



PG ELECTROPLAST LIMITED

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February 16, 2024

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

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

Scrip Code: 533581

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 February 13, 2024.

This is for your information & Records.

For **PG Electroplast Limited**

(Sanchay Dubey)
Company Secretary



“PG Electroplast Limited
Q3 FY’24 Earnings Conference Call”
February 13, 2024



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 - JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to PG Electroplast Limited Q3 FY24 Earnings Conference Call hosted by JM Financial. 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 star, then zero on your touch-tone phone.

Please note that this conference is being recorded. Certain statements in this release concerning our future growth prospects are forward-looking statements which involve a number of risks and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. We will now undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.

I now hand the conference over to Mr. Deepak Agarwal from JM Financial. Thank you and over to you, sir.

Deepak Agarwal: Thanks. Good afternoon, all. On behalf of JM Financial, I welcome you all to PG Electroplast Q3 FY24 Earnings Conference.

Today, we have with us senior management, represented by Mr. Vishal Gupta, MD, Financial, Mr. Vikas Gupta, MD, Operations, and Mr. Pramod Gupta, Chief Financial Officer. Without taking much of time, I would like to hand over the floor to the management for their opening remarks, post which we open the floor for Q&A. Thanks and over to you, sir.

Moderator: The line for Vishal Gupta has been disconnected. We will please wait while we reconnect. The management line is very connected.

Vishal Gupta: Yes. Thank you, Deepak. Good evening, everyone. Thank you for your time and joining this call today. Hope all of you are doing well. Yes.

I'm joined on this call by Mr. Pramod Gupta, our Chief Financial Officer, and Mr. Vikas Gupta, our MD, Operations. We have already shared our results presentation and press release; Hope you have had the opportunity to go through the same. Nine months of this financial year has been another strong period for our company with good growth over last financial year numbers.

There is a lot of noise in the background. Hello. There is a lot of noise in the background.

Moderator: Yes, I'm just checking.

Vishal Gupta: We need to put all the people on the mute.

Moderator: Management can continue.

Vishal Gupta: Yes. Thank you. Yes.

So nine months of this financial year has been another strong period for PG with good growth over last financial year numbers. Sales have grown 26% in this period and have crossed INR1,665 crores with product business growing at 23%. EBITDA has also increased by 50% and stands at INR155 crores while net profits have risen by 75% and stands at INR65 crores.

Product business in these nine months have crossed INR888 crores in FY24 with room AC business contributing INR641 crores which is a 29% growth on a YOY basis. The washing machine business stands at INR234 crores and has grown by 11% on YOY basis.

Electronic business which includes LED television business was at INR277 crores and grew at 112%. Order book for product business remains robust and the company is on track to scale the product business significantly in FY24. Company is continuing its investment in new product platforms across all product segments and we are focusing our efforts towards developing products that help us maintain cost leadership while we also strive to attain product leadership.

The company continues to see increased interest for businesses from new and existing clients and we remain very confident on the future growth prospects of the business. For the ongoing quarter that is the fourth quarter of FY24, we are guiding for a strong 30% growth with a sales guidance for this quarter at INR1075 crores which is a growth of 30% over fourth quarter of FY23 and EBITDA guidance of INR100 crores which is a growth of 30% over the same quarter of FY23 which was at INR77 crores. The growth in product business such as washing machines, room air conditioners and air coolers is expected to be around 40% at INR870 crores.

So overall sales for this quarter we are guiding at INR1,075 crores. And the capex guidance stands in the range of INR170 crores to INR180 crores for FY24 and the major capex has been completed with new room AC plants operational in Bhiwadi, in Rajasthan and expansion of creating a new building of 300,000 square feet in Supa Maharashtra has been also completed and our flagship manufacturing facility for LED TV under JV of Goodworth Electronics spread across 300,000 square feet area is also more or less ready and we are ready for mass production from next month.

With this I will now hand over call to my colleague Mr. Pramod Gupta, our CFO. He will elaborate on the financials. Thank you.

Pramod Gupta:

Hello and good evening everyone. I am sure you have seen the financials in detail already. I am just summing up here.

We had a good third quarter in many aspects. The net sales for the quarter grew by 16% YoY despite sharp drop in commodity prices on a full year basis. EBITDA grew 23.1% to INR47 crores and net profit grew 40% to INR19.23 crores. During third quarter, operating margins moderated due to mix change. As lower margin, electronic business grew much faster than the overall sales growth. Coming to the balance sheet, we have utilized QIP proceeds to partly repay the debt both term as well as the working capital.

Also we have completed the capex and also we now have a gross debt of INR263 crores much reduced from the beginning of the year and cash and bank balance of INR164 crores. We are on track to control our working capital as promised and in 2024, working capital optimization remains one of the major focus areas for the company.

Our focus on improving capital efficiency is bearing fruit now and on trading 12-month basis, capital efficiency of the business has improved and our ROCE today stands at 19.8% and ROE was 16% post capital raise for the trailing 12 months. Net fixed asset turn for the consolidated entity is at 4.45x which we think we will improve further next year.

