

16th August, 2023

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Department of Corporate Services
Bombay Stock Exchange Ltd,
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai-400001

The Manager
The National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor
Plot No-C/1, G Block,
Bandra Kurla Complex
Mumbai -400051

The Secretary
The Calcutta Stock Exchange Association Ltd.
7 Lyons Range
Kolkata-700001

Dear Sir,

Sub: Transcript of the earnings conference call for the quarter ended June 30, 2023 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Please find enclosed the transcript of the conference call for the quarter ended June 30, 2023 for your information and records.

The above information is also available on the website of the Company at www.ifbindustries.com

Yours faithfully

For IFB Industries Ltd.

Ritesh Agarwal
Company Secretary



**“IFB Industries Limited
Q1 FY2024 Results Conference Call”**

August 10, 2023



ANALYST: MR. PRASHEEL GANDHI - NIRMAL BANG EQUITIES PRIVATE LIMITED

**MANAGEMENT: MR. PRABIR CHATTERJEE - DIRECTOR & CHIEF FINANCIAL OFFICER – IFB INDUSTRIES LIMITED
MR. RAJSHANKAR RAY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER (HOME APPLIANCES DIVISION) – IFB INDUSTRIES LIMITED
MR. ARUP DAS – HEAD (MARKETING & ENGINEERING DIVISION) – IFB INDUSTRIES LIMITED
MR ANAND REDDY – CHIEF EXECUTIVE OFFICER – MOTOR DIVISION – IFB INDUSTRIES LIMITED
MR. BIKRAMJIT NAG - JOINT EXECUTIVE CHAIRMAN & MANAGING DIRECTOR - IFB INDUSTRIES LIMITED**

- Moderator:** Ladies and gentlemen, good day and welcome to the IFB Industries Limited's Q1 FY2024 Earnings Conference Call hosted by Nirmal Bang Equities Private 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. Prasheel Gandhi from Nirmal Bang Equities. Thank you and over to you Sir!
- Prasheel Gandhi:** Thank you Lizaan and good evening everyone. Nirmal Bang Institutional Equities welcomes you all to 1Q FY2024 Earnings Conference Call for IFB Industries. On the onset of call, I would like to thank the management for giving us the opportunity to host the call. The management team here today is represented by Mr. Prabir Chatterjee, Director and CFO; Mr. Rajshankar Ray, MD and CEO, Home Appliance Division; Mr. Arup Das, Head of Marketing and Engineering Division; and Mr. Anand Reddy, CEO of Motor Division. I now hand over the call to management for opening remarks post which we can take questions from participants. Thank you and over to you Sir!
- Prabir Chatterjee:** Thank you Prasheel. Good evening everyone. I welcome you all for IFB Industries investors call for the First Quarter FY2024. Joining with me today are Mr. Rajshankar Ray, MD & CEO of Home Appliances Division; Mr. Arup Das, Head of Marketing and Engineering Division; Mr. Anand Reddy, CEO of Motor Division. Now I will give you a brief overview of the company's performance during the first quarter FY2024. Growth during this quarter is marginally higher than last year, but below expectation. Low revenue growth is mainly in appliance division; however, engineering division made single digit growth. The company has reported a total income of Rs.163 Crores compared to 149 Crores during the same quarter last year. During the first quarter EBITDA was 40.65 Crores compared to 38.4 Crores for the same period last year. Despite improved gross margins, and marginal growth in revenues gross margin improvement is mainly because of the reduction in material cost and better model mix. However, increase in gross margin was to a large extent was offset by higher operating expenses and staff cost. Increase in operating expenses was mainly in the area of sales promotion expenses, traveling and other expense. With this I will request you to start the question-and-answer session.
- Moderator:** Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Aviral Jain from SG India. Please go ahead.
- Aviral Jain:** I have three lines of questions basically one is and we have been asking this question for the past few quarters I just wanted to understand basis the current or the realized sales of ACs in

the last quarter, what is the gross margin and EBITDA margin differential between AC sales and rest of the home appliances division as a whole and the second question I have is if you can give the breakup of AC sales by value between contract manufacture, third party brand sales and own brand sales for the quarter?

Rajshankar Ray: In terms of the gross margin structure on the air conditioner if we look at the Q1 then with respect to the company it is lower and we do not specifically give figures in terms of product category figures, but just to give you an idea if the company level gross margins are X then the air conditioner gross margin would probably be around 30% to 40% lower as on date.

Aviral Jain: As a company as a whole this includes the engineering division as well?

