August 18, 2023

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

Dear Sir/Madam,

Sub: Transcript of earnings call pertaining to the Financial Results for the quarter ended June 30, 2023.

This is with reference to the intimation dated July 29, 2023, filed with the stock exchanges in terms of regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regarding the earnings call to discuss the Financial Results for the quarter ended June 30, 2023, scheduled on August 10, 2023. The audio recording was duly filed with the stock exchange. We are enclosing the transcript of the Earnings call. The same is also being uploaded on the website of the Company at https://www.vguard.in/uploads/investor_relations/V-Guard-Industries-Q1-Transcripts.pdf

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

Thanking You,

Yours Sincerely,

For V-Guard Industries Limited

VIKAS KUMAR TAK

Digitally signed by VIKAS KUMAR TAK
Date: 2023.08.18 17:39:57 +05'30'

V-GUARD INDUSTRIES LTD. VENNALA KOCHI-682028 DOOR NO. 42/962, VENNALA HIGH SCHOOL ROAD

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

Encl: As above

"V-Guard Industries Limited

Q1 FY '24 Results Conference Call"

August 10, 2023

MANAGEMENT: **MR. MITHUN K CHITTILAPPILLY – MANAGING DIRECTOR – V-GUARD INDUSTRIES LIMITED**

MR. RAMACHANDRAN V. – DIRECTOR & CHIEF OPERATING OFFICER – V-GUARD INDUSTRIES LIMITED

MR. SUDARSHAN KASTURI – SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER – V-GUARD INDUSTRIES LIMITED

MODERATOR: **MR. ACHAL LOHADE – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to the V-Guard Industries Limited ("V-Guard") Q1 FY '24 Results Conference Call hosted by JM Financial Institutional 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. Achal Lohade from JM Financial. Thank you, and over to you, sir.

Achal Lohade: Yes. Thank you, Zico. Good afternoon, everyone. On behalf of JM Financial Institutional Securities, I welcome you all to Q1 FY '24 earnings conference call of V-Guard Industries Limited. Today, we have with us Senior Management, represented by Mr. Mithun K Chittilappilly, Managing Director; Mr. Ramachandran V, Director and COO; and Mr. Sudarshan Kasturi, Senior Vice President and CFO.

Without taking much time, I would like to hand over the floor to the management for their opening remarks. Post which, we will open the floor for Q&A. Thank you, and over to you, Mr. Mithun.

Mithun K Chittilappilly: Thank you, Achal. A very warm welcome to everyone present on today's call. Thank you for joining us today to discuss the operating and financial performance of our Company for the first quarter of financial year 2023-24. I trust all of you have had a chance to refer to our investor presentation which was shared yesterday.

We reported consolidated net revenues of Rs. 1,215 crore in Q1FY24, higher by 19.3% on a YoY basis. Excluding the revenues from Sunflame, the underlying growth is 13.1% YoY. This strong topline growth has been broad-based across all three segments.

In Q1, the South market grew by 9.9% YoY while the Non-South markets grew by 16.7% YoY despite the North market being impacted by adverse weather conditions. Growth in non-South markets has been strong. Our non-South revenues are approaching 50% contribution of the total sales, thereby strengthening the business.

In our Electronics segment, comprising of Stabilizers, UPS and Inverters, we reported revenue growth of 20% YoY. In the Consumer Durables segment, where we market Fans, Water Heaters, Kitchen Appliances and Air Coolers, we registered YoY growth of 10.7%. We continue to make progress towards achieving scale in key Durable categories. In the Electricals segment, which remains our largest revenue contributor comprising Wires, Pumps, Switchgears and Modular Switches, we registered growth of 10% YoY in revenues over Q1FY23.

Gross margins improved to 32.5% this quarter from 30.0% in Q1 last year. Sequentially, there is an improvement by 120 basis points compared to 31.3% in the last quarter. The impact of softening commodity prices has started to reflect in the gross margin with gradual improvement over the last few quarters. We expect further improvement to reflect in the coming quarters as well.

Consolidated EBITDA excluding other income was Rs. 105 crore in Q1, an increase of 27.7% on a YoY basis. Consolidated PBT was at Rs. 86 crore, grew by 19.9% YoY. This includes a fair value gain of Rs. 7 crore on the Gigadyne investment, which is a one-off item. Profit after tax in Q1FY24 was Rs. 64.2 crore and increase of 20% on a YoY basis.

The strong financial performance that we reported in Q1 has been accompanied by a robust cash generation. As indicated a few quarters ago, we would revert to normative inventory levels as COVID-related supply disruptions diminish. Inventory levels have come down by Rs. 120 crore as compared to a year ago.

