IFB

IFB Industries Limited

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9th August, 2024

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

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

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

Dear Sir,

Sub: Transcript of the earnings conference call for the quarter ended June 30, 2024 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Please find enclosed the transcript of the conference call for the quarter ended June 30, 2024 for your information and records.

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

Yours faithfully

For IFB Industries Ltd.

RITESH AGARWAL

Digitally signed by RITESH AGARWAL
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Date: 2024.08.09 18:31:32 +05'30'

Ritesh Agarwal
Company Secretary and Compliance Officer

Encl : As above

"IFB Industries Limited
Q1 FY'25 Earnings Conference Call"
August 06, 2024

MANAGEMENT: MR. BIKRAMJIT NAG – CHAIRMAN – IFB INDUSTRIES LIMITED
MR. RAJSHANKAR RAY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – HOME APPLIANCES DIVISION – IFB INDUSTRIES LIMITED
MR. P.H. NARAYANAN – MANAGING DIRECTOR -- ENGINEERING BUSINESS –IFB INDUSTRIES LIMITED
MR. SOUMITRA GOSWAMI – CHIEF FINANCIAL OFFICER – IFB INDUSTRIES LIMITED
MR. JAYANTA CHANDA – CHIEF FINANCIAL OFFICER – ENGINEERING DIVISION – IFB INDUSTRIES LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the IFB Industries Limited Q1 FY '25 Earnings Conference Call hosted by Nirmal Bang Institutional Equities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Natasha Jain: Thank you, and good afternoon, everyone. Nirmal Bang Institutional Equity welcomes you all to the First Quarter FY '25 Results Conference Call of IFB Industries. I would like to thank the management of IFB Industries for giving us an opportunity to host the call.

Management is represented by Mr. Bikramjit Nag, Chairman; Mr. Rajshankar Ray, MD and CEO, Home Appliances Division; Mr. P.H. Narayanan, Managing Director Engineering Business; Mr. Soumitra Goswami, CFO; and Mr. Jayanta Chanda, CFO of Engineering Division.

I would now like to hand over the call to the management for their opening remarks, post which we shall open the floor for Q&A. Thank you, and over to you, sir.

Soumitra Goswami: Good day everybody. I welcome you all in IFB Industries Limited Investor Call for First Quarter of FY '24-'25. I am Soumitra Goswami, the Chief Financial Officer of IFB Industries Limited. I have with me Mr. Bikramjit Nag, Chairman of IFB Industries Limited; Mr. Rajshankar Ray, Managing Director and Chief Executive of our Home Appliances Division; Mr. P.H. Narayanan, Managing Director and Chief Executive of our Engineering Division; Mr. Jayanta Chanda, CFO of our Engineering Division.

Now I will inform you about quarter 1 result. Revenue for the quarter was INR1,244.44 crores against last year INR1,062.85 crores, with a growth of 17%. PBDIT for the period was INR86.55 crores and it's percentage to revenue was 6.95% as compared to last year's INR40.68 crores, which was 3.83% on revenue. PBDIT amount came across a growth of 113% year-on-year. Hike in PBDIT amount is due to rise in gross contribution amount which is due to 17% increase in revenue.

Fixed expenditures for the quarter was well below budget and was at par with last year, which helped the company to improve margin as compared to last year's corresponding quarter. PBT for the period was INR52.40 crores against last year's corresponding period of INR3.55 crores. Q1 PAT was INR38.84 crores, which was 3.12% on revenue.

With this, I will request to start the question-and-answer session.

Moderator: The first question is from the line of Shreyansh Jain from Swan Investments.

Shreyansh Jain: So my first question is [inaudible 0:04:39] This is better. So last few quarters, we've been talking about improvement in our material costs. But for the 4 quarters, if I were to look at your gross margin from 43%, now we are at about 38-odd percent, 43%, 40% and now 38%. So just a sense on the deferred to be what is happening here? Because is there some discounting that we've done in this quarter for sales of ACs? So that's my first question, sir.

Soumitra Goswami: Mr. Ray, will you take these question, please?

Rajshankar Ray: Yes. The voice was a little muffled. I think you're trying to relate the material cost reduction with the gross contribution. Did I understand the question correctly?

Shreyansh Jain: Yes, yes.

Rajshankar Ray: Okay. So what will happen is typically in a quarter like this Q1, the percentage contribution from an air conditioner category would be very high. And the gross contribution really shows at company level between the various product categories are different. So what you see as an aggregated value is also affected by the fact that a lower gross contribution category like air conditioner could be very high as far as the revenue is concerned.

As far as the point on material cost is concerned, we had confirmed in the previous quarter as well that the material cost reductions have slowed into the P&L. They have also been helpful to the margin improvement that you see in this quarter. And if you look at periods like quarter 3 or quarter 2, when the washer contribution rises, you will see a clear linkage between the gross contribution and the material cost, the way you are wanting to tally it. Does that answer your question, please?

Shreyansh Jain:: Yes, yes. Sir, my second question is the washer category. Now, if I were to look at your performance as well as the industry, so we understand the industry has been flat or any negative, but I'm just trying to relate to what you were saying in the last 2, 3 quarters, we've done a lot of product innovation, new product launches.

