
- Sudarshan Kasturi:** INR 40-50 crores or something like that.
- Moderator:** The next question is from the line of Nirav Vasa from Anand Rathi.
- Nirav Vasa:** Let me congratulate the entire team for successfully executing the Sunflame acquisition. So sir, would it be possible for you to share how the funding has been done and what is the amount of debt which has been raised and at what cost?
- Mithun Chittilappilly:** Yes. Sudarshan?
- Sudarshan Kasturi:** Yes. We have taken debt of INR 275 crores. The balance INR 400 crores was through internal accruals. That comes to us at slightly less than 8.95-8.98%.
- Nirav Vasa:** My second question. So sir, so maybe because this transaction was executed in January. So the February and March revenue would be consolidated. Is that right assessment?
- Sudarshan Kasturi:** Yes, we will consolidate Sunflame from January onwards.
- Nirav Vasa:** From January onwards.
- Moderator:** The next question is from the line of Harshit Kapadia from Elara Capital.
- Harshit Kapadia:** Just wanted to check with you in terms of volume growth, if you can highlight for all the three that has seen the 3-year CAGR?
- Mithun Chittilappilly:** Sorry, volume growth for?
- Harshit Kapadia:** All the three segments.
- Mithun Chittilappilly:** Can I calculate and tell you. Okay. What's the name, please?
- Harshit Kapadia:** Harshit Kapadia from Elara Capital.
- Mithun Chittilappilly:** Okay. So we'll get in touch offline on this. We need to come back.
- Moderator:** Next question is from the line of Achal Lohade from JM Financial.
- Achal Lohade:** Just wanted to check in terms of the outlook. On one hand, we are seeing an element of slowdown or slack in demand. So how do we see next couple of years in terms of what is the growth outlook one could have. I'm not asking for specific guidance, but can we go back to that high-teens kind



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of growth or do you think that is still some time away for us? This is ex of Sunflame. Obviously, Sunflame will have the delta, but ex of Sunflame I would like to check.

Mithun Chittilappilly:

What we've been seeing is right from June onwards, we are witnessing slowness in the market, and that is coinciding with the increase in the rate hike. So whenever there is a high inflation environment, it does 2 things – one is it is the fear in the minds of consumers to spend because their monthly household expenditure has gone up significantly, the petrol, food and whatever is it's gone up significantly. The second thing that happens is the increase in interest rate sucks the liquidity out of the market for retailers, also of distributors.

Banks are not lending like last year, last year they were flushing the trade with money and today, maybe not be very easy to get financing. So I think we are entering a high interest rate cycle and it will take some time until we start to see a reduction in the interest rate. So that's my answer to you. So if we see the reduction in oil prices and we see a reduction in inflation, reduction in interest rate, I believe that demand will come back strongly. It's a cyclical thing, nothing much we can do about it now.

Achal Lohade:

With respect to counter that, obviously, the distribution side, if you could elaborate where are we in terms of the target? And how do you see that over next 2-3 years in terms of Non-South?

Mithun Chittilappilly:

We are going as planned. We would assume in this third quarter, even on stock markets they have done well, and that ensures that our expansion work is going on. We will continue to grow spend and all that. But we have to understand that we also have very high market share, and that's where we probably face some headwinds because we probably can't grow there without the market, it's still growing because additional opportunity to grow distribution on sites is limited for us. Of course, Sunflame can grow, but for V-Guard brand, maybe slightly challenging because most of our products have been a of a very high market share.

Achal Lohade:

Understood. The second question I had was with respect to Pumps business. Can you help us understand how further Pumps in terms of the momentum has been? Are you seeing any improvement there or it's just languishing as it was earlier?

Mithun Chittilappilly:

No, Pump business continues to be under pressure. We are not as badly impacted like the Agricultural Pumps. We are more in the Residential Pumps category. But even the Residential Pumps demand has been impacted. I also think it's to do with the fact that we have had very good rains, very good months actually excess rains in those places. So I think until we hit a Pump replacement, which usually happens when there is a reduction in the water table; what happens is Pump get largely replacement and new demand as well. So there, it's likely replacement demand. We've got a significantly high, water table as the requirement for Pumps is low. So we are hoping that the summer is going to be a strong and long one and that should kick start the demand for Pumps.



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As of now, it is continuing as it is. It's not doing too well, margins are also slightly impacted, but that's as far as the Pump is concerned. There is not much of a difference from what we have stated in the last quarter.

Achal Lohade: Right. Just a clarification there that we were told by another competitor is that there is an element of aggressive pricing for the Pumps. So can you give some more sense on that? Are you seeing aggressive pricing by the peers or not yet?

