# "V-Guard Industries Limited Q4FY22 Earnings Conference Call"

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**MODERATOR:** **MR. NAVEEN TRIVEDI – HDFC SECURITIES**

**Moderator**: Ladies and gentlemen, good day and welcome to the V-Guard Industries Limited Q4FY22 Earnings Conference call hosted by HDFC Securities.

As a reminder, all participants 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. Naveen Trivedi from HDFC Securities. Thank you and over to you, sir.

**Naveen Trivedi**: Good afternoon, everyone. On behalf of HDFC Securities, I would like to welcome the management of V-Guard Industries, to discuss the results of Q4 & FY22. We have with us today the senior management of V-Guard Industries, represented by Mr. Mithun Chittilappilly – Managing Director, Mr. V. Ramachandran – Director and Chief Operating Officer and Mr. Sudarshan Kasturi – Senior VP and CFO.

I will now handover the call to Mr. Mithun Chittilappilly for his initial comments. Thank you and over to you, sir.

**Mithun Chittilappilly**: 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 fourth quarter and the financial year ended 31st March, 2022. We are pleased to report a strong performance in Q4 FY22 with revenues crossing the milestone of Rs. 1,000 crores for the first time delivering a growth of 23.7% YoY.

Despite some challenges related to the third wave, in the first few weeks of the quarter we were able to end the fiscal year on a very strong note. Electricals and Consumer Durables segment achieved strong growth, while Electronics showed a moderate growth. In Q4 we witnessed broad-based contribution from both South and Non-South markets that witnessed YoY growth of 25.4% and 21.5%, respectively. We continue to grow well in the Non-South markets, which is enabling the emergence of V-Guard as a strong, nationwide brand characterized by a more diversified revenue profile.

On the products side, in the Electricals segment, comprising of Wires, Pumps, Switchgears and Modular Switches, we registered growth of 32.6% YoY. In the Consumer Durables segment, where we market Fans, Water Heaters, Kitchen Appliances and Air Coolers, Q4 revenues grew by 32.3% YoY.

Our Electronics segment comprising of Stabilizers and Inverters, there was moderate growth as the demand for summer products had a slow start to the quarter.

Margin pressures due to commodity price inflation continue in select categories. In a competitive market, we have taken large price hikes over the last few quarters. We are actively working on addressing the remaining pricing gaps. In addition, we have instituted cost optimization measures across our operations to support and restore our margins.

EBITDA margins were at 10.6% in Q4 FY22 compared to 12.9% in Q4 FY21. Going forward, we expect margins to be driven by volume growth, pricing actions and better fixed cost absorption, while advertising and promotional expenses increase further to normalized levels.

We have made the choice to migrate to the new tax regime, enabling us to benefit from lower rates. Since this is effective retrospectively from FY21, there is a writeback of tax in the current quarter. As a result, Profit After Tax improved to Rs. 90.6 crore in Q4 including Rs. 13 crore as tax writeback.

In February 2022, we invested a further Rs. 15 crore in VCPL or V-Guard Consumer Products Limited, our wholly owned manufacturing subsidiary. This is towards setting up manufacturing products through VCPL, the first of which has already commenced operations in Uttarakhand. These new facilities will enable us to be more self-reliant in our operations and also derive long term cost competitiveness.

During the year, we have taken a conscious call to increase our inventory norms with the risk of supply chain disruption diminishing. We are now moving towards normalizing inventory levels. There has been some improvement in our working capital position as compared to the end of the previous quarter. We believe that we are well placed to meet consumer demand over the coming months and this will enable us to get back to normal inventory levels, resulting in stronger cash flows from the business in the coming quarter.

As we enter the new fiscal year, we are well positioned to benefit from the resilient consumer demand, given a wider product portfolio, expanded national presence and investments in capacity augmentation.

With that, I conclude my opening comments. I would like to thank you once again for your participation and hand over the floor to the moderator for the Q&A. Thank you.

**Moderator**: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

**Rahul Agarwal**: On the demand for Stabilizers and Inverters – you mentioned in the commentary that the Electronics' growth has been slower, could you help us understand what is really happening with that right now?

**Mithun Chittilappilly:** We had a slow start for the quarter for that category. Even in the current year, the category was under tremendous pressure in terms of demand, that is both Stabilizers and Inverters, because even in Q1 we had those lockdowns and we could not sell anything; and they are extremely seasonal products. However, what we have seen in April is that there has been strong demand and you would have heard about strong demand for air-conditioning. There were also power cuts due to which there was strong demand for Inverters. In this year, we should have a much better number from the Electronics division.