Our cash conversion cycle has lengthened in this quarter due to a strategic call by the management to pay around \$12 million as an advance to oversee vendors for better pricing for the coming AC season. We have recently signed a definitive agreement to acquire 100% stake in New Generation Manufacturing which is a private limited company and a 100% subsidiary of Amstrad Consumer India Private Limited.

We will be paying INR15 crores and 1 lakh for the 100% equity and CCD to ACIPL. Further, we will invest INR50 crores in NGM in the form of equity and debt to pay the ICDs and long term loans in NGM. After that, the NGM will become free from all encumbrances.

The NGM has 12 acres of land which is just across our factory in PGTL and also it has over 200,000 square feet shed built with some assembly lines for room AC and LED TV. With this, now I will like to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vipraw Srivastava from InCred Research. Please go ahead.

Vipraw Srivastava: Okay, so basically first question on your window AC facility. So, you are planning -- that facility is of around 300,000 units, right?

Management: Yes.

Vipraw Srivastava: And the total window AC sold has been constant for some time. That's around 1.1 million units.

Management: Right.

Vipraw Srivastava: So, this is like 30% of the existing market. So, just want to understand that was this being an in-house and the company is outsourcing it to you, or will you be taking this market share from fellow EMS players?

Vishal Gupta: So, basically, see most of the brands who are selling window ACs in India, they outsource, they don't manufacture in-house barring one or two brands. And see, we are not claiming to sell 300,000 window ACs. I don't think we have forecasted that we will be selling that much.

We are targeting to sell window ACs and we have basically -- we are going to start manufacturing next week. So, this year, we may not be actually targeting a very significant market share in this product segment, but definitely maybe 10% to 15% of the market share we are hoping to get in the first year of operations. I don't think we have said 300,000 window ACs in any of the statements given by us.

Pramod Gupta: Also, please appreciate this capacity is on annual basis which you are talking about and being a seasonal business even in the best of the case, the capacity utilization never goes up more than 60%-65%.

Vishal Gupta: So, that's the capacity. That's not what we are targeting to have right now.

Vipraw Srivastava: Okay, noted. So, even if you let's say plan to take away let's say at 60% utilization and 300,000, 30% of the market. So, even if [inaudible] will that be easy?

Vishal Gupta: I am saying 10% to 15% of the market we are targeting for the first year.

Vipraw Srivastava: I just want to understand. Sir, will you be able to take that share from fellow EMS players? What will be your pitch to them? How will you differentiate yourself from, let's say, Amber or EPACK?

- Pramod Gupta:** We have shown and demonstrated that already in the split AC and we are already having a very sizable market share today and the players you named we are actually closing on in the market share with both of them in terms of split AC and we see no reason why we will not be able to repeat that in the window AC.
- Vipraw Srivastava:** But in the split AC it was more about import substitution, right? A lot of China -- issues from China were being imported. That has currently become almost close to 1% to 2%.
- Pramod Gupta:** That market was open for the competition also, right? They were the players who were already there in the market. Still we gained the market share, right?
- Vishal Gupta:** We are the latest. We are the last entrant in the RAC segment -- in the RAC industry. We are the last person to enter and still we have gained significant market share in the presence of all these competitions which were already there.
- Vipraw Srivastava:** Okay, noted. Last question on the TV part. So, Jaina currently has Karbonn and Sansui as brands and you also have got Amstrad. So, I mean your future as a TV manufacturer will be closely linked with the future of these brands, right? Let's say hypothetically if these brands lose market share in future, then it will lead to your TV utilization -- TV must be running at your utilization. Is this understanding correct?
- Pramod Gupta:** No. That understanding is not correct. The reason being is that we are not creating this facility only for these brands. They will be also our clients and we will be targeting other clients also. By the way, this year we are having a very high growth in the TV and there are many more other brands which are contributing to the growth apart from Sansui and Amstrad or whoever you named.
- Vipraw Srivastava:** Right. But then Dixon has the largest facility, right, around -- it has around 26% of the market as facility.
- Pramod Gupta:** You have to visit our facility please and then you please comment whether who has the highest or best or whatever facility. I will invite you maybe in the two weeks later or maybe in the first week of March, come and visit our facility and then you can...
- Vipraw Srivastava:** No, I am just talking about the plain numbers. 9.4 million units of TVs were sold last year. Dixon has a facility of 6.6 million units. I am just talking plain numbers. So Dixon has 66% of the market. So what I am saying is how will you differentiate from Dixon? And let's say saying that you guys have some value proposition which Dixon doesn't have so that people should come and get a TV manufactured from you.

Vishal Gupta: Please understand we don't want to comment on the competition. We know about our capabilities and what kind of value proposition we can bring to our clients. Dixon has been there for long. And in the last one year we have grown our business in TV by more than 100% which has already been highlighted by Mr. Pramod Gupta while sharing the numbers and we are still confident going forward. We are already adding quite a few new clients and we are confident of having a rapid growth in the FY'25 also for our TV business. We are already aligned with certain clients which we cannot disclose right now.

