



PG ELECTROPLAST LIMITED

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February 08, 2023

To,
The Manager (Listing)
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

To,
The Manager (Listing)
National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East),
Mumbai - 400 051

Scrip Code: 533581

Scrip Symbol: PGEL

Sub.: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 – Transcript of the Earnings Conference Call

Dear Sir,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings Conference Call held on February 06, 2023.

This is for your information & Records.

For **PG Electroplast Limited**

(Sanchay Dubey)
Company Secretary



**“PG Electroplast Limited Q3 FY'23 Earnings
Conference Call”**

February 06, 2023



**MANAGEMENT: MR. VISHAL GUPTA - MANAGING DIRECTOR (FINANCE),
PG ELECTROPLAST LIMITED.
MR. VIKAS GUPTA - MANAGING DIRECTOR (OPERATIONS),
PG ELECTROPLAST LIMITED.
MR. PRAMOD GUPTA - CHIEF FINANCIAL OFFICER,
PG ELECTROPLAST LIMITED.**

**MODERATOR MR. DEEPAK AGARWAL - PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the PG Electroplast Limited, Q3 FY'23 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

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

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you, and over to you Mr. Agarwal.

Deepak Agarwal: Good afternoon, all. On behalf of PhillipCapital (India) Private Limited, I welcome you all to PG Electroplast Limited, Q3 FY'23 Earnings Conference Call. Today we have with us senior management represented by Mr. Vishal Gupta - Managing Director (Finance), Mr. Vikas Gupta – Managing Director (Operations) and Mr. Pramod Gupta - Chief Financial Officer.

Without taking much of time, I would like to handle the flow to the management for their opening remarks, post which we will open the floor for Q&A. Thanks, and over to you, sir.

Vishal Gupta: Good evening, everyone. Thank you for sparing your valuable time and joining this call today. I hope all of you are doing well.

I am joined on this call by Mr. Vikas Gupta – our Managing Director, Operations and Mr. Pramod Gupta – our CFO. We have already shared our Results Presentation earlier and hope you would have gone through that.

Nine months of FY'23 has been another milestone for PG. There is significant growth over FY'22 numbers, the revenue grew 121% and crossed Rs. 1,320 crore with products business leading the show with a 55% share. EBITDA increased by 153% and stood at Rs. 103.5 crore, and net profit rose 281% with Rs. 37 crore.

Product business crossed Rs. 720 crore in the first nine months of FY'23 with room AC business contributing Rs. 497 crores which is a 431% year-on-year growth. The washing machine business for the nine months had a YoY growth of 80% with a Company selling over 360,000 washing machines in the period. Order book for product business remains robust and that Company is on track to scale the product business significantly in FY'23 and FY'24.

This year's capacity expansion projects have already concluded and begun mass production. CAPEX guidance for FY'23 is being maintained in the range of Rs. 135 crore to Rs. 140 crore. And Company has already doubled its washing machine and air-cooler capacity while also further expanded room AC capacity with 200,000 indoor units per month and 100,000 outdoor units per month. And the new PCB assembly facility for RAC controllers in our Supa factory has also begun mass production.

We are also increasing our sales guidance to at least Rs. 2,000 crore, which is a growth of 82% over FY'22 consolidated sales and operating profit guidance of at least Rs. 140 crore, which is a growth of 88% over FY'22 operating profit of Rs. 74.5 crores.

PG's new product offerings in washing machines and room ACs have received very good response from the customers. The Company is focusing its efforts towards developing the products that help in maintaining cost leadership, while also striving for product leadership. The company continues to see increased interest for business from new and existing clients. And we remain very confident on the future growth prospects of the business.

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

Pramod Gupta:

Hello, and good afternoon everyone. I am sure all of you have seen the financials in details already.

We had a very good scale-up during the first nine months from operations point of view. Our net sales for the quarter are up almost 75% at Rs. 457.9 crores. EBITDA grew 114.3% at Rs. 38.17 crores and net profit rose 148% to Rs. 17.4 crore. During the period operating margins have improved due to cost control, also due to lower commodity prices and operating leverage which has lifted the AC business especially.

