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July 29, 2024

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

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

Scrip Code: 533581

Scrip Symbol: PGEL

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

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed Transcript of the Earnings Conference Call held on July 25, 2024.

This is for your information & Records.

For **PG Electroplast Limited**
SANCHAY DUBEY
Digitally signed by SANCHAY DUBEY
Date: 2024.07.29 16:18:25 +05'30'
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Company Secretary

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"PG Electroplast Limited Q1 FY25 Earnings Conference Call"

July 25, 2024

MANAGEMENT:	**MR. VISHAL GUPTA – MANAGING DIRECTOR (FINANCE), PG ELECTROPLAST LIMITED** **MR. PRAMOD GUPTA – CHIEF FINANCIAL OFFICER, PG ELECTROPLAST LIMITED**
MODERATOR:	**MS. NATASHA JAIN - NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY '25 Earnings Conference Call of PG Electroplast Limited hosted by Nirmal Bang Equities Private Limited.

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

As a reminder, all participant lines will be in the listen-only mode, 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 Ms. Natasha Jain from Nirmal Bang Equities. Thank you, and over to you, ma'am.

Natasha Jain: Thank you, Shlok, and good morning, everyone. Nirmal Bang Institutional Equities welcomes you all to the first quarter FY '25 Results Conference Call of PG Electroplast.

I would like to thank the management of PG Electroplast for giving us the opportunity to host the call. Management is represented by Mr. Vishal Gupta, Managing Director (Finance), and Mr. Pramod Gupta, the CFO.

I now hand over the call to the Management for their Opening Remarks, post which we will take questions from participants. Thank you, and over to you, sir.

Vishal Gupta: Thank you, Natasha, and good morning, everyone. Thank you for sparing your valuable time and joining this call today. We hope all of you are doing well. Mr. Pramod Gupta, our Chief Financial Officer, joins me on this call.

We have already shared the presentation of our results earlier and hope you have gone through that. Quarter 1 of FY '25 has been another landmark quarter in the growth journey of PG with several milestones. The Company was able to deleverage its balance sheet further through strong cash generation.

The Company posted all-time high quarterly profits and sales in this quarter. Operating revenue of the Company grew by 95% and crossed Rs. 1,320 crore with the product business contributing 75%.

EBITDA increased by 100% and stood at Rs. 134.5 crore and net profits rose by 151% to Rs. 85 crore.

The Company has posted industry-leading growth in the product business. Operating revenues for the product business were at Rs. 994 crore with 124% growth. This is despite the fact that the ASPs in certain categories are down by up to 8% on Y-o-Y basis.

The room AC business contributed Rs. 882 crore, which is a 130% growth on a Y-o-Y basis. The washing machine business had a growth of 72% on Y-o-Y basis and cooler operating revenues also grew by 287%.

Orderbook and visibility for product business remains robust and the Company is on track to accelerate product business growth significantly in this financial year.

PG's new product offerings in washing machines and room ACs have been well received and the Company is focusing its efforts towards developing products that helps it in maintaining cost leadership while striving for product leadership too. The Company continues to see increased interest in the business from new and existing clients and we remain very confident about the future growth prospects of the business.

For FY '25, our revised operating revenue guidance stands at, at least Rs. 3,650 crores in PGEL and another Rs. 600 crore in our JV Company Goodworth Electronics implying Rs. 4,250 crore of group operating revenue, which is a growth of 55% over FY '25 numbers.

We are also revising our guidance of net profit of at least Rs. 216 crore in FY '25 which is a growth of 58% over FY '24 net profit of Rs. 137 crore. The growth in product business that is washing machine, room air conditioners and air coolers is expected to be around 60% from Rs. 1,668 crore in FY '24 to around Rs. 2,650 crore in this financial year.

CAPEX guidance stands at Rs. 370 crore to Rs. 380 crore. The Company has planned to further expand room AC capacity by setting up a new integrated unit in Rajasthan and also a new greenfield capacity is being set up in Greater Noida for washing machine. The super facility will be expanded further with a new building and capacity enhancement for the room AC business.

I would like to reiterate that the Company remains committed to improving capital efficiency by improving asset terms through product business growth, and we aim to deliver industry-leading growth with best-in-class return ratios in coming years.

With this now, I will hand over the call to my colleague, Mr. Pramod Gupta – our CFO, who will elaborate on the financials.

Pramod Gupta: Hello, and good morning, everyone. I am sure all of you have seen the Financials in detail already.

We had a great scale-up during first quarter '25 from an operational point of view. This is a very challenging supply chain environment due to QCOs and quality control orders that the government has put, and also because of the commodity prices being lower on a year-on-year basis, the ASPs are down, and still we have shown a very strong growth in the volumes. And we have posted industry-leading growth in RAC at 130%, 287% in coolers, and 72% in washing machines.

Company's operating revenues grew 95% at 1,320 crores, and EBITDA was up 100% at 134.5 crores. During the quarter, operating margins have improved due to cost control, low commodity prices, and operating leverage.

