"V-Guard Industries Limited
Q4 FY '24 Results Conference Call"
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MODERATOR: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the V-Guard Industries Limited Q4 FY '24 Earnings Conference Call Results hosted by ICICI Securities 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. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Thanks, Zico. On behalf of ICICI Securities, we welcome you all to Q4 FY '24 Results Conference Call of V-Guard Industries Limited. We have with us today the senior management represented by Mr. Mithun K Chittilappilly, Managing Director; Mr. Ramachandran V., Director and Chief Operating Officer; and Mr. Sudarshan Kasturi, Senior Vice President and Chief Financial Officer.

Now I hand over the call to the management for initial comments on the quarterly as well as annual performance, and then we will open the floor for a question-and-answer session. Thanks, and over to you, sir.

Mithun K Chittilappilly: Thank you, Aniruddha and to ICICI Securities team for hosting this call. A very warm welcome to everyone present at today's call. Thank you for joining us today to discuss the operating and financial performance of our company for the fourth quarter and for the financial year ended '23, '24. I trust all of you had a chance to refer our investor presentation, which was shared yesterday. The fourth quarter witnessed a good start to the summer season with revival in demand. As a result, we reported consolidated net revenues of INR1,343 crores in Q4 FY '24, higher by 17.9% on a Y-o-Y basis. Revenues for the full year FY '24 were INR4,857 crores, higher by 17.7% over the prior year.

All our segments delivered double-digit growth in top line on a year-on-year basis. Growth was led by consumer durable segment, where we market fans, water heaters, kitchen appliances and air coolers, which reported a top line growth of 27.9% in Q4 on a Y-o-Y basis. The Electronics segment comprising of stabilizers, inverters and batteries delivered a good traction with revenue growth of 18.9% Y-o-Y. In the Electrical segment comprising wires, pumps, switchgears and modular switches, we registered a growth of 10.7% Y-o-Y over Q4 FY '23.

Sunflame also delivered robust growth in top line of 28.3% on a Y-o-Y basis in Q4 leveraging on our various strategic initiatives implemented over the last year. We are pleased with the initial signs of turnaround and performance as we continue to progress on the integration process with Sunflame.

In terms of geographies, we witnessed a top line growth of 18.6% Y-o-Y in Q4 in the South market, while the non-South market grew by 15.8% Y-o-Y. It has been some time since we have seen the South markets registering a higher growth than non-South markets indicating a very strong start to the summer months in southern part of the country. Gross margins continue to improve. In this quarter, we have reported an improvement of 310 basis points Y-o-Y and 40 basis points Q-on-Q. We have substantially now covered the gross margin gap as we have progressed through the year. Plans to increase in-house manufacturing are also progressing well.

The battery and kitchen appliances factories, which recently commenced commercial production are expected to deliver benefits during the coming year. We are evaluating pricing actions in some products, which combined with some further initiatives should aid us in bringing EBITDA margins back to the range of 10% to 10.5% that we have indicated earlier. On an overall basis, FY '24 has been a gratifying year with a strong double-digit top line growth and improved margin trajectory. We also had a healthy cash generation aided by an improvement in working capital. The Board of Directors have recommended a final dividend of INR1.4 per equity share of INR1 each for financial year '24.

With that, I conclude my opening comments, and I would like to thank Aniruddha and the team at ICICI Securities for hosting this call, and would like to request the moderator to open the floor for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Natasha Jain from Nirmal Bang Equities. Please go ahead.

Natasha Jain: Congratulations on a good set of numbers. So I have 3 questions on fans. First, can you tell us how the performance was in fourth quarter? And if you can break that down into premium versus non-premium? Now 1Q FY '25 has also started on a very strong footing in terms of good summer. So how are you seeing fan growth in 1Q? And at an industry level, has there been any meaningful price hikes? Or are we still seeing sharp discounting happen?

My second question is, like you've mentioned earlier that you are making efforts in terms of improving visibility for fans at MT channel. So if you could throw some colour on that and if you've been able to break any deals with bigger retail channels? And lastly, sir, what is the update on TPW fans? And I also wanted to understand a little bit about the kind of penetration that TPW has and what is the kind of industry growth that this part of fans can deliver in the medium term?

Mithun K Chittilappilly: Thank You Natasha, a lot of questions. We'll try to answer them as best as we can. As far as Q4 is concerned, we have had a very strong growth in fans, but as a policy, we don't give out the numbers product-wise. We've also had a new launch, which happened in Q3, which is in the premium BLDC segment in the range of around INR5,000 consumer pricing, which has done extremely well. So both these put together, we have had a very strong growth for fans in Q4. But as fans, there are other products also like air coolers and stabilizers and inverters, they also have grown because the summer has been benefiting all the categories. As far as the first quarter is concerned, we finished April. April also has been quite decent for fans.

However, I have to say that the growth in certain other categories like air coolers and voltage stabilizers has been stronger than fans because the summer has been very, very harsh at least in Southern and East part, which had prompted people to buying air conditioners, which helped us in stabilizers and air coolers. Fans also did well in the first month of the year. As far as price hikes are concerned, I will ask Ram to takeover.

