



June 07, 2024

To

**BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400001**

Scrip Code – 543597

Subject – Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript for H2 and FY 2023-24 Post Earnings Conference Call held on June 05, 2024.

Dear Sirs,

With respect to above captioned subject, please find attached herewith transcript of the Conference Call for Analyst and Investors held for H2 and FY 2023-24 on June 05, 2024 at 12 P.M. IST (12:00 hours)

Kindly take the same on your records.

Thanking You,

Yours Faithfully,

For **Virtuoso Optoelectronics Limited**

**VIBHUTI RAHUL
KULKARNI**

Digitally signed by VIBHUTI RAHUL KULKARNI
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Virtuoso Optoelectronics Limited (VOEPL)
H2 & FY24 Post Earnings Conference Call
June 5, 2024 12:00 PM IST



Virtuoso Optoelectronics Limited

H2 & FY24

POST EARNINGS CONFERENCE CALL

Management Team

Mr. Sukrit Bharati - Managing Director

Call Coordinator



Strategy & Investor Relations Consulting

Vinay Pandit:

Ladies and gentlemen, I welcome you all to the H2 FY'24 Post Earnings Conference Call of Virtuoso Optoelectronics Limited. Today on the call from the management, we have with us Mr. Sukrit Bharati, Founder and Managing Director.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risk and uncertainty. Also, a reminder that this call is being recorded.

I would now request the management to detail us about the business and performance highlights for the half year and the year that went by, the growth plans and vision for the coming year, post which we will open the floor for Q&A. Over to you, sir.

Sukrit Bharati:

First of all, very good afternoon to all of you, and thank you for taking the time for being on this call. So Virtuoso last year had a very good year principally where we have grown probably in almost every segment. The overall yearly growth is almost 50% in terms of our top line. And, we are happy that, the AC business has grown, the Lighting business has grown, and we've also entered a couple of new categories in business.

So just to update you the division, so in terms of numbers, of course, you must have gone through the presentation, but net sales we've grown 57.5%. We have grown from ₹337 crores to ₹531 crores. And, on EBITDA, we have grown 53.6%. So EBITDA last year stood at ₹52.6 crores, up from ₹34.2 crores. So we believe, we've got better EBITDA than we had anticipated, so which is a good sign.

PAT margins, of course are under, I mean is about 2%. That is because the depreciation is higher. So we are so far following the WDV depreciation, which is why initially the depreciation is high. And then, of course, it reduces. A lot of our competitors are using straight line depreciation, which is why their depreciation numbers are lower and which improves the PAT. But, overall, I think as far as EBITDA is concerned, I think we've done a good percentage this year.

Business wise, Lighting business has grown and we've added the new customers in lighting. We have recently started working with, GreatWhite and Gold Medal also as far as lighting is concerned. On the AC business side, AC IDU has grown. Also ODU has grown quite a bit, because this was the first full-year for outdoor unit.

And next year also we have very strong projections in both IDU and ODU. We are also looking at increasing our capacity by about 20% in ODU in the coming year, because of increased demand. And last year, we are happy to announce that we got into water dispenser as a category. We also started exporting water dispensers. So this was the first direct export that we have now involved in for water dispensers.

And last year, we had started doing a capital expenditure for making commercial refrigerators in house. That CapEx is expected to get commissioned in the second and third quarter of this year. And from fourth quarter onwards, we are expecting revenue to start coming in from commercial refrigeration market. We are also happy to share that we've tied up with some good customers on the commercial refrigeration side. And we hope that by next year, we will reach a capacity utilisation of 50% to 70% of the capacity that we're creating this year.

Apart from this, on the component and backward integration side, we are as planned, we are improving our backward integration for air conditioners lighting. This year, we also planned to increase our in-house remote manufacturing capabilities, which was low last year. And we are getting into some smaller components which are required in heat exchangers like brass parts. There are certain bends that are required which are currently imported. All those components also this year we plan to do in-house.

So overall, I think we had a good year and we achieved a number that we had set out for ourselves. In the year ahead, we hope to continue a similar growth number, and we hope to add more product segments, like I mean, especially commercial refrigeration, because I think that can be a large segment for us over the next two, three years.

Team wise, also as a team, we are growing and now we have added a lot of new members to the team at different levels, which is helping us sustain the growth overall. This year, we also plan to start a unit in Chennai for making components for air conditioners, because some of our customers are wanting us to make certain parts locally for them in Chennai. So our unit in Chennai is also planned in the current financial year.

So that was a little bit about what we've done. I think, we can open the floor for questioning.

Question-and-Answer Session

Moderator: Sure. All those who you wish to ask a question, please use the option of raise hand. In case you are unable to ask, you can put the question on chat, and we'll ask on your behalf. Request participants to raise hand, please.

We'll take our first question from Harshil Bhayani. Harshil, you can go ahead.

Harshil Bhayani: Yeah. First of all, congratulations on good set of numbers.

Sukrit Bharati: Thank you.

Harshil Bhayani: My question is, in this year how much PLI benefits have we received, and how are we recording in the P&L?

Sukrit Bharati: So we are recording on the accrual basis. So last year, we accrued ₹6 crores, but we received ₹3 crores, but just in the month of April, two, three days after 31st of March.

Harshil Bhayani: Okay. So are we recording above EBITDA? My question is, does the EBITDA number...?

Sukrit Bharati: EBITDA numbers include, they are part of revenue. So we are taking with....

Harshil Bhayani: Part of revenue. Understood. Okay. And what is the current capacity utilisation in all the segments?

Sukrit Bharati: So capacity utilisation in IDU continues to be at about 75%, 80%. ODU capacity utilisation for last year was about on an average about 50%. It is expected to go up to almost 75%, 80% this year. And for lighting, we are at roughly 70% to 80% capacity utilisation. But there, we are constantly improving our capacity, and we are also maintaining the utilisation around the same number.

