



“PG Electroplast Limited
Q4 FY’23 Earnings Conference Call”
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Moderator:

Ladies and gentlemen, good day and welcome to the Q4 FY 2023 Earnings Conference Call of PG Electroplast Limited, hosted by JM Financial.

During this call, the company may make certain forward-looking statements based on the currently held beliefs of the management of the company, which are expressed in good faith and in the management's opinion are reasonable. The forward-looking statements may involve risks, unknown risks, uncertainty and other factors which may cause the actual results, financial condition, performance or achievements of the company or industry to differ materially from those in forward-looking statements. These forward-looking statements represent only the company's current intentions, beliefs or expectations and any forward-looking statement speaks only as of the date of this call on which it was made. The company assumes no obligation to revise or update any forward-looking statements.

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, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gaurav Uttrani from JM Financial Institutional Securities. Thank you and over to you Mr. Uttrani.

Gaurav Uttrani:

Thanks, Darwin. A warm welcome to everyone for 4Q FY '23 earning calls of PG Electroplast. So, we have the management today being represented by Mr. Vishal Gupta, Managing Director Finance, Mr. Vikas Gupta, Managing Director Operations, and Mr. Pramod Gupta, Chief Financial Officer.

At this point, I'd like to hand over the call to the management for the opening remarks, post which we will open the floor for Q&A. Over to you, sir.

Management:

Thank you, Gaurav and good afternoon everyone. And thank you for sparing your valuable time and joining this call today. Hope all of you are doing well. Okay, so FY '23 has been another landmark year for our company, PG Electroplast, with a significant growth over FY '22 numbers. Sales numbers have grown at 96% and crossed INR2,100 crores with the product business leading the show with a 62% share. And EBITDA has also increased by around 91% and it stands at INR180 crores. And net profit grew by 107% and it stands at around INR77.5 crores.

Product business has crossed INR1,300 crores in FY '23 with room AC business contributing INR141 crores with a 180% growth on a Y-o-Y basis. And the washing machine business has also grown at around 57% on a Y-o-Y and coolers grew at 169%. Order book for product business remains very robust and the company is on track to scale the product business significantly in FY '24. PG's new products offerings in washing machines and room ACs have been very well received by our clients. The company is focusing its efforts towards developing products that helps it maintain its cost leadership while striving for product leadership too. Companies continue to see increased interest for business from new and existing clients and we remain confident on the future growth prospects of our business.

For FY '24, our sales guidance stands at, at least INR2,800 crores, which is a growth of around 30% over FY '23 and operating profit guidance of at least INR210 crores which is a growth of around 28% over FY '23 operating profit of INR164 crores. Our growth in product business that is washing machines, room air conditioners and air coolers is expected to be around 43% and we hope to scale up this business from INR1,341 crores to around INR1,920 crores in FY '24.

Capex guidance for FY '24 is around INR170 crores to INR180 crores and company has further -- company is further planning to expand its room AC capacity by setting up a new integrated unit in Rajasthan for making room ACs and we are at the same time building a new building in a super factory and we are doubling our PCB assembly capacities for our AC controls in super.

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

Pramod Gupta:

Hello, good afternoon everyone. I am sure you have all seen the financials in detail already. I will just touch upon some of the highlights. We had a very good scale up during FY '24 from operations point of view. The net sales for the quarter 4 was 65% up at INR827 crores, operating profit grew 106% in the fourth quarter to INR74.42 crores and net profit rose 45% to INR40.2 crores. During the fourth quarter and FY '23 operating margins improved due to cost control, lower commodity prices and operating leverage. On balance sheet, we have had an increase of about INR158 crores of debt in the last 12 months that is largely because of the working capital and capex that has been funded by the new debt.

We know we have seen slightly higher debt than what we budgeted due to the sharp revision in the business execution and higher sales leading to higher working capital during the year. But I want to highlight here that we are aiming at delivering industry leading growth with best in class return ratios in coming years and our new partnerships which you would have seen today we have announced a new partnership for TV also. We aim to be a significant leader in the consumer electronic industry as well.

Now with this I will open the floor for Q&A. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer-session. The first question is from the line of Dhananjai Bagrodia from Ask Investment Managers Private Limited. Please go ahead.

Dhananjai Bagrodia:

Sir, thank you. I wanted to ask you about AC now. How do we see that? This year was obviously great numbers. How do we see that happening over let's say, over two years as companies might be moving and we see any terms of traction on that? And B, how do we see working capital being for the next year?

