November 06, 2024

The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001	The Manager, Listing Department, National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra-East, Mumbai- 400 051
Scrip Code: 532953	Symbol: VGUARD

Dear Sir/Madam,

Sub: Transcript of earnings call pertaining to the Unaudited Financial Results for the quarter and half year ended September 30, 2024.

This is with reference to the intimation dated October 15, 2024, filed with the stock exchanges in terms of regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015, regarding the earnings call to discuss the financial results for the quarter and half year ended September 30, 2024, scheduled on October 30, 2024. The audio recording was filed with the stock exchange on October 30, 2024.

We are enclosing herewith the transcript of the Earnings call. The same is also being uploaded on the website of the Company at https://www.vguard.in/uploads/investor_relations/V-Guard-Industries-Q2-FY25-Transcript.pdf

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

Thanking You,

Yours Sincerely,

For V-Guard Industries Limited

VIKAS KUMAR TAK Digitally signed by VIKAS KUMAR TAK Date: 2024.11.06 18:01:56 +05'30'

V-GUARD INDUSTRIES LTD. ★ DOOR NO. 42/962, VENNALA HIGH SCHOOL ROAD ★ VENNALA KOCHI-682028

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

Encl: As above

"V-Guard Industries Limited
Q2 FY '25 Earnings Conference Call"
October 30, 2024

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

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

MR. SUDARSHAN KASTURI –SENIOR VP & CHIEF FINANCIAL OFFICER – V-GUARD INDUSTRIES LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to V-Guard Industries Limited Q2 FY '25 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. Deepak Agarwal. Thank you, and over to you, sir.

Deepak Agarwal: Thank you. Good afternoon and Happy Diwali to everyone. On behalf of JM Financial, I welcome you all to V-Guard Industries Limited Q2 FY '25 Earnings Conference Call. We have with us senior management represented by Mr. Mithun Chittilappilly, Managing Director, Mr. Ramachandran V., Director and Chief Operating Officer and Mr. Sudarshan Kasturi, Senior VP and Chief Financial Officer.

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

Mithun K Chittilappilly: Yes. Thank you, Deepak and to the JM Financial team for hosting this call. A very warm welcome to everyone present and thank you for joining us today to discuss the operating and financial performance of our company for the second quarter of financial year '25.

I trust all of you have had a chance to refer to our investor presentation, which was shared yesterday. The business delivered a healthy top line growth this quarter, despite some severe weather conditions in some parts of the country. We reported consolidated net revenues of INR1,294 crores in Q2 FY '25, which is higher by 14.1% on a Y-o-Y basis.

The Electronics segment, comprising of Stabilizers, UPS, Inverters and Batteries, led the growth with revenues increasing by 18.8% Y-o-Y. The strong performance of summer products in Q1 carried its momentum into the second quarter as well. We are particularly pleased with the performance of the solar power system, which is a category for the future.

In the Electricals segment, our largest revenue contributor comprising of Wires, Pumps, Switchgears and Modular Switches, we registered a growth of 16.3% Y-o-Y. While we witnessed a significant growth, the volatility in prices, copper prices caused a margin impact of 0.6% at a company level.

In the Consumer Durables segment, we reported a top line growth of 10.6% on a Y-o-Y basis. The Kitchen Appliances business has been facing a slowdown, which has impacted both V-Guard as well as Sunflame. Sunflame reported a degrowth in top line of 1.1% Y-o-Y in Q2. Given the actions we had undertaken, there has been a growth in the general trade of the business.

But the reduction of orders from the CSD segment has resulted in an overall decline in top line. We believe that the fundamentals of the business are strong. We continue to focus on completing the functional integration and pressing ahead with the growth strategy interventions.

In terms of geographies, most regions have done well. We did witness some impact of inclement weather in Eastern markets, which is a very strong market for us. The non-south market reported a top line growth of 16.9% Y-o-Y in Q2, while revenues from southern markets grew by 13.6% Y-o-Y. With the strong growth, the non-south markets contributed 44.5% of the total revenues in Q2.

Gross margin continues to improve, aided by a higher share of in-house manufacturing and cost-saving initiatives and gradual shift to our premium portfolio. We have reported a gross margin of 35.8% in this quarter as compared to 33.8% in Q2 last year, an increase of 200 basis points. EBITDA, excluding other income, was INR110 crores in Q2, an increase of 19.2% on a Y-o-Y basis. The EBITDA margin of 8.5% is 30 basis points higher compared to 8.2% in Q2 of last year.