Ramachandran V: Yes. I think we are attempting to transmit pricing action. I think we have initiated some pricing action in April, and we plan to take some pricing action again in May. But this will also be driven by how the industry plays out. April pricing action, we have been able to realize. May, we will have to watch, and we should know in maybe the next 30- 60 days, how it goes.

Mithun K Chittilappilly: So regarding TPW, TPW fans are roughly 25% to 30% of the entire fan industry. And it's a similar kind of revenue for us from TPW fans. TPW fans used to be imported from China and Vietnam earlier. Now most of the TPW is getting manufactured within the country. All the companies have set up their own supply chain. And I think starting September or October of this financial year, almost entirely, including premium TPW fans will be made in India. Now, only the premium part is imported.

The TPW fans went through some rough patch a few years back when there was a sudden ban on import of fans. So companies like us, which were heavily relying on imports, got into some trouble with TPW, but now we are strongly back with a strong local i.e., domestic manufacturing. And we are also in the process of setting up our own factory for TPW for making the premium end of TPW fans in Hyderabad, which should get completed in the next 18 to 24 months. So I hope I have answered all the questions.

Natasha Jain: Sir, just on the visibility part in terms of fans for us, have we been able to make any deals with retail chains?

Ramachandran V: Yes, we are placing our fans into retail chains. But we don't do dealing or strike big numbers that way. We are placing our product into stores and we are replenishing them based on uptick, because that's the only way that we can protect our price positioning, right? Otherwise, dealing has its challenges because if we pressurize the retailer to take a lot, they also tend to sometimes discount if the velocity of movement is not to their plan. So no, I think we've not been doing deals.

Mithun K Chittilappilly: So let me put it in another way for us. At least the growth of fan has been broad-based, both in modern trade as well as GT and e-com. All the 3 segments have done well. And for fans, especially we have worked a lot on the point-of-sale kind of display system, which is not only for MT, but also for GT.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies India.

Sonali Salgaonkar: Sir thank you for the opportunity and congratulations on a great set of numbers. Sir, my first question is regarding the Sunflame integration. Obviously, we have been able to deliver very strong top line growth even despite and amid demand softness that we have been seeing across the past 3, 4 quarters. Even your margins have been quite strong, anywhere between 8% to 10%. So could you elaborate on what are the steps that we have taken for integrating Sunflame across revenue and cost initiatives?

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

Ramachandran V: Yes. So Sunflame continues to operate as an independent entity as it was operating before. I think our initial effort at integration is fundamentally focused on control systems and an accounting system so that we are able to report and integrate results.

We have started the work on operational integration and that work is underway. I think it's underway since the last 3 to 4 months. I think the design is complete and I think the execution will take maybe some time, maybe 12 to 15 months. But I think we've figured out what Sunflame will run and what we will run commonly; where Sunflame will leverage V-Guard, and where Sunflame will operate independently.

So I think the design is out of the way. I think the planning for execution and the execution is the next step, which is progressing. Some areas, which we have some areas like e-commerce, I think we have already started the integration work and that is significantly under progress. E-commerce and South are the 2 major opportunities, I think, it's nearly almost 55% to 60% of the kitchen revenue, overlaps with this universe. And these are areas where Sunflame is presently weak.

So our focus is to build these 2 opportunities, and we are bringing to Sunflame our network with the retail chains in South, which are significant players and bringing our entire organizational capability, which we have built for e-commerce to play for Sunflame. I think with these 2 areas we should see good results going forward.

Sonali Salgaonkar: Sure. Sir, what about manufacturing footprint, are there any synergies over there? And secondly, the last bit on cross-selling. So have we started utilizing our channels for cross-selling each other's products?

Ramachandran V: Two things. So let me answer the second first. So as you know, V-Guard has its own kitchen business and Sunflame has its kitchen business. I think when it comes to going to market, there is mainly a GT question. I think that we will stay separate there. MT/RSS, we have an entire organization to drive sell-out to MT/RSS. The sellout organization may be common, but the sell-in organization will be separate so that there is a focus for both brands. E-commerce will be managed in a combined manner because it's the customer who makes the choice and, therefore, we are good with that. As far as the first question, the first question was...

Mithun K Chittilappilly: Manufacturing.

Ramachandran V: Yes, on manufacturing. V-Guard has its own facility in Vapi and Sunflame has its facility in NCR. I think at this point, we are not planning to cross source, but I think over a period of time, such opportunities will arise. It's possible that the mixer grinder part of the business of Sunflame maybe fed by the Vapi factory. It's possible that our hoods and hobs requirement may come out of the Sunflame factory. So I think these are things that are underway.

In manufacturing, mainly the big piece of work has been that the hoods line. Sunflame had set up a hoods line just before the merger. We are happy to say that the line has scaled up, and that allows for local manufacturing of hoods. And that will be an important margin driver for Sunflame because there is a 7% to 10% advantage to make within Sunflame as opposed to either locally sourcing or importing from China. So, that is well underway, and the output has stabilized. So this year, we could spot benefit there, yes.