Vipraw Srivastava: Okay. Thank you.

Moderator: Thank you. And the next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Hi, sir. So I hope you can hear me fine. I just wanted to check on ACs. Our top line for this quarter is down about 5%. We would have done about INR185 crores versus INR194 crores last year. Whereas brands have shown 30% plus growth. Any reason why ODMs are showing such low growth as compared to brands?

Pramod Gupta: Yes, there is a reason there. The reason is that some of -- most of the brands were carrying little inventory because there was an unseasonal rain in May and June and there was a lot of built up which happened during the January, February, March last year and that inventory was being carried by brands and they have just kind of got rid of their inventory because the off-season sales were very strong.

Also one more thing I want to highlight here. See, the capacity in the system has increased and because of that what has happened is that the seasonality in the business has increased further. So earlier the clients which used to get their manufacturing started sometime in November, December, now they have pushed it more and aligned with the sales that they do to their dealer and distributors.

So right now if you see for most of the contract manufacturer, the sale is going to be much higher in January to April, May period than what it used to be in the past because everybody knows that there is no dearth of capacity so they don't need to make it -- they don't need to build the inventories from November itself. So that also is one of the reasons why because of which the sales have actually shifted in the AC side.

In our case also one of the reasons is -- I'll tell you, one of the reasons for decline is also the ASPs, average selling price for most of the consumer durable items at contract manufacturing site are down anywhere between 5% to 11% in the last one

year or last two quarters at our end and that is also the reason why the overall sales look little lower because commodity prices have corrected.

Like, for example, plastic is down almost 12% on a year-on-year basis, copper is down 8%, aluminium is down about 10% percent. So because of those things, the prices of -- average selling prices of most of these consumer durable items are also down.

Deepak Krishnan: And any change in mix from components to finished goods? Is that also a big factor, because the capacity coming in...

Pramod Gupta: No. At our end, we have a balanced capacity. We are still focusing a lot more on the full product side and as we have been telling in the past, we are still going to be focusing lot more on the full product business. When I give you the numbers of product on the AC side or washing machine, they are the complete finished good products which we sell. We don't actually give the numbers on the component side and they are part of our plastic moulding and other segment. When the product side is only the finished good, final finished assembly which we are billing to the customer.

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

Pranay Roop Chatterjee: Firstly a couple of data-related questions. Can you provide the volumes of RAC IDU ODU and washing machines that you did in Q3?

Pramod Gupta: That data we have stopped giving and we don't share for the competitive reason actually and we are sharing only the AC, washing machine and product business revenues only right now.

Pranay Roop Chatterjee: So actually why I am asking because like you said, one, there was some sort of inventory correction and then the ASP also went down and hence the revenue is down. So it is difficult to assess whether on volume terms we have grown. And hence in your Q4 guidance you have built around 40% growth Y-o-Y in Q4 for the product business. If there is an ASP decline of around 8%, 10% that means you need upwards of 50% of volume growth in Q4, right, on the last year Q4 base.

Pramod Gupta: No.

Pranay Roop Chatterjee: Okay.

Pramod Gupta: The reason is this that there is a new product line also which we are starting which is the window AC. And apart from that we are also starting to manufacture the -- having a manufacturing facility which is going to start production this month may be

in the second half and from next month there will be a ramp up. So there will be volume growth coming from the Bhiwadi facility also which will be contributing for us. So the volume growth will be there no doubt probably what you are saying about may be 35%-40% in the existing product line and some business will be also being contributed by the window AC.

Pranay Roop Chatterjee: Perfect, sir.

Pramod Gupta: And these numbers I am saying are after what we are seeing already in the terms of run rate in the month of January, February based on that numbers only we are giving you a guidance.

Pranay Roop Chatterjee: Got it. Understood. Yes, that is all clear. Next, sir, quickly again a detailed question. In your Q4 guidance you have guided for INR100 crores of. I think in December or late last year, audits were going on in plants for the white goods PLI. So that INR15 crores PLI is this part of this INR100 crores EBITDA? And if not, when do you expect it?

Pramod Gupta: See, we have submitted our application. Audits are completed at our end. There are some queries and those are getting addressed by our team, accounting team and we hope to get the PLI maybe in next 15 days to a month's time. And INR15 crores of that PLI is a part of this INR100 crores.

Pranay Roop Chatterjee: Got it. Next some more high level strategic questions. Now when I look at your -- when I look at PG's AC business, obviously it's scaled up quite brilliantly over the last three years but there seem to be quite a few factors that play when I look at it from a next two-year perspective. So let's say the RAC is growing at about 8%-10% at an industry level. What will happen is next two to three years, a chunk of the outsourced portion will sort of go in-house purely because they have invested -- the OEMs have invested in capacity.

