

June 07, 2023

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

Dear Sir/Madam,

Sub: Transcript of earnings call pertaining to the Financial Results for the quarter and year ended March 31, 2023.

Dear Madam/Sir,

This is with reference to the Company intimation dated May 19, 2023, filed with the stock exchanges in terms of regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015, regarding the earnings call to discuss the financial results for the quarter and year ended March 31, 2023, scheduled on May 31, 2023. The audio recording was filed with the stock exchange. We are enclosing the transcript of the Earnings call. The same is also being uploaded on the website of the Company at <https://www.vguard.in/investor-relations/shareholder-information>

We request you to kindly take the above information on record.

Thanking You,

Yours Sincerely,

For V-Guard Industries Limited

Vikas Kumar Tak
Company Secretary & Compliance Officer
Membership No. FCS 6618



Encl: As above



“V-Guard Industries Limited
Q4 FY '23 Earnings Conference Call”
May 31, 2023



MANAGEMENT: V-GUARD INDUSTRIES LIMITED

MR. MITHUN CHITILAPPILLY – MANAGING DIRECTOR

MR. RAMACHANDRAN V – DIRECTOR AND CHIEF OPERATING OFFICER

MR. SUDARSHAN KASTURI – SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

MODERATOR:

MR. DEEPAK AGARWAL – PHILLIPCAPITAL INDIA PRIVATE LIMITED



Moderator:

Ladies and gentlemen, good day, and welcome to the V-Guard Industries Limited Q4 FY '23 Results Conference Call, hosted by PhillipCapital India Private Limited. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital India Private Limited. Thank you and over to you sir.

Deepak Agarwal:

Thank you. Good afternoon, everyone. On behalf of PhillipCapital India Private Limited, I welcome you all to V-Guard Industries Limited Q4 and FY '23 Earnings Conference Call. Today, we have with us senior management represented by Mr. Mithun Chittilappilly, Managing Director; Mr. Ramachandran V, Director and COO, and Mr. Sudarshan Kasturi, Senior VP and CFO.

Without taking much time, I would like to hand over the floor to the management for their opening remarks, post which we'll open the floor for Q&A.

Thank you and over to you, sir.

Mithun Chittilappilly:

Thank you, Deepak, and PhillipCapital for hosting this call for us. A very warm welcome to everyone present on today's call. Thank you for joining us today to discuss the operating and financial performance of our company for the fourth quarter and FY '23. I trust all of you have had a chance to refer to our Investor Presentation, which was shared yesterday.

We reported consolidated net revenues of INR4,126 crores in FY '23, which is higher by 17.9% on a Y-o-Y basis. Excluding revenues from Sunflame, the underlying revenue growth is 16.3% on a Y-o-Y basis, ahead of the CAGR of 11.9% over the period from FY '19 to FY '23.

During the year, the South markets grew by 9% y-o-y, while the non-South markets grew by 26.4% Y-o-Y. With continued strong growth from non-South markets, their contribution to overall revenues has crossed 45%, providing the business with a diversified revenue base.

In our Electronics segment, comprising of stabilizers, digital UPS and inverters, we reported revenue growth of 21.9% Y-o-Y. In the Consumer Durables segment, where we market fans, water heaters, kitchen appliances and air coolers, we registered a growth of 20% Y-o-Y. The Consumer Durables segment is achieving meaningful scale in top line, and we are sure that the benefits of operating leverage will soon become visible going ahead.

In the Electricals segment, comprising of wires, pumps, switchgears and modular switches, we registered a growth of about 11% Y-o-Y. FY '23 has been a difficult year in terms of margins for our industry. After a few challenging quarters caused by significant input cost challenges, Q4 margins have shown an improvement over the previous quarter. The benefit of stable commodity prices and the charge out of high-cost inventory are beginning to flow through. We expect the gross margins to further improve in Q1 FY '24.



In Q4 FY '23, we have taken a P&L charge of about INR10 crores towards one-time expenses relating to the acquisition of Sunflame and Simon Electric. The advertisement and promotion spends are also higher as they are steadily returning to the normative levels. PAT in FY '23 is INR183 crores compared to PAT of INR228 crores in FY '22. It is pertinent to note that in FY '22, we had a prior year tax credit of INR8 crores as we switched over to the new tax regime.

In FY '23, the tax benefit of about INR20 crores arising from the Simon merger has been shown under the other comprehensive income. Adjusting for that one-time expense incurred in FY '23 and the tax benefit in the base year, the profit after tax is of a fairly similar level in FY '22. As we had indicated earlier, we are carrying higher inventories to mitigate risk of supply disruption and would like to revert to normative inventory levels over FY '23. We have made substantial progress in doing so, and we have released close to INR200 crores worth of working capital with the scope of another INR70 crores to INR80 crores to be released in the following quarters.

