

10th November, 2022

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

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

Dear Sir,

Sub: Transcript of the earnings conference call for the quarter ended September 30, 2022 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Please find enclosed the transcript of the conference call for the quarter ended September 30, 2022 for your information and records.

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

Yours faithfully

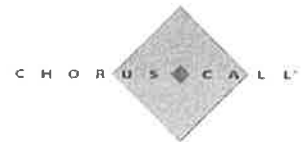
For IFB Industries Ltd.

G Ray Chowdhury
Company Secretary



“IFB Industries Limited
Q2 FY ‘23 Earnings Conference Call”

November 07, 2022



MANAGEMENT: **MR. PRABIR CHATTERJEE – DIRECTOR AND CHIEF FINANCIAL OFFICER – IFB INDUSTRIES LIMITED**
MR. RAJSHANKAR RAY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - HOME APPLIANCE BUSINESS – IFB INDUSTRIES LIMITED
MR. ARUP DAS – HEAD OF MARKETING, ENGINEERING DIVISION – IFB INDUSTRIES LIMITED
MR. ANAND REDDY – CHIEF EXECUTIVE OFFICER (MOTOR DIVISION) – IFB INDUSTRIES LIMITED

MODERATOR: **MR. PRASHEEL GANDHI – NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '23 Earnings Conference Call for IFB Industries Limited, hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Prasheel Gandhi from Nirmal Bang Equities Private Limited. Thank you, and over to you, sir.

Prasheel Gandhi: Thank you, Lizann, and good afternoon, everyone. Nirmal Bang Equities Private Limited welcome you all to 2Q FY '23 Earnings Conference Call for IFB Industries. From the management team, we have Mr. Prabir Chatterjee, Director and CFO; Mr. Rajshankar Ray, MD and CEO, Home Appliance Business; and Mr. Arup Das, Head of Marketing, Engineering Division; and Mr. Anand Reddy, Head of Motor Division.

I now hand over the call to management for opening remarks, post which we can take Q&A for the participants. Thank you, and over to you, sir.

Prabir Chatterjee: Thank you. Good afternoon, everyone. I welcome you all for IFB Industries investors call for the second quarter FY '23. Joining me today are Mr. Rajshankar Ray, MD & CEO of Home Appliances Division; Mr. Arup Das, Head Marketing, Engineering Division; and Mr. Anand Reddy, CEO of Motor Division.

Growth during this quarter is 13% and YTD growth for the first half was significantly higher compared to last year. Company has reported a total income of INR 1,101.92 crores for the quarter with a growth of 13% over the same quarter last year. During second quarter, EBITDA was INR 74 crore, which is in line with last year. Lower margin percentage is [0:02:18] due to lower-than-expected revenue in Home Appliance Division along with higher material costs and operating expenses. The effect of commodity prices started coming down and the effect of which is expected to be realized in third quarter. YTD revenue during first half was INR 2,151 crores with a growth of 40%. EBITDA margin during the period was significantly higher at INR 112 crores compared to INR 44 crores last year in the same period.

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: First, on the demand front. So what we understand is that the festive season also was not so encouraging. So in this case, with RM prices coming down, how do you see the pricing environment across industry and by you as well? Can you throw some light over there?