Now the numbers that I have heard is 40% outsourced portion going to sub 30 already and then it will further reduce as the remaining OEMs actually move it in-house. While this is at play you are also expanding your market share quite rapidly, historically at least and you are focusing on CBUs and also targeting the long tail of OEMs in the RAC industry, like 40 plus brands who sell. So given this context and that you have also expanded your RAC in Bhiwadi, Rajasthan, what kind of visibility do you have in FY'25?

Can we -- because there is a lot of dust and it's not clear. Can we expect a growth on FY'24 base for your AC business or should we think of it more as a flattish year

where we are trying to figure out what happens in terms of insourcing versus outsourcing?

Pramod Gupta:

Coming to your question, I do agree there is a capacity coming in the brands themselves and there is a capacity which is coming in the competition also. We are quite optimistic first of all on the medium term growth on the AC business segment. Yes I don't dispute the fact that next one year or one and a half year could be a little challenging as some of the outsourcing work may be shifting to in house. But at the same time I just want to highlight that stabilizing the operation and rapidly scaling up the operation is also not easy for all the brands which have not been in the manufacturing business themselves.

So let us see how the scaling up actually happens that will decide the pace of outsourcing versus insourcing in the next one and a half year. I am not saying it is not possible to scale up but it is just that the hurdles will be there and how the companies are able to tackle that will decide what happens next year and year after. Also another thing which I want to highlight here is that given the fact that we are seeing opportunities in the side of government push and so many policies, we are very hopeful that probably there will be a period in the next five years where the growth in the AC segment will surprise.

And we will see a continuous growth of 20%-25% or maybe five-six years because the penetration levels remain so low. And affordability is increasing especially I am very hopeful that once the electricity prices are relatively lower these things will start picking up the penetration levels will start picking up very significantly. Also I want to highlight that our cost competitiveness cost leadership makes us a preferable partner for most of the companies who are looking to outsource.

And we have been gaining market share and if the market remains even stable then we are hopeful that we will be able to show some growth even in 25.

Pranay Chatterjee:

Got it sir and lastly anything you would like to disclose on IT hardware PLI in terms of investments that you are planning to do the orders that you might have got or in the pipeline any disclosure on that picture?

Pramod Gupta:

We will disclose those things as and when we have any announcements to make. The efforts are on and the team is working towards it, that's all I have to say.

Pranay Chatterjee:

Thank you sir I will get back in the queue.

Moderator:

The next question is from the line of Praful Siddharth from Shravas Capital. Please go ahead.

- Praful Siddharth:** Hi, sir. Congrats on good set of numbers I just wanted to understand how much revenue did we generate from the plastic moulding segment during the quarter?
- Management:** Just hold on for a minute I will just give you this figure. This quarter plastic moulding and others were just -- it was INR151.7 crores.
- Praful Siddharth:** Got it, sir. Got it. Sure and how much is it from the electronics and moulds segment?
- Management:** Electronics was totally about INR103.09 crores.
- Praful Siddharth:** And the moulds?
- Management:** Pardon?
- Praful Siddharth:** Molds.
- Management:** Molds was about INR1.72 crores.
- Praful Siddharth:** Got it. Great sir. Thank you so much. That's it for me.
- Moderator:** Thank you and the next question is from the line of Koushik Mohan from Ashika Group. Please go ahead.
- Koushik Mohan:** Hi, sir. Sir in the starting you mentioned that about the cash flows that you have made some international payments and that's the reason there has been a stretch in your cash flows. Sir can I get some more clarity how much discount are we getting because of this or what kind of thought process we have that we have extended our cash flows?
- Farokh Pandole:** This is just. Yes.
- Pramod Gupta:** Yes there was this cash flow that excess cash which we are having was lying in the fixed deposit and we are getting just about 7% interest on that. What we have done is there was a particular vendor with whom we were able to negotiate for about 3% kind of a discount. And on an advance payment basis rather than giving him a payment afterwards and that's why...
- Vishal Gupta:** Our payment terms with that vendor was 45 days. So for 45 days we have paid them before shipment and we were able to take cost advantage of 3%. So we saw it as a very significant saving. So that's why we went for that.
- Koushik Mohan:** Okay. And my sir, second follow-up question is on, sir how are we looking the growth on RAC segment over next year. Any comment or any thought process that we have it?

Pramod Gupta: See, I will be able to give lot more colour on it once we actually are meeting after the fourth quarter. By that time we will have much more clarity on the outsourcing plans of some of our clients. However the order book that we have as of now till May, June looks pretty promising and at least in the first half of the next year which is till June we see a decent growth accruing to us if the season doesn't play a spoil sport again this year.

Koushik Mohan: Got it. Sir, and you also mentioned that we are going to get in INR100 crores, INR15 crores as a PLI amount. That means that this quarter margins and everything were all in line. Just because of the PLI we will be getting a spike on the EBITDA and the PAT level. Is my assumption right?

