"V-Guard Industries Limited Q1 FY23 Earnings Conference Call"

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MANAGEMENT:	**MR. MITHUN CHITTILAPPILLY – MANAGING DIRECTOR, V-GUARD INDUSTRIES LIMITED** **MR. V. RAMACHANDRAN – CHIEF OPERATING OFFICER, V-GUARD INDUSTRIES LIMITED** **MR. SUDARSHAN KASTURI –CHIEF FINANCIAL OFFICER, V-GUARD INDUSTRIES LIMITED.**
MODERATOR:	**MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the V-Guard Industries Limited Q1 FY23 Earnings 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 "*" then "0" 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: Good afternoon, all. On behalf of PhillipCapital, I welcome all of you to the V-Guard Industries Limited Q1 FY23 Earnings Call.

Today we have with us, the management of V-Guard represented by – Mr. Mithun Chittilappilly – Managing Director, Mr. Ramachandran – COO and Mr. Sudarshan Kasturi – CFO. So, without taking much of time, I would like to hand over the floor to the management for their opening remarks, post which we will be open the floor for Q&A. Thank you and over to you, sir.

Mithun Chittilappilly: Thank you, Deepak and thank you, PhillipCapital for hosting this call.

A very warm welcome to everyone present and thank you very much for joining us today to discuss the operating and financial performance of our company for the first quarter of the financial year 2022-23.

We are pleased to report a robust start to the financial year with the consolidated net revenues of Rs. 1,018 crore in Q1 carrying forward the momentum from the previous quarter. This marks the highest-ever revenue for us in the first quarter and is a successive quarter with revenues crossing the threshold of Rs. 1,000 crore. We have delivered 80% YoY revenue growth in this quarter, albeit on a low base given the impact of the second wave of COVID-19 across the country last year.

Consumer demand has held up despite significant price increases during the last four quarters. While Electricals and Consumer Durables segments continue to report strong growth, the Electronics segment has also stepped up to deliver an improved trajectory this quarter.

During the quarter, we witnessed a broad-based contribution from both South and Non-South markets that witnessed YoY growth of 68.2% and 95.6% respectively. With the near doubling of revenues from the Non-South markets compared to the corresponding quarter last year, they contributed almost 47% of the total revenue in Q1, higher than 43.2% last year's Q1. The sustained growth in the Non-South markets bodes well for the progression of V-Guard as a strong nationwide brand characterized by a more diversified revenue profile.

On the products side, the Electricals segment, which is our largest revenue contributor comprising of Wires, Pumps, Switchgears and modular Switches, we registered a growth of 61.6% YoY. In the Consumer Durables segment where we market Fans, Water Heaters, Kitchen Appliances and Air Coolers, Q1 revenues doubled registering a growth of 99.7% YoY.

In our Electronics segment comprising of Stabilizers, UPS and Inverters, we improved traction during the summer months to achieve a growth of 90.8% YoY. Input prices are still higher on a YoY basis and gross margin in Q1 FY23 was 29.8% vis-à-vis 33.0% in last year's Q1. We expect this to recover to normative levels in the next one or two quarters.

On a QoQ basis, we have witnessed a slight improvement in gross margin as the price actions undertaken in prior quarters for some products have now flowed through the distribution channels. At the start of the quarter, we undertook further price action of around 3% across select products. However, as we witnessed the commodity prices peak out, it obviated the need for further pricing actions, especially in the Consumer Durables segment. We are closely monitoring the situation and a slight easing of commodity prices is helping to address the gaps in select categories, where the complete transmission to the end-consumers had not fully been undertaken.

The EBITDA margin was at 8.1% during the quarter, has declined on a QoQ basis as significant drop in copper prices in during June affected the margin for Wires and this is likely to extend some more impact in Q2 as well. With the risk of supply chain disruptions minimizing, we have started to reduce inventory levels. We had a strong positive cash flow for the quarter. We believe we are well placed to meet consumer demand over the coming months and this will enable us to get to normative inventory levels resulting in stronger cash flows from the business.