- Raj Ray:** Yes. So, Rajshankar, one minute. The reduction in the RM pricing, as far as we are concerned, it will help us to improve the margins. We are not thinking of any pass-through pricing on any of the products as of now. As far as the competition is concerned, my understanding is that for more than 1.5 years now companies like Samsung, LG have taken very aggressive price positions to gain shares. In this quarter, industry-wide, key point being discussed by everyone per se. So I don't see them lowering prices beyond what they have already done. So per se, I think the reduction in commodity prices, as far as we are concerned, is margin exited. I don't see any changes in market price positioning per se. Does that answer your question?
- Manoj Gori:** Yes. Sir, so it's just first week of November. So if we look at the September average prices, so can you just quantify like what should be the positive impact on the overall appliance business for us? And how should we look at the gross margins and EBITDA margin for the remainder year FY '23?
- Raj Ray:** If you -- there are two exercises, which are running in parallel, which, as we have said previously, our target is to complete everything within Q4. One is the material cost reduction initiatives, which are through either value engineering or through resourcing. And the second is the impact of the reductions in the commodity prices. The combined impact of both, as far as gross margins for us are concerned, is between 3% to 4% at gross margin level.
- Manoj Gori:** So probably, what we understand is like the 3% to 4% would be moving to EBITDA levels and probably, we might see somewhere around high single-digit kind of EBITDA margins during Q3 and Q4 depending on the current RM prices and the visibility that you have?
- Raj Ray:** Correct.
- Manoj Gori:** Right, sir. Sir, secondly, if you look at from the room AC point of view, obviously, where do you see yourself as a branded -- like what should be the branded volumes this year where we would be exiting and probably -- also on the outsourcing and what we aspire to do next year?
- Raj Ray:** So if you see our overall indication for the full year was about 220,000 to 230,000 for the brand volumes and about 150,000-odd for the OEM volumes. So we will hit the brand volumes. As far as the OEM volumes are concerned, that listing trends of the OEMs of their orders, et cetera, have been discussed for the period from, let's say, in November, to March and then of course, up to June. So as of now, it looks that the volume guidance is maintained. However, we are still to receive from close. So that is something that over the next, let's say, 30 to 45 days with that close.
- Manoj Gori:** Right, sir. Sir, lastly, on the OEM manufacturing. So if I'm not wrong probably, we have roughly around 3, 4 clients over there. So any development where we are trying to acquire new clients or building on clients profile. Can you throw some light, like any ongoing discussions with newer brands?

- Raj Ray:** Yes. There are ongoing discussions with about seven people, including three or people who we supply to already. And as I said, definitely now in the next 40, 45 days, we expect that with the set of them, the season volumes will be totally set.
- Moderator:** The next question is from the line of Dhananjai Bagrodia from ASK Investment Managers. Please go ahead.
- Dhananjai Bagrodia:** Sir, are you noticing any demand difference really, rural versus urban and entry level versus premium?
- Raj Ray:** If you don't segment in terms of urban and rural, but if you segment by Tier 1, Tier 2, Tier 3, then the growth which has been sort of consistent over the last 2, 2.5 years, the Tier 2, Tier 3 is growing much more rapidly as compared to Tier 1. This has been a consistent trend now and it's almost the third year that this is happening. As far as the entry level versus the premium or the higher end of the segments are concerned, that trend is very clear, that the higher end is growing far more rapidly than the entry level segments.
- Dhananjai Bagrodia:** So why is that? Any thoughts on that?
- Raj Ray:** That's an interesting question. And see, I would put it as an outcome from 2, 3 enablers. I cannot say that prominence is definitely which one it is, but it is probably a basket like this. So one is that the tendency to buy something bigger, whether in washer or for that matter ACs, for example, has always been there. So faster than not has always been favoring higher capacities, for example, as 8-kg capacity in washing machines. That trend was building.
- The pandemic period and the lockdowns and everybody has grown getting involved for the work-at-home, I think, accelerated that change. Because everybody in the family was involved in the process of washing, everyone suddenly realized that there are two or three multiple washers happening at home, let's buy a bigger newer machine. A lot of the equipment went through exchange during those lockdown periods. So I think there was a change, that same got accelerated over the last 2 years, driven by lockdown and more people are participating in chores at home This is one reason.
- The second is that the availability of finance has definitely helped because it's an entry-level product, is INR 25,000 and the higher end is INR 40,000, then cash difference is INR 15,000, but in EMI terms, it is maybe INR 1,500. So as the finance options are expanded, the ability to buy something higher priced has also become much easier.
- The third point is that the availability has also improved. So if I look at ISP for example and I look at our higher end products and over the last two, two and a half years which we've also shared in these calls is this agenda that we've given of improving range displays across the market. So if I just look at an 8 kg or a 9 kg washing machine, for example, the number of displays available today is much bigger and better than let's say two years back. So I think as visibility and availability has improved, that has also driven access to the higher end. So I would put it at three reasons as a combination probably of all the three.