Pramod Gupta: Yes you are right on that. But see we don't actually take the PLI benefit till the time it actually comes to us or our application was accepted. So this quarter our application has been accepted and we are hoping the payout to come this quarter. So that's why we are actually delaying this accruing of PLI to the quarter, this fourth quarter.

Koushik Mohan: Got it. That means that we are in a run rate of net profit of INR100 crores this year?

Pramod Gupta: You cannot say run rate ours is a seasonal business and you know typically fourth and the first quarter of any financial year are the strongest period for us and second and third quarter are typically little weaker.

Koushik Mohan: Thanks.

Moderator: Thank you. And the next question is from the line of Mahesh an Individual Investor. Please go ahead.

Mahesh: Yes. Hi, sir super numbers. Just wanted to understand this PLI side, I heard somewhere that of the 25 companies that applied for AC-PLI and this was a few years ago. Now just eight or nine companies are actually in a place to claim any incentive at all because they have not been able to meet the objectives. So what has been our PLI experience and what do you see, is the competition also going to get incentives or not meaning obviously you can't know exactly but what is your sense on this?

Pramod Gupta: I think one is that the targets are getting challenging for everyone on an incremental basis because there is a growth which is required year-on-year to meet the PLI targets. And next year the challenges are going to be bigger because the size or the amount of targets are almost 50% higher than what they are this year on an incremental basis. Obviously some of the companies or the competition or people who had a larger revenues in the base year they are at a little disadvantage because of

the fact that they have to not only first of all do the numbers which they did in the base year. And now they have to actually meet these incremental targets also. I don't have the number of how many people are likely to get or not. I think there was 21-22 companies which were totally there in the first phase when they applied. And some of those must have fallen through because the targets are stretched and one thing was always that investment and sales both needed to be done to meet the targets. And some of the companies are probably not done the investment targets also in the first phase. And they have fallen apart. And now the sales will be obviously some challenging for some of the companies.

Vishal Gupta:

Mahesh ji I agree I will further add to what Pramod ji has said so when this PLI scheme was announced and when we set up this company by name of PG Technoplast which is a wholly owned subsidiary of PG Electroplast the basic structure and timing has been such that we are in one of the best positions to avail the benefits and take benefit of this PLI. The way this thing has been structured and since in our case the baseline is virtually zero.

So whatever sales we do is an incremental sale and we are able to get benefits, PLI benefits on those sales, whereas in case of the competition who have been in this business for last many years so they already have some legacy or some baseline numbers which they have to cross every year. And on the top of that they have to do incremental sales every year. And that also is increasing every year.

So the challenges for them is very high and that our customers also do understand. So they always prefer giving business to us because they know that some of that benefit maybe we can share with them.

Mahesh:

Yes, thanks. Are there any state benefits due this financial year or next financial year over and above PLI?

Vishal Gupta:

See, in case of PG Technoplast our super factory in Maharashtra so we as -- we already have a I think you are aware of that or not that we already have a mega project status from the government of Maharashtra. And we are hopeful to file our application in next two-three months. And in next financial year we are targeting to get those benefits also from the state government of Maharashtra.

Mahesh:

And one last question clearly meaning we have seen some of the larger competition results where the revenues have declined whereas in our case both the revenues have grown for first nine months as well as for the fourth quarter we are giving guidance of growth again. So we are gaining market share over competition. And as Pramod mentioned some time ago that there seems cost leadership is one of the drivers.

What I want to understand broadly without giving any competitive information whether the fact that we are concentrated as in most of our AC manufacturing has been happening in Supa. Only now we'll have another facility. Has that played a role in our cost competitiveness.

Vishal Gupta:

See definitely if you don't spread out anything in our case, our facility is one location till now and now we have one more location. Whereas in case of competition they have factories maybe spread across 20 plus locations. And they have to meet similar numbers, we are doing similar numbers from 20 plus factories and we are trying to achieve similar numbers from one or maybe now second unit. So definitely the cost overhead and all those, that can be an edge or an advantage but we are always trying to achieve.

Mahesh:

Okay, thanks a lot. So basically it seems like structurally PG has a cost advantage which cannot easily go away that's my conclusion from what you have said.

Pramod Gupta:

Also I want to highlight that ours is a mostly organic growth. We do not have any legacy which is coming to us because of inorganic growth or maybe other companies which have been acquired. And so we do not have those challenges or efficiency issues which some of our competition may be having because they have gone for many acquisitions in the past etcetera. And we have a very focused team and a very small team even in the middle and the top management which drives their whole business.

So I mean the kind of revenues we are doing from AC I mean not many companies will be having this smaller team which can actually drive this kind of revenues in the AC business.

Mahesh:

Okay, thanks a lot sir. All the best.

Moderator:

The next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.

Pranay Chatterjee:

Two more quick questions. Firstly on your acquisition of Amstrad's contract manufacturer NextGen. I was looking at Amstrad India's annual report and they seem to have about INR255 crores of revenue in FY23 and INR217 crores of purchase of stock in trade in their COGS. So, is it fair to say that if they, if this INR200 crores is entirely outsourced then that is what you can address. Is that the right way to think about it and how quickly can we service this because this is like captive or semi-captive sort of consumption right?