**Rahul Agarwal**: Have April and May been much better than what we saw in Q4, is that understanding correct?

**Mithun Chittilappilly:** Yes, although, we are currently not talking about April and May. However, I can say that generally demand has been strong in April and in May it has been slightly weak in South and East, but North and West continue to remain strong.

**Rahul Agarwal**: On VCPL – could you help me with total investment till date in the subsidiary and what has the factory started to manufacture now; what should we expect over the next 12 months in terms of in-house manufacturing?

**Sudarshan Kasturi:** The investment in VCPL is about Rs. 60 crores. This is towards the first plant that is the plant which manufactures Stabilizers and Inverters. That plant has just about started operations.

**Mithun Chittilappilly:** What we have started to manufacture effectively are Stabilizers and I think by August or September we should start the full range of products.

**Rahul Agarwal**: When you say 'full range', is it talking about Wires and Fans also here.

**Mithun Chittilappilly:** No, the plan is to manufacture only Stabilizers and Inverters.

**Rahul Agarwal**: Why has the Employee Cost reduced QoQ?

**Sudarshan Kasturi:** It was down because there are some write backs on incentives and variable pay and also because in the comparative Q3, there was a one-off. So, it was due to both of these put together.

**Rahul Agarwal**: Could you quantify that, please, i.e., the one-off in Q3 and the writeback in Q4?

**Sudarshan Kasturi**: There was a Rs. 4 crore one-off in Q3 and a writeback of about Rs. 5.5 crores this quarter, Q4.

**Moderator**: Thank you. Next question is from the line of Sonali Salgaonkar from Jefferies, India. Please go ahead.

**Sonali Salgaonkar**: My first question is regarding the price hikes, could you help us quantify your cumulative price hikes on an average in FY22, full fiscal, as well as any incremental price hikes which you have taken from the 1st of April or hope to take in the coming quarter.

**Sudarshan Kasturi**: In FY22, cumulatively, price hikes have been about 10% that is excluding Wires. Wire will be something like 35-40%.

**V. Ramachandran**: Wires only about 30-35% and ex-Wires will be about 10% for FY22.

**Sonali Salgaonkar**: Are there any price hikes which you have taken in Q1 or hope to take.

**Sudarshan Kasturi**: There were price hikes in Water Heaters and Fans; some pricing action has been taken in April.

**V. Ramachandran:** Yes, we have taken some price hikes for Water Heaters and Fans. I do not have the exact number with me because they will be landing in phases, we will send the price list and it will be affected in phases depending upon geography and market.

**Sonali Salgaonkar**: Regarding the current demand levels and inventory. Are you seeing that the demand has peaked off, in May/mid-May, or do you foresee strong demand to continue by the first week of June and what are the current inventory levels in the channel?

**Mithun Chittilappilly**: Inventory levels in the channel are fairly healthy. We are doing secondary tracking and with this data of secondary inventory from almost 75% of the channel partners; we have real-time visibility. So, inventory levels in the channels are not very high. We decided, starting January itself, that we would tone down our inventory levels as we are not faced with much of the supply chain shocks as we had expected, except for a few items like in Electronics, where we will continue to hold inventory. Our inventory days has gone up by about 15 days, on an average and it will come down progressively starting June, when you will start to see some reduction and in the September quarter also, we will see some reduction.

As far as demand is concerned, we are in a business where almost 50-60% of our revenues are coming from demand for products from the summer category. You must have read in papers that we had very high temperatures in March and April, and May onwards the Southern and Eastern part of the country have received rains. So, the demand is according to that; like I mentioned, the demand continues to be strong in the North and West, and a little bit weak in South and East.

**Sonali Salgaonkar**: Currently what proportion of our manufacturing is in-house and what is the CAPEX guidance?

**Sudarshan Kasturi**: About 60% of the manufacturing is now in-house. On the CAPEX guidance, we will stick to what we said earlier, i.e., about Rs. 200 crores over the next three financial years.

**Sonali Salgaonkar**: What is the tax rate that we should expect going forward, from FY23 onwards?

**Sudarshan Kasturi**: 25.2% will be the rate because it will take some time for VCPL to start generating profits.

**Moderator**: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade**: With respect to the Consumer Durables business, what drove this growth and any particular category or region? Is there a number that can be provided for this category in terms of price hikes?

