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November 18, 2024

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

Scrip Code: 533581

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

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 November 11, 2024.

This is for your information & Records.

For **PG Electroplast Limited**
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"PG Electroplast Limited Q2 FY-25 Earnings Conference Call"

November 11, 2024

MANAGEMENT: MR. VISHAL GUPTA – MANAGING DIRECTOR, (FINANCE), PG ELECTROPLAST LIMITED.
MR. PRAMOD GUPTA – CHIEF FINANCIAL OFFICER, PG ELECTROPLAST LIMITED

MODERATOR: MR. DEEPAK AGARWAL - JM FINANCIAL.

Moderator: Ladies and gentlemen, good day and welcome to the PG Electroplast Limited Q2 FY25 Conference Call hosted by JM Financial.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

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 the Management's opinion are reasonable. The forward-looking statement may involve known and unknown risk uncertainties 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.

Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Agarwal. Thank you and over to you, Mr. Deepak Agarwal.

Deepak Agarwal: Thank you Seema. Good afternoon, everyone on behalf of JM Financial. I welcome you all to PG Electroplast Q2 FY25 Earnings Conference Call.

Today we have with us Senior Management represented by Mr. Vishal Gupta – Managing Director (Finance), and Mr. Pramod Gupta – Chief Financial Officer.

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

Vishal Gupta: Thank you Deepak. Good evening everyone. Thank you for sparing your valuable time and joining this call today. Hope all of you are doing well. I am accompanied by Mr. Vishal Gupta, MD Operation and Mr. Pramod Gupta our CFO on this call. We have already shared the presentation of our results earlier in the day and hope you have gone through that.

The 2nd Quarter of FY25 has been another strong quarter in the growth journey of PG. The company has got a good traction in its product business and other segments also have ramped up very well. The company has posted robust quarterly profits and sold sales growth in this quarter. Operating revenues for the company grew by 46% and cross Rs.670 crore with the product business contributing a 54% share in the operating revenue. EBITDA also increased by around 55% and stood at Rs.60.5 crore and net profits rose by 57% to stand at Rs.19.5 crore.

In first half of FY25 the company has posted industry leading growth in the product businesses and operating revenues for the product businesses worth Rs.1355 crore with 119% growth. The room AC business contributed Rs.1118 crore which is a 143% growth on Y-o-Y basis. The washing machine business also has grown by 41% on a Y-o-Y basis and air cooler business has also grown by 267% on Y-o-Y basis.

Order, book and visibility for product business remains very robust and the company is on the track to accelerate product business growth significantly in FY25. Our new product offerings in washing machines and room ACs and air coolers have received very good response. The company is focusing its efforts towards developing products that helps it maintain 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 our business. For FY25 our revised operating revenue guidance is at least Rs.4250 crore in PG Electroplast and another Rs.600 crore in our JV company, Goodworth Electronics implying Rs.4850 crore of operating revenue as a growth, which is a growth of around 77% growth on FY24 numbers. We are also revising our guidance for net profit to at least Rs.250 crore which is a growth of around 83% over FY24 net profit of Rs.137 crore. The growth in product businesses that is washing machine, room air conditioners and air coolers is expected to be around 78% from Rs.1668 crore to around Rs.2,975 crore. CAPEX guidance stands at around Rs.370 to Rs.380 crore and the progress on all infra and capacity expansion is going on as planned. The company is on track to meet the capacity expansion guidance for the current year.

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

With this now, I would like to hand over the call to my colleague, Mr. Pramod Gupta – our CFO to elaborate on the financials. Thank you.

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

We have had great scale up during the first half of FY25 from an operation point of view in a very challenging supply chain environment. The company has done excellently well. The ASPs in RAC, washing machine and coolers were down due to lower commodity price during the period and availability of critical component was also a challenge due to import supply chain becoming more onerous.

We have posted industry-leading growth in RAC in revenues of 143% in the first half and 41% in washing machines. The company's operating revenue for the first half are up 75% Y-o-Y at 1992 crore. EBITDA grew 80.7% at 195 crores and net profit was up 126% to Rs.104.4 crore.

During the first half, operating margins improved due to cost control, low commodity prices and operating leverage. On the balance sheet side, the net debt stands at 238 crores at the end of first half due to inventory stocking up for upcoming AC season.

