February 8, 2024

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 and nine months ended December 31, 2023.

This is with reference to the intimation dated January 23, 2024, 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 and nine months ended December 31, 2023, scheduled on February 02, 2024. The audio recording was 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-Q3-2024-Transcript.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: 2024.02.08 19:37:12 +05'30'

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

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

Encl: As above

"V-Guard Industries Limited
Q3 FY '24 Earnings Conference Call"
February 02, 2024

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 VP & CHIEF FINANCIAL OFFICER – V-GUARD INDUSTRIES LIMITED

MODERATOR: **MR. MANOJ GORI - EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '24 Earnings Conference Call of V-Guard Industries Limited ("V-Guard") hosted by Equirus Securities. 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. Manoj Gori from Equirus Securities. Thank you and over to you, Mr. Manoj Gori.

Manoj Gori: Thank you, Zico. Good afternoon, everyone. Welcome to the 3Q Earnings Call of V-Guard Industries Ltd. We have the management being represented today by Mr. Mithun K Chittilappilly, Managing Director; Mr. Ramachandran V, COO, and Mr. Sudarshan Kasturi, CFO.

At this point, I will hand over the floor to Mr. Mithun K Chittilappilly for his initial remarks, post which we can open the floor for Q&A. Over to you, sir.

Mithun K Chittilappilly: Thank you, Manoj. 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 third quarter of the financial year, 2023-2024. I trust all of you have had a chance to refer to our investor presentation, which was shared yesterday.

Consumer demand remained soft for most of the quarter, presenting a challenging backdrop, though we saw some revival towards the end of the quarter. In this context, we had delivered a resilient performance as we reported a consolidated net revenue of INR1,165 crores in Q3, higher by 18.6% on a Y-o-Y basis. Excluding revenues from Sunflame, the like-to-like revenue growth was 10.9% Y-o-Y.

In Q3, we saw balanced growth on a geographical basis as the South market grew by 10.6% Y-o-Y, while the non-South market grew 11.2% Y-o-Y. We continue to progress well on our strategy to scale contribution from non-South market, ensuring better diversification for V-Guard across all regions of the country.

The Electronics segment comprising of stabilizers, inverters and batteries delivered good traction with revenue growth of 16.7% Y-o-Y. In the Electricals segment, which remains our large revenue contributor, comprising of wires, pumps, switchgears and modular switches, we registered a growth of 8.3% Y-o-Y in Q3.

In the Consumer Durables segment where we market fans, water heaters, kitchen appliances and air coolers, the revenue growth was 10.9% Y-o-Y. In the case of Sunflame, we had grown revenues by 2% during the quarter, successfully arresting the decline witnessed in the first half of the year. This gives us the confidence that the actions we have undertaken are yielding results, and we are hopeful of accelerating the business in the coming quarters.

We have reported an improvement in gross margin to 33.9% this quarter from 29.7% in Q3 last year, an increase of 420 basis points Y-o-Y. Gross margin has continuously improved over the last few quarters and we have substantially closed the gap that existed at the beginning of the year.

EBITDA, excluding other income was INR102 crores in Q3, an increase of 52% on a Y-o-Y basis. The EBITDA margin stands at 8.7%, 190 basis points higher when compared with 6.8% reported in Q3 of last year.

Some one-offs have contributed to cost increases under the other expenditure. There was a write-back of bad debt provision of around INR11 crores in Q3 of last financial year, which makes it a low base. We have also made a provision of INR4.5 crores for end-of-life product recycling, as required by a recent legislation. We have also accrued INR4.5 crores towards the strategic projects in the Electronics department.

Profit after tax in Q3 was INR58 crores compared with PAT of INR39 crores last year, an increase of 48% on a Y-o-Y basis.

The stable working capital has meant that the cash flow remained strong. We intend to repay the term loan taken for the Sunflame acquisition over the next 4 to 6 quarters.

In V-Guard Consumer Products Limited, our wholly owned subsidiary, we are progressing well as the manufacturing units are coming up as scheduled. The electronics plant at Pantnagar is performing well. The battery plant at Hyderabad and the kitchen plant at Vapi will commence production in Q4 of this financial year.