Major cost heads such as advertising, travel and other overheads have largely returned to normative levels. In Q2 FY '25, other income was INR4 crores compared with INR14 crores in Q2 last year. This is because there was a one-off item related to the fair valuation gain on the Gegadyne investment in the previous financial year. Continued effective management of working capital has enabled us to deliver robust cash flows.

Cash flow from operations remained strong for H1 FY '25 as we generated INR336 crores, which has helped us to progressively repay the debt taken for the Sunflame acquisition. We expect to repay the loan in full by the end of the current financial year. It has been a fairly decent quarter marked with revenue growth, margin improvement, continued effective working capital, healthy cash flow generation and further repayment of the debt. We expect to continue the momentum and deliver a strong performance in the second half of the year.

With that, I conclude my opening remarks. I would like to thank Deepak and the team at JM Financial for hosting this call and would like to request the moderator to open the floor for Q&A. Thank you.

Moderator: The first question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: Thank you for the opportunity and congratulations on a very good set of numbers, sir. My first question is on the Electronics side. So firstly, can you please bifurcate the growth between Stabilizers and Batteries separately? And if Batteries as a category has picked up?

Mithun K Chittilappilly: We don't give out product-wise numbers. But in the Electronics segment, Stabilizers, Inverters and Batteries and the solar UPS, all 3 have grown. All 3 have contributed.

Natasha Jain: Understood, sir. Because in the past con call, you've said that Batteries has been under pressure. So, I was just wondering if there is any change in that particular category.

Mithun K Chittilappilly: No, we have had a decent growth in Batteries, both in Q1 and Q2. Like we said before, the summer season was very strong in most parts of the country, and we got some benefit of that in the first half of the Q2.

Natasha Jain: Understood, sir. And sir, in the same segment in terms of margin, I mean, the margin growth has been impressive until now. I just want to understand how much more scale-up is possible here in terms of backward integration? And in the medium term, say, in 2 years' time frame, what kind of expansion can we expect from here as well, given that even Batteries facility will get commissioned in the offing?

Mithun K Chittilappilly: So, I think as far as margin improvement is concerned, we are still in the process; so when we in-source manufacturing, in some cases, we are seeing margin improvement. But in some of the cases, we are not doing it for margin improvement. In fact, we are going to do it for the case of competitiveness for example, for Batteries and for Kitchen Appliances. The primary reason for setting up the plant is that we were not competitive in the market.

So, some part of that improvement is going to be passed back into the market. So, we are right now almost still 1% to 1.5% behind in terms of gross margin from our earlier pre-COVID days. And that's the gap we are looking to bridge. So, you may not see an increase in margin, but you will see an increase in price competitiveness and a better acceleration in sales.

Natasha Jain: Understood, sir. And sir, you mentioned in-sourcing, outsourcing. So, can you please call out the current manufacturing versus outsourcing percentage?

Mithun K Chittilappilly: I think we're at around 65% which is the current in-sourced manufacturing and outsourced is 35%.

Natasha Jain: Great. And sir, if I may just squeeze one more question. In terms of Consumer Durables, there has been strong margin improvement. So, can you call out what led to this improvement? And how has Water Heaters done this quarter?

Mithun K Chittilappilly: So, Ram, you want to take this, for CD?

Ramachandran V: Yes, so I think as far as the Durables is concerned, there is a moderate improvement in margins, but we're still to come up to our long-term margin level, which used to be pre-COVID. The margin lag is fundamentally because of slower pricing pass-through, yes. So, I think that's the background in context.

Water Heaters growth has been muted fundamentally because of the delayed, what I would say, delayed summer progress and the extension of summer has resulted in delayed onset of the winter season, so the selling has not happened yet. That is the context to that.

Natasha Jain: Okay. Sir, because I was under the impression that Water Heaters in the industry has done well because peers have reported comparatively stronger numbers on Water Heaters.

Ramachandran V: The geography mix of business is different from company to company. And maybe in case some of the peers have reported the strong growth in Water Heaters, then it may be the case because we don't have access to segments or product performance of peers. My sense is that because of the delay in summer onset; because we are seeing much stronger growth in summer categories that what we would typically expect, and we have had a moderate growth in Water Heaters.

And just one more point. Just to say that some of the other anecdotal evidence of slowness in the market is the kind of pricing that also we are witnessing, the competitive pricing that we are witnessing. So, it's not only summer sale being strong in the early part of this quarter, but it is also the kind of pricing that's witnessed in the category. So, these are indicative of the pressures that the winter products are facing.