As stated by Vishalji, we have guidance of Rs.370 to Rs.380 crores of CAPEX in FY25. And again, I want to reiterate that improving capital efficiency by sweating our existing and new assets will be the key focus area of the company in the coming years. And all our existing expansion plan are on track and the infrastructure and plant & machinery which is being planned for this year is likely to come on time for the capacity expansion that we have planned this year. We remain very optimistic on the growth opportunities in our areas of focus, and we believe the company is well-placed to expand its market presence and market share further in the coming years.

With this. I would now like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Vipraw Srivastava from PhillipCapital. Please go ahead.

Vipraw Srivastava: First question is on the IT tailor what's the progress there, the management was stating that, quarter back that they would be sharing some news, but again, any updates because, there as some news articles also that, they are just struggling to meet the target. So, any thoughts on the IT?

Vikas Gupta: So, please understand regarding the IT hardware PLI Scheme, the government is still trying to figure out how to restrict the import of IT hardware products into the country. Once that is aligned and in place, then we should see some kind of traction for moving of manufacturing from overseas locations to India. And we are not able to see much of a movement in the industry right now. There are more than 26, 28 companies under this IT Hardware PLI 2.0 and most of those companies have not been able to tie up any business. So, we are working with the government to see how to regulate and restrict the import of IT hardware product so that the local manufacturing can gain some momentum.

Vipraw Srivastava: Right. And sir, secondly on the TV business obviously, this year you are bound for a very good healthy growth, 600 crore target, but going ahead, how do you see the TV business progressing. Do you see competition, because one of the peer is saying that the TV, outsourcing market is almost over. What are your thoughts on that, do you see a good opportunity in the TV outsourcing market any thoughts on that?

Vikas Gupta: Sir please understand, we are seeing a very strong momentum. Please note that we have a very small base as compared to other competitors and we are seeing a very strong growth in our numbers for television business. We are confident of maintaining that momentum going forward as well in FY26 as well. And we are already working on certain new platforms in television and we are in process of acquiring more clients. So, we are confident about the numbers for TV. Definitely the business is very competitive, so we need to maintain a very tight and lean cost structure for that.

Vipraw Srivastava: Fair enough. And so finally, last question on the AC business, obviously last year was very good with the summer around 20% volume growth was there. But this year, what kind of volume growth anticipating for the industry in next summer cycle, which is in 2025 and any thoughts on that?

Pramod Gupta: We see a strong momentum continuing at least till March and after that actually, how the monsoon season pans out and how things happen will decide the course of growth. But at least till March, the order book is very, very strong, and based on that order book only, we have been able to revise our guidance upwards. So, if you see, we have revised our revenue guidance and bottom line guidance very significantly by almost more than 15% and that is largely due to very strong product business, overall product business momentum that we see in coming months gives good visibility.

Moderator: Thank you sir. The next question is from the line of Achal Lohade from Nuvama Institutional Equities. Please go ahead.

Achal Lohade: The first question I had, if you could give a, while you have given for the first half growth, if you could spell out for the 2nd Quarter, specifically what has been the growth across the key categories?

Pramod Gupta: I will just give you those. So, in AC we had a growth of 212% on a Y-o-Y basis for the quarter. For the washing machine, the growth stood at 23% and for the coolers the growth was 191%.

Achal Lohade: Understood. Sir, if you could also give us the mix from molds, plastic molding and tools?

Management: The plastic molding business was about Rs.229 crore and the electronics business was about 80 crores.

Achal Lohade: Understood. So, if I look at 229 crore, that's an extremely strong number. So, if you could guide us what has driven this and how do you see this particular segment for the full year because I see that part of the upward division is also driven by molds, a plastic molding business.

Management: So, this quarter we had good growth, it is not only plastic molding, it is plastic molding and other. So, we had some new client addition in some of the other segments, including some sheet metal components, et cetera and in the off-season we have a capacity which we try to utilize for supplying components to industry. This business, we are seeing a good growth but please don't extrapolate 44% kind of a growth, it will be more like 20%-ish growth on a full year basis on this business.

Achal Lohade: Understood. And, in terms of the incentives if you have booked anything in the 2nd Quarter and if yes, what is the quantum?

Management: No, there was no incentive which has been booked in the 2nd Quarter, we will book the incentive as and when we receive it and we will inform when we actually book the incentives.