With the upcoming summer season and indications of demand revival, we remain hopeful of a stronger top line growth in the coming quarter.

With that, I conclude my opening remarks and I would like to thank Manoj and the team at Equirus Securities for hosting this call.

I would like to request the moderator to open the floor for Q&A. Thank you.

Moderator: The first question is from the line of Rahul Agarwal from Incred Equities.

Rahul Agarwal: Thank you so must for the opportunity. My question is on a bit of the longer term, Mithun. So just wanted to understand few things. Firstly, on the V-Guard standalone business, between the three revenue segments, I think, more or less, we have different product classifications. My sense is ECDs will see the maximum growth followed by Electricals and followed by Electronics going into the next 3 to 5 years. The ranges could be 12% to 15% for ECD, 10% to 12% Electricals and 7% to 8% for Electronics on top line growth is what my understanding is on a CAGR basis.

Which products within this could surprise? Because what I understand is 11% to 12% is what we target on a CAGR basis for the overall company. It would help me understand which could surprise and what is the way forward. That would be really helpful. That's my first question.

Mithun K Chittilappilly: So I think we have different categories of different maturities. If you look at wires, stabilizers and electrical water heaters, these were traditionally large categories for V-Guard and where we are having a substantial market share. And our opportunity to grow organically in these segments are limited.

So I wouldn't say that there is any surprise, but we can say that we internally look at categories as matured and emerging. And so the categories like modular switches, switchgears, kitchen, including Sunflame, fans, although fan is an old category generally, but for V-Guard, it's relatively a new category and is growing fast.

So these are some of the categories that will tend to grow faster. I wouldn't say that any one category will suddenly surprise us or something like that. But the opportunities to grow in some of these categories mentioned later are more than the earlier categories, which are older categories, and V-Guard has covered a significant part of the market already.

Rahul Agarwal: So these categories fall into Electricals and ECDs largely, right?

Mithun K Chittilappilly: Yes. So in Electronics, there is a category like inverter and battery, which is growing fast, but stabilizers is a very old category for us it is the largest category. We are the largest player, so we can't possibly grow much faster than the industry is growing. So we need to probably track the industry growth, yes. So you're right, ECDs will grow the fastest, followed by Electricals and the Electronics space.

Rahul Agarwal: On the margins, would 9.5%, 10% range over the next 2 to 3 years, is that a fair assumption? And what could surprise there? Because I think a lot of ground has been recovered now.

Mithun K Chittilappilly: Lot of ground has been recovered, but we would like to improve margins in the ECD segment. ECD margins, as you can see, are the lowest. So we still have a lot of work to do in that area.

We have initiated certain actions in terms of margin improvement projects. So for example, the kitchen factory in Vapi, to a large degree, will address a lot of the margin issues happening in the kitchen appliances space, which is housed there in ECD. We have initiated a lot of new launches and product revamp, followed by interventions in manufacturing for fans, which is also showing good results.

So I agree, if you take these two largely, the margin issues in ECD should also start to look much more healthy than what it is today, even though we are investing more in ECD because a lot of new categories we are incubating.

Rahul Agarwal: So the range of 9.5% to 10%, it is sustainable in the long-term, is that fair to say?

Mithun K Chittilappilly: Yes. Even this year, I think we will be closing somewhere between 9% to 9.5% in EBITDA margins in the current year. So yes, that is sustainable.

We had a very adverse raw material price inflation environment. And as you can see in the last 3 quarters, sequentially, gross margins have been moving up, and they will continue to go up, even through next year.

Rahul Agarwal: Got it. Second question was on Sunflame. It's been almost a year, I think, we are reaching in terms of acquisition. Wanted to get your sense on three things. Channel, you've discussed that you want to move more offline, sorry, more online, modern trade e-com. But on geography and product, North and West is 80% of sales. One question here was, are we growing offline for white spaces here?

On the channel, obviously, the intention is to increase modern trade e-com. That's where the industry is. But are the margins similar offline, versus GT and online?

And thirdly, on the product, I think cooktops, chimneys and hobs and hoods are about 50%, 60% bulk of the top line. What could be the top 3 products to be sold going into next 2 years? What's your plan for the same?