So I'm trying to just reconcile the fact that we would have placed a lot of primaries, these new products in the channel in the market. So what I'm trying to ask you is, sir, in the existing product category, have we faced some sort of volume degrowth because a lot of new products would have flown to the market so a lot of primaries would have been built there? So ex of that, where are we in the washer's category, sir? Have you faced some volume degrowth or some kind of degrowth in that category?

Rajshankar Ray: Yes. So we have had degrowth in the washer's category. And if you see the investor reports where actually category wise, the sales figures are represented as well. You will see that there is a degrowth that we've had. We are not happy about what we have been able to do in the washer category.

And I think the key area of focus is in terms of our sales team looking at the key accounts, the distribution accounts and ensuring that we get the extraction that we require, currently, the level of work that we are doing, they are not happy with what is happening. So yes, there is a degrowth in this quarter as far as the volume and value is concerned.

Shreyansh Jain: Okay. Sir, my last question is more on the extraction bit that you have mentioned in the presentation. So I'm just trying to understand when you talk about channel extraction, what are you specifically talking about? Can you help us qualitatively what are you trying to do there? Because one of your competitors just said, placing company sales representatives in the channel and help them grow.

And the second part to this question is, sir, I'm just trying to understand your ROI on advertisements and promotion. I just saw the annual report numbers. So we spent about 6% of our sales on A&P. I look at the industry, sir, your clear closest competitor spends less than 1% of its sales on A&P.

We spent 6%. One of the leading players spend, if I'm just giving you some data points here, last 10 years, sir, we spent about INR1,500-odd crores on A&P for a INR3,500 crores top line, whereas the other guys have spent INR500 crores and on a size of INR8,000 crores of top line.

So I'm just trying to understand, sir, what is -- where is the ROI? What are we looking at? When we spend 6% of sales on our A&P, when is the leverage that you keep talking about will come in these line items specifically because this is one of the largest cost items in the other opex bit, sir?

Rajshankar Ray: Okay. So I'll answer the question on extraction first. And the work that we have to do on extraction is on 2 heads. So the first is this point that you spoke about, which you said was a market feedback that you got, which is the presence of people in a counter where the products are displayed.

So currently, there are a percentage of counters, specifically the key account counters, where IFB has a product display, but IFB doesn't have a representative to sell. And the presence of that person is critical to extraction. So if you don't have the person, you virtually don't sell anything. Once you have it, then IFB does enjoy a dominant share. So one of the key tasks we have is to ensure that we fill up all the accounts basically and their counters with the people from IFB who we call as Counter Sales Representative. So in extraction, this is the action one.

The second was, which we've been writing about for the last 2 quarters is that there was some capacity and some price points where we have lost share over the last few quarters. So for example, an 8 kg front-loading capacity point was one, top loading some of the higher capacity price points was the second.

So starting from the month of August, there is a complete changeover of the range of front loaders and top loaders which has begun, which will happen between, let's say, this first week of August going up to mid-October. And in terms of ensuring that the product range is rightly positioned as far as the market requirements are concerned and also the IFB offering to consumers is significantly updated. This is the second part of the extraction. So one is the presence of a person, the other is what you have as a consumer proposition is strengthened as much as possible. So this is the first point as far as extraction is concerned.

The second question that you had was vis-a-vis the ad and promo figures. So, I would just request Soumitra to also chip into this because in the representation of the ad and promo heads, what heads are being considered as reported by IFB versus what is reported by others, I'm not sure that there's differences like 1% to 6%, etcetera.

But having said that, over the last 2-odd months in terms of the money that is spent under the head of ad and promo and how we can make that expense more productive, better utilized is an exercise that is internally going on, which by the end of this quarter, will be fully stabilized.

To the specific question that you had is as far as the investments in the ad and promo head are concerned, have we been able to get the ROIs or the returns that we should get, currently, the answer is no. For the spend that we've had, definitely, our leverage should have been much more as far as revenues are concerned.

Soumitra, would you like to add to this point fees on a specific comparison?

Soumitra Goswami: Yes. Yes, Mr. Ray. In our Sales Promotion expenditure head, there are 2 kinds of expenditures. One is promotional expenditure, which is pure promotional expenditure. Another is CSR expenditure, which Mr. Ray was talking about, the people who are present in different counter. In case of pure sales promotion expenditure as compared to quarter 1 of last year, this year, the expenditure has gone down by INR13.7 crores because we have cut down many expenditure, which are not necessary.

We have cut down those heads. And in case of CSR, which has remained in the same level. So if you take both sales promotion and CSR expenditure, total expenditure for quarter 1 this year is INR66 crores as compared to last year INR78 crores. In terms of percentage to turnover, percentage is 5.30% in this year as compared to last year 7.37%. So there is a gain of 2.08% in the P&L. Is it clear ?

Shreyansh Jain: Yes, sir. That has answered what other line items would have helped us in reducing our opex percentage to sales, sir, this quarter.

Soumitra Goswami: I am talking about pure sales promotion expenditure as compared to last year INR42 crores, that's come down to INR28 crores. There is a gain of INR13.69 crores. We have cut down many expenditures. There are many heads here. BTL activity which the branches are doing, digital marketing and many other things. There are 7, 8 line items. So we have cut them some of the expenditure, which was not necessary. And it resulted into a savings of INR13.7 crores for this quarter as compared to last year's corresponding quarter. As a result, including CSR expenditure also, we have gained INR12.45 crores in the total promotion expenditure over last year.

