

July 30, 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 Unaudited Financial Results for the quarter ended June 30, 2024.

This is with reference to the intimation dated July 13, 2024, filed with the stock exchanges in terms of regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015, regarding the earnings call to discuss the Unaudited Financial Results for the quarter ended June 30, 2024, scheduled on July 25, 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-Q1-Transcript-q1-2024.pdf

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

Thanking You,

Yours Sincerely,

For V-Guard Industries Limited

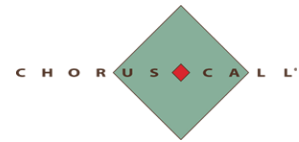


Vikas Kumar Tak
Company Secretary & Compliance Officer
Membership No. FCS 6618

Encl: As above



“V-Guard Industries Limited
Q1 FY '25 Earnings Conference Call”
July 25, 2024



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

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

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

**MODERATOR: MS. NATASHA JAIN – NIRMAL BANG INSTITUTIONAL
EQUITIES PRIVATE LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to the V-Guard Industries Q1 FY '25 Earnings Conference Call hosted by Nirmal Bang Institutional 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 the “*” and “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Natasha Jain from Nirmal Bang Institutional Equities Private Limited. Thank you, and over to you, ma'am.

Natasha Jain: Thanks, Steve. On behalf of Nirmal Bang Institutional Equities, we welcome all of you to the first quarter FY '25 Results Conference Call of V-Guard Industries Limited. We would like to thank the management for giving us an opportunity to host this call. We have with us today the senior management, represented by Mr. Mithun K Chittilappilly, Managing Director; Mr. Ramachandran V, Director and Chief Operating Officer; and Mr. Sudarshan Kasturi, Senior Vice President and Chief Financial Officer.

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

Mithun K Chittilappilly: Thank you, Natasha and Nirmal Bang team for hosting this call. A very warm welcome to everyone present on today's call. Thank you for joining today to discuss the operating and financial performance of our company for the first quarter of financial year 2024-'25. I trust all of you have had a chance to refer our Investor Presentation, which was shared yesterday.

It has been a positive start to the fiscal year with a strong performance in the first quarter. We have reported a consolidated net revenue of INR1,477 crores in Q1, FY '25, higher by 21.6% on a Y-o-Y basis. It has been an all-round performance aided by a very good summer. The Electronics segment comprising majorly of stabilizers and digital UPS, led the growth with the revenue growth of 41% Y-o-Y. In this segment we also have solar power systems, which are seeing good traction and is a category for the future.

The Consumer Durables segment where we market fans, water heaters, kitchen appliances and air-coolers, also reported a strong performance with the top line growth of 26% on a Y-o-Y basis. In the Electricals segment comprising of wires, pumps, switchgears and modular switches, we registered growth of 7% in revenue on a Y-o-Y basis. Wires, which is the largest category under the Electricals segment was impacted by trade de-stocking due to decline in copper prices in June.

Sunflame reported de-growth in the top line of 7% on a Y-o-Y basis. Also, the top line was soft. It was largely in line with our forecasts and plan. The overall kitchen industry has been facing subdued demand in the recent quarters. We recognize there is a task ahead of us to get the business on the growth path and there are several actions in progress in terms of functional integration and sales acceleration. Gross margins in Sunflame business remain good. EBIT



margins have been lowered due to higher A&P spends and filling up of critical vacancies, which will yield results going forward.

In terms of geographies, all regions have done well. The non-South markets delivered a top line growth of 30% Y-o-Y, with revenues in South market growing 17% Y-o-Y. The contribution from non-South markets have crossed 50% in total revenues for this quarter. Gross margins continue to improve with the benefit of softening commodity prices and various pricing actions and cost effectiveness initiatives flowing through.

We reported a gross margin of 36.3% in this quarter, an improvement of 380 basis points Y-o-Y. This is due to a combination of pricing action, softening input prices and better product mix. The recovery in margin is now largely complete. We expect to continue the margin improvement through benefits of manufacturing, premiumization and scale benefits from the Consumer Durables segment.

Of late, we are also seeing some firming up of commodity prices and will be taking pricing actions wherever necessary to preserve margins. Effective management of working capital has enabled us to deliver robust cash flows. We paid one-fourth of the loans raised for Sunflame acquisition this April. Another one-fourth will be repaid at the end of July and we are on track to repay this loan as per plan. It has been a good start to the year and we are optimistic of delivering a good performance in the coming quarters as well.

With that, I conclude my comment. I would like to thank Natasha and the team at Nirmal Bang for hosting this call and would like to request the moderator to open the floor for Q&A. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is on the line of Natasha Jain from Nirmal Bang Institutional Equities. Please go ahead.

Natasha Jain: Thank you. Firstly, congratulations on a good set of numbers. My first question is on the Consumer Durables Segment. Firstly, can you call out the growth in fans particularly, and if there was any meaningful price hike? And if there was a price hike, can you please break it between commodity cost pass-through versus an organic price hike?

Mithun K Chittilappilly: Okay, first of all, we don't give out product-wise numbers for various reasons, but we can say that the fans category has done reasonably well. Regarding price hikes, I'll ask Ram to comment. Ram?

Ramachandran V: Yes, I will. See on price hikes, price hikes have been taken and they are also ongoing because there has been some subsequent increase in prices of copper and aluminium. So, prices hikes are ongoing, including we wish to land some prices hikes this month if possible. So, it's ongoing. We had improved our margins through the realization of input cost benefits towards the last quarter of last year and we had taken some price increase, I think, it was about 2-odd percent in quarter four of last year. We have also taken 2-odd percent in quarter one of this year.

But there have been sharper increases in copper and aluminium prices and it may warrant some more corrections. Depending on the market situation we will land a competitive situation and



we will progressively go ahead. The increase that we have taken in March quarter was to compensate for absence of price transmission in the previous year, but subsequent increases have been responding to input cost.