**Mithun Chittilappilly**: I will talk a little bit about Consumer Durables and then Sudarshan can talk about the pricing part. I believe that the Consumer Durables segment has had very strong growth. We do not like to give out product-wise numbers because it is an extremely competitive industry and no one gives them out anymore, so we also do not want to give them out. Although, I can tell you that the major components are Water Heaters and Fans. If you remember, two years ago we had lost some share in Water Heaters because we were not able to supply and all that. Now, we have had very strong growth in Water Heaters and have gained back the share that we had lost; we are going to continue with strong growth.

In Fans, we have had some great new launches. As we have mentioned, we started a factory in Uttarakhand about 1.5-2 years ago. All the products coming from our own factory are unique, they are significantly better than what is available in the market and coming with attractive propositions. So, these have done well and have driven growth. Plus, we had a lot of supply shocks in FY21. In FY22, we decided that we will keep more inventory and have taken advantage of the market.

The smaller part is the Kitchen Appliances segment, that has also grown very well. We have had some new launches like Water Purifiers and Kitchen Hoods, only in the e-commerce channel and they also continue to do well.

**Achal Lohade**: What is the price hike impact in the Consumer Durables segment?

**Sudarshan Kasturi**: Yes, that 10% applies to Durables also. These price increases have been across the board from more or less all categories.

**Mithun Chittilappilly**: Yes, the cost increase in Durables has been much more sharper because the Durables use a lot of aluminum, they use a lot of crude derivatives and packaging – and everything has shot up. I think that the problem with Durables has been that there have been sustained increases in commodity prices. By the time we correct commodity prices and move on, the next round of hikes are required to be taken. Thus, it has been a constant challenge. The good news is that barring aluminum, the rest of the commodity prices seem to have plateaued. So, this is good news for the segment, in the coming year.

**Achal Lohade**: What is the incremental price hike required to restore the gross margins?

**V. Ramachandran**: I think it can range anywhere from 2-5%, depending on the category, at an aggregate level, maybe about 3% odd right.

**Achal Lohade**: In April you have taken certain price hikes, I could not understand the quantum and you said will land in phases, depending on market?

**Mithun Chittilappilly**: I did not have the number with me on the exact quantum of price hike. I think price lists have been announced and increases have been announced. The effective landing will vary, it would have started but it may not be but I do not have this data with me right now.

**Achal Lohade**: In the Electronics segment, you mentioned that it was slow, can you elaborate on this?

**V. Ramachandran**: As far as the Electronics segment is concerned, fundamentally, if you look at our overall growth, what you will see is that the growth in the non-summer categories has been stronger. The summer categories have been flat-to-very moderate with growth of 4-5% when you look at the annualized number and even for the quarter, the growth in the summer categories has been moderate. It is basically because January and February were weak and the demand for summer categories started to pick up, because with COVID coming in, the trade was not in a mood to upstock. So, categories like, Stabilizer, Inverter, even Air Coolers, which is within the Consumer Durables category or Pumps, which is within the Electricals category. These categories have been depressed till the middle of March because the trade was a bit worried about the revival of COVID from January. However, as the summer started to pick up, the business started to pick up and we had a strong March. That is the reason why the quarter's number showed a moderate growth in the Electronics category, because January and February was pulling it back. However, since then the current quarter i.e., the last 45-50 days, summer has been very strong, particularly across North and West and the Electronics categories have now recovered to normal growth rates that you typically see for summer.

**Achal Lohade**: Would it mean that it is more of a South problem than really Non-South, in terms of this delayed start of summer?

**V. Ramachandran**: No, it was not a delayed start of summer really, it was the sentiment in the market, post COVID.

**Mithun Chittilappilly**: In the last three years, every year when we sold inventory into the trade, in the summer it was either a lockdown or COVID, for example FY21 in April was a lockdown and FY22 May was a lockdown. In both these years the trade picked up inventory but they were not able to sell out. They were not willing to up stock this time and they waited for the real summer to happen. Thus, basically, the channel inventory was almost nil as we entered summer this year.