On the balance sheet side, I want to highlight that we have had debt increase of about Rs. 1.36 billion which is Rs. 136 crores in the first nine months, largely due to completion of CAPEX which was funded partially by the debt, and also increase in working capital. This increase in working capital has happened largely because we pulled up some of the inventories for the strong AC season which we are expecting, and also because there was a murmur in the month of November/December that China may open up completely which they did finally, and we were suspecting that it could lead to some problems later on, which did not happen incidentally. So, we actually pulled up some inventory and that has led to some higher working capital during the last quarter.

I want to highlight here that the debt increase has largely been on account of working capital debt. In fact, if you look at it from the long-term borrowing has actually increased quarter-on-quarter by only Rs. 29 crores, while the working capital debt has actually increased by almost Rs. 68 crores during this quarter. And that is largely because of this inventory, pulling up issue as well as very sharp ramp-up which we had in the AC business in the month of December. Also, because, we are grieving the guidance to Rs. 2,000 crores, we will be having a little higher than expected or initially budgeted working capital for the full year. And that's why the debt has been looking higher, but we hope that over the next quarter the working capital cycle will improve further from here.

With this I open the floor for question-answers.

Moderator:

Thank you. We will now begin with a question-and-answer session. The first question is from the line of Bala Murali, an individual investor. Please go ahead.

Bala Murali:

I would like to know about long term view of the Company over four- or five-years origin by assuming that the industry will grow at a significant rates. So, in what kind of position our Company in four, five years origin?



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Vishal Gupta:

Let me tell you, see for next four, five years, I can give you a very general statement in the sense that Company have a very strong conviction in India growth story, and India consumption. As an economy grows and the per capita income improves and purchasing power improves for the people, the consumers then the products what we are dealing in, incidentally the penetration levels are very low in India market and there is a very big and vast potential of the growth.

So, we see a very strong potential in that growth which is actually supported by the government policies where the government is now pushing for import substitution and is ensuring that whatever is being sold in India has to be made in India. So, all these factors, import substitution, government policy supports, PLI schemes and the general growth in the Indian economy, and the growth in the per capita and the purchasing power of Indian consumers will actually lead to a very secular growth for next four, five years. That is our strong belief. And that is why Company is preparing itself for this growth opportunity. The company is heavily invested in the capabilities and the capacities to take benefit of all such opportunities which may arise in future.

Bala Murali:

And one more thing I want to know about FY'24, are there any CAPEX plans already made and any new products you are going to introduce or any backward integration?

Vishal Gupta:

In FY'24, see, we will be doing a CAPEX of Rs. 125 crore to Rs. 130 crores, that is the basic CAPEX what we have planned right now. The Company is looking at new product categories also as and when those projects materialize we will further update the market on that. As of now, the CAPEX guidance is around Rs. 100 crore to Rs. 150 crores for FY'24 as and when new product categories or anything which is being discussed internally something forms up, we will update the market on that.

Bala Murali:

And lastly on any guidance for FY'24 based on the capacity almost doubled for air-conditioner and washing machines --?

Vishal Gupta:

FY'24 numbers are being worked up right now internally. It will take another three months to four months to firm up those numbers. And we will be sharing those numbers maybe in the June quarter, we will be sharing those numbers.

Moderator:

Thank you. The next question is from the line of Kartik Jain, an individual investor. Please go ahead.

Kartik Jain: I have a couple of questions on the TV business. I think your TV business has grown significantly in this quarter, I think it represents about 12% of the overall revenue for this quarter as I can see in the presentation. Can you just put some more light on that business, how the growth prospects are and how are you planning to increase that business?

Pramod Gupta: Yes, Kartik, so, TV business is something that we reentered only a year back, it is not more than 12 months old for us. So, we were at a small base in FY'22 as compared to that to FY'23 that is the reason the growth is looking impressive, because the base for the FY'22 was very small. And going forward, we feel that again, we are confident that in the TV segment as well the business for us should grow. We are discussing with various clients, regional and national level brands for the TV manufacturing for them. So, I think going forward the TV business will also grow in FY'24 as well.

Kartik Jain: And regarding your AC business, so, the majority of the CAPEX that you are doing is for which product line, is it for the AC, is it for the coolers, is it for the TV units, can you just give us some more details about where the CAPEX has really been?