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

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: On the ECD, Mithun, I thought that the growth was very strong. Could you elaborate a bit on which categories did well and what is the outlook on the ECD margins – they are still hovering in single digits. I am pretty sure, because of price hikes and raw materials coming down, the margins should actually track back. So, any comments please?

Mithun Chittilappilly: The two large categories in ECD are Fans and Water Heaters. Fans had a pretty strong quarter because of a very good seasonal demand in the first half of the quarter. However, the demand in June was slightly subdued. Water Heaters also had a very good growth in the first quarter, but it would have been on a lower base.

Rahul Agarwal: What about on the margins?

Mithun Chittilappilly: Like we said in the opening speech, a lot of the commodity prices have started to correct and that correction is ongoing. We think that there is some respite for us. I think, Q3 onwards we should start to see the margins normalize.

Rahul Agarwal: My next question is on the acquisition, on the balance 26% in Guts Electro-Mech. Could you help us recap what this is about and what this company does, the subsidiary?

Ramachandran V.: Guts is a company which is in the business of Switchgears and we had acquired them as part of building a supply capability for V-Guard Industries Limited and at the time that we had acquired the company, we had structured the transaction to be able to acquire 74% upfront and the remaining 26% was supposed to be acquired after five years. I think we are now fulfilling the last leg of the agreed transaction by acquiring the remaining 26%.

Rahul Agarwal: What is the cost of this and is this a manufacturing facility for Switchgears?

Ramachandran V.: Yes. This is a manufacturing facility for Switchgears. This company was in the business of Switchgears manufacturing, sales and supply. We had acquired the company to secure Switchgears supplies and to support the growth of the Switchgears business of V-Guard.

Rahul Agarwal: What is the investment needed for acquiring this 26%?

Mithun Chittilappilly: It is about Rs. 6.5 crore, I think. Ram?

Ramachandran V.: Yes, Mithun.

Sudarshan Kasturi: Investment, is it? It is about Rs. 6.2 crore.

Rahul Agarwal: Other expenses at Rs. 145 crore for the quarter. Any one-offs here as it looks a bit higher on a historical basis.

Sudarshan Kasturi: See the other expenses have certain items which are factory expenses and certain items which are volume related. So, a lot of them are in line with the turnover growth. Other than that, A&P has gone up and a few overhead items.

Mithun Chittilappilly: Travelling has gone up.

Sudarshan Kasturi: Traveling is the main thing.

Mithun Chittilappilly: So, basically, travel; some are volume related, like freight outward and all that. Some are factory related like packing material and outsourced manpower etc.

Sudarshan Kasturi: Out of that total increase is about Rs. 55 crore, about Rs. 30-32 crore is all volume related items and about Rs. 7-8 crore is A&P. The balance is likely travel, selling, manpower cost and so on.

Moderator: The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: On the Electronics segment – if we look at the growth of the segment on a, let's say, three-year basis, essentially comparing it versus pre-COVID time, the growth appears to be pretty tepid. It is something like in Q1 FY20 we had some Rs. 280 odd crore of revenues from the segment. Now it has grown only to around Rs. 300 crore. So, what is that really on account of because what we were picking is that at least for ACs demand has been fairly robust this season?

Mithun Chittilappilly: There was a good demand for ACs from April 1st to, let's say, May 10th, but the last 45 to 50 days were quite bad. So, the demand was not as it should have been. However, our AC sales were good, we had very good growth in the AC sales and Stabilizers sales. But the growth in Inverters and Batteries business was not as good. We had some supply issues for Inverters also because we were not having the requisite electronics items. So, some of the supplies were also impacted. Ram, anything to add to that.

Ramachandran V.: Just one more point. I think Q1 FY20 was exceptionally strong for Stabilizers. So, I think that is one factor that we need to keep in mind.