Mithun K Chittilappilly: And one more thing. Fans remains an extremely competitive category. We have a very, very aggressive market leader and we have a startup who's also very aggressive. So, most of the price hikes are in relation with the increasing commodity prices. So, I would not say that there are any organic price hikes. Most of them have been to offset increases in commodity prices.

Natasha Jain: Understood. That's very clear. Sir, my next question is on the electronic side. Now, while we are on a consistent trajectory, upward trajectory in terms of EBIT margin improvement, are we where we were broadly targeting to be or is there still a scope of improvement? And on a related note, sir, gross margin improvement has also happened because of cost reduction initiatives, specifically in the Electronics Segment. So, given that second and third quarter are now going to be comparatively leaner for us, what kind of an overall gross margin can we expect in FY '25?

Mithun K Chittilappilly: So one thing is, regarding gross margins, there is also an element of mix. For example, in the first quarter, the summer-based products have done extremely well, much more than; and wires, which is almost 30% of our revenues, has grown only by a smaller percentage. So, there is some effect of product mix, which will change in the next few quarters. But largely when we look at it on a normalized level also, I think we are largely okay with gross margins. As Ram pointed out, there have still been some increases in aluminium and crude derivatives and all that. Copper went up, but it also did come down little bit in June. So, in that sense, there may be some more increases that may be required.

Natasha Jain: Understood, sir. Thank you. I'll get back in the queue.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Ikigai Asset Management. Please go ahead.

Rahul Agarwal: Good afternoon and thank you for the opportunity. Firstly, Mithun, I wanted to understand what really drove ECD (Electrical Consumer Durables) as well as Electronics' margins. So basically, I understand that input pricing was weak and that the summer was strong and hence is it more to do with operating leverage here; that a 20% EBIT margin for Electronics and a 5% ECD is more seasonal and one-off and hence it might obviously taper down going into the following year? Is that correct?

Mithun K Chittilappilly: See, if you look at the previous year, also, the Electronics margin was around 18%. So yes, you can attribute that maybe 1% or 2% is due to operating leverage, but you see the Electronics margins are always on the higher side comparing with the other segment. In the case of Consumer Durables, our margins used to be 5% to 6% and it had crashed with the increases in prices and the lack of further increases companies were able to do towards the market for various reasons; there were competitive pressures. The quantum of increases were probably unheard of in the earlier years, so there was some resistance from trade in consumers and all that.

So now, I think we are largely back. In the case of Consumer Durables, we probably will see a little more or probably should see a little more improvement in margins. And after that, we will



go for it. But I think this is sustainable. There is an impact of operating leverage. But it is probably 1% or 2%.

Rahul Agarwal: Okay, get it. Secondly, on the working capital, broadly, it is maintained at 50 days of sale, but I wanted to understand what is driving the receivable days coming sharply down to 35 and what is driving the creditors increase to 75 days. What are the reasons here?

Mithun K Chittilappilly: Okay. Sudarshan, regarding the working capital?

Sudarshan Kasturi: So debtors have come down, they are lower than our normative levels because it was a strong season, so customers pay on time. Otherwise, similarly, even on the payable side, even May and June, both were big months. So therefore, it is a point-in-time measure and the volume of buying that was done in May and June is higher than usual.

Rahul Agarwal: So, where should we see these numbers back in terms of, let's say if we see your March balance sheet for 2025, where should we sustain?

Sudarshan Kasturi: We should work on the normative levels of about 60, 62 days. That's our standard. Currently, it is a bit on the lower side because of the factors I mentioned.

Rahul Agarwal: Perfect. Lastly, where are we on the factory capex? If you could just update us across the manufacturing plants. What is the status update? That will be helpful. Thank you.

Sudarshan Kasturi: Factory capex, except for one project, which is the fans plant, other ones are complete.

Rahul Agarwal: And when does the fans plant get completed?

Sudarshan Kasturi: That building has just started.

Mithun K Chittilappilly: Maybe 18 months.

Sudarshan Kasturi: Yes, maybe 18 months.

Mithun K Chittilappilly: 18 months more.

Rahul Agarwal: Okay, so we should work with like, INR100-120 crores of capex for this year and next year? Is that fair enough?

Sudarshan Kasturi: Yes, that's fine. INR100-120 crores is okay.

Mithun K Chittilappilly: INR100-120 crores of capex. Basically what will happen is as we get into next year, there are also investments in moulds and dies that are going on. And they are also going to come up. So, there will be a normative capex of around INR100 crores to INR120 crores for the next two years also.

Rahul Agarwal: Perfect. Thank you so much for answering my questions. All the best and congratulations for a good quarter.

Mithun K Chittilappilly: Thank you.



- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.
- Ravi Swaminathan:** Hi, sir. Thanks for taking my question and congrats on a good set of numbers. My first question is with respect to the stabilizer business. I know that this quarter would have seen a fabulous growth because of the strong traction in air-conditioning sales. But say to think over a slightly more normalized manner and over a longer time period, like two to three years, what kind of growth rate should we think of for this particular sub-segment, given the fact that AC sales might still end up doing well because of the improved penetration level etcetera? In the presentation, we had mentioned that the industry would be growing at a double-digit. Can it separate positively by growing at much, much higher number?
- Mithun K Chittilappilly:** See, for stabilizers, we are expecting, if you look at a very, very long term, that is about 10 years CAGR, It is somewhere around 8% to 9%. And that should be the growth that we also will be working with. But there are years when it goes up substantially higher because of the kind of weather we have. We have to also understand that we may not get this kind of weather every year. There are years where rains do kind of happen a lot within summer and then summer does not really take off, so this year was good on all the fronts.
- It was also good on all the geographies as well. So, sometimes you have a very warm summer in South, but then the entire non-South gets washed out. Sometimes we have a very warm summer in non-South and South India gets washed out. So, these kind of things happen. This is one of the rare years which we have had. So 8% to 9% has been our very, very long term CAGR and that I think is the right number to work with.
- Ravi Swaminathan:** Understood, sir. What is driving growth in the digital UPS products. So, I mean, what are the factors of growth which is driving that particular product?
- Mithun K Chittilappilly:** Digital UPS is also dependent on summer, because what happens is, as the summer gets really warm, power cuts tend to start and the usage of inverters goes up, especially in Tier 2 and rural areas. So that has been one of the main drivers. But apart from that, we also have a new division, which started two to three years back, which is a solar rooftop solutions product, so that is also driving good growth within the inverter and battery segment.
- Ravi Swaminathan:** Okay. And the solar rooftop, what percentage of the overall Electronics would it be a contributor to and how fast is it growing? Is it like a high-teens kind of a growth segment?
- Mithun K Chittilappilly:** Solar rooftop is growing very fast. It is very small as of now and we do not give out product-wise numbers.
- Ravi Swaminathan:** Understood, sir. My second question is say the real estate-linked products like wires, switches, switchgears, etcetera, are you seeing any signs of major uptick in terms of real estate demand, which can actually kind of improve the growth from a single-digit or a high single-digit to a much higher number?
- Mithun K Chittilappilly:** So, V-Guard's wires and Electricals business is largely retail. It means that almost 90% to 95% of the sales come from the trade. That is retail shops. We do not have a big business supplying



to very large builders and infrastructure players and so on and so forth. So for us, these are more normal sales, but yes, our partners do supply to medium sized builders and all that.

So, we have to understand that there is a lot of real estate activity happening, but what we are seeing is that it is probably getting more formalized. So earlier also, it was going on, but it was probably split among a lot more smaller and larger number of builders, where now, what we are seeing is a few builders are enjoying majority of the sales.

So I think for us, that is when we will see our peers also; we are not seeing that much of an improvement in that sense. But retail sale is more stable and for example, when the interest rates were low, we did see some uptick, because when interest rates are low, people tend to make investments in real estate and stuff like that. So, we cannot say that there has been a huge tailwind for us, specifically, but companies which are focusing on projects will probably get some of that. One of the reasons we do not do projects is that the margins in projects are 10% to 15% lower in a product category with very small gross margins. So, it does not make sense for us to supply to projects.

Moderator: Thank you. The next participant is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Hi. Good afternoon, Mithun, Ram and Sudarshan. My first question is on other expenses, which saw clearly a sharp increase in first quarter. I understand that A&P is one part of it. But even if you strip off A&P, it appears that other expenses have actually risen quite sharply. Is there any one-off in this quarter? Or if there's nothing, then what is this on account?

Mithun K Chittilappilly: Yes. I'll ask Sudarshan to take this.

Sudarshan Kasturi: There are some, few different parts to it. One is A&P, as you mentioned, so that's one factor. Certain factory-related costs also appear in other expenses. And compared to one year ago, manufacturing expenses have gone up. There are some one-offs, yes, because there were some releases in the previous year. Nothing unusual really. There's a big jump in freight and warranty, which is for this quarter, because for Electronics and Durables, which were the high growth categories, these tend to be higher than average, largely done.

Aditya Bhartia: Understood. So, you're saying in the preceding quarters, there were some releases of provisions and in this quarter, given that there are no releases, optically, we are kind of seeing a sharp jump?

Sudarshan Kasturi: Yes. And this quarter, also, the mix was like that. So, freight and warranty is higher.

Aditya Bhartia: Understood. And how should we kind of then think about it going forward? Freight and warranty is something that we can normalize a bit depending on mix, but rest everything appears to be in a similar kind of a range?

Sudarshan Kasturi: Yes, it's better to look at it as a 12-month number, not by quarter. So, if we have our cost progress in the previous year, it will take the same thing.



- Aditya Bhartia:** Sure, because if I just look at last year, the quarterly average works out to be closer to INR200-odd crores, while this quarter we have spent almost like INR260 crores.
- Sudarshan Kasturi:** Better to look at it as a percentage of turnover for the other expenses for FY '24.
- Mithun K Chittilappilly:** Some of the expenditures sitting in other expenses are also volume related, like as you sell more – more transportation, more warranty, provisioning, as we manufacture more and more in our factories, more outsourced manpower cost. All these are sitting in other expenses.
- Aditya Bhartia:** Sure. My second question was on the growth that you have seen in Electronics Segment. While I understand that you do not break up the segment, just wanted to understand, is it getting largely driven by stabilizers or would digital UPS have also seen a big improvement? And a related question to that we used to struggle with profitability on the digital UPS side. Have we seen a significant improvement around that?
- Mithun K Chittilappilly:** I think both have grown well. Like I mentioned, both, stabilizers has grown well and inverter battery has grown well. So, it is not like it is one that is driving. Both of them have grown well. You asked about profitability of digital UPS?
- Aditya Bhartia:** Yes.
- Mithun K Chittilappilly:** Okay. Ram, you want to take this, regarding margins?
- Ramachandran V:** Yes. Digital UPS has two components, the inverters and batteries. Inverter gross margin and profitability has significantly improved over time with the investment that we made in manufacturing and having moved inverter manufacturing in-house. What I would say, the battery margins, of course, continued to be under pressure. We have already taken action there in terms of setting up our own facility. I think the benefits from that probably should be visible towards later part of the year or maybe next year to be more precise. So that should give you a picture on inverter batteries.
- Aditya Bhartia:** Perfect. That's helpful, sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Hardik Rawat from IIFL Securities. Please go ahead.
- Hardik Rawat:** Thanks for the opportunity and congratulations on a strong set of numbers. You mentioned in your earlier remarks that largely the price increases that you have taken in your fans portfolio was to transfer the increase in commodity prices, would that be correct?
- Mithun K Chittilappilly:** Yes, that would be correct. Like see, pre-2020 we had a gross margin structure for fans and it was completely destroyed after the Russia-Ukraine war, significant increases in aluminium and lack of increases done by the industry. There are two reasons. One is hyper competitiveness. Second is the kind of increases we had to do, it was not possible to do it in one shot. So, the industry took two to three years to actually do this over time. And then, of course, prices also cooled off a little bit in between. So, yes, it's largely to accommodate the RM increases.