Achal Lohade: Understood. And in terms of the RAC growth, you mentioned 212%, what would be the industry number according to your estimate sir for the 2nd Quarter?

Management: Typically, the 2nd Quarter maybe probably close to 35% to 40% for the industry. But for us last year, 2nd Quarter had a very low base because of the early monsoons and there was a channel inventory which was there in the last year, last season. So, the absolute numbers are not large in fact, if you see last full year, like in the full quarter, in the 2nd Quarter we just had 75 crores of sale, this year we had about 236 crores of sales in the RAC, in this quarter. So, basically, the numbers are not very large. In first quarter we had 882 crores of sales in the RAC business.

Achal Lohade: So, ideally, one should look at first half or in fact, ideally trailing 12 months is that right?

Management: Yes. Ideally, trailing 12 months is a better metrics to look at, at any point in time.

Achal Lohade: Perfect. Sir, in the same context, if you could give for us versus the industry, what would that number be?

Management: I don't have the full numbers of the industry. I am just putting a best guess that probably the industry has seen a growth of about 40-45%. I am saying the overall market in the sense, the retail sales, et cetera, Maybe outsourcing industry would have seen a higher growth because last year, as I was telling you that there was a very low inventory. So, this year, some amount might have gone in inventory and channel filling, et cetera also.

Achal Lohade: Right, understood. And any new client addition across the segments apart from the plastic molding and any other segment we have seen client edition.

Management: So, we continue to add clients and we have seen some good client addition. But we don't make announcements on the client-addition during the quarter.

Achal Lohade: Understood. And just last question, if I may how do we see the margins, for FY25 you have given the guidance, I appreciate that in terms of that. But if one were to look at from a margin perspective basis what growth expectations, what we have across categories, do you see margins, improving margins remaining stable or any impact on the margins. We think margin as a two to three year perspective?

Management: Margin should be in the similar range as they are today. And as I have been explaining actually, for us the percentage margin is not the key driver. Typically, it is the per unit margin in absolute amount that we actually get. And that is what we look into when we are doing the business and that remains the key focus because commodities are a pass through and there's always, up and down prices are happening in the sense the movement is happening with the commodity. So, on those basis, we think that the margin should remain largely stable for us in absolute amount per unit.

Achal Lohade: Understood. And any comment you would like to add in the electronics segment in terms of how do you see it growing?

Management: Yes. So, the electronics business also we are seeing very strong growth. In fact, this quarter, if you see our electronic business grew almost 700% on a year-on-year basis apart from TV. So, TV, business has actually gone into Goodworth, the 50% JV and the ex of TV business, we are seeing a very strong traction. And some of the revision which we have done on the sales is also an account of the high growth which we are experiencing in our non-TV electronics business. We continue to see and scout for new businesses there and we are seeing some early success in that side of the business.

Achal Lohade: Great. And this margin in this segment would be similar to the company level margins or could be higher?

Management: No, the electronics business margins are typically very low in the range at the EBITDA about 2% to 4% at best.

Moderator: Thank you. We take the next question from the line of Arafat from InCred Research. Please go ahead.

Arafat Saiyed: A couple of questions, sir. Can you just give me the breakup of CAPEX of 370, 380 crore which we discussed and how much we already did and the balance where and how we are going to spend and also how are you going to fund the CAPEX?

Management: So, out of 370, 380 crore CAPEX we are putting up about close to 165 crores in the product business for expanding the capacities and this will be for the plant and machinery in the product side of the business. About 185 crores will be going into the acquisition of land and making of buildings, which is the infrastructure side, and the rest will be about 20 odd crore which we will be expecting to invest in some basically maintenance CAPEX as well as some small CAPEX on the plastic component side, especially on the sanitary wear. Now, this is the breakup. So, some amount has already been spent. Rest is, we are on track and as and when we kind of reach the milestones those payments will be made to the vendors and the suppliers which are supplying this CAPEX for making the infrastructure.

Arafat Saiyed: Got it, sir. And sir, my next question on JV China for laptop. So, how is the progress over there, and what kind of growth you are looking for the next couple of years and where do you reach in that segment?