The first point is that the availability has also improved. So if I look at IFB, for example, and I look at our higher-end products, and over the last 2, 2.5 years, which we've also shared in the call, is the agenda that we've driven out improving range displays across the market. So if I just look at an 8-kg or a 9-kg washing machine, for example, the number of displays available today is much bigger and better than, let's say, two years. So I think as visibility and availability has improved, that has also given access to the higher end. So I would put it as three reasons, as a combination probably of all the three.

Dhananjai Bagrodia: So then just to understand, so you said that LG and Samsung, for example, they are really competing on price point. But the availability of finance also significantly help kind of the good products, let's say, a little better, then why they're moving towards more towards LG and Samsung at lower price menus -- EMI basis and where difference doesn't come too much then?

Raj Ray: No, I think even in LG, Samsung, I would expect that the trend is that the higher-end is selling more. Are you saying that lower-end is selling more?

Dhananjai Bagrodia: No, I'm just -- no. I'm wondering, is it, industry-wise in terms of the -- even at a higher-end -- they're cutting the prices even at higher-end. Is that right?

Raj Ray: No. industry is not cutting prices. What I said is that there is a specific reality that Samsung, for example, has taken very aggressive price positions across all categories. Our understanding is that they're doing this to basically buy share. But it is not something that is happening at any particular entry-level price point or higher end price point. It's more a common thing across. So that's a separate thing. That is not related to this point about the higher-end selling more.

The higher-end that is selling more, the three reasons that I told you actually have nothing to do with price per se because the three reasons that I gave you are not particularly price to them. They are driven by other factors, which is something that IFB has experienced. You see, we have not changed pricing. Pricing has only increased. If you look at the figure from Jan '21 until now when the commodity prices actually increased, but we are still seeing a very rapid growth at the high-end.

Dhananjai Bagrodia: And, sir, industry-wise, would the demand be where, company is more present in front loading washing machines, with industry demand, what would you think -- what would your analysis in terms of what would be the segmentation industry-wise on front loading washing machines versus top load in volumes or size?

Raj Ray: So typically, it is a sort of factor of 1:3, which could vary from 1:2 to 1:4, depending upon which geography in India you were in.

Dhananjai Bagrodia: And in terms of size?

Raj Ray: I was talking about size only. Volume, 1:3. Do you mean by value?

Dhananjai Bagrodia: Yes.

Raj Ray: So by value, it will probably be 1:2 or 1:1.7 because of course the front loader price much higher than the top loaders.

Dhananjai Bagrodia: And sir, lastly, I'll come back if I have an option. But so what levers do we have to improve high return ratios?

Raj Ray: Which ratios, please?

Dhananjai Bagrodia: ROEs and ROCs?

Raj Ray: So we have two levers that we need to fully deliver on. And the first is the volume. So in that, the key agenda that we have spoken about is that there is particular levers that we have. And over the last two years or so, our constant agenda has been that we do business with a higher percentage of that universe every month as compared to what we are doing today. Now, over the last two years, that percentage has improved, but we are still not happy with the pace of that improvement. We think that it will increase much more. So our extraction from our available universe needs to be much higher. This is our first agenda.

The second agenda is that the results in the previous fiscal year and also in the first quarter of this year were not improved primarily because of the material cost related things that we had, which we couldn't pass through to the market. And with the material cost reduction program and the softening of the commodities, by the Q4 of this year, on the material cost side, we need to fix the margin structure. So for our return on investment to improve, these are the two big agendas for us. Does that answer your question, please?

Dhananjai Bagrodia: Sorry, if you have a little more detail in terms of how we see that in numbers, [inaudible 0:17:13] but this is helpful for broad thesis? And maybe if we can slip in one more. Sir, with, some larger players like Voltbek also try to make a big dent in the segment. How do we see that in terms of as an industry-wide? Do we see that, that means some margins in the industry will still always be surprised because we have two already large players reducing prices or keeping prices lower. Now we have another player who is trying also gain market share. How would that work industrial-wise?