During Q4 FY '23, we completed the acquisition of Sunflame and the merger of Simon. In the case of Sunflame, the initial post-transaction work is complete and the business integration is underway. Hiring for key positions is complete and dealership is now in place for Sunflame. Over the next 6 months to 9 months, we will review the portfolio, strengthen channel presence and undertake interventions in technology and process capabilities.

The Simon merger has been completed with effect from 25th of March 2023. We have started running the business and have identified areas to focus on the near term. These M&As are all good strategic fit to V-Guard and with multiple levers for synergy benefits. The Board of Directors have recommended a final dividend of INR1.3 per equity share on a face value of INR1.

With that, I conclude my opening remarks and would like to thank Deepak Agarwal and their team at PhillipCapital for hosting this call and would like to request the moderator to open the floor for Q&A.

Moderator: The first question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal: Three questions. Firstly on the South market. It's been underperforming for V-Guard for the year, for the quarter. What's your reading, Mithun, on this? Is it more due to competition or is it anything else? Especially wires and Durables for fourth quarter looks really low to me.

Mithun Chittilappilly: Okay. Yes, the South market is fairly mature for us. We don't have that much avenues of growth in terms of distribution expansion. So, most of the growth is organically coming and some of the growth is coming by way of introduction of new products. So with the kind of challenging environment as we saw in the last year with huge inflation and softening consumer demand, there has been, there is growth of 9%, what we have achieved. But having said that, even traditionally pre-COVID South was growing at something like 8% to 9% and non-South was growing at something like 22%, and that's how the average was coming to around 15%. So, we're doing okay with the South market growth of 9%. It's not very high, but it's probably reflective of the fact that it's a fairly mature market. And sorry, the second question is?



- Rahul Agarwal:** No, second question essentially was a reflection of fourth quarter performance also that whilst Durables' top line look pretty low to me, but the more important question here is that since you said in South, we cannot expand distribution more. So, this performance of 9% Y-o-Y, maybe 15%, 20% non-South, does that continue next year? That's more important to understand.
- Mithun Chittilappilly:** Yes. I think this was the -- of course, as we grow larger in non-South, the base is getting large, but we still have some white spaces even in non-South. So, we are probably only present in the larger towns and cities in non-South. We've not really explored the upcountry markets much because we are building a new brand. So, we still have lot of levers in non-South to grow. If you ask me non-South market is actually roughly 60% of the total India market and about 35% to 40% is the Southern part of the country. So in that sense, we still have some more way to go in terms of distribution expansion.
- Rahul Agarwal:** Perfect. Got it. Secondly, on Sunflame, in your press release, you have given consol P&L as well as the ex-Sunflame P&L. I'm just trying to remove the EBITDA difference, that's INR10 crores. Obviously, there is a one-off sitting there, which is INR10 crores, which is including other expense. Is that correct, Sudarshan?
- Sudarshan Kasturi:** So, you're trying to work out Sunflame EBITDA? Is it? That was INR8 crores for the quarter. That's the difference.
- Rahul Agarwal:** But the EBIT reported is INR14 crores, so I was bit confused how is that?
- Mithun Chittilappilly:** No, the Sunflame -- we will recheck that. But what I remember saying was Sunflame revenue...
- Sudarshan Kasturi:** Sunflame revenue was about INR57 crores something and EBITDA was...
- The other INR10 crores what you mentioned is one-off is in the V-Guard costs.
- Mithun Chittilappilly:** It's sitting in other expenses of V-Guard.
- Rahul Agarwal:** Okay. So maybe I'll repeat my question. What I meant is Sunflame difference is INR57 crores on revenue. The EBIT reported in Sunflame is INR8 crores. Is that correct?
- Sudarshan Kasturi:** Yes. Correct.
- Rahul Agarwal:** Can I get the EBITDA number for Sunflame?
- Sudarshan Kasturi:** Just give me a moment. I will tell you.
- Mithun Chittilappilly:** We will come back on that.
- Sudarshan Kasturi:** We will come back on that.
- Mithun Chittilappilly:** We will connect offline on this number.
- Rahul Agarwal:** Okay. Just last question on the debt side. So, my understanding was we had INR400 crores cash, and we were drawing about INR300 crores for the acquisition. When I see the balance sheet



right now, it has INR270 crores long term, which I understand is more for Sunflame. But why do we have INR150 crores short term? I just need to get a clarification on that. That's all. That's my last question.

Sudarshan Kasturi: Yes. No, we took a funding mix like that. We took a long-term funding of INR275 crores and then the short-term reflects vendor financing, which is a working capital facility. So, that was the funding which we used.

Mithun Chittilappilly: So V-Guard was not using its working capital facilities and we decided to use a mixture of the working capital facilities to a smaller degree and, of course, long term debt to a larger degree. So it gives us some flexibility to keep the debt down as we go forward.

Rahul Agarwal: Got it. Perfect. All the best for the year. I come back in the queue.