Management:

So, for AC, sir, as we have already guided for '24, we are very confident of seeing at least 25%-30% growth in the AC numbers for this -- maybe around 40% growth we will see in the AC numbers for FY '24. And the new categories of products that we are developing, we are working on window ACs also now, the category where we are not present right now. We have started developing window ACs also now, which we will be offering to our customers for 2024 season.

So going forward for at least next two years, we don't see any challenge to maintain a growth rate of around 35% to 40% for next two years for AC business especially.

And for working capital, sir, we are trying to shift some of our supply chain from China to domestic vendors. Last year, we have started something in that direction. And this year we intend to consolidate on that and increase the share of business of our local vendors in place of our overseas vendors. And going forward, that is the idea that will help us in managing our working capital cycle also.

Dhananjai Bagrodia: Sure. So just to have an idea, just how much of our production is now in-house versus imported and imported and outsourced and between outsourced also how much is imported versus India?

Management: So, for the complete AC manufacturing, we are doing in-house everything. But some raw material and components we need to buy, for example, copper and aluminum right now is 100% imports. Controller is also there. Motor is around 80%-90% is imports. Right? So, all those compressors are around 70% imports. So those components we are trying to, you know, start sourcing from local vendors. This is one. And then, you know, there are guys under PLI who are setting up plans for making copper tubes and aluminum foils in India. By next year, we intend to start some percentage of buying of copper and aluminum foil from local sources.

But next year it will not be a very large number. But for other product categories, components like compressor and motors, next year we are planning to have a large sourcing from domestic suppliers. With this, our idea is to actually manage that. But this is not going to happen in a year's time. It will take another two, three years for us to really make some meaningful changes of our supply chain from imports to local sources.

Dhananjai Bagrodia: So right now, was it not available or was the cost essential quite a bit?

Management: Because there was a combination of both the things. Some SKUs or some models were not available in India and at the same time pricing was also a big disadvantage, which is correcting, you know. Both the things are getting corrected.

Dhananjai Bagrodia: Okay, sure. And any target in terms of capex, what we see for next year?

Management: So, we have already stated the capex for next year is around INR170 crores to INR180 crores. It's a couple of, multiple of things, but we are trying to do. We are expanding our capacities at all the product categories where we are in already. And maybe as I already told in the call that we are setting up a new plant in Bhiwadi for making ACs. So, all those things, you know, INR170 crores, INR180 crores capex guidance, what we have given is take care of everything.

Dhananjai Bagrodia: Perfect. Thank you so much, sir. Thank you.

Management: Thank you.

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

Pranay Chatterjee:

Great. Good morning. Good afternoon, everyone. My first question was on your margins. This quarter it was slightly higher, 9.2%. If you could explain what led to this jump and what the normalized levels could be like for FY '24?

Management:

So, we have given the guidance already for FY '24. It comes out to be about 7.5%. See, on a full-year basis, typically the margins are in the range of 7% to 8% only. This is a high season for AC and this quarter we had a lot of operating leverage. In fact, if you will see, during the quarter, the gross contribution margin or gross margins were flat Y-o-Y, but we had a lot of improvement in the manpower cost as a percentage of sales as well as the other expenses also. So that led to a higher margin and also the commodity prices are quite moderate this quarter.

So that also optically gives a high margin perception, but actually in our business, the margins are not really material, in the sense that they do not matter. The percentage margins are an outcome of what prices are for the commodities and those things are not in our hand. What we have been always telling and again I will reiterate here is that the most important thing for us is the gross contribution or the amount we get to make an AC or a TV or a washing machine in the business and bill of material is a pass-through for us.

Pranay Chatterjee:

Got it. Okay. My next question is around your washing machine segment. If you could just help us with understanding the story over the next three years, any comments around industry growth, outsourcing trends and if you could just point out what your market share was two years back versus now? And incrementally, when we look how fast can the contract manufacturers within the washing machine story, how fast can they grow?

Management:

We are right now the second largest washing machine contract manufacturer in the country and we think that the growth opportunities are great from the medium-term point of view. Probably the reason we sense is that a lot of penetration led growth is happening in the industry because water and electricity availability is increasing in the rural and semi-urban areas and that is leading to the entry-level product, which is what we make, which is a semi-automatic top-load washing machine.

