PG

PG ELECTROPLAST LIMITED
CIN-L32109DL2003PLC119416
Corporate Office :
P-4/2, 4/3, 4/4, 4/5, 4/6, Site-B, UPSIDC Industrial Area, Surajpur
Greater Noida-201306, Distt. Gautam Budh Nagar (U.P.) India
Phones # 91-120-2569323, Fax # 91-120-2569131
E-mail # info@pgel.in Website # www.pgel.in

August 07, 2023

To,
The Manager (Listing)
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 533581

To,
The Manager (Listing)
National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East),
Mumbai - 400 051

Scrip Symbol: PGEL

Sub.: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 – Transcript of the Earnings Conference Call

Dear Sir,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed Transcript of the Earnings Conference Call held on August 05, 2023.

This is for your information & Records.

For **PG Electroplast Limited**

Sanchay Dubey
Digitally signed by Sanchay Dubey
Date: 2023.08.07 10:06:14 +05'30'

(Sanchay Dubey)
Company Secretary

■ *Registered Office*
DTJ-209, Second Floor
DLF Tower-B, Jasola
New Delhi-110025
Tele-Fax # 011-41421439

"PG Electroplast Limited
Q1 FY'4 Earnings Conference Call"
August 05, 2023

MANAGEMENT: **MR. VISHAL GUPTA – MANAGING DIRECTOR, FINANCE – PG ELECTROPLAST LIMITED**
MR. VIKAS GUPTA – MANAGING DIRECTOR OPERATIONS – PG ELECTROPLAST LIMITED
MR. PRAMOD GUPTA – CHIEF FINANCIAL OFFICER – PG ELECTROPLAST LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the PG Electroplast Limited Q1 FY24 Earnings Conference Call hosted by PhilipCapital India Private Limited. During this call, the company may make certain forward-looking statements based on the currently held beliefs of the management of the company, which are expressed in good faith and in the management's opinion are reasonable.

The forward-looking statements may involve risks, unknown risks, uncertainty and other factors which may cause the actual results, financial condition, performance or achievements of the company or industry to differ materially from those in forward-looking statements. These forward-looking statements represent only the company's current intentions, beliefs, or expectations, and any forward-looking statement speaks only as of the date of this call on which it was made. The company assumes no obligation to revise or update any forward-looking statements.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Agarwal from PhilipsCapital India Private Limited. Thank you and over to you, sir.

Deepak Agarwal: Thank you. Good morning, everyone. On behalf of PhilipsCapital India Private Limited, I welcome you all to PG Electro Plus Limited Q1 FY24 Earnings Call. Today we have with us management represented by Mr. Vishal Gupta, Managing Director, Finance, Mr. Vikas Gupta, Managing Director, Operations and Mr. Pramod Gupta, Chief Financial Officer. Without taking much of time, I will hand over the floor to the management for their remarks, post which will open up for Q&A. Thank you, and over to you, sir. Thanks.

Vishal Gupta: Thank you, Deepak. And thank you. Good morning, everyone. Thank you for spending your valuable time and joining this call today. Hope all of you are doing well. I'm joined on this call by Pramod Ji, our CFO, and Vikas Gupta, MD Operations. Hopefully you have gone through the results presentation. And the first quarter of FY24 has been actually another strong quarter for PG. With good growth over last financial year numbers, despite headwinds of weather and lower commodity prices.

Sales grew around 26% and they have crossed INR676 crores, with product business leading the show with a 65% share in the revenue. And EBITDA increased by 78% and stood at INR67 crores and net profits rose 106% with INR33.81 crores. Product business crossed INR441 crores this quarter, with room AC business contributing INR383 crores, which is a 53% growth on a Y-o-Y basis. The washing machine business was flattish, mainly because of lower commodity prices. It was – we saw around 7% year-on-year decline in that.

Order book for product business remains robust, and the company is on track to scale the product business significantly in FY24. Our new product offerings in washing machines have received good response and companies continue its investments in new product platforms across different product categories. The company is focusing its efforts towards developing platforms that help it maintain cost leadership while also strategically investing to achieve product leadership for specific models.