Rajshankar Ray: No, I am only talking home appliances. Now in terms of the work that is being done to fix this the work is essentially led by a material cost reduction program and if you see in Q1 there has been an improvement in the material cost percentage, which you will see in the results and the second part of this program is going to end in November this year. So in terms of the gross margin structure on the air conditioner coming closer to the overall company average we will get close to that in Q4 of this year so that was the first question you asked. You also asked about the differential between the gross margin and the EBITDA level. The EBITDA is essentially the overhead distributed across product categories. So I think what is more meaningful for us in terms of the profitability issues getting addressed is being able to address this gross margin of the air conditioner. The two questions you asked is breakup by volumes that I think Mr. Chatterjee can give it to you separately in terms of the breakup between the OEM and the brand, etc., and you said that there were three questions, so what would be the third question.

Aviral Jain: Third basically it is being reported the PBT loss for the AC division is being reported now if you could just help us understand what is the quarterly interest and depreciation attributed only for the AC business then we can work backwards from our numbers, in our view gain I would just let, if you can just give us those two numbers on a quarterly basis only attributed to the AC division?

Prabir Chatterjee: I will give it to you separately.

Rajshankar Ray: Mr. Jain, does that answer your question please?

Aviral Jain: Partially yes, partially no, in fact we will get in touch with Mr. Chatterjee, and second thing there is some sales or some mention about the refrigerator sales so have the commercial

understanding been arrived at with IFB refrigeration between transfer pricing or sales booking, so what is the commercial arrangement?

Rajshankar Ray: That is under discussion in terms of the OEM arrangement between IFB Refrigeration Limited and IFB Industries Limited it will be completed within this quarter. So I think in the next investor call we should be able to give you a very clear picture in terms of the buying relationship.

Aviral Jain: What I am gathering from your words, so IFB Refrigeration would be sort of OE manufacturer for IFB Industries, is that how it is being envisaged?

Rajshankar Ray: Yes, that is what is under discussion. I think it is best to treat this subject comprehensively once everything is fully signed off and then to formally make a presentation to everybody. So I think we will do that once this quarter is over. Those discussions are ongoing basically.

Aviral Jain: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Best Pals Advisory LLP. Please go ahead.

Vivek Kumar: Thanks for the opportunity. I am new to the company in the sense I have just started following recently in the last one month, so my doubt is regarding the home appliances division. General understanding of how management of the promoter things before entering any news event because I see you are leaders in front load, you have a good market share in microwave oven and you are introducing new player, wherever you have gaps you are introducing and filling it up, so how do you think about getting into 'A' series where there are always too many players and then also refrigeration, see I am not saying you should not or you should but what is the thinking that goes behind and what are the strengths of the DNA of the company that you think that is giving us the confidence to put in capex, do some kind of backward integration, and represent across channels, so you keep on writing in your annual report that boss we are not getting the sales, we want from this but we want to extract more from the channel, so what is the comment in terms of the DNA of the company that is giving you confidence that we can enter refrigeration also, ACs also, when there are already so many players, when I say confidence in terms of making good ROCE in the long run I am not talking about one to three years, but I just wanted to understand how IFB thinks in terms of selecting and introducing new categories especially when this market is like modular kitchens you are doing, so many people are doing, going on there so how to understand and appreciate what you are doing and comprehend what you are what you are trying to create for the future so if I can make myself clear?

Rajshankar Ray:

Yes, I have understood your question, and I will try and answer this. It is a very interesting question you have asked. Now, if you look at it from the management point of view or the Board point of view as far as the appliances sector is concerned it rests on three pillars. One is what you would call as laundry washing, the second is what you would call as cooking, and the third is what you would call as cooling. So, whether India or globally the entire sector actually rests on these three verticals. So, laundry is the washing machines, the dryers either front loads or the top loads and the cooking is products like microwaves, hobs, chimneys, built-in ovens, you would also add a dishwasher either into washing or in cooking depending upon how you classify it and cooling is the Air Conditioner and the Refrigerator. Now I am glad you asked this point about the long-term angle in this, but if you look at the dominant players in this sector, which are primarily the two Korean companies and all the three verticals and IFB's intent is to also basically be significantly and strongly present in all the three. Now you asked about this question of DNA, so under washing IFB has a DNA and we have strength there both in terms of product configuration and on legacy and the brand power. We are also very strong in cooking, we go head-to-head with the two Korean companies in the markets in which we compete, and the cooling segment was one that was essentially very weak. So, air conditioners now will be manufacturing from 2020, but we are ourselves very unhappy with the kind of progress we have made, and it remains a weak vertical to be fixed, and refrigerator sort of completes the story in terms of the market presence. Now why the three verticals are important is that if you look at the physical attribute, which is the store and you see a salesperson who enters that store to extract business from that store. Then that story is actually displaying products in washing, displaying products in cooking, and displaying products in cooling, and unless you are able to span all three effectively you lose something in terms of the market placement power and what we see happening in the short-term is that this channel presence that we have written about in previous reports, which we have expanded over the last 2-3 years, we still think that we have not got the extraction that we want from this. The channel itself is significantly increased when we ramp up, you see the way we should be doing and with the introduction of the refrigerators, and the placement of those products actually helps the pool of the other products. So for example if you have a counter, which has air conditioners and refrigerators placed, then the next product that goes into that is a top loader or a microwave followed them by dishwasher or a front-loading washing machine. So, over the long-term the IFB presence in all the three is something that the management and the Board feels is very important in terms of equal strength in all the three verticals, and for IFB specifically across these three verticals we also have a horizontal line, which is our service. So that is another area to be strengthened in the company in terms of the service connect with consumers and the related revenue opportunity that comes from all the three verticals whether it is washing, whether it is cooking or whether it is cooling. Have I been able to answer your questions?