Moderator: We have the next question from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar: Sir, my first question is again regarding Sunflame integration. You did speak about that a little bit in your opening remarks. But could you throw some more colour as to what are the key steps of integration that you propose to take, both in terms of back-end integration as well as front-end integration? Also, if you could share any milestone revenue or cost synergies that you propose to get out of this integration?

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

Ramachandran V: Yes, Mithun. I'll do that. I think Sunflame is going to continue as a standalone entity operationally, and it will run independent of V-Guard, so that the 2 brands are able to compete. Again, they also have the different advantages in terms of cost structure and go-to-markets. So, at this stage, we are keeping these two separate. So that's the first part.

In terms of how we will try to create a benefit and impact on Sunflame, would be through some of our central capabilities like maybe trade, procurement like, for example, if you may talk about customer service, so these are areas where we will be bringing our capability and know-how to benefit the Sunflame business. I think that was your question, right? So, there is no direct integration between Sunflame and V-Guard. We are going to operate separately.

Sonali Salgaonkar: Right. But in terms of, say, production, so V-Guard outsources, if I'm correct, about 50% of the production.

Ramachandran V: No, no. So as far as kitchen is concerned, again, in the short term, they continue to run as separate entities. V-Guard is setting up its own manufacturing facility, which is underway in Vapi and that fundamentally, we are looking at the gas stove and mixer grinders. At this stage, immediately, we don't have any plans to shift our sourcing of gas stoves to Sunflame, but these are things that we will see because we are putting our capacity in place independent of Sunflame.

Sonali Salgaonkar: I understand. What is the capex guidance for FY'24?

Mithun Chittilappilly: Sudarshan?



- Sudarshan Kasturi:** Capex will be around INR100 crores.
- Sonali Salgaonkar:** I understand. Any cost or revenue synergies you would like to quantify that you propose to get from Sunflame, say, in your one-off integration or your two-off integration?
- Mithun Chittilappilly:** I think at this moment, we won't like to quantify anything. But yes, there are going to be synergies in sourcing, freight, packaging, stuff like that. There may be even synergies by sourcing through Sunflame vendors for V-Guard as well, especially for gas stove and chimneys. So, these are things. At the moment, we are not going to quantify it. But I think for us, the low-hanging fruits for Sunflame today has very little presence in e-commerce, which is usually about 25% to 40% of the kitchen business in India today and Sunflame has very little presence in modern trade. Again, maybe 20% of the business in India today.
- So barring GT, we will be aggressively driving the other channels for Sunflame. Sunflame is very strong in canteen and GT, but the other two channels is missing from its portfolio. So, our focus will be on driving revenue growth for Sunflame first and then working on cost reduction and synergies.
- Sonali Salgaonkar:** I understand. Second part of the question, Mithun, is also about the distribution network. Are there any advantages in terms of cross-selling that you pursue because Sunflame is more non-South? Also, if you could quantify what is the distribution of the retailer footprint of Sunflame versus V-Guard?
- Mithun Chittilappilly:** Yes. So Sunflame follows a slightly different distribution strategy. Sunflame works with super stockists, super distributors. So in each state, they have 1 or 2 or in some cases, 3 very large distributors, where Sunflame sells its products on a cash-and-carry basis and the distributor then stores and gives credit to the retailers in GT and then they have their own sales people on the ground selling it. So it's a very different system from V-Guard where V-Guard is more, working directly with retailers, and we have a very large sales force and we have lot of smaller sized distributors. So that's slightly different. So immediately, we are not looking to change much.
- But yes, in South India, Sunflame's presence is very low. They get only 15% to 18% of the revenues from South India. So, we are aggressively going to grow the Sunflame business in South. Now, we are in the process of hiring people for Sunflame in South. They have a very small team, and we will be aggressively driving that. Right now, we are not looking to change the way Sunflame is doing its GTM. There are advantages to the way they're doing it and also, there are some disadvantages. But at the moment, we are not looking to change it.
- At some point in the future, yes, we will try to see what is the best way to reach customers of Sunflame, whether we should follow their old selling strategy or move more in line with V-Guard's GT.
- Sonali Salgaonkar:** Sure. Just one last question from my side regarding the core V-Guard business. Is there any pricing action that you have taken in Q4 or Q1 up until now? How do you see the demand scenario and the channel inventory? That's it from that side.



Mithun Chittilappilly: So, there has been a reduction in commodity prices as we moved from Q3 to Q4, and we are also seeing further reduction in commodity prices as we move from Q4 to Q1 of this year. So, this means that this kind of is not required - that we need to take any more pricing actions. I think if the pricing remains stable and the raw material prices are still where they are. We should, in fact, slowly in the next 4 months, be back to the pre-COVID levels of gross margin. So it does mean that we have finished that super cycle inflation of commodities and we are back to where it was probably pre-COVID.