Raj Ray: So my understanding is Voltbek still have to make headway in terms of representation across categories and markets, etcetera. So as of now, there isn't any impact. As far as IFB is concerned, I don't see any impact from them. As far as the industry is concerned, we don't have enough data right now to be able to really answer this possibly.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Sir, if you look at other peers in the sector who have reported, IFB is possibly an outlier in terms of sequential improvement in gross margins. So is it that we were sort of sitting on low-cost inventory and our high-cost inventory was already exhausted or what should be in for the year?

Raj Ray:

See, I will answer it this way. Our inventories have never really been very high because the key parameter of the market credit for IFB has always been on the -- I mean, the better position have always been quite tightly controlled. So inventories per se have not been high. We do have a higher inventory in the AC segment than what we would like. And for the next two months, that is something that we need to address.

But I think the improvements that we have made has come because this agenda of delivering on the volumes and looking at material cost and doing the best possible exercise on that. I think we are making some progress on that. It's still not complete. There is an agenda that we have to deliver by Q4. But I think our improvement is coming because of these two heads, there is progress we are making. So if you look at the revenue growth in the H1, that percentage is better than before because we are covering more of the market universe that we have.

We've put in place a lot of measures for our people to visit the market in a much more disciplined manner than before. We're building engagement programs with trade partners. And we just have to do more of that. We still think that we are underleveraged in terms of what is possible for us on the market side, revenue side there. We just have to keep doing what we're doing. Does that answer your question? Or is there some other clarity that you like?

Bhargav Buddhadev:

No, this is good enough, sir. And sir, historically, if you look at the five years to 10-year history, we've delivered very well on the revenue growth front. However, our EBITDA margins have been extremely volatile and also much lower as compared to industry standards. Now that we are trying to complete the product portfolio, thanks to good acceptance on the air conditioner side as well. Is it fair to say that we will sort of come back in terms of consistency on the margins as well, and we can be closer to 8% to 9% EBITDA margins maybe in the next two years?

Raj Ray:

Yes. So I don't want to give a figure, but that is something definitely which we have to deliver and Mr. Chatterjee and I have come quite often to this forum. And this idea that our margins are volatile and simply not good enough is a question that we face multiple times. So yes, definitely, this broadening of the product basket is healthy because the overheads are getting distributed over more products, small volumes. And we still have a job to do on the material cost and the market extraction. But if we finish these two jobs properly by Q4, which is our internal target, I think this question of the stable margin is something, hopefully, that we can settle by Q4.

Bhargav Buddhadev:

And lastly sir, so on the AC side, is it fair to assume a 50-50 mix between your OEM sales and your branded sales?

Raj Ray:

Yes, it will be about 60-40 or 50-50. Yes. More like 60-40.

Bhargav Buddhadev:

And the combined margins would be similar to the company level or would it be lower as compared to the company level margins?

Raj Ray:

The AC margins currently are lower than the average for the company.

Bhargav Buddhadev:

If I'm take in the next year, maybe once we reach, cross INR 500 crores of top line?

Raj Ray: I would -- if I compare it to washer margins, then even in the next year's AC margins will be lesser, but one advantage that the AC bring to the table is that they are actually -- they are soaking up the overhead. And the volumes on the ACs are very high once we get the game right. So in terms of helping the overhead allocation across the company and therefore, helping better margin profile for the company, they have a very important role to play, even though on an individual basis, the margins on that segment will still be lower than the washers. Mr. Chatterjee, would you like to add to this, please?

Prabir Chatterjee: No,

Bhargav Buddhadev: And sir, what would be the biggest turnover coming in from your largest OEM client? What would be the turnover from your largest OEM client in AC?

Raj Ray: For this year?

Bhargav Buddhadev: Yes, for this year. maybe first...

Raj Ray: Can we answer this question offline because the numbers are still not fully closed. So...

Bhargav Buddhadev: No problem.

Moderator: Thank you. Reminder to the participants anyone wishing to ask a question, may please press star and one. The next question is from the line of Manoj Gauri from Equirus Securities. Please go ahead.