Harshil Bhayani: Okay. And water dispenser?

Sukrit Bharati: Water dispenser is a fungible capacity with ODU, because we are using the same infrastructure. So dispenser capacity and ODU capacity are fungible for us as of now.

Harshil Bhayani: Understood. And our last question is, what would be our targeted CapEx for FY '25?

Sukrit Bharati: We almost about ₹60 crores.

Harshil Bhayani: That includes the Chennai capacity which you mentioned?

Sukrit Bharati: That includes Chennai capacity. Yes.

Harshil Bhayani: Okay. Thank you.

Moderator: Thanks, Harshil. We'll take the next question from Ranodeep. Ranodeep, you can go ahead. Ranodeep Sen, you can unmute and ask your question.

So in the meanwhile, there were a few questions that were asked to us from investors. Could you throw some light on the components that you're doing for toys? What exactly are these? Is this an extension of your existing activity, or is this something separate that we're doing?

Sukrit Bharati: It is an extension of the regular activity. So, we are I mean, whatever capacity, so we were approached by a toy company, toy company manufacturing toys in Nasik, and they're a holding company of Hong Kong based entity, which is supplying toys to the top two, three toy companies in the world. So we are making certain components for them, and we are registered already for two toy companies as Tier 2 vendors for their parts. So we are starting with plastic parts, but we'll also add electronic components soon, probably for toys, that we supply to them.

This is, of course, currently, we're using the spare capacity that we have in the existing infrastructure to service this requirement. If it grows very rapidly, then we'll probably look at having a small dedicated capacity for it. But as of now, no plans for a dedicated capacity. We are using our spare capacity for their requirements. Yeah.

Moderator: We'll take the next question from Urmi. Urmi, you can go ahead.

Urmi Khania: Good afternoon.

Sukrit Bharati: Very good afternoon.

Urmi Khania: My question was, what is your growth outlook for FY '25 and FY '26? And what are the growth drivers, if so? And also on the EBITDA margins, what is your outlook for these two years? Thank you.

Sukrit Bharati: So growth, we are looking to continue the current growth trend of 40% to 50% year-on-year for the next couple of years. I mean, 40% on a conservative level, we are hoping to grow for the next couple of years. And the growth is going to come from two, three areas. One is, of course, growth in the commercial refrigeration segment, which is a completely new vertical. Water dispenser also is just going to probably start building from this year, and we will get good numbers in water dispenser next financial year. This year, the growth is going to come from IDU, but a major chunk of growth will come from ODU.

And, as far as EBITDA is concerned, we are expecting EBITDA to be in the range of 8.5% to 9%, 9.5% for the current financial year.

Urmi Khania: Okay. Thank you so much.

Sukrit Bharati: Thank you.

Ranodeep Sen: Am I audible now?

Moderator: Yeah. Ranodeep. You can go ahead.

Ranodeep Sen: Thank you. Sorry. I missed the first part of the call. Just wanted to check we were on the finalisation page for finalising of a prominent client for our refrigeration business. Have you finalised that?

Sukrit Bharati: We have, but once we start, I mean we already in development and we are doing all the sampling phase with the customer. But once we have it on paper, then we'll share it with everybody. But we have two anchor clients for the businesses.

Ranodeep Sen: Sure. I also wanted to check, there was a lot of news about the shortage of ACs during the peak of the summer season that we just witnessed. And it was in the back of many summers where these manufacturers missed out on the sales due to some reason or the other for the last three years. Now how did it impact us? I'm sure it impacted us positively, and that shows in the revenue. But are we now looking at, because I remember you had mentioned that we will look at beyond Voltas only when they say that our appetite is kind of exhausted with what we thought?

Sukrit Bharati: Correct.

- Ranodeep Sen:** So, is there any school of thought around those lines, or we are seeing increasing traction at Voltas level itself?
- Sukrit Bharati:** We are seeing increasing traction at Voltas itself as of now. So this year, we'll continue with the same strategy.
- Ranodeep Sen:** Sure. And just one last question. I think, we are positioning ourselves as a manufacturing giant. And hence we've done great efforts in terms of diversifying our businesses like, I think the long-term plan is to keep ACs on there at 50%. Are we entering into any other sectors in near term, or are we restricting ourselves to the five sectors that we are targeting at this juncture in 2024?
- Sukrit Bharati:** So like I said, air conditioning, electronics, lighting, commercial ref, and components is there. We are also exploring washing machine as a segment. So we might enter washing machine also either towards the end of this year or maybe next year, but it is not confirmed as of yet.
- Ranodeep Sen:** Sure. And just an add on to the question which some of the earlier participant asked, this is on the toy business. There's a PLI theme for toys, which is expected and awaited for the last one and one and a half years, and it is due. Are we going to be participating in the same?
- Sukrit Bharati:** I am aware. I'm also waiting for the terms and the conditions for that to be disclosed. If they are disclosed, then we will evaluate it, but we are open to participating.
- Ranodeep Sen:** Sure. Appreciate the response. Thank you.
- Sukrit Bharati:** I understand there's also a possibility that the AC PLI scheme might get extended, because they have some funds remaining. And if that happens, then we will apply for that as well.
- Ranodeep Sen:** Sure. Appreciate the responses and wishing you all the best. Thank you.
- Sukrit Bharati:** Thank you so much.
- Moderator:** Thank you. We'll take the next question from Ankur Gulati. Ankur, you can go ahead.
- Ankur Gulati:** Hi, Sukrit, good to connect again.
- Sukrit Bharati:** Hi, good afternoon.