On the balance sheet side, net debt has declined 103 crores due to inventory run-down in the AC business. As stated by Vishalji, we have guided for 370 crores to 380 crores of CAPEX in FY '25. This will be funded largely by internal accruals.

Reiterating that improving capital efficiency by sweating existing and new assets will be the key focus area for the Company in the coming years. We remain very optimistic on the growth opportunities in our area of focus, and we believe the Company is well poised to expand its market presence further in the coming years.

With this, I will open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ms. Natasha Jain from Nirmal Bang Equities. Please go ahead.

Natasha Jain: Firstly, congratulations on good set of numbers. So, while the top-line growth has been very healthy, EBITDA margins have been flat. Now a business like yours is such that one should see benefits of op leverage at such high top-line growth. Also given the fact that this was one of the best quarters in many years in terms of RAC, so I was wondering if not now, then when?

And on a related note, while we understand that your customers may have exercised their bargaining power on back of high orders, but at such acute level shortages in the channel, were we as an RAC OEM player not in a position to dictate terms and therefore take some benefit in terms of margin growth? Or is this purely attributed to commodity costs rising? If so, then should we expect margins to improve in second quarter FY '25? If you could just share your thoughts on these two.

Pramod Gupta: First of all, I want to highlight that we have seen a margin improvement on a like-to-like basis. If you see the previous quarter, we had a 15-crore income from PLI, which was not there in this quarter. So, operating levels at operating margins in both, all the product businesses were better than the last quarter. However, because of the absence of PLI was not reflected.

By the way, I just want to highlight here, once the prices are settled with a customer for conversion or a season, they don't change in the mid-season irrespective of the season being strong or weak. So, it is not that we can actually renegotiate in the season, go back to the customers. We only get margin improvement because of the operating leverage, because in the same line, if we are able to utilize it better, we can have slightly better productivity and slightly lower cost. But this business does not allow you to renegotiate the contracts in between the seasons.

Natasha Jain: Sir, in terms of RAC, can you throw some light as to what was the split between RAC component business growth in 1Q versus your RAC assembly? And in the future, what kind of margin growth can we see in our RAC portfolio on the back of RAC component share increases?

Pramod Gupta: So, RAC component is a very small business for us. The number that we talk about in the product business of 882 crores, that's a purely fully built units, indoor, outdoor, or fully built CBUs that we supply to the customers. Now for us, the component business is very small in the whole scheme of things. For the quarter, maybe that is a part of the plastic components and others, and that will probably not be even 25 crores, 30 crores. There are some small business which we have started in the controller side of the components. Last quarter it had a very small number. 13 crores is what we sold externally and it is a part of electronics business in the AC controller side.

Moderator: Thank you. The next question is from the line of Koushik Mohan from Ashika Institutional Equities. Please go ahead.

Koushik Mohan: Sir, I just wanted to understand when we look at more deeper into the numbers, our gross margins have fallen down from 19.9% in the Q4, is currently 18.1%. When I even compare this with the Q1, it is sustaining at the same level. It is 18.1 in the Q1 in the last year and this year, the Q1 is also 18.1%. But in the middle of the year, I am seeing that our margins is slightly improving to 20.7%. So, can I understand, are we contracting with the client? Are we talking about per unit give me this much price or is it something like that or are we on to the entire contract value basis or unit level basis?

Pramod Gupta: So, I just want to highlight here a few things. If you look at our product business, the AC business has lower contribution margins because the bought-out parts, especially the compressor, the controller chip set and even motors et cetera are being bought from the vendors directly. So, that is why the gross contribution is lower. So, whenever the proportion in a quarter is higher of an AC business, the gross contribution comes down.

Yes, you are right. We do have per unit conversion price fixed, and bill of material is a pass through to the customer for the whole season. So, that amount is initially agreed by the customer for different models and then that remains the same for the whole season. That is the conversion cost.

Koushik Mohan: What is the normal conversion cost for AC per unit level on EBITDA?

Pramod Gupta: It actually varies, and we don't disclose that number. But it varies from model to model.

Koushik Mohan: And second thing, sir, in the current guidelines, we have told that it is 216 crores on our bottom line. Is that also including the PAT of the JV that what we are doing, 600 crore?

Pramod Gupta: No, there is nothing included in that. That 216 crores is only for the standalone entity.

Koushik Mohan: 216 crores is only for standalone. And on the JV side, what can be our PAT margins, if it is possible, you have worked out anything?

Pramod Gupta: On a full year basis, that should be in the range of about 1.5% to 2%. That is what we are targeting internally. In the first quarter, we had a small loss. On a turnover of 75 crores, we did a small loss of about 1.9 crores because they were startup costs and also, initially, for the first two months, the production was just getting stabilized. From June onwards, the things have started picking up and now for this month and next month, our plans are very good. So, this next quarter onward, we should see turnaround in the profitability in the JV also.