Sonali Salgaonkar: Understood, sir, helpful. Sir, my second question is on pricing actions. You did mention some taken in April, some in May. Could you elaborate which segment and what was the quantum of pricing action?

Ramachandran V: No, I think the way the industry works, right, so we initiate actions, but I think, ultimately, how much and how fast it lands is a function of market also. But I think we are taking pricing action across some of our summer categories. And I think maybe in a month from now, we would be in a better position to tell how much of it will land. But yes, but we do expect to land pricing changes at least to make sure that we recover our long-term margins, so that our business comes back to our long-term margin of double-digit EBITDA, right?

Sonali Salgaonkar: Understood, sir. And lastly, on capex, any guidance? And secondly, how much of our manufacturing is own versus outsourcing now versus 5 years back?

Mithun K Chittilappilly: Sudarshan, do you want to take this?

Sudarshan Kasturi: Capex, there's no change in the guidance, whatever we said last time. We probably see about INR100 crores of capex in the coming year. And own manufacturing was your question, we are at about 65% now.

Sonali Salgaonkar: And 5 years back, it was about 45%, 50%?

Sudarshan Kasturi: It was around 40%, 45% range, maybe 45%.

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

Achal Lohade: Sir, if I look at the electronics growth, 19% growth which is a very strong growth across stabilizers, inverters, et cetera. Usually, in the past, we have seen the margins actually expand given the operating leverage. But this time around, we have not seen that. Would you be able to give us some clarity because 1Q FY '24, if I look at margin had touched 16%, while it kind of stagnated at 12.5%. In fact, Q-o-Q, it's down 40 basis points. So can you help us understand?

Sudarshan Kasturi: There's also a mix of the UPS and stabilizer and the EPR.

Mithun K Chittilappilly: Ya I think as far as the margins are concerned, I think, it will be good to compare fourth quarter with the previous year fourth quarter. Sequentially there is a dip because of product mix. For example, in Q3, we sell more of smaller, lower KVA that are refrigerator and television stabilizers. Whereas in fourth quarter, it will be largely air conditioner, stabilizers. So, there is a mix impact there.

I think there's also an EPR impact coming in fourth quarter. So the inverter and batteries are part of the Electronics segment as they are sold together. The battery has an EPR charge happening in the fourth quarter, which has also impacted margin.

Achal Lohade: Would you be able to quantify, sir, how much is the charge, especially for the Q4?

Mithun K Chittilappilly: We'll come back on that.

Achal Lohade: Okay. Sure. The second question I have is that, we have seen recently in the last 3 months, the raw material prices have flared up. Copper is back to $10,500 a ton. If I were to look at your cost basket, how much has it moved up? How much of a price hike is required to maintain the current margins given the cost inflation you would have seen, as we speak?

Mithun k Chittilappilly: First of all, this is an evolving situation. But definitely, one thing that we can say for certain, and we can definitely feel is that commodities have bottomed out. So the bottom levels have been reached some time in maybe November, December period and after that, it has started to move up.

The good news is the flare-up is not as fast as it was last time when there was the Russia/Ukraine war when almost all commodities started flaring up at a very fast pace. So this time, the flare-up is happening in certain commodities. Copper is going to raise prices to some extent in fans and pumps. Mostly these 2 categories because in most of the other categories, we also use a lot of aluminium, which has not gone up that much.

Also, I think both in fans and pumps, now we are also having aluminium motors for the economy segment. So the impact may be not as high as it happened last time. Having said that, like Ram mentioned this before, that we have taken some pricing action. I think we'll have to see where the commodities settle. But definitely, commodity price increase will have an impact on the margins. The only product where this is a positive is wires. So when copper prices go up, there is a tendency by retailers to upstock wires, which is driving sales for wires more than the sellout. And in the case of wires, there is an immediate increase or decrease in prices as and when the copper moves.

So yes, so in that sense, there would be more pricing action required. But it is still evolving, like, for example, copper has even moved up of in the last 5, 6 days. So we'll have to see where the average price for the month settles. But definitely, I think, as of now, maybe a 1% or 2% impact is there. But having said that, we have already taken some pricing increases in categories like fan and pumps because of this. We'll wait and see. We are hoping that the shocks of the increase won't be as fast and as steep as like last time.

Achal Lohade: And if you could quantify how much is the price action, which has got absorbed, which you had initiated in April? How much or what was the quantum?

Ramachandran V: Maybe about 2% has flown through in maybe fan. And maybe in May, we expect in pump.

Achal Lohade: Okay. So April hike was only in fans, you're saying?

Ramachandran V: Yes, fans and pumps.

Achal Lohade: And May '24 is in pumps?

Ramachandran V: Yes.

Achal Lohade: Okay. One more question I had in mind is in terms of demand scenario, while I understand that the summer products are doing well. But are you seeing the green shoots even for the non-summer categories? Or that's too early to call out? And secondly, has there been any impact of the unseasonal rains because we tend to hear, read about unseasonal rains across the country?

Mithun K Chittilappilly: No. Definitely, the weather is much more supportive than last year. Because last year, we had a lot of unseasonal rains except in South India. So this year, for example, Southern and Eastern part of India has been extremely warm in March and April. The only place where it has not been that warm was the Northern part, which I'm told that now it is beginning to get there.