Natasha Jain: Thank so much sir. Understood. I will get back in que.

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

Rahul Agarwal: Hi very good afternoon and wish you all very happy Diwali. Firstly, just in your view, Mithun, versus expectations and how Q2 has actually panned out, it looks like it's obviously a very strong quarter. But when I see growth, it's basically segment 1 is higher than 2 and then segment 2 is higher than 3. Ideally, we would want that to reverse, right? We want Durables to do better and followed by Electricals, followed by Electronics.

Any thoughts in terms of how do you look at growth going forward? Electronics and Durables, you explained what really happened in the quarter. Any colour on Electrical demand and supply, that will be helpful.

Ramachandran V: Yes. Mithun, can I take this?

Mithun K Chittilappilly: Yes, take it.

Ramachandran V: Yes. Let me take up the Durables part first. So fundamentally, there is some pressure on Water Heaters. And there is some pressure on, if I may say, Kitchen, right? So, Kitchen continues to grow slower than the rest of the categories, right? So, I think these 2 categories have depressed our growth in this segment.

I think one more thing is that certain regions like East, for example, for us was flat last quarter because some of the sales came tail ended and because of the cash flow issues because the visits/ walk-ins into the market were slow, mainly because of the weather. So, some sales may have slid forward also, and we will have to take it into the next quarter. So fundamentally no concern on Consumer Durables.

Consumer Durables' demand is healthy. I think for Water Heaters, we feel that the demand is weak. Maybe some companies are getting better business than some others. Right now, September quarter is all about selling and it is all about sentiment.

But in South, what happens by September is that we start to see some offtake because it's a tail end of monsoon and the weather is starting to get cold there. So not evidencing that is indicative to us of some challenges with the winter, but we expect a delayed winter, and long winter may be running later into January also. So that's the background and context on this.

The second part of the colour on Electricals. Mithun was talking about 1% to 1.5% gross margin improvement progress that we have to do. Some part of it is also connected with the margin erosion, which is happening because commodity prices have been fluctuating in Wires.

We had copper prices dropping at some stage in the second quarter, and that we have had to pass through. And we had to take some inventory, et cetera, right? so there is a bit of margin pressure on Wires in the last quarter. But this will disappear fundamentally because the pricing pass-through is far more efficient in Electrical categories as compared to Consumer Durables. So, no concern on that, but just to paint that colour that you are looking for.

Obviously, whenever there is a price reduction, there is a bit of, what I would say, down stocking that happens in trade. So naturally, the Wire sales will be softer. I'm sure you would have had this commentary from other Wire and Cable companies. Otherwise, I think it is a business as usual as far as the Electrical Products segment is concerned.

Rahul Agarwal: Anything on the Pumps, Switches, Switchgears, anything on that, any specific trends?

Mithun K Chittilappilly: Ram, do you want to take it?

Ramachandran V: Yes. In Switches and Switchgears, we continue to get double-digit growth broadly on the Switches and Switchgears portfolio, as a whole. I think we are witnessing reasonably normal demand, maybe one of them is higher in one quarter versus the other. But directionally, no challenges there.

As far as the Pump is concerned, we have had good growth for some time. But I think we'll have to wait and see. The monsoon has been strong and water tables would have risen up and how that will affect demand, both in terms of type of Pumps and the geographies and how it will impact business. That is something that we will have to wait and see. Because once the water table goes up, maybe the Pump needs or the replacement needs can be lower sometime in the short-term.

Rahul Agarwal: Got it and secondly, on Sunflame, how was the quarter versus your own internal expectations? And what is the outlook on this business? It's been about 7, 8 quarters. Just wanted to understand when do we see growth?

Ramachandran V: Just to give you the background and context, it took us about 4, 5 months or maybe 6 months to put a new operating team into Sunflame. Sunflame when we acquired was very thinly staffed as an entity and it took us about to 5-6 months to put a management team on ground. The management team is well settled, and operational control is something that we have established well and the critical financial control systems, including SAP and adjacent systems to SAP and all the implementation is out of the way.