Koushik Mohan: And if I am allowed to understand if our PAT will be coming from this JV somewhere around 6 crores to 9 crores?

Pramod Gupta: About 6 crores is the right number, the share of our PAT and even if we assume 2% margin on the 600 crores, that will be about Rs. 12 crore of profit and then our share will be 6 crores in that 50%.

Koushik Mohan: So, then we are talking about 216 plus 6 crores, that is 220 crores and this is inclusive of all the PLI scheme and everything.

Pramod Gupta: Yes, it is inclusive of the PLI. Yes, it is inclusive.

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

Prateek Shah: Couple of questions. Given that we are entering into the future of washing machines, how is the order book looking like?

Pramod Gupta: Order book looks very strong, and we have guided that overall our product business will see a growth of almost close to 59% and we are building in very strong growth for the rest of the year also. In the first quarter, we clocked 72% growth in the washing machine. We hope for a full year, we should be able to do about 40% to 45% growth in the washing machine business.

Prateek Shah: Secondly, sir, we saw sharp rise in the employee cost as well as the other expenses for this quarter. Can you throw some light on that?

Pramod Gupta: So, employee cost has increased because the production and the level of activity in the Company has seen a sharp rise. In fact, in all the product businesses, we have seen very strong growth, and obviously, when the product business grows, the assembly manpower requirement goes up very significantly, and that is what has resulted in the manpower expenses going up.

Similarly, the other expenses which constitute largely of electricity, factory overheads, etc., have also gone up, because the economic activity or the activity on the assembly side, etc., has increased significantly in this quarter.

Prateek Shah: And third on the new PLI being rolled out, so are we looking to onboard more players in the IT and the laptop segment?

Pramod Gupta: Laptop and IT, we are still a work in progress. This new PLI which has come for RAC, we will be applying in that through one of our companies.

Moderator: Thank you. The next question is from the line of Yash from Stallion Asset. Please go ahead.

Yash: Growing 95% Y-on-Y is really commendable, given the environment that we are in. So, my question was broadly, you know, I wanted to understand what are the new products that you can sort of pivot into going, if you take a four-to-five-year view? I mean, for example, you started with cooler. Then you went to AC. Then you went to washing machine.

So, what are the new areas that you think the Company can sort of go to? And what would be your goal for the Company or a vision for the Company over the next four to five years in terms of, you know, do you want to be a very large player across consumer electronics? Or what is the sort of the vision that you have for the Company?

Vishal Gupta: See, definitely, we are looking at growth. Everybody looks at growth, and we feel that our Company, our economy, our country, with the kind of support we are getting from the government policies, I feel that the journey has just started. We believe that we can actually look at least 25% to 30% kind of CAGR growth for us for next four or five years. I don't see any challenges in that. We will always be exploring different product categories, and at the same time, keep concentrating on our existing product categories also, to see which can be our growth drivers for future.

Pramod Gupta: As a further -to-add here, actually, we have a set of skills in the Company, like we can do plastic components. We can do sheet metal components. We have a design capability, making the moulds in-house. We can do electronic assembly.

Now, if any product which comes to us or the opportunity where we see if they are in the domestic or export market which can utilize any or all of these capabilities, we will explore those opportunities if they meet our internal capital allocation guidelines and then we are ready to commit capital and we are ready to take those projects.

Yash: And sir, my second question would be how are you able to consistently win market share from the market leader that currently exists in some of your product categories? I mean, what is your strategy that you sort of go to with the customers?

Pramod Gupta: So, we actually have in this business only three aspects which leads to business win or business loss. One is quality, cost and delivery and now quality and cost has become a hygiene factor. It is similar for almost everybody and that has to be given.

The differentiation comes mainly from delivery, and we take pride in that and we have been able to add new customers, also increase our share of business in most of the existing customers because our delivery has been allowing us to differentiate from the competition and we have been able to stand out slightly better in the season according to the requirements of the clients. So, that has actually led and helped us to gain market share.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy Capital Management Private Limited. Please go ahead.

Mythili Balakrishnan: I wanted to check with you couple of points. One is, in this 215 odd crores of PAT guidance that we have given, what is the quantum of PLI that we are assuming from center and state?

Pramod Gupta: Total PLI assumption is 30 crores, which we will be getting from the central government this year.

Mythili Balakrishnan: And any state government incentive that is also there in this number?

Pramod Gupta: No, which is the same number which we received last year about Rs. 6 crore. We actually account for the incentives on not on accrual basis but when they are actually received. So, we have yet not made our claim to the state government because we are still in the process of completion of our CAPEX for the state government incentives. Once that is completed and we start getting money, then we will start recognizing that.

Mythili Balakrishnan: So, roughly around 36 crores of incentives is?

Pramod Gupta: Yes, last year the same figure was about 21 crores.

Mythili Balakrishnan: Also wanted to check with you on the fridge. I understand that we were earlier more also keen on starting contact manufacturing for the refrigerator part of the business. But any update on the same?