Vivek Kumar:

If I can ask just a follow on like let us take the cooling, just for my understanding I am not trying to take the weak point, just to probe, but just for my deeper understanding if you take AC and you have entered it, so in the long run what is giving you the confidence that we will have a reason, I am not saying you become the leader but reasonable return from these and reasonable market share because by presenting it because there are many people doing this so that is where the doubt is coming, I agree that you want to be everywhere, but there are companies who are specializing in one single thing and my only doubt is what is giving you the confidence in next 7, 8, 9 years that you have a reasonable market share in ACs or refrigeration, what are the strengths that you have because I see too many people there that is the confusion I think if you can address?

Rajshankar Ray:

I will tell you; the confidence can come from three areas. One is we are confident because we have done it, and we are able to tell you that we have done it. I think that is the simplest thing that we can do, which unfortunately we have not been able to deliver and we have discussed this in previous call as well. So our confidence going forward currently is coming from another set of three points. One is do we have a product that is good and is it better than most. So the answer to that we believe is a yes, and whatever presence we have in the market today and the customer feedback or the channel feedback that we have tells us that yes we have a good product, so our confidence for the future comes from this first point. The second point is that we have the gross margin profile and the material cost profile of the product, right, because you have a good product, you need the right material cost before you actually reach the market. Now this is an area where we have failed till last year because our material costs are high when we benchmarked it to the market, we have made 50% progress in this quarter and we are fully confident of achieving the right material cost profile by the end of Q3 for full impacting Q4. So the second area of confidence is the material cost profile for the product that we want to make and the third comes from being able to get it right in the market, which is in terms of placement, having the people who can run this thing and properly ensuring that we are able to get extraction from the counter once we have placed. Third area is the area where we have not been able to deliver what we have ourselves wanted and we have also not delivered things that we have been discussing during call. Now this is the area that we have to fix, but this point needs to be fixed not just for AC but it also needs to be fixed for the other products that IFB service, and this is related to people and getting processes right and our entire attention from the senior team today is on getting this third angle fixed. I hope I have been able to explain to you where our confidence comes from.

Vivek Kumar:

Yes, I got it, Sir, but are you targeting any market share in each of these products or no you just take care of the products quality and you just be present in the channel and I am not

saying assume, but you wish that this will turn into some market share in the long run so did I understand it right or I will not understand?

Rajshankar Ray: No, we know that for a sustainable play in air conditioners we need to be 10% plus of the market and that is the figure that we are working with. So it is not like, we will just take whatever comes, we need to be at 10% plus to have a meaningful footprint.

Vivek Kumar: So that is where my question was coming, but how are you confident that you will reach there because of the competition so I think you are saying this costing, distribution, and marketing ...

Rajshankar Ray: Also since you have asked this so specifically if we look around India and you look at places where we got our sales management right, we have got our network addressability and connect right. Actually today IFB is logging market share in excess of 10%, so at all India level today there is a lot of work we need to do, but in the pockets where our sales team has been right, we have got our processes right, we have actually got the share and hence our commitment internally as well that we need to make this product category a success because it is very helpful in terms of gross margin overhead absorption and also in helping in general network reach to improve.

Vivek Kumar: I think I will join back in the queue. Thank you very much for detailed answers.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter-Cyclical Investments. Please go ahead.

Madhur Rathi: Thank you for the opportunity. I have a few questions what will be your current capacity utilization and what kind of revenue can we generate at full capacity utilization in both divisions, the home appliances as well as the fine region division and going forward what kind of steady state operating margin that we can expect once since Q3 things are moving in our direction in the refrigeration as you said so if you could answer these I will ask my other questions afterwards?