Shreyansh Jain: Okay. Sir, my last question is, sir, when do we see the full benefits of all the efforts that you've taken on the SG&A and the material cost reductions to come through because I think last quarter, you were talking about Q1, Q2 and even on the employee cost.

Rajshankar Ray: If you look at the way our material cost profile as well as the fixed expenses profile is today, the key thing to sustainable profitability is the sale of the washer segment. And our gross margins are the highest on that category and the potential is also high. So, if in quarter 2, quarter 3, we are able to fully address the volumes from both the front load and top load segment, with the work which is already completed in terms of material cost, the kind of volumes that we've seen on the air conditioner from this season onwards, we will be able to deliver the profile that you're talking about as far as margins are concerned. Does that answer your question, please?

Shreyansh Jain: Yes. Yes, sir.

Moderator: The next question is from the line of Prolin Nandu from Edelweiss Public Alternatives.

Prolin Nandu: So, first of all, Mr. Rajshankar, all the best for your next role. My question to the management is that what is our game plan to replace Mr. Rajshankar? Are we looking at somebody internal? And by when can we hear an announcement about his replacement?

Bikramjit Nag: This is Bikramjit Nag here. This is something that the Board is thinking through, and we will like revert on this soon, which will be by around September end -- September end, beginning of October. But Mr. Ray is fully in-charge and the team like below him is fully equipped and is fully in-charge.

Prolin Nandu: Sure. That's comforting to know. Now, the second question, again, is something as a follow-up to the previous participant's question, right? I mean, last quarter, we faced some supply issues in Air-Con. This quarter, again, washers have not led to our mark, our expectation. And whilst we have identified the problems in terms of increasing our presence on the counter in terms of having the right manpower, in the past, we have also identified the challenges to meet this objective is difficulty of finding the right kind of people, right, to maybe lead the region or the state or a particular geographical area.

So I mean, apart from these challenges, what are the other challenges that are preventing us from solving this issue once and for all? And how have we -- let's say, for example, strategy A has not worked. So how have we changed the strategy to solve for this particular problem?

Rajshankar Ray: It's a Rajshankar here. It's a very interesting question that you asked because what we have seen internally is that this idea that we have a counter and the counter has an IFB presence and it requires a person to ensure that we get extraction in geographies where we have our manning rights in terms of the leadership at a state level or a zonal level, where the sales team is fully focused as far as implementation is concerned, we find that we don't have any issues.

Conversely, if we don't get the leadership right, there are lots of issues. And among them, this is one of them. So the point that you're making is right that we have a particular strategy that we've been chasing. With that strategy, the counters are not completely filled. But are we making a change in strategy, per se, as of now, no, because we believe that it's essentially an implementation issue? And if we are able to get implementation right in terms of an entire alignment on the sales team and other enablers from the central teams, it is something that we should be able to close, and we should be able to close within the next few months itself.

Prolin Nandu: No, sir, Mr. Rajshankar, I agree with you that I'm not asking you to change the strategy, but to solve this problem, it's not something at a -- I mean it's a very large problem in sometimes it's a product-related problem. Quality is not good, which requires us to go to the back end. The costing is not good, which again requires us to probably think about the gross margins and all these problems that we have are already solved in some sense, but this is the problem, which is taking a slightly longer time, right? So I'm not asking you to change the strategy. What I wanted to understand was that how are we changing the implementation of the strategy to get the results as soon as possible.

And also, just -- when you answer that you are expecting a good Q3 -- Q2, Q3, right, in terms of washers, but again, if we don't have these people on the counter, how are -- how is that going to happen, right? I mean -- so can you help us understand because now we are in August, we have already around -- 40 days of the quarter has already been passed. So we would be knowing do we have people -- right people on the counter or not in some sense. So, is it that there is slight improvement on this particular issue on a quarter-on-quarter basis, that makes us full that Q2 and Q3 would be better?

Rajshankar Ray: So the answer to your point is that have we made a significant improvement as far as the manning completion is concerned at the counter level, the answer is no, but what has improved is in terms of the alignment within the system, which is the sales team in terms of the importance of this single parameter. As far as the washers category sales is concerned, that is at a very high level. So when I said that we have this belief that we will improve this parameter quickly over this quarter and the next quarter, it comes from that. But as a specific response to you, are we doing anything different in terms of the way that we look for people or the way we induct people? As of now, we haven't changed anything as far as those points are concerned.

Prolin Nandu: Sure. One last question, sir, before I join back the queue. Is there anything unexpected or one-off that we expect during the next 2, 3 quarters like we had supply issues in Q4 for Air-Con? Anything that you foresee that can derail our own internal expectation of how this year will pan out to be?

Rajshankar Ray: As far as the market is concerned, we don't expect any disruption per se. The only risk that we are working on internally, which I would classify as an internal risk is the BIS processes that the Government of India has introduced where there is an active discouragement of imports into India, which could be at a finished goods level, or it could be at a component level. Over the last few months, there has been an acceleration by the government on pushing this agenda forward.

So that is the only possible area of a problem because in some areas, maybe the industry is not ready completely right now in terms of being able to source from within India or from sources outside of China. There is a possible risk there, but we are working with the supplier base and internal teams to mitigate this, and there's a lot of work happening at the industry level as well. So I would look at that as only one possible area of risk. The market, I think, is still there to be accessed. Potential still remains high as far as the medium term is concerned.