Aditya Bhartia: When you think about this segment and both Stabilizers and the Digital UPS separately, what is the kind of growth potential that you see over a five-year period? Are these categories likely to be growing at a very slow pace or could they be actually plateauing out at some stage?

Mithun Chittilappilly: So, Stabilizers is a fairly mature category. I think, V-Guard holds very high market share in the organized trade. So, unless the categories grows, the ability for V-Guard to grow faster than the category growth may be limited. In the case of Inverter Battery, V-Guard is a very small market shareholder. So, definitely the growth prospects are very good. We are setting up two factories. One to manufacture Inverters and one to manufacture Batteries. We are hoping that in the next 18 months, they should come online and that will really improve the competitiveness for V-Guard products. Today we are just having a 3% share of a Rs. 12,000 crore market in Inverters and we can definitely improve that.

Aditya Bhartia: Sir, how exactly have lower copper prices impacted our margins in the Electricals vertical? Is there any inventory write-off or inventory revaluation also that may have taken place? What could be the quantum of overall impact of low copper prices?

Mithun Chittilappilly: So, just in the month of June, we had a write-off of about Rs. 10 crore would be the impact of copper crash. So, that has impacted the results by about 1% in EBITDA margins for the whole organization. So, mainly coming from Wires.

Aditya Bhartia: Would will still be carrying some high-cost inventory and consequently, should we estimate some impact flowing through the second quarter as well?

Mithun Chittilappilly: So, I think what could happen is some impact will be there in the month of July, but August and September, the company should get benefit of the lower cost input.

Aditya Bhartia: You have referred to coming back to normative margins in one to two quarters' time. What do you consider as the normalized margins for the company? Should we look at something like 32% odd?

Sudarshan Kasturi: Yes. 32-33% of gross margin is about what we are talking about.

Mithun Chittilappilly: So, pre-COVID margins is what we intended. That's about 32%.

Moderator: Next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: On the Fans segment, what is the mix for us in terms of premium vs. economy? On the capacity set up to ramp up your premium offerings, how is that scaling up? From the in-house manufacturing perspective, what proportion is now being catered to by the in-house manufacturing in the Fans segment – the proportion of in-house vs. outsourced manufacturing within the Fans segment?

Ramachandran V.: The manufacturing initiative is going well and we expect to fully utilize the core segmental capacity, which is divided into two parts and we plan to fully utilize the major part. As far as the manufacturing shift is concerned, that is going well. Most of those Fans are in the premium segment and therefore, the premium segment is significantly expanding in relation to the popular segment.

Now coming to our ratio, we should now be in the region of 40-50% in the premium segment. This should get better as we move forward, particularly with the BLDC coming in and also the energy efficiency part also coming in.

Charanjit Singh: From the Water Heaters perspective, now what will be our market share and how is that market shaping up in terms of the competitive intensity going forward?

Mithun Chittilappilly: See we do not want to give out any market share numbers. All we can say is that we are doing extremely well in the Water Heaters business. We had lost some share in FY21 and FY22 we regained some of that share back and FY23 we are growing from there. So, that is all that we can comment as of now.

Charanjit Singh: On the Pumps market, if you can give some color in terms of how the outlook is there and what kind of price increases you would have taken here? How is the competition that is coming from the unorganized sector and in the segment?

Mithun Chittilappilly: So, Pumps is part of the Electricals basket for us, but that it is not a very large category. It is probably 10% of the total revenues of the company or a little less than that. The Pumps category has been impacted in terms of huge input price increases. There have been multiple rounds of price increases. Some increases are yet to be passed on to the market as many of the leading players have refused to take probably the last round of price increase. The good news is that the commodities have started to correct like iron, steel, copper and all that. So, I think Pumps should bounce back. The volumes in Pumps are impacted. The margins in Pumps are impacted.

Charanjit Singh: From the overall Consumer Electricals volume growth perspective, will you be able to share any outlook, in terms of the volume growth expectations for key product categories?