Prabir Chatterjee: Can you repeat the question please?

Madhur Rathi: Yes Sir. What will be our current capacity utilization in both our divisions and what will be the revenue that we can expect at full capacity utilization in these divisions, and what will be the steady state operating margin that we can maintain once since Q3 our refrigeration unit kicks in full?

- Prabir Chatterjee:** Washing machine capacity utilization is around 85% to 90%, AC capacity utilization is slightly lower now, engineering division capacity utilization is around 90 plus, revenue will increase with better capacity utilization & you are aware that we do not give any revenue guidance.
- Madhur Rathi:** Just wanted to understand the rationale behind buying only 44% in IFB Refrigeration and are there any plans to take this further ahead?
- Rajshankar Ray:** In terms of the holding structure in IFB Refrigeration Limited this question that you were seeking I think it would right if this is addressed as a part of the overall discussion on the refrigerator business including the question which was asked earlier so if it is okay with you if this is done comprehensively in the next investor call would that be okay because then not just this point the other points could also be discussed.
- Madhur Rathi:** Yes, sir, that is okay and just one final question. When I look at the trade schemes and discount for FY2023 versus FY2022 it has gone up materially so are we giving out more discounts and offerings or can you help me understand this so that would be very helpful?
- Rajshankar Ray:** There has been no change in the discount structure as far as the market is concerned. The figure that you see at the overall company level is a blended figure that is coming from discount structures on air conditioners, microwave, and washers, all put together. So if the AC sales rise like we did the last year then the air conditioners are at a higher discount structure. So the company's overall percentage increases, but on a given product category or for a particular channel that there has been no change as far as the discount structure is concerned.
- Madhur Rathi:** Thank you Sir. That was very helpful and all the best.
- Moderator:** Thank you. The next question is from the line of Narendra Shah from Robo Capital. Please go ahead.
- Narendra Shah:** Thanks for the opportunity. I was asking about the margin. So are we working on improving our margin or are we happy with the current level if you can throw some light on that?
- Prabir Chatterjee:** We are not at all happy with the current margin. The areas to improve margin, one is increasing the revenue, second is we are also taking a number of steps in terms of material cost reduction, reduction of other fixed expenses to improve the margin.

Rajshankar Ray: I am sorry I am just interrupting. There was a number in Singapore that was being connected could you please connect that once again please?

Bikramjit Nag: Mr. Ray can you hear me now.

Rajshankar Ray: Yes, we can hear you.

Bikramjit Nag: I have gone through the conference call minutes for the last few quarters and I am very well aware of the fact that we have not delivered on what we have said especially in air conditioners and I have had a clear chat with the management which is Mr. Ray, Mr. Chatterjee and others and a lot of work is being done to put things right. However it is taking a lot of time because state-by-state when we are going to restructure sales team wherever required that is really taking much, much longer than I would have liked it. There is no excuse for this, but that is what is happening and I think a significant portion of the sales structure has to be changed, which Mr. Ray is doing. Mr. Ray and Raj are doing this it is just taking longer than what we thought it would take us. I missed the part of the thing, but the question is on AC is absolutely valid. There was no reason to get into this and then having the issue that we have had. Having said that the product has been received well, which is the most important thing, but if you have a very good protect then you cannot sell it, then that is absolute disaster. So this is being put right state-by-state and unfortunately in some of the states we really had an issue with people understanding distribution requirements and we are certain before the season starts again, which is normally in AC I think. Mr. Ray, the dealer start picking up stock by December, January, right, January I think.

Rajshankar Ray: Yes, December.

Bikramjit Nag: So that I think issues will be fixed. More importantly the material cost exceptional which has an impact on pricing will also be fixed. We have this review every Saturday morning I attended the review and huge amount of work has been done and I think the effect of that will be very, very visible. To a question I heard on refrigerator the last speaker was talking about it regarding why did we buy 44% and all of that and I think the major reason there was strategically IFB Industries should not get into it from the point of view of taking debt on its balance sheet and hence we derisk that part and I think the rest have started being accepted well, it is just started I think two, two-and-a-half months back it just started now we are doing about... Mr. Ray how much you are looking, you take about 1100 a day.

Rajshankar Ray: Yes.

Bikramjit Nag: About 1100 a day and I think it will be ramped up. Regarding the point on capacity utilization I think air conditioners by the fourth quarter I think should be fully utilized, I think on India this is fully utilized. Mr. Ray if I am wrong anyway you please come again and regarding Mr. Chatterjee's point on washer it is not fully accurate of the point of view. We are still working one single sift, so we have a lot more we can do, we have put in the decision to do, to look at exports, etc., including OEM, etc., and we will see how to increase capacity utilization we will be ready with this in the next few months. I have given clear instruction that capacity must be fully utilized and that is where overall cost will fall and we become much higher and that is all that I appreciate. Rest Mr. Ray can you carry on Please.