**Achal Lohade**: On the gross margins, earlier we used to talk about 100 bps YoY improvement, I know that we have gone through a very volatile RM cost inflation scenario, but if we were to assume the RM prices are here to stay, how do you see the gross margins over the next 3-4 years, given the in-house manufacturing, the premiumization and so on?

**Mithun Chittilappilly**: See we would like to increase gross margin by 1% but like you yourself mentioned we are in an environment where we are taking about 13-15% average price increase. To put it in perspective, in a normal year, even with reasonable inflation, our average price increase will be 2.5-3.5%. So, it is almost, 4x price increases we have to take. I think the way to look at is like this – when the raw material prices are plateauing, when the commodity prices are plateauing at that time, we can, start to, again, hope to achieve this, 1% improvement in EBITDA margin, till that time, I think it may be difficult.

**Moderator**: Thank you. The next question is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

**Ankur Sharma**: Just on the demand – not just for you but for the sector as a whole, we have seen price hikes in the range of 12-15%, which is quite abnormal. Typically, we take about 2-3% annually. I understand summer has been good, so cooling products would have done well and continue to do well. However from a full year perspective, do you believe this inflation/price shock could lead to more of price growth and that the volumes actually start suffering as we get into Q2; or do you believe, that the ticket sizes are small, demand is pretty inelastic and therefore we see healthy volume growth? Is there any guidance you want to give on the top-line growth for FY23?

**V. Ramachandran**: Yes, I think it is a bit hard at this stage to give guidance on volumes. In general, we are not expecting, because the ticket sizes are small. We are not expecting demand to drop off. However, when you look at growth and what we have seen in the last two years, it is also a function of how COVID and supply-side is interrupting the market. Now, if you look at our last two years, fundamentally, we have been impacted on summer categories. If you see the categories that we sell around the year, we have been able to recover and our business has gone on. I believe that a bit of pressure has been there on Wires because of the slowdown in the building sector.

We will also need to look at these kinds of things like how the demand for housing is going to go. That will, to some degree, also impact some of the Electricals categories, but in Consumer Durables categories, we are not expecting it because most of the categories that we are into, they are not of a high-ticket size and the penetration is still quite low, and the replacement cycles are short. So, we should be okay there.

Similarly, if you look at the Electronics segment, for our portfolio, what has become very clear is that this is the fourth year, I mean, we had three consecutive years where the summers were bad, the first year, of course, was because of COVID and so were the second and third year. This year, things have really picked up from April.

Looking at our kind of portfolio, I would say that the Consumer Durables should not get impacted. Electronics should fundamentally be dependent on how the weather will be and also some related categories, which are very strongly summer driven, like Air Coolers and such. That is what you should watch for. As far as Electricals are concerned, we should keep an eye on how the construction industry is moving and the uptake for housing demand.

**Ankur Sharma**: You will be fairly well tuned to the real estate market, we see good numbers on the listed companies, but I guess overall, I am not too sure whether we are seeing a huge uptrend across the country or if maybe it is just limited to the metros. In your view, are you seeing that uptake and do you expect it to continue or would it start slowing down on the housing side?

**Mithun Chittilappilly**: If you look at the Electricals business, even with these kinds of price increases, there has been, of course, it is not a huge volume growth, but there has been a descent amount of volume growth. If you look at the non-Wires business where the price increases are not so high, that is Switchgears and Modular Switches, there also, we are seeing good growth. So far, I would say that the housing demand is pretty good. For example, we do not sell to builders or large infrastructure players and such, our sale is primarily retail, i.e., 95-97% is retail.

Yes housing demand has been strong across, maybe because people are able to borrow money at low interest costs and all that. So the interest cost is something that if it goes up significantly, it could affect demand with people postponing their decision to build houses, because in India most people take loans to be able do this. So, loan interest and EMI is going to be a huge driver for this.

**Ankur Sharma**: On the margins – as we also rightly pointed out, we are starting to see RM prices correct, or at least flatten out right now. Hopefully, going forward, come off also. Are you hopeful of maintaining a double-digit EBITDA margin next year, anything you can comment on? Specifically on Consumer Durables as well, where margins have been a little weak this year – the low single digit margin at the EBIT level, any commentary on margins?