- Hardik Rawat:** So there was a bit of pressure on the input prices as a result of change in the regulatory requirements.
- Mithun K Chittilappilly:** Yes, correct. So, there were two shocks. One was the shock given by the Russia-Ukraine war. The second shock was given by BEE, which meant that there were almost 7% to 10% price increases in the entry level products and may be 5% increase in the premium level products. So, this is also largely meant that if you wanted to buy a branded product, it was getting too expensive, especially for a value conscious consumer.
- Hardik Rawat:** Got it. So, could you please share with us the quantum of price increases you have taken in the category?
- Mithun K Chittilappilly:** So, you are talking about from 2021?
- Hardik Rawat:** No, not 2021, this quarter and in the last three months.
- Mithun K Chittilappilly:** So, I think as Ram mentioned earlier, we have taken around 2% in Q4 and another 2% in Q1.
- Hardik Rawat:** Okay. That helps. And lastly, with regards to the debt repayment that you mentioned, one-fourth by July. Could you please repeat that? The debt repayment for the Sunflame, i.e., the loan that you have taken for the Sunflame acquisition?
- Mithun K Chittilappilly:** Sudarshan, you want to take this?
- Sudarshan Kasturi:** Yes. So in April, we repaid one-fourth of the term loan we had taken. It is about INR70 crores that we have repaid and a similar amount will get repaid by end of this month.
- Hardik Rawat:** And for the entire year, FY '25, we should expect the entire loan to be repaid?
- Sudarshan Kasturi:** Yes, that is what we are aiming to do that either by end of this year or by end of Q1 next year we should have paid in full.
- Hardik Rawat:** All right. Got it. Thank you so much. I'll get back in the queue.
- Moderator:** Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddha Joshi:** Yes. Thanks for the opportunity. Sir, just wanted to understand the stabilizers and UPS market. So, is the market growth itself is so strong or have we gained the market share? With improving quality as well as quantity, both for electricity in India, how do we model this? Because these are considered to be sunset categories in India, but we still see V-Guard continues to do extremely well in both the categories quarter after quarter. How should we see growth rate in medium term for both the categories?
- And again, where are the uses? For air-conditioner is one which I can understand, but apart from that is what are the others where these products are used? If you can elaborate more on whether these products are getting used in urban markets or rural markets? Essentially, what is the TAM (Total Addressable Market) for these products?



Mithun K Chittilappilly: Yes, I will make a couple of comments and then I will pass it on to Ram. See, in 2008, it is almost 16 years back, when we went for an IPO, all the analysts told me that you will go out of business in three years. Now it has been 14 years or 16 years, and we are still growing. So, I do not have an answer for this. I can give you the same answer what I told them that the mess in the power distribution system in India is very, very large. So, they are sitting in Bombay and Delhi, you cannot assume that the entire country will have privatized clean power.

So, I think it is going to be very difficult because power is a state subject. There is politics involved. There is union of the State Electricity Boards involved, there is all kinds of stuff happening. So, it is going to be very difficult to privatize power for the entire country. So, what we are expecting is that the largest cities will get privatized first and then it will move on.

But even there, I think after a point, the Central Government has not been able to really push for privatization of power barring the big metros in the country. This is my answer. I mean, this is my comment and Ram, if you want to take the rest of the question.

Ramachandran V: I think what we have observed is stabilizer usage continues to grow and as also inverter battery. I think what also happens is while the power situation improves, it is not necessarily 100% and there are interruptions. Maybe the length of interruption is short or getting shorter, but it is there and the people want to have reliable power at home. So, they want to have an alternate means so that they can continue with life uninterrupted, right? Even in large metro cities, particularly in peak summers like this, even in Central Delhi, sometimes power is going out because the load is very high, so load shedding continues to happen in larger cities also. But this is what we are observing and this is why the category is going up.

For inverter battery as a category, rooftop is also developing as a segment and that is fast-growing with incentive and support from government. I think that is an area also which is going to be a significant driver of growth for that segment. Stabilizer, yes, as Mithun already said, you will have a good year or a bad year.

Once in four years we have always witnessed very strong summer and we find then that on a CAGR basis, we end up at a long-term growth when we look at a four to five-year average which is no different from what it was five to ten years back. So, we still continue to believe that 8% to 9% growth long term growth will come on a four or five year cycle. Maybe some years it will be like 6% to 7% and some years it will be like 11% to 12%.

Aniruddha Joshi: Okay. Sure, sir. Understood. And just last question. In terms of kitchen appliances as well as Sunflame, kitchen appliances under V-Guard brand itself. I guess overall, in this portfolio is the restructuring largely over? Should we see revival in growth rates, let us say from H2 onwards or do you think that some amount of restructuring of the portfolio as well as the slowdown then in the market may continue for some more period of time? Yes, that is it from my side. Thanks for the questions.

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

Ramachandran V: So, you must have seen some results have already started to come out in the different states, right? I think the kitchen demand continues to be under stress. And it has been I think almost



seven quarters that we are continuously witnessing a stress in this segment. So, I think that's the first observation.

At our end, on the V-Guard side, we had invested in setting up our own manufacturing facility. The main challenge with V-Guard was to improve the competitiveness of the V-Guard offering and to that end, we had set up facility in Vapi. The facility has come up and it is still maturing and by October or November, I think we should start to get output in line with what we need so that we are able to derive 100% of output from that factory.