Rajshankar Ray: Yes please. You can go back to the question sequence please.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Best Pals Advisory LLP. Please go ahead.

Vivek Kumar: Thanks for giving opportunity. Sir this is continuation of my previous question I did not want to take time so I will just put in that. Sir you told that you wanted to be, there are two Korean players Samsung and LG I am not asking to name them but given their share and given their number of years of experience how do you normally think about when you take on these people because the competitive intensity is also very high and when you get into refrigeration, when you get into ACs, so this is the way I am coming from that and my first question was related to this when we see these two players being across the segments and you are also trying to take on these big guys when I say take on I am not saying you will destroy them but get market share where these guys have inherent strength or age old strength, how do you go ahead and be there and get your share of market in the long run because the competitive intensity is so high in each area of your home appliances division?

Rajshankar Ray: There is no perfect answer to this, but the way we look at it is that we like to do our own thing which is in terms of our product, which is true to the IFB product deals that customers have our position and our customer connect and our effort in the field. So I do not think it is in our mind so much on IFB versus on LG or Samsung but it is more about IFB and what potential it can realize for itself. I would assume that if you were to scan the market and visit some stores you would see that there is a distinct customer base for IFB given our reputation for product quality and our presence in India over many years and we want to leverage that strength. We do not per se in our discussions think so much of growth in terms of taking somebody else's growth to grow ourselves it is not about realizing what market potential exists for the company. I hope I have been able to answer your questions.

Rajshankar Ray: I think for us, LG, Samsung is actually two very, very inspiring stories because you look at these companies you see what they come out with so fast, you see how this channel the market. You see their designing, competence, etc., etc., vis-à-vis the Europeans, and I think you should learn from them and hence we took the decision to bring in Koreans into our company and it is very difficult to be competing with them, but I think they have too very, very inspiring stories to learn from and this is what I tell my team day in and day out you do the best that you can. The problem today that we are facing is in many markets or segments we are not doing the best that we can and that is where we are favorite; I do not think we are failing on the product side per se. I think in certain cases we failed in bringing out products fast enough and hence Mr. Ray has rejigged our entire project management team, etc. I think these are things that we need to grapple with, but I think the market is big enough for everyone to be doing well and for us to be doing well and I think we started getting market share back in ourselves and we have a clear strategy to get back to a significant market share lead over others and I think you will see that by Q4.

Vivek Kumar: So you are saying there is enough market and there are things that we can do to improve ourselves and not maybe like them but though near them and some areas be better than them and the market is large enough for us to have our share of market right can I take it like that?

Rajshankar Ray: I think so, yes.

Vivek Kumar: Thank you Sir. Thank you very much for answering.

Moderator: Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thank you for the opportunity and thanks to BikramJi for sharing his views on this call. My question first would be if you look at the home appliances over last three, four years we will definitely be in off track with regards to growth historically when we look at we have consistently delivered 15% kind of CAGR growth in the home appliances, but over last three, four years we have somehow missed that part and probably whatever growth we have seen in last couple of years has been largely because of the room AC side and probably some contribution would have been from the price hikes as well so can you throw some light like what are we seeing here because in terms of product position and everything we are well placed?

Rajshankar Ray: Manoj the answer to that is that we should have grown much more than what we have grown and we have just not done a good enough job as far as extraction is concerned and growth can come from two ways, it can come from increasing extraction from the same counter and

it can come by just increasing the reach and therefore getting more growth, and the reason why over the last 2-3 years we have not got the growth that we should get because we need to do a much better job as far as market extraction is concerned in terms of reach and this is the point that Mr. Nag is also making in terms of we giving the sales approach ensuring that we have people who understand distribution better, those are the areas where a lot of work is being done now to ensure that those type of growth percentage is come back. Your point is right and there is no explanation for it other than the fact that we should have done a much better job.

Manoj Gori: Mr. Ray can you please explain regarding our data which talks about counters where we have CSRs and counters where we do not have CSRs and how the thing works?

Rajshankar Ray: Yes, if you recall in one of the earlier investor calls we have spoken about this menu in counters, which the industry calls as in-shop demonstrators and our terminology is counter sales representatives and our data shows that currently we are about 30%, 35% odd of counters which would be typically the large counters, which could be the chain stores or a modern retail formats where we are currently not placed people and therefore we lose sales there, but where IFB is placed and we have a person basically representing the product and delivering it to consumers our shares within the counter has significantly raised, so one of the key agenda that we set for ourselves is by end of September or probably October to ensure that each of these gaps are breached and that itself if you do the math is pretty good growth.