**Mithun Chittilappilly**: As a Company, yes, we should be able to maintain, 10% EBITDA, at double-digit margins, because personally, for V-Guard, I think the worst is over in terms of commodity inflation and so I am hoping. I do not see any more triggers for it to go up further again. It has reached a level where beyond this, people are not willing to pay for it. What we will see is probably a decline in commodity prices, copper has already started to decline, when this happens, two things will happen, there will be margin expansion in all categories, but there will be a demand contraction in Wires, because in Wires, copper reduction means sales side reduction, and which also means that retailers will start restocking. That would have already started. It is the same scenario that happened after I think 2014/2015, what happened, when there was a decline in commodity prices. We can expect that kind of scenario, so it is probably what is going to happen.

**Mithun Chittilappilly**: Even this year with the worst of the commodity price inflation, we are only 0.5% off, 10% EBITDA margin, which is a pretty good number in my view.

**Ankur Sharma**: On the Fan segments, I think you have done very well, the new factory started, the Decor Fans I am assuming are doing very well for us. I am guessing this is more like a Rs. 400 odd crore category for us. By when do you think you could touch Rs. 1,000 crores, any timelines that you want to share?

**Mithun Chittilappilly**: No, we would not like to give out any projections.

**Moderator**: Thank you. The next question from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

**Sanjay Awatramani**: Just wanted a confirmation – the Wires prices which have been hiked in FY22, was it in the range of 30-35%?

**Sudarshan Kasturi**: Yes about 35%.

**Sanjay Awatramani**: Excluding Wires, would all the categories have seen an increase of 10%?

**Sudarshan Kasturi**: Correct, 10%.

**Sanjay Awatramani**: Just wanted to know, the CAPEX which you have guided for of Rs. 200 crores in the next three years, will they start in FY23 or is some of it already done?

**Sudarshan Kasturi**: This project has spread over in multiple years, some projects will get done in FY23 or FY24 as well.

**Mithun Chittilappilly**: For the sake of simplicity you can probably pencil in Rs. 70 crore CAPEX per year.

**Mithun Chittilappilly**: What will happen is that these factories would not all start at the same time and they will all be starting in a staggered manner. So, they probably will get spread out.

**Moderator**: Thank you. The next question is from the line of Aniket Mittal from SBI Mutual Fund. Please go ahead.

**Aniket Mittal**: On Consumer Durables – in terms of manufacturing facilities that we had opened recently for Water Heaters and Fans, if you could throw some light on that, in terms of how are they shaping up in terms of production utilization from these two factories, that would be helpful.

**Mithun Chittilappilly**: Starting with Water Heaters, which is the first factory we set up. Basically, you we were completely dependent on China for imports 3-4 years back and then we suddenly took a call to have our own manufacturing for glass coated or vitreous enameled coated tank or VET tanks in India. Since we already had a plant running – a small plant running in Sikkim, we decided to expand it. That has been extremely timely, because by the time the plant was not even commissioned when COVID had in fact, engineers from China and Turkey, were in Sikkim commissioning the plants and COVID started. We got a little bit hit on that side. But of course, in the current year, we had full, we were able to extract a good amount of capacity from the plant.

If I am not mistaken, the plant is producing something like 70% of its capacity, in the last year. and this year, probably it will touch something like 85% of its capacity. That plant primarily produces all types of Vitreous coated tanks. Apart from this plant, we have also tied up with OEM vendors in India to make the same type of products, because we did not want to take a risk with sitting in a remote location. We wanted to do some risk management. We also have started some OEMs which will support for the next few years. So, that is far as the Water Heaters' business is concerned and it has really bounced back; we have definitely taken back all the shares we had lost.

In terms of the Fans business – V-Guard is primarily a company that has pretty good presence in TPW Fans but our presence in Ceiling Fans was pretty poor, primarily because we were neither playing in the super economic segment or nor playing in the premium segment. With the current plant, we have now started to play in the mid-segment range, the Decorative segment and now have three platforms that have been manufactured in the plant. Two of them are doing extremely well and the third one, which is BLDC Fans has just been launched. The Fans plant in Uttarakhand is also running at close to about 70% capacity and then probably in the next 24 months, it will hit 100%.

**Aniket Mittal**: Could you help us understand on the EBIT margin of 1.7% in Consumer Durables. Obviously, these plants are ramping up, there has been certain amount of fixed costs absorption that will also come in and I am assuming that there are certain price hikes that are still pending. So what is the impact and what would the margins look like?

**Sudarshan Kasturi**: Compared to the steady state of operations, the on cost from factory will be about 2% in the current year and then there are some pricing gaps; a 3% pricing gap maybe there.