- Ankur Gulati:** I think in March at Kaptify's event you said that if AC market grows at 15%, you will probably have to add more capacity by FY'25. So how do you see that playing out?
- Sukrit Bharati:** So ODU, like I mentioned earlier, we are already planning to increase our ODU capacity, because that projections we already have. So ODU capacity, we are increasing. IDU, we have to wait for some more time to see if we need to increase that capacity.
- Ankur Gulati:** And this ₹60 crore CapEx is now coming in this year, because of that ODU, right?
- Sukrit Bharati:** Because of ODU, some new tool development because we are adding that range. It is also for a commercial ref, and also the Chennai unit that is planned.
- Ankur Gulati:** Okay. So now that also means that your ODU capacity utilisation will start inching up now, right? So is it fair to assume that you can now start hitting 11% of it on ODUs?
- Sukrit Bharati:** So EBITDA with ODU is lower than IDU, because the value addition in the overall product is lower. So ODU is expected to put pressure on EBITDA, but I think the other verticals like commercial ref we'll probably balance it out slightly. But overall, EBITDA that is why we are expecting it to be somewhere between 8.5% and 9%, 9.5% for this year.
- Ankur Gulati:** Yes, Sukrit and again in the same conference, all of the views you had was that as capacity utilisation for ODU goes up, you can start hitting 11%.
- Sukrit Bharati:** No, we said, I think there was some communication gap. IDU has a better EBITDA than ODU, because the overall value addition in the product is higher as ODU numbers increase, it will have a bearing on the EBITDA. Commercial ref has a better EBITDA. Lighting and commercial ref has a better EBITDA than AC business in general. So once commercial ref increases, then EBITDA will have a positive impact.
- Ankur Gulati:** Understood. And can you give more colour on this whole toy segment? Where are you guys in terms of planning?
- Sukrit Bharati:** So it is still a small opportunity for us that, we are also exploring. We are trying to understand the business, because it is a new vertical for us.

But, if there is opportunity we want to pursue it, because I think it is a growing segment. And all the processes and infrastructure required for toys is very similar to what we already have. So if there is any scope, we'll grow in it. But as of now, it is still very small for us.

Ankur Gulati: And just to understand, more plastic mould toys or you want to get into...?

Sukrit Bharati: So plastic moulding, electronic circuits are two areas. Because, ultimately, there are only two major components, plastics and the electronics which go inside toys.

Ankur Gulati: Understood. Sukrit, I understood. I got your EBITDA margin guidance. How's PAT expected to pan out in this year? Is it still going to be 2%, 2.5% or slightly high?

Sukrit Bharati: So PAT between 2% and 3%, we are contemplating if depreciation if you want to go into a straight line depreciation calculation, then PAT will go towards 3%, maybe slightly higher. But if we continue WDV, then about 2%.

Ankur Gulati: Understood. And last question, what is the number of shares outstanding once you assume all the warrants are converted?

Sukrit Bharati: Vibhuti, what are the current outstanding shares? I don't remember the exact number. Give me five minutes. I'll check and get back to you.

Ankur Gulati: Sure. All right. All the best, and thanks for your time.

Sukrit Bharati: Thank you.

Moderator: Thank you. We'll take the next question from Manan Madlani. Manan, you can go ahead.

Manan Madlani: Yeah. Hi, good afternoon. And thanks for the opportunity. So I had a follow-up question on ODU. So, as you mentioned that if we can hit utilisation rate of 70%, 80%, let's say, so is it possible for us to hit the upper range of the OPM, which you guided earlier 8% to 9%? What's the range, if I'm not wrong?

Sukrit Bharati: So, that depends a lot on how the off-season goes, because if the off-season is very good, then the utilisation goes up. But in season time, we are already almost at peak capacity.

- Manan Madlani:** Okay. Yeah. Another question on ODU. So why did only increase our capacity in ODUs like and not in IDUs as well?
- Sukrit Bharati:** So IDU, we have a capacity right now of 8 lakh units, and ODU we have a capacity of 2.5 lakh, which we just recently increased to 4 lakh, and we want to go to 6 lakh this year. Because the requirement of number of sets is increasing.
- Manan Madlani:** Correct. So, eventually, the gap between IDUs and ODUs will be reduced, right?
- Sukrit Bharati:** Correct.
- Manan Madlani:** Okay. And in the IDU space, do we still have some space with the Voltas to grow our capacity from here onwards?
- Sukrit Bharati:** IDU, yes. But this year, I think we are okay. Next year, we still have to get a firm plan. Based on that, we will take the same.
- Manan Madlani:** Okay. Now so what I wanted to ask, so if you want to increase our IDU capacity, do we need to think about going ahead and acquire another client other than Voltas? Is there a saturation point for Voltas with this 8 lakh units?
- Sukrit Bharati:** There is, I mean not as of yet, I think. There is still more potential to go forward. But for us, we'll have to do a full new CapEx, because in the existing facility, we are already maxed out at 8 lakh units. So it is a cautious step for us also, because we'll have to plan another 6 lakh to 8 lakh units and we cannot plan an increment of maybe 1 lakh, 2 lakh units.
- Manan Madlani:** Okay. Fair enough. And you mentioned the ₹60 crores of CapEx, which we are going to spend in this year. How much portion of that would be going towards refrigeration?
- Sukrit Bharati:** About ₹25 crores.
- Manan Madlani:** ₹25 crores, okay. And what is the asset turnover of this business?
- Sukrit Bharati:** Commercial ref, asset turn is almost 5x to 6x.
- Manan Madlani:** Okay. And, what gross margins if you can help?
- Sukrit Bharati:** EBITDA margins about 11% to 13% or maybe 12% roughly.