Moderator: The next question is from the line of Navid Virani from Bastion Research.

Navid Virani: So I have a few questions. First one is on the M&A, which we working our presentation. Reputation you mentioned that we are looking at in an acquisition to be made. Now is it only pertaining to the engineering business? Or this also stands through for the home appliances business?

Rajshankar Ray: Only the engineering business.

Navid Virani: Understood. Understood. Secondly, I wanted to understand that we have also talked about the input cost reduction. So can you please share some specifics as to what is expected to bring in this input cost reduction? I understand your answer to the previous question about product mix changing to more washers. But are there any other things, which we are planning specifically which can improve this input cost reduction -- input cost?

Rajshankar Ray: So there were 2 areas of cost reductions that we've been reporting. One has been the material cost-related area. So there were reductions made over the past 2 fiscals, which will flow into the P&L this fiscal. And for this fiscal, again, we have taken a material cost reduction target on which work is happening. But the more important cost reduction element was this area of fixed cost reduction.

And Mr. Soumitra Goswami spoke about some areas of fixed costs on this, there have been reductions. But there are another set of fixed cost areas that we are working on, and that is actually more of a priority than the material cost area for, let's say, this quarter and the next 2 quarters. That is an area on which we had reported a commitment in the investor report as well. Against that, there is still a lot of work to be done. So that is the biggest lever in the quarters ahead.

Navid Virani: Understood. Sir, if I have to simplify what you said, you said that we can observe some gross margin level improvement in this fiscal, but a much larger chunk of the improvement will take place at the lower end of the level, which could be seen in EBITDA margins. Is that understanding correct?

Rajshankar Ray: Yes. Because I think if you look at the data, you will find that the gross margins that we enjoy are already quite healthy. And you can see them by value on their own or you can see them as comparisons to players within this sector. The most important thing is to get the revenues in line with potential. And as you rightly said, below the gross margin, working on the fixed cost elements is also a very large lever, which we have to deliver in the next few quarters, basically. So you're right, in the way you summarized it.

Navid Virani: Okay. Last one was on the growth guidance, which you mentioned in the presentation, you are talking about 20% kind of growth there. So I want to understand where are we getting this confidence from. And also, if you could share some specifics on what is the effort, which we are currently taking to achieve this kind of a number going forward?

Rajshankar Ray: So you're referring to the Page 24. And Mr. Nag's point to the teams has always been that with the kind of product range that currently the company enjoys and with specifically an improvement on the air conditioner segment and the addition of the refrigerators, his point is that 20% is actually is suboptimal, even as a value because if you look at the potential that comes from the washer segment and the addition of the AC and the refrigerators.

There's no reason why the company should not grow more than 20% per annum basis. So the point that the mix to the internal teams is what is captured here. And our confidence is coming from that in terms of the range that IFB carries today and also the kind of investments that have been made on the washer side, which are now rolling out, plus what is already available from ACs and refrigerators. Does that answer your question, please?

Navid Virani: Perfectly.

Moderator: The next question is from the line of Sumil Sethi from Siguler Guff.

Sumil Sethi: I have 3 questions, 2 are for Mr. Rajshankar Ray and one is for Mr. Nag. So Mr. Rajshankar, I just wanted to check with you on the washer category. Earlier, you had mentioned that there was a gap in the larger segments, that is 9 kg and 10 kg, which was filed in the middle of last year. Just wanted to understand that given that we had a gap in our product portfolio 1 year back. And in this quarter, we are seeing some degrowth from 7%, 8% degrowth as compared to last year's similar quarter. Is it because we are drying up the channel going to the launch of new product portfolio? Or is this a larger trend across the industry in terms of secondary sale of this?

Rajshankar Ray: No. So, there is no intention to dry up the channel per se because our channel inventories are actually much lesser than others. So that's not the point. We are not happy about the degrowth, as I shared earlier, and we believe that it has more to do with our implementation ability of points like expansion of the channel, getting extraction vis-a-vis the manning at the counter levels. The data shows that the industry has degrown, but our internal analysis and consensus with all the sales team is that essentially our opportunity is much larger than what the industry reports per se, whether it is growth or degrowth. So I would say 90% to do with our own implementation ability and getting results from the market and 10% may be something limited to the industry.

Sumil Sethi: Understood. And understanding from the AC numbers that our new range has been received really well. I think the news has been positioned it a bit differently as compared to the earlier launch and that's what you had mentioned in the previous call that we that we had just reducing our value prop for the AC bit towards the mid-premium segment. And I believe that has worked well.

Rajshankar Ray: Yes, you're right because we've been wanting to position in the mid-premium for some time now. And I think there was a resistance from the market in accepting us into that position. But with the work that the teams have done, 2 things happened this season. One is we were much better placed across all the relevant channels. So whether it was e-commerce or whether the larger accounts, we had a much better representation this time.

So, therefore, the positioning of the IFB AC this year is something more towards the mid-premium side was accepted more easily. And the second was that there was definitely a lift, which helped in terms of the overall growth in the industry, which was really very significant. And because we were present everywhere, we also benefited from the lift. There is still a lot of work to be done from our end in terms of really taking the air conditioner sales to the potential that we see. But I think the initial steps in the first quarter have been good steps for the sales team.