The unseasonal rain is happening right now mostly in the Southern markets and in some of the Eastern markets, which we are okay with because they already had a very good 45 days starting from March and all the way through April. So, I think as long as the northern part of the country does not receive much unseasonal rain, I think, the whole of summer has been pretty good, I would say, for the entire industry. And yes, so that's our call on the weather.

Achal Lohade: Right. And in terms of the demand for non-summer products, are you seeing?

Mithun K Chittilappilly: Yes. for non-summer products, I think, right now see, like I mentioned, only wires, we are seeing an uptick because of the increase in copper prices. So it may be too early to call it out; so far, we are not seeing much of a change in demand for non-summer categories. It's probably a situation as usual as it was in the earlier quarter.

Achal Lohade: Understood. Just one more question. Sunflame was acquired in the fourth quarter of last year and I remember, this was not a full quarter revenue that we had. So is it possible to know like-to-like what is the growth in case of Sunflame in terms of the revenue growth?

Sudarshan Kasturi: The Sunflame was not there only for the first 10 days of Q4 last year.

Achal Lohade: Okay. So it was almost there for the full quarter then?

Sudarshan Kasturi: So it was almost there for 80 days.

Achal Lohade: Understood. Just one more last question – with respect to pumps, are we participating in the solar pumps, if yes, how is the situation? And if no, why not?

Mithun K Chittilappilly: I think Generally, we don't do the tendering business. So, the Government tendering business is something that we don't do. We are present on the Government's GeM platform, that is e-procurement marketplace. But usually, we don't participate in tenders because of uncertainty on payment, lack of margin and practices.

Moderator: Thank You The next question is from the line of Vidit Trivedi from Asian Market Securities. Please Go ahead.

Vidit Trivedi: Thank you for the opportunity**.** My question is on the housing wire segment. Could you please elaborate what's the growth in this particular domain? And what is the guidance going forward? And what are the EBITDA margins?

Mithun K Chittilappilly: We don't give out product-wise numbers for any segment and neither do we give margins for any product segment. But I can say that house wiring cable is the largest part of the electricals segment, it carries the most weight. The gross margins are around 20% to 22% in the electrical wiring business. We don't give out EBITDA numbers.

Moderator: Thank You. The next question is from the line of NV Chandrachoodamani from Prime Investor.

NV Chandrachoodamani: Thank You for the opportunity. My question is with respect to your stake in Gegadyne Energy Labs – in terms of the benefits to V-Guard, will it accrue in the form of any new product launch or increasing your competitive advantage in any of your existing segments? So can you give some light on how and by when it would happen?

Ramachandran V: So Gegadyne Energy Labs is a technology company working on next-generation battery technology. They are in the phase of product development and pilot production, right? So that's the stage that they are in. I think our ability to commercialize the technology will come up when they will set up manufacturing facility to produce batteries and supply to us.

And fundamentally, we have made the investment to protect our interest in the inverter battery business, and that's our primary objective for investing in this because this technology has certain advantages in terms of life cycle and in terms of effective cost for consumers. So that's the reason why, and also performance. So that's the reason why we have invested in this company. I think maybe it's at least another 24 to 30 months away before we can be able to derive meaningful revenue out of the technology.

NV Chandrachoodamani: Okay. Sir, as a follow-up to that. This is a segment where your market share is in single digits or where you have very strong competitors. So eventually, over a period of time, your own manufacturing combined with the benefits from Gegadyne and all will help to significantly improve your market share in this segment. Is that understanding correct?

Ramachandran V: That is the objective for the investment that we would be able to bring some technology, which can disrupt this space, right? So that's the objective.

Moderator: The next question is from the line of Rahul Agarwal, an individual investor. Please go ahead.

Rahul Agarwal: Hi very good evening **.** My first question is on the south market. It's grown 18% Y-o-Y as you alluded that it's been some time we've seen such strong growth. Should we think this is a sustainable way forward for South markets now? Does it have an effect of base also because we had seen 2 quarters of degrowth last year? Some comments on that will be helpful.

Mithun K Chittilappilly: No. South is a more mature market where our ability to increase penetration is limited. I think we are very well entrenched in most of the markets in South. So by that context, non-South should grow faster. But what happened in Q4 is, starting mid of February until end of March, both in Kerala and Karnataka, there was an extremely strong summer. There was also a strong summer in the Eastern part of the country.

But the weight of Kerala and Karnataka is very large to the overall business. So on that base, there was a good growth in most of the summer categories. I probably don't think it is sustainable. I think non-South will still continues to grow faster. It's just that for this particular quarter, yes, South had an extremely favourable tailwind from this summer.

Rahul Agarwal: Got it. Next question was on the capex, which is the battery and the kitchen factory, both have started. We're expecting some benefits. I wanted to know these benefits are going to be more at the gross margin level? Or we are also expecting EBITDA to be better purely because the gross margin flow through or the opex is more managed? Any comments on that, please?