Mithun K Chittilappilly: Okay. So I'll ask Ram to answer this. I think it's a very long-ish question, so as much as we could have understood, we will answer, and then we'll come back to you. Ram?

Ramachandran V: As far as Sunflame is concerned, I think you talked about 25% to 30% of the kitchen business is coming from e-commerce. And the organized retail is also a significant player in this space and some of the categories are also driven by own channel, particularly the built-in cooktops and stuff like that, yes, so hoods and all.

So I think from a channel perspective, we will have to develop these areas. I think we are at the course of, what I would say, supporting the transition. So I think we have strong teams in V-Guard to address emerging channels, and these teams are working together. They should be helping Sunflame to penetrate in these 2 channels.

The preparatory work is complete as far as e-commerce is concerned, which was basically making sure that the team could transition, get hold of pricing, get the supply chain in place and all of those things. From the upcoming quarter, the current quarter that we are in, I think we should start to see gradual traction as far as kitchen is concerned. It takes 2 to 3 months.

Our GTM for kitchen is very different from Sunflame. Sunflame has, what I would say, an intermediary through whom they go-to market, whereas we are directly present on the platform as a company, and that requires different preparation. So that's why it's taken some time. I think that the preparatory work is out of the way and it takes about 2 to 3 months, maybe even 4 months before products take online traction, that's as far as e-commerce is concerned.

I think the MTRSS's conversations are ongoing, and the teams are in place. And you should see quick traction in that area also, modern trade and RSS (MTRSS). Geographically, I think we have set up a new team for South for Sunflame. Sunflame has been absent in the South or rather lacking presence in the South, primarily some strong presence in Andhra, but very weak presence in other parts of the market.

The team is on the ground from around the month of August, September. And we should see traction happening on that also. That is as far as the channel and the geography part that you were asking about.

In terms of the category part, gas, hoods and built-in, these are going to be the 3 primary revenue drivers as we go forward. Built-in, of course, will require investments in terms of shop-in-shop and probably exclusive stores where relevant. So that's something that you can expect to see going forward over the next 12 to 18 months.

So that's covering the channel and the product dimension. What were the other questions? Sorry, the first part of your question?

Rahul Agarwal: So basically, the only part left is a bit more specific on the product side, like top 3 products sold into next 2 to 3 years. Will the mix be largely same or it will change?

Ramachandran V: No, I think, it will be largely the same. I think the contribution of hoods will go up. But otherwise, the contribution in the near term will be the same. But maybe, probably over a 5-year horizon, built-in will also become significant, but may be less significant in a 3-year horizon.

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

Aditya Bhartia: Hi Good afternoon Sir. My first question is on the provisioning that you spoke about, could you just repeat that, about what are the provisions that have been created in this quarter? And what was the strategic project that you spoke about?

Sudarshan Kasturi: Yes. So there are 2 one-offs, which Mithun mentioned. The first one is related to the recent legislation. It's called the Extended Producer Responsibility. It says that these products have to be collected back at the end of their life and recycled. So we have provided some amount for that. That was one of the one-off items.

The second one is relating to some strategic intervention in the inverters' business. So that's a project we accrued at some point across this quarter. So these are the two one-offs.

Aditya Bhartia: Okay. And this Extended Producer Responsibility bit that you did, that was in respect of sales that have been made in the past? Have these provisions been created on a retrospective basis?

Sudarshan Kasturi: Yes. It pertains to sales made in the past. The collection responsibility happens now.

Aditya Bhartia: Understood. And that amount also is roughly INR4-odd crores, right?

Sudarshan Kasturi: Yes. So both are INR4.5 crores, each.

Aditya Bhartia: Understood. And what's the strategic intervention in stabilizers that you're speaking about?

Sudarshan Kasturi: No, it is in inverters.

Mithun K Chittilappilly: It's basically that we had some margin issues in inverters and battery businesses. And we also wanted an accelerated sales program done. In fact, this topic was discussed before COVID, but due to COVID, we couldn't start the project. So we are doing it post COVID once the market has stabilized.

So it is basically, working on margin improvement and sales acceleration in the area of inverters and batteries. Now we have put up 2 world-class plants for manufacturing inverters and 1 for manufacturing batteries. We wanted to make sure that those capacities are used up quickly and profitably.