Now coming to the revenue and the margin side of the business, the gross margins are well intact as far as Sunflame is concerned. Coming to the top line part of it, there are a couple of challenges there. The modern trade and RSS business and even e-com business, they have some long preparation time. The way we run our e-commerce business, we run it directly with inventory from our warehouses and as opposed to the way Sunflame does it where they would do it through an intermediary. So, we have transitioned the Sunflame e-commerce system into V-Guard. It has taken quite some time for us because there are a number of technology solutions, which were required to be put in place. We also needed to have the platforms to be able to make modifications to control. Some of it requires to be done overseas. So, we have lost some time in that transition. This is now in place and operational, including new warehouses. Again, all the warehouses have to be registered for operations. So, I think that business has been under a bit of stress until this transition could be executed. But now this is out of the way, and we do hope in the upcoming 3 to 4 quarters, the business will progressively pick up and move forward.

Similarly, for modern trade and RSS, the portfolio required a product refresh. Cycle times for refresh are long, takes close to 12 months to 15 months, and these actions are out of the way. And that again should help us going forward into the future. GT business has seen a decent growth and better growth than what we have witnessed for the Kitchen industry as a whole. So, GT is getting better and is growing. CSD and CPC, some challenges are there. In the CPC transition, the benefits that CSD customers enjoy have now been extended to the CPC consumers. They have had the transition period for the implementing technology changes, and that's impacted our business partly or significantly last quarter and to some degree this quarter also. But that will again recover going forward. There have been some changes in CSD in terms of classification and way of doing business for some of our categories. So, CSD orders have been slow this quarter, and that is reflecting in the overall number also. So that is broadly to give you a channel-wise picture.

The fundamentals are intact and gross margins are good. Work has happened on strengthening our product offerings, and we have initiated work in terms of building, developing and delivering a new long-term strategy for Kitchen for Sunflame and V-Guard. We remain hopeful and confident about the future of the business. But fundamentally, the challenges that impact the overall Kitchen market, they are also touching Sunflame. Sunflame traditionally, if you look at the long-term growth, it used to grow at about 4% compared to the industry growth of 11% to 12%. And this context may also be kept in mind.

Rahul Agarwal: Should we see growth in second half on Sunflame, on top line?

Ramachandran V: I think, yes, the business should start to grow. I think the GT will definitely continue to grow, right? The other 3 channels, there are actions which have landed, which are in flight, and some are externally driven like CSD and CPC, which is externally driven by the channel.

So, I think predicting what's happening in those 3 areas may be a bit of a challenge. Probably even e-commerce, I think, should be okay because we have completed what needs to be done, and we should start to see results there.

So, I would say GT and e-commerce, yes. I think the other 2 pieces, there is some uncertainty and in some time, we will know. Maybe by end of next quarter, for sure, we will be able to give a better colour on the upward trajectory. But the CSD business, there are years, it corrects; and there are years, it goes. So, it's dependent on some of the system changes and other things that happen internally or somewhere. Fundamentally, no issue on the overall demand side.

Rahul Agarwal: Thank you so much sir for answering my questions. Have a great Diwali.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Sir, on the Electronics' side, we have seen margin improvement and earlier you have talked about some initiatives to improve the margin as well. So, in that backdrop, should we see current year's margin as one-off because of the exceptional growth? Or this is more of a steady-state margin on an annual basis, bearing the quarterly anomalies? That is first question on Electronics. And the related question is, I mean, with your lower share of Batteries and the plant coming up for Battery as well as this ramp-up in the solar rooftops, how should we think about growth of this category in near to medium term? That is the first question.

Mithun K Chittilappilly: See, Electronics margin has grown, I would say, both because of volume as well as manufacturing. So, for example, for Stabilizers, Inverters and for Batteries. So, for these 3 categories, we have put up factories. The Stabilizer and Inverter factory has been online for the last 15 to 18 months, whereas the Battery factory is new.

So, some of the increases we are seeing because of the in-sourcing into manufacturing. Some of the increases, we are also seeing because of better season. So, if the summer season is good, in a year when summer is very strong, we will be giving out lesser discounts and all that for those kind of products. So that is also one of the reasons margins are improved in Electronics.

Electronics as a category should grow something like 12% to 14% because Electronics has Stabilizers, which is slightly slower growing, whereas both Inverters and solar products are fast growing. Solar products, the base is a little small, but they are growing into a large part of Electronics.

Keyur Pandya: Ok. Sir, second question is on the overall general demand side. There are mixed trends about demand. Some are talking about consumer slowdown, whereas your growth as well as some other consumer categories are growing decent enough growth. So how has been the demand situation for our categories? And in context of V-Guard, so basically on a low base, we can grow faster. Just how you see your growth trajectory, say, next 1, 1.5 years?