Pramod Gupta: See the majority of the CAPEX has been done for AC business and washing machine business. Out of the total Rs. 130 crore CAPEX till now which we have done, almost Rs. 90 crores is for AC business and about Rs. 25 crores to Rs. 30 crores is for washing machine and rest is for the other component --

Moderator: Thank you. The next question is from the line of Abhineet Anand from Emkay Global. Please go ahead.

Abhineet Anand: First I want to understand what was our overall utilization in the RAC part, in the first nine months?

Pramod Gupta: See, utilization is difficult especially because we do not maintain the utilization on a monthly or a quarterly basis in the Company, but I can tell you that in the offseason typically the utilization level falls very badly. And last quarter if you see now, for the whole quarter, the AC business had at a total turnover of only Rs. 50 crores odd, but this quarter that has moved up significantly, because of the month of December itself only.

And the current utilization levels till March are likely to be in the range of 85% to 90% in the AC business. But, after March we will be able to comment only how the tertiary sales actually take place. So, on an overall basis typically, in the AC business 55% to 60% is the capacity utilization which is optimal as per our experience of last year that we see happen over a full year.

Abhineet Anand: Yes, I understand that because of the seasonality the utilization will be low, maybe 50% to 60%. So, what is the 80% to 85% that you talked about?

Vishal Gupta: Right now, the utilization on the total expanded capacity is 80-85%

Abhineet Anand: Okay, you are saying 4Q.

Vishal Gupta: Yes.

Abhineet Anand: Second is I mean from your understanding of, in the RAC market have you seen demand coming back, majority of the brand what are they expecting in terms of the upcoming summer?

Vishal Gupta: You know, right now, as everyone knows, right now is the primary sales which is happening in the sense the brands are pushing material to the dealer and distributor network. Tertiary sales or secondary sales will start happening from the third or fourth week of March, when some summer sets in the South India, it starts from there South India. So, as of now people are expecting good season, good summers, but things will become more clearer and we will have better picture once by third or fourth week of March only. But as of now, the industry as a whole is pushing for a good growth this year.

Abhineet Anand: In the AC industry from across brands we understand that looks to be slightly, quite a bit of competition there. I mean, there are players which are probably trying to gain market share through aggressive branding, aggressive pricing, which has been prevalent for last few quarters. I mean, as of now, you feel that this situation is continuing or any subjectivity around that if you can throw some light.

Vishal Gupta: See we can share our limited knowledge with you on that, but there are certain brands who are aggressively pursuing a market share gains strategy. And once they are doing that, so, they will have to be aggressive on prices and be aggressive on advertising and other thing, so that they are able to increase their market share that is there. So, some brands are trying to do that, we are seeing that thing in the market.

Abhineet Anand: And lastly from RAC sale of this around Rs. 500 crore of sales in nine months, this consists of RAC plus components, right.

Vishal Gupta: See this is purely RAC sales.

Pramod Gupta: RAC product sale for three components.

Abhineet Anand: Where does the components lie?

Pramod Gupta: Components lie in the plastic molding of our business.

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

Pranay Roop Chatterjee: My question was regarding the washing machine segment. Firstly, apologies if I missed the volume number in the presentation, if you could just disclose oh I think the volume is given, that's it. Regarding the washing machine demand environment, if you could just give us your comments on how the demand is shaping up? And how you are scaling up in the different segments, which is semi-auto versus auto? And any comments on your market share movement in the last quarter?

Pramod Gupta: Volume side, I will just clarify, in the first nine months we have done about 3.6 lakh volumes till now. And in the 3rd Quarter we did about 111,000 volumes.

Vikas Gupta: So, when we talk about the forecast for the near-term period, I think the market sentiment is looking quite strong, the kind of forecasts or the kind of a roadmap that we have from our clients, we see a sharp pickup in the demand for this washing machines from June onwards. Typically, the high season for washing machine starts with the onset of the monsoon, and it starts picking up, the Diwali is one big season for washing machine sales, then there is a sales happening during the winter also.