Sonali Salgaonkar: And on demand and channel inventory?

Mithun Chittilappilly: Demand is weak. As you can see from our numbers and probably our peers, the demand has slowed down quite a bit in the country. I think the all-round inflation of foods, fuel, everything has taken a toll on consumer sentiment and demand. Of course, the constant increase in interest rates also has put some stop in terms of ability for retailers to borrow and all that. Basically, lot of tightening has gone down. So retailers are also not stocking like they used to before this whole thing started.

But we think that maybe Q2 onwards, we should start to see some revival in demand because now fuel prices have come off. We are seeing prices of a lot of the other items have also come down. We are hoping that with this kind of reduction in inflation, hopefully, we will probably enter the reduction in interest rate cycle, which should fuel demand. I think that sometime mid of next year, this year that this should happen.

Moderator: We have the next question from Mr. Achal Lohade from JM Financial.

Achal Lohade: Okay. Sir, the first question is with respect to Sunflame. Is it the right understanding that earlier we were talking about acquiring this business and being part of the standalone and now we are talking about running the other independent business, is that understanding right?

Mithun Chittilappilly: Yes. So, yes, Ram can go over that.

Ramachandran V: Yes. Sorry, if I understood your question correctly, you were wondering whether earlier our intent was to merge it and now we are running it separately. Is that what you're saying?

Achal Lohade: Yes.

Ramachandran V: No, no, that's not correct. The reason that we are running this independently is that, fundamentally, each business system has its advantages and therefore, we are keeping them apart. The cost structure and the GTM of the two businesses are very different. That's the reason why, at least in the near-to-midterm, they are going to run as separate entities. This is because there is a risk that there will be dilution in focus for Sunflame, right? So, we would like to focus and grow the Sunflame business.

As Mithun said, we believe there is a fantastic opportunity to grow the Sunflame business. I mean, it's an extremely reputed and well-known brand with very, very high top-of-mind awareness and recall in the kitchen category. There are very strong growth levers like South, modern trade and e-commerce. We think that the value that we can create, by focusing on



Sunflame is far more than integrating it because integrating it will certainly bring efficiencies, but I think the focus and the ability to grow the business will get impacted. That's the reason why we're going to run these two separately initially.

We also have our own kitchen business and we need to figure how we are going to play the two-brand architecture to grow more aggressively in the kitchen business. I think it's fair enough to say that it was never our intent that we will immediately merge that business into V-Guard. It was always our intent that we would like to run these two businesses separately, so that we can focus parallelly.

Because what has also been happening is lot of work has happened within V-Guard on the V-Guard kitchen business. As you can see that, we have set up our own manufacturing facility, and we have our own growth plans for, as you know, with all inorganic, right, until it is done, there is always uncertainty, right? So, we had our own plans for the growth of the V-Guard business, and we have made investments for the growth of V-Guard business, right? Bringing them together is detrimental to the growth of both these, right?

Achal Lohade: Understood. The second question I had, sir, is it possible for FY '23 as a whole, if you could give some clarity in terms of the growth in stabilizers, inverters, cables and wires, switches, etcetera? You may not give the mix, but at least the growth, if it is in percentage?

Mithun Chittilappilly: So, we don't give out the product wise numbers, but I can tell you the stabilizer business has recorded a pretty strong growth, and that's been primarily responsible for driving the growth in Electronics. The rest are okay, I mean, like the wire business has done a decent job. It was pretty good in the first 6 months, but last 6 months, the growth has slowed down because of reduction in copper prices and destocking by retailers. So that's the broad colour I can give on the various segments.

Of course, Consumer Durables, as you know, is the segment with most number of new product categories. So it's on a low base, growing fast, but of course, margins are a concern. I think we are able to see some significant improvement in margins in CD even in this quarter and going forward because the margins in both water heaters and fans were impacted in this commodity cycle. In fans, at least we are able to see good improvement in margins going forward. I think once the water heater season starts, there also we'll start to see improvement in margins as we consume the new lower cost RM.

Achal Lohade: Understood. Any broad number you would talk about in terms of the growth for FY '24? Would that be in double digit, high single digit? Any colour?

Mithun Chittilappilly: So, we are hoping that we can grow by 14% to 16% in the coming year, that is FY '24.

Achal Lohade: This is including Sunflame you're talking, right?

Mithun Chittilappilly: No, no. This is without Sunflame. Sunflame will be an additional number.

Achal Lohade: Right. On this 14% to 16%, what will drive it, if you could give some more clarity on that, sir?