**Aniket Mittal**: On the Consumer Durables category itself, I understand you may not want to talk about your growth guidance for these, but maybe within both Fans and Kitchen Appliances, if you could talk about what are the types of initiatives that you have taken in terms of expanding your product portfolio and distribution reach?

**V. Ramachandran**: Our focus and approach have mainly been on developing new platforms to fundamentally increase market addressability as well as improve the competitiveness of our position in different segments. In Fans, we have fundamentally been focusing and working on BLDC as well as the preparation for the energy efficiency norms that are coming in. As Mithun said, we have already launched two new platforms *Romanza* was the recent one which was about two months back and before that was *Glado Prime*. These are the platforms which are expected to drive our growth, particularly *Glado*, *Romanza* and also the BLDC offerings. These are what will drive our growth for the next 12-18 months in Fans.

As far as Kitchen Appliances are concerned, there again, we have fundamentally been focusing on improving our portfolio presence in terms of addressing sub-categories and sub-segments in the market. There is a bit of work that is happening in terms of improving our competitiveness in terms of aesthetics, efficiency, cost and margins so that we can be more price competitive.

These are the two areas that we are fundamentally focusing on and mainly our focus is going to be to improve our product capability, market addressability and portfolio competitiveness. That is going to be our fundamental driver, more than GTM which is going to be ongoing in terms of expanding reach and penetration.

**Moderator**: Thank you. The next question is from the line of Dhruvesh Shah from JM Financial. Please go ahead.

**Dhruvesh Shah**: V-Guard has always opted for growth with a conservative approach maintaining healthy cash flow and balance sheet, but after many years, we observe that we have reported negative operating cash flow, with an EBITDA of Rs. 338 crores. As explained by you, this is mainly because of the inventory pile up of raw material that we are trying to stock up because of the expectation of inflation. However, the same is observed in Q2 FY22, it has been nine months, but we have allowed this metric to deteriorate for three straight quarters. Is there any change in stance, in terms of conservatism or are we chasing growth at the cost of balance sheet?

**Mithun Chittilappilly:** First of all, we are not stocking raw material because we think that the price will go up and so we can have an arbitrage; we are stocking raw materials because we were very badly hit in FY21. In fact, we would have lost nothing less than Rs. 250-300 crores of revenue and maybe Rs. 100 crores of gross margins in FY21 because we did not supply due to this we lost share, we lost face and the retailers were upset with us**.** Hence, we said that we are not going to put ourselves in that place ever again and that is why we are stocking up raw materials. It is not with the thought of making profits thinking the raw material prices will go up. Please, there is a huge distinction between these two strategies.

The second thing is – to put it in perspective, V-Guard in a year consumes like Rs. 35-40 crores of Electronics. Today we are stocking almost Rs. 40-50 crore of Electronics in our warehouse. This means that V-Guard is stocking one year's worth of Electronics components and V-Guard is one of the few companies where we did not have a single day or single month of sales miss and production miss because of lack of chips. In fact, V-Guard has more stocks than some of the automotive companies in the country. We caught this very early on.

About the balance sheet, yes, our inventories are probably higher by about Rs. 150 crores, odd. I think they will definitely come down and have already started to come down; you would have seen that sequentially itself some Rs. 35-40 crores of production has happened by March. Another, Rs. 150 crore of, production is expected in the next 4-5 months. Definitely this year, we will see a certain positive cash flow and the reason is that we took a strategic call as losing market share and having a lot of cash in the bank does not give us any joy – so, we decided that instead of focusing on cash flows, we will focus on market share and cash flows will then follow.

**V. Ramachandran**: If I may just add just one point, actually our typical finished goods inventory which we operate with as a norm is of about 45-46 days. What we have decided is to increase our overall inventory by about 30 days, which was one month equivalent and where I think RM plus S&G together meant that, we were carrying about Rs. 300-350 crores of extra inventory which had converted the cash, which was in our books, into inventory.

In hindsight, it is possible to understand, how COVID will go, but sitting where we were sitting at the point in time when we got hit, for example in Water Heaters, we had actually degrown by about 20% odd percent last year for want of supplies. There were other categories where we had challenges in the peak of COVID, as the business started to recover, we could not participate in that growth because our inventory norms are far too tighter compared to some of our competitors.