Sumil Sethi: My last question is to Mr. Nag. Mr. Nag, just wanted to understand since Mr. Rajshankar Ray is moving on from the company. What's the thought process of the board in terms of hiring a replacement? Would it be a CEO? Are you looking for a candidate who is more towards the manufacturing side or more towards the sales and marketing side?

Bikramjit Nag: Board is still evaluating this. And Board will take a comprehensive person, a person who knows. Board's first choice would, of course, be like that. And Mr. Ray was fully adept at like both ends. And we will go for a similar profile, either internal or external. That is still not decided.

Moderator: The next question is from the line of Manoj Gori from Equirus Capital.

Manoj Gori: Sir, apologies, like I joined a bit late. If I understand correctly, we are rating somewhere around 20% growth during FY '25, and which would be obviously led by room AC sales and -- plus revival in washing machine sales, where we have seen some pressure in Q1, but we expect it to come back on a healthier note in the subsequent quarters. Is that understanding correct?

Rajshankar Ray: Yes, Manoj. And that point of 20% is actually some -- is a point that I just made a few minutes back, is that Mr. Nag is logical with the kind of product range that we have, there is no reason why -- I mean there's no logical reason why we should not be delivering that or more for that matter. So that's the point here.

Manoj Gori: Right, sir. And sir, after the tough quarter for washing machine during 1Q with monsoons obviously kicking in, have we seen a significant uptick from July onwards and the momentum continues?

Rajshankar Ray: Manoj, we haven't seen anything specific in July. But speaking to the channel, also e-commerce indicators because they get the first feel of the consumer's interest much earlier than the rest of the industry. Things seem to be okay from August onwards. Is that initial feedbacks, please?

Manoj Gori: Right, sir. Sir, on the margin side, obviously, when we look at the 1Q product mix, that seems to be relatively unfavourable given that our costs are relatively higher to room AC. But if we look at from 2Q and 3Q, where our products mix relatively remains better towards washers. So should we expect sequential margin improvement? Obviously, you have talked a lot on this. But just given the visibility that you guys are having as of now, should we see improvement and sustainability on the profitability and the trend should continue to head northwards in the coming quarters?

Rajshankar Ray: So, Manoj, we don't specifically give a forward guidance because that would not be right. But the single agenda that we have is to get the washer sales right. And with the gross margins that they carry, it has a very positive impact on the company's performance. So as far as the sales team is concerned, or central teams for that matter, in this quarter and the next quarter, getting washers to potential, which will also be helped by the new range, which is rolling out in priority , as far as we are all concerned.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, a similar question on the margin front. Sir, with operating leverage taking on are sales improving as well as you would expect that our refrigeration segment growth turn mostly breakeven in next 1 or 2 quarters. Similarly, sir, can we expect a double-digit margin towards the year-end or low single or high single digit to low double-digit kind of a margin towards the year-end?

Rajshankar Ray: Soumitra, would you like to take this?

Bikramjit Nag: Soumitra, I will take this. Bikram Nag here. As I have said, our intent is to get to double-digit margin fast, and we are still not there. And in Engineering division, we are at about 15%. And we would like to increase this further. And in the appliance business, we need to get to double-digit margin first, which means if we get to that sort of level, the overall margin for the company would have substantial increased. So I think the first like phase is that this will come from increasing sales, cutting of material costs and other costs and reorganizing certain position, et cetera, et cetera. And the work on that is ongoing. It will also include, of course, the margins will also come from introducing more higher-end products, et cetera.

Madhur Rathi: Yes, that's perfectly understood. Sir, I understand your strategy on how we will increase our margins. But my question was, can we export this to be achieved by the year-end FY '25...

Bikramjit Nag: We were like genuinely thought that we would have achieved it by now, but we have not. And our hope is that it will be done, as far as I'm concerned, but it is taking much, much longer than I thought. So yes, I mean, if we can do it by November, December, it will be fabulous, and hope we can get there or at least nearly there. The issue with October, November is because season is there, that time the sales spike up, et cetera, and the margins normally rise. So, we have to see on a constant basis where we are. So, we just have to work like toward it. But yes, so I hope in Q3, we had a much, much better position.

Madhur Rathi: Okay. Sir, what kind of margins either on a gross level or EBITDA level that we achieve in our AC segment for the Q1?

Bikramjit Nag: At what segment, sorry?

Madhur Rathi: Sir, in the air condition segment, what kind of margins will we own for the Q1? And what kind of -- can we expect the similar margin for the whole year?

Bikramjit Nag: Mr. Ray?

Rajshankar Ray: Yes. So when there are actually...

Bikramjit Nag: Sorry, Soumitra, please.

Soumitra Goswami: AC product category, in the quarter 1 of '24-'25, we achieved the sale of 1.37 lakh units, which is a net revenue of INR323 crores, and we have achieved positive EBITDA for the first time for INR8.78 crores, which is 2.72% our net revenue. Last year corresponding period, there was loss of INR13.58 crores. So there is a positive swing of INR22.37 crores as compared to last year's corresponding quarter to this year's quarter 1.

Madhur Rathi: Okay. Sir, that was very encouraging. Just sir, final question, sir. Sir, we have guided that we'll do an acquisition on the engineering side. That will most likely double our revenues. Sir, so what kind of IRR or ROCE would this acquisition have a minimal IRR or -- IRR expectation that we have from this acquisition? And there has been margin activators like moving our margins from current 15% to low teens -- high teens or mid-20s kind of thing?