During Q1, we completed the integration of Simon Electric Private Limited, with most of the backend processes now aligned with the mainstream. The go-to-market approach continues in its original model for the present and we are working on growth strategies to drive, from the combination of both entities.

In the case of Sunflame Enterprises Private Limited ("Sunflame"), business integration is underway at an accelerated pace. The management team is in place enabling first level alignment. We have prioritised the integration of e-commerce, Canteen Stores Department (CSD) channels teams and initiated expansion in the Southern market where Sunflame did not traditionally have a strong presence. The finance and IT integration for Sunflame has also started. We are working on renewing the portfolio, aligning the distribution channels and will undertake technology interventions wherever required in Sunflame.

With these acquisitions being streamlined, inventories normalised and upward momentum in topline and margin, the business is well placed to execute on plans for growth. We look forward to the upcoming festive season and are hopeful to sustain the growth momentum during the quarters ahead.

With that, I conclude my opening remarks. I would like to thank Achal Lohade and the team at J M Financial for hosting this call and would like to request the moderator to open the floor for Q&A.

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

Shubham Aggarwal: Thanks for the opportunity. Just on the first question on Sunflame, we noted that Q4 only had a part of the revenue. The whole Q4 revenue did not get consolidated. The Q1 revenue has also been weaker for Sunflame. However, we were guiding for INR400 crores or so, but it's weaker, so I just wanted to get a sense. Is it significantly lower or is it lower than our expectations for Sunflame? What should we expect for Sunflame going forward this year?

Ramachandran V.: I think, as far as Sunflame is concerned, it is trending similar to other kitchen companies. There is some stress on kitchen revenues, and that's also reflected for Sunflame. Yes, we had hoped that Sunflame – the kitchen category would recover from Q1 this year, but it is still continuing to be weak; you have seen with other kitchen companies who have announced it themselves.

Shubham Aggarwal: I'm saying, is there any change in guidance given the weaker sentiment for kitchen appliances on Sunflame?

Mithun K Chittilappilly: Yes, Sunflame, Q3 is the main quarter. In fact, Q3 is a very large quarter for a company like Sunflame, which has primarily its revenues coming from the non-South market, where Diwali is the main selling season. So we'll wait and see. Some of it, we are expecting it to recover. There are also some one-off issues in terms of, there were some issues with stockouts and there were some issues with CSD ordering system and all that.

So some of those things are being streamlined and we are expecting it to come back. So I think once we finish Q3, we can give a better picture. But, yes, kitchen companies across are reporting muted numbers. In fact, for most companies, either it's flat or negative growth.

Shubham Aggarwal: Moving on to the second question, just wanted to get a sense that the electrical margin seems a bit low, it is on the lower side. Last year, we had inventory losses in the same quarter in the first half. So why is that; can you give some more colour on why the electrical margins are so low right now, in this quarter?

Mithun K Chittilappilly: Yes, Electrical segment is primarily, the margin impact has been primarily on account of A&P. We had a campaign for wires that started in Q1 of this year, so the A&P cost in this quarter is much higher than what it was the previous year. So that's the primary reason for the margin compression. The gross margins are almost comparable.

Shubham Aggarwal: I see that there was only 20 bps increase in the A&P spend on an overall company level. So, the higher allocation has gone towards electrical this year, is that the right way to understand and that's what's led to a lower margin? Can you quantify that how much should I add back to -- how much extra, something that gives you?

Mithun K Chittilappilly: So, the way to look at A&P is, depending on the need, then depending upon our strategic priorities, we spend money on different categories, so this year, because this year we decided to support wires and cables category in Q1 as a part of strengthening our presence in that segment across the country. Last year, there was no campaign for wires in the same quarter. So that's the reason.

In terms of the exact value, we will come back to it.

Sudarshan Kasturi: It had an impact of about 1.8%.

Mithun K Chittilappilly: About 1.8% for the quarter would be impact for electricals for the quarter, because of A&P.

Shubham Aggarwal: Got it, sir. Sir, a very nice set of growth in Electronics that's been continuing even in this quarter. What is leading to this growth and how do you see this going forward in Electronics?

Mithun K Chittilappilly: For the past few years, both stabilizer and inverter sales has been impacted due to one reason or the other. I mean, we had multiple COVID waves during summer, due to which our categories were impacted. This year, there was strong support of sales from Southern and Eastern markets, whereas in the North, like many other companies, we also faced a lot of headwinds because there was not much of a summer season in the Northern markets. So, I think this year is a good year. I think it looks like this momentum should continue going forward, and Electronics should do well for the entire year as well.