They are getting penetration in the household which either were not happening because there was not a regular supply or continuous supply, non-intermittent supply of water and electricity which was there. And we think that penetration levels still remain very, very low so growth opportunities are going to be there initially for probably the entry-level products and gradually there will be an upgrade cycle also which will come because these are the very basic models, the basic washing machines that people are buying and we are working towards right now expanding the capacity in the semi-automatic top-load but we are continuously investing in the semi-automatic, fully automatic top-load.

And we will be at some point in time in the next one to a year start looking at front-load washing machines also. So, we have our roadmap for the product side, what we want to deliver in the next three to four years and we will be working towards it. As we remain very optimistic on the washing machine business, we think growth can be pretty decent for washing machine in the coming years.

Pranay Chatterjee: Just to touch upon that and it's the same question only, so just if I compare it with the AC story, is it possible for your washing machine division to grow and power with your AC or could there be a lag given the PLA benefit for AC?

Management: No, no, I think from this year onwards the growth for both AC and washing machine should be matching about 35%-40%, 45% range should be the growth for both AC and washing machine in our opinion this year onwards.

Pranay Chatterjee: Okay. Thanks a lot. I'll get back in the queue.

Moderator: Thank you. The next question is from the line of Kaushik Mohan from Ashika Stock Broking. Please go ahead.

Kaushik Mohan: Hi sir, congratulations for the great set of numbers. Sir, I just wanted to understand on the new capex and announcement that you did for the Rajasthan AC plant. Can I understand what can be the optimum utilizations like asset terms that you can expect from this plant?

Management: Going forward, we are hopeful to make this plant operational by end of this calendar year. Having said that, you know, for FY '24, it would not be right for me to give you any numbers on that, but FY '25 we should be easily achieved as a turn of more than five on this.

Kaushik Mohan: Sir, and the second question comes on, let current existing plant, if you take the full capacity utilization, what can be the optimum revenues can be achieved?

Management: For the existing plant for AC manufacturing, if you are asking, is in Supa, where we have already achieved that asset turn of more than five on that. In FY '24, we are hopeful of another 30% growth in the revenue from the existing facility only. We are going to only add a new building and maybe some lines on that. May not be a very big capex from the plant and machinery side, but we need some space in the building, that is why we will be making new building and some additional capacities are being created in some components level, maybe RAC controller or some other product component category. So, with that new capex, I think, and with this, I think we should be able to achieve at least more than five and a half, six asset turn from the Supa plant also.

Kaushik Mohan: Got it, sir. Sir, last and final question on the employee expense. There has been a slight decrease in employee expense as a cost, but the number of employees has been grown up. What is this exactly?

Management: Not an absolute term. The absolute term, employee cost has actually been increasing only, if you see, is the percentage term that has come down and percentage has come down because obviously the salaries of senior management, middle management are not increasing while we are adding a lot of people at the worker and supervisor level where the salaries typically are low. So, that is the reason because of which this operating leverage is playing out and that is why the overall salary bill is increasing, but as a percentage of sales it is coming up.

Kaushik Mohan: Got it, sir. Thanks, sir. I will come back in the queue.

- Moderator:** Thank you. We have the next question from the line of Abhineet Anand from MK Global Financial Services. Please go ahead.
- Abhineet Anand:** Thanks for the opportunity. First of all, you told about the Rajasthan facility. Can you just highlight what could be the capacity in terms of units or from where it goes to reach somewhere?
- Management:** So, this capacity, what we are planning to do is not a very large. The first phase is we are just going to test water. So, maybe the capacity what we are talking is around 25,000 CBU sets or 30,000 CBU sets on an every month basis for a split indoor unit and outdoor unit and first phase and window ACs of around 25,000 to 30,000 PCs every month. So, this is the first phase. Provided we get a good response in FY '24, so provided we get a good response in FY '24, then we will scale up this number and we will double it up for the FY '25.
- Abhineet Anand:** Okay. So, I think last quarter you had highlighted capex of INR120 crores to INR130crores. So, I am thinking that this INR50-odd crores goes here, right?
- Management:** The capex break up we do not give, but I can tell you the large part of the capex is going to be in Rajasthan and some INR30 crores to INR40 crores, INR40 crores, INR45 crores will go for in Supa. So, out of total INR180 crores capex guidance we are giving you, around 45%, 50%, 40% will go in the new Rajasthan plant and the other capex what we are talking about is in our different product categories in Supa air conditioner plant, washing machine factories, our plastic molding businesses and all other business categories, you know.
- Abhineet Anand:** Okay. Secondly, you know, if you can highlight from the year, how much of PLI benefits or state government benefit we have had?
- Management:** We have not taken any PLI benefit till now in FY '23. On the state government benefit, that amount was only to the tune of about INR8.5 crores to INR9 crores and that was only in the existing company, which is the parent company. The new PGTL benefits we have not yet started accruing, we will be starting to accrue that only in FY '24.
- Abhineet Anand:** And this forms a part of other income, right?
- Management:** This will be part of operational revenue now. From here on, our auditor has therefore asked us to follow the industry practice, which all our peers, larger peers are following. So, this incentive will actually go as a part of the operating revenues.
- Abhineet Anand:** So, this year also in FY '23, you have accounted in revenue or other income?
- Management:** Yes. So, in the final year, if you, in the final balance sheet, if you see the final P&L that we have given, I have therefore broken down in both the terms. So, in the balance sheet, in the reported numbers, it has gone as a part of the revenues, but in the presentation, I have actually taken it below the line, but from here on, I will be taking it above the line only and in the part of the revenues.
- Abhineet Anand:** So fair to assume that actually this aids the EBITDA as well, right?