That was the background and context in which we made that call. I think, somewhere in the month of November or December, or I think it was about October or November last year, we took the call to get back to normal inventory. However, what happens is that, as we enter the summer months, in general, we stock up because many of our factories are seasonal and therefore we need to start producing earlier so that we have adequate inventory for the season.

We could not transmit the decision that we made, to cut inventory, to be visible in our inventory numbers. However, between April to July, or maybe August, you will progressively start seeing our inventory coming back. It is the kind of time it takes to correct as many of our categories are seasonal. I think the correction will happen or reflect only after the season is through.

**Dhruvesh Shah**: Apart from the coming year's cash flow, would we also recoup the Rs. 300-350 crore EBITDA of this year completely, without impacting the growth and the margins for FY23; or would the cash flow impact continue for a year or two?

**Mithun Chittilappilly**: I think what you are asking is whether the Rs. 300 crores of EBITDA, minus depreciation, will convert into cash flow plus this year's EBITDA, is that what you are asking?

**Dhruvesh Shah**: Correct.

**Mithun Chittilappilly**: Please understand that there is CAPEX also going on.

**Sudarshan Kasturi**: One is the working capital impact, which we have explained – the reason why stocks are high and at some point we will bring it back to normal. Then there is CAPEX, these investments are being made to get long term cost competitiveness and these investments help us to either stop exports or bring in in-house what we are sourcing from OEMs. These in turn, will give us better gross margins, so, they will be productive. That is the reason the investments are being made.

**Mithun Chittilappilly**: In terms of that, yes, you will see some part of the cash coming back to the earlier levels but some of it will go into CAPEX as well. However, if you add back the CAPEX, ideally, we should be back to that earlier level.

**Dhruvesh Shah**: On this inventory, while selling it, we would not have to face any major margin or market share or problem out there?

**Mithun Chittilappilly**: Yes, there is one more point. In FY21 you would also see that our debtors were at some 30 days. Now V-Guard has never had debtors of 30 days, it has always been about 45-50 days. So, maybe

FY21 is not the cash processing to judge. Maybe you can look at the cash in FY20 and then work from there.

**Dhruvesh Shah**: The inventory that we are planning to sell in next 6 months, would there be any margin pressure on the same given that we would want that inventory to be out of our books or is it that we do not expect any push?

**V. Ramachandran**: Our inventory will regularize in normal course as our planning cycle is based on normative data based on sales forecast plus safety stock. The inventory will progressively come down because we have only been taking production and we are ordering materials based on the sales forecast. So, it will even out.

I think Mithun already explained, we have not kept the inventory to take advantage of input costs and we will not be managing the inventory with that kind of a perspective. As far as input costs increase is concerned, I think that will be transmitted in the normal course of business and that has no bearing on how we are going to set our inventory norm or how slow or fast we will move it down. So, they are disconnected.

Basically, as the Company's policy, inventory holding is a function of what service level, what SLA we want to meet for our trade partners and for our internal partners – which is our Salesforce. It is based on the fill rate and the service level that we want to meet to them. There is some safety stock and there is some stock which is produced for meeting the forecast, that is basically it. We do not do strategic buying. The only exception, was what Mithun talked about that in a couple of instances where for reasons that we fear supply security, we are keeping inventory and it is not for reasons of fluctuations in prices.

**Moderator**: Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

**Hitesh Taunk**: On the product development front – we had a stake in Gegadyne Energy and we were planning to launch innovative products into fast charging battery technology – throughout the product categories be it Stabilizers, UPS and also in Consumer Durables. Where are we in that in terms of product launches? As per your definition, what is the current premium product contribution in our top-line and what is the contribution going to be in the next 1-2 years through the innovative product launches or say premium product ranges with this kind of technology.

**V. Ramachandran**: We had clarified that earlier also – Gegadyne is a technology company; at this stage in their journey, it is a technology startup and mainly they are engaged in the process of technology development and validation. Now, they will be developing the technology that will be ready for commercialization and give pilot products to us. Now where we are at in this stage, I think, they are in the course of setting up a pilot plant and the machinery for this is supposed to come from China and although the machinery is produced, it is stuck waiting to be shipped out from there. That is where we at are now.

I think in the meanwhile they continue with their development activities, so that they are able to move that knowhow and the capability in terms of developing their battery technology further. This could again change depending on how things in China shape up. By August or September they hope to commence what I would say is the pilot plant. They will be in a position to supply sample battery pack to us which we will be able to test, evaluate and then decide how we go forward once we are confident that the technology is ready for large scale commercialization.