Shubham Aggarwal: Okay. So, any Electronics EBIT, how should we look at it, the margins going forward?

Mithun K Chittilappilly: Like we had mentioned, there are some commodity prices that has come off and some of it has started to flow. I think we probably will see a little more, maybe a slightly more expansion in margins, but that's not only for Electronics, maybe in other categories, we are expecting some expansion in gross margins as the quarters go ahead.

Moderator: Our next question is from the line of Venkatesh Balasubramaniam from Axis Capital.

Venkatesh B.: Yes. Again, going back to what Shubham was asking you on Sunflame, now, this is the first full year of operations for Sunflame. What we are trying to understand is, is this like a INR300 crores business, top line revenue business? Is it like a INR350 crores? Is it a INR400 crores or is it like a INR450 crores? Some kind of ballpark indication for the current year would be very helpful to us in terms of modeling the business, what is the starting point for this business? Is it INR300 crores? Is it INR450 crores? Or is it like somewhere in between?

Mithun K Chittilappilly: I think we have to understand this that Sunflame is an asset where we have been engaging with the promoters for sale for some time, at least for many years, even at least a couple of years before COVID started. During COVID, what happened is, we had suspended the negotiations, and actually there was a small boom in kitchen appliances across categories. Companies grew very fast and so did Sunflame.

But our original investment philosophy and whatever acquisition costs we had negotiated, we did not change it. So we ended up still buying Sunflame at a reasonable valuation. So, obviously what has happened now is, after that, there was an abnormal boom in the kitchen appliances business during COVID.

Now, across companies, you will start to see, and some of them are already announced, and then you'll start to see in most cases, there is either a flattish kind of a number or some people have degrown, depending on what kind of product mix each company has. So, I think incase of Sunflame, we are looking at something like INR330 crores to INR350 crores of revenue in the current year.

The good thing to note is that, margins are intact in Sunflame. In fact, we are expecting some margin improvements coming in as the commodity prices are going down. We first want to fix the basics of the business. For example, the aftersale service for the entity, the quality of aftersales is not as great as what V-Guard customers are used to. So we are first fixing the basics and we are putting boots on the ground to ensure that Sunflame has better reach and sound.

There are some levers that we have activated and some of this may take time to show. But, yes, we are looking at between INR300 crores to INR350 crores of revenue in the current year. We are still hopeful because the decline in kitchen appliances sales started towards the H2 of last year. So to that extent, the basis are going to be low once we start entering post Diwali period.

Venkatesh B.: What about EBIT margins? Is it like a 9% to 10% kind of EBIT margin business? Is that a reasonable assumption?

Mithun K Chittilappilly: Sunflame is between 11% to 12% EBIT margins. Sunflame's margins are higher than that of V-Guard's margins.

Venkatesh B.: Understood. Now, going back to that Electronics' question which was asked, now, obviously, I mean, the quality and quantity of power, which is available from the grid, has improved significantly over the last 10 to 15 years. Now, while we are seeing a jump of 20% in FY '23, we're also seeing a jump of 20% growth Y-o-Y. Is this like normal growth or it is just that it is just a catch up? I mean, is this a category which can go at 10% going forward from next year onwards, or it again trends back to like 4%, 5% kind of level of growth?

Mithun K Chittilappilly: See, it's a heavily dependent category, both inverters and stabilizers are primarily sold in Q4 and Q1. So, what happens is, in a year, if there is not good summer, it affects the category growth for the entire year. If you look at last 4, 5 years at least, the CAGR has been extremely low for Electronics, practically not grown. We do expect it to come back to its original CAGR of about 8% to 9%. This year, we may grow faster than that because in the last few years, there was no growth.

Venkatesh B.: Understood. Another thing, on the segmental numbers, if I see your segmental numbers, consolidated segmental numbers, there's an item called unallocable. Now that unallocable number usually is a negative number, it's around anywhere between INR2 crores to INR5 crores kind of a negative number. In this quarter, you have seen a positive number of around INR2.6 crores. So why is that, that you have a positive number? Is this like a forex gain or is there something else at play here in the first quarter?

Sudarshan Kasturi: These are very small numbers, so they can move from a slight negative to slight positive depending on what items they are. Basically what is unallocated are some financial costs and financial income and some depreciation with non-factory. Sometimes if the finance cost is higher and income is lower, it can go into negative.

Venkatesh B.: One last one from my side – last year, obviously our margins were impacted. Overall consolidated margins were at around 7.8% kind of levels. What is kind of a reasonable level for EBITDA margins in the current year FY '24 and when can we get back to double-digits? Is it like, we can get back to double-digits in FY '25 or, and what can be achieved in the current year in terms of EBITDA margin?