Mithun K Chittilappilly: No, both the battery as well as kitchen appliances, we were in the outsourcing model. And when we did a lot of analysis on make versus buy, we found that we are not very competitive. And one of the reasons our battery business has also stagnated in the last few years is because we are not competitive. So I think both these factories have been set up to improve competitiveness, which means that some part of the gross margin will flow through the EBITDA and some part will be used for making our product pricing more competitive in the market.

Rahul Agarwal: Okay. So that means that essentially we will be more cost competitive, which doesn't mean that we'll pass through that benefit and it's more to become a level playing field versus peers. Is that correct?

Mithun K Chittilappilly: Like I said, some part of it will be passed back to the market to make it more competitive. But we still believe that there can be an overall improvement in gross and EBITDA margins.

Rahul Agarwal: Okay. Got it. And lastly, ECD growth obviously has been pretty widespread, as what you mentioned, across channels and across products. I just wanted some more underlying trends, whatever you could share quantitatively in terms of products? In ECD, what has done well and what has not and the outlook for the same over the next 6 months?

Mithun K Chittilappilly: So I think in ECD, we have fans and air cooler, which has got a lot of the tailwind because of the summer. And we have products like water heaters, which is nonseasonal during Q4 and is primarily in season from Q2 and Q3. So that has been the mix. I think for kitchen also, it is a nonseasonal quarter. I mean, for kitchen appliances typically sales happen in Q2 and Q3 during the festive quarter. So it's primarily fans, air coolers, which has driven the sales for growth for Consumer Durables.

Rahul Agarwal: So what has driven the Sunflame top line so hard? I mean, for the quarter Y-o-Y basis because it's a non-season quarter. Could you elaborate a bit on that?

Ramachandran V: Yes. See, Q1 was the first quarter post transition, right? So in some part of it, there was some low base initially, and in some part of it is recovery. That's how we should read it. Sunflame business is coming on track. I think our GT business and modern trade business this has come back on track. There is some work to be done on e-commerce. There is work to be done on setting up our network in South. So those are areas that we are working on.

Mithun K Chittilappilly: Some of it is happening through a new; see, for example, in the case of Sunflame, just before the transaction, they were in the process of moving their manufacturing from imports to own manufacturing. So they did lose a few months because of that because there was some supply shortage and stuff like that. So we have corrected all that. And there were some teething problems with their service system, which we have now kind of moved to the V-Guard type of service. So a lot of it is because of the little bits of work that we have done. And I think a lot more work is left to be done. So Sunflame because we are expecting quarter-on-quarter growth. So we probably are not really comparing with the previous year, but more on to grow quarter-on-quarter.

Rahul Agarwal: Right. So just to conclude this discussion, it looks like Sunflame next year, which is fiscal '25, obviously, will have a higher top line growth because most of it is basically readjustment to what was really happening last year. And second, also the margin for Sunflame should be like moving to 11%, 12% because of operating leverage. Is that understanding correct?

Ramachandran V: I think the first part is correct. So the second part, I think, we may also make some investment in the business, right? I think we might step up ATL and we are strengthening these systems, right? So the business was managed for cash by the promoter, before us and by manage for cash, what I mean is that they had a pretty strong and robust model, which was generating cash year-on-year. We might make investments in the business and our systems and ways of working will also involve focus on many areas, which may not have been focused on earlier. So there may be some investment in people and some investment in technology that we'll have to factor. And there will be some investment on ATL, right? So these are things that we will step up.

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

Aniruddha Joshi: Sir, generally, at least at the industry level, we have seen that whenever the summer is very strong, for the rest of the quarter, the sale of summer products tend to be a bit slower. We have seen it in the room air conditioners also as well as, in a way, coolers also. So do you see a similar phenomenon can happen in fans also? And from your earlier experiences, do you see similar situation panning out? That is question number one.

And secondly, in terms of the manufacturing which will now be, in a way, increased from the company's side – what is the current share of own manufacturing and outsourced products? And how do you see that changing, let's say, in a period of next 2 to 3 years? That is question number two.

And then question number three is that with your own manufacturing, do you see more investments in R&D? And what are the possible innovations that you can share? Yes. That's it from my side, sir. Thanks.

Mithun K Chittilappilly: What we have observed is that when V-Guard has a strong summer, our following quarters are actually quite strong because what happens is; if you ask me today, the situation is that we are also running with low inventory, our distributors are having very low inventory and our retailers are also not having inventory.

When such a situation happens, even after summer is over, for at least for 30 to 40 days, we will keep feeding to at least keep some basic level of inventory. So typically, for us, at least what we have experienced is when there is a strong start for the year, it kind of carries through for the rest of the year, even for air conditioner stabilizers, which is very closely linked with the sale of air conditioners. So this has been our experience. We also expect this year is going to be like that.

On the current manufacturing status, in-house is about 65%. With all the new factories that are coming online, we probably expect it to go to about 75-odd-percent in the next 18 months or so because the factories will scale up, it'll takes about 8 to 9 months to scale up because month one onwards, we won't be producing at full capacity. So about 75% is what we can expect in the next 12 to 18 months from own manufacturing as well as the in-house manufacturing itself.

Aniruddha Joshi: Sure, sir. And in terms of innovation?