Once we have our own manufacturing facility, besides supply competitiveness, it is also giving us a lot of flexibility to improve our offerings in the market in terms of these competitive value proposition. So, I think this is fundamentally going to be the main piece that is going to drive our business. And towards that end, we are already seeing traction in some of the categories like e-commerce where we, in anticipation of the manufacturing facility coming up, we have tried to be competitive with our offerings.

We are seeing good and encouraging signs. We do believe that with the facility in full stream by around November or December and with some newer launches that are coming, I think the V-Guard kitchen business should start to do well.

Regarding the Sunflame business, it was in Q1 last year that progressively we could assemble our team to manage Sunflame, although Q4 was when we did the transaction. But Q1 was when actually, we could put the management team on board in Sunflame. The team is about the three quarters into the company. I think they have settled down well. They have a clear idea of how to play and how to win.

There is still work happening in terms of developing our long-term strategy for Sunflame and that is going to take another three to six months, right. I think the GT markets are doing better for Sunflame compared to organized retail where Sunflame is looking to leverage V-Guard's business systems. These processes are taking a bit of time, but for example, e-commerce and even organized trade; from the coming quarter, I think our systems should be able to better support the requirement of Sunflame.

That is broadly to give you an idea on Sunflame. The fundamentals are strong and positive and the margins are intact. Growth is a challenge for the industry and for Sunflame. The growth levers are yet to get stressed, right? That is why we are not seeing the result coming in. Because there is preparatory work which has been happening at our end to facilitate the scale up of Sunflame business through leveraging V-Guard's infrastructure and business systems.

Aniruddha Joshi: Okay. Sure, sir. Very helpful. Many thanks.

Ramachandran V: Thank you.

Moderator: Thank you. The next question is from the line of Achal Lohade from Nuvama. Please go ahead.

Achal Lohade: Yes. Greeting, gentlemen. Thank you for the opportunity. Congratulations for the great set of numbers. Sir, just wanted to clarify, you said the summer season was good, but ex of summer



season, would you be able to quantify if the growth was in single-digit or double-digits? Because I think wires, you said had very slow growth and also in kitchen, you said things are under pressure. So, if you could just clarify on non-summer products, how the momentum was in fourth quarter and how it is playing out in first quarter?

Mithun K Chittilappilly: So, Achal, I think it is slightly difficult to do that. Because, yes, definitely summer. So, I think if you look at Q4 and Q1, we definitely got a few percentage points boost in sales because of summer. I am very sure about that. So, let us see. I think it is going to be very difficult to say that if summer was not good what would have been? So, I think the way you look at it, it is like this. So, if you look at last four years we have been struggling in the Electronics category. Our CAGR was very low, stabilizer – the growth rates were in low single digits and now it has caught up with a long term CAGR of 8% to 9% or 10%. So, I think one has to look at it like that rather than saying that ex of summer, what would have been the growth.

One more thing to notice, see a lot of our channels which sells Consumer Durables, especially kitchen, is the same channel, the same distributor and same retailers who sell stabilizers and air-conditioners. So, when you have this kind of a summer, the working capital deployment of retailers and distributors will move to the summer categories and the others will get tightened. And that's been a phenomenon that we see every time. So that is also there as an added reason for some of the slowness in the non-summer category.

Achal Lohade: Sorry. Maybe, I was not that clear. In terms of the categories which are not summer driven, like wires, kitchen appliances, etcetera, if the growth was weak or are you seeing an improvement on that count?

Ramachandran V: Mithun, can I take that?

Mithun K Chittilappilly: Yes, Ram.

Ramachandran V: So, I think, see wire business responds to copper. If copper prices go up or go down, it influences sentiment for wire purchase and that will influence the sales of wires because they stock up or stock down. So, if you take out the wires and if you take out the summer categories, you are really looking at about some 20% or 25% of our revenue and a large portion of that is water heaters. Because for switches and switchgears, they are fine, I think we have double-digit growth. We do not have an issue there. Our penetration is low. These are growing categories and they are doing well.

Then the other part there is really water heaters. Water heaters see, winter is to yet to start and we will get a better picture; because whatever happens with water heater pre-season, it is basically trade up stocking. I think with water heaters, the growth has been lower than typically what you would expect for reasons that Mithun talked about, because the entire working capital of trade partners is focused on summer categories, whether it is AC, whether it is air-coolers because these categories have seen abnormal growth, right 40, 50%, 70% kind of growth and they have had to purchase these, stock these, and sell these, right? So, they are really focused their working capital there. I think clear picture on water heaters will be visible in the upcoming four or five months. I think last year was a challenging year for water heater as the weather did



not support the category. So, we do hope that consequently the current year should be favourable as far as water heaters are concerned.

Kitchen, I think kitchen is an industry-wide problem. For us, our indexation to kitchen for at least the V-Guard kitchen business is very small, although V-Guard and Sunflame are strong. As far as Sunflame is concerned, I think broadly our performance is closer to plan. Our business systems and practices are traveling to Sunflame, there are some challenges in terms of timing of accounting and all of those things and therefore, although broadly, performance of Sunflame is close to the annual plan, what is reflecting has been maybe a little lower.

We had the forecasted that our Q1 would be lower in February itself than we have made the forecast for this year. But we are getting into festive season. Quarter two and quarter three are the strongest quarter for kitchen. Given that kitchen as a category has been under stress for now almost six to seven quarters, we are hoping that festive season will really see some sales uplift. But, yes, that is the part which is a bit uncertain as we see for us and for the industry.