Company continues to see increased interest for business from new and existing clients and we remain very confident on the future growth prospects of the business. For FY24, we are reiterating our guidance, which stands as our sales guidance will be minimum INR2,800 crores, which is a growth of 30% over FY23 numbers and operating profit guidance of at least INR210 crores, which is again around a growth of 28% over FY23 numbers. The growth in product business, which includes washing machine, room air conditioners and air coolers is expected to be around 43% from INR1,341 crores to around INR1,920 crores in this financial year.

Capex guidance for FY24 is in range of INR170 crores to INR180 crores, and company is further expanding room AC capacities by setting up a backward integrated AC manufacturing plant in state of Rajasthan. And we are also expanding our PCB assembly facilities for REC controllers in Supa, and we are setting up a similar facility in our Noida factory also. Our company has also entered into a 50-50 joint venture with Jena India to manufacture LED televisions. Now company has an access to Google OEM license and we will start manufacturing Google certified LED TVs and other products also in the future.

The JV company has already started setting up an integrated TV manufacturing facility in Uttar Pradesh and which we are very hopeful will be operational by the end of this financial year. With this now I will hand over the call to my colleague, Pramodji, our CFO, to elaborate on the financials.

Pramod Gupta: Hello and good morning everyone. I'm sure you have seen the financials and details already. Just to touch upon them, we had a very solid quarter, first quarter in many aspects. The net sales grew 26% despite a sharp drop in commodity price and headwind due to unseasonal rains. Operating profit has grown at 84.3% to INR64.2 crores and net profit rose 106% to INR33.81 crores. During first quarter, operating margin improved due to lower commodity prices and operating leverage.

More importantly, on balance sheet, we have decreased the debt by INR54 crores in the first three months of this year. This was largely due to the good operating profit and also decrease in the working capital. We are, as promised, we are on track to control our working capital in FY24. And this is a working capital optimization is one of the major focus areas for the company this year.

Our focus on improving working capital efficiency and overall capital efficiency has started bearing fruit now and as you can see on trailing 12-month basis companies RoCE has improved to 22.8% and RoE has improved to 24.9% on a TTM basis. Net fixed asset turn for the consolidated entity today stands at almost 4.5x. I want to highlight here that we want to deliver industry-leading growth with best-in-class return ratios in coming years, and with our new partnerships that we have formed, we aim to be a significant player in the consumer electronics industry as well. With this, I'd like to open the floor for question and answers.

Moderator: Thank you very much. The first question is from the line of Koushik Mohan from Ashika Group. Please go ahead.

Koushik Mohan: Hi, sir. Congratulations for the great set of numbers. Sir, I have a basic question on the gross margins. This time you have shown a very good set of gross margins and you have a great number of numbers. Sir, I have a basic question on the gross margins. This time you have shown a very good set of gross margins and you had a great number on the sales also. I just wanted to understand is it this margins are sustainable on the gross level?

Management: The gross level margins on a quarter to quarter basis depend upon the mix of the business. This quarter the product business did well and the contribution of electronics business which is typically a low margin was low at just 7.5% of the revenue. So if this mix continues like this, the revenue mix continues like this, then probably the margins are likely to sustain, but at the gross contribution level. But however, we see a seasonality in the business.

Typically quarter two and quarter three have a high contribution in the electronics business. So, and product business, especially the AC business has slightly lower contribution, especially in the quarter two. So the margins may vary depending upon the mix. Nonetheless, we are hopeful that we will be maintaining our gross contribution margin in a narrow range.

Koushik Mohan: Got it. So because of gross margin, you had an operating leverage and every other margin on the downstream has shown a growth improvement. So on a PAT level basis, what is the sustainable margin on a longer term basis?

Management: We don't actually track on the part level margin because they are outcome of actually track on the PAT level margin because they are outcome of things which are not in our control especially like other income and some of the money which we get from we will be getting in future we have yet not accounted in the form of PLI and the state government incentives etc which we have yet not taken into account but we think that 3.5% to 4% without the incentives is probably something which is sustainable over a long term period. If the mix of the business remains what it is today. If the mix changes, then obviously this margin will change.

Koushik Mohan: All right, sir. So then my next question is on, you have mentioned that there has been an debt reduction. So basically, the fund has flown through the internal accruals?

Management: Yes, all have come through internal accruals only. This quarter, if you will look at our balance sheet closely, you will realize there has been a significant reduction in the working capital, both in inventories as well as the receivables. We have reduced our payables also, but coupled with the solid operating performance and reduction in working capital, we have been able to reduce debt despite giving some advances for the expansions for the machineries and the plant, which we have ordered for all the three facilities in Supa, Bhiwadi as well as some joint venture investment which we have started making.