Bikramjit Nag: Engineering Division currently operates at about 15% approximately. The company that we hope to buy sooner that is done, et cetera, probably will not have that sort of margin at the beginning because otherwise, you will pay a very high premium for such a target. So, our view is that we buy something, which makes sense for us strategically and then we have to put in some work in order to improve margins, et cetera. ROCE at present Engineering division operates at around 34%. And so when we buy the company whatever we are proposing to buy in due course, obviously on day number zero or day number one, higher than -- you will not be helped for time, I think we were to get to much more than we are at today.

Madhur Rathi: Okay. Sir, I understand that, will we try to buy a subpar company and improve it to our levels. So just what sort of payback have you expected from this acquisition like in 2, 3 years or 4 years? Can you expect our...

Moderator: Sorry to interrupt, sir. May we request you...

Madhur Rathi: Just a final question. Just a follow-up question on that. Just final question that I'm asking.

Bikramjit Nag: We are looking into various options. We still haven't come up with the right things. So -- hence, I can't answer that. But ideally, ideally, anything we do 4 to 6 years is what we look for in terms of payback.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang.

Natasha Jain: Sir, my first question is on the P&L statement. Historically, if I see while gross margins have been the best in the industry for us, the translation from gross margin to EBITDA margin has been comparatively weaker. If I see your numbers historically, even at 40% gross margins, we'll end up at mid-single to low single EBITDA margin. I understand in terms of gross margin improvement, we're doing a lot of material cost reduction. What I want to know is, what are we working on in terms of the opex costs, which can help us in terms of healthy translation from a gross margin to a better EBITDA margin than we clock in currently? Sir, my first question is that.

Rajshankar Ray: Okay. This is Rajshankar here. I'll answer that. Specific to our division, our understanding was that the fixed costs that we were carrying were not right-sized. So there are 7 or 8 lines of cost heads in terms of looking at the employee productivity in the employee costs, things like e-waste compliance costs, office costs, travel costs. I mean there are -- it was actually first principal-based evaluation of how much we could reduce without really affecting the overall approach to the market and we set a target, and that is what we are working on.

So our understanding is that, that opportunity is anywhere between 10 to 12 CR a month. And that is the target which has been distributed between various teams and what we need to deliver. We've been working on this over the last 2 quarters. The results are still not fully on the table. But in terms of this point that you made about having a very high gross contribution, but not being able to translate it to the bottom line. For the same level of sales, it is this area of fixed cost that we need to work on. Does that answer your question, please?

Natasha Jain: Yes, sir, it does. Sir, my next question is, given that we're entering the washing machine season, I just want to understand, first off, what is our channel mix in terms of GT versus non-GT? And if you could call out what kind of incentives are we rolling out to the BT channel? Just some colour on that.

Rajshankar Ray: So if you look at the channel mix, then e-commerce and IFB points typically range between 15% to 16% of sales. E-commerce is sometimes higher when they have events, et cetera. But at overall level, it is around this. In terms of the general market channels, you have essentially 3 routes. One is what is typically called as large format retail, which is the 3 big chains. And then you have multi-brand and then you have distribution that smaller multi-brand stores. So distribution for us is roughly around 15% to 20%. And the remaining is split between the large format retail and the key accounts across the country.

As far as the incentive structures are concerned, we typically don't look at any channel incentive. We look at on account level commercial. So we look at an account, we look at what returns we can get. And over the last few quarters or more than a year now, we've been looking at whether we can get the complete range representations from the accounts. The ACs, refrigerators, bowl washers, microwaves, dishwashers. And then we look at what the commercial discussion should be with that account.

Another point that we are working on is in terms of these channel incentives or commercial that we have versus the returns that we are getting, what improvements we can make on them. So we typically don't have a channel approach to incentives. It is more an account-based approach.

Natasha Jain: Understood, sir. Sir, one last quick question. In terms of ad spend, definitely, we've seen that you've maintained your run rate, and the ad spend has increased over past few quarters. Sir, just want to understand or rather if you can throw some colour as to where exactly is this capital or is this amount being deployed as to how are we really doing those spends in terms of marketing? If you can throw some colour on that?

Rajshankar Ray: So currently, the various heads of ad spends that we are looking at are in terms of new store investments. So if you have a store, which has just opened or a good store, which is already there in terms of the fixturing that IFB has, the branding inside the store. Those are the areas where we are prioritizing investments now, which would essentially be in store. And then the second head of ad spend is in terms of displays of products in the format of exhibitions where dealers of a particular area come and look at what we have and there are discussions between the company and the channel representatives altogether.

And the third head is digital, which would be approach to existing consumers or approach to consumers who are searching for the products that we offer. So the bulk of the spend is on these 3 areas. And then, of course, there are multiple smaller heads on which investment which is required is allocated. Is that the detail that you wanted, please?

Natasha Jain: Yes, sir.

Moderator: The next question is from the line of Aditya, an Individual Investor.

Aditya: So my first question was on the manning side with respect to sales. So management has been very clear that we are not bringing enough on the sales extraction side. So how -- what is the current status? And have we got the manning in place? Or it is still work-in progress? That is my first question.