Management: So, please understand as I told to the earlier caller also, regarding IT hardware on the laptop manufacturing. As of now, we are not seeing any kind of movement happening among all the players of IT hardware and that is mainly because the government is still not able to figure out the way to, how to restrict the import of IT hardware into India. Once that mechanism is in place, then we can see some kind of traction and momentum towards shifting of manufacturing from overseas countries to India. So, till now we are not seeing much of that, but in the meantime we are preparing our infrastructure, and we are trying to see how we can leverage that opportunity as and when it comes.

Arafat Saiyed: Got it, sir. And sir, as you discussed that looking for PAT of Rs. 250 crore. So, what is the PLI included in that?

Management: So, that will be just 30 crores.

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

Yash: My first question was on the fundraise that you announced, it's about up to 1,500 crores, in the board meeting so it's a significant amount and I just want to understand, how will this money be deployed?

Management: So, this is the total offering limit of about 1500 crores basically that's the amount that we have taken the upper limit from the Board and even from the shareholders we are seeking the permission for that QIP. We are seeing some very significant growth opportunities coming our way. And if as and when they kind of materialize, we will be utilizing that money for CAPEX and working capital. In fact, this year itself the growth has been much higher than what we initially anticipated. And in fact, significant amount of last year's QIP amount that we raised has gone into the, the working capital side there. So, now when as these new growth opportunities which we are focusing on materialize, we will require money for both CAPEX as well as the working capital. And so for that we have actually, taken the permission and we are hopeful that if some of them are going to materialize in coming months, then we will be able to raise the QIP and utilize that money for those opportunities.

Yash: Okay. So, will you be planning any inorganic acquisition in that amount?

Management: No, we are actually looking at largely only organic growth opportunities, we are not looking at any inorganic initiative.

Moderator: Thank you. We take the next question from the line of Ashish Kumar Singh from VyomWealth Advisors. Please go ahead.

Ashish Kumar Singh: Sir, my question is on this fund base. Sir you talked about having those funds disposed hand and getting into the new growth opportunities. Can you tell us about the industry that you are looking in the product line, any guidance on the product line which you are looking in the future?

Management: The product lines will be similar to what we are doing. They will actually be some of the expansion will be maybe some backward integration in some of the categories where we are working. We are also evaluating one or two new categories in the consumer durable side of the industry only.

Ashish Kumar Singh: Okay. And sir, as earlier you also mentioned that the government is not as of yet for the IT hardware part, but do you expect that the government to be ready with something in the future. And do you have any plans to expand into that if there is some opportunity there?

Management: So, please understand, we are also closely following up with the government and we are hoping that there will be some kind of policy guidelines, and we are putting up a infra in place to see if as and when the opportunity is there, we are able to harness that.

Moderator: Thank you sir. We take the next question from the line of Nilesh Patil from ICICI Securities. Please go ahead, sir.

Nilesh Patil: Sir my question is on the possibilities of entering into other segments as you mentioned in the previous question, that you may consider entering into some other consumer durable segments. So, any specific kind of guidance over there, what kind of opportunities we may look for?

Management: We are in the evaluation phrase itself. As and when we decide to go ahead, we will make an announcement.

Nilesh Patil: Sure, okay. And so hope I expect these segments to kind of have a similar return ratios and asset returns to the existing business?

Management: Yes, we have a very strong guidance in our company. We don't actually take up any new projects unless the project meets our internal ROCE targets. So, be rest assured that any new capital allocation will be done only if we see the opportunity to make a significant ROCE which is significantly higher than the cost of capital. And basically, we will maintain those capital efficiency norms that we have put in our company.

Nilesh Patil: Thank you. Sir my second question is that you have guided on the revenue visibility and profitability. So, and you have indicated that you will be sweating the assets. So, any guidance from, if you can share any band on asset turns that you are looking for?

Management: I am sure you will appreciate that by the end of the year a lot of the CAPEX that we are doing right now is going to get capitalize and we are going to see an increase in the overall Net and gross fixed asset base. And therefore, we think that given the guidance that we have given and the kind of capitalization we are going to see. Overall, a similar number as it is today, which is about 4.5x to 5x on the net asset side. That should be the range which we should be able to maintain for the net fixed asset turn in our company.

Moderator: Thank you. The next question is from the line of Komal Iyer from NBG Investments. Please go ahead.

Komal Iyer: Could you help me understand what is the reason for the drop in the revenue on a quarter-on-quarter basis?