Koushik Mohan: Sure sir, thanks for that sir. Can I go with another one question sir?

Management: Sure, please go ahead.

Koushik Mohan: Sir, my question is on any update on the TV business side sir, what we have in the last quarter that we have spoken about?

Management: The joint venture agreement actually got finalized just two, three weeks back, but nonetheless we have already finalized the place where we want to put up the capacity. We have leased close to 2 lakh square feet space in Greater Noida and we have started ordering the machinery. Most of the machine orders have been finalized and for some advances also have been given. We hope to start the facility by end of this year. And it will be one of the largest facility in North India, having more than a million TV manufacturing in a single location.

Koushik Mohan: So sir, this revenues for this division will start flowing from next year, is that my assumption correct?

Management: See, the revenues will not get consolidated with PG Electroplast because it's a 50-50 joint venture, but the profits will get consolidated at the bottom line, half of the share of the profits. But nonetheless, this business should scale up very significantly over the next couple of years in our opinion.

Koushik Mohan: Got it. Sir, how about another update on Rajasthan, one of the plant? So you are expanding there also, right?

Management: For Rajasthan, we finalized the leased facility about three months back. The advances for the facility were given that time itself, and now the construction is going on a full-fledged basis. A lot of progress has been made on the land. We are hopeful that by December we should be able to start production, but let's see how the progress goes on. The plant and machinery has been finalized and we have started issuing the purchase orders for the plant and machinery. Some advances have been given and most of the advances will be released by next week.

Koushik Mohan: Got it. I'll come back in the queue, sir. Thanks for the help. Got it. I'll come back in the Q&A. Thanks.

Moderator: Thank you. The next question is from the line of Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee: My first question is with regard to your AC volumes, vis-a-vis the secondary retail offtake from the months of May to July. So, on a yoy basis, the reason I'm asking this is because your growth, your volumes were quite stronger than the end market, which actually declined in Q1, as we have been hearing in other calls so should we expect a strong impact on our volumes over the next couple of quarters so is that a logical assumption?

Pramod Gupta: Well not really one thing that you have to appreciate is that we are still small, our base numbers are still small. Second thing is that we are a contract manufacturer and we work for several brands, so some of the brands which we work with have gained market share and they have done well and they have seen a decent growth. Third thing which I want to highlight here is that, you know, there is a narrative in the market that probably industry has done pretty badly.

From whatever internal estimates we have, we think probably industry has not seen a very good growth as was envisaged probably in the month of February, March. But for sure, in our opinion, the industry has not seen a decline. There has been a lower growth probably because if you look at the industry closely, out of the top four players, three top players have seen very decent growth in the even in the month of April, May and June. And one of them is a public listed company which has already posted its result, the other two have made public a statement which is LG and Daikin.

And we know several other brands and some of the other e-commerce players and modern retail players with private labels, have seen a growth in the industry during this period. Nonetheless, we do know and we do understand that April and May were a slow month for the industry, but as per our understanding, June and July have been okay and industry has, in general, seen some reduction in the inventory levels.

Management: I will add to what Pramodji is saying. So secondary sales were a little better in the months of June and July and overall the trade channel inventory is quite normalized right now and we are not seeing any major drop in the volumes in next two quarters if we want to see on a Y-o-Y basis.

Pranay Chatterjee: Got it, got it. That is absolutely clear. Thanks for that. Secondly, I was looking at your, so I've heard your comments on the margins and you explained it by mixed change. I want to ask a specific question with regard to your other expenses. So if I see last quarter it was around INR30 crores, last year same quarter INR26 crores and now it's INR21 crores.

So is this also explainable because of mix change or something else has happened, some cost improvements and should we expect for example next quarter if you report the exact same revenue but let's say electronics was a higher share, would these other expenses have been a much higher number or is there a sustainable improvement?

Pramod Gupta: No in the other expenses there are there a couple of things obviously some part of it's a sustainable we have been working on cost control especially on the power side as we have been highlighting in the past that, today a lot of our power is actually being sourced either through the captive solar power generation or through the group solar power, which we have been investing in the last couple of years.