Management: Yes, but the guidance which I have given is only for operating profit and I have not given the guidance for EBITDA actually. Like-on-like, because I still do not have a full handle of how much other income we will accrue during the full year. Once we get some surety, then we will guide you for that better.

Abhineet Anand: Okay. And for this quarter, for which was the tax rates lesser than last year?

Management: The tax rate is going to actually for the full year going to be about 20%. This year, this quarter, the rate was low. The reason is this, that the growth and the larger revenue actually happened in the subsidiary and the subsidiary has a lower tax rate as we have been highlighting that our subsidiary is in the new manufacturing policy. Therefore, it is a new manufacturing unit. Therefore, it enjoys a tax rate of 15%-plus surcharge, which comes to about 17%. So, on an overall basis, as we have been highlighting that tax rate should incrementally come off slightly for the whole group and as the growth is being driven totally by the subsidiary.

Abhineet Anand: So, for subsequent years, 20% is a fair assumption?

Management: Yes. Yes.

Abhineet Anand: And can you, is it possible to, you know, throw some light over to your top five customers in the RAC side?

Management: So basically, sir, we are working, we normally do not give a customer wise breakup, but largely we are working with Voltas, we are working with Carrier India, Whirlpool, Reliance Retail. We are working with Blue Star, Goldbridge, Onida, then some smaller brands like Amstrad, Hyundai. So, we have a lot of customers, sir. Normally we do not give customer wise breakup on our revenues.

Abhineet Anand: So, and if you can just highlight this whole RAC industry, it was from the brand perspective with a lot of competition, right?

Management: Sorry, can you just, can you repeat your question? It was not audible.

Abhineet Anand: Okay. So, what I'm saying is that in the last 12 months to 15 months, the RAC market has seen a huge amount of competition from the brands. There have been brands which are probably cutting down prices and selling at just cost plus or at the cost and some of the large guys at the top have lost market share. And we have seen companies like Reliance as well, you know, entering into the market. So, if you can throw some light as to whether this competition is going to continue and is good for you as you have a pooled.

Management: Our focus is largely on our manufacturing and cultivating our relationships with our existing and new customers. You know, basically at the customer end, branding end and the front end, we are not actually giving more focus on that. But yes, but you have said that there is intense competition, but actually it is not affecting people like us. And we cannot comment much on that, you know, what people are doing, what brands are doing amongst themselves. You know, it will be very difficult for us to comment on that.

Abhineet Anand: Yes, sure. Thanks a lot, sir.

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

Farokh Pandole: Yes. Hi, Pramod. Congratulations on the outstanding results. I had a couple of questions. Firstly, you spoke about the capex plans for the coming year and beyond. And given the fact that the QIP we were planning did not sort of materialize eventually, what is the thinking on that and how do we propose to replace that amount of funds going forward?

Also, secondly, with respect to the joint venture which you just announced, if you could just shed a little bit more color as to what the plans are and, you know, specifically how it would help you scale up in this particular category?

Management: So, as of now, we are not pursuing the QIP route for fund raise. In fact, this year we have significantly altered our capex plan. So, if you will see, day before yesterday, on the result day, I think, we also announced that in Rajasthan we are actually doing a capex on a leased premises. So, this is a built to suit leased premises, which is being done by the facility owner and therefore our capex is going to be much lesser than what we were anticipating. And the other capex which we were looking for in the refrigerator, we have actually postponed that this year.