- Mithun Chittilappilly:** So what we can see is the Electronics segment will continue to grow well. I mean, we have had a good start to the year. Last year, we did not have a very good Q1 for electronics, and that impacted at least 6 months growth for Electronics. So electronics segment, it's rebounding back to its pre-COVID kind of growth. It will have like the CD will grow at a high level and followed by Electronics and then Electricals. So that's obviously the growth there.
- Moderator:** We will proceed with the next question, which will be from the line of Natasha Jain from Nirmal Bang.
- Natasha Jain:** Yes. Sir, in the Electronics segment, your revenue growth, I am seeing it on a Q-on-Q basis, it has increased sharply. But vis-a-vis, if you see the margins there, that has not really improved. So can you just throw some colour on that as to what is not really driving the margins there? Is it battery?
- Mithun Chittilappilly:** No. So in the Electronics segment, there are two large categories, that is the stabilizer business and the inverter business. What happens is in every quarter, the product mix is different. So in Q1 and Q4, we sell lot of air conditioner stabilizers and inverters and batteries, whereas in Q2 and Q3, it's mainly the refrigerator and television stabilizers and to a lower extent inverters because it's off-season for inverters. So the margins for the non-air conditioner stabilizers are fairly high, and that's why the margins are looking good for Q2 and Q3 for Electronics. Because product mixes are different in different quarters. So maybe it's better to compare them Y-o-Y basis in terms of margins.
- Natasha Jain:** Understood, sir. The second question I had was particularly in the battery segment. So sir, in quarter 3, the lead prices have increased sharply and we weren't able to pass on the price. But now in quarter 4, we've seen that the prices for lead has kind of softened. So sir, can you just throw some colour on that as well as to how the inventory is? Do we have high-priced inventory? Or how are we moving there?
- Mithun Chittilappilly:** So battery is a perishable product. So, we don't carry much inventory in batteries because it's got a finite shelf life. So typically, in the case of batteries, we try to work with as low inventory as possible. Having said that, if you ask me whether the margins are -- so whether batteries are out of the woods? Not yet. But maybe we're getting there. But in Q4, definitely, the battery margins were still less.
- Natasha Jain:** All right. Sir, last question – where are we in terms of manufacturing our own chimney versus importing? Have we ramped up the manufacturing facility in quarter 4?
- Mithun Chittilappilly:** In the case of V-Guard, particularly V-Guard is moving its chimney procurement from China to domestic vendors. V-Guard is not planning to set up a manufacturing for chimney. However, Sunflame is manufacturing chimneys in India. In case of Sunflame, we are seeing some improvement in margins because they have moved from importing to making chimneys in their new manufacturing facility in Faridabad. So in the case of Sunflame, that is happening. At some point in the future, when the manufacturing systems in Sunflame have stabilized, we will see the possibility of supplying chimneys to V-Guard as well. But at the moment, they are concentrating on only supplying for Sunflame brand.



Natasha Jain:

Understood, sir. Sir, that is all from my side.

Moderator:

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

Aniruddha Joshi:

Yes. Sir, one question regarding the demand outlook that has considerably slowed down. So what is our internal thought process? When do we see the demand recovering back? Any number that you can see maybe 2 quarters, 3 quarters down? What are the 3 key important things that V-Guard is doing to, in a way, for increase the demand? Also, can you indicate any market share gains or losses in past 1 year in the major categories of V-Guard as well as Sunflame? That's it from my side.

Mithun Chittilappilly:

Okay. So the demand continues to be certainly weak. But having said that, there was decent sales for stabilizers in March and April. However, after that, we have had some unseasonal rains and it slightly impacted. But, overall, we are still hoping to do a decent Q1 for summer products. The demand for fans is still little bit subdued because of the changeovers to the new star rating regime, and the fact that the channel is still sitting with inventory of older models, which was pushed out by all the brands in Q2 and Q3. So, that's continuing to be slightly a drag on the overall fan demand.

In terms of what we are doing is, we are constantly working on launching new products. We are having some launches for fans in the upcoming quarters, which we think will have some good, positive impact on demand. We are also going to have some launches on water heaters in the upcoming season.

So, some of the product launches that are going to happen will have some positive impact on product demand. The good news is the inflation has peaked and has started to come down, at least since the last 4 months, and is continuing to do so. As there is going to be reduction in prices of all commodities, including food and non-food and fuel and everything, we hope that the confidence will come back for consumers to start again to spend money. So, I think that's probably going to happen in mid of the current financial year – that's somewhere in the festive season when we are expecting to see some revival in demand, and that's what we see.

Aniruddha Joshi:

Sure. Sir, and the key market share?

Mithun Chittilappilly:

Okay. We don't give out any market share numbers. But I can say that in the last 2 years to 3 years, V-Guard has gained some market share in fans probably and we have also gained some market share in water heaters. We also had a very low presence in e-commerce business, and we have also probably started to add some market share in the e-commerce side, where traditionally V-Guard was probably a late entrant and a slow mover.

Aniruddha Joshi:

Okay. Sure, sir. Very helpful.

Moderator:

The next question is from the line of Mr. Achal Lohade from JM Financial.