Manoj Gori: One more question with regards to competition. So recently, Whirlpool in their press release has indicated, like they have been starting the commercial operations of the frontload washing machines, which again would be a reentry into this category. How do you see, because normally, when you look at, they are relatively lower price versus LG and Samsung and probably in the frontload it would be almost similar to your pricing. Do you see it as a major threat, probably this time, not as a threat, but at least a major competitor or a player that could evolve over the period?

Raj Ray: So it is a player that definitely needs to be watched. There are already multiple players for the placement of frontloads on the floor of the stores. So this will be another addition. But Whirlpool has had some placement of some front loaders for some time now, which is through imports. So the imports being substituted by the manufactured product and how that happens in placement, I think over the next one year, we have to keep a watch, but we have to keep a watch definitely.

Manoj Gori: But on the other hand, so I just wanted to understand from a competition point of view because if you look at LG and Samsung have been aggressive on pricing to gain market share. So probably, if you look at despite the significant pressure from the RM, overall, the price hikes taken were lower than required. Now with the RM benefits, can there be a case where they actually go aggressive again to gain market share and probably whatever benefits that they would be gaining, they would be passing on to the end consumer?

- Raj Ray:** We have to watch for this. Like I said a while back, I personally don't expect further erosion in pricing from them. But we have to wait and see. I think over the next quarter or so, we'll know.
- Manoj Gori:** Right. But there was nothing visible during the current quarter, and we don't expect anything in the current quarter. Obviously, the majority of the season has gone through.
- Raj Ray:** Yes, there was nothing specific as far as this Diwali period was concerned beyond what they were already doing and I don't expect it but you know like you pointed out, we have to keep a watch on this.
- Manoj Gori:** Right sir. Just one last question. So obviously when you look at the company probably till FY '19 we were one of the fastest growing brand in the Indian home appliances. During '20, '21 we faced some challenges with regards to competition and also there was COVID impact. This year obviously when we look at FY '23 numbers versus FY '19 numbers, probably the CAGR growth is much slower as compared to the historical levels. So going forward, should we expect like probably the 15%, 20% growth that we used to report at the company level, probably that should be now somewhere around 14%, 15% or we should be back on track for the 20% mark?
- Raj Ray:** I think our potential is the figure that you gave. And the key thing is for us to execute this market extraction properly. Because the assumed growth is definitely much higher than what we have delivered.
- Moderator:** Thank you. Reminder to the participants anyone wishing to ask a question, may please press star and one. The next question is from the line of Prasheel Gandhi from Nirmal Bang Equities Private Limited. Please go ahead.
- Prasheel Gandhi:** Sir, a couple of questions. Firstly, on front load washing machine. So we were planning to launch inverters motor. Inverter motor technology and Wi-Fi enabled, but that timeline has been pushed to first quarter of FY '24. So could you throw light what is the cause of the delay?
- Raj Ray:** Sir, we have already introduced some models, which are in the market and some models which will ramp up from November, this month. And some of the models will come in Q1 of next year. So that's why there is no delay. It's only that we've spaced out the entry.
- Prasheel Gandhi:** And so the complete rollout, when can we expect the complete rollout to finish?
- Raj Ray:** Yes, the full range replacement will be over by end of Q1 of the next year.
- Prasheel Gandhi:** Second question related to BLDC motors. I think we have pushed the time line from September of '22, this year to January '23. So could you throw light on why that delay in that segment?
- R. Anand:** The is Anand here from Motor Division. So basically, we wanted to start manufacturing BLDC motor in September. What happened in between was there were a few other models that the market demanded, for which the toolings and trials took some time. So that's why it's getting delayed till January '23.