Mithun K Chittilappilly: We want the EBITDA margins to basically land somewhere between 9% to 9.5%. As of now, the trend of commodities, barring copper, almost all commodities are trending down. Even in the month of July, I think there has been some slight softening in certain commodities. So, I think the 9% to 9.5% is possible. We will start to see this progressively happening over the quarter as, we go ahead.

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

Aniruddha Joshi: Yes. Sir, thanks for the opportunity. Consumer Durable margin continues to remain weaker. I understand there is an angle of depreciation of plant. So, if you can indicate what was the EBITDA margin in this quarter versus the previous quarter, or please also suggest how should we think about the EBIT margin improvement over the next 2 years. That is the first question.

Secondly, what we understand, the trade margins of Sunflame, they're materially higher than that of V-Guard. So, how are you able to merge the two distribution networks? And what are the likely synergy benefits, whether we will continue with higher trade margins for Sunflame or we will cut them down to V-Guard level? It might be 1, 2-quarter impact on sales? That's it from my side.

Mithun K Chittilappilly: First of all, our consumer durable (CD), this is the segment where V-Guard has launched the maximum number of new products if you look at the last 7, 8 years. The two large categories in this is fan and water heater. In the case of water heaters, the company is still sitting with a lot of high cost inventory from last year's season, which is not fully sold out, because the season was not as good as we expected. So we expect the high cost inventories to get sold out sometime by October of this financial year.

Partly in Q3 and then in Q4, we should see CD margins going back. It used to be something like 4%, 5% EBIT margin, before we had this kind of huge inflation and commodity pricing and that's also being the category that has been mostly impacted.

Sudarshan Kasturi: If you look at the last two quarters of the previous year, it was in negative territory. At least it's now come to positive 0.3. There's still some more margin recovery to happen in water heaters and fans.

Mithun K Chittilappilly: Yes. Regarding Sunflame, I'll ask Ram to answer.

Ramachandran V.: As far as Sunflame is concerned, these two will run as independent go-to-market systems. There is no plan to merge them. They presently are separate legal entities with independent teams which go to market independently. At this stage, we have just landed the management team in the last quarter. They've just been in the company for 2 to 2.5 months and we will evolve the strategy, going-forward. But there is no plan to integrate Sunflame and V-Guard into the existing system. That's going to remain independent.

Presently, we are maintaining the Sunflame practices till we understand the Sunflame business and what drives it before we move forward in terms of what we can do with the business.

Aniruddha Joshi: Understood. But unless and until both the brands come together as one single entity, how do we see the synergy benefits? Basically what are the synergy benefits that we are building in?

Ramachandran V.: Fundamentally, there are some growth levers and there are some profit levers, right? As far as growth levers are concerned, the entire Southern market, they are absent and that presents a good opportunity. I think e-commerce is again an area where we have a strong business system and V-Guard added with Sunflame, can leverage. I think these are the two key areas.

The other critical area, fundamentally in terms of, I think, over a period of time, sourcing or, what I would say, supply chain are some areas where we can get the better benefits like, sourcing is like whether it's raw material or packaging material. So these kind of opportunities are there and we are working on some of those kinds.

Mithun K Chittilappilly: If you ask us, our priority is going to be to integrate the back-end. For example, customer service, sourcing, logistics, these are the areas that we will integrate first. Probably the sales system will be the last because, like you know and you have said, Sunflame has got a very different GTM. There are some advantages and there are some disadvantages with that, but at the moment, we don't want to make any knee-jerk reactions, because there are; it is a brand that has been there for almost 35, 40 years. So, it has some certain practices and it will take us some time to change those practices.

Moderator: Our next question is from the line of Renu Baid from IIFL Securities.

Renu Baid: Yes. My first question is, can you provide some input on the cables and wire segment performance in terms of the volume growth and what kind of capacity utilization are we working on currently in this segment?

Mithun K Chittilappilly: So, our cables and wires is primarily house wiring cables. We don't make underground cables and cables that are going to infra and stuff like that. I think, our growth in cable, the house wiring cable segment was around close to 13% and I think that its value growth. On the volume growth; it has come back with the volume growth of about 13%, because there has not been much of a price difference.

Renu Baid: Sure. Approximately what capacity utilization are our manufacturing facilities running today in this segment?

Mithun K Chittilappilly: So we have spare capacity. I think, our capacity utilization is not more than 65% to 70% in terms of cables and wires. But we have to understand that the sales are volatile. Like for example, there is a practice of upstocking and destocking depending on how the copper price is going. So, certain months, it can go higher, but on average it is 65% to 70%.