- Manan Madlani:** Okay. So it's in line with our Lighting business more or less.
- Sukrit Bharati:** Correct.
- Manan Madlani:** Okay. Yeah. Fair enough. Thank you so much. I'll join the queue.
- Moderator:** Thank you. We'll take the next question from Priyansh Dalmia. Priyansh, you can go ahead.
- Priyansh Dalmia:** Good afternoon. Can you expose some more light in terms of the EBITDA margins product wise? That would help.
- Sukrit Bharati:** So Lighting business is about 12 odd percent EBITDA. 12% and higher, 12%, 13%. IDU business is about 9%, 10%. ODU business is 7% to 8%, and Component business is also higher is about 12%, 13%, 14%. And Commercial Ref like I just mentioned is about 11%, 12%.
- Priyansh Dalmia:** And how about the toys and the water filtration?
- Sukrit Bharati:** These are under components. So, components, toys also for us right now is under components. So about 12% to 14%.
- Priyansh Dalmia:** And what kind of numbers are we talking about in terms of toys and water filters as of now?
- Sukrit Bharati:** Water dispensers and toys put together in this financial year, I think about ₹8 crores to ₹10 crores.
- Priyansh Dalmia:** In FY'25, you are talking about?
- Sukrit Bharati:** FY'25, yes. So that is why it's still a very small portion.
- Priyansh Dalmia:** And in terms of refrigeration, what is the number expected for FY'25 in terms of refrigeration? You are saying that...
- Sukrit Bharati:** In terms of refrigeration, in FY'25 we are looking at ₹30 crores to ₹50 crore top line from commercial ref, because we'll start production, commercial production only towards the end of the financial year.
- Priyansh Dalmia:** Yeah. So ramp up is going to take time in FY'25 because we have not finalised with the...?

- Sukrit Bharati:** So customers are on board, but, yes, there will be samples and then pilot runs and then mass production and then for manufacturing also to gear up, we need some time. So next year, of course, we will look at a much bigger number, we will look at almost 150%, 200%, maybe more growth in that particular segment, because we get the full-year and also the quantities increase. But for the first year, we are taking a conservative view and we are saying about ₹30 crores to ₹50 crores.
- Priyansh Dalmia:** FY'25 ₹30 crores to ₹50 crores, we're looking at it. And how much is the CapEx that we have done in the refrigeration space as of now?
- Sukrit Bharati:** So the total CapEx that we will end up doing is about ₹50 crores, ₹55 crores.
- Priyansh Dalmia:** And probably two years down the line with a 5x, we can expect ₹250 odd crores, is that possible?
- Sukrit Bharati:** More maybe. 5x to 6x, ₹300 crores. We'll have to do a little bit more investment [Technical Difficulty] doing ₹500 crores to ₹600 crores top line in the next couple of years.
- Priyansh Dalmia:** Okay. And that would be a brownfield thing. That would be in the existing facility only.
- Sukrit Bharati:** I am getting some disturbance. Hello, I am audible?
- Moderator:** He is confirming if that will be from the existing facility only?
- Priyansh Dalmia:** I'm just asking, that would be from the existing facility only?
- Priyansh Dalmia:** So I was just asking, the CapEx that you're talking about in the refrigeration space is going to be brownfield only?
- Sukrit Bharati:** Whitefield -- greenfield, sorry. It is a completely new CapEx. Yes, in a new location.
- Priyansh Dalmia:** No. The further CapEx that you're talking about, what is going to be the CapEx in the next two years per se?
- Sukrit Bharati:** Right, that will be a brownfield CapEx, yes.
- Priyansh Dalmia:** And what is the overall number of say, FY'25 and '26 that you're talking about? Then you talk about ₹60 crores and then you talk about...

- Sukrit Bharati:** So '25-'26 we are looking at a number of about 150 in commercial ref. And '26-'27, we are looking at a number of 300 plus.
- Priyansh Dalmia:** I'm talking about the CapEx?
- Sukrit Bharati:** Sorry. So total CapEx is about ₹80 crores to ₹85 crores, out of which ₹25 crores was done roughly last year, ₹25 crores we do this year. And the balance ₹25 crores, ₹30 crores in the next one and a half, two years.
- Priyansh Dalmia:** Okay. So all in all, ₹80 odd crores type of CapEx?
- Sukrit Bharati:** Correct. Yes.
- Priyansh Dalmia:** And we are almost there in terms of getting the capacity agreement done?
- Sukrit Bharati:** Yes. We are. In the next two months, we will sign off. We will probably POs and everything will be in place by end of August or early September.
- Priyansh Dalmia:** End of August. Okay. Thank you. That's it from my side.
- Sukrit Bharati:** Thank you.
- Moderator:** Just to answer the previous participant's question on the equity share post pref, it comes to ₹2.59 crores.
- We'll go to our next participant, which is Rishi Kothari. Rishi, you can go ahead, please. We'll move on to the next participant, Pradyumn Singhanya. Pradyumn, you can go ahead.
- Rishi Kothari:** Hello, am I audible?
- Moderator:** Yeah, Rishi. You can go ahead, please.
- Rishi Kothari:** Yeah, sorry. There were some disturbance from my side. Just wanted to know that right now the industry is going around on the odd of 20%, 25% of CAGR, right? And we are claiming that for next two, three years, we are going to grow up for 40%, 50% of growth rate. So how exactly are we managing? I believe we are increasing our market share among the players that we are working in the industry right now. So how exactly are we planning to be in that market share? What exactly different that we are doing compared to any other in market?