- Prasheel Gandhi:** And so this is for both washing machine and air conditioner, right? So those will be rolled out from January '23?
- R. Anand:** No. First we will roll out the BLDC motor for washing machine in January '23 and then the air conditioner motor will be rolled out somewhere in May '23, June '23.
- Prasheel Gandhi:** A second question regarding this. So we will be also selling direct BLDC motors through our competitors and other OEMs?
- R. Anand:** Yes, we will be doing that.
- Prasheel Gandhi:** So who would be the major OEM that would be trying to sell to?
- R. Anand:** We are looking at Voltas, Blue Star, Daikin, Panasonic, Samsung and other people.
- Prasheel Gandhi:** So what could be the likely mix for this? Like for our own consumption versus OEM sales?
- R. Anand:** We are targeting 50-50, 50 for captive consumption and 50% for outside customer.
- Prasheel Gandhi:** Second question, one more question regarding our e-comm. Could you highlight what were the e-comm sales as a percentage of total sale for the quarter?
- R. Anand:** For the quarter?
- Prasheel Gandhi:** Yes.
- R. Anand:** For the quarter was 16.9%.
- Prasheel Gandhi:** And what was the same number last year?
- R. Anand:** Last year was slightly higher.
- Prasheel Gandhi:** So it is the trend in how e-comm sales are coming down. So would we expect the same trend going ahead?
- Raj Ray:** See, we don't look at it so much as a percentage to the total. But if you see, our potential for growth from the offline channel is very high. So if that growth comes in line with potential, then, yes, e-commerce as a percentage will reduce. But in value terms, e-commerce will remain a growth engine. Have I been able to answer this question?
- Prasheel Gandhi:** Yes, sir. That was very helpful. Question pertaining to price hike. So what is the overall prices that we have taken across our portfolio for this quarter?
- Raj Ray:** This quarter, we have not made any price increases.
- Prasheel Gandhi:** And sir, final question from my end. We are also planning to enter 28-liter microwave segment. So could you highlight the market potential for that segment?

- Raj Ray:** So if you see, this particular 28-liter capacity point has been monopolized by LG and Samsung until date. And we have been absent. So in their convection range, for example, this 28-liter price point is almost 60%, 65% of their sales. And we are going against that particular segment with this introduction.
- Prasheel Gandhi:** So what would be the typical market size for this 28-liter?
- Raj Ray:** So if you see in terms of IFB's own volumes, this particular introduction has the potential to increase volume by around 10% to 15%.
- Moderator:** Thank you. We'll move to the next question. That is from the line of Dhananjai Bagrodia from ASK Investment Managers. Please go ahead.
- Dhananjai Bagrodia:** So sir, basically, we are limiting data. But according to your estimate, what would be the industry size for, let's say for washing machines and what growth rates in terms of volume and value could we see in the next two years?
- Raj Ray:** Probably, the total washing machine industry, which is semiautomatic, plus frontload, plus top load, all put together, the general estimate is that this is roughly, let's say, 50 lakhs, 55 lakhs, to maybe 60 lakhs. It has been growing in a normal year by around 10%, 12%, 15%. And the penetration, if you really look at the data are still very low. So there is no reason why this growth rate should not remain like this or even maybe accelerate actually.
- Dhananjai Bagrodia:** Okay. And in terms of these three, what would be the mix between semiautomatic, top load and front load?
- Raj Ray:** So the frontloads will be maybe 1.75 million, 1.6 million approximately. The rest you could divide equally between semiautomatics and top loads.
- Dhananjai Bagrodia:** Okay. 1.6 million, 1.75 million? Okay.
- Raj Ray:** Yes, maybe about -- yes, 1.5 million, 1.6 million.
- Dhananjai Bagrodia:** Okay. Understood. So then remaining out of that 45 million will be divided between this two, 20 million to 25 million. Okay. And sir, going ahead, if you assume industry grows at 10% to 12% volume growth, but what would -- in terms of value growth, would that be nil? Or would there be some of growth in the value...
- Raj Ray:** No. See, value growth will be more, for two reasons because the mix has changed and the higher end is selling more than it used to. So there is a value growth associated with that. And then, of course, there is a price-led value growth. So on both counts, the value growth will be more than the volume growth.
- Dhananjai Bagrodia:** So we can assume around 12% to 15% total, including volume and value-add mix change as an expectation for the industry.