And this capex which we have given is going to be generated significantly from the own profits this year, only very small portion is going to come from some incremental debt. This year the focus of whole organization is going to be largely on optimizing the working capital and generating cash flows to meet all the internal requirements. That is on your capex side and we are not compromising growth, I can assure you this. The only thing is that right now the market was not suitable for the capex or understanding our story. So, we have actually put that process on hold and we are now focusing on business.

Coming to the new JV that we have formed; this is also another strategy to reduce the capex. So, there is an entity which has actually a Google license. Our TV business was not scaling up to our expectation and we were going a little slow. Now this actually puts us at par with some of our larger peers because we can give a full Google ODM solution to Indian brands. This entity actually has a Google license for the last three years and they were looking for a good manufacturing partner. And we think with this new entity, we can scale up our TV business in a very, very significant manner in the next coming couple of years.

This will be one of the largest facility which we will be putting in TV manufacturing in India. Probably will be in North India only, Noida somewhere near in the NCR region. We are in the process of finalizing the details and we will let you know about that soon.

Later on, if this TV which is starting as a TV works well, we will extend it to other consumer electronic items like wearable, hearable and other things as well. The advantage is that Jena at one point in time used to be one of the largest buyers of cell phone in India in a Carbon brand and they have a very good understanding and supply chain understanding from China and a lot of electronics right now is coming from there. So, they can actually help us understand and gain that expertise and because of this Google license we can also become very sizable in electronics

business in India and therefore it is a win-win partnership hopefully. And we think in the next one, one and a half years, we should see very, very significant revenues from there.

Farokh Pandole: Great, thanks very much and all the best for the year ahead.

Management: Also, I want to highlight that whatever capex we have highlighted this year, we have not built in any contribution from sales from this year's capex in this year's revenue guidance. Thank you.

Farokh Pandole: Good to know. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mukesh Jain from Hem [inaudible] Securities. Please go ahead. Mr. Mukesh Jain, the line for you has been unmuted. You may proceed with your question. As there is no response from the current participant, we will move to the next question which will be from the line of Ashish Kumar Singh, an Individual Investor. Please go ahead.

Ashish Kumar: Hello, sir. Congratulations on your good set of numbers. I was curious about the contribution that you will be putting in the JV that you mentioned. So, can you highlight that?

Management: That equity participation and capex plans are getting finalized probably in our next call, which may happen in the June result. We will be able to highlight everything about it. Those final details are yet to be finalized and it will take probably another month or so before we get into this.

Ashish Kumar: Okay. And can you highlight something about the asset turnovers that you have? In the last con-call you said that you want to achieve 5.5 times or 6 times of asset turnovers. So, what's your guidance for this year?

Management: This year by year end we think we overall net fixed asset should cross 4.5 for the company at least which right now on an average was 4.2. We will try to strive to do better and in the coming years as the businesses scale up especially the product businesses, the net fixed asset terms are going to be inching to what we have been highlighting about 5x to 5.5x.

Ashish Kumar: Okay. And what's the capacity utilization for AC as well as the washing machine?

Management: During the season this year, which was from January till April, we had almost 80% to 85% capacity utilization in AC, in washing machine, the season ended in October-November. That time our capacity was not expanded and we were running almost at 100% capacity utilization. Now we have doubled the capacity which has actually which became operational only in January. So right now, the capacity utilization is running low and as the season approaches, we hope to have significantly higher capacity utilization in the coming months.

Ashish Kumar: Okay and can you highlight something about the washing machine season, how they work and what's the balance for that?

Management: Washing machine season typically starts somewhere from late June to November and November, December typically till Diwali, Diwali end and this year we have added two very significant clients. We are actually expecting a very sharp ramp up in the washing machine

business. We for the last two years have been growing upwards of 50% in washing machine. We hope to maintain a similar growth rate in washing machine this year also.

Ashish Kumar: Okay. That's all I wanted to ask. Thank you.

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

Pranay Chatterjee: Yes. So, I think like you said this is with reference to how you are going to account your incentive both the state and PLI. So firstly, in Q4 2023 how much was the incentive that you recognized as a part of your revenue?

Management: It was only less than just about INR2 crores to INR2.2 crores rupees which was a state incentive in the parent which was recognized in the revenues.

Pranay Chatterjee: Got it. And incrementally like you said you will be recognized in operational revenue like you said the industry peers are doing. So how will it be accounted? Will it be a one-short addition to the revenue in the quarter it comes in or will it be accrual basis across the quarters?