Manoj Gori: But this do not have any incremental impact on the employee cost, right?

Rajshankar Ray: No it does not because the counter sales representative has a salary cost yes, but they also operate on a variable one based on the sales, in terms of per unit cost actually it is not much, so as long as we get the sales.

Manoj Gori: If you take a person in a counter and the person does not sell the amount you should sell.

Rajshankar Ray: Then it is an added cost, we have to get the productivity and then that cost is very good cost for the company, but the sales opportunity is far in excess of the cost basically.

Manoj Gori: So probably this is one area like placing our employees or promoters on the counters would be link better sales can you throw some light in a detailed manner probably what are the efforts we are taking to improve the gross margin because off late I would like to appreciate that during AGM and even today we have emphasized and even in the previous concall we have emphasized the lot on margin improvement so we have identified the areas can you throw some light like what was the measures that we would be taking to improve that?

- Rajshankar Ray:** There are two specific measures and we have committed this internally to the Board and it is also shared for example product platforms at the AGM and the two specific measures for the gross margin improvement or a) the material cost and some part of that we have already shown in Q1 but there is significantly higher percentage which will be completed by end of Q3 we are fully committed to this and the third which is more specific to IFB Appliances for us is a reduction in the fixed cost and we have set a target for that and that is also being reviewed at Mr. Nag and the Board's level and that is something that we have to complete by Q3. So the impact of both will begin to serve from Q3 and full realization in Q4 and that will keep this gross margin percentage that we were talking about.
- Manoj Gori:** So probably now from a trend point of view from Q4 onwards on a sequential basis or probably at least in the directional manner we should see improvement in margin gradual from Q4 onwards?
- Rajshankar Ray:** Yes, we are committed to that and that for us I think is 80% of our priority.
- Manoj Gori:** Lastly on the capacity utilization so if I am not wrong Prabir Sir just shared that you are operating at 80%, 85% for washing machines is that correct?
- Rajshankar Ray:** It is actually lower because like Mr. Nag just pointed out the plants are running at single shift from SMB line if some of the backend running two shifts so if we are able to generate the sales support then the plants can actually produce much more so it may not be 85% maybe we can increase capacity from whatever we are delivering now by as much as 50%, 60% more so capacity is something that is very quickly upgradable and it does not call for much capex per se, it is just supplier capacity getting upgraded. So if I look at washers overall which is top load and front load put together then if we get the sales the plants could go up by 50%, 60% from wherever they are today.
- Manoj Gori:** On the refrigerator part you just mentioned like you are doing on DBOs 1000 to 1500 units so if I do account like proper math probably we are somewhere around...
- Rajshankar Ray:** No, we are not going that, that is being done by IFB Refrigeration Limited, not by us, that has to be corrected some amount will sell through IFB Industries and so that is still being worked out.
- Manoj Gori:** Thanks for that clarity Sir. Thanks and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Sumil Sethi from SG India. Please go ahead.

- Sumil Sethi:** Thanks for the opportunity. I just wanted to check a few things. In the investor presentation you have given sales split by product categories so is this split based on gross sales or net sales, net of promotion discounts?
- Prabir Chatterjee:** You are talking about the pie graph?
- Sumil Sethi:** Yes, that is the pie chart that has given for the home appliances.
- Prabir Chatterjee:** That is on the gross sales.
- Sumil Sethi:** Just a followup question here. You earlier mentioned that you are giving a higher promotional discount on ACs as compared to your other home appliances so is this bound to converge towards the home appliance number any time in the future as your price realization improves as in general the industry ACs are operate at a higher discount as compared to other home appliances?
- Rajshankar Ray:** If you typically see the structure in the market ACs do operate at higher discount percentages, but ultimately I think what really matters is irrespective of what that percentage is are we being able to generate a healthy gross margin so I would look at it more like that.
- Sumil Sethi:** You mentioned that currently you are making a 13%, 14% lower gross margin on ACs as compared to your home appliances and a large part of that recovery will be done through material cost reduction program which will be done through the end of this year so I just wanted to understand would improvement in pricing realization going forward will also be a big portion or do you think that in the ACs our price value in the market as of now?
- Rajshankar Ray:** Whatever internal targets we are setting for ourselves are minus any increase in price realization. For a specific answer to what you have asked, given the sort of dynamics in the AC market over the last six, seven months there is scope for any price realization improvement as of now looks quite half-edged we do not anticipate any increases from price realization as of now whatever we are doing is purely led either by material cost or by getting the sales that we should be delivering. Does that answer your question?
- Sumil Sethi:** Yes. Just one other small question. Can you give me the capacity utilization for the AC plant this quarter?
- Rajshankar Ray:** The AC plant capacity is 500000 per annum on the SMB line running at single shift basis and the rest of the plant which would be let us say the feeder lines, making the coils, evaporator,

etc., all of them running at on three shift basis and those we translated that comes to roughly about 40000 per month that is the actual capacity.