Vishal Gupta: There are two things basically the first part is with this facility what we have acquired, which was a 100% owned subsidiary of Amstrad Consumer India Private Limited, which has a brand name by the name of Amstrad. They had a manufacturing facility which was just across the road. It's a very new manufacturing facility, which very well aligned and fit with our current operations in Supa with the new factory building being made, now we don't have any more land available for future expansion.

So we thought that this being just across the road makes a lot of sense that we should acquire a 12-acre facility. That was one part. In addition to that, just to sweeten the whole deal, the basic idea is they are already branding of room air conditioners, washing machines, and TV. So as a part of the deal, we will have a preferential treatment and a first sign of refusal for any outsourcing opportunity for these products from this brand.

Pranay Chatterjee: So, sir, any sense if they're outsourcing part of that INR200 crores as of today?

Vishal Gupta: So we are already doing maybe some part of that, around 50% to 60% of that is already doing, but we are targeting to make it 100%. And go back further.

Pranay Chatterjee: And lastly, on the state incentive, could you just help us understand, I think you mentioned the INR15 crores number in one of the past earnings calls this year, that you will probably recognize next year after you file the application. Is the INR15 crores number accurate and is that a constant figure every year and how long will you get that for? Just some of those fall-back numbers.

Vishal Gupta: No, no, no. INR15 crores is not the right number. The number in the first year is going to be much higher because when we file for an application typically we get the past whatever numbers you have done, you are also able to claim that for the past 2-3 years from the time you have started the commercial production.

So that number is going to be more like INR20 crores to INR22 crores per year eligibility that is what we are expecting. So in the first year we will be probably having eligibility we will be accruing the two years numbers or maybe slightly more than two years numbers. In the first year the number is more likely to be more than INR40 crores to INR45 crores or maybe slightly higher than that.

Pranay Chatterjee: And basis, reasonable assumptions and your plans of filing in two months from now, how does the timeline usually look like? When can we reasonably accrue it to our P&L?

Vishal Gupta: Yes, you know, we have been in state of Maharashtra for last more than 12 years. So typically when you have your audit balance sheets and get your audit, GST audit done, which normally happens by September of, you know, next financial year. So suppose by 31st March 2024, we are able to close our balance sheet, get the audit done by April, complete our GST audit in next two, three months, and file our application. So before closure of next financial year, we should target to get this money from the state government of Maharashtra.

Pranay Chatterjee: So, but isn't this like 6% to 7% of sales? That's the formula, right?

Vishal Gupta: No, no, it's not like that. You know, the amount of capex you have done, the eligible capex, and it is divided by 12 years. So that becomes your maximum amount eligible, what you can get. But in case, because we have a mega project status, we can avail a gross SGST reimbursement from the state government of Maharashtra.

So in case of RAC, the gross SGST for room air condition is 14%. But you know, then there is a maximum cap. So, you know, we will get maximum cap only because we will meet that cap very easily.

Moderator: Thank you. And the next question is from the line of Pulavarthi Sai Kiran an individual investor please go ahead.

Pulavarthi Sai Kiran: Yes, so just taking a step back, if you have to look at the last three years or four years, finally the growth has been driven by the room AC for the -- company, and it has given fantastic set of results. And if we look forward for the next maybe three to five years, how do you see PG Electroplast shaping up, maybe both in terms of the product breakups and what are the initiatives which you guys are looking at, and probably with these initiatives how the numbers might look like?. Just your thoughts, that will really help us. Thank you.

Vishal Gupta: See, please understand there is a clear focus on the government of India for Make in India. And government is giving all kinds of tariff and non-tariff support to promote manufacturing in India. And they want to really restrict imports into India. So all these are playing out as a very strong tailwinds for our business.

In addition to that, there is a good economic growth what India is experiencing, which is actually improving the purchasing power and the disposable income in the hands of the consumers, which will actually propel the growth of the consumption of consumer deliverables and consumer electronics in India.

So when you ask for a number for three to five years, I can give you a very general statement. We cannot give you any specific numbers on that, but we are very

confident that kind of policy environment that we have in India, that kind of economic environment we have in India, we have a good future for ourselves and for the country.

Pulavarthi Sai Kiran: And in terms of any specific product initiatives which you might want to enter, and probably some progress would have already gone in either in terms of thinking internally or maybe discussing with a few other potential partners or something of that sort?

Vishal Gupta: We are always looking at all possible business opportunities. IT hardware PLI is one of them. That is what we are trying. We have re-entered the LED television business, where we can see that we can offer a long-term and viable value proposition for our customers and where we think that we can acquire required capabilities and skill sets to sustain that business on a long-term basis, we will definitely go into any kind of product business.

So as of now we cannot give you any specific inputs on that but as and when we will have something to share we'll definitely share with all of our stakeholders.