Management: So, for PLI it will be accounted as and when it will be received. In the other state incentive, it is typically realized on a continuous basis. Once you get the eligibility certificate then that eligibility certificate allows you to recognize your revenue on a every quarterly basis on based on your sales.

Pranay Chatterjee: Okay. So, is it fair to understand that the state incentive would be more or less spread across, but the PLI would be like a one-short addition?

Management: Yes, yes. But in state incentive we have yet not received our eligibility certificate. We have even not applied. We will be applying the eligibility certificate only once we complete our capex in Supa in this year which will be probably sometime in September-October.

Pranay Chatterjee: Got it. Got it. Any sense when the PLI thing would be recognized? Would it be like the latter half of your H2?

Management: We are expected to make an application by August month. Once we make an application maybe in September quarter, we will recognize this PLI incentive in our balance sheet.

Pranay Chatterjee: Okay, okay. And my last question is on your AC demand. Could you disclose what was your IDU and ODU volume in Q4?

Management: Sir, those numbers normally we don't disclose to others, to outside people.

Pranay Chatterjee: Got it. Okay. So just wanted to understand now that you are going into components as well along with fully built units. Incrementally would all those revenues be recognized in our product business or rather the question is which parts would be recognized in plastic porting as well?

Management: Sir normally sir, our plastic business and our electronics business are separate business verticals. Our AC manufacturing, washing machine manufacturing and air cooler manufacturing is

recognized under product business. If we are making separate components for them and selling to external customers that will be a part of component business. But if those components are being used for internal consumption for making finished goods, those are not considered in component business. Those are considered in finished goods business or product business.

Pranay Chatterjee:

Got it. Understood. Got it.

Moderator:

Thank you. The next question is from the line of Dhruvish Pujara from Premji Invest. Please go ahead.

Dhruvish Pujara:

Hi sir. Thanks for the opportunity. So, two questions. First is can you help us with the units sold for the year in AC, both ICU and ODU combined, IDU and ODU combined? And second is on the current capacity both in terms of solar versus and what is that number for IDU and ODU combined?

Management:

So around 1.3 million, 1.4 million units what we have sold in FY'23. Total units.

Dhruvish Pujara:

Right. Sure. And this and the capacity would be right now after including the north, sorry, just Jan capacity which you guys started?

Management:

See the capacity is always taken on a monthly basis. What you can do in peak months. When we do on an annualized basis because of the seasonality of this business, that will not be a right way to look at those capacities. The capacity what you create on a monthly basis are being created to cater to the peak demand of the customers in those peak months. Right. So, the capacity but right now we have in Supa is 200,000 IDUs and 100,000 ODUs which we, for North Plant I have already stated in this call that the setup we have created in North India will be around 30,000 IDUs, 30,000 ODUs and around 30,000 window ACs in the phase one.

If 2024 season goes well then we will be growing that capacity also in North India. And at the same time we are making a new building and adding some component capacities here and we will be increasing the capacities here also from 200,000 IDUs to 250,000 IDUs and from 100,000 ODUs to 150,000 ODUs on a monthly basis.

Dhruvish Pujara:

Got it. Thank you. This is so useful. The second is on the, can you quantify the PLI which you think can pass through in FY'24 like?

Management:

So, in FY'24 we expect to get INR15 crores rupees because we have already achieved the PLI targets what has been set for us for the FY'23. That has been achieved. Since once we make our application for the PLI claim, once we do that we will recognize this income in our balance sheet.

Dhruvish Pujara:

Sure. Okay. Yes. And just one more question on the refrigerator. So, you said you delayed that, right? So, do you think that can commission in FY'25 or will think for the more visibility?

Management:

Most likely, sir. That is the way internally we are looking at. But right now, it will be very difficult for me to give you any heads up. As of today, the guidance from our side is it is delayed

for at least another six months. It might change keeping in the market situation. Business condition is always very dynamic. But as of now it is like this.

Dhruvish Pujara: Sure, sure. Thanks. And will the TV margins would be more than like 2%-3% or more in line with the company margins right now?

Management: No, no, sir. It cannot be in line with the company margins. It will be something comparable to the peers or the competition which is doing should be around 3%. That is our target.

Dhruvish Pujara: Got it. So that will there be an incremental benefit due to this Android thing or like some kind of margins?

Management: Yes. That is the idea that we are that's why we have done a partnership because this will allow us to offer a Google TV in India to brands. And that is what is the main reason for going into a JV.

Dhruvish Pujara: Sure, sure. Okay. Thanks a lot. Yes.