Mithun Chittilappilly: We have our annual operating plan but we do not give out the product-wise numbers. However, at V-Guard, we typically target for 15% growth in volumes and that is what we will be targeting this year.

Moderator: Next question is from the line of Jay Shah from Capital PMS. Please go ahead, sir.

Jay Shah: On the business side, in the Electronics segment and in Wires and Cables, what is the demand mix that we are seeing? Is it more from real estate or is there more demand coming in from the data centers and the new kind of CAPEX?

Mithun Chittilappilly: I am guessing you are talking about Wires, right?

Jay Shah: Yes, Wires & Cables.

Mithun Chittilappilly: In the case of Wires, V-Guard's projects' business is only 5-7% of total revenues. 95% of our Cables go to the retail market. Having said that, the improvement in demand from the construction sector has meant that the brands which were focusing on in the B2B business have also pivoted. So the hyper-competition in the retail business is slightly less now because the construction demand is decent. That is one way to look at it.

Moderator: Next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead, sir.

Bhavin Vithlani: In the Durables segment after the Q4 FY22 call, you had highlighted that the target is to take the margins to about 7% this year and double-digit in the latter years, but we have seen that the margins are sub 2%. Where do we see the margins, going forward, and what will drive the margins higher?

Mithun Chittilappilly: So, Consumer Durables has two components, large categories in it, which is Fans and Water Heaters. Inherently, Water Heaters is the higher margin business for us than the other businesses, for V-Guard. So, Water Heaters typically kicks in in terms of revenues and margins in Q2 and Q3. So, I think some of it is also seasonality. We are hopeful on hitting the number, may not be double digit, but I think we probably can hit 7% margin in the March quarter because the prices of many of the raw materials have come down. For example, the major cost in Fans has two components - one is aluminum and second is copper; both had peaked in the month of May. Once these higher value inventories start reducing and we procure raw materials at the new prices, the margin should improve. Probably you would have seen the worst for Consumer Durables in the last four quarters in terms of margins.

Bhavin Vithlani: On Switches and the Switchgears, it is an area that you have now identified and we have seen that you have be successful in growing the Fans and Geysers segment exponentially over the last three years. If you could just give us a road map on the Switches and the Switchgears segments; also you have done a couple of acquisitions in this space?

Ramachandran V.: I think we want to aggressively grow these two categories, but I think, we are relatively young. In Switches, we are about 3-4 years old and maybe in Switchgears about 6-7 years old. These two categories are growing well and we are able to grow the categories at a faster growth rate than our overall business growth. So, I think we should be able to grow them at about 25-30% over the next three to four years.

Bhavin Vithlani: When do you believe that this category would hit Rs. 500 crore; I believe that it is currently about Rs. 150 odd crore.

Ramachandran V.: I think you can compound it at 25% per annum and probably you may reach to some number but I think our base numbers maybe a bit better than what you said.

Bhavin Vithlani: In your press release, you mentioned there were some inventory losses. So, would it be possible for you to quantify the kind of inventory losses which are there in the Wires segment? And what is the kind of inventory that you would generally carry for the Wires as a segment?

Sudarshan Kasturi: The impact of copper drop during Q1 was about Rs. 10 crore, so it impacted margins maybe about 1% at the company level. Typically, we tend to have RM plus FG anywhere between 45 and 60 days.

Moderator: Next question is from the line of Keshav Bharadia from PhillipCapital. Please go ahead.

Keshav Bharadia: Why did the margins in the ECD business get impacted? How do we see the in-house manufacturing share in 2-3 years and how much can it increase from the current 60%?

Mithun Chittilappilly: So, the ECD margins have been impacted mainly because of the Fans business. I think, the Fans business has been one of the most impacted categories, primarily because most of the Fans produced by us and competitors are aluminum Fans and basically, the component aluminum had shot up significantly after the Russian invasion of Ukraine as Russia is one of the major producers of aluminum. Now, I think the aluminum prices are coming down. So, I think the Durables margins should improve. So, this is one reason.