Pulavarthi Sai Kiran: Got it. One last question from my side. Just like what you have seen on the [AC] that's an exponential growth for this company any segments you foresee for the next few years which can drive such a substantial growth for this organization? That's it. Thank you.

Vishal Gupta: Sorry you were not very clear audible to me. Pramodji did you get this question?

Pramod Gupta: So this, right now, the hardware PLI and television business is surely one thing which we are expecting to show some decent growth. Also post-election we are very hopeful that there will be lot of opportunities coming for export and also some of the companies, some of our clients which are looking at Make in India initiatives and shifting out of China.

So there will be opportunities in them. Those opportunities I cannot detail right now because they're in initial stages of decision. But we are very hopeful that there will be some large opportunities for outsourcing coming with existing and new clients, which we are in the process of discussion. And once something formulates, we will get to it.

Moderator: The next question is from the line of Farokh Pandole from Avestha Fund Management LLP. Please go ahead.

Farokh Pandole: Hi. My first question was relating to the component infrastructure in India and you know to what extent over the last couple of years has there been any change and from everything that you know speaking with government etcetera, what do you how do you see the development of this infrastructure over the next couple of years, specifically with relation to depending on China?

Vishal Gupta: What is happening Mr. Pandole is that government is very clear that they have to promote local manufacturing in India but as usual you know now what government has done, they have put up a lot of quality control orders and they have mandated whatever goods are being imported into India, they need to have BIS certification.

And most of the Chinese companies are not able to get BIS certification for the finished products or components which they want to sell to India market. So those imports are getting restricted and all the Indian companies are kind of being compelled to either go for local manufacturing or have vendor development, tie up with vendors who are ready to invest and grow and make those components in India.

I will just give you an example. In case of room air conditioner, the copper tube plant is coming up in India and I think next two, three months the commercial production will start. The aluminium foil also, which was not available in India, that manufacturing will also start in next one or two quarters. Same, the motor guys are already expanding their facility in India. Compressor guys are expanding their facilities in India.

So there is a lot of action happening as far as consumer developers are concerned. And in case of consumer electronics, you also must be seeing a lot of media articles that a lot of action is happening at the semiconductor side, OFET side, PCB side. So a lot of things are happening. But it will take another two, three years for us to really evaluate the performance and the achievements of Indian companies, how well they take up this opportunity, take up this challenge, and how they really make them ready to compete with these Chinese companies.

Management: In the last three years, just want to sum up, a lot of development has happened, at least in the consumer appliances side. you know, the capacities have come in for different segments like motors, compressors, and now controllers are all getting assembled largely in India. So, a lot of assembly capacity as well as components capacity is coming up and is in the process of getting rammed up. We think that this will further accelerate in coming years.

Farokh Pandole: Great, just related to that question, would anything at all in the component space provide opportunities for you in the future as a company to exploit? And my second

question was just if you could give some clarity, because I think two of the previous participants asked a question about AC growth over the next year to which I got the sense that the answer was sort of opposite to those two questions.

I guess I misunderstood. So if you could just clarify as we look forward to the next year, you know, I know you can't be very specific with numbers, but if qualitatively you could address what is the opportunity for the next year as far as air conditioners are concerned?

Pramod Gupta:

See, surely on your first question on the component side, there are opportunities which are going to be there and we will participate in some of them for local manufacturing as well as if possible export opportunities. And we are seeing interest from both the clients as well as some of the vendors, existing vendors of ours as well as industry vendors who are looking for partnership in India for manufacturing those components or assembling those components in India.

However, you know, we have actually put up a very stringent safeguard in terms of the asset terms that we require to do any business along with the margins. So we are actually slightly cautious in taking up those opportunities, because we don't want to get into the business where we do not make adequate return on capital.

So we think which will fit our model or return expectation, we will surely pursue those opportunities and we are in discussion with some of the partners for the same. Coming to the other thing about the clarity on the business, see I have a very significant visibility of the next six months which is still the June quarter and because they are the firm orders which companies have given to us and if the rain, as I was saying, doesn't play a spoiled sport, we are very hopeful that even in the first half of next year the growth should be pretty decent for us.

Now there are capacities coming and there is a lot of noise about the capacities and expectations of some large clients who are putting up their capacity and how that capacity ramps up and what decisions they take, with whom they take to, take the work out and shift to their own capacity is going to be actually deciding the fate of each individual company. Fortunately for us, we do not have a very high dependence on any single large client. That is point number one.

Point number two is we have been all the time trying to get more and more new clients added and also expanding our relationship in each of the existing clients and that has been driving our growth.

We want to continue with that strategy, and we do know that business is going to get difficult maybe but because the brands also are facing a pricing challenge, they will

have to find out and they will have to work with the vendors who can give them a very price competitive solution and we actually stand the best chance among the competition.

So we are very hopeful that given our cost structure, given our positioning in the market and the PLI advantage that we have, we are and the quality that we give and the solutions we are giving and now we are working towards product leadership.