Aditya Bhartia: Understood. So this is a cost that you'll continue to incur in the subsequent quarters as well, correct?

Mithun K Chittilappilly: Ram, you want to comment? I think they may not phased equally. So phasing it, in some quarters it will be more and every quarter, we may not incur this.

Ram, do you want to comment on this?

Ramachandran V: Yes, you are correct. There is a phasing issue also here. So it's likely that 1 or 2 quarters, the initial phasing and the design phase, the deal size is large so the loading will be high and then it will take, at least as far as the consulting is concerned. The EPR responsibility is the past provisioning, right? And the ongoing provisioning is thin and limited, right?

Aditya Bhartia: Sure. Understood. My second question is on the demand scenario that you spoke about, wherein you said that you have started seeing some green shoots towards the end of the quarter. If you could just elaborate a bit on that. What are the changes that you have started to see? Which are the verticals wherein you are seeing stronger growth? And specifically on something like fans, which is a market which I think has gone through a prolonged slowdown, what's the demand scenario looking like?

Mithun K Chittilappilly: So I think to put it in context, last year was the year when we had to seize selling new non-star rated fans. And what we saw in the fan industry was that there was significant amount of discounting and dumping by almost all players of the old type of fans. But I think the fact was known to everyone at least for 12 months.

So for V-Guard, at least, we stopped selling of these fans in November itself. So from December onwards, our sales is primarily for the star rated fans. So in that sense, we did not have this huge overhang of discounted and obsolete products in the market bearing V-Guard's branding for a long period of time.

But I think that is probably the reason that for us, at least in Q3, fans had grown well because our last year's Q3 was not a bumper quarter. It was a normal quarter for us. And because of that, our sales have recovered faster, and we are having pressure inventories in the market.

So I think for us, at least, in Q3, fans have done well because our base last year was not that high. Even in this quarter, I think it will do well because we have some new launches, and there is some good traction we're getting in the market.

Overall, we saw improvement in December. I think barring water heaters where the weather was not that cold at least until the third week of December. There was a slowness in offtake, except for electric water heaters, for the rest of the products, we saw improved sentiment in the month of December. And January also has been decent.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Funds.

Bhavin Vithlani: Thank You Mithun, looks like the good performance is now starting and, hopefully, it continues. So I have a couple of questions. If you could just maybe give us an understanding on the fans, as a category, because what we have seen from the other peers is that after they reach INR300 crores, INR400 crores kind of a range, then they kind of stagnate.

So for V-Guard, we understand now it's closer to USD 100 million plus. So how kind of you can go to INR1,000-plus crore category and then grow also? That's the question one.

The second part is if you could just help us with what are the management changes you would have done at Sunflame and the other changes that you are doing. May be if you could talk about it qualitatively that we could see some acceleration in the growth after that.

And the last bit of the question is on the margins. So within the ECD as a category, if you could just give us a flavour in terms of which is the category that is under indexed in terms of the margins. And what are you working to get the margins to the double-digit category? These are my questions.

Mithun K Chittilappilly: Okay. So I'll answer the margins part first, and then I will give the rest to Ram. See, in ECD, we have fans, water heaters and kitchen appliances. These are the 3 large contributors to the ECD business. We also have air coolers, but that's smaller in size.

In that, both fans and kitchen, we are under indexed in terms of margins. In case of fans, it's also an issue of scale where Fans is a very large market. So even at USD100 million, we are getting better, but the scale cannot be matched to some of the larger players in the industry.

But in all these places, what we've done is two things. One is we have gone for a backward integration. That means from; if you look at us 6 years back from almost outsourcing 100% of fans and kitchen appliances, at least in the case of fans, now almost 50%, 60% of the ceiling fans are made by us, which gives us a lot of advantage, one - in terms of finish and quality; two - in terms of the ability to differentiate and three – there is also a cost advantage.

So that is one access, and we will be pursuing the same thing for TPW fans as well as kitchen appliances. The kitchen factory will come in this quarter, and TPW factory is supposed to come up in the next financial year. So with these things, we believe that the margins can be better.

Even in the case of electric water heaters, we are not really happy with the margins because we are slightly under-indexed in the premium part of the electric water heater market. So our sale is primarily coming from the mix segment and the lower end, where the margins are not that great.