Mithun K Chittilappilly: Innovation, we have done and we have invested a lot; we have expanded our product development and R&D teams in the last many years. So I don't foresee us having a lot of more investments in product development, I mean, significant investments. But I think definitely, our capex towards new moulds will go up. The rate of product refresh is becoming much faster than before. So in that sense, you will see some elevated level of capex in moulds, which basically we are already seeing and it's already being part of our base in the last 2 years.

Aniruddha Joshi: Okay. Sure, sir. Sir, last question, how do you see the margins playing out considering now in-house manufacturing will also increase. So compared to outsourcing, definitely, the margins should be better. So do you see the margins moving up significantly over the next, let's say, 3 to 4 years? So how should we build in terms of the margins?

Mithun K Chittilappilly: Like I mentioned before, some of the manufacturing is to address competitiveness issue, so we may not see a huge increase in margins. But in some cases, yes, there will be some efficiencies. So wherever we have set up a factory, we have found that in about 2 to 3 years' time, we are squeezing out more margins than before. But we also have a more strategic objective of setting up plants. We want to address a segment of the market, which is mid-premium and premium segment, which cannot be addressed by products from vendors. So we have a more important reason to set up these plants because we want to make sure that we are able to offer products in the higher range as well. And those products typically come with higher prices and higher margins.

Moderator: The next question is from the line of Shubham Aggarwal from Axis Capital.

Shubham Aggarwal: Just one question, this is on the inverters and battery side. We're investing in the manufacturing capacity. If you can just remind us on what is the revenue share in this segment from inverters and battery on a full year basis? And given the investments and you said that you'll become more cost competitive after this investment, what kind of growth do you expect from inverters and batteries over the next 3 years, let's say?

Mithun K Chittilappilly: We don't give out individual product-wise revenues, but we can tell you that inverters and batteries and solar inverters put together is a pretty large product category for V-Guard. So it's one of the top 5 product categories for us – it's pretty large. It is also a very large market. The market size of inverters and batteries is more than INR14,000 crores. We already have a manufacturing facility for inverters, we set up in Pantnagar along with stabilizers, about 18 to

24 months back. So this is to address the competitiveness of the battery pricing. So we are not competitive right now in outsourcing it. So to some extent, it is to address that.

Shubham Aggarwal: Okay. Sir, any ballpark number on what kind of growth will you see after you become competitive on the battery side, 15%-plus or 10%, 12%, broad range?

Mithun K Chittilappilly: I think inverter and battery, we are already growing at 12-odd-percent. So definitely 15% plus is possible. I think it's too early for us. Once we cross that bridge, we will report.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang Equities. Please go ahead.

Natasha Jain: Thank You for the opportunity once again Sir, you mentioned that your battery and kitchen appliance factory has commenced production. So taking that into account, what kind of improvement can we see in electronics as well as ECD margins for immediate term? And at a consol level, what would be then your guidance for EBITDA? My first question is that.

Mithun K Chittilappilly: Okay. So I think battery is not sitting in ECD, it's sitting in electronics, so the factory will not have an impact on that segment. Regarding ECD, I think our ECD margins have improved comparing with previous year, but we are still not where we would like to be, which is what was the case 3, 4 years back before the last spike in commodity prices. So I think we still have some pricing action to land in fans and water heaters. These are the 2 large categories in ECD.

Of course, there is also a kitchen business, which is sitting inside ECD. But I think the larger part of the drag in margins has come from fans and water heaters, which we hope to correct in the next few quarters. In the case of kitchen, yes, so we have just set up the plant. We have some hypothesis. But like I said, our product offerings are not competitive. So we may initially use the reduced cost to penetrate more in the market than get more profit to that extent.

Natasha Jain: Sir, then would our consol, with that guidance, would it be in the range of 10% to 10.5% for now?

Mithun K Chittilappilly: Yes, of course, if you look at Q4, we are already at about 9% to 9.5% in EBITDA margin. So definitely, it's possible. And we have demonstrated in the last 12 months, subsequent quarters of improvement in gross margin. So that will continue. But I think in the case of consumer durables, I think there is some more work to be done in terms of margin improvement. I think in the next 6 to 8 months, we should start seeing better margins.

Natasha Jain: Understood. And sir, in terms of Sunflame, can you throw some light as to how did it grow in the South markets given that we have lower presence there?

Ramachandran V: I think it's early days. I think typically, what happens is when you get into a market like South, you probably would start with chain stores and all that. So it's taking some time. What I can tell you now is we have a team on board and we have signed up some retail accounts, and we have started business. By the time we put the team in place, it was only in Q3 of last year, which was last quarter, right, the early part of Q3, somewhere around October, November is when the team has come in place. So it's going to be some time. I think you will start to see some significant traction in the current financial year and probably better visibility to impact in the year following that, right?

Natasha Jain: Understood. And sir, lastly, in terms of water heaters, while I know that the product will not be that stronger traction in the summer season. But just want to understand that what's the update in terms of introduction of premium products because last time, I think, we were on that commentary that we'll try and introduce premium products so that our margin gets uplifted. So what's the update on that?