Mithun Chittilappilly: So, V-Guard is fortunate to have a very diversified portfolio. So, we are straddling across 3 different parts. So here, you can really see there is stress in the Consumer Durable side. Consumer Durable sales growth has been only about 10%. The growth in sales in Electronics is primarily driven by weather, and that is an external factor. So that is probably not indicative of the general consumer demand.

There is definitely slowness in the market. This quarter was one of the slowest quarters we experienced for many categories. So, although as a portfolio, V-Guard has done well, there are definitely pockets of slowness. We did face a lot of slowness in the market, and we are also feeling whatever the sentiment echoed by the general CPG industry in India. So there seems to be a lack of spending.

All these things are true. But the Electronics segment is not really dependent on that, and it is more dependent on weather. Electricals has done reasonably well, primarily because there has been some price growth in especially Wires and Cables. So that's another reason it has done well. But generally, we are also cautious about the environment and when we go forward into the next quarter.

Keyur Pandya: Understood. Sir, just last question. So, on the employee cost trajectory, we have seen 20% growth in H1 on relatively higher base on previous year as well. Where do you see it settling? Are there some more gaps to be filled? So just your thoughts on employee cost? Thank You and best of luck.

Mithun K Chittilappilly: Sudarshan, do you want to take this?

Sudarshan Kasturi: Yes. So, some of that increase is explained by expansion of the manufacturing subsidiary. So as new plants are coming in, that team is getting larger. There have also been mining additions in Sunflame during the last 12 months. So, a significant amount of management team has come in. So, like-to-like, it would be a 13%, 14% kind of increase, which is pretty much the annual increment and some normal headcount additions that happen.

Keyur Pandya: So that should normalize when all plants are commissioned probably by end of this year?

Sudarshan Kasturi: Yes. I mean the next year, we will have this one as the base. So, then the increase will be there.

Mithun K Chittilappilly: Yes, 13% to 14% should be the normal growth of employee cost.

Keyur Pandya : Noted sir . Thanks a lot. All the best.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life Asset Management. Please go ahead.

Naushad Chaudhary: Hi. Thanks for the opportunity and Apologies if I'm asking any repetitive questions. I've missed some of the part. Just wanted a clarification again on the Sunflame margin. What specific reason was for the dip in the margin? Are we done with the restructuring in this business or is there more impact yet to come in the coming quarters? And on outlook also?

Mithun K Chittilappilly: Ram, you want to take the outlook also?

Ramachandran V: Yes. So, as I said in the call earlier, right, the gross margin is the same, okay? There the margin that you are referring to is the EBITDA margin, which in this quarter is looking lower than previous quarters. There are a couple of reasons for that – one component in that is the lower Sunflame sales because of the lack of top line growth; naturally, the flow of that will reflect on the bottom line, right?

The CSD channel and some of the e-commerce and MT, RSS channels, where our actions are yet to fully fall in place, the growth impact of that is also reflecting at the EBITDA level, right? The gross margin is the same. But since the top line growth is not there, it is not reflecting in the EBITDA. That is one part.

The other part is that we are doing strategic interventions in Sunflame, consulting interventions in Sunflame and those costs are also booked in that head. That is the second part of it. Naturally, that will affect the variance in EBITDA compared to same period last year. Third part is we have been adding people and the incremental cost because of that is also reflecting here.

Coming to the progress on the integration, I think the financial integration and integration of financial systems is already complete. Work is underway for defining the road map for operational integration. I think in 3 to 6 months' time, both long-term strategy and the operational integration road map will be in place. I do not expect negative impact on the financials of Sunflame consequent to any recommendation that may come from these 2 interventions, which are underway. We should be able to maintain that, or we should be able to find fuel for growth coming from those interventions.

Naushad Chaudhary: What was the consulting fee in this quarter and was this in lumpsum for the entire year, or will we see that cost in the coming quarters as well? On the margin of this quarter, should we expect to remain similar in coming quarters? What is your outlook?

Ramachandran V: I do not have data on that readily on hand. But I think it would have maybe a 1% to 2% impact, incremental impact in this quarter. Some impact will come from each of those 3 or 4 factors that I talked about. Yes, the consulting impact may be there for another quarter or two. That is one part of it. Second is, hopefully, margins for next quarter should be better than the current quarter.

Naushad Chaudhary: This was the first quarter for the consulting cost, right?