Achal Lohade:

What I wanted to understand is in terms of the distribution, where are we, what kind of growth are we looking at in terms of number of dealers and retailers? If you could also quantify, as of March, what is the retail and the dealer count?



- Mithun Chittilappilly:** Okay. Ram, you want to take this?
- Ramachandran V:** Yes. I think we have traditionally been growing our retail base annually by between 5,000 to 10,000, sorry, 5% to 10%. So typically adding between 3,000 to 5,000 retailers every year. We are very much on course with that kind of an addition.
- Achal Lohade:** If you could help us with the current statistics?
- Ramachandran V:** I will give you a precise number. Maybe we'll share offline. But it should be in the region of 50,000 to 60,000, which would be our current base. That's why I said 5% to 10% and 3,000 to 5,000.
- Achal Lohade:** Right. I'm sorry, I missed out in the earlier question. Did you also give some clarity in terms of the Sunflame – what kind of revenues can one look at, given this is the first full year of operation?
- Mithun Chittilappilly:** You are asking about Sunflame?
- Achal Lohade:** Yes. Now, I'm asking on Sunflame.
- Mithun Chittilappilly:** So Sunflame, we are expecting to do close to INR400 crores to INR425 crores, somewhere in between that in the current year, hopefully.
- Achal Lohade:** The margin what we had in fourth quarter, sir, Sudarshan sir, have you given the EBITDA number like for Sunflame for -- or the EBIT number?
- Sudarshan Kasturi:** The EBITDA number for Sunflame is INR9 crores. The details are given in the presentation we circulated last night.
- Achal Lohade:** Okay.
- Mithun Chittilappilly:** So Sunflame will do between 12% to 13% EBITDA, because we are also going to invest a lot of the moneys backed into A&P and strengthen the brand, and a lot of the other investments will go in. So maybe the Q4 EBITDA is looking a little high because there is not much activity in terms of A&P and all that in Q4. But in this year, we will be starting to spend again.
- Achal Lohade:** Understood. Just one more question with respect to the competitive intensity. I remember in the earlier calls, you have talked about the competitive intensity being way too high in Southern market for some of these categories like wires and water heaters and all given our presence. So if you could talk about how the current scenario is? Are you seeing the intensity is broad-based across the pockets, same intensity or is it kind of moderating?
- Mithun Chittilappilly:** So Ram, you want to take this?
- Ramachandran V:** Yes. Sure. I think see, in general, I think the growth outlook has been weaker for quite some time now, I mean, over the last few years. That has kind of triggered hyper competitiveness as every company has got into adjacencies. So, these forces are very much there. We are seeing some broad contours of consolidation because I think continuous years of, what I would say, attempting to break in and not having a healthy outcome is showing in some instances. I think



companies are looking at how to organize towards that objective. But, for now, the competitive environment stays, what I would say, it continues to stay aggressive. Yes.

But we should see some semblance or sense maybe in a year or 2, maybe 12 to 18 months off the line. See, all incumbents are trying to hold ground, right? So there is not much scope for -- in an environment like today where growth has been significantly lower, right, for the market in the industry compared to historical growth rates which are pre-COVID growth rates. So, I think companies are holding on to that position and that's kind of making it difficult to move forward through strategies, which are hypercompetitive in nature. We should see things getting better, but right now, thing will continue to seem okay.

Achal Lohade: Understood. Any impact on the margins? Like earlier, you had put a 100 bps margin improvement, gross margin improvement every year. So just wanted to understand if that stays.

Sudarshan Kasturi: I think, I mean our primary task this year is to get back to the range that the gross margins were originally. So while in Q4, there is some improvement, some more has to come. We have to first get to where we were and then improve from there.

Moderator: The next question is from the line of Swati Jhunjhunwala from BOB Capital.

Swati Jhunjhunwala: Yes. Just one question on the ad spend. So, you ended this year with ad spend of around 2.1% and normalized ad spends are around 4.5%, if you see pre-COVID level. So do we expect this 2.1% to go to 4.5% exact like for FY'24 itself or do we expect it to go to around 3%, 3.5%?

Sudarshan Kasturi: So historically, our ad spend is -- hovers between 2.5% to 3.5%. When the times are tough and we are not able to spend, it comes down to 2.5%. In a normal year, it's gone to 3.5%. So, obviously, if our gross margins recovers to a pre-COVID level and the environment remains like I'm saying this kind of hypercompetitive activities are not too much there and the environment is conducive, yes, we will probably move to 3% of revenue in the A&P and then progressively it will increase from there.

Swati Jhunjhunwala: Got it. When you say pre-COVID gross margins, that's around 33%, if I'm not wrong?

Sudarshan Kasturi: Yes. Around 32% to 33% we used to do, yes.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang.

Natasha Jain: Yes. Sir, could you just throw some light on the pumps business? The last time you had mentioned that the water level was good and therefore, the demand was subdued. So what's happening in this quarter?