Second is we are a relatively newer brand if you look at Fans, Kitchen Appliances. Apart from Water Heaters, our market share in Consumer Durables is quite low. So, obviously, being a smaller, market share holder and smaller brand in this segment will mean that our ability to pass on pricing can only be there after the leaders in the segment pass on pricing. Typically, we may be carrying less inventory in terms of strategic buying of raw material and all that, because we are small in those categories as compared with some of the larger companies. So, that is one of the reasons, but I think now the commodity prices are cooling down and Durables margins have already improved, even if you look at Q1 and that will improve going forward.

Keshav Bharadia: And on the in-house manufacturing share in 2-3 years?

Mithun Chittilappilly: Right now it is about 60%. I think it will go to about 75% in the next 2-3 years.

Keshav Bharadia: How much of the high-cost inventory are we holding right now, is it worth one month or two months?

Mithun Chittilappilly: So, like Sudarshan mentioned, if you look at the overall company, our FG inventory is at about 70 days or 80 days. If you look at specifically copper and Wires, it is about 60 days including RM and FG.

Keshav Bharadia: Can you give me the utilization levels for different plants?

Sudarshan Kasturi: No, I do not have that data handy; we will come back.

Mithun Chittilappilly: We will share it offline.

Moderator: Next question is from the line of Rakesh Roy from Indsec Securities and Finance Limited. Please go ahead, sir.

Rakesh Roy: Can you highlight on your Non-South market performance, especially which region did well in Q1?

Mithun Chittilappilly: See if you look at Non-South, northern and western markets had very good summer, whereas eastern markets, there were intermittent rains right from May onwards. So, both north and the western markets did well.

Rakesh Roy: Any addition to dealer or distributer in the Non-South market in Q1?

Mithun Chittilappilly: We would have done it. I mean, we are not carrying any specific numbers with us. But like we said our target is to add 3,000 to 4,000 retailers every year.

Rakesh Roy: Any chance to take another price hike in near future?

Mithun Chittilappilly: I think for most categories, it may not be required, because all the raw material prices have come down. There may be some small increase required in some parts of Durables, but largely, I think, it may not be very large increases may not be required is what we believe.

Moderator: Next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead, sir.

Hitesh Taunk: What is the price hike you have given for the Q1?

Sudarshan Kasturi: Price hike for Q1 is about 2-2.5%.

Hitesh Taunk: One more book-keeping question, why is the employee cost high on a QoQ basis?

Sudarshan Kasturi: So, there are two factors. There is a variable pay accrual this quarter. Last quarter it was not required. So, it's about a Rs. 7 crore difference on account of that and the other one is the increment kick in in Q1. So, that is the difference between the two quarters.

Hitesh Taunk: About the Kitchen Appliances category, logic pertaining to our built-in Kitchen category. So, what is the kind of distribution are we planning on going forward in this category and what is our strategy to take it forward? Are we looking for some kind of market share and what is the current market share?

Mithun Chittilappilly: So, V-Guard is not present in the entire spectrum of built-in Kitchens. We are only doing Hoods and Hobs. Today, they are primarily a traded business, selling only through Amazon and Flipkart, i.e., only through online partners. We are not intending to go to offline as yet. So, that that is as far as the built-in part is concerned. It is very small today. It is not a very large business.

Moderator: The next question is from the line of Prasheel Gandhi from Nirmal Bang. Please go ahead.

Prasheel Gandhi: What is the channel inventory at your channel partner – is it high or low?

Ramachandran V.: Channel inventory is more or less normal. Channel inventory is normal and nothing abnormal at this stage. I think Wires might be a bit lower because with the expectation of price reduction, in the later part of the quarter the sales were lower. So, I think Wires will be lower. But otherwise, by and large, inventory should be normal.

Prasheel Gandhi: You highlighted that there was some demand slowdown in June. Do you think it is some transitory kind of a slowdown?