Ramachandran V: Maybe, maybe not. I think some things on financial integration were done even earlier. So may not exactly be the case. What I am saying is that we have an incremental cost for this quarter compared to same period last year. I think it is important for you to focus on gross margin. Our gross margins are maintained. These are one-off actions; the project gets over, cost gets over and booking for that gets over and after that it will stop.

Naushad Chaudhary: The double-digit growth you expect to come back in coming quarters, right, for this piece of business?

Ramachandran V: I think it is a function of how the industry will also grow. The industry growth also has to recover. As I was telling you, if you take a 7-8 year view of Sunflame, when the industry used to grow at 11% to 12%, Sunflame used to grow at about 4%, right? So yes, Sunflame growth should recover, but most importantly, the industry growth has to recover. From whatever we are seeing in the market, industry growth is flat to negative now at least for almost 2 years now.

Naushad Chaudhary: Sir, past growth comparison of industry versus Sunflame, are you indicating any inherent issue with that?

Ramachandran V: It is not an issue with the brand. It is how the business was managed for value, okay? So, it is a very strong brand with a very high profitability and strong cash flows, right? That is what was prioritized, right? So now when we are driving growth, we are adding people, we are supporting investment in products, in customer service and all of that, that is going to have some consequence. That is one part of it, right? That is on the margin side.

On the growth side, I am just saying that the overall industry has to grow, right? If the industry is not growing, even if we grow at 10% to 12% in a flat industry, it is like growing at 15% to 20%. So that is the point I am making. I think for us to get the kind of growth rate you are talking about, the Kitchen industry has to start to grow.

Naushad Chaudhary: Yes. Second question is on the Wires' business outlook, sir - what did we experience here? A few of your peers have experienced very good double-digit growth and they have been quite excited on this revival of the Wire business growth. What is your view and outlook on this business, sir?

Mithun K Chittilappilly: So, Wires even I think we have had decent growth. We have had a double-digit healthy growth. But see, in Wires, you have to look at a 4-quarter period because you may have a lot of fluctuations in prices and stuff like that. For example, this quarter, I think there has also been a price growth. So, although there has been a healthy growth, it is partly because of price and partly because of volume.

Naushad Chaudhary: Right. I will come back in que. I have few more. Thank you so much and all the best for future.

Moderator: Thank You. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Sir Thank you for the opportunity and firstly wish you and your team a very happy Diwali. Sir, my question is pertaining a little bit to the industry scenario right now. Now that we are nearing Diwali and past Navratri, how in your experience has been the festive season? How has it panned out so far? What are the channel inventory levels across most of your product categories? And has there been any significant pricing action in the last 6 months or H1 of FY '25?

Mithun K Chittilappilly: So, regarding the Diwali sentiment and the sales leading up to Diwali, we have actually seen pretty strong traction in the month of October. But there is a huge caveat because last year, Diwali was in November. And this year, it is in the last day of October. So, it is possible that some of the sales could have got preponed.

So, we will have to wait for the quarter to be over to give you a full picture, but initial indications are encouraging. But again, like I said, it could be that last year, September was low because the some of last year's Diwali sales happened in November as well. Regarding pricing action, Ram or Sudarshan, you want to take this?

Sudarshan Kasturi: Yes. I mean, pricing actions have been there first half. There has been some small movements in input costs, and then we have covered them through prices. It is across categories, across various categories, ranging from 1% to 3% in various cases. I am talking about how much has landed. We may have announced more, but this is what has landed in the first half. It is just about to cover some input cost movement.

Sonali Salgaonkar: Understood, sir, and channel inventories?

Mithun K Chittilappilly: We are not sitting with any huge inventories in the channel, nothing abnormal. Like I said, we had a very good Q1. So, we ended Q1 with a very low inventory, both on the company side as well as the channel. And even now, it is not ballooned to any unreasonable degree. It is fairly normal.

Sonali Salgaonkar: Understood. Sir, my second question is a bit strategic in nature. Now your gross margins. This is, I think, the seventh consecutive quarter wherein we are observing that your gross margin has improved year-on-year. Now it is almost nearing 36%. Sir, you did mention some of the reasons behind this in your earnings presentation, but a bit more clarity on that. And secondly, where do you expect the gross margins to settle down, say, in the near term?