- Moderator:** Thank you. The next question is from the line of Kawal from Samar Wealth. Please go ahead.
- Kawal:** Okay. Sir, my question is, could you provide any guidance on expected top line and margin improvement?
- Mithun K Chittilappilly:** You are asking about expected top line and expected margins?
- Kawal:** Yes, sir.
- Mithun K Chittilappilly:** We do not give a guidance as such, but we always said that we should grow around 13% to 15% in revenues. And margins, we have largely come back. I think we should hover around between 9% to 10% EBITDA margins for the year.
- Kawal:** Okay, sir. My next question is, are you planning to expand in a new segment or any product category as of now?
- Mithun K Chittilappilly:** I think we do look at new categories, but we are not ready to talk about it publicly.
- Kawal:** Okay, sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.
- Priyank Chheda:** Hi, this is Priyank Chheda from Vallum. Sir, my question is on the rationale for you to keep the two kitchen businesses in a separate entity. One, kitchen appliance business in V-Guard, another one is Sunflame. And when you are investing further into the kitchen appliance in V-Guard, while Sunflame is operating at 50% utilization. So, how do we see these two businesses under the same parent group operating in a two different companies?
- Mithun K Chittilappilly:** Okay, got it. Ram you want to take this?



Ramachandran V: Yes. I think two things. Firstly, when we set up our manufacturing capacity in Vapi, this project had commenced even the Sunflame transaction could be firmed up, right? And the transaction process is always uncertain and after waiting for a long time, we could wait no more. And so we decided to go ahead and make investment in the interest of growing our kitchen business, this is the first part.

Secondly, the 65% to 70% of the output of Vapi plant is basically going to be towards mixer-grinders for which the capacity is not existing in Sunflame. So, I think this factory will be producing mixer-grinders for V-Guard and should in the future, also be able to support the mixer-grinders and the food processor requirement of Sunflame. So, that is as far as our investment separately in these two places is concerned.

The Sunflame plants have been operating in festival period at least close to full capacity utilization. Recently, we have reorganized the manufacturing layout and the manufacturing system to increase the capacity in Sunflame factories to support the future growth. So, that's on the manufacturing side.

On the strategy side, we are going to retain both the businesses. Today, the V-Guard kitchen portfolio is approximately INR200-odd crores annual. Maybe a bit more this year. And Sunflame is expected to do about INR325 crores to INR350 crores. So, I think the businesses are significant. We are in the course of doing is that we are engaged in a consulting engagement to deliver a long-term strategy for V-Guard's play in the kitchen business. And how the two brands will coexist and how they will operate, right.

Over the midterm, obviously, the back end will be integrated, whereas the front-end will be focused to drive the two brands. So that is how the efficiency will play out. The front-end will be; so even at the front-end, front-end for categories like, some of the channels will be common, like e-commerce and all, one-third of the business is common, whereas GT infrastructure, right, front-end infrastructure that will be independent of the two brands.

Priyank Chheda: Then on a broader kitchen appliance system, you did mention that the category is under a stress for multiple quarters now. Can you specify any particular categories? Kitchen appliance as a segment is very broad. Any particular categories which you would like to call out which are working well? And any particular categories which are yet under stress and which you do not see any issues?

Ramachandran V: Yes, look we may not be significant player in every part of the kitchen portfolio, but from my understanding, certainly gas stove, mixer-grinder and induction cooktop. Till last quarter, hoods was doing well, but I understand even kitchen hoods and hobs have come under stress. This is what I understand. So, small domestic appliances, not so sure. But what I understand is even the platforms, the e-commerce platforms are under stress on kitchen portfolio, implying even small domestic appliances may also be under pressure.

Priyank Chheda: Do you see any changing in this as a broader category now when government focuses back on to the rural spending socialist reforms? Do you see anything changing for this category after so many quarters of loss?



Ramachandran V: I think that there may be two factors. So one is, people spent a lot of time at home during COVID period. And while most categories compressed during the COVID period, I think the kitchen as a category did exceedingly well. And it is quite possible that this has been one factor which has contributed. As the category came out of COVID, I think the pressure has come down, right, that the consumer demand has come down.

The other thing is see, typically, when you look at the overall Consumer Durable space, right, the most widely penetrated category is kitchen. Because when you take a product category like gas stove or you look at a mixer-grinder, these are highly penetrated categories. Maybe hoods and built-ins are still sitting with premium or let us say, higher income households. So, it is quite possible that during the COVID phase and the post COVID phase, the household balance sheets have come down, and they have been under stress and particularly for I would say middle class and lower middle class, the stress may have been aggressive and it is quite possible that the households are busy repairing their balance sheet and they are only making essential replacements, right? And that is reflected in the consumption data also.

Yes, there are some positive signs. Monsoon is extremely favourable. This year, monsoon progress has been on time and it is progressing well which should augur well for the rural markets, right? That is one part of it. The other part of it is also that the budget has talked about bringing a lot of focus on developing the farm and agri sector. That is a very, very positive and prominent thing. That kind of focus has been seen after some time and it is probably responding to the challenges and stress that this sector is facing.

This will have positive implications on the midterm demand over a three to five-year horizon. So, these are favourable factors. The fiscal deficit is also forecasted to be lower and that should probably keep inflation on the lower side and which might be a positive for consumption. So, this is how it is playing out. Yes, when you look at a midterm horizon, things are looking good, right? Things are looking better for consumption and hopefully, it should reflect in kitchen category demand.

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

Natasha Jain: Yes. Thank you for the follow up. If Mithun sir can address my question. I had recently concluded exhaustive channel checks pan-India and the feedback I got from the ground was, while products of V-Guard is probably one of the best in terms of quality, we do lack in terms of visibility, especially as we move from down South to Northern India. So, can you throw some light as to what is our advertisement strategy?

Are we doing anything specific in terms of addressing the Western and Northern market? Specific meaning, onboarding some kind of a bigger or a larger-than-life iconic celebrities to improve visibility or target the influencer management space. What is our broader strategy here?