Pramod Gupta: So, refrigerator, we are still in the evaluation phase. We were not convinced that we were able to, at least on the exercise that we did, we were not hitting the internal ROC guidance guidelines that we have for ourselves in the refrigerator business, given the current conversion margins, which we are seeing in the industry. So, we just wanted to wait and see how the industry evolves. We have evaluated the project in great detail, but we are just taking slight time to see if the operating dynamics improve, and we can make a good ROC in that business. Then we will probably be entering that business.

Mythili Balakrishnan: In terms of the CAPEX, can you just give us a broad contours of where exactly is this CAPEX going into?

Pramod Gupta: Yes, so this year we are actually going to build close to about 1.1 million square feet of building across three places, which is in Supa, in Bhiwadi and Gurgaon, sorry, Noida. So, in these three places, that amount is going to be close to 180 crores in the land and building that we are going to put up. Apart from that, there will be amount of money which will go in the plant and machinery.

I will just give you the vertical wise numbers so that you know. Just give me a second. So, there will be about 125 to 130 crores will go for the plant and machinery in the RAC business, about 35 to 40 crores in the washing machines, about Rs. 3 crore for the coolers, and rest about 20 crores for, I will say, the maintenance CAPEX, and sanitary wear, and other businesses. So, that is the breakup of 380 crores that I have talked about.

Mythili Balakrishnan: And the plastic molding business does not get much CAPEX in this?

Pramod Gupta: Yes, so that business we are not, there is only one part of the segment where we are actually still investing, which is the sanitary wear business, the plastic component. Otherwise, we are not actually investing or allocating capital to the standalone plastic component business.

Mythili Balakrishnan: It would be also useful if you could just expand a little bit about the room AC business. Clearly, there is a lot of structural tailwinds which is there into the business, but we are also seeing OEMs insource, etc. So, just your own views on how are you seeing growth in this business, especially because it's a large part of the CAPEX that you are allocating?

Pramod Gupta: So, obviously, the industry is seeing a very strong tailwind, very strong growth in this business, and we have been participating in that growth. Domestically, new capacities have come from the brands themselves, and they continue to expand their capacity. But I think the outsourcing requirement will continue, and we have a view that outsourcing will eventually increase, actually.

Because till the time this business remains seasonal, just putting up the own factories actually is not very cost-effective from the brand point of view, in our opinion. And our internal exercise makes us believe that it is more beneficial for the brands to outsource at least the bottom of the pyramid products rather than doing in-house manufacturing in those products because there, the contract manufacturers typically are much more competitive than the in-house manufacturing.

Moderator: Thank you. The next question is from the line of Vipraw Srivastava from InCred Capital. Please go ahead.

Vipraw Srivastava: Just two questions. So, regarding the IT PLI thing in the Q4 call, management was saying that there was some issue with the elections and some OEM was actually investigating whether to invest or not. So, how is that progressing? How is the IT PLI thing applying to environments for that going ahead? Any thoughts on that?

Pramod Gupta: We never said anything like election or something. The only issue is the customers have to take a decision. Most of the customers were waiting for the elections to get over. Now, I think we have still not seen much movement on the IT PLI side yet. Most of the customers are still slow in decision making. We are in touch with many of them and as and when some development is there, we will update you on that same.

Vipraw Srivastava: Noted. So, the target, the sales target for ITPLI is, I guess, 750 crores for the first year. So, by when will PG need to achieve that? And how optimistic is the management of achieving that sales target?

Pramod Gupta: See, the issue is like the target is very much there that you said, but the issue is that customers have to make a decision of outsourcing versus importing. Once we see some activity on that side, then only we can actually start talking about the numbers. Right now, customers have been pretty slow. We have not seen much activity on that side in this business.

Vipraw Srivastava: Noted. And in the Q4 call also, the incentive number was around 60 crores. Right? There was also some state incentive. Right? My old saying is 35 crores. I mean, am I missing something? I mean, please clear that part.

Pramod Gupta: No, so, the state incentive is when we file for the state incentive application is approved and then we start receiving money. We have yet not completed our CAPEX fully, the committed CAPEX. Once we do that and when we file our application, then only we will start, once we start receiving, then only we will start accruing. So, we are taking…

Vipraw Srivastava: That is not a part of this 216 crores of guidance or is it a part?

Pramod Gupta: No, it is not a part right now.

Vipraw Srivastava: Last quarter it was a part, right? Or was it not?

Pramod Gupta: No, it was not.

Vipraw Srivastava: No issues. And last question. So, MD sir was saying that they expect this business to have a 30, 85% CAGR over next 3 to 5 years. Just want to understand what is your implicit assumption for the AC investor in this? I mean, how much we expect the AC industry to grow for you to achieve this revenue target? Last question.