Sukrit Bharati: So, couple of things. One is AC business, the growth in the ODU side is going to give us a good growth overall. So AC business, market growth and increase in ODU production will effectively give us anywhere between 25% and 40% growth. The other businesses, Lighting business is growing faster. Lighting business is growing at almost 60%, 70% year-on-year. And the newer businesses have a zero base. So there, whatever growth is there is getting added to the overall growth. So and Component business also, whatever is growing is growing on a very small base. So there also the growth rate is much higher.

Effectively, if you see, there are two strategies that work in tandem. One is growth in AC and plus growth coming from new segments. And hence we believe we'll be able to achieve that growth rates.

Rishi Kothari: Okay. And in terms of the margins that we talk about, we are seeing PAT margins are being for last two, three years, it has been more or less decreasing let's say 2.2%, 2.3%. It has come to around 1.8%. So what exactly is the reason? Are we just, because of the interest cost that we are being incurred for every single year increasing basis or if there's something else? That's because of the competition in the market.

Sukrit Bharati: So interest and depreciation, like I mentioned, we are doing a WDL depreciation, which is why our depreciation is almost ₹18 crores this year. Whereas, if we had done a straight line depreciation, our depreciation number would have been about ₹7 crores, ₹8 crores. So technically, PBT would have increased by ₹10 crores. So, because we are taking a bulk of the depreciation initially, that is why the PAT numbers are under pressure. But if you look at EBITDA, the EBITDA has been decently healthy considering the combination of products that we have.

Rishi Kothari: Okay. And any specific reason of we're using a WDV method and not SLM method for depreciation?

Sukrit Bharati: We've been following it for a while now. That is why. Initially, the asset base was not so big. Hence, WDV made sense because it saved on taxes. But now, depreciation is very high, which is why it is hitting our PAT. But effectively, it all boils down to, I mean sooner or later that profit will come in the books. It is just a matter of sooner or later. So this is a more conservative approach in accounting.

Rishi Kothari: So now it is one of the reasons to use this WDV method to save taxes on our books, right? So that's the more...

- Sukrit Bharati:** Correct.
- Rishi Kothari:** Also in terms of the current interest cost. Are we planning to decrease the current borrowings that we have on our books, or do we want to do the expansion on CapEx based on borrowings? What exactly is the future plan for that?
- Sukrit Bharati:** So with the recent fundraise that we did, we believe this year, the interest cost will be slightly lower than last year even after the growth coming in. So it will be similar or a lower number, irrespective of the growth. So as a percentage, interest cost will come down in the current financial year. But, we are not looking to borrow a lot possibly, but maybe ₹5 crores, ₹10 crores or there'll be a marginal change in borrowing this year as well. There'll be marginal increase in borrowing, but not anything significant.
- Rishi Kothari:** Okay. Got it. Thank you.
- Moderator:** Thank you. We'll take two questions from the chat members first. I would like to invite Naitik Mutha to ask his question. Naitik, you can go ahead.
- Naitik Mutha:** Hi. Thanks for taking the question. My first question is just, I missed on the part where you mentioned the capacity utilisation of the current segments. If you could just repeat that that would be helpful?
- Sukrit Bharati:** So IDU capacity utilisation, we are almost at 75%, 80%. And ODU, we are at a blended capacity utilisation of about 50%. Yeah. That was...
- Naitik Mutha:** And the lighting?
- Sukrit Bharati:** Lighting, 65%, roughly, 65%, 70%.
- Naitik Mutha:** And components would come along with lighting or that would be separate?
- Sukrit Bharati:** So components, it varies from component-to-component. It is not, I mean very difficult to quantify in general. But, as of now, we do not have too much spare capacity in components. That is for sure.
- Naitik Mutha:** Okay. Got it. And my second question is if you could throw some light on how would our working capital change, when we add this new segment of commercial ref?

- Sukrit Bharati:** Commercial ref working capital is expected to be similar, as to what it is in AC right now.
- Naitik Mutha:** Okay. And at a blended level, will that make any changes to the working capital at a company level?
- Sukrit Bharati:** We are looking to improve it slightly. We are hoping that, we'll improve it by about 5%, 10% on the current level, but not a significant change.
- Naitik Mutha:** Thank you. That's it for my side.
- Sukrit Bharati:** Thank you.
- Moderator:** Thank you. We'll go to the next participant, Tanay Shah. Tanay Shah you can go ahead.
- Tanay Shah:** Yeah. Hi. Thanks for the opportunity. Just had a couple of questions. So, obviously, I just wanted to understand how the volume growth would have been in, let's say, April and May given, like we've had a strong summer. So that can give some sense on how the first quarter would be?
- And my second question would be is to, how do we expect our growth to continue, given that we have some sort of plan concentration with one particular customer, and they have their own capacity coming up, and the sort of doubling the capacity. And then that is also being affected on the other assembly players. How are we expecting that sort of growth going forward from the RAC segment?
- Sukrit Bharati:** I'll take the second part first. So far, our discussion, our capacity is sort of is considered in their plan. So I don't believe, because I mean, we are almost dedicated vendor to them as of now. So our capacity is part of their plan is our understanding and based on the projection that we have from them, we don't see a challenge in terms of capacity utilisation for this year and the next year. That is point number one.
- Point number two, about capacity. Can you repeat your first part of the question, please?
- Tanay Shah:** Yes. Just wanted to understand how the volume growth has been in April and May given that, we've had a strong summer?