Mithun K Chittilappilly: So I think in case of water heaters, we have launched a face lifted version of our premium range call Pebble. It's called Pebble Neo, it's a digital model. So that has just got launched at the fag-end of last financial year. It's getting good traction, both on modern trade as well as e-commerce. But yes, like you said, this quarter is not the right quarter to sense this demand trend because we are not in season, but I think the early indications are good. But we are also hopeful that in the next 18 months, the next set of premium models that we are working on should get launched and that should solve the problem. But I think for the time being the refreshed Pebble model, it's getting good acceptance.

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

Achal Lohade: Sir, if you could help us with the channel mix for the stand-alone and for Sunflame in terms of GT, modern trade and e-com for FY '24, a ballpark number?

Mithun K Chittilappilly: We won't be giving out any Sunflame specific numbers as of now. I think maybe once the business scales up after that we will be giving out those numbers.

Achal Lohade: Sure. How about the stand-alone?

Mithun K Chittilappilly: Standalone, I think for us, maybe GT is...

Ramachandran V: Yes, I think it's good for you to see it this way. See, there are businesses like wires, switches, switchgear, pump, okay? The other channels are not relevant. It's mostly general trade, right? These categories are close to about 40-odd-percent of the 42%, 45% of our business, right? Because wire is about 30% and the remaining will be another 15%.

I think for the remainder part of the business, where this question is relevant, I think, close to 20-odd-percent of our business may be coming through these channels, maybe as opposed to, let's say, maybe a market structure of 30% or something like that for that blended portfolio. So I think that's how I would put it. So we are under-indexed in these channels variably. But we have significantly grown the indexation levels in these channels.

Achal Lohade: Okay. So if I understand correctly, what you're saying is for the 60% of our business, 20% is e-com, store, modern trade, 80% is...

Ramachandran V: No, no, it will be more because there is also indirect. We are not measuring that. So there are like some chains who are serviced by our distributors. So directly, what we do is about 22%, right?

Achal Lohade: Okay. Directly is about 22%.

Ramachandran V: Yes, 22%. But there are indirect ones. We have some large chains, which are serviced through our distributors, which is for legacy reasons, which we have not yet transitioned. But to give you a sense, compared to market, we'll be under-indexed by about 20%, yes. 20%- 25%, we will be under-indexed in these channels.

Achal Lohade: 20, 25 percentage point or 20%, 25% in absolute terms, sir?

Ramachandran V: Yes, 20%, 25% percent in absolute terms, right? So if the market index is 100, we will be at 70% to...

Mithun K Chittilappilly: So for example, if you assume that modern trade and e-com as 35%, we will be at 35% minus 25%.

Ramachandran V: So that is 75% of 35%. What I'm saying is we'll be at about 25%, right? If the market is at 35%, we'll be at 25%. So that gives you some sense, right?

But we are growing year-on-year and we have focused on that. We have made some significant gains. I think, it will get better if we shift some of our indirect business also to direct.

Achal Lohade: Understood. Just one more question. From a full year perspective, FY '24, is it possible to get some sense where we would have gained market share where we would have just maintained or where we would have lost market share? Just qualitatively if you could comment?

Mithun K Chittilappilly: I think the issue with our industry is we are not verified and all that. But we have a sense of where we have gained and lost, but we will not like to talk about it at this time.

And you can look at the numbers. See, I think the best way to do it is you can compare the annual numbers for the last 3, 4 years for various companies and you can come to a conclusion where people have done well and people have not.

Achal Lohade: Yes. But that's more on the aggregate number and I mean if you've added categories, then it's very hard to kind of call out. But that's fine. I mean that's the best we could do.

Mithun K Chittilappilly: But your channel checks also will give you some idea about who is gaining share.

Ramachandran V: It's speculative, so that's why we are not saying anything because it's not something that's measured.

Mithun K Chittilappilly: Unlike FMCG, there is no GFK data where it's measured monthly and all that. And it's all claims by one company versus other companies. Then we also have unlisted companies in some of these spaces who are not listed. So, it is difficult to measure. Even for us it's difficult to measure.

Achal Lohade: Understood. Any comment on the switches, switchgear piece, how is it doing? What are the plans? What growth have you seen? Like has it been slow? Has it picked up? Anything on that front in terms of manufacturing versus outsourcing?

Ramachandran V: Yes, I think we are very positive about the outlook for the switches and switchgear business, and we have intent to grow this business aggressively. With the acquisition of Simon, we have access to Simon's manufacturing capability. And we have in-sourced a good part of our switches business into that factory, and we have gained some benefit from that. We have a road map for distribution expansion as well as new platform investments, which together should drive future growth of these businesses. I think these businesses will obviously grow faster than the company growth rate.

Achal Lohade: Understood Just last question, if I may, with respect to the dealer-retailer touch point counts as of March 24, would you be able to give out that? And what kind of addition are we looking at?

Ramachandran V: So yes, I think we used to typically say that we are present in about 50,000 to 55,000 outlets, rather 40,000 to 50,000 outlets, yes. But so we have now in the last 1 year have completed scan of the number of outlets we are present in, and I think it's now touching almost 1 lakh as we speak.