So, it starts tapering off from the month of December onwards. So, what we see as of now, we are in discussion with our clients and we see strong growth for the washing machines, as we have already doubled our capacity that is based on certain assumptions, on certain discussions with our clients, where we are seeing a further ramp up of the volume with the existing clients, where we are seeing increased share of wallet from their side and we have added quite a few new clients also as well.

Pranay Roop Chatterjee: Could you please give the volume of ACs in this quarter, IDU versus ODU?

Pramod Gupta: Yes, then I will just share with you, just a minute. The IDU number is about 193,000 and outdoor units number is about 62,000.

Pranay Roop Chatterjee: And did you receive any state incentive this quarter?

Pramod Gupta: No, this quarter, just on the older investment, in the parent company PGEL, we continue to basically receive the state incentive.

Vishal Gupta: See we are in the process of completing our investment in PG Technoplast, the wholly-owned subsidiary in Supa. And we already have a in principle approval from the Government of Maharashtra. We will make our application in FY'24 after completing our investment and apply for those benefits in the parent company, which is there for the last many years, now in Supa only. We continue to get those benefits from the Maharashtra government.

Pranay Roop Chatterjee: And I just have one last question, you reported 7.8% EBITDA margins in this quarter. Just wanted to check in case there was any one-offs in this margin.

Vikas Gupta: Well, there is no one-off, actually last quarter, if you see we had a negative operating leverage of the AC business because we had a small loss in the operating, in the AC business because of the seasonality. This quarter all the businesses had profitability and operating leverage turned on the positive side in the AC business.

Pranay Roop Chatterjee: In case I can squeeze in one more question. Your net debt is around Rs. 472 crores right now. By Q4 end would you expect it to go up or down?

Pramod Gupta: We have already given guidance for the full year; debt is likely to be probably in the same range or maybe Rs. 10 crores to Rs. 20 crores plus minus I will say. The reason is we are having a very high inventory level for the season and we actually are hoping that receivables will be able to control, most of the CAPEX is already done. So, the working capital loan should probably be in the same range. And we do not foresee any increase in the term loans.

Vishal Gupta: See what happens because of the last quarter we have had such a sharp ramp up in our sales. So, working capital numbers will be a little tweak. In fact, by the June quarter, June end those numbers will start normalizing, but in March end numbers you will see at similar levels what we are seeing right now.

Pranay Roop Chatterjee: Do you see an increase in interest cost, would that have contributed?



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Pramod Gupta: No interest rates, we are getting our market rate only about 9% of the cost of borrowing. And if obviously the bank rate increases, then we will see probably some increase.

Moderator: Thank you. The next question is from the line of Teena Virmani from Kotak Institutional Equities. Please go ahead.

Teena Virmani: My question is regarding the pricing strategy that you have mentioned about certain brands which are aggressively pursuing this market share gains strategy. Now, this could be a near-term scenario that we may see, but how do you see the long-term realization movement for both even the AC players and the ODM players moving out, given that there is a scope in the industry also to grow and everybody is also expanding capacity. So, how would the situation pan out, over a slightly longer period of time when the capacities are in place and the realization for both AC players as well as ODM players like you and other players in the industry?

Vishal Gupta: So, you are trying to put up two questions, how the brands are going to play in the next two, three years? And how ODM people like us are going to play in the next two, three years once the capacities are in place, and they are fully operational, right. So, see it will be very difficult for us to really answer the question from the brands perspective, but as per the information or the knowledge that we gather from the industry people, there are certain brands who have a very aggressive market share gains strategy, that is why they are pursuing those aggressive pricing. And they hope to follow that for at least this season, they are hoping to follow this strategy.

In case of ODM players like us, being a seasonal business, I will tell you, it's very evident, the brands, the people who are putting up their factories, and some brands are also putting up their factories and some ODM players are also expanding their capacities. But being seasonal in nature the pricing, there is not much of the pricing play in the ODM sector in the sense, because when clients are buying a product of Rs. 20,000 from any ODM player, so anything I mean Rs. 100, Rs. 200, Rs. 300 difference doesn't make much of impact to them, they are actually focusing more on timely delivery and quality.