- Sukrit Bharati:** So, April and May normally is good every year. And this year, June is also looking to be really good, which is not normally the case because June onwards, the sales start declining. But this year, we are expecting a good June. So overall, the June quarter is expected to go better than last year.
- Tanay Shah:** Got that. So I think you're looking for a strong first quarter, obviously, and then kind of tapering of midyear and then pick up again in fourth quarter.
- Sukrit Bharati:** Correct.
- Tanay Shah:** Got it. Okay. Thanks.
- Moderator:** We'll go to the next participant, Aashil. Aashil Shah, you can go ahead, please.
- Aashil Shah:** Yeah. Hi. Just a couple of questions. One is, how diversified are we expecting the commercial refrigeration business to be?
- Sukrit Bharati:** Commercial refs, we are -- so any particular customer, we are not expecting more than 30%, 35% of business share.
- Aashil Shah:** Okay. Got it.
- Sukrit Bharati:** So there'll be two anchor customers, and then there'll be three, four smaller customers. So anchor customers will be anywhere between 25% and 30%, 35%, and then two, three smaller customers. So overall about four, five customers.
- Aashil Shah:** Okay. Got it. And will any of these anchor customers will it be Voltas only?
- Sukrit Bharati:** No. Not Voltas. Voltas has their own commercial ref facility, and so they are, I think self-sufficient in commercial ref.
- Aashil Shah:** Okay. Got it. And I believe that, generally, the brands of the OEMs come, I think around April, May and give you a forecast for the entire year, what they kind of expect you to support them with. Has that already happened?
- Sukrit Bharati:** That happens in July, August tentatively, because so far we have not exited the last season. But we've had a preliminary discussion with regard to the next year, which is already in place. Yes.

- Aashil Shah:** Okay. Got it. And the discussion that was had with you with respect to your OEMs. Was there any difference compared to what was expected, like whatever the guidance they would have given you the previous year? Has there been any change to that, or it's been pretty much in the same lines?
- Sukrit Bharati:** Same lines.
- Aashil Shah:** Okay. Got it. And so I think this half year, H1, H2 there was little bit lower revenue growth compared to the volume growth you had, because of the pricing coming down on the AC side. Are we seeing any out there? Like, has that stabilised? Is that continuing to go down? How is that?
- Sukrit Bharati:** So that depends a lot on the LME prices. So LME prices last year were very high in the first quarter, and then they fell. So there was almost a difference of about 10% to 15% on the product level. And, this year, they were very low, but they are at the peak now. So the material was bought at a lower price, but now maybe next quarter onwards prices are expected to increase further. So price is not really a function that we control. It depends on the raw material price. So it's very difficult to predict whether it will go this way or that way. That's not really in our hands.
- Aashil Shah:** Okay. Got it. And how does it work in terms of your EBITDA margins? Like, if LME goes from bottom to top in that quarter, do we temporarily have more margins or less margin? How does that part work?
- Sukrit Bharati:** So we have a quarterly pricing structure with our customers. So, the pricing gets quarterly reset based on the average of last three months. So effectively, it nullifies over a period of two quarters. I mean, so every quarter, it nullifies effectively.
- Aashil Shah:** Okay. Got it. So if it's going from peak to bottom, then that time there might be a temporary up move in the margins, and then by an export it will get quantified?
- Sukrit Bharati:** Correct.
- Aashil Shah:** Got it. And how big are we expecting the water dispenser business to become? Because I think right now it's very small. We're thinking it will...

- Sukrit Bharati:** Water dispenser as a category over the next two years can be a ₹50 crores to ₹100 crore category for us. But the good part of water dispenser is it is a gateway product for a lot of export customers. So it can and it comes under the commercial ref category, so it can help us get into export customers for that segment also.
- Aashil Shah:** Got it. But I think in AC business, it's very difficult to do exports. I think from whatever I understood you to get lot of qualifications and all of that done. Is it similar in commercial ref or is it easier?
- Sukrit Bharati:** Commercial ref is easier. Actually, AC apart from certification, every country does not require certification. For example, African market is not certification driven, but it is driven by a share price competition. The challenge that, is there in ACs that AC installation and service is a big component. So and also the life expectancy of an AC is anywhere between five and 10 years at the customer level.
- At a commercial ref product or a water dispenser product, they are a plug and play product. And because they're in commercial use, because of rough handling, the life expectancy is three to five years. So and they're not normally serviceable. If they are mishandled or they are roughly handled, they end up being discarded. So the rotation cycle is much faster. So it is much easier to sell commercial ref than air conditioners in any country, because service requirement is much lower.
- Aashil Shah:** Okay. Got it. And last question from my end, a lot of the competition has started getting into the washing machine business. I think Amber Enterprises and I think one other player have decided to set up washing machines. Is there any reason why we are also not going down that route?
- Sukrit Bharati:** We are planning to get into washing machine. I mentioned earlier on the call. We've not finalised, but it is on the roadmap. Yes.
- Aashil Shah:** Okay. Got it. Thank you. That's all I have.
- Sukrit Bharati:** Thank you.
- Moderator:** Thank you, Aashil. We'll take the next question from participants who still not asked question. Miksha, you can go ahead, please.
- Miksha Sheth:** Good afternoon.

- Sukrit Bharati:** Good afternoon.
- Miksha Sheth:** Yeah. So my question is on the interest part. But our interest expense is currently coming to 17%, 18% approximately. So are we still continuing the bill discounting thing, or any further plans to reduce the working capital days in future?
- Sukrit Bharati:** So our bill discounting currently is. We are ₹17 crores, ₹18 crores, not 17%, 18%. So working capital, like I mentioned, overall working capital as a percentage will come down this year. But we will continue to balance between using the CP limits and invoice discounting.
- Miksha Sheth:** Yeah. I'm talking about the average interest rate on the borrowings that is coming approximately 17% to 18%?
- Sukrit Bharati:** Right. That seems higher because of invoice discounting. Our rate of interest is nowhere so high. Our rate of interest on average is 9% to 10%, borrowing rate of interest. But, because the debt that you see is net of discounted invoices, that is why as a percentage it seems higher. And it is expected to come down this year. Yes.
- Miksha Sheth:** Okay. And one last question, how are we planning to use our QIP prestige?
- Sukrit Bharati:** So, working capital and CapEx primarily.
- Miksha Sheth:** Okay. Thank you.
- Sukrit Bharati:** Thank you.
- Moderator:** We'll take the next question from Sachin Gajargaonkar. Sachin, you can go ahead. Sachin, your line is unmute. Please go ahead. I think there's a problem at his end. We'll take the next question from Ranodeep Sen.
- Ranodeep Sen:** Sure. Thank you for the follow-up. Sukrit, wanted to understand, if I'm not wrong, Western Refrigeration, they are at around 27% EBITDA margins, And I understand that comes with years of scale, right?
- Sukrit Bharati:** Correct.
- Ranodeep Sen:** So in the long run, given we are focusing in a big way in this space. In the long run, I mean do we see this kind of margins coming in from the sector?