Renu Baid: Sure. Second, while we understand that there is no clear plan as of now for modular or Sunflame, this is a completely different portfolio. But how should we look at the deleveraging plan against finance, which was raised for funding the acquisition?

Mithun K Chittilappilly: On deleveraging, we have already paid down the working capital debt, which we had started to avail once we acquired Sunflame, that is something like INR80 crores, INR90 crores of working capital.

Sudarshan Kasturi: Yes, INR100 crores, we have been retired already.

Mithun K Chittilappilly: Yes. Of the total INR400-odd crores of debt, already INR100 crores has been repaid. V-Guard is already sitting with a cash of close to INR100-odd crores even after retiring the debt. I think, from April of 2024, V-Guard will start repaying the debt which we have taken for Sunflame. I think, looking at the current cash flow generation of both the entities put together, they are both very healthy. So, in about 18 to 24 months' time, we should be probably completing the repayment of most of the debt.

Renu Baid: Sure. Secondly, sir, broadly if you look at the demand environment, what is your reading in terms of the consumption? Where do you see the pockets of consumption being far more weaker than expected and any timelines on recovery?

Mithun K Chittilappilly: Like I said earlier, the kitchen part seems to be a bit stressed. We are hoping that H2 should be better. We started noticing stress on the kitchen business even last year after Diwali. I think that has also got to do with the fact that there was a huge increase in sales in the previous year prior to; that's 2 years back.

The other area where we are worried, there is some soreness we are seeing in the switchgear space, Switches and switchgear also not grown as well as we had hoped, although cables and wires is doing better. So, we'll have to wait and see, it's been a mixed bag. But the good thing is, once we have a good start for the year for any summer-based products, we tend to at least do well in the following quarters, because there is very little inventory in the channels for a product like stabilizers or inverters. Last year and all, we were struggling with a huge channel inventory, and thereby our numbers were muted in the Q2, Q3 for these categories. Overall it looks okay. I think, Onam will also give us some indication on how the consumer spend is going to be for this year.

Renu Baid: On the new products segment, because for the last couple of years, we have been trying to refocus on new segments categories where we can improve the profitability. But despite that, as you mentioned, even performance of some of the segments like switches and all have not been as expected, still a bit softer.

So in your view, it is just that the overall demand environment is weak or somewhere the acceptance of V-Guard brand in some of these new categories have been softer than expected in the Southern markets. And aligned with this, what is the kind of penetration that you're looking for some of these new categories for non-South markets as well?

Ramachandran V.: The newer categories are growing. They're growing faster than market and faster than competition. There is a general softness in the market, and I think you would have seen this from the results that have come. Probably if you are able to separate the B2B outcomes from B2C outcomes, you will have a more broader understanding of the extent of softening.

Last quarter, we have been able to do stronger relatively, in spite of the slowdown. We will have to wait and see as we are entering the festive season, whether it's going to shift the mood. I think some of it has also had to do with heavy rains in certain parts of the country and stuff like that. But there is a larger slowdown in consumption.

Now, in terms of, what I would say, the newer categories, entering into non-South, I think selectively depending on the category, we are moving them into non-South. In fact, the non-South business has by and large been growing. This last quarter has been bad for North and, therefore, North has pulled down our non-South business for this last quarter, fundamentally because of weather. But otherwise, I think, we are on track.

We are adding retail partners by category in most new categories, wherever we have taken them to non-South, but primarily, that is switches and switchgears. In the kitchen, we still remain in South. So, primarily the new categories are switches and switchgear-oriented, and these are growing in these markets. And air cooler to some degree which is also growing here.

Renu Baid: My last question is, if you look at the broader framework of the expansion across segment categories, diversification from South to non-South, which now has been over a decade in journey, from the current levels where we ended last year, in your view, how many more years it should take for you to double the revenue from the current level? Would it be like a 3-year journey, a 4-year-plus journey or how are you looking at the market from a slightly longer-term perspective?

Mithun K Chittilappilly: We have always said that, our goal is to hit 50% of revenues from non-South. In some quarters, we are already hitting. If you actually combine the Sunflame's business, it should even go to something like 50% to 53%. I think we have not set a target, in how many years we have to do X number and all that. I think broadly if we get like about 60-odd-percent of revenues from non-South, that would say that we are reasonably mapped to the overall market sizes of both these zones.

Ramachandran V.: So, in our category, South is typically about 38% -- 37%, 38% of the market is South, and 60% to 63% is non-South. Presently, we are hovering between 48% to 50% non-South contribution, not including Sunflame. I think, we should be able to grow this by 2% every year, given the higher growth rate typically, non-South is enjoying over South.