And that has led to power bill being almost flat year on year, which is the largest component of this other expenses. Apart from that, last year in the first quarter we had a loss on the forex of about INR2.5 crores, which is a part of that and which actually increased the other expenses. This year actually we had a gain on the forex side of about INR2.5 crores so there's a INR5 crores swing from that side which has come from minus 2.5 to plus 2.5.

Pranay Chatterjee: Got it, understood, understood. And one last question from me with regards to your guidance. Obviously you have maintained your guidance. I just wanted to understand as we move over the next six months towards the end of FY '23, what are the risks you expect or what are the things or factors you are keeping a tab on which could pose a risk to your annual guidance?

Pramod Gupta: We don't see any major risks into this. There might be, you know, general risks, but you know, the way government is trying to ban imports of a lot of things from other countries. So, we have a very high dependence on imports from countries like China. And it is true for the whole of the AC industry and the consumer electronics industry. So, we have to be very watchful on those things. But other than that, I don't see any very specific risks to the guidance, but we are shared with the people.

Moderator: Thank you. The next question is from the line of Gnyan Thakar from Ashika Group. Please go ahead.

Gnyan Thakar: Congratulations sir for a very good set of number. Sir, I would like to get an update on PLI benefits. When can we expect the PLI benefits will start flowing to the financials?

Pramod Gupta: So, what has happened is that we are eligible for the PLI benefits of the last year, but government has still not opened and finalized the formats and application for claiming that PLI. Once they open the forms and open the website where we have to claim, lodge our claim, and once our claim is lodged properly and we get an acknowledgement that is the time when we will start accruing or we will start taking the PLI into the accounts.

So we are hoping that to happen probably sometimes in the quarter 3 or quarter 4 this year and that is the time we will be booking the PLI benefit. We hope to get the PLI benefit probably in the fourth quarter but once the application is lodged and we get our confirmation that is the time we will start booking.

Gnyan Thakar: Sir, with respect to your investment in the JV company, how are we trying to fund the investment? Will it be through debt or maybe you are trying to raise fund or internal accruals?

Pramod Gupta: It will be largely through the internal accruals.

Gnyan Thakar: Sir, can you just give a color like how much will be the investment?

Pramod Gupta: In the first phase, we hope to do about INR10 crores to INR15 crores of investment. That will be largely going into the plant and machinery. Land and building as I told you has been leased. So we are not spending any money on that.

Gnyan Thakar: And it will be funded through PGEL's holding company if cash will be going direct?

Pramod Gupta: PGL own funds will be used which is going to come to the profitability this year.

Gnyan Thakar: Yes sir if you just allow me two more questions are there. Yes sir correct me if I'm wrong we have a TV business in the company right now, which is an assembly business, right? Yes. Will that business be shifted to this JV company or this TV business will be run independently?

Pramod Gupta: Vikas ji, can you take this question?

Vikas Gupta: Yes, so that the current TV business will be moving to a JV company. So that's the plan. So as we are targeting a much bigger volume of TV business going forward in a JV company, so that's how we'll be trying to focus and concentrate our resources there.

Gnyan Thakar: And sir, the guidance which you have given of INR2,800 crores, no. Okay, okay, I will get back to queue now.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yes, sir. Good morning, sir, and congratulations on a good set of numbers. So just wanted to, you know, understand from this JV for the TV with, what is the status of client additions? Where are you seeing traction? And when do you think that the business will start off and we can start seeing the revenues etcetera coming through?

Pramod Gupta: Vikas Ji can you please take this one?

Vikas Gupta: Yes, so I'll take this question. So basically, as Pramod Ji has already updated, we have already taken a building on a long-term lease basis in Greater Noida and we have already ordered the equipment plant and machinery. So that machinery should start arriving into our facility by end of November or December. And we should be starting our trial production by month of January, February. So, we are already working on client addition.

So, as you know, we are already doing a TV business in our parent company. So that will also get shifted to that JV company. So there'll be a client coming from the existing parent company, and we are already in discussion with quite a few new clients and that should start ordering with us in next two, three months' time.

Bhoomika Nair: So what will be our capacity, sir, out here to start with, and what do we expect in FY '25, since that will be the first year of proper operations what kind of volumes can we expect there and this would be all on ODM right for TV?

Vikas Gupta: So Bhoomika I would say like we are targeting this business to be a ODM business only but we will not be shying away from the OEM category also in case we are able to get an opportunity or doing a OEM business also, we'll do that also. We are installing a capacity of almost around 1 to 1.2 million TVs per annum there. And in the first full year, we are targeting a volume around 300K to 400K.