The second question which is related to what is our expectation of contribution of revenue from innovative products? I think we have not internally set a target or a goal for how much of revenue should come from innovative products. I think where the real technology development is involved, it is difficult to define the timelines because they are in, what I would say pre-commercialization stage. It is a bit difficult to put a number out for what would be the contribution of such products right, because there is uncertainty also associated with the technology development products.

**Hitesh Taunk**: If not for future, what is the current contribution?

**V. Ramachandran**: Presently, we do not have a definition where we have defined what constitutes premium. We are a multi-category business, some are more consumer, involving like the Consumer Durables category and then there are other categories, which are less consumer engaging involving Wires or Switchgears or maybe Inverter Batteries. It is difficult to apply a uniform definition and stretch it across and so we have not attempted to do that thus far.

**Hitesh Taunk**: Pertaining to our market share, you have guided that we have regained our market share in the Water Heaters category. Is there any other category with top 2, 3 or 4 products where we have gained market share during this quarter or year?

**V. Ramachandran**: We have had the strong growth this year across the Consumer Durables categories and obviously and naturally, we would have gained market share in those categories because if you exclude Air Coolers, I think the growth across all these categories should be close to 44-45%. Obviously, we would have gained shares in all these categories; it is for sure that we have gained share in Fans and in Water Heaters, year over year. However, in Water Heaters, you may bear in mind, as Mithun already talked about, that the year before for reasons of supply chain challenges we had lost ground. What we have done is, we have regained that lost ground and probably traveled a bit more. That is as far as Water Heaters are concerned. In the Kitchen segment also, we are steadily improving our presence and market position, but we still remain a very small player at this stage.

**Moderator**: Thank you. I will hand the conference over to Mr. Naveen Trivedi from HDFC securities.

**Naveen Trivedi**: I think that the Consumer Durables business has already reached more than Rs. 1,000 crores sort of revenue mark, i.e., almost doubled in the last 4-5 years. So what is sustainable growth rate for the business, especially when the many sub-categories of these segments have reached a healthy scale.

The second question is – at this scale, what sort of EBIT margin is sustainable considering your EBIT margin is ranging from 1.5-6% in the last 4-5 years. Once we reach a stable sort of a demand environment, what is the sustainable number that we can look for?

**Mithun Chittilappilly**: Consumer Durables is a combination of various categories and various mix of the states, for example, Water Heaters, are probably the most important category for us in Consumer Durables. It is a 25-year-old category for V-Guard. We are one of the largest players in the country. Our EBITDA margins are very high. However, we also have a lot of new categories where we are losing money. I think it is always going to be difficult because we are always going to launch new products and some of them may come in Consumer Durables. When you talk about Consumer Durables as a whole segment it is going to be difficult because we are going to be talking about products with varying maturity and varying EBITDA margins.

We believe that in the Fans and Wires businesses, we are still in the investment phase. At least for the next 3-4 years, we do not foresee us making huge EBITDA margins because we want to get to a reasonable size before we start thinking about EBITDA margin in Fans. It does not mean that we are losing money in Fans, it is just that, our focus today is on ensuring that we are serving all the segments of the market. We are establishing V-Guard as a great brand for the option of Fans to consumers and then we take away share.

There are some new categories like Air Coolers, Kitchen Appliances, Water Purifiers and they are very tiny in their market share and they are probably going to be losing money. In Water Purifiers, we are not losing money because we are selling them only on e-commerce and you know the cost is less.

I hope that I have answered your question. It is going to be very difficult for us to give you a range but definitely the EBITDA margin of 1.5% is not sustainable, it is probably one of the worst we will only see it going up from here.

**Moderator**: Thank you. Ladies and gentleman that was the last question for today. I now hand the conference over to Mr. Naveen Trivedi. Thank you and over to you, sir.

**Naveen Trivedi**: Thank you, everyone for participating in this call. We also thank the management of V-Guard Industries for giving us the opportunity. Any last comments, Mithun?

**Mithun Chittilappilly**: Thank you, Naveen and HDFC for hosting the call. Thank you all for listening in.

**Moderator**: Thank you very much. Ladies and gentlemen on behalf of HDFC Securities that concludes today's call. Thank you all for joining us. You may now disconnect your lines.