Mithun K Chittilappilly: So, I think one thing you have to understand is earlier, V-Guard had a manufacturing and outsourcing mix. And today, we are at a different mix. So, what happens when you manufacture is that actually your gross margins appear higher because some of the costs, the factory costs like outsourced manpower, freight, some of these things are sitting in the indirect, whereas when we outsource then everything is sitting in COGS. So, there is some 1% to 1.5% difference from how we were looking at gross margin.

Sudarshan Kasturi: Sonali, it is like this. Even if we adjust for that, about 1% to 1.5% is not real improvement. It is shifting from one line to the other. You will still see that the gross margin has improved in the last 2, 3 years. But then also recognize we are coming out of a low point. While gross margins have been improving, we are happy with that. But like Mithun said earlier, there is still another 1% gap in margins we need to fix.

Mithun K Chittilappilly: Yes. So, if I look at FY '19 and where we would like to be, we are still around 1% lower than like-to-like basis because like I said, today, some of the costs are sitting in indirect.

Sonali Salgaonkar: Understood. Sir, last question from my side regarding your non-South versus South mix. Sir, we see that your non-South is growing handsomely as compared to your South yet again this quarter. Could you help us understand the margin profiles of non-South versus South? Have the gross margins converged? Or is South still higher than non-South?

Mithun K Chittilappilly: So, I think margin-wise, today, there is no difference between South and non-South. We are following a pretty much pan-Indian pricing policy. If you look at the gross margin, because of this more and more sale coming from non-South, my guess is there will be absolutely no change because the gross margins are almost identical. So, there is no real difference in terms of pricing and gross margin.

Of course, in South India, with like 7 or 8 branches, we are doing INR2,600-odd crores, with an average revenue of INR300 crores to INR400 crores per branch. Whereas in non-South, we have another 17 branches doing the similar kind of a number. So, in that sense, the overhead cost is still high. The throughput is not as efficient as South. So, in that way, you will see some changes in terms of bottom line, like EBITDA margins. But gross margins are all the same.

Sonali Salgaonkar: Sure. Sorry, sir, one last question. Sir, any particular product category, which you would like to highlight wherein you are seeing a little excessive competition as compared to the other categories?

Mithun K Chittilappilly: No, I think, competition and hyper-competition is something that is part and parcel of this industry. It has been going on at least for the last 7 to 8 years, and now we are kind of used to it. So, I wouldn't like to say; it doesn't matter. I mean, like, for example, like Ram mentioned, Kitchen is going through a very tough environment for the last 18 to 24 months.

So, we have significant competition both in online; especially online. So, if you look at our e-commerce business, there is significant price competition happening in Kitchen, Water Heaters. So that means that brands are desperate to get sales, and they are ready to go to any extent in terms of discount. These are the signs when certain categories are weak. But having said that, there is competition in almost everything. If you take any category today, there are 15 to 20 brands in any of these categories. Of course, not everyone is active in everything, but it is a biased market.

Sonali Salgaonkar: Understood sir. Thank you and all the best.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life Asset Management. Please go ahead.

Naushad Chaudhary: Hi and thanks for the opportunity again. On our investment in Gegadyne, what is the rationale of this investment and what kind of tech support that we get from them? What do we expect in the future?

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

Ramachandran V: Yes. So fundamentally, our investment in Gegadyne, it is a deep tech company, and we were attracted by the potential of that technology in terms of its ability to create disruptive value. Fundamentally, we have been supporting them to enable technology development. So, which is to convert a potential technology idea into a viable product.

So mainly, our support has been towards setting up the pilot plant and putting in place systems, processes, helping them put in place systems and processes to convert what would be, what I would say, an idea into a large-scale product, right? So, this is the objective of our support and this is what we have been working on with Gegadyne.

Naushad Chaudhary: Any technological support, which we have outsourced from them, which is helping us?

Ramachandran V: No, I think this is the next-generation technology product, right? When they get into commercial production, at that stage, we should be able to source batteries from them, which we would be able to launch in the market. But that will require a commercial plant to be put in place. Right now, they are engaged in building what I would say, products through pilot plant to establish proof of concept and to supply to customers for customer validation and certification before they can go ahead for mass production. So, at this stage, no, no support. We have not received any support from them. We are supporting them.

Naushad Chaudhary: All right sir. Thank you so much. That's it.

Moderator: The next question is from the line of Mukesh, who is an individual investor. Please go ahead.

Mukesh: Thank you for the opportunity. Just one question. What is our capacity utilization on various product segments and what is our Capex plan for next 2 years?

Mithun K Chittilappilly: Sudarshan, do you want to take this?