But I think the last, 2, 3, 4 percentages are going to be harder to come by because it will require more deeper penetration from a channel standpoint. It will also require higher extraction, which will typically come with more maturity of the brands present in those markets. We should be able to see 2% increase in non-South contribution every year over the next 4 to 5 years.

Moderator: Our next question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal: Yes. Sir, my question is on Electronics. I understood what you explained, but was the mix very different? My understanding is that AC contributes about 70% to stabilizer sales mix and my sense was Q1 was not a great sum for North and non-South, let's say, for V-Guard. So, was the mix very different or you saw growth between stabilizers was pretty equal?

Mithun K Chittilappilly: Yes, AC stabilizers is the main driver for the stabilizer business, in Q1 especially and the other components for Electronics which is inverters and batteries. Yes, North business was impacted. In North, in fact, there was a degrowth for the stabilizer category. But our business in South and business in East grew very well.

Some of this growth overshadowed degrowth in the Northern market. So that's why overall we have grown well. So I hope this answers. The Eastern, for example, West Bengal, Orissa and Bihar had extremely good summer season, so did Kerala and Tamil Nadu and parts of Andhra. So, all this kind of compensated for the degrowth in North.

Rahul Agarwal: Got it. Understand. Secondly, on gross margin, obviously good to see the recovery to 32.5%. Is there more to go here?

Mithun K Chittilappilly: Some of the increases in gross margin have come due to the product mix also. So, there has been a better mix of products because stabilizer contribution has grown faster than the company average. Some of it is due to that. But even other than that, we are expecting some more improvement as the quarters go by. Like I said, we are still having some high cost inventory for certain categories that should go out by October. So, I think in the following orders also, we are hoping to see some improvement in gross margin.

Rahul Agarwal: So, stabilizer obviously won't sustain 20% growth in my understanding. So, obviously that will come down over the course of the year, and water heater might be better in second half. Net-net should be the same or you're saying net wise on a consol level the margin should go up?

Mithun K Chittilappilly: No, I think, even from this level, I think gross margin should improve. Because see, for example, some large categories like water heaters and fans, we have still not got to the levels of gross margin which we should have, what was there before the commodities started shooting up. And there has been some good news on that front in the sense that for some of the commodities like steel and aluminum, prices have softened in the last 2 months. So, some of it should benefit.

In water heaters especially, we are still having high cost inventory. I think only by October, we should be coming back to; so water heaters still whatever we are selling is high cost inventory. Till that goes out from the system, it's going to impact the overall number in terms of gross margin. That's why we are still expecting a further improvement from this. Another, I think, 1.5% improvement is what we think we should get over the next 3 quarters.

Rahul Agarwal: Mithun, why not in fans, like what is really wrong with fans? I thought the entire old inventory thing is in the past now and prices have gone up.

Mithun K Chittilappilly: Fan does not see an inventory issue. It is just that the North is a big market for fans. So what happens is, when there is a very bad summer season, what happens is some of the price increases that were taken up by brands in April, finally they resorted to giving discounts in the month of May and June because of heavy rains. So, fans does not have the issue of old cost inventory. Fans see an issue of extra discounts being given by brands because there are very poor sales in the Northern markets.

Rahul Agarwal: Yes. Last question is on non-South, could you help us with more color on what are the gaps here now? Are we like present across states, which states are contributing better and what's the strategy in terms of your sales channel development into non-South markets, please?

Mithun K Chittilappilly: In non-South, maybe 4, 5 years back, we had a huge lag of contribution from Western markets, but that's now largely solved. I think the gap for us will be Delhi, Bombay and Calcutta, the metro cities where our presence is limited, but we are okay with that because those are the toughest markets to break. But otherwise, we are pretty much happy with where we are in terms of our presence. There is, I would say, a pretty strong presence; West was a lagger, but even today, I can say that West is also having very strong presence for V-Guard from what it was five years back.

Rahul Agarwal: Got it. The last one, small one for Sudarshan, could you help us with the capex needs for this year and next year?

Sudarshan Kasturi: Capex for this year is around INR100 crores; INR100 crores to INR110 crores. Similar amounts for next year also.

Moderator: Our next question is from the line of Rahul Gajare from Haitong Securities India Private Limited.

Rahul Gajare: Yes. Mithun, some of the questions have been answered, but I just wanted to dwell a little more on the gross margin. Obviously, the product mix has aided the gross margin, but is there any price hike also which have been taken by the company? And if yes, how much is that?

Mithun K Chittilappilly: See, the only price hike that has happened was probably for wires where there was actually; first there was a price decrease because copper was falling and then towards the month of June there was an increase in copper price, so there was an increase in prices. But other than that, I think we are largely done with the regime for price hikes. I think only in fans, I think there is maybe a little bit of gap in pricing that is remaining.

