ELIN ELECTRONICS LIMITED

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November 14, 2024

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra - Kurla Complex
Bandra (E), Mumbai - 400 051

BSE Limited
Corporate Relationship Department,
2nd Floor, New Trading Wing,
Rotunda Building, P.J. Towers,
Dalal Street, Mumbai - 400 001

Symbol: ELIN

Scrip Code: 543725

ISIN: INE050401020

Dear Sir/Ma'am,

Subject: Submission of Transcript of conference call held on November 12, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of an earnings conference call for the Q2FY2025 held on Tuesday, November 12, 2024.

The above information is being uploaded on the website of the Company at www.elinindia.com.

You are requested to take above information on record.

Thanking You

Yours faithfully,

For Elin Electronics Limited

Lata Rani Pawa Digitally signed by Lata Rani Pawa
Date: 2024.11.14 17:26:55 +05'30'

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"Elin Electronics Limited Q2 FY25 Earnings Conference Call"

November 12, 2024

MANAGEMENT: **MR. KAMAL SETHIA - MANAGING DIRECTOR, ELIN ELECTRONICS LIMITED**
MR. SANJEEV SETHIA - WHOLE TIME DIRECTOR, ELIN ELECTRONICS LIMITED
MR. PRAVEEN TANDON - CHIEF EXECUTIVE OFFICER, ELIN ELECTRONICS LIMITED
MR. AKASH SETHIA - HEAD OF STRATEGY, ELIN ELECTRONICS LIMITED

MODERATORS: **MR. NIKHIL KANDOI – JM FINANCIAL INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to Elin Electronics Limited Q2 FY25 Earnings Conference Call hosted by JM Financial.

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

I now hand the conference over to Mr. Nikhil Kandoi. Thank you and over to you, sir.

Nikhil Kandoi: Thank you, sir. Good afternoon, everyone. On behalf of JM Financial Institutional Equities, I welcome you all to Elin Electronics Q2 FY25 Earnings Conference Call.

Today, we have with us management represented by Mr. Kamal Sethia – Managing Director; Mr. Sanjeev Sethia – Whole Time Director; Mr. Praveen Tandon – Chief Executive Officer, and Mr. Akash Sethia – Head of Strategy.

Without taking much of your time, I would like to hand over the floor to the Management for "Opening Remarks", post which we can open the floor for Q&A. Thank you and over to you, sir.

Sanjeev Sethia: Thank you very much, Nikhil. Good evening, ladies and gentlemen. This is Sanjeev Sethia – Director at Elin Electronics Limited.

We also have on call today our Managing Director – Mr. Kamal Sethia; Mr. Akash Sethia, who looks at strategy, and our CEO – Mr. Praveen Tandon. Thank you for joining our Earnings Call for the Quarter and Half Year Ended September 2024.

Coming to our overall performance for the quarter:

Total income for the quarter was Rs. 3071 million against Rs. 2754 million in the same period last year, up approximately 11% on a YoY basis. On a quarter-on-quarter basis, it was up from Rs. 2959 million by about 4%. The key factor for increase in revenue on a year-on-year basis is better volume off-take in the motors and small appliance category. This has been partially offset by a decline in revenue in the lighting and fans category. Gross margins declined by 90 basis points on year-on-year and 160 basis points on quarter-on-quarter on the back of higher and more volatile raw material prices, especially aluminum and copper.

Consolidated EBITDA for the quarter was Rs. 113 million against Rs. 99 million in the same period last year. Key factors for this are as follows. Revenue growth of 11% year-on-year, which was partially offset by a decline in gross margins of 90 basis points year-on-year. We have strengthened our organizational structure with key hires that have reflected immediately in the cost, but will take some time to show results leading to lower EBITDA margins. We have also taken provision of Rs. 3.5 million during the quarter pertaining to ESOP cost. The consolidated PAT for the quarter was Rs. 48 million against Rs. 39 million in the same period last year. Our liquidity position remains strong with net cash of INR 984 million as at September 24. This is a substantial improvement over last year's net cash balance of INR 823 million, which is on the back of improvement in working capital.