So we are undertaking actions to have a better lineup of products. And just like we've done in fans that we have consistently launched premium models in the last 36 months. We will continue to do the activity and will start the activity in water heaters. So all those should significantly improve the health of the Consumer Durables segment.

One more thing we have to keep in mind is that we are also investing in A&P, we are investing in disproportionate manpower, we are investing in a lot of other promotional activities because ECD houses a lot of the new categories. So that's also one of the reasons why our combined basket in ECD looks slightly lower margin, but we have gotten a lot better this quarter. And I think they will start to see continuous improvement. So this as far as the margin profile and all that regarding ECD is concerned.

Ram, do you want to take the other thing?

Bhavin Vithlani: Yes. I have a just follow up, sorry, on your response. Are the gross margins in the ECD comparable, so it's more to do with, as you said, scale and greater A&P, so as that revenue or the size comes up; that's the whole answer to the margins?

Mithun K Chittilappilly: Yes. It was to a large degree, yes. But like I said, even in fans today, 50% of the fans are still outsourced. So purely on a gross margin basis, we may not be fully comparable because when you are in the outsourcing model, your gross margins are going to be low. Your ability to differentiate is very low because you're getting supplied from; but yes, to a large degree, yes.

So our gross margins are healthy. I think if you look at kitchen appliances business, our gross margins are probably comparable. In the case of fans, we still have maybe a few percentage points to go as far as gross margin is concerned.

But I think we are getting better. I think our presence in the segment of premium fans is improving, much better than what it was 5 years back. And that is definitely; so it's also a mix issue, right? It's not only that it's only good enough to sell INR600 crores, INR800 crores of fans. We need to also sell the right type of fans to ensure that the business remains profitable. And that's where we are doing work, and we'll continue to do work.

Bhavin Vithlani: Sure, sure.

Ramachandran V: Yes. Just one more point to add to that – if you take something like fans, I think the throughput also matters, right? At different output scale from the factory, conversion cost can significantly come down making these.

So it's not only the cost below gross margin. Sometimes, it is even the manufacturing conversion costs, right? It's not only the front line sales overheads, but also manufacturing conversion cost can also be a load. But fundamentally, yes, our businesses are competitive and mostly issue is of scale.

Mithun K Chittilappilly: Ram, do you want to take the other two?

Ramachandran V: Yes. I'll go with the second one. The first question, I forgot, and maybe you can remind me.

So coming to Sunflame, what changes we are making – fundamentally, in Sunflame, we have onboarded 4 key talents. One, we have brought in a CEO for the business, we have brought in a CFO for the business, we have brought in a person to look after the supply side of the business and one for HR. So these are the 4 people we have brought into Sunflame to manage and support the Sunflame business. That was the first part.

The second part, the business of e-commerce, the business of modern retail and regional specialty stores and the business of the CPC and CSD canteens. So these we are trying to support through V-Guard's operating teams because, surely, we have deeper and longer relationships.

And we have some unique advantages in terms of our business systems, particularly in e-commerce or our relationships in the organized retail space, which should benefit Sunflame. So there, these parts are being managed more recently from the V-Guard teams, particularly in the last, 3 to 4 months.

Second thing, what we have done is we have moved one of our customer service people to support and redesign the service operations of Sunflame, so that we are able to achieve good turnaround time and get the first time right when it comes to complaints. So I think that should lead to a positive word of mouth and should support the brand with the trade and consumer. So these are areas that we have moved on.

We have also tried to move fast and quick in terms of trying to get some efficiencies going. And we have been able to observe significant opportunities for efficiency in the area of transportation management, in the area of packaging. I think these are early quick wins. We are now working on the sourcing side, and we will see what comes up.

We have also initiated a project, which is working on the new operating model, which will be an integrated operating model, where we will clarify sharply what operations will be jointly handled, mostly the back-end ones and which operations will run uniquely, which is the go-to-market part of it, so that we get agility at the end and we get quality and efficiency also.

We have a project going, which is fundamentally working on the operating model. It will also be working on the growth strategy for Sunflame. So I think this, we expect to have an output in place by maybe June or July of this year. And the second half of this year, we should be able to initiate action and start the rollout.