Pramod Gupta: Basically, we think industry should grow at about 15% to 20% in the coming years, given the climate change and also the increased affordability of AC and that will help us to achieve those numbers. Also, we are having a good opportunity across other business segments as well. Washing machine continues to see good opportunities for growth as well as we are seeing a lot of interest in new products and new kind of, I will say, projects which we are still in the discussion phase with some of the clients, may not necessarily be in the AC or washing machine. So, those things will also help us to achieve that kind of numbers.

Vipraw Srivastava: This 15%-20% is volume growth or the nominal growth? Last question.

Pramod Gupta: 15%-20% is the volume growth which I think should be.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Sir, just wanted to know about our dependency on the Chinese import kits and are we taking any steps to mitigate that and any risk because of the China dependency for us, sir?

Vishal Gupta: See, this is a really hard fact that most of the industry in India, in RAC especially is very dependent upon China. But having said that, you know, with this PLI and now last 2 years, we understand that some investments have happened in the copper tube also and the aluminum foil also and compressor guys have also started ramping up their capacities in India and motor guys.

So, if you see, largely if you see 4, 5 years back, if we say that domestic value addition was around 20%, 25%, today we can very easily say that we have reached a level of around 40%-45%. But with these capacities coming up and in next 2, 3 years, I think we will be very easily touching around 70%, 75% domestic value addition in India. But yes, any component ecosystem to be created, it takes lot of time and effort from everyone. So, we are moving in that direction, in the right direction. Hopefully, we should be around 70%, 75% in next 2, 3 years.

Vivek Gautam: And word on the opportunity size for our sector and the Company and are the current excellent earnings sustainable or is there any one-off due to hot summer this quarter, sir?

Vishal Gupta: Can you just repeat the question? We could not understand it fully?

Vivek Gautam: One second, sir. The question was basically, how is the opportunity size and the growth expected for our Company and the sector? And behind the excellent performance of our Company in this quarter, was there any one-off like hot summer, especially hot summer this time, sir? And what about the competition intensity also for us in the sector, sir?

Pramod Gupta: So, this quarter, the whole industry has done extremely well. I think the industry growth in this quarter for the AC sales should be 40%, 50% at least, even on the retail side, I think from the brand's point of view. And the reason has been obviously hot summer.

But I think it is not only hot summer, there is something more also which is happening, which we are trying to figure out and talking to all our customers because the highest growth actually happened in the west and the southern part of the country and by the time the northern region picked up,the industry was actually short of material already and the kind of growth which we saw in southern markets was not because of climate or any very extreme weather conditions. In fact, weather conditions were much more extreme in North India this year where the temperature in some of the countries, some of the northern part of the country was consistently above 45 degrees for a very long period.

In some southern states we didn't hear that, but the growth was very high. In some of the southern states, the growth was in triple digits on a Y-o-Y basis. Something seems to be happening. We are also trying to figure out what is the reason. We have no exact one single reason, which we can point out that because of this reason that a growth has happened.

Yes, industry dynamics are competitive. Their competitive intensity has increased. We have to compete with both the internal manufacturing capacities of our companies or our clients and also the other people in this industry, other contract manufacturers in the country and we think we have to work on our product offerings. We have to work on our cost competitiveness to remain competitive and to improve our market share consistently.

Vivek Gautam: Any plans of moving into higher value-added products, sir? Room ACs and washing machines we are doing very well. And what about the other products, sir?

Pramod Gupta: For contract manufacturing, the basic thing is that the product should become mass market product. Then only it makes sense for doing an outsourcing in that business for the brands. So, as and when we see more opportunities, we will be actually trying to participate in them with our clients.

We are working on some of the higher added products in the washing machine and AC only. We are expanding our product portfolio. We are investing very aggressively in the new models and new product offerings and which is also helping us to improve our product portfolio and also helping us to gain market share with these products.

So, right now as I am saying we are focusing more on the existing business lines because we have our hands full here, but we are prepared for new opportunities as well. And as and when they come and they meet our capital allocation targets, we will be deploying capital and taking up those projects.

Vivek Gautam: Opportunity size for our products remains very huge. I was reading somewhere that the penetration level of AC is still 7% in India versus 62% in China and much more in western world. Same story too must be for washing machines. So, opportunity size for us in India remains quite huge, especially in rural and Eastern India and where in the growth can be assured for next number of years, sir?

Pramod Gupta: Yes, you are right, the opportunities are huge. The penetration levels still remain extremely low. To best of our knowledge, AC penetration is just about 7%, 8% in the household in India and in washing machine that number is about 12%, 14%.

Vivek Gautam: Yes, and with the availability of more electricity through solar and the financing also, I believe the opportunity size remains huge, sir. And one more thing sir, was about our Company sir, because I have recently started checking the Company. Our Company was a very old listed Company and what has changed for better in the recent times, sir, if you can highlight something?

Moderator: Sorry to interrupt. Can you please join the queue again?

Vivek Gautam: I'll do that.

Moderator: The next question is from the line of Ashish Jain from Macquarie India. Please go ahead.