I think most categories are fine. When we look at the replacement costs what we have today, and so we understand where the margins will be in the next 2 to 3 months. Most of them seem to be largely okay. So, price hikes may not be required. We just need the high cost inventory to move out. Maybe in fans, maybe a little bit of pricing action is still required in fans.

Rahul Gajare: With respect to your own manufacturing, now over a period of time, there is a lot of in-house manufacturing that you'll have done. How is it stacked today in terms of your total in-house manufacturing and what is the long-term view as far as manufacturing is concerned?

Mithun K Chittilappilly: Yes. Today I think it's about 60-odd- percent overall. And this number was something like 35-odd-percent if you look at maybe 8, 9 years back. I think, we expected to go to close to 75-odd-percent in the next 3 years. We have 2, 3 more plants that are coming up from various categories. Once they start contributing meaningfully, we'll probably go to 75%, 76% of the basket being manufactured in our own factory.

Rahul Gajare: My last question is, in your opening remarks, you did highlight there was an exceptional item sitting in other income. I have actually missed that. Can you please give us the details of that?

Mithun K Chittilappilly: Yes. Sudarshan?

Sudarshan Kasturi: Yes. So that one-off item is relating to the investment we made in Gegadyne. There was a INR33 crores of investment that we made. There was a reassessment or a fair valuation done this quarter; as per the Accounting Standards, we had to do a fair value adjustment once in a few quarters or so. Thus, coming out of that, there is a gain of INR7 crores that we recognized, which is part of other income.

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

Achal Lohade: Yes. Just had a couple of quick clarifications. Mithun, you mentioned that we can look at another 150 basis points kind of a gross margin improvement over next 3 quarters as our high cost inventory gets liquidated and raw material costs get softer. But at the same time, you also indicated the gross margin -- the EBITDA margins could be between 9% to 9.5%.

So, what I'm trying to figure out is that, are we planning for substantial investments in terms of employee or A&P or other expenses, which is pulling this, otherwise this should cost 10% in this year itself?

Mithun K Chittilappilly: So, I think, gross margins will increase progressively. So it will not happen that, all the 150 bps will come in the second quarter. Some of it will come in second, some of it will come in third and fourth. So, that's why I said, it will be a mix of, an average of all this, in terms of gross margin. Yes, I think A&P spends are still at least 1% lower than what we would like it to be. We are still at about 2% to 2.2-odd-percent. We would probably like it to go up by another 1 percentage point more once gross margins reverts back to normal. So, yes, so some of it will go back to A&P.

Achal Lohade: Got it. Secondly, with respect to the in-house manufacturing, you said the mix will go up to 74% -- 75-odd-percent over next 3 years. What kind of gross margin improvement can we look at because of that, and as well as EBITDA level margin improvement, purely because of the in-house manufacturing?

Mithun K Chittilappilly: So these are going to be very directional because what will happen is, as we start a new factory, for the first 18 months, we are actually going to probably have a decline in margins because the startup costs, the factory won't be running at full capacity and so on and so forth. So, a lot of the benefits will start to flow in only after the first 18 months. So these factories are not all starting at the same time.

For example, we had one factory that started last year in January. We have one starting this year in January, and then we have some things. So what will happen is, maybe it's too early for us to start talking about margin improvements because some of these will get masked by additional cost of the new factory startup. So, I think once we have completed all the factories and once we start production and majority of the new factories, at that time, maybe it'd be better to come back with this number.

Achal Lohade: Understood. One more question. With respect to distribution, is it fair to say that we've kind of reached a level where we can say that we are fairly present across the country? Or is there a substantial white space which is still remaining, which we can look at over the next couple of years? So, A, in terms of distribution tally, in terms of dealer and retail touchpoint, and how do you see it from a 3-year perspective?

Ramachandran V.: There is room for the depth of distribution to increase, which means that within the markets that we are present in, maybe we can address more outlets or get into smaller towns that we are not servicing. So that the opportunity is there. Second thing is, within our portfolio, the reach may not be uniform across all categories, categories that are recent, right? There is an opportunity to increase the penetration of categories.

The category access is going to be one key access for us to improve the overall market presence of the company. The recent categories will have opportunity to go through that route. I think, particularly in non-South, there may be opportunity within the markets we are present and to get into some adjacent markets. So I think that is there. But overall, structurally, in terms of addressing major states and major clusters, we are there already in most of these markets.

Achal Lohade: The count, Ram sir, if you can highlight, what is the count?