Mithun K Chittilappilly: I will answer your question and then maybe I will ask Ram to pitch in after I do. So as of now, we do not have any plans to get in a celebrity. What one has to understand is that we are in a multi-product category. So, we have seven to eight large categories. So, the problem of getting



a celebrity is you can only do it for one category usually because they are usually tied up; so they will not, because different companies are there getting them. Only you can get a celebrity for a single category, getting it for multi-category, is usually difficult and that is what we have faced in the past and that is one of the reasons.

Second is we really believe that our product work should speak for itself. For example, we have made significant strides in the fans business without having any celebrity, without having any advertisement – solely on the basis of our product work. So, I think we are doing similar works in other categories and they will also; because we believe that you can advertise, but if the product is also not up to the mark, then there is no point in advertising. That is something we have realized and that is why we set up close to five to six plants for various categories because it all starts from the manufacturing side. We need the flexibility to do the refresh of products faster. We need better quality, which we can only do in our own plants because vendors have a limit. We need fit-finish, design has to be outstanding. Again, this cannot be made with vendors. So, those are the reasons why we have invested. And we are now starting to see the fruits of that.

Regarding advertisement I think till 2020, we were spending between 2.5% to 3% on A&P, and during COVID, FY 2021 and FY 2022 we had cut our A&P. FY 2023 was, we really got impacted through margins. If you look at the current year, our A&P for Q1 has gone up by some 30% to 40% in revenue. It has gone up faster than the revenue. So, we are pressing the foot on the accelerator for A&P.

But I think you have to keep in mind that India is a very large country and we have diverse markets and languages. So, I can say for sure that we are having very strong recall, following and preference in Southern and Eastern markets. Northern and Western markets are yet to have that similar kind of acceptance, again do your channel checks. But then, having said that, if you look at Q1, North has grown by about 25%. Western markets have grown by about 27% and East has grown by 30%, so they are not that largely different, just to answer your question.

Ram, do you want to add anything?

Ramachandran V:

Yes, I will, Mithun. So, if you look at V-Guard business last year, or if you look at our current business, we are trending at about INR2,500 crores revenues in non-South and today, under the V-Guard franchise. I am talking about, INR2,500 crores to INR3,000 crores will be our non-South business this year, trending on V-Guard franchise. So obviously, we cannot build this kind of business, without brand awareness. That is the first point.

Yes, when people talk about brand awareness, people talk basically about top-of-mind recall, right? With top of the mind recall, there people instantaneously say, yes, I know this brand. So, we are really talking about top-of-mind recall, okay? I am sure aided recall will be good. The problem with top-of-mind recall is that it takes time to build. So, let me just go back. If you go back to our non-South business, it is not more than fifteen years old. And if you really look at our presence in non-South, considering that we have staggered our entries into different markets at a state level or even at a district level. And if you also look at the fact that we have staggered our entry across different categories, broadly, we are a seven to eight-year old brand in most markets, right? In some markets, we are two to three years old. Some markets we are ten to



twelve years old, that is our, actually, the breadth and depth of our presence. It is not, actually fifteen years also. It is like seven to eight-year old brand and now for that size, our awareness is quite decent. Right. But we lack top of mind recall.

Top of mind recall building, right. It really takes time. Of course, you can get a good celebrity and you can pump it up. But sustaining it will mean also sustaining the spending over a long period of time. Now, as a business, right, we have number of imperatives when it comes to building business. The most important thing that you have to invest is actually to build your capability. So that's what we have done, right?

We are investing along the path of doing business. We are investing to strengthen our quality. We are investing to strengthen our fit and finish, as Mithun talked about, right? The investments, we are making, we are actually making very deep investments and I think, unfortunately, most of our investments are not visible. They are not visible because they are all driven towards capability.

We believe that we will reap the best fruit when we are really capable and equipped so that when we invest significantly in advertising, we are able to reap the fruits of it. So, I think there is a lot of investment that is happening – investment in service, investment in quality, investment in design and we are doing that. And today, if you look at V-Guard, we are far, far stronger than who or what we were five years back. We are investing in talent and we are investing in talent for the future of the business also, not only to run the current business. So, investments are happening in many areas, huge investment is happening on technology and digitization.

Yes, of course, we could do more on the front-end. The problem with front-end investing is also that we have to sustain that investing to build the brand. It is not a one year effort, but you need to do it over a three to four year horizon. Unfortunately, we have been passing through a lot of uncertain times with the demonetisation, GST, COVID and then the commodity shock, right? So, I think that has been a bit harder for us to make land investment. Because we are also investing on internal capabilities simultaneously as the business is under stress.

So, internal investments have continued very, very strongly, even during the most difficult phases that most businesses have gone through. So that is how I would put it. I think we are very much committed to investing in the future of the V-Guard brand. It is just not visible in the way that you typically expect to see because it is directed in different directions.

The other final point I want to make is you should correlate the brand. The brand, whatever you may be sensing, fundamentally coming from a top of mind awareness issue, right? We cannot build a INR2,500 crores business in twelve to fourteen years, right? We cannot build this kind of a business, right, without brand awareness. I do hope you understand it. It is not the absence of brand awareness, it is the absence of top of mind awareness in newer markets where on an average you would be not more than seven to eight years old.

Natasha Jain:

That is extremely helpful. Thank you for that. And definitely on the ground, we have seen improvement in terms of quality as well as design. That is all from my side, sir. Thank you and all the best.