Bhoomika Nair: Okay, got it. And you're, obviously, I mean, are we looking at any backward integration in terms of the PCBs or any other aspects of the business to drive a little better kind of margin profile?

Vikas Gupta: So we already have our SMT lines in a parent company, so we will be utilizing that to service our TV business in a JV company. Going forward definitely we will look at the steps of backward integration where we might go for localization of molded parts and the sheet metal parts which goes into televisions.

Bhoomika Nair: Okay, got it. So the other thing is in washing machines clearly because of the weak demand you know the first quarter was impacted. Now how are we seeing the kind of scale up as one moves ahead in terms of demand trajectory etcetera? And here if you could kind of just help break down how is you know the semi-automatic and the fully automatic kind of performed and the client additions within each of these segments, please?

Vikas Gupta: So Bhoomika, in case of washing machine, definitely the first quarter was not that robust or as we expected, but now the kind of clients that we have with us, and there were certain hiccups in the first quarter for starting the mass production of one of our clients that have already been sorted and we already started doing the mass production. So the kind of forecast that we have from our clients, we are quite confident that we should be able to achieve a growth of almost around 35% to 40% in our washing machine category in this year also.

And regarding the breakup of semi-automatic and fully automatic, right now the fully automatic is still a very small part of our overall washing business. That should be around 10% of the overall volume and the value.

Bhoomika Nair: Okay. And when you're seeing the scale up from in the washing machine segment on the semi-automatic side, that is coming from like, in-house shifting to us or another EMS shifting to us or just because market is obviously not growing at this rate, or is it some import substitution or exactly what is driving this kind of shift to us and growth for us?

Vikas Gupta: So for us Bhoomika basically it is a mix of both the things like we have been able to add quite a few clients in our washing machine business and secondly we are also seeing a increased volunteer from existing clients as well.

Bhoomika Nair: Okay. And just lastly, if I may just squeeze in a question on the AC part of the business. Now clearly, I mean, you know, we've done very well because we've scaled up a lot of in terms of the wallet share, etcetera. Despite the industry being weak. Where do you see this year kind of, there's a lot of talk that the festive season should be better off by some of the brands that they are looking at. Are you seeing that traction and momentum in terms of your client conversations as well that they're expecting this kind of improvement and what kind of annual industry growth are you anticipating here?

Vikas Gupta: Vishal, will you answer this?

Vishal Gupta: See, the festive season typically is a low season. So I don't think that it is going to change the needle much for AC. So it is not going to change the needle a lot. So our sense is that, you know, first six months of the season, which starts typically from February, March and not till now, has seen a very low single digit growth or probably flat for the industry as a whole. And even if the industry does well in the second half, which will start sometime in January, February, March, which is the three months, four months, probably we will see very low single digit growth for the industry. This is the first part.

I have no clue of, actually I'm not an expert on the industry, but we hope that industry should see a growth given the penetration and all those things which are there. And more importantly now, even the new construction and new house construction is becoming good and a lot of launches are happening across the top cities. ACs are purchased, so hopefully that should also add to the demand in the coming years and coming months.

Coming to our volumes, we think we should be able to do on a revenue basis at least 40% to 45% growth this year also in the AC business on a full year basis.

Bhoomika Nair: Okay. Great. I'll come back in the question queue. Thank you so much and all the best.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Agrawal from PhillipCapital India Private Limited. Please go ahead.

Nikhil Agrawal: Hello, sir. Sir, any plans on PCBA and semiconductor PLIs, IIT hardware PLIs?

Management: We have already, Vikas, Yes.

Vikas Gupta: So in our daily company that we have established for TV business, we have already under the process of filing our application for IT PLI 2.0. So that process is already on. So we are going to participate in that.

Nikhil Agrawal: Okay, sir got it. And sir, any key and anchor customer for Google TV plant?

Vikas Gupta: I don't want to talk about these specific lines there.

Nikhil Agrawal: Okay, sir. Any kind of volume or margin which we can expect from that plant?

Vikas Gupta: So as I told earlier also like, we are putting up a capacity of 1.2 million TVs and in the first year we are targeting a volume of around 400,000 TVs.