Ashish Jain: Sir, my first question is on pricing. You know, you earlier said that pricing is typically set for a particular season, and it cannot be renegotiated with the customer. But given the demand momentum you are speaking about and all, should we think that we have a bit more pricing power for the next season? How do you think about that?

Vishal Gupta: Sorry, can you just repeat your question please?

Ashish Jain: No, I am saying on the conversion margin, earlier on the call we said that conversion margin is typically fixed for a season and based upon demand it cannot be changed, right? But given the strong demand momentum that we are talking about, more structural in nature, shall we think that going ahead we will have lot more bargaining power on the conversion margin?

Vishal Gupta: Sir, please understand that we are, actually you are right that we are in a, maybe in a structural shift in the RAC industry. But please understand there are lot of capacities which are coming up as everyone is saying right now and we have to not only compete with our competition. We have to compete with their internal in-house manufacturing cost also of most of the brand. So, there is always a benchmark available to us and we cannot charge more than that. So, we have to be always very conscious about that and we have to move in tandem with that.

Ashish Jain: Sir, can you share the customer concentration in AC today in terms of what is top five customers now as your total AC share?

Vishal Gupta: The top five should be around 60%.

Ashish Jain: And what was this number, let's say, in fiscal '23?

Pramod Gupta: Maybe about almost about 85%.

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

Pranay Roop Chatterjee: Pramod sir, there is some confusion. Last call I had asked you this question and I checked the transcript as well. The question I had asked you was that and what you had answered also that the incentive last year was about 20 crores. Including PLI and state incentive this year, it would be about 65 to 70 crores, which was part of the 200 crore PAT guidance. Now, has that changed because some of the numbers we have given out are the 30 crore PLI plus only 6 crore for the state incentive and you have increased your guidance as well? So, we are slightly confused as to your new PAT guidance, how is the split between organic business and from the incentive?

Pramod Gupta: So, as I said, I am again clarifying this year, we are building in this 216 crores only this 36 crores of government incentive and PLI. We are not building in any other state government incentive and largely because of the change in mix because the TV business, which was almost 11%, 12% of the total revenue shifting out of the Company, we should see on a like-to-like operating basis some improvement in the standalone margins. So, that should help us and therefore, we should be able to show good performance despite lower percentage of incentive as a percentage of sales this year from the government support.

Pranay Roop Chatterjee: Sir, then my question is, so this year only 6 crores you will recognize. So, how much of the total CAPEX for this Maharashtra state incentive has been done? How much is left? And by when do you think you can get the incentive released? And hence, should be expect that this chunk of about 30 crores that we were expecting earlier this year would come next year then? So, how should we think about the state incentives?

Pramod Gupta: See, we have yet not completed our CAPEX for the state government incentive. This year, by this year's end or sometimes in this year, we should be able to complete that and post that, then there is a process. They give you a completion certificate and eligibility certificate and then after that, about once your all formalities are cleared, then the money actually comes. So, we think that money we will be able to receive only in the next year. So, then we will start recognizing that amount.

Pranay Roop Chatterjee: So, sir, then the last year you recognized about 4-5 Cr as state incentives, you had mentioned in the call. What was that then?

Pramod Gupta: That was actually for the old CAPEX which was done in PG Electroplast in 2018-19 in Supa when we actually put up our first AC assembly shop in Supa, indoor unit assembly shop when we put in Supa. That time we had done a CAPEX. For that we are getting some 6.5 crores.

Vishal Gupta: So, I will clarify. I will add to what Pramod is saying. There are two applications. There are two entities in Maharashtra. One is PG Electroplast, and the other one is PG Technoplast. In PG Electroplast, we are already getting around Rs. 6 crore every year from the government of Maharashtra which we are already recording in our revenues also.

This PG Technoplast application, which was supposed to be made this year, will be making by end of this year and we are hopeful of getting state government benefits in PG Technoplast from next year onwards. That figure is already there. That is getting accumulated now. By next year we will get those benefits.

Pranay Roop Chatterjee: Sir, one last question. Again, this is a data clarification. In your press release, there is a line you have mentioned around the TV and electronics business. Now, the primary confusion is because obviously part of the TV business entirely has switched to Goodworth. So, if you could just clarify, how much of electronics and TV revenue has been recognized above your EBITDA line and if you could split that between TV and what electronics item you would have done and then how much has actually shifted below your PBT?

Pramod Gupta: No, let me just answer this question for the clarification of everyone. See, this quarter we had an electronics business, total electronics business of 102.8 crores. Just a minute. Just let me just get the numbers. Just give me a second. So, electronic business was 100.8 crores, to be exact number, out of which 17 crores was the TV sales, which was done to the other parties.

Then there was a business which was in electronic sales, which was 83.6 crores, out of which 13, 14 crores was the business, which was the controller sale, AC controller sale to the third party. Apart from that, most of the sales were to the Goodworth, where we have sold the existing electronic components, which we were doing, and also some of the PCB assemblies for the TVs, which they are going to make in this year, and they have made in the last quarter and the coming quarters.