Rajshankar Ray: So there are 2 types of manning. One is the manning at a sales supervisory level covering a particular market, so that manning is in place. The second manning which we were discussing a little while back was the in-counter manning. So when you walk into a store as a consumer, you have a representative who explains the product to you, there, we still have gaps which we need to close.

Aditya: And by when are we targeting to complete that side?

Rajshankar Ray: As, Mr. Nag said a little while back, that target was actually on yesterday. So we are already very late as far as completion of this work is concerned. And the bulk of this work we need to definitely complete before we enter the season to be able to really use the season lift. So, within quarter 2 and quarter 3, essentially the whole thing has to be completed by us.

Aditya: Okay. And my second question was on the advertising side. So just as a general public visibility of the brand because IFB is just not made in India, it is born in India. So just making a connect with the audience, will it help from the advertising front and translating into sales? I just wanted to understand the lookout of management.

Rajshankar Ray: What is the specific question, please, you wanted to understand?

Aditya: Visibility of advertising in day-to-day life of IFB as a brand. So like you said, most of the spend is in-store and around the store. So are we targeting the greater visibility for IFB as a brand?

Rajshankar Ray: Yes. So it's a beautiful question you've asked. And one of the points that Mr. Nag has been making to internal teams is that this urgent need to fix the margin side and also to conserve spend on the ad and promo side by picking a few critical categories, both of these actually helped to generate revenues and margins, which then will enable us to invest as far as the brand is concerned.

And it's a very important agenda with the product range that we have of being able to communicate at a larger level about the IFB brand is present in the market. And to do that well, we need to fix this issue of margins first. So that is the point that you heard him speak about a little while earlier. And for us, that is the core agenda. I hope that answers your question.

Moderator: The next questions is from the line of Naveen Baid from Nuvama Asset Management.

Naveen Baid: My question has been answered.

Moderator: The next question is from the line of Shubham Jain from NV Alpha Fund.

Shubham Jain: I had one question on the distribution front that you had mentioned earlier. So I just wanted to understand what is the profitability across our distribution channels and specifically the IFB point. Is it profitable for us as a channel?

Rajshankar Ray: Distribution is profitable for our service channel. In fact, it is more profitable than some of the key accounts and large format channels, specifically for air conditioners, refrigerators, top loaders and also now for front loaders, the distribution is an excellent lever for the company, not only for growth but also from the margin point of view.

Shubham Jain: Understood. And in the presentation, you mentioned that they were doing a revamp of the distribution points that we have. So what exactly is the revamp that between age is adding product category? And how are we seeing the performance after the revamp in the 180 stores that we have renovated?

Rajshankar Ray: You're talking about the revamp of the design of the IFB points, not distribution, right?

Shubham Jain: Right, sir.

Rajshankar Ray: Yes. So I think you will find it in the market. There is a new design that we have started rolling out from about 3 quarters back. And it just makes the store look better. The feedback that we've received is in terms of the lighting, in terms of the product representation, in terms of the feel of the store, which is different from a typical appliance store. The designs have been doing well. Now we've been surveying this. And the feedback is one from the counter salesperson who is inside the store about what they say about the new design and also the data in terms of whether sales has increased or not.

So the feedback from the people inside the store has been very positive. As far as the data on a specific sales increase only because of the design change, and that is a 50-50. In some cases, we've got results and some we have not got the results. But the design just make the store look and feel better. And if you're in the market, you can always check it out, you'll be able to experience it. And it will be good to hear from you, whether you also like what you see as the new design.

Shubham Jain: More definitely. If I got it right, you mentioned that our IFB points account for 15% to 16% of sales for us at the moment. Is that correct?

Rajshankar Ray: Yes, about 14%, 15%, sometimes a little lesser, but roughly around that margin.

Shubham Jain: And what was this number, say, 5 years back?

Rajshankar Ray: It was similar. It was similar. In fact, I think we were a little higher, let's say, a year or 2 back that percentage has reduced a little bit over the last 2 years.

Shubham Jain: Got it. And in terms of hierarchy post the IFB point, what's the hierarchy in terms of margins for distribution for us?

Rajshankar Ray: Sorry, could you just repeat?

Shubham Jain: In terms of hierarchy of margins from a distribution point of view, you mentioned that IFB point is rather better margin channels for us. Just wanted to understand what is the pecking order post-IFB points, what is the next most profitable distribution channel.

Rajshankar Ray: No. Sir, I was actually answering the distribution as a channel. Distribution is a profitable channel for us. IFB points were also more profitable than some of the higher cost channels. We don't specifically look at a channel-wise hierarchy, the way I had answered it a little earlier, we look at it from an account point of view. So even within the channel, there would be a variation. There could be a distributor who is very large, and someone is small. Similarly, there could be a multi-brand dealer who is very large, and someone is small. So we look at it at an account level. We don't really look at it at a channel level.

Moderator: Ladies and gentlemen, we will now take our last question from the line of Shreyansh Jain from Swan Investments.

Shreyansh Jain: Sir, my first question now is when you look at washers as a category for the year. So, obviously, now with 40 days into the quarter, not giving any specific guidance, but how do you see this product category doing for us in FY '25? That's my first question.