Moderator: Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Yes, very good afternoon and congratulations on a great set of numbers. I just wanted some of your thoughts on how the industry structure is moving in terms of competition. One is, you know, we've seen marginalization of market share of larger brands and a lot of new upcoming brands as well as the in-house brands of retailers and online sellers are gaining share.

So, we'd be glad to know your thoughts on this because these brands will use more outsourcing because they might not be having enough where with all to set up new plants. So, how are you looking at the whole structure moving forward? Do you really think these small brands or in-house brands of large retailers can actually make a dent to the larger guys?

Management: Sandeep ji, see for an industry level brand, we don't have much on that. Our focus is to target cost leadership. Our focus is that only that we target cost leadership. And we are able to offer good value products to our customers, whosoever it may be. It can be private labels. It can be brands also. It can be people who have their own factories. It can be people who don't have their own factories. Our focus is to offer a value proposition to the customer which he cannot refuse. That is our target and that is the direction as a company, as a team we have for ourselves for all product categories where we are operating.

Yes, we agree. But nonetheless, we expect outsourcing in the AC business to continue to remain robust and economically I am betting on the rationality, economic rationality of my customers because by putting up their own factories and running them, especially in a very highly seasonal business, it does not make sense for brands which are having a single product or are only focusing on single Indian market to run the factories themselves. It makes more sense to do an outsourcing in our opinion.

Sandeep Tulsian:

Right, right. This is one of the reasons I am also asking. This is one of the other large contract manufacturers is going the other way, right? They are investing more into selling components versus selling IDU, ODUs and the smaller brands are relatively more keen to procure IDU, ODUs instead of doing the assembly in-house. So where is the industry headed in that direction in your view? That was my intention to ask. Is it more component that will get sold in future by indigenization of all these Chinese efforts or will IDU, ODU outsourcing also continue in a large way in your opinion?

Management:

In my opinion, outsourcing which is at around 40% or so should continue in the longer, medium to longer term at the same level. There may be a year or two of a disruption because some capacities are coming. And that's why we say that we have to be very competitive and cost leadership is something which we keep on striving for. I don't have a reason to challenge my competition's thought process but our internal analysis says that outsourcing should be making much more sense for brands.

As well as the private level and the smaller companies or the new brands which are coming because economic rationality doesn't make sense at all to do insourcing, to put up your own factories, do capex. And actually, not make any money in the off season in our opinion. And that's why we are actually betting that outsourcing is going to continue and rise in the longer term.

Sandeep Tulsian:

Got it. And also, after the rule was changed for the gas charged ACs to be imported, a lot of large super premium brands also have announced their capex here in India like O'General and Mitsubishi and other guys. So, what's the thought process of these super premium brands? Are they also looking at outsourcing the entire unit or when they say they are setting up capacity it's more to procure from other guys and do very small premium units in house and outsource a major part of the ODU, IDU as well. So, could you just, let us know what are your conversations with these guys?

Management:

Sandeep it's very difficult for us to comment on the strategies what these guys are going to have. As we, Pramod ji has been reiterating, our focus is very clear that there will be outsourcing opportunities in abundance and our focus is on that. There may be some people who may not outsource but our focus is on the people who will be outsourcing or whom we can convert from insourcing to outsourcing. That is our focus. That is what we have been trying to work at because what we understand in India outsourcing is for entry level products only.

Largely premium categories people do in-sourcing. Our focus is to remain and offer a cost leadership to our prospective customers so that in case they are making insource in house also we can actually offer a very compelling value proposition to them so that they can shift from insourcing to outsourcing.

Sandeep Tulsian:

And lastly on the capital requirement you did highlight the capex requirement will be INR170 crores to INR180 crores. How will the networking capital requirement increase in proportion to FY'23 and how will the debt equity ratio change accordingly for next year if we can get some sense of that?

Management:

Working capital side, as I said this year a very significant focus is being put on kind of trying to optimize the working capital. And if we can do few things which we have set our target for internally then I think with a very small growth in the working capital from what we had in the balance sheet as of April we will be able to manage internally only. So, we have set our targets for ourselves this year in both receivable, payable as well as inventory days and we think that if we can manage few of those things the requirement for working capital will not be there from the debt point of view.

And yes, we are having a debt-to-equity ratio which is at about 1.25. We intend to keep that in the same or slightly better than that in the next years. That is what we think we should be able to achieve if we are able to control our working capital and whole of the companies all the units have been given target to do significant things towards the working capital management this year.