- Raj Ray:** Yes. I mean that has been the trend. And I think the trend will remain.
- Dhananjai Bagrodia:** And sir, lastly, in terms now, we've also spoken about a new product in your report about Washer Dryer and Washer-Dryer-Refresher in one segment. Is that something which the innovative product which no one else has? And is that something which we could see opportunity there also?
- Raj Ray:** So the Washer Dryer is a genuinely innovative product. This idea that you can wash, dry and also steam and refresh clothes, which means you don't need to wash clothes, you can just refresh them and genuine cleaning, it's not a cosmetic refresh. It's an extremely innovative product and is doing well. We are driving placement increases across India. And we also see good volumes in this.
- Dhananjai Bagrodia:** But it's relatively a bit too small. I have to speak about what potential it could be and how that could go for us.
- Raj Ray:** So growth. Markets like India is driven a lot by availability. Now I assume that we were able to place this in every single rather on counter across India, you would actually see very high volumes. That is a task that we have to do. Is there a market for this segment? Definitely, yes.
- Moderator:** Thank you. Reminder to the participants anyone wishing to ask a question, may please press star and one. The next question is from the line of Abhinav Jain from SG India.
- Abhinav Jain:** Three questions. First of all, on the Home Appliance Division. You mentioned that there is a 3%, 4% material margin improvement that you are expecting, one is through internal initiatives on value engineering and working on the developed materials and second, there is softening of commodity prices as you have observed. However, my question was that both at an EBITDA level, this will result in a much higher margin improvement given AC volumes will kick in and the full year volume projections are much higher than last quarter. So this could actually, the EBITDA margin could hit double digits, not just high single digits. That was question number one.
- Raj Ray:** So we answer to that is potentially yes. On this agenda of completing the material cost work and getting volumes, especially the AC volume right. That is a job that we have to complete. But the answer to your question is yes, a possible yes.
- Abhinav Jain:** And is there a very different element. I'm assuming you could -- a ballpark estimate of cost of finished unit production for competition. So is there in the cost structure at a unit level for a like-for-like product for front loaders? Is it very different across major players like IFB, Samsung and LG?
- Raj Ray:** So I would not call the difference major. But there are differences, yes, because the fact that we commit to a 10-year life span for the product. And if you're a LG or Samsung customer and you want spare parts after 3 years, they will show you a depreciation policy. They don't service products after three years, four years. But IFB services right up to 10 years and in many cases,

beyond 10 years. So the inherent quality that we have is superior and therefore, the dealer material will reflect that. It could be something as simple as the quality of the rubber that we use or the electronic designs that we have for the voltage variations in India. So we have relatively higher bill of material compared to, let's say, specific competition like LG, Samsung. It is not structurally different, but the elements in it are higher because of the quality levels. Is that what you wanted to know, please?

Abhinav Jain:

And you mentioned that Samsung has been very aggressive. So how do they do it? Is it that they reduce the MOP, of the market operating price, for the products? Or they give higher channel incentives? And kind of drive towards the same MOP, because it's a race to the bottom in some sense and if they become aggressive for the longest term then everybody including IFB will have to respond and nobody would like to lose market share in the shorter run. So I just wanted to understand, is it short-term more incentives to the channel that they give more volume discounts or they just reduce the MOP as per the plans and some time keeping the channel margins on a percentage basis then?

Raj Ray:

It is a combination of both. And we have never responded to this, not before. And specifically, for the last year, year and half, when they have done more of this, we've not responded. So we see our growth rates, they are in spite of this sort of new by them. But what they do is a combination of both the things that you described.

Abhinav Jain:

And what's the typical channel margin from a dealer lending price to a MOP in the category that we operate in both, front loaders and ACs as well as others?

Raj Ray:

This varies from place to place. But a typical channel partner margin could vary anywhere between 5% to 14%, 15% depending on the product category or the geography. There is a wide variation in this, but roughly, this would be the range.

Abhinav Jain:

And my second question -- second line of question was on the Motor Division and it's probably somewhat linked to the Appliance division as well. Is there -- are BLDC motors being used in the appliances, both front loaders and in ACs in the industry currently? And what percentage of the overall industry volumes would be BLDC motors? That's number one. And second, let's say, in FY '25, when you are operating at optimal capacity, what sort of external revenues is being targeted through BLDC motor division? Because the numbers at least in volume terms look very high which is good for us as shareholders. I just wanted to understand what sort of addressable market or what sort of scale on a revenue basis are we hoping to achieve from BLDC sale to external customers?