- Ramachandran V:** Thank you.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Aditya Birla Mutual Fund. Please go ahead.
- Naushad Chaudhary:** Hi. Thanks for the opportunity and congrats on a decent set of numbers. First thing I wanted to check on our outsourcing model. In last three, four years, as a percentage of revenue, it has come down from 40% to roughly 33% last year. In the next two to three years, how do you think this number should move?
- Mithun K Chittilappilly:** Yes. We are hoping that in the next two to three years we should move to 25% of outsourcing and 75% of in-house manufacturing.
- Naushad Chaudhary:** And eventually, in the long term do you plan to make it zero?
- Mithun K Chittilappilly:** No, I think we are always going to have categories where it is not going to make sense for us to manufacture. For example, we will always incubate categories by working with the best partners in manufacturing that category and then once we gain scale, we will slowly insource the product, because if you want to make everything in your plant, you need to have a minimum order quantity and many of the categories are seasonal. So, you cannot have a plant which is only working a few months of the year. So, we are always going to have and we are also, what we probably do is our mid segment and premium segment.
- If you look at fans, we are manufacturing only the mid and premium segment. The economic segment, we are largely outsourcing because it does not make sense for us to make the plain vanilla fan in our factory. Because our factories are more expensive, we have to pay, we have to comply with all rules and regulations. We have to pay all the benefits and all the legally required wages and overtime and all that. So, when you do all that; but our vendors need not follow all this because they are all under the radar and they are not listed companies and stuff like that. So typically, what we do is, we, in our own plant, we actually manufacture the hero products and the mid segment and premium segment products.
- Naushad Chaudhary:** Understood. Second question on stabilizer, if I heard it correctly, you mentioned this category, which was struggling with low single-digit CAGR growth and has now come back to 8% or 9%. So, is this something just a beginning? And you see, this kind of run rate should at least continue for next couple of quarters?
- Mithun K Chittilappilly:** Yes. I think typically, when we have a good first quarter, the following quarters also tend to be good, because our distributors do not have much inventory. Our trade partners also do not have much inventory. So, they actually buy throughout the year. When you have a very bad summer, the reverse is also true. You have a very sluggish market. Your inventory goes up, your receivables go up and so forth.
- Naushad Chaudhary:** And the long term CAGR for this category is 8% to 9% or lower than this?
- Mithun K Chittilappilly:** It's about 8% to 9% if you look at last, 15 to 18 years.



- Naushad Chaudhary:** So if it is coming back for low CAGR, ideally, it should have been higher. 8% to 9% from a low CAGR, should not be disappointing number?
- Mithun K Chittilappilly:** No, see, if you look at stabilizer was having a, let us look at pre-COVID it was having a CAGR for around 7% to 9%. Now, post-COVID, it has dropped to 4% to 5% and if you actually look at last five years, it will be 15% to 16%. But the thing is, it may not repeat every year because we are sitting on a high base for next year. I am talking about a long term CAGR, it will be about 9% to 10%.
- Naushad Chaudhary:** Understood, sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Ikigai Asset Management. Please go ahead.
- Rahul Agarwal:** Thanks for the follow up. Just one question. I was going through the website it talks about few contests being run for business plan and tech designs. Just curious to know over the past years, since you have run these, how fruitful has this been in terms of incorporating certain ideas and designs into products? If you can cite some examples and what would you expect going forward? Thank you.
- Mithun K Chittilappilly:** Okay. Ram, you want to take this regarding Big Idea?
- Ramachandran V:** Yes. See, this Big Idea contest was started around 2009-2010 fundamentally as an engagement platform with the student community. I think it has been now running since then, right? So, the primary objective of this is to engage the student community. So, I think it should be seen from that perspective. It gives us the opportunity to meet some bright students and we do hire some students into our system as management trainee and we have done that in the last four or five years. We have taken some of them onboard. As far as the idea part is concerned, yes, I think there are a lot of ideas which gets shared at that kind of a platform. Of course, what we do with our business sometimes or many times it may not look like it how it is presented, but definitely, the thoughts inspire, let us say exploration at our end in terms of the possibilities on how to go forward.
- Rahul Agarwal:** Thank you so much. All the best.
- Ramachandran V:** Thanks.
- Moderator:** Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Just a very small follow up. Are we seeing signs of restocking in wires market in July?
- Mithun K Chittilappilly:** See, I think we do not like to talk about an ongoing quarter, but I will just say that today also, I think copper has corrected by about 2% to 3% or something like that. So, the typical behaviour is the trade will try to see if we have reached a bottom. So unless we have sustained 2% to 3% increases in copper prices happening over a few weeks, restocking does not start. Normalized sale is going on like Ram mentioned earlier also.



The destocking had started at some time in May and so the destocking towards normalized sale will be happening, but the restocking will happen only when the retailers will see, that okay, the tide has turned. It does not even have to be a very strong uptrend, but even in the medium term, a small uptrend also helps them to rebuy. Because they will be sitting with less than desirable inventory.

Aditya Bhartia: Understood. That's helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen, this will be the final question for today. It is from the line of Hardik Rawat from IIFL Securities. Please go ahead.

Hardik Rawat: Thanks for the follow up. I wanted to understand, based on how the first quarter has been, what is your outlook for demand across segments, especially Consumer Durables? How do you see that evolving for the fiscal year?

Mithun K Chittilappilly: No, we do not give out any segment-specific guidance, but as a blended basis, on an overall basis, we should be doing well. Typically, when we have a strong first quarter, it typically translates into decent numbers going forward, but I have to say that the Kitchen segment demand is soft, but Q2 and Q3 are the festive seasons. So, we are eagerly waiting for that. Wire is another item which is not summer based. So, in case of wire, it is really depending on copper price. I think we are less worried, because it typically does bounce back quickly. So, let us wait and see. I think we typically look to grow between 13% to 15% in sales annually, and I think that should be possible.

Hardik Rawat: Thank you so much.

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

Natasha Jain: Thank you, Steve. I will request the management to give their final remarks.

Mithun K Chittilappilly: Thank you, Natasha and Nirmal Bang for hosting this call and thank you all for your patient listening.

Natasha Jain: Thank you so much, sir. This concludes the conference. We thank all the participants and you may disconnect your line now. Thank you.