Our CAPEX in Quarter 2 FY25 was INR 183 million, and half year of 24, H1 FY24 was INR 218 million. This is largely on account of new building space capitalized in Ghaziabad of INR 97 million that will produce OFR, OTG, and TPW fans, and its related investment in plant and machinery and tools aggregating to INR 98 million. Our working capital cycle as at September 24 is at net 58 days against 63 days last year and 68 days in March 24. This is largely on the back of securing better credit terms from our vendors. We are also focusing on optimizing inventory levels going forward. We remain on track to further improve our net working capital days to 45 to 50 days by March 2025.

Now, I would like to share with you the “Performance” and “Strategy” in each of our businesses going forward. Please refer to Slide #5 of the presentation.

In lighting, fans and switch segment, the revenue for the quarter was INR 666 million against INR 796 million in the same quarter last year. This was primarily driven by a reduction in revenue from the LED lighting segment by INR 143 million. LED lighting X-flashlights declined from INR 643 million last quarter to INR 500 million in the current quarter. This was largely led by price erosion in certain categories and volume decline in the baton category. The largest volume decline has been witnessed in the baton category. The price erosion has been led by a combination of intense competition as well as changes in specification and engineering.

Regarding our fan business, revenue from our TPW fan business is ramping up. From December 2024, we will be adding a top five customer as communicated earlier in our quarter one earnings call. Our ceiling fans should also see better offtake starting quarter three, which is the start of the season.

Please refer to Slide #6 of the presentation, in the small appliance segment, revenue rose from Rs. 690 million last quarter to Rs. 829 million in this quarter. This was primarily driven by strong growth in the personal care business. Kitchen and home care revenue increased by 8% from Rs. 459 million to Rs. 494 million year-on-year. This was on the back of improvement of revenues from irons and bar blenders, which was partially offset by a decrease in mixer grinder sales.

Personal care segment showed strong growth from INR 231 million to INR 336 million year-on-year, largely on the back of new product launches, sterilizers, hairbrush, and new models of trimmers. Hair dryer volumes were also strong.

Please refer to Slide #7 of the presentation. In the FHP motor segment, revenues were up from Rs. 557 million to Rs. 741 million, primarily driven by increase in revenues from motor of consumer durables by INR 131 million, which was on the back of sharp volume growth in mixer grinder and chimney motors. Revenue from sales of fan motors increased from INR 43 million to INR 68 million.

Status of new products in the pipeline is shared on Slide #10 of the presentation. Overall, quarter 2 FY25 has been a mixed quarter for us. Revenue growth of 11% would have been even better if not for the weakness in lighting business.

It is also pertinent to share some perspective on the macro situation. In our view, overall demand still seems tepid in the consumer durable FMEG space. We are seeing this across categories of lighting, fans and small appliances. Further, due to sluggish demand, there's heightened competition within brands. This has led to pricing pressure on companies like us manufacturing for them. The tepid demand scenario has also meant that our capacity utilization has been below par. Most categories are operating between 55% to 65% utilization level single shift basis, with the exception of lighting business where it is at around 70%. For the full year FY25, we believe revenues will be within the original guidance of INR 1165 to INR 1200 crores, margins will be under pressure. This should be viewed in the context of the larger macro situation. As always, we remain committed to drive value for our customers and shareholders alike.

With this, we conclude our opening remarks. We can now open the floor for Q&A. Thank you so much.

Moderator: Thank you very much, sir. We will now begin the question and answer session. First question is from the line of Drashti from Thinqwise. Please go ahead.

Drashti: Sir, I wanted to understand how are we progressing in the lighting division in terms of new potential customers that we are eyeing for and when can we expect revenue being driven by them? And also in the lighting division, is this decline of 22% purely price or is this also because sigma 5 has not given few products to us, so I had now started looking at other customers for those products, because now they are free to go anywhere for certain categories. So I just wanted to understand more on the lighting revenue decline of 22%. And what would be the volume growth for us in this lighting division in Quarter 2?