Sukrit Bharati: Not so high. Maybe, we can aspire to be around 15% to 18%. But, until unless we go into direct distribution, I don't see margins of 25% plus. But 15% to 18% is doable considering a blend of variety and customers.

Ranodeep Sen: Sure. Appreciate that. One last question. This is at a macro level. So we are doing as a country 10 million ACs. Whereas China, on the other hand, exports only around 110 million to 120 million. On the call, you mentioned that the challenges when it comes to export primarily installation and servicing. So I'm just trying to understand how is China able to kind of crack this juggernaut? And, is there a way forward that we are also looking at exports of AC in a big way?

Sukrit Bharati: Right. So I was saying comparatively as compared to commercial ref, AC is installation commissioning heavy, service heavy. So it was a comparative statement. But it is not that we cannot service ACs or we cannot supply spares to international customers, but there you need to have a local tie up with somebody who can help you in executing the installation commissioning for air conditioners. In freezers, it is not like that.

Also second part is in air conditioning, you need to have a continuity in business because you'll need to keep servicing the parts. In commercial ref, if your customer wants to change the buyer, it is easier. If they want to switch from China to India, they can do it much faster, because that continuity is not required. So of course, it goes both ways, getting and losing customers is easier and faster in commercial ref, where in AC, it's a longer process. That is point number one.

Point number two, so in ACs, what we are doing now is we are now exploring more and more products that we can export. And we are also looking at variants of ACs in the sense that there are niche products for cooling on the heat pump technology. We are exploring those products also if we can develop a niche in that segment and export. So getting an entry into the export market is the more important part, and then you build on the market and then you scale. So, apart from the other hurdles because if you go into the vanilla products, which are present in the market, the price competition is very high. And it takes, I mean, you have to sort of beat China in pricing and in variety to be able to get into that market. So we are also developing one product for which we are expecting an order in the coming week where we will start exporting a product to Middle East, which is more of a niche product. And once we have two, three such product categories, then we can keep building on that segment.

So in summary, we are actively working on export. And I think this year our export number is, we are expecting at least 2%, 3% of our sales to come from export. And if that happens, we'll continue to build on it in the coming years.

Ranodeep Sen: Sure. I appreciate the detailed and the macro perspective. Thank you so much.

Sukrit Bharati: Thank you.

Moderator: Thank you. We'll take the next question from Manan Madlani. Follow-up question.

Manan Madlani: Yeah. Hi, thanks for the opportunity again. So you mentioned the June month or the let's say, first half will be better than the last year. So on the margin front, do you think is it possible for us to increase our margin?

Sukrit Bharati: EBITDA levels in the existing segment, not really. Because like I said, pricing is quarterly pass through. So slight change in volume will, I mean some change in volume will have a minor impact, but not a significant impact.

Manan Madlani: Okay. Because we are increasing our capacity in ODUs, so eventually, it will impact our margins.

Sukrit Bharati: Correct. Yes.

Manan Madlani: Okay. So, I guess it will be less than 10% then?

Sukrit Bharati: It will be. Yes.

Manan Madlani: Okay. And on cash conversion cycle, can you tell me how many days were there for this year?

Sukrit Bharati: I don't have the figure in front of me. Sorry.

Manan Madlani: Okay. So whatever the number will be, it will be less than this year?

Sukrit Bharati: We are planning to. Yes. We are targeting to reduce that number consistently, but I don't expect a significant jump because all the products that we are in, and if you're working with domestic customers where payment terms are 60 days or 75 days or whatever that it may be, so it will continue to be on similar lines.

- Manan Madlani:** Okay. And the last question is on the lighting side. So, have we done any non-compete agreement with any of our client?
- Sukrit Bharati:** No such agreement in any segment.
- Manan Madlani:** Okay. So, are you planning to go into B2G side with the lighting going forward anytime?
- Sukrit Bharati:** We are exploring, but as of now, we don't have anything on hand. But if we get an opportunity, we'll definitely do it.
- Manan Madlani:** Okay. Fair enough.
- Sukrit Bharati:** If we do, there's enough opportunities.
- Manan Madlani:** Okay. Yeah, thanks. That's it from my side. I wish you all the best.
- Sukrit Bharati:** Thank you so much.
- Moderator:** Thank you. We take the follow-up question from Harshil Bhayani. Harshil, please go ahead.
- Harshil Bhayani:** Yeah. Hi. My question is on, in the investor presentation, you have mentioned that company has started pilot production for electronics and controller required for EV charger. Can you give a brief about that? What are the exact products and...?
- Sukrit Bharati:** We are doing it for a company who's making EV chargers. So we are making some circuits and boards for them. So they are in the development stage, and we've done some pilots. As they scale up, we'll probably make and supply some controllers to them. But it is still early. Let's see. We are trying to explore what are the opportunities in that space, and if we can do something on the electronic front. If the opportunity grows, then probably we can also explore further growth in that segment. But it is right now exploratory.
- Harshil Bhayani:** So can we say that in FY'25 or '26, it will be like commercially started and scalable?
- Sukrit Bharati:** Too early to comment. Maybe in a few months, I'll be able to give you a better picture.