Sandeep Tulsian:

And lastly the growth that you are planning will entirely be through the capex or do we have any plans to acquire any of the small component manufacturers like when you mentioned motors large part is imported with indigenized. And so will a lot of other components as well including controllers and the others. Do you have any plans to go for any inorganic acquisitions to ramp up capacity in these areas or will that be largely organic?

Management:

As of now Sandeep we do not have any intention of going for any inorganic growth. Our target is to ramp up our in-house capacities only. And at the same time the numbers what we have, revenue guidance what we have shared with you are without the impact of the growth of the business which will come from the capex what we are going to do in FY'24. FY'24 capex will be factored into the business in FY'25 only. So, the numbers what we are talking about is from the existing capacities which is currently available with the company.

Sandeep Tulsian:

That is about it sir. Thank you so much for taking on this questions.

Moderator:

Thank you. The next question is from the line of Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee:

Hey sorry just one quick question. Given that we have been hearing commentary of the summer season getting delayed and AC inventory is sort of piling up. What is your sense on the latest situation of inventory in the market and do you expect Q1 maybe to limit in growth on a Y-O-Y basis and then you know maybe Q2, Q3 onwards sort of picking up. What sort of trend do you see you know intra quarter basis?

Management:

Pranay ji, see for us as from a manufacturing point of view the season is already over. Now it is all based on the tertiary and secondary sales of the banks. So, June quarter is already factored in more or less you know since May is more or less over and only June month is available with us for the first quarter and already we have some guidance of the business from our customers on that. So, we are seeing a healthy growth in Q1 also for us. But having said that, having said that since we are expecting some delayed summers but there are you know intermittent trends happening all over India at other locations also.

So, there might be some you know, delay in the liquidation of the inventories in the channel but that is happening right now and we don't see any major challenge. Typically, you know September quarter is always a low season, very low season. Typically, hardly any business is there in the September quarter. So, there is nothing which is out of line of our expectation.

Pranay Chatterjee: Got it, got it. Perfect. That's it for me.

Management: Thank you. Thank you, Pranay.

Moderator: Thank you. The next question is from the line of Kaushik Mohan from Ashika Stock Broking. Please go ahead.

Kaushik Mohan: Hi sir. Sir, one question on this JV. It's more or less if you don't like what can be the total sales that you can expect from this JV? And the cost you told that it will be dealt in next one month. So, can I understand how this entire JV will work out to you people sir?

Management: Sir, as Pramod ji has already told you, we will be talking in detail about this JV in June quarter earnings call. Right now, I don't think it will be right for us to say something which is still not, which is still on the drawing boards. A lot of things have been discussed. As we have already told you, there will be a significant ramp up of our TV business. So that is the only statement we can give you as of right now. It will not be very right for us to give you in detail how it is going to work out.

Kaushik Mohan: Got it sir. Sir, and second question is on the Rajasthan business. So, if you would have done the complete capex on your own, what would be the cost of capex that for entire project of Rajasthan?

Management: So, we are going to do the capex of our own only. We might be doing, taking some debt for that, but largely it will be funded through internal numbers. But sir, land and building, if we would have done, it should have been around INR50-60 crores, INR70 crores, depending on the size of the land and the building you must have created. But the total capex right now, what we are going to do over there is in the tune of around INR80 crores to INR90 crores without land and building.

Kaushik Mohan: Got it. Thanks sir.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Gaurav Uttrani for closing comments. Over to you, sir.

Gaurav Uttrani: I would like to thank management for giving us the opportunity to host PG Electroplast call. Any closing remarks from your side, post which we will conclude the call?

Management: Thank you everyone. Basically, what we are trying to say is that it's a very exciting time for manufacturing in India. Overall, government of India is very clear. Whatever is selling in India, that will be made in India. So, we as an organization are actually preparing ourselves for that opportunity, which we are very strongly confident about in next few years, that in India, we can see some really big manufacturing champions emerging out within next three, four or maybe

five years can actually challenge some global leaders also for manufacturing. So that is the focus we have for this business.

And we are seeing traction on that, to start with the focus is domestic market. But we are seeing going forward in next three, four years, if we have enough component ecosystem coming up in India with where the government is having various policy innovations like PLI and PMP. So once those things are taking shape in next three, four years, we'll start seeing some green shoots of those exports starting the way we have seen mobile phone in last one, one and a half years. We are very confident that in consumer durable space also, in next three, four years, India can become a very credible option for other countries, for China, and for these options for European and American markets. Thank you, everyone.

Moderator:

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