Mithun Chittilappilly: Yes. I think so this is because of the other thing, right? So when there is lack of demand, you are going to have a pricing, right? So it is a demand and supply thing, when there is more supply than there is demand, there are going to be competitors who are going to cut prices and because some of them have to repeat their inventory and so on and so forth.

So I think this is something that we've seen before also when the demand is poor, this happens. One more thing I'll tell you, during COVID, what happened is 1 year of COVID, first year of COVID, the Pump demand was very strong because all the smaller Pump companies in Coimbatore and Gujarat, they did not supply.

Now all of them have come back in full force as well. There is obviously that also playing out. But I think we'll wait and see what happens. So obviously, with the lack of demand, pricing is also under pressure or other people are not taking up pricing. The increases have not been passed on.

Moderator: The next question is the line of Keyur Pandya from ICICI Prudential Life Insurance.

Keyur Pandya: Sir, I just want to understand in the backdrop of the macro environment you mentioned about the inflation and demand slowdown. So now when we see our RM cost coming down. Does, , I mean, cutting the price to help improve the demand or it is better to get the margins and demand Basically, your thought in this context between, say, maintaining the margin or improving the margin versus giving away margin to improve the demand?

Mithun Chittilappilly: I am a firm believer in not cutting price to improve sales because that's a very short-term thing and that can be done by anyone. But all of my peer companies don't believe in the same way like I do, so some of them will resort to this type of tactic. Ram, anything you want to supplement?

Ramachandran V: Yes, because I did see that margins are stressed for all companies, okay? I do believe that there is limited room for companies to cut prices on. You will see price tweaking happening here and there, 1-2% will certainly happen with what I believe as we end up the season because most people have not been able to do much of the particularly after the February or March of last year, no price increase has happened.

The commodity continued to increase in mid-June and then it's now slow. Also, I think even if the commodity price increase is fully flowing into P&L, it will only help companies to get back



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to that long-term rate. I think, so the business has normalized, right? Business spending is normalized, travel is slowly getting back to normal. It's not going to be practical to expect that the company will reform by cutting prices and also, I think 1-2% or 3% is not going to trigger consumer demand, right? That why there is not appetite to choose that part or kind of product portfolio.

I'm seeing this season, I would be very surprised they would resort to that. I also think that it will have less scope to increase demand. I think demand increase will happen based on macros. I think as the confidence comes back, as you know, the inflation across the consumption markets, is flattening. We would have to wait for that.

Keyur Pandya: Any divergence demand as far as rural versus urban or say, in regions – North, South, East, West?

Ramachandran V: That is a bit of pressure on small town rural and entry-level segments. So that is pretty much there and visible from somewhere around in August of last year. So that is pretty much there, and it continues. Geographically, I think it's, by and large, to my mind, this by and large fine geographically.

Keyur Pandya: So now you're saying rural or.

Ramachandran V: Small town, rural, entry-level customers in that segment there is still pressure.

Moderator: The next question is from the line of Bhavin Vitlhani from SBI Funds Management

Bhavin Vitlhani: So the follow-up to the earlier comment that you mentioned about unorganized. Could you also highlight about besides the Pumps, which are the other segments where you've seen unorganized come back with vengeance and that's kind of taking back some market share preceding the slow down?

Mithun Chittilappilly: Only category in our industry where we still have a large presence in unorganized and they're are very strong. If you look at other product segment is largely consolidated into branded products, Wires, Water Heaters. Of course, there is an organized event, but it's not like people who are buying the branded Wire or Cable are very unlikely to buy an unbranded product because we're getting it cheaper. But Pump are not like that. In Pumps, they are like a cottage industry. There are very strong local brands in each district and small region and so on and maybe the awareness of people is less, people rely more on the retailer or the plumber and so on and so forth. So, only in the Pump, this issue is more present. I'm sure unorganized is there in all the other categories, but I think over the years, they've all reduced their activity level.

Bhavin Vitlhani: The second is on the raw material, we've seen some amount of catch-up that has happened aluminum, copper prices have gone up. So for the bill of material index that you track internally,



what was seen over the last quarter is like if you take Jan as an end then versus what we saw in September and what's the kind of increase that we have seen?

Mithun Chittilappilly: So difficult to say on a blended basis, but I think copper has gone up significantly high and aluminium has also gone up. But there are certain others that have not gone up like steel and all that. I think steel, if we start to look at replacement, we should start to see some improvement there, and that's what is making us confident about talking about improving margins going forward.