Sumil Sethi: Any data points on what is the capacity utilization for this quarter?

Rajshankar Ray: For this quarter it is much lesser, it is not that and Mr. Chatterjee can give you the figure separately. We are working on is how to get 100% capacity utilization by third quarter or latest 100% by fourth quarter.

Sumil Sethi: Just wanted to understand what is the strategy around contract manufacturing is this something that we will continue to do for the longer run and just wanted to understand is we supplying to the brands which will be settled by the competitor or we are supplying that completely different range of ACs for the contract manufacturing?

Rajshankar Ray: That is a good question and what we have explained in some of the earlier calls is that the way we look at it is that the OEM supply that we are doing help plant capacity utilization so let us say if we were to do 500000 per annum in the short-term and with that 300000 brand sales and 200000 OEM it has the plant to cover overheads, it also helps purchasing power because volumes are ramping up, that was the intent which we began the OEM supplies. Going forward we still see that the selective OEM supplies will continue. The product that is being supplied is seems to be similar but there are differences in terms of features and statics based on whatever the OEM suppliers want, and the DNA is the same but it would be minus some features, some performance areas, etc., that is the customer requirement.

Sumil Sethi: So you think it is the same platform basically?

Rajshankar Ray: Yes, the platform is the same.

Sumil Sethi: Thanks so much Sir.

Prabir Chatterjee: Mr. Ray one thing I think what he is trying to get that is what is our strategy for OEM etc., and I think the strategy must be much more robust for us to get a much higher share of the OEM business and I think we have discussed that point, whether in India or outside I think now that we have got a person fully dealing with this I think you get positive results in the coming months, but I think you have to set a target for OEM and then early chase that and to make definitely margin in that just like we make an engineering business we are in the OEM business so that is why we supply to OEMs in engineering division and I do not think this is different.

- Moderator:** Thank you. The next question is from the line of Madhur Rathi from Counter-Cyclical Investments. Please go ahead.
- Madhur Rathi:** Sir what will be our operating margins in a steady state environment going forward and when can we achieve a double-digit operating margin?
- Company Speaker:** Once we fix up the revenue in all products including ACs capacity utilization is better and the states regarding the material cost reduction and other fixed cost reduction steps that we have taken these are all implemented will be in a better position and the margins would be better.
- Madhur Rathi:** Exactly a timeline?
- Company Speaker:** No I do not think we would like to give guidance, but I am being very emphatic on this. So we as the principle shareholder are of course not happy about the fact that margins have been low or the fact that we have not achieved numbers, we are the most affected by this. So all the discussion within the company day-in, day-out is to ensure we have a robust team in place which can deliver on what we discussed point number one state-by-state I am like emphasizing this point on state-by-state because that is very, very important and it is our intent that in applying division we hit over double digit margin that is what we would like this is what a guidance statement but that is what we would like and of course for engineering division which is now operating at decent level margins we need far more growth and a much higher margin also. I would like or I would like to think at least that by end of Q3 or thereabout November, December I think we should be in a much, much better place, the double digit I think to be steady that is your question. I think from Q4 onwards should be Mr. Ray and Mr. Chatterjee's drive that is where we would also like as principle shareholders.
- Madhur Rathi:** Thank you so much, Sir, that is very assuring and just a followup question with increasing EV penetration on our engineering business, so the fine rating divisions can you just highlight what are our plans going ahead and are we looking for some kind of acquisition instead of setting up our own capacity in this segment?
- Company Speaker:** I think the existing capacities that we have and cater to sizable EV business whatever little capex we need to do we can do internally I think we will got orders of nearly 50, 60 Crores of EV business this will significantly improve because marketing has been directed to get more EV business, IC engine neutral business, sorry, and I think a significant amount of work is being done, we have started supplying buyer media to people like Tesla, etc., and I think a lot more work on this will be done. As far as acquisitions go in the auto component space we are on the lookout at this point itself we are talking to some companies and these are all IC

engine neutral businesses and I feel that is for engineering business to grow our strategic decision has ease we cannot grow by being capex led because it takes a long, long time, we have fully acquisition led but we need capex in the existing plant whatever little that we need and therefore we need to purchase a sizable business, now what that what sizable can mean that is still being discussed within the company and how we will finance it, etc., the engineering division which is fine blanking and stamping together has debt of only around 30 or 32 Crores and we are inefficient inventory on debtors of around 30 Crores. So we can take off tomorrow, and we can easily leverage and I think by Q3 maybe by October, November I think we will stabilize at about 16%, 17% margin and therefore for us to finance the takeover should not be ensure.