Ramachandran V.: See, it is related to weather. What we observed is categories which are weather dependent, they had a bit of slow down, primarily Stabilizers, Inverter Battery to some degree and Fans and maybe Pumps. So, a bit of slowness was there in these categories, but it is not across all categories. It is in these categories. Mainly, the slowness was in Non-South.

Prasheel Gandhi: Do you engage in any kind of hedging for your raw materials?

Sudarshan Kasturi: No, we have Forex, not materials.

Moderator: Next question is from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead, sir.

Bhavin Vithlani: In the previous call you had mentioned about indigenization TPW manufacturing which is currently being imported. So, if you could just give us an update where are we? What is the kind of investment and the capacity that we are looking to create in that sub segment? What is the kind of share that TPW has in the overall Fans segment for us?

Ramachandran V.: So, TPW would be roughly about 25-30% of our business. You can take 30% of our business would be TPW and main challenge that we had with TPW was it was imported. So, duty and freight were major challenges and that affecting our competitiveness and that is also reflecting in the significant drop that you see in our Consumer Durables business. So, with that context and also to ensure supply security, we have decided to invest in setting up a TPW facility. As far as the facility is concerned, we would be investing probably some Rs. 30-35 odd crore in plant and machinery for TPW manufacturing. Obviously, we will start small with a few SKUs and then progressively expand to address the category's needs.

Bhavin Vithlani: What are the timelines that we are looking at and when will the facility be ready?

Ramachandran V.: Should be another 12 months, I suppose.

Bhavin Vithlani: Till such time, margins for the Fans segment will continue to be subdued.

Ramachandran V.: Yes, for TPW Fans, it will be better than before.

Mithun Chittilappilly: We have two approaches. One is setting up our own factory, but even before that we had invested in our own molds and dyes. The India made TPW Fans have already started to come into the market. So, some part of the issues will get solved there, but I think our range will be a challenge. The entire range, we can indigenize only once our factory comes in. So, today, we are only probably going to make the most voluminous and most popular scales in India through a vendor in Hyderabad.

Bhavin Vithlani: On Fans – after the new manufacturing, we entered the decorative segment. If you could just give us timelines and the way forward, how are we looking to move up on the premium and super-premium sub segments of that? That will also require significant investment in brand building. If you can just highlight the way forward on moving up the value chain on the ceiling Fans segment?

Ramachandran V.: The investment that we have made in the plant is primarily focused towards the premium and super-premium categories. In fact, I think 85-90% of the output is targeted towards that and 10% of the capacity is targeted towards mid-end Fans. We hope to get to about 85-90% capacity utilization during the season or probably even close to full utilization from coming seasons. That journey is progressing well for us. Mainly, we will be focusing the manufacturing to only the decorative segment which are premium and super-premium Fans. We will continue to source entry level Fans from the market or what I would say the popular segment from the vendor ecosystem and that strategy will continue.

Bhavin Vithlani: In the current quarter, it seems like there is a margin impact in the Electronics segment also. Is that due to the Inverters segment or Stabilizers? How do you see margin stabilization going forward?

Sudarshan Kasturi: The mix of Stabilizers sold in this quarter is very different from last quarter and even the proportion of Stabilizers and Inverters to the total is also different. There is a significant mix impact.

Bhavin Vithlani: So, the margin decline that we are seeing is a function of mix impact and not decline in the individual category margins. Is that the correct interpretation?

Mithun Chittilappilly: No, I think there is some impact. So, Sudarshan, there is some impact on the Inverter Battery business in Q1. That is true. But there is also a larger impact of the mix in terms of the product mix and the category mix.

Bhavin Vithlani: So, would the sustainable margin comeback to that 17% odd that we are seeing historically or is this the new normal?

Mithun Chittilappilly: No, I think 17% is probably what happened in Q1 FY20. That was probably a year where we had extraordinarily high sales because summer was very good. So, I think 15-16% may be the correct Electronics margins.