Sanjeev Sethia: Okay, thanks for that question. Let me take up the first question with respect to addition of new customers. We are in touch with 4 or 5 customers for the lighting business. They're at various stages of approval because we have to be onboarded with certain customers where we are currently not supplying lighting products to them. And so our idea is that probably the queue between January and March, we should be able to add at least two customers to our lighting portfolio. Overall, as we explained, lighting demand is a little tepid or sluggish. So even with the customers who we have a good business relation with, there is no actually strong demand that they are looking very aggressively for new customers. So that's why it's taking a little time. We are also trying to develop some new product categories in lighting, especially linear lighting, where we feel that there is a demand and we should be able to offer products which are a little different and unique. And those products will also help us in adding new customers. With respect to the decline in 22%, it was mainly on the back of, let's say, a quarter to quarter because of a sharp decline in the baton business. Overall, if you see on a half year to half year basis, overall decline is about 8%. So it's not a thing that Signify is now free to buy and they're not picking up volumes from us. I mean, Signify, the major buyer, always had a number of suppliers and they would share, the share of business would be divided amongst it. So overall, in a half and half year business, or even now with 9-month data available with us, the overall business by value is at around 7%-8% down, mainly on account of the price erosion, which we are seeing in this category. It's not that Signify, we are not a preferred or a strategic supplier to Signify. I mean, they still continue to buy, and I believe we will still be one of the largest customers to Signify in India.

Drashti: And sir our gross margins have declined materially on year-on-year basis. So what led to that? Is it just curiosity because of the mix change or any particular product which is likely to decline in gross margins?

Sanjeev Sethia: Drashti, look in general like we outlined in our opening remarks, raw material prices especially aluminum and copper have been both in general higher as well as more volatile. From our experience, as long as there is continuity of pricing, we are able to pass on pricing but volatile pricing which means it's up for 5 days and then down for the next 5 days hurts our cause**.** So this is the key reason why we've seen margin decline. Now how this pans out remains to be seen. If it continues to remain volatile, margins could be under pressure, which is what we've highlighted in our opening remarks. However, if it reverts back to being stable, margins will revert back soon enough within the quarter because we follow with most of our customers, pricing with a lag of one quarter. Hope that clarifies.

Drashti: And what are the EBITDA margins that we are looking for the entire year? And what would be the employee cost that we are building in the new EBITDA margins that we are thinking about?

Sanjeev Sethia: Look, in our earlier call, we had guided for an EBITDA of approximately 5%, 5.2%, 5.3%. If raw material prices continue to be volatile, this could come under pressure, which is what we've kind of highlighted. Now the quantum is a little bit tough for me to quantify because, very frankly, even I don't have a view on how raw material prices will behave. If they revert back to being steady, then we hold on to a stance of 5% EBITDA. If they continue to be volatile, it is very difficult for me to give you an accurate assessment of what they will be at. That's point one. In terms of what employee cost will be, so look, we are done in terms of adding the talent that we had to. All the talent that we needed to add has been added. So you can look at our current kind of employee cost for the quarter and assume that as a steady state number going forward.

Of course, that remains subject to direct labor cost, which will increase if there's an increase in revenue.

Moderator: Thank you. Next question is from the line of Arafat Saiyed from InCred Research. Please go ahead.

Arafat Saiyed: My first question on CAPEX detail. You said from the first half, the CAPEX goes to Rs. 18 crores. So just wanted to understand where you spend this amount and again, what's the total CAPEX plan for FY25 and FY26?

Sanjeev Sethia: Sure. So Arafat, just a clarification. The Rs. 18 crore number is for quarter 2 and for the first half entirely it is Rs. 21.8 crore.

Arafat Saiyed: And what we are looking for FY25?

Sanjeev Sethia: For the full year FY25, we should be in the range of Rs. 35 to Rs. 40 crores.

Arafat Saiyed: post that sir.

Sanjeev Sethia: Also, FY26 as of now should be within that range. Now, just one caveat. We have a plot of 4 acres in Bhiwandi, which we've kind of mentioned earlier. This CAPEX does not include CAPEX for building a new facility. So this is on the existing three plants. As and when we decide to build out Bhiwandi, that CAPEX will be over and above in addition.

Arafat Saiyed: Got it. And sir, my next question is on your major client edition, which you added in past, let's say, past couple of quarters and also the new product which you introduced. Can you throw some light on that?

Sanjeev Sethia: Look, we can give you qualitative comments because with most of our customers, we have NDA issues. So we are tightly bound by NDAs in terms of disclosing specific names. So I can give you like it's a top five in a fan or a top five in a lighting, so qualitative remarks, but unfortunately due to confidentiality issues, cannot name the customer directly.