Sudarshan Kasturi: Yes. Our Capex plans will be in the region of about INR100 crores a year, roughly. In terms of capacity utilization, yes, it varies plant to plant and some of them are seasonal, some of them are around the year, so difficult to put a number. But just to say that we will sort of invest in Capex and capacity utilization before it becomes a bottleneck.

Mukesh: Ok. Thank You.

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

Natasha Jain: Hi Sir. Thanks for the opportunity once again. Sir, if you could just give us a newer guidance or any guidance on Kitchen Appliances in Kitchen Appliances as a category and bifurcation in terms of what V-Guard is expected to do versus Sunflame?

Sudarshan Kasturi: See, I mean, it's like this. Sunflame is doing about INR60-odd crores run rate in a year, and this is with depressed orders from CSD.

Mithun K Chittilappilly: INR60-odd crores per quarter.

Sudarshan Kasturi: Yes, per quarter. And this is at a time when CSD has cut down orders significantly. We would have expected to make about INR 75 -80 crores if the CSD orders were in the normal shape. So that sort of gives you a sense of size. And V-Guard's Kitchen business, we are running at about INR 200- 220 crores. And we would have expected that to become bigger this year, but we know that Kitchen has been facing some severe headwinds.

Natasha Jain: All right. So just to iterate the number, you said INR220 crores per quarter for V-Guard, right?

Mithun K Chittilappilly: No. I think INR220 crores for V-Guard, per year, last year, and Sunflame was about INR240 crores for the full year. This year, it is looking like both of them are flat. That means there is not much of growth because of the challenges in the Kitchen environment.

Natasha Jain: Understood Sir. Thank you so much, that's helpful and Happy Diwali.

Moderator: The next question is from the line of Vaibhav Jain, who is an individual investor. Please go ahead.

Vaibhav Jain: Hello. Ya, am I audible.

Mithun K Chittilappilly: Yes, please go ahead.

Vaibhav Jain: Hi. Congrats on a good set of numbers and Diwali wishes to you. My question is slightly on the strategy side and long-term oriented. Just wanted to understand the next 5 years, in which of our categories are we trying to enhance our competence? Are there any new categories that we are planning to enter into new geographies, channels, et cetera? Just wanted some information on that.

Mithun K Chittilappilly: Okay. Regarding new entry, we would not be commenting because it is confidential information. Ram, do you want to take the other one?

Ramachandran V: Yes. I think fundamentally, the growth trajectory across different product categories will remain. Obviously, Consumer Durable categories will continue to grow, and our focus there will be to improve scale and improve EBITDA margin. Gross margins are reasonably decent. So, there is some scope to improve there. But I think scale up of the Consumer Durable business will be key to also the EBITDA margin's objective realization, right?

We will also be trying to drive to improve our presence in the Electrical segment, particularly categories like Switches and Switchgears where we have a lot of headroom to grow. So, these are going to be our growth categories.

Inverter and Battery, here again, with the inroads that we have made in manufacturing, we believe it should be able to bring required competitiveness to this category for stronger growth. That is how we would see that. Stabilizers and Wires & Cables will move; Wires will move more or less in line with the market. So strong growth is going to basically come from Consumer Durables, Switches and Switchgears and Inverter-Battery.

Vaibhav Jain: Sure, sir. So, I just wanted to understand from an end-use case standpoint, where do we see ourselves in segments like data centers and solar generation, solar rooftop, some of the new up-and-coming use cases in the power sector?

Ramachandran V: No, I think as far as rooftops are concerned, I think we are participating in that. We will see how this evolves and grows, because the numbers outside are quite ambitious, and we will have to see how they pan out. I think the trajectory is good, and we have called that out in our report. We have, as of now, not developed a very strong point of view on how far we will reach with some of these. As far as data centers are concerned, we are not into it.

Mithun K Chittilappilly: We are into only the B2C part of this, not the B2B part.

Vaibhav Jain: Ok. Sure sir. Thank You.

Moderator: Thank You. As there are no further questions, we have reached the end of our Q&A session. I would now like to hand the conference over to the management for closing comments.

Mithun K Chittilappilly: Thank you, all, for taking out time to join our earnings call. I would like to thank Deepak Agarwal and the team at JM Financial for hosting this call. On behalf of the V-Guard family, I would like to wish all of you a very Happy Diwali and a Prosperous New Year. We look forward to interacting with all of you in the next quarter. Thank you.

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