Now, I want to highlight that the total revenues assumed from the electronics business for the full year is about 200 crores, out of which 100 crores has already come in the first quarter. And TV business has shifted fully to the Goodworth, and now there will be no more TV sales from the main Company, PG Electroplast.

Moderator: Thank you. The next question is from the line of Manan Vandur from Wallfort PMS. Please go ahead.

Manan Vandur: I joined the call a little late. So, please, if I am asking the same question again, please bear with me. I just wanted to know the guidance for the coming three or four years, if you could highlight that. And also I wanted to understand, in the data center side of the opportunity, even as we have one of our clients as Daikin, so Daikin also provides a data center cooling. So, are we looking into data center cooling kind of opportunity or products or something like that? Are we getting any inquiries? Please, can you answer these two questions?

Vishal Gupta: So, please understand that data center business is very different. We are into room air conditioning business and that is actuate business, you know, light commercial business. We are looking at those possibilities, but right now for the next two, three years, one or two years, I don't see that possibility as a business generator for us. And what was your first question? Can you come back?

Pramod Gupta: Two, three years later, we think the existing product lines and the existing business line should help us to achieve at least 20% to 25% growth in the revenues. Apart from that, we hope that we will be able to start some of the new opportunities where we think we can scale up some of them. These opportunities could be both for domestic market as well as export market.

Manan Vandur: And are we planning to become debt-free by '27-'28 or something like that?

Pramod Gupta: Actually, I don't want to comment on the debt side. The reason is this that if we get good large opportunities to scale up, we are not averse to taking debt if these opportunities meet our return ratio targets. And internally, we are open to scale up the business with debt as well, where we will keep the risks in the mind, obviously.

Manan Vandur: And EBITDA margins would be 10% to 12% sustainable over the coming years?

Pramod Gupta: I have never said 12%. 10% itself is a very good margin in my sense. And operationally, if we can do this 10%, that is excellent. By the way, I just want to highlight that in this business of this full year 10%, if we do, there will be almost 1% contribution from the PLI and the state government benefits, et cetera, in the main Company.

Moderator: Thank you. The next question is from the line of Neet Shah from Finovate. Please go ahead.

Neet Shah: Sir, my first question is about our installed capacity. What is our installed capacity across all the categories and by how much do we plan to increase this year? Additionally, as a follow-up question, could you just shed some light on industry-wide installation capacity and the expected increase in these capacities this year?

Pramod Gupta: Industry-wide capacity, I don't have the data and I don't even have the estimates. Our own capacity I can give you. On a monthly basis, we can do currently about 250,000 indoor units and about 200,000 outdoor units and 25,000 window AC currently. This capacity we want to take to about 350,000 indoor units and 300,000 outdoor units by this year and maybe about 50,000 window AC. In the washing machine, our current capacity is about 115,000 per month, both semi-automatic and fully automatic put together. This we want to take to 200,000 per month by yearend.

Neet Shah: And, sir, what would be our current capacity utilization rate?

Pramod Gupta: Typically, in the season, the capacity utilization remains in the range of about 80% to 90%. In AC, the season starts somewhere from January, February, and it lasts till May, June. In the washing machine, typically, and in the off-season, this capacity utilization comes down to below 20%. And for the rest of the month, it is typically off-season from June till December, you can say in AC. In washing machine, the capacity utilization is similar, 80% to 90% percent in the season, but in the off-season, this drops to something like 40%. And in washing machines, the high season starts somewhere from May, and it lasts till December.

Neet Shah: Sir, my next question is, what is driving our confidence in future demand, despite the capacity expansions by other players and in-house manufacturing unit by major brands? Is this confidence primarily due to strong end consumer demand, or is it because of our cost structure, which allows us?

Moderator: Please, can you join the question queue for the follow-up question? Thank you. The next question is from the line of Pranav Shrimal from PINC Wealth Advisory. Please go ahead.

Pranav Shrimal: Sir, I had a question regarding our working capital. So, going forward, can we see any improvement in our working capital?

Pramod Gupta: Working capital on a quarter-to-quarter varies, and we are all the time striving hard to improve our working capital. But typically, in AC season, in the end of the year, the working capital cycle actually expands very significantly because of two reasons. The peak production months actually also coincide with the year-ending period, and that is a season-high time also for us. And therefore, on a full-year basis, when you do the averages, you seem to be getting an impression that our working capital intensity is high, which is not the case, actually.

Second thing also, which actually today prohibits us from shrinking the working capital very significantly, is a very high dependence on some of the key components and raw materials getting imported from China, and also Chinese New Year coming in the fourth quarter of the year. So, therefore, to take care of the season and any uncertainty we have to take pre-build the inventory before that Chinese New Year.

These things are likely to change in coming years as the capacity for components and raw materials ramp up in India, and we are hopeful that going forward in a couple of years, the working capital cycle will shrink from what it is today.