But we'll wait and see if things are not free at the time, we will wait and see. But yes, there are also some price increases that have not happened and we are going to as we are approaching summer, we are going to push through some pricing.

Bhavin Vithlani: Just last question. While I understand you're not giving category-wise revenue numbers, but just to understand over some of the categories which were passed through last year, if you could give us a Y-o-Y growth number for the quarter for Fans and Water Heaters.

Mithun Chittilappilly: We'll probably share that offline. Bhavin, right, from SBI Mutual Fund.

Moderator: The next question is from the line of Khadija Mantri from Sharekhan.

Khadija Mantri: Hello. Sir, my question is regarding Sunflame Enterprises. In the budget, the basic custom duty on Electric, Kitchen Chimney has increased from 7.5% to 15% and the duty on heat coils has been reduced. So will it have any impact on Sunflame?

Mithun Chittilappilly: Yes. Ram, you want to take this?

Ramachandran V: Yes. Yes, Sunflame has a large Chimney business. But having said that, Sunflame has started to manufacture Chimneys and over the last 4-5 months is slowly stabilizing also. It's quite possible that there may be some near-term impact on the Chimney business because it's presently dependent on imports to some degree. But I think it's going to shift to fully to own manufacturing, can be done manufacturing ready soon because they are just month on month ramping up the production output.

Khadija Mantri: So currently, how much of it is imported, I mean the mix?

Ramachandran V: I wouldn't have that kind of sense. But I think that there is some maybe there is a smaller portion, which is domestically sourced and there is a larger portion, which is imported. But I think it is just a matter of 3-4 months because the plant is already up running, and they took the pilot plant also about 4 to 5 months back. And they are scaling the throughput month on month. So I think even if there is an impact on Sunflame, it's going to be transitional maybe whatever inventory is sitting in the system and whatever POs that are in pipeline. I think probably we will switch over to domestic manufacturing or domestic sourcing pretty soon, except for maybe some premium models, which might mean that some; I would say that 6 months down the line, maybe



not more than 15% of the revenue may come from imported Chimneys and the rest will manufacturing in the factory.

Khadija Mantri: And my next question is regarding the capital employed number. So if I see the unallocated capital has gone up on Q-o-Q basis from INR 400 crores to about INR 700 crores.

Mithun Chittilappilly: Sudarshan, do you want to take this.

Sudarshan Kasturi: We'll come back later.

Mithun Chittilappilly: So we'll answer that later. We don't have the number with us right now.

Moderator: The next question is from the line of Aksh Vora from Praj Financial.

Aksh Vora: Earlier, you mentioned that the manufacturing base contribution would go to around 65-70% or 75%. So just from a longer-term picture, what could be our blended EBITDA margin be, in say, 3 to 4 years, say?

Mithun Chittilappilly: So we obviously don't give out guidance on EBITDA margins, but our hope is that the manufacturing push will help us to improve gross margin and consequently EBITDA margin. But we have to get back to pre-COVID EBITDA margin before we talk about moving even higher than that. So that's our immediate focus to restore margins to above 10%, which was the pre-COVID margin.

Aksh Vora: No, I understand. I'm not asking for any number, actually, but then just wanted an assessment in the past, you have been saying that we would move to South and Non-South to next to 50:50 and you have executed that well enough. From a longer-term picture, I was just assessing that the manufacturing base goes higher and we passed the margin level of the pre-COVID, say from 4 to 5-year picture, would it be around mid-teens levels, we can achieve that number or something like that.

Mithun Chittilappilly: I think we prefer not to make any comments on that. But I've always said that we would like to improve by 1% every two years. But that happens first I need to get back to my pre-COVID margins and then work on that. Of course, when Sunflame comes on board, the Sunflame margins are higher than VGaurd so some impact of Sunflame will also show in our branded markets.

Ramachandran V: Just 1 point I want to make – on the business environment, it is pretty volatile right? For example, short term, we are suggesting sometimes there are revenue slippage and inventory expenses. So it's a bit hard with the pricing, with some haziness on near term demand. It would be sensible to say that we would like to see that these have normalized. I think once the business normalizing, I think we will be able to continue on our track of being able to improve it. The foundational normalization of business has to happen, the business margins.



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Moderator: Ladies and gentlemen, that would be last question for today. I now hand the conference back to the management for their closing comments. Thank you and over to you.

Mithun Chittilappilly: I would like to thank the entire team of Nirmal Bang for helping us to host this call. Thank you, all.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Nirmal Bang Institutional Equities, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.

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