So, quality and delivery is very important. Cost is exactly, you know, not exactly means it's a industry given, it's a buyer's market, it's a not a seller's market we agree on that. But let me tell you, that Rs. 200, Rs. 300 on Rs. 20,000 product doesn't make much of a difference provided your customer can derive comfort from your



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capabilities of delivering a quality product on their time, as and when they want and the flexibility is there. So, it's very, I can't answer this question in a very simple manner. So, that is a way I have given you this explanation.

Teena Virmani:

So, even on a longer-term basis, this may remain more or less similar to what all the ODM players are currently getting from the brand.

Vishal Gupta:

I will tell you what strategy as a Company we are trying to follow. We are trying to follow cost leadership. We are trying to, the plant, what we have put up in Supa, is the most backward integrated, single location plant and one of the largest single location AC manufacturing facilities in India right now. The basic idea is to derive cost leadership from all the synergies, if you are making all components in-house and you are not spending money on packing and forwarding of those components to make ACs, that is one thing, you know that is what we are trying to do right now. So, if we are able to drive cost leadership, one point.

And the second point, what we believe as a team, what we tell our team members, actually we are not selling any product, we are selling a service. What product we are offering is not much different from the product being offered by our competition, but what can differentiate us from our competition is the kind of delivery or kind of service we are able to offer to our customers. And that is why we are able to increase our market share in this competitive scenario because of the service aspect of this business what we are trying to highlight.

Teena Virmani:

So, what would be your current market share or maybe FY'23 closing market share approximately among the ODM players if one were to analyze that?

Vishal Gupta:

Teena, I wouldn't like to speculate on those numbers, because it's a very early, it's a second year of operations only for us. So, I don't think we will not be in the right position to answer this question, right now.

Teena Virmani:

And one last question is on the incremental margin benefit that can come through from your new capacities which are primarily led by the PLI CAPEX. So, without taking into account any PLI incentive, what could be the data gain in margins that you can accrue from this entire backward integration expansion that you already have done?



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Pramod Gupta:

Margins are likely to be largely in the same range as they are because some of the benefits that we had talked about of backward integration are largely there. And we don't focus so much on the margins, per se, although we are, as Vishal Ji explained, we have a clear focus on cost leadership. The whole focus of the organization is to actually increase the throughput, and actually have a much better asset term. So, actually, I keep on telling this to all the investors and I will repeat again for the benefit that in our business margins are actually an outcome of the many of the things, one of the very big important thing is actually the commodity prices during that time. Now in this quarter, we had slightly lower commodity prices that actually are helping the margin percentage. Although whatever money we get to make an AC, as our gross contribution is actually very similar to what we were getting last year, or in the last quarter, that has not changed.

Second thing is if we can actually increase our asset churns and do more throughput from the same plant that is actually going to let us make, actually give us much more advantage than actually focusing probably on 10, 20 basis points of margin. And that is what has been our strategy. And if you look at in our case, we have probably invested close to till now Rs. 200 plus crores, and in the very second year, we are expecting a turnover in the AC product business of almost Rs. 900 plus crore, which is our asset churns of 4.5, which we think is very good in manufacturing, contract manufacturing business like us. And that has been our strategy on all the product side where we are working and only focusing to increase the asset throughput to improve our RoCE and not actually very focused on the margin percentage per se.

Teena Virmani:

And as and when your other segments apart from washing machine when they start expanding, let's say for example, if TV expands than probably your asset churns can improve further?

Pramod Gupta:

Yes, so TV actually is a very small business as of now for us only this year we will probably do close to Rs. 150 odd crore. As and when TV and washing machine further expand, the overall asset turn in the company and therefore, the RoCE will see a further improvement going forward.

Moderator:

Thank you. The next question is from the line of Akhilesh from ICICI. Please go ahead.



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Akhilesh:

So, firstly, you mentioned that for the full year you expect the net debt number to broadly remain at the current level Rs. 10 crores or Rs. 20 crores perhaps slightly higher. So, what is your assumption regarding the receivable level at the end of the year, because what we have seen in the last two years especially that the receivable in terms of number of days also goes up in the last quarter, so what is that assumption which you are making?