Pranav Shrimal: So, going forward, we can expect our working capital to go down significantly, like a few of our competitors have shown good working capital, almost negative working capital, one of them has shown.

Pramod Gupta: One of them shows negative working capital because they are in a slightly different business where they get a good amount of credit from their vendors and also they must be getting good payment terms from the customers. Right now, immediately for the next one year or so, I don't see a very huge change happening in the working capital cycle, although we keep on all the time trying to improve the working capital by taking different measures.

Moderator: The next question is from the line of CA Pinkesh Thakrani from ProfitGate Capital Services LLP. Please go ahead.

CA Pinkesh Thakrani: Actually, I just missed out, like you were guiding about 216 crores of profit. Is this including the PLI? I just missed out like what is that?

Pramod Gupta: Yes, it is including the PLI. The PLI this year should be 30 crores and 6 crores should be the state government benefit.

CA Pinkesh Thakrani: So, you account for this on the receipt basis.

Pramod Gupta: Yes.

CA Pinkesh Thakrani: So, are these amounts short to receive?

Pramod Gupta: This PLI is actually for the last year's numbers which we have achieved, and we will be filing the claim now because you need audited numbers and GST audit et cetera to be done. That we should get it completed maybe in next one month or so and post that whatever time government takes to process that, then we will get the PLI money.

CA Pinkesh Thakrani: So, this 216 crores includes 30 crores of the central government PLI incentive and 6 crores state government, am I right?

Pramod Gupta: Yes.

Moderator: Thank you. The next question is from the line of Vipraw Srivastava from InCred Capital. Please go ahead.

Vipraw Srivastava: Thanks for allowing me a follow-up question. Just wanted to understand about this reopening of PLI by the Government of India. So, do you think that do you anticipate that this could lead to many more brands actually setting up in-house capacities and on the supply side, it could lead to a sort of over-capacity because brands might further put up Capital due to this PLI incentive?

Vishal Gupta: See, there are already brands who have already participated in PLI. They will also, they can, this is open for everyone, but please understand that what we have been telling every time, what we are trying to offer is a cost leadership and it is a seasonal business. So, brands are always looking at outsourcing. Most of the brands are looking at outsourcing for some part of, some component of their total sales, they like to do outsourcing.

And we have a very strong belief in India growth story, the consumption story, where the India penetration levels of AC is around 7%, 8%. Today India market is around 13, 14 million, which is actually minuscule as compared to the other countries and India is much hotter country as compared to other countries.

So, we believe in a very secular and a macro way that this market is going to grow, and we are aligning our resources accordingly. Last three years, last four years, every year we have more than doubled our capacity and we have been always short of our capacity in season time.

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

Mukesh Agarwala: Actually, my questions got answered.

Moderator: Thank you. The next question is from the line of Praful Siddharth from Chavez Capital. Please go ahead.

Praful Siddharth: So, what was the revenue growth in the plastic molding segment for the quarter?

Pramod Gupta: Just give me a second. I'll list it. It is about 19.8%.

Praful Siddharth: And our coolers would be around 20 crores revenue run rate this quarter?

Pramod Gupta: Yes, 19.02 crores, but that is not the run rate it is for this quarter. Please don't. It's a seasonal business, highly seasonal business, and it lasts only from January till typically May or June at max.

Praful Siddharth: And what would be a total PLI inflow for the next financial year?

Pramod Gupta: I mean, current financial year we hope to get PLI of 30 crores, which will be for the achievement which we have done in the period of 2024. For this period, we are eligible to get maximum up to 37.5 crores and we have to meet those targets. We are very hopeful, and we are very confident that we will meet those targets. So, next year we should be able to get 37.5 crores.

Moderator: Thank you. The next question, the last question is from the line of Mr. Vineeth Lambu from HSBC Asset Management. Please go ahead.

Vineeth Lambu: Is it for FY '25, 4,100 crores, right, revenue guidance? So, you have guided a revenue guidance of 4,100 crores. That's correct, right?

Pramod Gupta: No, no, we have guided for 3,650 crores in the PG Electroplast and 600 crores in the JV. So, total guidance is 4,250 crores for the group.

Vineeth Lambu: So, if you, I know it would be difficult given the seasonality. If you can give a rough idea of FY '25 within a band of plus 2% or 3%, that would be helpful.

Pramod Gupta: That is for FY '25 only, that guidance which I have given.

Vineeth Lambu: FY '26.

Pramod Gupta: '26, I can't tell you right now. We will do our business plan sometimes in April and then only we can actually give you a guidance which will be good because right now whatever number I will be telling you, it will be very speculative.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Natasha Jain for closing comments.

Natasha Jain: Thank you. I would now request the management to give their closing remarks.

Vishal Gupta: I just like to thank all of you for participating in the conference call and thank you all. See you in the next quarter.

Natasha Jain: Thank you so much, sir. This concludes the conference. All of you may now conclude and disconnect.

Vishal Gupta: Thank you.

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