Arafat Saiyed: I just want to understand outlook on EMS of lighting. How it has spanned in the past and what's your outlook for next couple of quarters. And I believe the prices have increased significantly in the past. So how you look at the pricing strategy by you guys?

Sanjeev Sethia: If I look at, let's say, some of the big players in the lighting, I mean, in their performance last couple of years and even within this year, it's a little stagnant in terms of the market especially Signify losing market share and overall growth is also not very bullish. So I think at least in the next quarter or so, this kind of trajectory of growth is going to continue and there will be price pressure for OEM suppliers like us to drive down the prices so that price pressure is going to continue maybe coming quarter, two quarters. We see some, especially let's say for lighting today, polycarbonate is a big raw material. There was a substantial price increase. In fact, about 2-3 months back, there is some relaxation there, but overall, price pressures are going to continue in this business. We don't see too stronger demand for the commoditized products like bulbs and batons, somewhere I think growth is slowing down. Growth in this product and margins in this business has come into a little like linear lighting where offices are traditionally moving to now a little bit of fancy or it's like a designer lighting, I must say, if I can say. Instead of simple 2x2 kind of office lights which used to be used, now it's going for linear where each architect or specifier gives a new design. That's where we see growth coming, margins are also a little better there. Monument lighting or building lighting, those are also certain category outdoor lighting, the fancy way we can do tunable lighting, change the colors. Those categories are also seeing better growth and better margins. And from our point of view also, we are also looking to grow in that business so that we can increase our overall margins and improve our business performance and growth as far as lighting is concerned.

Arafat Saiyed: And lastly, on the new product launches, you launched electric trimmer, electric kettle, and all these things would like to launch in the next couple of quarters. So just want to understand, let's say by FY26, what is the contribution of selected new products? And also beside these, any new production will be happening in the next 2 years?

Sanjeev Sethia: So Arafat, in terms of the next year, new products will still not be a very large number. The reason is that there is a kind of a general ramp up time taken for any new product, any new category that we launched. It typically takes anywhere between 2 to 4 quarters to reach steady or peak kind of levels. So given the fact that, for example, you spoke about kettle or any new category that is launching next year, typically it takes, like I said, 2 to 4 quarters to kind of achieve steady scale revenue. So overall, if I take all the new product categories, which means that the product categories that we've launched this year, as well as those that we will launch next year, the contribution of these combined for the revenue of next year should be in the vicinity of anywhere between 12% to 18%.

Moderator: Thank you. Next question is from the line of Sahil Doshi from Thinqwise. Please go ahead.

Sahil Doshi: My question pertains that last quarter, we said we're confident of margins of around 5.5% for this year. And second was in terms of working capital. We were looking at getting it to around 45 days. So just wanted to check on where are we in that path, and how do we think about these two goalposts for us?

Sanjeev Sethia: Sure, thank you for your question, Sahil. I'll address your first question first around margins. Yes, we did highlight that we will be in the 5% to 5.5% range EBITDA for the full year. That said, there have been very volatile and increased raw material prices in Q2, especially in aluminium and copper. Now, assuming these prices remain where they are, margin should normalize because we work with a pricing lag of a quarter with our customers. However, if this volatility continues to persist, there could be margin pressure. The only point of highlighting this upfront was that as a responsible management, we believe that it is our duty to communicate with our stakeholders, the business environment as we see it. If I don't have a specific view on how raw material prices will pan out, nobody does. So the idea of highlighting this was just to sensitize everyone that if they continue to be volatile, prices will be under pressure. If they remain steady, then margins will normalize. That's point one. Point two, on our working capital, we are making reasonable progress. Like we mentioned in earlier remarks, if you look at March where we were at 68 days, September we've already come down to 58 days, largely again on the back of securing better credit terms from our vendors. We should be on track to get to approximately 45 to 50 days of net working capital by March 2025. Like we mentioned earlier, this will be largely on the back of creditors and also somewhat on the back of inventory. Debtors or customer days are going to continue as is or in the range that they currently are at. I hope that answers your question.

Sahil Doshi: My question pertains to the ODU motors for the AC division. So could you just talk about what is the traction there and what is the outlook there for the next couple of years?