- Harshil Bhayani:** Understood. Okay. And can you give a brief about our competitors? Like, who are the big players, and what are our rankings in terms of capacity in ACs, virtually?
- Sukrit Bharati:** So in AC, I mean, Amber, from what I know is about 20, 25 lakh sets has a capacity. PG has recently increased their capacity. I don't have their exact numbers, but I think totally they can do about 10 to 12 lakh sets is what I understand. EPAC is at 8 lakh to 10 lakh sets. Of course, please don't quote me in these numbers. I'm not sure about. These are my approximations. I mean in a sense, don't hold me to these numbers. I don't do for these numbers. So, and blended, our capacity is about 6 lakhs, which we plan to increase to about 7 lakhs this year, net blended. And so probably at number 4, as of now is my understanding, in OEM and ODM segment.
- Harshil Bhayani:** Understood. Yeah. So this is like, current capacity. The post expansion will be great.
- Sukrit Bharati:** I mean, I believe I've considered their current capacities which are getting commissioned, but I don't know the exact numbers.
- Harshil Bhayani:** Understood. So our share in AC production would be like, say around what percentage it would be?
- Sukrit Bharati:** If you look at the total market of 10 million and we are doing about 0.5 million, then we are about 4% or 0.4 billion, so 4% roughly.
- Harshil Bhayani:** Understood. Yeah. Okay. And in one of the previous questions, there was a question about warrant. So post conversion of warrant, what would be the promoter shareholding? And is there any further plans of dilution or fundraising in coming months?
- Sukrit Bharati:** Not as of now. Not in this financial year.
- Harshil Bhayani:** Understood. So this 57% is post warrant conversion?
- Sukrit Bharati:** Post warrant, yes.
- Harshil Bhayani:** Okay.
- Sukrit Bharati:** 56% or 57%, somewhere there.
- Harshil Bhayani:** Okay. Thank you.

- Moderator:** Sachin Gajargaonkar, if your sound resolved, you can go ahead and ask the question. We are unable to hear him as yet. We'll take the last question for the day from Aashil Shah. Aashil, you can go ahead.
- Aashil Shah:** Yeah. Hi, another question on the washing machine part. Couple of guys are getting into washing machines in years larger than you, and people who already have washing machine capacity are expanding. Just wanted to understand, is there some reason that is something changing in the industry as someone vacated the industry? Why suddenly so many people are trying to set up capacity?
- Sukrit Bharati:** So washing machine as a product is also growing pretty rapidly. And the entry level semiautomatic washing machines, I think the demand is very high. Further, another advantage or requirement that customers have is to have a regional tie up for supply of washing machine. Because it is a bulky product and a low value product. Nobody wants to transport it from one part of the country to the other part of the country. Most of the manufacturing of washing machine in India is saturated to the North part of India, and hence, we believe we have an opportunity.
- Aashil Shah:** And how much of it is currently imported washing machines?
- Sukrit Bharati:** I don't believe semiautomatic machines are imported as of now. I think the import has stopped almost completely since last year.
- Aashil Shah:** Okay. So the advantage that we have in washing machines or anything we can crack is because of location being in the West.
- Sukrit Bharati:** Location. And once you start washing machine, it is a more or less standard product in terms of semiautomatic washing machine. So it is a constant sort of business.
- Aashil Shah:** Okay. Understood that. And is there any like when we get into the space, is there any difference of scale it takes to do front load or top load, or we'll be able to do both with same facility?
- Sukrit Bharati:** So, we are right now doing semiautomatic, which is a top load machine. So semiautomatic top load is the simpler out of the three. So in difficulty, if you say semiautomatic top load is the easiest product, then is the top load and then is the front load. So front load is the most difficult product in terms of, I mean requirements and line capabilities and everything. So migrating from semiautomatic top load to automatic top load is doable. It requires some additional CapEx, but not a massive CapEx. Front load is a completely different setup.

- Aashil Shah:** Okay. Got it. And last question from my side, 2.59 crore shares you mentioned outstanding post the pref. Is that including the warrant conversion?
- Sukrit Bharati:** No, no. This is pre-warrant.
- Moderator:** 2.59 plus warrant will be 2.9 crores.
- Aashil Shah:** 2.9 total post-warrant. And how much cash would come in at the warrant conversion over and above what's in our books?
- Sukrit Bharati:** About, 30 lakhs into about 50 crores if I am correct. Just let me.
- Moderator:** 57, that'll be precise.
- Aashil Shah:** ₹57 Cr. Okay. All right. That's all I had. Thank you so much.
- Moderator:** Sachin has sent this question on chat, Sukrit. Hi, is there any plan to move from SME to main exchange?
- Sukrit Bharati:** We are in the process of applying. Actually, the paid up capital of the company has increased from ₹25 crores, which is why we are mandated to move. So we are in the process of doing the application. Once we apply, we will know if the exchange approves it. But if they approve it, then in the next couple of months, we will probably migrate to the main board.
- Vinay Pandit:** Sure. That is the last question for the day. That brings to the end of this conference call. Sukrit, do you want to give any closing comments?
- Sukrit Bharati:** I thank everybody here again for taking the time and joining the call. I hope we've been able to answer most of your questions. And we continue to thank all of you for being part of the company. And we hope we can continue growing with all your support and the hard work of the team and support from the customers. Thank you so much.
- Vinay Pandit:** Thank you, Sukrit and thank you to all the participants and the management for joining on this call. This brings us to the end of the conference call. You may all disconnect.