We are the best placed company in the AC segment for partnering and if there will be an opportunity in India, then we will be having a very good chance to continue to outsource, to become an outsourcing partner. So I cannot actually...

Vishal Gupta:

Yes, I will add to what Pramodji has said right now, Mr. Pandole. See, we got into AC business only maybe two years back, and in last two years, two things have happened, very significant things have happened that we have grown this business very rapidly and at the same time, we have been able to establish ourselves as a credible and a quality supplier and a quality partner to all our customers. So their comfort level is at a very, at a very different level now.

They are much more comfortable working with PG. They are very well aware of the capabilities of PG. So we don't see much challenge now. `See, two years back, we were totally new. That was very challenging times for us.

But if we talk about today, if we keep our heads down and we focus on the things that we are doing right now and we keep our focus there, we keep ourselves grounded, we don't see any challenge in growing this business further in spite of all the challenges that we have shared with you.

Management:

Just to add to what Mr. Pramod and Mr. Vishal has said, please understand, definitely air conditioning has played a very large role in the growth of our company for last three years. But nonetheless, there are other product categories also like washing machines, electronics, plastic molding, which are also growing.

So we feel that our revenue is much better diversified as compared to other competitive players.

And we feel there will be a significant growth in other product categories as well. So which will be able to help us in growing the company going forward. Thank you.

Farokh Pandole:

Excellent. That's great to hear. Thanks very much and wish you all the very best for the coming quarters.

Moderator: Thank you. And the next question is from the line of Nikhil Kanodia from Philips. Please go ahead.

Nikhil Kanodia: Sir, I just wanted to know what is the cost difference between Indian manufacturing and versus China in comparison to China?

Pramod Gupta: In what? In what products?

Nikhil Kanodia: AC manufacturing.

Pramod Gupta: Actually, it's difficult to say right now. See, the cost of manufacturing may not be very different. Maybe they may have an advantage of maybe 1% or 2%,3%.

But actually what happens is right now, the component ecosystem was largely there in China, and they had a huge advantage of economies of scale. And they were not paying any money to, get on the logistic side to get the components from China to India, which we have to pay. And also there is a long lead time and then financing costs also adds up on those things.

So that advantage they are probably enjoying. But that advantage is slowly going away because there is a manpower cost which is increasing very rapidly in China. And also the finding the availability to of labor to work in the shop floor is becoming challenges in the large cities, at least in China.

So those kind of challenges they are facing. But still, I believe they may be having an overall advantage of about 5% to 10% vis-a-vis Indian manufacturers because of the availability of components, local availability of components and also the scale benefit that they have.

Nikhil Kanodia: So, sir, this 5% to 10% benefit is post the labor arbitrage which you have said just now, right?

Pramod Gupta: Yes. About 5% or so is the cost on logistic itself that we may be paying in major of the major components that we are still importing from China and some of the raw material like copper we import, copper tubing. That's also quite bulky.

A lot of it is air actually. Similarly, the compressors, the motors, these things and the scale is very different in China. They are like making 10 times of what we sell right now in India.

Nikhil Kanodia: Got it. So the next question I think is that any plans to increase the RAC component business? I know you answered this previously, but I would like to I would like to elaborate more on whether you are planning to increase your component business and any plan for that?

Vishal Gupta: Definitely, we are planning to increase our company, any business, any business where we are able to we have certain our own internal benchmarks we have created for any capital allocation. if any business meets those requirements, those benchmarks will be very aggressive on those businesses, and we'll try to grow that business.

So we see by the grace of God, we have a large team of people available with us. So we are able to have focused approach in all product segments. And that is why we are able to grow all products segment for last three years.

So, yes, for components also, there is a very clear focus and there is a clear team available whenever any viable business opportunities will be there will be definitely be very aggressive for that.

Nikhil Kanodia: And one last question. How many customers are we having currently RAC and washing machines?

Pramod Gupta: In RAC, we will be probably servicing more than 25 brands this year. Similarly, in washing machine, we will be having close to 25 brands which we will be servicing this year.

Nikhil Kanodia: And this will increase to any rough idea?

Pramod Gupta: Increase to we will be able to tell you only next year once we add and start getting order. But this is as of this financial year, I'm talking '24 financial year.

Vishal Gupta: So as like we have added quite a few clients in both in our air conditioners and washing machine business in last one or two quarters.

Nikhil Kanodia: Okay. Understood. Thank you so much.

Moderator: Thank you. As there are no further questions from participants, I now hand the conference over to management for closing comments.

Pramod Gupta: I'd like to thank all of you for taking and sparing your valuable time to come and participate in the call. We would like to also invite you to visit us both in Noida, Bhivadi now and also in Supa and see our facilities. You can call me, or you can contact, you know, send the email to our investor relations and we'll try to accommodate you. Thank you very much.

Moderator: On behalf of JM Financial, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Management: Thank you, everyone. Thank you.