Mithun Chittilappilly: So the pump business had a very rough FY '23. We have noticed that most companies have had a similar tough time in terms of lack of growth and of course, which also means hyper competition and lower-priced model launches, onslaught and all that. We are seeing some improvement in sales in May, which means that after a long time, it's starting to grow. So, we'll wait and see what happens. Even we have seen material cost come off from their highs. We had very, very good rain. So water table remain very high throughout the year. Although I'm hoping



that this year will be a little better. Having said that, we'll wait and see. It's still early days. But there are some indications that this year the pump business should do much better than what we did last year.

Natasha Jain:

All right. Sir, my next question is more on the broader macro side rather than very company-specific number. So sir, you've been continuously telling in your con calls that you want to protect your margins and you do not want to go to a price-cut strategy just to gain market share because that is not sustainable. And you say that everyone else can do it. So after a point, you stop to gain market share really. Sir, I want to know if you are protecting your margins at the cost of your top line, how quickly can you gain back the lost share? Because in this hypercompetitive market, I believe losing market share is more costly than protecting margins. So sir, what's your take on that?

Mithun Chittilappilly:

No. As a strategy, we try not to initiate price wars. But if some competitors wants to do it, we will match it and we will defend ourselves. For example, we have lost huge amounts of margins in our water heater business by simply trying to defend our market share. And not only defended but also in fact, we have gained by some of the lost share over the last 3 years.

So it's not that we are sitting idle and waiting for others to take our share. So that's what Ram said that all the incumbents are holding on to their share and we are doing the same. So it's not like we are letting anyone take any market share. What I meant to say that we will not initiate price wars or those kind of things to take. Probably, we will not start it. But if someone starts it, we will respond equally back.

Natasha Jain:

Got it, sir. Got it. That's all.

Moderator:

The next question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal:

Yes. Just two questions. Firstly, April, May, I'm getting feedback from the company that the weather has been funny and rain has been there in North and West. We obviously saw the IPL final also disrupted. What's your view in terms of non-South outperformance? How has it been?

Mithun Chittilappilly:

Yes. So our numbers in South and East have been pretty good, and North and West has been subdued for summer products. Whatever you have heard and whatever we've been reading is correct. North and West practically did not have much of a summer where every fourth day or fifth day, there was rains and so it has been funny. But having said that, Eastern markets and Southern markets have done well, where there was pretty warm weather. Again, this is not across. It's state specific. So, we have had some mix of good summer and not so warm summer across.

Rahul Agarwal:

Does that impact our Electronics because I think AC is quite a large business for us? My sense is AC secondary sales were pretty weak versus primary. Would you have seen any issues there or maybe fans, how that's been?

Mithun Chittilappilly:

So fan is continuing to be slow for a bunch of other reasons apart from weather, like the higher level of inventory of old models sitting in the channel because of people, other brands flushing out all the old inventory in Q3. That's continuing to take some impact because the working



capital of all the retailers are blocked with the old inventory. So, until that sell-out, that's going to be a challenge.

In the case of air conditioner stabilizers, we've had a good start to the year in the month of April, but May has been very weak. So we'll wait and see. It's not yet over. We still have one more, at least June 15th in North, there is -- there used to be summer. So we'll wait and see. But it's not been; we have had a decent performance by the stabilizers division in April, May.

Rahul Agarwal: Got it. And lastly on Sunflame. So, I got the fourth quarter EBITDA. What I wanted to ask is for full-year fiscal '23, could you share revenue, EBITDA and PAT for the company for Sunflame?

Sudarshan Kasturi: The previous periods don't belong to us.

Rahul Agarwal: Yes. I understand. I understand that. I just need the base.

Sudarshan Kasturi: We won't be able to give you the previous -- the full-year number. The 2.5 months is what we consolidate.

Rahul Agarwal: Okay, sir. No problem.

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

Keyur Pandya: Sir, just want to understand, if I'm not wrong, you mentioned about 15%, kind of 15%, 16% kind of growth for the next full year. So looking at these demand challenges, what will drive this growth, any particular products or particular geography? Would it be back-ended since near-term demand challenges are there? So if you can just dissect this 15%, 16% kind of growth number.

Mithun Chittilappilly: Yes. So that's the kind of target we set ourselves when we had our annual planning meeting, annual AOP in the month of March. But we have also assumed that we will have a pretty normal summer. So some part of the growth could get impacted. Yes, the demand environment is a bit weak. Summer has not been very robust - it's been okay in some places and it's not been okay in some places. So yes, there is a chance that some of this growth will also come in the last 4 months, 5 months as we prepare for the next year summer.

So yes, we will try to grow 14% to 15%. But yes, there are some challenges through what we see in terms of bad weather and demand, both constricting our ability to grow in the first 4 months, 5 months. But I think, going forward, like I said, we are expecting the effect of inflation that is kind of wearing down and as people have more money in their hands because the fuel, food and other inflations coming down, we are hopeful that consumers will be coming back again.