Sanjeev Sethia: So we have a pretty good outlook for AC ODU motors from primary customer. And we are also on the verge of adding at least another three major customers for the AC ODU motors. So I think the last season was our first season for the AC ODU motor. And we are ramping up our capacity to meet the requirement of AC motors, fairly healthy requirement for this coming season.

Sahil Doshi: Sure, thank you. And just the last question, sir, on the chimney. We maintain now FY26 as the launch. So is there some delay there in terms of approvals or acceptance or could it just give us a status on that?

Sanjeev Sethia: Sorry, this was specifically with regards to chimney?

Sahil Doshi: Chimney and the new product launches. So we've seen some kind of calibration in terms of the launch pipeline date. So if you can just talk about some of those categories?

Sanjeev Sethia: So what we've highlighted in the presentation, there are 4 or 5 status of those new product launches. So a new model of trimmer is something that we launched in Q2 already. Similar is the case with OFRs or those oil heaters. Kettles as well as OTGs are on track to launch in quarter 4 of this year, which is around the Feb and March or the second half of quarter four, the fag end. Chimneys, however, earlier the plan was to be able to launch by Feb or March of this year. However, that is facing some amount of delay in terms of the whole design and prototyping process. So we've just mentioned that that should see commercial launch sometime in FY26, that to the second half of fiscal 26.

Sahil Doshi: And each of these categories will at least expect a Rs. 50 odd crore revenue as a threshold. Is that a fair understanding?

Sanjeev Sethia: You will expect the number that you spoke about definitely for the new model of trimmer, definitely for OFRs, most definitely for chimneys as and when they launch. Kettles should be, probably first year won't be around then, but by the second year should get to those numbers. Similar is the case for OTG. OTG won't be there in the first year. And when I say first year, I mean first year being FY26 because we are launching only in February, March 25. So FY26 for kettles and OTGs will not be near the 50-crore mark, but probably the year after, but definitely for trimmers, OFRs definitely next year should be more than the Rs. 50 crore revenue mark. Chimneys as and when we launch will be more than 50.

Moderator: Thank you. Next question is from the line of Arnav Dharamshi from Ashmi. Please go ahead.

Arnav Dharamshi: My first question is with respect to the employee cost rationalization. By when do we see some rationalization on the employee cost front sir?

Sanjeev Sethia: So, the thing is that there is some small amount of rationalization that has happened. However, that is not visible to you because of two or three reasons. One is the fact that we've hired senior talent at the corporate level that the impact of that alone is close to 8 or Rs. 8.5 million per quarter. Second, there is an element of ESOP cost that we've already highlighted, which is around Rs. 3.5 million for the quarter. Third, obviously, there has been a general increase in the output of the turnover that necessarily also leads to a higher direct labor cost, right? So while efforts are ongoing to rationalize labor, one way to view it and to get a sense of how we've been marginally successful at least is to view labor costs as a percentage of the revenue. So if you look at that ratio, that has come down a little bit, not probably to the tune that we would be excited about. But directionally, yes, we have started to make progress. But in terms of meaningful progress, probably sometime in Q2 or Q3 of FY26 is when meaningful numbers will start to hit.

Arnav Dharamshi: And so secondly, after our exclusivity contract with Signify is done for few products, how are we seeing addition on new clients for lighting segment?

Sanjeev Sethia: Yes, I had addressed this in an earlier question. We are currently in talks with at least 4 to 5 major customers and we hope to onboard at least two of them in the January, February month. Some of them, audits have happened, there are certain countermeasures which are to be taken and we hope to close those within this month and then January to February, we are pretty hopeful that we will be able to add at least 2 customers for the lighting business. And overall we are looking in this coming calendar year that we are able to add at least 4 to 5 customers for our lighting business.

Arnav Dharamshi: Do we continue to maintain the same guidance for next year's sales growth that we've given previously?

Sanjeev Sethia: Yes, what we have mentioned is for this year, we will be in the range of Rs. 1165 to Rs. 1200 crores, and next year should be in the vicinity of approximately Rs. 1350 crores. We stand by that number very strongly.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to the management for the closing comments.

Sanjeev Sethia: Okay, thank you. We would like to thank everyone for their time and interest in our company. Thank you and see you in the next quarter.

Moderator: Thank you. On behalf of JM Financial, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.