Nikhil Agrawal: Okay. Thank you. Thank you very much. I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Thank you for the opportunity and congrats on a good set of numbers. Couple of questions. One is on the working capital itself. If you could help us understand what would be the individual receivable inventory and payable days, because I mean, we've had 55 days of receivable last year, and even FY '20 was similar. Where do you see this heading? And similarly, if you can help us understand for inventory and payday?

Management: See, this year our target is to actually improve the working capital and reduce the working capital days by at least 10 days to 12 days on an overall basis. See, this is typically a low season because the major working capital actually goes in AC, especially because of the imports and the client payments also are stuck because of the high season, which is there in the February, March month. We think, nonetheless, this year, on a full year basis, we will be able to control both the receivables as well as inventory better. Because on the receivable side, we are going to be taking a lot of steps to control the receivable days, we are doing, making sure that we do not give extra credit and also talking to our clients to give us some good credit terms so that we can control that.

On the inventory days, we are localizing a lot of our components from local sources and as we have been saying the ecosystem is developing in the country for a lot of components in the AC, which we were till now importing and this will be an incremental process and that will actually help us reduce the inventory significantly over the next two years to three years. This year is going to be our first major year where we should see improvement in the inventory days.

So that should lead to, on an overall basis, about 10 days to 12 days is what is our internal target. And if we are successful on that, then our overall inventory and receivable days on a year basis should actually see a marginal decline or at best, in the worst case, they should actually be flattish from last year. So, despite a top line growth, good top line growth this year that we should see. So, that is what is our target internally and we are very hopeful with the whatever progresses we are making in terms of choosing the suppliers and tying up the suppliers etcetera, and also whatever deals we are now doing with our clients where we are looking at solutions so that we can get our money early. So those things we are very hopeful that this year we should be able to manage our working capital.

I cannot pinpoint exactly right now, how many days of receivables or inventory will be there by year-end as of now, but this is a target internally and a lot of progress is being made on many aspects. More colour on this, I will give you probably sometime in October, November once the season starts. Once my terms get finalised and my sourcing also gets finalised to large extent, then how much I will be sourcing from China and how much I will be able to source from India. But a lot of progress has been made by the team this year on those things.

Pulkit Singhal: Understood. So the target of 10 days to 12 days, I mean, so 34 days of cash conversion cycle can come down to 24 even by the end of the year. That's what you're saying.

Management: Last year, I'm saying. From last year, not from current season. You see, today, right now, it is already a low season. See, typically, the…

Pulkit Singhal: No, I'm talking about FY ‘23 end. FY ‘23 end, you had 34 days cash conversion cycle average that you are targeting to be closer to 24. But the benefits, I mean, would should continue as you said because of localization. Is it largely giving you benefit this year or do you think next two years, three years also the inventory...

Management: Continue.

Pulkit Singhal: It will continue. Okay. And the PLI benefits, if you could state what the quantum could be annually like, this year and next year and is there anything which is factored in one key?

Management: We have not factored anything on the PLI or the state government benefits till now in this year or last year or even current quarter also, last quarter also. We will be taking the PLI benefits only once we are able to successfully lodge our application. If government has not yet started the process only, for the last year's PLI benefit, government has to open the and actually decide on the forms and everything which is yet not finalized. Once it is finalized, we apply and our application is accepted. That is the time we will actually build in into the financials the PLI benefit. This year we are supposed to get INR15 crores, which is for the last year and for next year we will be getting INR30 crores of PLI benefit which will be for this year.

Pulkit Singhal: Understood. And the benefits of this I mean, you would be partly passing to the customers is that already happening as a quarters or it will only happen once those benefits come to you? I mean how does it work?

Management: The pricing arrangements what we have with our customers are irrespective of the PLI benefits. So whatever pricing arrangements we already have with them, it is already -- there is no PLI benefit which we have to. Once we get that money, then that will straight away flow into our balance sheet or profit and loss statement. We need not share any part of that with our customers.

Pulkit Singhal: Understood. Lastly, the quarterly, I mean other expenses, even if I adjust for those factors of forex, on a Y-o-Y basis, it's still flat, like INR23.5 crores, whereas your revenues have grown 27%. So I mean, I understand you mentioned about power costs being flat, but then this would suggest every other cost is flat. I'm just trying to understand what has changed because you are also investing in newer facilities, etcetera. Have you thought that this would have gone up?