Achal Lohade: Okay. And what was it in March '23, would you have that number by any chance?

Ramachandran V: No, I think that's what I was telling you that we were believing that we are in about 50,000 outlets okay? But subsequently, we have taken a lot of effort to identify so that we can monitor where we are and who is dropping and where we can add more categories into a store. So we have set up a system now to know where we are and we were pleasantly happy to discover that.

Mithun K Chittilappilly: So today, we have a distribution management system where we are able to see the secondary data, which was not possible previously. So this number, what we've got right now is more accurate. I think the earlier number, that we had was more of an estimate because there are both retailers and distributors, we sell directly to, and there are also certain wholesalers we sell to. We are not very sure about the Tier 2 numbers, what is being furnished by them in terms of the number of retailers and the list and all that. So this is a more accurate, it's close to 100,000 now, which I think is probably 60% of the universe, if you want to call it that there.

Achal Lohade: And the direct dealers, dealer count?

Mithun K Chittilappilly: See, the total direct partners, what we have is about 3,500-odd people. That includes 10% to 15% of that are distributors and about 80%, 85% are direct dealers. There would be direct dealers and wholesalers, okay? It's both. It will be a mix of both.

Achal Lohade: And you are seeing that the distributor as well as direct dealers, their retail invoices we have access to? Have I understood right?

Ramachandran V: No, not the entire retail invoices. We have access to relevant information, which helps us to understand our reach. And this is verified because now we know who they are. We know their GST number and stuff like that. So I mean, it's more reliable. See, earlier, we used to be conservative because we did not have visibility to how far we are reaching, right? But then we had some high-level estimation. But now we have data and we have like unique identifiers. So we can say that this is where we are now.

Achal Lohade: Understood. Any number you could gather for the EPR provision?

Sudarshan Kasturi: Yes, Achal. It's not major. It's only about INR70 lakhs for battery. So that's not a big factor. The major factor is the product mix, which Mithun spoke about.

Achal Lohade: It had such a large impact?

Mithun K Chittilappilly: No, battery will have a large impact because for battery, it's based on weight, right? I mean, so battery is 70-kilo product. So it's based on the weight and the average number of years, useful years. So that is how it's calculated.

Achal Lohade: Understood. Okay. So if I understand right, we are talking about 10%, 10.5% margins in the current year. Have I understood right, EBITDA margin?

Mithun K Chittilappilly: We said we will work towards 10%-10.5%. But I think as you've seen with the trajectory, it is possible, and we are hopeful there.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today's conference call. It's from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thank you for the opportunity. You have given a very detailed explanation on the top line front, just wanted to understand on the margin side. So if you look at the electronics business, probably from FY '20 to FY '22, we were somewhere between 16% to 18%, 19% range. Over the last 2 years, we have seen that 13% to 14% probably in FY '23, we were impacted because of the high-priced batteries and which we believe have been depleted by somewhere around 2Q or 3Q of FY '24.

So probably, how should we look at the margin trajectory for electronics business? And secondly, on the consumer durables as well. Over the last 2 years, we believe like you would have done exceptionally well versus the industry standard in terms of growth. But when you look at the margin, probably we have fallen from FY '22 levels during FY '23 and '24. So where do we see for next 2 years? This would be very helpful.

Mithun K Chittilappilly: Okay. We have to understand that FY '20 onwards, we have had various types of disruptions where 1 year, there was a deep drop in commodity prices, which aided a lot of margins, but revenue was limited. And then after that, we had a huge spike in commodity prices, which went over and above the pre-COVID era, which kind of eroded margins. So when I look at FY '19, which is here before all of this started, I think, in Consumer Durables, we still have at least 3% to 4% improvement to do. I think we are at about 1.5-odd-percent in Q4 as far as EBIT in Consumer Durables margin is concerned.

Sudarshan Kasturi: EBITDA was 3%.

Mithun K Chittilappilly: So I think this was something like 7% or 6% pre-COVID. That's where the main drop has happened. The other places, we are largely in line. I don't think in electronics, I think we have had; I mean, we have had some margin issues in batteries and with this plant and some other work we are doing, it should get largely solved. But Consumer Durables, yes, we have some work to do.

Like I said, there have been huge pricing pressures in the fan business. All that has grown, but we have found it extremely difficult to pass prices because some of the competitors are not very proactive about increasing prices. But I think with this kind of demand environment and this kind of a summer hopefully, this should be through. Water heaters are another place where we are having some margin challenges. We have taken steps to address that. And I think in the next few quarters, we should improve. So as you've seen CD, Consumer Durable, has gone through a very, very tough margin environment and it's coming back. And I think you will find that going forward, we should come back.

Manoj Gori: What I understand is that Consumer Durable margins on a Y-o-Y basis during FY '25, '26 and gradually, we should see an improvement. While electronics margin should be somewhere between around the current range of 13%, 14%? Is that understanding correct?

Mithun K Chittilappilly: Yes. Correct.

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

Mithun K Chittilappilly: Yes. Thank you, Aniruddha and ICICI Securities for hosting this call, and thank you all for patiently listening.

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