Rajshankar Ray: So I can answer this on 3 counts. The first is that, as I said a little while earlier, the first accounts for channels which pick up feedback on consumer movement or the e-commerce channels because their systems are very direct to consumer. And over the last one month or so, we've seen a significant uptick in both customer visits as well as actual purchases. So this is one element with which we believe that the next few months on the washer segment, which have, over the last 1.5 years been very subdued and degrowing as far as the industry is concerned, we think that there's going to be a change.

The second point is that the new range that we are rolling out is a very large lever for growth for us. It has a complete overhaul on the specifications. It's packed with features as far as the consumers are concerned, it is aesthetically better. And we are very positive about the impact on sales once this is fully ramped up. So this is the second lever.

The third is something that we discussed quite at length in this call, which is in terms of our execution completion of this in counter manning. And the manning inside the store has the largest impact on washers because washer is most dependent on the retail base sales for growth. So to a specific answer to your question, how do we see the next few months or the next few quarters? Based on these 3 inputs, I would feel that we should be able to deliver results.

Shreyansh Jain: Okay. Sir, my last question is on your annual report. So there are 3 parts to this question, please bear with me. Sir, my first question is, we speak about new business verticals? So somewhere you've written in the MD&A that the company has decided to look into manufacturing components for electronic industry and railways. So now is this largely a part of your engineering and motors business? Or this you think of doing independently because you're saying you time because capex, also you receive a Board approval?

Bikramjit Nag: Can you just repeat this again? Bikramjit Nag here.

Shreyansh Jain: Sir, in the annual report, you specifically written that you would look to enter manufacturing components for electronic industry and railways. So I'm just trying to understand, is this a small portion of your engineering and motors business that you're trying to enter, or this is a specific new vertical that you're looking at?

Bikramjit Nag: We are looking at running this as an independent vertical for now so that it gets the focus that it needs.

Shreyansh Jain: Okay. So just trying to harp on this again. Do you think it's the right strategy right now because we were also looking to balance our home appliances business, and we're somewhere in that journey? And now you're looking at entering manufacturing for a different category where we don't have any presence as of now. So just wanted to hear.

Bikramjit Nag: I think the strategy is right because this is part, this is all part of -- I mean, overall, it's just engineering, but I mean, we are turning out a few people from the existing engineering business, and they'll be running this separately. It will not be part of the fine blanking stamping and motor division. Our team is being set up, which will be a mix of internal people taken out of the existing engineering division and new people being recruited for the same.

We have to relook -- we have to look at this point of capex, et cetera, how much it would entail, et cetera, but we think this is something that we should get into. And we think it will be long-term lucrative for the company. I don't think this has anything to do with appliances business needing focus or the engineering business doing like whatever it's doing. And this would not be too much of a diversification for us because the product categories that we are choosing, this is within what our team presently understands well.

Shreyansh Jain: Okay. Okay. That answers. Sir, my second part to this question is, if I look at your customers' teams and incentives. Gross sales minus incentive, that also has gone up from 20% to 23% -- to 22%, 23% in FY '24. So, I'm just trying to understand this particular line item. Going forward, where do you see these numbers? Do we have to give higher incentives to the channel for pushing our products?

Rajshankar Ray: This is Rajshankar here. I'll take this. As I have said on the first question related to the gross margin, this line is a resultant figure of a mix of all the categories. So if you see this value in quarter 1, it has a much more dominant contribution from air conditioners, and they run at a typically higher scheme structure as compared to the other product categories. You will see this figure balance out between, let us say, the Q1 to Q2 to Q3. So this is a sort of a weighted average number that you had.

Shreyansh Jain: But sir, you said 15% of your sales comes from IFB points, right? So you don't have to give any incentive, right? So if I take out that 15% of your sales and then look at this number, then this number looks even higher.

Rajshankar Ray: So actually, there are a set of IFB points, which are run by franchisees. So they have similar commercial arrangements like any other retail partner. And even in the stores which are operated by the company. And they are also from the listed price to a customer price, there is a discount that appears as far as the net price is concerned. So, this issue of a scheme is applicable to all channels actually.

Shreyansh Jain: Okay. Okay. And sir, my last question. You spoke about saving about INR10 crores to INR12-odd crores from your opex fixed cost, right? Now if I look at our FY '24 opex breakup, a large part of it is a consumption of stores, trade, octroi, advertisement and repairs. These 4 heads are the largest pillars. And these heads, I think there is limited leverage you can get in these kind of line items. So when you talk about INR10 crores to INR12 crores a month savings, which specific things are you talking about? Because personally, I don't see any kind of line item that you can get leverage from.

Rajshankar Ray: So actually, if you go line by line in terms of the office costs, in terms of the cost of defectives, in terms of cost of compliance to e-waste norms. There's a lot of opportunity, travel costs, for example, and the productivity associated with that. So there are multiple heads, and those are the line items that we are working on. So even within the P&L, the way you see it, you will find a large chunk of fixed cost, which was a question a little while back from the gross margins that we enjoy to the kind of bottom line that we report. So, it is the same point, actually.

Moderator: Ladies and gentlemen, I would now like to hand the conference over to Ms. Natasha Jain for closing comments.

Natasha Jain: I request the management to post any closing comments if they have.

Soumitra Goswami: Thank you very much for joining this call. We will be meeting again after quarter 2. Thank you once again.

Natasha Jain: Thank you, everyone. On behalf of Nirmal Bang Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.