Management: So, right now, whatever new investments are happening in new facilities for that manpower recruitment process has just started. So those things will start getting reflected in coming quarters. But as far as I will tell you that there has been a very strong focus internally from the management side to control overall expenses and in order to ensure that we have to try to attain or maintain our cost leadership across our different product categories. So there is a very strong focus from the company side to control our expenses. And it has been supported by all this, you know, forex, games, everything, as Pramod ji has already stated.

Pulkit Singhal: Got it. Thank you and all the best.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Koushik Mohan from Ashika Group. Please go ahead.

Koushik Mohan: Sir, I got my answer. Thanks for the opportunity.

Management: Okay, Kaushik.

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

Sriram R: Thank you for the opportunity. I have three questions. One is, can you give the revenue breakup for your product division for FY ’23 and Q1 and FY ‘24?

Management: Yes, I will just share that with you in a minute. You can in the meantime come up with the next question.

Sriram R: Okay, my second question is, what is your market share in terms of contract manufacturing for AC and washing machines? And like, five years from now, is it safe to assume that your product division would still contribute majority of the revenues, as it perform today?

Management: Sir, for contract manufacturing, it is very difficult to give you any number that what kind of market share we have. But I can assure you one thing from our side, that we are seeing a healthy growth across all our product categories in contact manufacturing. Some of the players are listed and some of them are not. And so it is very difficult to give you any accurate numbers on that. But we are seeing a healthy growth in this.

And to your second question that for next five years, see, there is a very strong focus from a company on the product segment. Today, maybe ACs, washing machines, air coolers, and LED televisions is one area where we are focusing. And as Vikas has told you that we are applying for IT hardware PLI 2.0 also in our JV company. And we are trying to have some business in that category also and in next few years, whenever there are any new business opportunities coming up in product category, we will be looking at them also.

Sriram R: And sir in your earlier calls, you have mentioned that you are number two in terms of washing machines. So, I am coming from there. So, basically where is your third player and where is the first player in terms of revenue gap? How much is it? Just trying to understand where we are in the washing machine space?

Management: I think as per our understanding Dixon is a leader in the contract manufacturing for washing machines and we are a distant second. The gap is quite large. But in the next two years, three years, we are hopeful of closing that gap also.

Management: Thank you for your question. In the last year financial year, the AC business was 1,040, washing machine was 262 and 38 crores of coolers. This year, first quarter, the number is 383, 54 and about 4.8 crores in the coolers.

Sriram R: I'm just freezing in one more question. I think your earlier call, you mentioned that you're planning to launch front loads also. So, where is that, I mean, when can we expect you to do that?

Management: Now, sir, we are launching top-load fully automatic washing machines and we are studying the front-load washing machine category also. We are doing market research on that. Maybe next 2 months, 3 months we will be able to take a call on that and right now we are going ahead with adding more platforms. We already have two platforms in fully automatic top-load washing machines, but we are going to add two more platforms in full auto top-load machines.

Sriram R: Thank you so much. All the best.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Mahesh Warje, an Individual Investor. Please go ahead. Yes.

Mahesh Warje: Hi, sir. I was listening to a call of one of your competitors, and he mentioned that it is the component business in AC where the real profitability is and the whole unit profitability or that business perhaps doesn't have as much future. So, could you comment on that?

Management: See, we don't want to comment on the competition strategy. But our experience in the past on the component business has been that because of the low asset turn and high capital intensity, that business does not actually merit any capital investment. And there is no case for making a capital investment and on the standalone component business as of now, our working still remains the same. We keep on evaluating but it's very difficult to make money in RoCE terms or RoE terms in the component business in our opinion.

Mahesh Warje: Okay and the second thing that I came across in the same call was that the trend in the AC business is more insourcing than outsourcing and which is why the focus there has shifted to component side. So would you comment on that please?

Management: Sir, actually, some of the brands are going to have insourcing, given their commitment in PLI and they are going to put up their factories or expanding their factories. But to clarify, this PLI is on the components, not on the finished goods ACs. So, all those companies, whosoever are going to do insourcing, they will be making components also in-house.

But having said that, our company has a very different strategy to grow our AC business and we have a very large focus on the future growth drivers like large format retail and e-commerce guys and then there is a very long tail of brands in India there are more than 40 brands in India in the AC market and out of that maybe 25 to 30 of them don't have any manufacturing facilities and their numbers, annual numbers are maybe ranging from 50,000 to maybe 200,000 or 300,000 where it is not economically viable to set up their own manufacturing facilities. So, we are trying to target all those long tail of brands for growth for our company.