Pramod Gupta:

See what actually happens is in the last two years it happened was, that 4th Quarter was a very big quarter in comparison to --. So, that happens because of the seasonality and as well as in last two years, the first half in both the years got marred because the COVID issue. This year, that challenge is not there. Although, nonetheless, the 4th Quarter is going to be relatively larger, we have given a guidance of almost Rs. 680 odd crores in the 4th Quarter vis-à-vis Rs. 1320 crores in the first nine months, but nonetheless, it is not as skewed as last year or the year before that.

So, overall, on a monthly basis, we don't see that kind of a shoot-up, which happened in the previous two years. So, those numbers will not look that acute in terms of days receivable. But nonetheless, I will tell you what happens is that monthly run-rate has actually significantly changes in the 4th Quarter. So, in the first nine months, if you see our monthly run-rate is of the order of about Rs. 140 odd crores or Rs. 145 crores, and now we are expecting close to something like Rs. 230 odd crores of a run-rate in the next three months. So, obviously, this run-rate leads to about, even if you assume 45 days of receivable situation then 230×1.5 that will come to something like Rs. 345 crores or Rs. 350 crores is the kind of numbers which you will see on the receivable side, but we are working towards many aspects. So, to control our receivables as well as inventory and hope some of those things may actually work out.

Akhilesh:

So, you remain confident that if let us say we have reported around 40 or almost 50 days of receivable at the end of the current quarter, so that will go down to around 45 days.

Pramod Gupta:

Yes.

Akhilesh:

I don't know if I have missed this, if you have already given it, but what is the volume for LED TVs? I know it's a small part, but what is the volume in this quarter?



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- Pramod Gupta:** Just give me a second, I will.
- Akhilesh:** Yes, and in the meanwhile, if you can also speak about the customer addition, washing machines and LED TV business which you are expecting?
- Vishal Gupta:** So, we don't disclose individual client names in our customer list. But we are on the verge of adding two very large customers, national brands, which one of them has already, going to start mass production this month. And one more customer product approval is already completed and we expect to start productions in the month of April for that last customer addition, in the case of the washing machine.
- In the case of TV also we are discussing with a lot of customers. And we are trying to add those customers, as and when you know we are developing our ODM products in the TV category now. So, we will be adding some more customers. But right now, we will not able to disclose the names right now.
- Akhilesh:** And in washing machine, the customer addition the two national brands, which you spoke about this will be for the semi-automatic category?
- Vishal Gupta:** Yes sir.
- Akhilesh:** And based on your guidance, you are expecting the full year margin to be around, the EBITDA level to be around 7%. So, is this a sustainable level we should assume or do you think this has further scope to inch up in FY24 and FY25?
- Pramod Gupta:** Yes, so coming back to your TV question, this quarter, we had about 40,000 volumes in the TV in the quarter, in the sales. And actually, margin is an outcome of many things and how in the quarter, what is the mix of the segments that also decides the margin apart from individual segment level margins. So, it's always difficult to pinpoint the margins in the quarter. But we hope that because of the improvements in the revenue outlook across all the segments, the margins should be slightly better in the coming quarter in each of the segments, but final margin will actually totally depend on the overall mix. And that mix we don't know as of now, today, it will actually be visible to us only by the end of March. Nonetheless, because of the scale initiatives and also because of the operating leverage, we are very hopeful that margins in the coming quarter will improve further in each of the segments.

Akhilesh: And, by the end of next year, what kind of debt reduction you are expecting overall from the current level?

Pramod Gupta: I will tell you very frankly, if we do not add any new product segment than we should see some amount of debt reduction surely next year. But we are actually considering some new products and if we take any decision on that, then we may have to do some further CAPEX on those new product lines. But in the existing product line as of now whatever the business plan is there, we think Rs. 130 plus or minus Rs. 5 to Rs. 10 crores of CAPEX is going to be there same as this year. And next year, our EBITDA and other income should be significantly higher than this year. And that should help us to actually do some debt reduction for sure. Those numbers we will be able to share with you once we finalize the business plan for the next year, sometime in May, after the 4th Quarter results.

Moderator: Thank you. The next question is from the line of Shrinidhi from HSBC.

Shrinidhi: I have a question on margin first, if I look at your margin at about 7%, it looks very impressive, particularly given that one of your close peer Amber has reported quite a weak margins. So, in your assessment, what is really driving the superior margin for PG Electroplast given the size of the company is smaller?