Also we have commenced the integration operation, and we have put SAP in place in Sunflame, so that we have a stronger controls over the transactional side and we have the ability to have faster reporting of MIS.

So now we are able to get the complaint results on the second day or third day, so that we can make quick, better and faster decisions. So these are some of the things that we have put in place.

The first question, if you may just repeat.

Bhavin Vithlani: Sure. So that was on the fans as a category, I mean, if you look back last 20, 25 years. So I think most have kind of struggled with a smaller ones.

Ramachandran V: Yes, now, I remember the question that was on fans. Fundamentally, your question was how will we be able to get beyond this and not get stagnated like others, right? We are receiving good traction and we do believe that we will be able to build out our business beyond INR1,000 crores revenue in the next couple of years.

That's fundamentally going to happen on the back of improved competitiveness and improved offerings, particularly in the premium segment, right? So I think these are the major drivers.

There are some favourable factors out there in the market. So there are some changes that are happening in the market. I think the BLDC itself is a significant change. And in this situation, the segmentation and the established offerings, right, are getting disturbed. And the new platforms are getting established in the market, right?

And that presents a very good opportunity for someone to be able to enter and establish new offerings in the market because everybody is on an even footing then. So I think that should help and that should favour and support someone like us and make it easier for us to establish, right?

And fundamentally, the other thing that we are doing is we are working to improve our visibility and presence in the retail, so that we can improve the ability for our fans to get into the consideration set of the shoppers.

We are bringing in a lot of focus in improving the displays of our offerings because we have some great offerings and they would merit significantly higher throughput, but many-a-times are constrained either because of reach or because of visibility.

There is a lot of focus around making sure that our offerings are visible to shoppers and so that we are able to get better traction. So these are the primary drivers, which will support the growth of our fans business.

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

Shubham Aggarwal: Thank you for the opportunity. Just a few questions. First one is on the Electronics segment. Can you give what's the current breakup of stabilizer, inverters and battery? That's one.

And we've seen healthy double-digit growth in this segment in this quarter and in the last quarter as well. Stabilizer is a reasonably big part of this portfolio. What's leading to this growth? And what do you see going forward?

Mithun K Chittilappilly: So we don't give out product's separate numbers. So sorry, what is the second part of the question?

Shubham Aggarwal: The growth has been good in this segment. How do you see it shaping up going forward because we understand that stabilizers is a large part of this business?

Mithun K Chittilappilly: Yes. See what happens is the stabilizer business is largely dependent on; almost 15% of the revenue comes from the air conditioner stabilizer segment, which is the stabilizer, and most of it is in summer. And same thing with the inverters. It's also a seasonal business, where a high summer is required for a good sale.

What has happened is from 2021 - FY '21, FY '22 and FY '23, we had disruptions, either due to COVID or due to cold summer and stuff like that. So some of this is also that the growth is reverting back towards long-term growth. And last year, for example, sorry, this financial year, we had a very good summer in South and East, and we had very intermittent rains in North and West.

So it's primarily weather dependent. In the case of inverters, I think probably next year, we will start to see some improvement in sales because, like we said, we are doing an intervention for sales activation. So some of that, we are expecting to bear fruits next year.

Shubham Aggarwal: Fair enough, sir. So this intervention, which you've done, I believe this is INR 4 crores this quarter. And this will continue for how many quarters, in 2 years, 3 years or whatever, can you give some sense?

Mithun K Chittilappilly: Like I said, the project is running for between 12 to 14 months, but the charge on P&L may not be equal in every quarter. I think this quarter, we have booked INR4.5 crores, but we are not expecting every quarter to be like that. Maybe next quarter, it will be 60%, 70% of that. And then following quarter, it maybe 10%, 20%, lower than that. So it won't be an equal charge across all quarters.

Shubham Aggarwal: Now second, would you be able to give some understanding of where do we see all these categories growing? Category-wise, you already highlighted earlier that some products are mature, some products are not mature. But at the category level, would you be able to guide on the growth that you see over the next 2, 3 years?