Moderator: Next question is from the line of Yash Khemka from Yashwi Securities Private Limited. Please go ahead, sir.

Yash Khemka: How are you looking forward towards the demand scenario of Electronics segment? A corollary question to this is that the copper prices are reducing; how would the margin for Electronics segment, in particular, be impacted in the upcoming quarters?

Ramachandran V.: We are setting up two manufacturing facilities, one for Batteries and one for Inverters and Stabilizers. Both of these should help to improve our competitiveness and obviously will have a positive margin impact because the investment is hypothesized on getting a payback for the investment. As far as the Inverters and Batteries are concerned, making this investment will help to improve our competitiveness. It will also help improve our flexibility and therefore, should help us to grow the business better because we will be able to be more responsive in the season to market needs. We will have more flexibility to address the market demand through a mix of own and sourced product portfolio. So, there will be favorable consequence because of our manufacturing investment on the overall health of the Electricals and Electronics business. There is some amount of margin stress which is seen QoQ, but that is also because, some of the impact of input cost increase has been later in some categories, like in the case of Batteries, the lead impact has come later whereas in some other categories, the commodity impact has come much earlier in the year. A bit of that is seen. But in other categories, progressively as we go forward, as commodities correct, they should also get corrected. There may be some marginal drop in

Stabilizers or Inverters, but that is consistent with the increase in input cost that has happened and that should roll back as the input cost roll back over time.

Yash Khemka: How are you seeing demand in Cables and Switchgears in Q2, would it be strong?

Ramachandran V.: On Switches and Switchgears, I think as Mithun had said earlier in general, as far as the demand from the construction segment is concerned, it has been stable and therefore, we expect to see continued demand. Having said that, our incumbent market size and market position is fairly small. So, as far as we are concerned, we believe we should be able to post a decent growth consistent with how we have been growing in the last 2-3 years.

Moderator: The next call is from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: Just going back to the Electronics margin, now you talked about the new facilities that you are looking to put up for Inverters and Batteries and that would improve your competitiveness. Just wanted to understand will it be fair to assume that given that you see margin benefits, and if that is the case, would the strategy be to retain the margins or pass it on to consumers and try to gain incremental market share?

Mithun Chittilappilly: So, if you look at the Inverters and Batteries business, today, V-Guard is not very competitive in terms of pricing. So, some of that margins will be passed on and some of it will be retained. But you will still see some margin improvement. That is what we expect.

Nikhil Kale: Would you then still keep it like the 15-16% kind of a range for the Electronics segment over the medium term?

Mithun Chittilappilly: Yes, in Electronics, anyway, I think, we should expect a 16% margin. Yes, we should go back to the 16% margin in my view. That is possible. Today, I think V-Guard's products are not very cost competitive, especially in the Batteries segment where we are outsourcing the production.

Nikhil Kale: As we move towards more in-house manufacturing, from a company perspective or company level, how are you looking at the margin improvement? Is there any target that you are looking at in terms of incrementally taking your margins to a particular level over the next 3-5 years?

Mithun Chittilappilly: We have always mentioned that we will look at 10% EBITDA margin and improvement from there on and I think that is possible with these initiatives. But these initiatives will take 2-3 years to gain through because in the first one year and one and a half years may be there will be excesses and a lot of inefficiencies in the manufacturing process which will then be streamlined going forward. So, yes, we are seeing that happening and whenever we setup a plant, it is with the clear IRR and it is with the clear return that we do that with the clear margin improvement program for the category.

Moderator: As there are no further questions, we have reached the end of Q&A session. I would now like to hand the conference over to Mr. Deepak Agarwal for closing comments.

Deepak Agarwal: Thank you, management for giving your valuable time for this call and allowing us to host this call. Thanks everyone for joining this call.

Management, are there any closing remarks that you would want to make?

Mithun Chittilappilly: Thank you Deepak and PhillipCapital for hosting this call.

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