Pramod Gupta: See as Vishal Ji has been telling that we work a lot towards cost leadership. And also, please appreciate we are a multi-product company and we have a wider portfolio which allows us to weather the seasonality of the AC business, seasonality of other business is much better. And therefore, the operating leverage that actually works into the negative in the offseason in AC is mitigated to some extent in the portfolio because of the other products helps us to actually report slightly better margin. But I think on an overall product business margins for us Amber must be in the same range that is my best guess at least in the season. In the offseason, actually, because of the operating leverages that play out for different players, because of the portfolio of products, they may have a different impact. And that is one of the reasons because of which probably today we are reporting slightly better margins.

Shrinidhi: And you also highlighted that you probably have a largest single location manufacturing plant for AC and probably closer to ports. Just wondering how much does that help in terms of having a better cost economics?



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Pramod Gupta: It does surely help, and is more important than nearest to the port, it is actually the single location and having all the units for all the components at a single location and on a single roof, actually, that leads to a little bit of saving in terms of transportation, logistics, as well as the packing and some of the other costs, which in our opinion, maybe to the tune of maybe 0.4% or 0.5% at best.

Shrinidhi: And one more question from my end again on margin. So, if you look at your guidance of about 7% margin in FY23, may I ask how is it different between product business and your rest of the business?

Vishal Gupta: So, I will just give you some, basically broad ballpark margins on each of the segments that we have. And this is what we have seen over a slightly longish period of time. Typically, the product margins are between 7% to 8.5% depending upon the mix of the products, washing machines has slightly better margins than AC. And actually, cooler has the best margins. Cooler margins are almost in the double digits, lower double digit, but cooler is very highly seasonal, it is only a four-month product. And it's a very small segment for us now.

In the plastic molding business, the margins are 7% point +/- 0.4% or 0.5% is what we have seen over a longer period of time. And in the TV business, which is a relatively new business, but we have estimated it is around about 1.5% to 2% at best is the margin at the operating level which we make. In the mold making or the tool making the margins are anywhere between 25 to 30%, depending on the deliveries in that quarter. These are the broad ballpark margins which we have seen in our different segments.

Shrinidhi: Last one from my end, so you are guiding about Rs. 900 crore of revenue from AC products right for FY23?

Pramod Gupta: Yes.

Shrinidhi: May I ask, how much is it coming from your own design product?

Pramod Gupta: It will be almost 80% plus will be from our own ODM products.

Shrinidhi: And it includes inverter, air conditioners as well right?

Pramod Gupta: Yes, it includes across all the categories both fixed speed and Inverter and one ton, one and a half ton and 2 ton.



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Moderator: Thank you. The next question is from the line of Harsh Saraswat, an individual investor. Please go ahead.

Harsh Saraswat: My question is in a broader context, competitors are seeing a slowdown in mobile segment and I wanted to understand that does that help to gauge a pattern of demand in our segments also, can we also see a slowdown looking forward in the year?

Vishal Gupta: See, I would, actually the behavior of the market is different in both mobile phone products and the consumer durables. If you see industry penetration, the product penetration mobile phone and LED TV still will have a very good penetration in India, maybe 70% to 75% penetration is there in mobile phones and LED TV, but the product categories like AC, washing machines, the products, what we are trying to aggressively push and try to make it as our growth driver, the penetration levels are very low right now in India.

So, what we feel that with the income levels improving and overall electricity availability and all those things helping; we see a very good growth potential for next four, five years. So, we have a very strong conviction that this product category is where we are trying to put our focus, they will have a very good growth in times to come.

Harsh Saraswat: And one more thing, if you were to point out a few risks in the business, what would they be like?

Vishal Gupta: Business is trying to grow; we are trying to grow business very fast. So, execution is something which is very important in our business. Let me tell you the business contract manufacturing, actually there is very little risk because you get very clear forecast from your customers, provided you don't really goof up big time or you make any big blunders, you are able to able to meet their requirements, you don't see any major challenges in this. But execution is something very important day in day out, because business is so competitive and margins are like wafer thin. So, you have to be always on your toes, focusing on cost leadership, trying to do loss elimination in your plant, that is a continuous focus so that you remain relevant all the time, you are able to maintain your cost leadership, that is the focus. And that is the actual risk but we have to keep focusing on day-in-day-out.