Mahesh Warje: Okay, thanks a lot. Thank you.

Moderator: Thank you. The next question is from the line of Amber Sighani from Nippon Mutual Fund. Please go ahead.

Amber Sighani: Hello, Yes, hi sir. Thanks for taking my question. Just two things from my side is one, you mentioned that you'll be applying for IT hardware PLI. So, if you can just elaborate a bit on for which products you would be planning to use this PLI as such and what are our plans there? Will it be a component or would it be a pure complete product per se like a laptop or tablet or anything as such, if you can give some color on that?

Management: So, we are just exploring the opportunities. We are in touch with some of the clients and as of now we are not able to provide any update on that. So as in, when we are able to form up something, we'll come back to you.

Amber Sighani: But for this we would be needing some partner or we have capability to go on our own?

Management: So as of now we are applying for this IT PLI 2.0 in our JV company, where our JV partner, Jaina India has some experience regarding the distribution of the IT hardware products. So, we will try to use that. Going forward, maybe we'll get into a partnership with one of our clients. So, right now it will not be prudent for us to disclose any information on that.

Amber Sighani: Okay and secondly just to reiterate the previous questions on volume and PLI on the other brands per se. First part is on the room AC side when we are seeing the top brands are also setting up their own manufacturing facilities or expanding their facilities as such. I understand there is a long tail of brands, but those will always remain a fringe brand as such. The larger growth will only come from us 5 brands, 6 brands collaboration as such.

So in the event of those expanding capacities in-house, do you see that our strategy of focusing on the fully built unit itself will have any risk in future on that line, that is one. And secondly, on the TV side, as one of the participants asked that the industry is not growing much per se. So, on that account of this new capacity, which we are setting up, how are we seeing to this getting utilized? Do we have any firm commitment or any firm orders on the onboard business?

Management: Vikas, I will answer this, for TV, you take this question. For RAC, basically we have a very different take on this whole thing. You know, the top brands are adding capacities. I fully agree with you and I just give you an example if you see 4 years, 5 years back what was the market share of the top four brands in the TV market / LED TV business or LED TV industry and what is their market share right now.

We understand sir that whenever there is a product commoditization happening, then the consumers will stop paying premium to those brands and there will be mushrooming of new brands. And with this ease of distribution, with this LFR and e-commerce players coming in, so there is a lot of mushrooming of the small brands. And let me tell you, these brands are nothing, but these are the price points.

When the products are getting commoditized, we believe that there will be a very strong focus on the kind of cost leadership you can offer to your customers and let me tell you outsourcing is always in India. To start with, the focus is always on the entry-level products where at some time if you see the companies like many companies who are doing their own in-house mobile phone manufacturing, LED TV manufacturing, washing machine manufacturing, are outsourcing entry-level products to the contact manufacturers.

So, this is not going to stop, sir. This is in fact going to increase with the increasing competition because the kind of cost structures what we can offer to the brands it will be very difficult for them to match those cost structures especially for the entry level products where the competition is very intense. Vikas about TV you can answer please.

Vikas Gupta: So, television I see like the market is like in case of televisions, almost 70% of the quantity that is being sold in India is outsourced. And if you see there are very few large contract manufacturers in TV category. I would say there are only two large contact manufacturers. So, we see a lot of scope for a third player especially in North India. So, we have certain clients, we are already in discussion with them and we are quite confident of the numbers that we are talking in television business. So, that is already there in pipeline. So, we will be exhibiting that.

Amber Sighani: Got it. And lastly, if you can just share volume numbers for room AC and wash machine in your product versus for FY23 and Q1 vis-a-vis last year?

Management: Can we take it offline? I do not have those numbers in handy and we will share, get it -- we'll reach out to you and give it these numbers to you.

Amber Sighani: No problem. That's fine. Perfect. Thanks and all the best for the future.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.

Management: Yes, thank you everyone for participating in the call. I just want to highlight that we are focusing on capital efficiency and we are committed to have a leading industry growth with best-in-class return ratio in the sector and we as a team are working towards that. We hope to maintain the leadership, cost leadership, and we will be investing in the product leadership for the specific models and products in the coming years. With this thank you all.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Management: Thank you everyone.