Raj Ray:

Anand, you can answer this.

R. Anand:

Yes. See, on the external customers, we are targeting 50% of our installed capacity. That is 1 million each. So 5 lakh motors of BLDC for washing machines, which translates to around INR 50 crores of revenue and 5 lakh of air conditioner motor, which translates to roughly around INR 40 crores of revenue. So INR 90 crores revenue we are expecting from outside customers.

- Abhinav Jain:** And has there been adoption of BLDC motors in these 2 categories already in the industry? And who is supplying them?
- R. Anand:** See predominantly, it has been catered by import right now.
- Abhinav Jain:** So -- and also there is a company called Igarashi Motors, and I'm sure there would be other players also developing BLDC motors. So is there -- and so from an industry adoption perspective I think my question was what percentage of overall volumes of ACs and washing machines would have BLDC motors and who are the upcoming industry players? That question was -- I'm sure the numbers are so high there would be multiple motor suppliers and even capital manufacturing that can take off on the BLDC side.
- R. Anand:** Yes, there are multiple motor manufacturers who are developing BLDC motors. But I don't think anyone have productionized it on a large scale. So it is being catered by imports mainly as of now. Maybe in six to eight months' time, people will start manufacturing some of the BLDC motors in India.
- Abhinav Jain:** And what percentage of overall industry volumes will have BLDC in motor technology for AC and washing machine?
- R. Anand:** That I think Mr. Ray would be right person to answer that.
- Raj Ray:** So if you see washers and you take a three-year horizon, then in a category like front loaders, probably 80% to 90% will be BLDC. The top load and the semiautomatics will be new. In the case of top loaders, it will probably be anywhere between 30% to 35%. If you look at AC, then the use of BLDC motor will be, at presently, roughly about 10% to 15%.
- R. Anand:** And this will offer significant electricity savings for the consumers, that main USP of the client?
- Raj Ray:** Yes. It will offer savings on the electricity front, the noise level are lesser. And the government energy regulations are also mandating moving to technology like this.
- Abhinav Jain:** Sir, if I can ask how stable is that technology given that the field failure rate, and obviously, it depends on the elevation in terms of your technology, quality of magnets. But in your testing, how has been the field failure rate? Obviously, it's not in the field right now, but in the factory. How do you plan to improve that? And is it equal to or less than the conventional motor that we are using, the conventional type or winding, whatever it be, conventional motor that is being used currently?
- Raj Ray:** We already have models with BLDC in the market. And there are absolutely no problems with quality. So they are as good as the rest of the product. So there's no issue.
- Abhinav Jain:** Okay. And on the Automotive division side, are there possibilities of getting external sales on the BLDC motors? Or we are just focusing on the Home Appliances side?

- R. Anand:** See, BLDC motor, we are in discussion with various customers. It's too early to discuss on that right now. Why? Because the market has not yet adapted BLDC technology for Automotive in the last place. But within the next couple of years it will happen for HVAC motor as well as engine cooling motors.
- Abhinav Jain:** Okay. So right now, the focus is to get INR 90 crores to INR 100 crores of external sales on a full year basis on -- from the Home Appliances side itself?
- R. Anand:** Right.
- Moderator:** Thank you. The next question is from the line of Ankit Shah an individual investor. Please go ahead.
- Ankit Shah:** Yes, my question has been answered.
- Moderator:** Thank you. The next question is from the line of Abhinav Jain from SG India. Please go ahead.
- Abhinav Jain:** So coming back on the question I asked previously. I know, again, there are always but sector is part, there is no very adverse reaction from competition in terms of aggressive price cuts or unreasonable movement of commodity prices. Is it fair to assume that you would aspire for an early single digit sort of an EBITDA margin with 50% to 55% of gross margin and maybe some more costings thrown in given we are manufacturing ACs in house now?
- Raj Ray:** Yes, that is the intent.
- Moderator:** Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.
- Management:** Thank you all for joining the call.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Nirmal Bang Equities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.