Moderator: Thank you. The next question is from the line of Ashish Kumar Singh, an individual investor. Please go ahead.

Ashish Kumar Singh: Previous participant had asked for the LED TV numbers. So, I wanted to get those?

Pramod Gupta: 40,000 for the quarter. And in the first 9 months, the total number is about 80,000, just give me a second I will exactly tell you.

Ashish Kumar Singh: And other than that, I wanted to get your comment on the raw material costs that you have that they have reduced in the past month. So, what do you think, they will be lowest in the coming months or?

Pramod Gupta: Yes, for the first 9 months the number is 80,500 in television and in the last quarter the number was about 40,000. Now coming back to the commodity price it's very difficult to forecast these commodity prices and they are dependent on many factors which are beyond our control. We are actually a price taker in that market. And some of the commodities which had softened significantly in the last quarter have actually started moving up, especially base metals like aluminum, copper, etc. in the recent week. In fact, in the last four weeks, there has been a significant movement upward in both copper and aluminum and it will be reflected, it is a pass-through for us maybe with a lag of a month or so. So, it will be reflected in, I think, in the coming months.

Ashish Kumar Singh: And I wanted to ask, you have mentioned that the inventory has gone up in the last quarter and I can see that it's around Rs. 350 crores. So, is that inventory on lower cost against right now, or is it higher than right now?

Pramod Gupta: See it is actually the copper and aluminum inventory that we are carrying, we were carrying end of December, because there has been a significant production also in the month of January and till now in February, was at a lower cost, but we don't cover ourselves for more than about one and a half to two months in the inventory. Now, the prices of the material which we are purchasing are at the market prices, which is at a higher price than what we were having in December.

Ashish Kumar Singh: And so, I think the margins would improve in the next quarter for the previous inventory, right?

Pramod Gupta: No, the issue is there that the pricing also happens with the lag it does not immediately that you are able to, yesterday the price increased and you will tell your customer that you have to give me a higher price tomorrow, it doesn't work that way. In our business, the contract manufacturing the prices actually get reset



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every one month, two months or three months depending upon the contracts. And then according to those contracts, we try to cover ourselves on those inventory. We don't take active call on prices of inventory now by hoarding copper and aluminum. On the contrary, like whatever orders we have at a price we try to cover ourselves to that extent in those commodities, we don't actually take a call at all on the prices of commodity.

Ashish Kumar Singh:

And the last question what is the order book for the interest that you are seeing for this summer season in AC business?

Pramod Gupta:

Till March we have a very strong order book, whatever our capacities are there they are all booked out. And we have orders beyond March also, but I will keep my fingers crossed, because those orders will start to materialize only if the tertiary and the secondary sales are good beyond March. So, till March I can tell you that we are running at almost 90% capacity utilization 85% to 90% plus – expanded capacity in the AC.

Vishal Gupta:

So, April onwards what will happen you know, the production numbers for us may be 20% higher or 20% lower, depending upon the secondary sales which will start happening from the third and fourth week of March. Once we have those numbers, then we will be able to give you a little better idea. But the numbers will not change much. It may be plus minus 20%.

Moderator:

Thank you. That was our last question for today ladies and gentlemen. I now hand the conference over to the Management for closing comments over to you sir.

Vishal Gupta:

I want to thank you all for participating in the call. And I want to reiterate once again that please don't look at the percentage margins in this business, they are actually an outcome, not of the business mix as well as the commodity prices in that particular quarter. Our focus is totally to just push more through-put on the same investment which we have done. And we will be focusing actually much more on getting our asset churns rather than margins. The margin percentage is actually very irrelevant in our business, in our opinion.

With this, I will actually thank you all. And I will invite any of you who want to visit our plants both in Supa and Noida. Please feel free and mail to me or my colleagues and reach out to us and we will make the arrangements. Thank you very much.



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Moderator:

Thank you. On behalf of PhillipCapital (India) Private Limited. That concludes the conference call. Thank you for joining us, you may now disconnect your lines.