Madhur Rathi: Just a final question is the IFB brand held in the name of our company or the promoter that will give us some more questions?

Company Speaker: We have nothing we only have shares in the company held through other companies which is disclosed to SEBI it is very clearly disclosed to SEBI just like everybody else has done. Promoter does not own the IFB brand at all in his personal loan. No, not at all.

Madhur Rathi: Thank you Sir and all the best. Hope we will get your margins very soon.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter-Cyclical PMS. Please go ahead.

Keshav Garg: I wanted to get your views and do not you think that we are pointed between things instead of focusing either on the marketing side or on the manufacturing side we are trying to do too much and the management bandwidth will be distributed in lots of small, small divisions and hence we are not able to ramp up our business?

Company Speaker: If this question is for me, which like division is small, because if you look at it for example engineering division. Engineering division with fine blanking and stamping is sizable now and I think we will soon make it much, much, much bigger. It is a very good cash generating business and it does not takeaway bandwidth for me per se because the engineering division has its own full-time management in place, appliance division has its own full-time management in place. So per se I do not think management has ensured in terms of time as far as my team goes I take decisions for capital allocation, etc. In the case of AC as on date it has not gone up well and I am very concerned about it and we spend a lot of time on it but I think these things happen and we will put it right. We need to put it right, but the management of appliances does not spend a single second in engineering as well as vice versa I do not think there is an issue on that.

Keshav Garg: My question was not that I am saying that our engineering business is doing just fine the problem is in the consumer appliances business and which we are getting into chimneys, hobs everything instead of focusing on the major segment and now for example we have got into motor so for promoter we are losing, now for automotive motor also we are trying to make, so their specialists which are only do automotive motor and also we will compete with that first time basically?

Company Speaker: I think the appliance motor division and the automotive motor division both have been there for 15, 20 years nothing new we have done what the only thing we have done in the appliance motor is we have gone into BLDC motors which is required by the washing machine division and air conditioning motors which is required by the air conditioning division nothing else we have done. Air conditioning motor is only new thing that we have done, otherwise everything has been there and if you see the advent of EVs that clearly tells us that motor is the most important thing there and strategically we think motor is an area that we must be in and I do not see an issue with that per se but I have understood the question.

Keshav Garg: Now the thing is that there is a contract manufacturing company Dixon our revenues were more than this company in FY2016 and now their revenues are four times our revenues and soon they will do brand fortune what we will do annually, now they are contract manufacturer so their market capital is like nine, ten times our market capital, they can dilute 10% equity on base annual capital as our market cap and the huge plant from which you can get huge promise of sales and whereas we are sitting with other small plants and trying to market our own product and even the OEMs even at times between IFB and Dixon they would surely try to have from Dixon rather than have this IFB is competing also and down the line one the own AC sales pickup then the question will arise that will you first cater to your own AC sales or will you cater to the third-party?

Company Speaker: I think if you look at any Chinese company including media, etc., brand and OEM have gone handling and I do not think any of the Chinese companies have ever fail the OEM customer and neither have they fail the market. So we have seen that for example we buy microwaves from one company Galanz it is only now that we have started buying some amount from like media. Galanz is very strong in microwave brand in China, but they also do a sizable OEM business, if you see Beko Voltas has done a tie-up with Voltas Beko they have grown through OEM; however, our OEM strategy needs a rejig and we really need to look at the volume side of OEM business and we are doing this and we will rejig this and make it extremely viable. So I think that ramp up rate we are getting firstly we have scaled up their contract manufacturing business and then they started their own business whereas we are trying to do the regular.

- Keshav Garg:** Best of luck to you. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for the closing comments.
- Company Speaker:** Mr. Ray this point on the contract manufacturing thing we discuss it tomorrow, but I think this is the point and we really need to step on this and have a proper strategy for it, for the AC as well as for others, refrigerator you already got an order of 100000, but in AC and all we really need to fix this.
- Prabir Chatterjee:** Thank you all for joining on this first quarter FY 24 call.
- Rajshankar Ray:** Thank you.
- Moderator:** Thank you members of the management team. Ladies and gentlemen on behalf of Nirmal Bang Equities that concludes this conference call. We thank you for joining us. You may now disconnect your lines.