Mithun K Chittilappilly: On a blended basis, we should be looking at 12.5% to 15% growth. If you look at the current year, barring wires where there is some slowdown in the B2C segment, and we are largely present in the B2C space in wires. Whereas the B2B part of cables and underground cables seem to be growing very well. The B2C part is slightly impacted due to various issues, inflation and poor rural demand and fluctuations in copper prices and so on and so forth.

So even in the current year, we are looking at that kind of a growth. And we typically try to grow our top line by 15% every year, and that's something we'll try to do. We don't give out revenue guidance by category. It may be difficult also to do because various things happen. 40%, 50% of our products are heavily dependent on summer. And it's very tough for us to give the long-term guidance on how it will grow each year. So we don't typically do that.

Shubham Aggarwal: I just have one last question. This is on Sunflame. We saw good margin expansion Q-o-Q in Sunflame. Do you expect this to sustain or improve? How do we see this, since you've also talked about a lot of efficiency and the things you're doing in Sunflame, the growth will pick up, we understand; where do we see the margins?

Mithun K Chittilappilly: Yes. I think like Ram mentioned, I think we have had some margin improvements, quick-wins, like transportation, packaging and all that. And there are more interventions being planned.

I think as far as gross margin is concerned, we are very happy with where Sunflame is. And I think our focus will be more on accelerating the sales. If you look at the Sunflame margins today, they are at par or better than many of the industry players because of its superior product mix and price realization in the market. So our focus will be on improving the sales acceleration going forward.

Shubham Aggarwal: Right. So it is good to understand that the margins at 10.8% will inch towards that 14.5%, which was where Sunflame was earlier on in Q4 last year.

Mithun K Chittilappilly: Yes. I think with the right kind of volume, we should hit that. But we will also see; we will also try to invest more back in the brand. So I don't want to give out any margin guidance, so I'm just saying that we're happy with the gross margin improvement.

A lot of the EBIT margins will also depend on how much we plough back into A&P and all that. And we will be significantly investing back in the brand because we would like to scale it up much larger than what it is today. So our focus may not be to increase EBIT from this level, but more to increase sales.

Shubham Aggarwal: Okay. So broadly, I understand that the margins will be better than what they were this quarter, though they might not inch too much, that's what my understanding is.

Mithun K Chittilappilly: Yes. Correct.

Moderator: Our next question is from the line of Mukesh Patil who is an investor.

Mukesh Patil: Thank You Sir. Just one question regarding the wires business. So what is the percentage of wire business in our business and how is it growing?

Mithun K Chittilappilly: Yes. Regarding wire, I think we mentioned that wire is our largest category. But for V-Guard, almost 95% of our sales comes from retail trade for house wiring cables. We are not present in industrial cables and LT cables and underground cables. In that sense, the wire business has been under pressure this year. I think our growth has been muted, not only us, it is across the industry.

Primarily, we see that there has been huge inflation across building product segments. And if you not only look at us, but if you look at sanitary tiles and those kind of companies are also reporting muted numbers.

We also think that it can be a timing issue. So a lot of people are speculating that as there is a lot of push for housing coming in, 12 months down the line, the demand for electrification for those houses should pick up and then improve the sales of wires.

Mukesh Patil: And what is the capacity utilization we are in for this business?

Mithun K Chittilappilly: One second. It is about 68% to 70% is the capacity utilization for the wire factory.

Mukesh Patil: And what is the percentage of total revenue is the wires business?

Mithun K Chittilappilly: It is about 27%, 28% of total revenues.

Mukesh Patil: Okay. And what kind of capex are we looking at for next 2 years?

Mithun K Chittilappilly: No, in the wire business, we just raised a large capex in the last 18 months, we had expanded capacity. We are having spare capacity and even with a small investment, we can further expand the capacity. So today, I don't think we'll have any huge capex over the next 36 months for wires.

Mukesh Patil: It is the overall business that I'm talking about, not the wires business.

Mithun K Chittilappilly: Overall business, capex will be roughly INR80 crores. I think this year also, it is about INR80 crores, INR90 crores. Next year also will be about INR80 crores, INR90 crores.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

Mithun K Chittilappilly: We would like to thank Manoj and the Equirus team for hosting this call and thank you all for your participation.

Moderator: Thank You. On behalf of V-Guard Industries Ltd, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.