Ramachandran V.: We will be adding about 3,000 to 4,000 retailers every year, and that's what we've been saying and we continue to do that.

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

Natasha Jain: Most of my questions have been answered. Just will delve a little deeper segment-wise. Sir, in your Electronics segment, since this has been mostly a quarter for AC stabilizers, can you tell me how the growth in the battery and inverter segment were and have we been able to take a price hike in that segment?

Mithun K Chittilappilly: So we don't give out category-wise numbers, but both stabilizers and inverter battery. Inverters and battery, we don't think of them at two different categories, it's sold as a bundle product. People buy inverter and batteries, and sometimes people buy batteries as replacement also. But both of them have demonstrated healthy growth, and that's contributed to the 20%-odd growth for Electronics.

Natasha Jain: Okay. On price hikes, were you able to take there or not simply because of cross-market expansion or everything?

Mithun K Chittilappilly: No, I think in terms of prices, like I said, was only in the case of fans, I wouldn't say it's even in pricing. I think pricing has improved. But discounts have increased after the summer season in certain parts of the country were not supporting, brands have resorted to additional discounts being given maybe from May 15th onwards.

So, I think that's the only case where maybe real-life pricing has to improve. In other cases, I think, we are today in an environment where most of the categories, except for copper, is in a deflationary trend. Copper being, it's also range-bound, it's not increasing much. So, we don't foresee the requirement for further increases in prices.

Natasha Jain: Understood, sir. Sir, then next to your Electrical segment, I know you're talking about 20% of your revenue is coming from pump. So, how has that segment been specifically taken like that?

Mithun K Chittilappilly: So, pump business has been impacted; it is the second largest category after wires and Electricals. The pump business was impacted in the first 45 days of the quarter, but I think in the month of June, we saw a little improvement. This business has not taken off to the level that some of the other summer category products have done.

So, there still seems to be some challenges. I think this is more of a rural product. So, it could be that there is more stress, but yes, we've come to understand that across brands. Pump business, so it's not degrowing or anything, it's growing at very low single-digit kind of numbers. So, this is not very encouraging, but we are hoping that the situation will reverse when we have better -- probably better environment in the rural market.

Natasha Jain: Understood, sir. Sir, considering the results that we posted this quarter, and we still have two seasonal quarters that remain, so are we still maintaining our top line growth of 14% to 16% or do you see a bump up there?

Mithun K Chittilappilly: No, I think, at the moment, we don't like to change anything. And let's see, let's finish a couple more quarters and then we'll come back.

Natasha Jain: All right. And sir, lastly, can you just throw some light as to how the e-commerce and MP segment did both for Sunflame and V-Guard?

Mithun K Chittilappilly: Okay. Ram?

Ramachandran V.: I think, the e-commerce segment for us would have grown at about 20-odd-percent, muted compared to what typically we have been enjoying. This is to some degree led by just competitiveness, but the growth on the platform has slowed down. I think, Sunflame, we are in the process of integrating the Sunflame e-com business on V-Guard platforms, and V-Guard e-commerce systems.

That's going to take some time, maybe another 1 month or 1.5 months before we will start to see the Sunflame business operational for scale up. So, I think, otherwise the Sunflame business continues the old way. I think they do typically about 6% to 7% of the revenue, or maybe 7% to 8% of the revenue that typically comes from e-commerce.

Natasha Jain: Okay. All right. And sir, last question, I could not hear clearly. What was your capex number for FY '24 and '25? If you can just repeat that.

Mithun K Chittilappilly: Capex number?

Natasha Jain: Yes, capex number.

Mithun K Chittilappilly: INR100 crores each.

Natasha Jain: INR100 crores each, all right.

Moderator: Our next question is from the line of Khadija Mantri from Sharekhan.

Khadija Mantri: Yes. I just wanted to know if it is possible for you to provide volume growth on consolidated basis, excluding Sunflame.

Mithun K Chittilappilly: See, I think there is a problem by giving that because we have products like modular switches where the average price of the product is INR30. And then, we have products like solar water heater where the average price is INR20,000. So, I think, it may not make much sense. What I'm saying is that when you give out the volume numbers, consolidated-wise, these things could distort.

Sudarshan Kasturi: But for this quarter, you can assume that pricing has been flat. There's not been much of a pricing action as compared to last year.

Mithun K Chittilappilly: Yes. So from Q4 of last year to Q1 of this year, there is not much of a pricing action.

Moderator: Thank you. Ladies and gentlemen, that brings us to the end of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Mithun K Chittilappilly: Thank you all for participating on this call. I would like to thank Achal Lohade and the team at JM Financial for hosting this call. Thank you.

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