Keyur Pandya: Okay. Our second question on the fan side. You mentioned about the higher inventory because of stocking, because of the rating change. So now, I mean, we have always considered fan as more of, say, necessity than discretionary. So this issue is because of the higher stocking because there are challenges at the secondary sales also. If you can just throw some light on that.



Mithun Chittilappilly: What happened is we had abnormal sale in Q3. I think most companies have had reported very good sales growth in Q3. Even we actually ran out of inventory by October end or something like that. We actually did not have inventory to sell for the old models. So, I think whichever company had a lot of stock of the old model, they just gave whatever kind of discount they wanted and then sold them in the market.

Also, there is a price increase from the old model to the new model. So the retailers were very enthused with the delta of buying something at potentially a 20%, 25% discount from what the new model will look like in January. So, that has enthused a lot of these guys to stock up on these products, and that's what's creating the slowness in the market.

Keyur Pandya: Consumer sales is happening or there is lull at that?

Mithun Chittilappilly: Even there, I think the summer was not as strong, right? So even there, I think, at least in North and West, the summer has been quite weak. Eastern markets and Southern parts – South markets, summer has been good and we are seeing secondary liquidation. So the secondary liquidation has not happened, also to the extent that it could have happened in North and West. So that also is going to play a -- delay the demand for fans, yes, new fans.

Keyur Pandya: Okay. Understood, sir. Just last one question. So on the Sunflame side, so as you mentioned that V-Guard has kitchen appliances portfolio so has Sunflame. So any timeline on how; any broad thought we would have definitely given before acquiring the company that how we'll navigate through this? What is the medium-term plan for both of these brands and would it be geography-specific or do you layer it one over the other? So what is the thought over medium term?

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

Ramachandran V: Yes. I think, at this point in time, we would not like to outline in more detail. I think we are also doing some work because we need to get into the company and the brand and understand the business and the brand and its customer base better, right? So, we are in that stage of the journey. It has been; we will be playing a two-brand strategy. So it's not like it's one or the other. It will be V-Guard and Sunflame. The contours of how we are going to play this, I think that's something that we are in the course of exploring and discovering, right?

So, I think that is work in progress. I think whenever that we would be in a shape to share, I'm sure we will share. But at this stage, I think we are still in the discovery phase, right? I think mostly, we've been focused on taking control of the operation. It was a promoter-driven business side. Taking control has been the primary focus for us in the first 6 months and then we will move forward towards, what I would say, how do we compete and how do we grow the combined franchise, right?

But yes, I think what we are clear about is what brands are going to coexist and that we will have a strategy and approach that will allow both brands to, what I would say, play in the marketplace, focusing on different consumer segments, right? So that's going to be our approach.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang.



Natasha Jain: Yes. Sir, my question is more of a follow-up on what the last participant had asked. So sir, in fans, what I understand is the market is very saturated and the demand is mostly a replacement demand, which is usually slower than the first-time demand. Now having that background in mind, just 2 days ago, Atomberg kind of raised good amount of money. Now understanding that their moat was BLDC, which is now replicated across players, so that moat goes away. So sir, then is it true to assume that there is still a very big market, which remains for fans? How do you see it in the long term?

Mithun Chittilappilly: No, fan is a very, very old product. It's not a new category as such. So, you're right in thinking and discovering that most of the demand is replacement. Of course, there is some new demand when our people build new houses, people build new apartments, buy new apartments and furnish it, fans will get sold. But a large part is replacement demand.

What has been happening in the fan space and across broadly with Indian consumers is, as the value of the houses go up, as the amount of money people are spending into interiors is going up, we'll be spending on interiors like decorative fans, premium interiors and all that. The average price of the fan is going up. So although the number of fans sold may not go up significantly, we believe the average price per fan will continue to go up and even BLDC is going to increase the prices by 20% to 30% per fan.

What will probably happen is that the market growth for fans, a lot of it will come from the value growth of fans. Today, some segment of people are spending money in terms of fans, but there's still large part of the fans business still economy. So once what we believe in the next 10 years will happen, surely, the economy segment will reduce to probably, mainly institutions and those kind of customers buying in and then the retail customers would be starting to spend more and it has already started to happen. So on fans that is the case.

We don't comment on competitors and all this. But yes, Atomberg is a startup and they are running the business like a start-up. We would like to see every company in the business to run a profitable business.

Natasha Jain: Understood, sir.

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

Mithun Chittilappilly: I would like to thank Deepak Agarwal: and PhillipCapital for hosting this call, and thank you all for your patient listening. That's all from my side. Thank you.

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

The transcript has been edited for clarity and it may contain transcription errors. Although an effort has been made to ensure high level of accuracy, the Company takes no responsibility of such errors.