Management: Ma'am, this is actually a seasonal business. The AC revenues are typically high in the first and the 4th Quarter of a year and second and the 3rd Quarter are typically low season for us for manufacturing of AC and AC is almost right now, about 48%, 50% of our revenues on a yearly basis. So, therefore, because of that seasonality, we see a drop every year in the second and the 3rd Quarter vis-à-vis the first and the 4th Quarter.

Komal Iyer: So, we are so optimistic about business despite the 50% drop in the Q-on-Q, you have to revise your guidance upwards?

Management: So, ma'am the season seasonality play out every year, it doesn't matter quarter-on-quarter, how you see, we look at the business on a year-on-year basis only. So, every year in quarter two and quarter three the utilization of the plant and the production drops, we don't have control over that. Obviously, ACs are not selling in that season, so nothing can be done.

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

Vipraw Srivastava: Obviously, you are into PCB assembly also, but the Government of India is now coming up with PLI on components, which will be a backward integration for EMS players. So, any thoughts on that, any sort of backward integration we will be doing, let's say your number is doing bear boats also, so something on those line, is there thought process about that or it's still a long way?

Management: Please understand, we are also keenly waiting for the announcement of the electronic components PLI Scheme. Once we have that, we will try to go through that and we will be looking at what are the opportunities that we can look at. Definitely, we have certain set of guidelines or guardrails for our investments. We will try to see if we can fit into some kind of investments in those guardrails we will definitely like to pursue that.

Vipraw Srivastava: Okay. Thank you and sir secondly, this year you are having 30 crore PLI in your financials in FY26 roughly if you can give an idea, what would be your PLI number it's only an idea?

Management: That will be about 37.5 crores.

Vipraw Srivastava: FY26 right?

Management: Yes, this year FY25 it is 30 crores and next year it will be 37.5 crore.

Moderator: Thank you. We take the next question from the line of Jalaj from Svan Investments. Please go ahead.

Jalaj: Sir, I have one question with regards to the margins for the balance of the year that is the H2. So, if I do a backward, back calculation onto the residual part from the already achieved margin in the currently in the PAT. So, I come up with for the balance H1 it should be around 6.5%. So, could you just give directionally where and what sort of margin accretion would we be seeing coming from or from Which place, is it coming from PV, JV or someplace else?

Management: No. This business that the numbers are on the bottom line and the guidance that we have given for the number is EX of TV. And the 250 crores is also EX of TV. So, this 250 crore out of that, in the first half we have done roughly 105 crores you can assume in the second half we are talking about doing 145 crores of profit. So, out of that about 24 or 25 crore, 24 crore at the bottom line will be coming from the PLI . So, roughly, you can say we are talking of 120 crore of net profit on the top line of 2260 roughly. So, that way, the margins that I am talking about are very similar to the first half margins on a company basis.

Jalaj: Understood and that makes sense, thanks for that. And with regards to QIP, I understand you allude to some view to incrementally growth coming from consumer goods or consumer vertical. But directionally are we seeing specifically on the IT hardware also, are we looking opportunities via this QIP or there is something else also in the book keeping?

Management: No, there is nothing in the IT hardware, a very specific to IT hardware that we are planning from the QIP. This QIP is going to be largely utilized for the growth opportunities in PG Electroplast. The IT hardware is actually a part of 50% joint venture company which is called Goodworth Electronics. So, if there will be opportunities on that side, we will be infusing capital to take care of that. But right now, this QIP we are budgeting largely the opportunities that we are looking for growth in PG Electroplast Limited only.

Jalaj: Got it. And one last question if I may, is more from an industry perspective, how is the competitive landscape specifically in the RAC or your washing machine changing or there's a lot of competition because all the cross verticals in the contract manufacturers, we are seeing good traction from business. So, could you talk a little about the competitive intensity there?

Management: Competitive intensity has always been high, and we continue to see the high competitive intensity. In fact, some new players are entering the washing machine business. In AC business competitive intensity is high but because of the problems of the supply chain this year, the situation is getting a little bit more complicated because in the second half especially and next year first half we think that supply chain management could be playing a very important role in the AC business growth outlook for different players. And that side we think is going to determine the growth rates of different companies and how they tackle the supply chain challenges.

Moderator: Thank you. The next question is from the line of Basant Bansal an Individual Investor. Please go ahead.

Basant Bansal: While answering one of the earlier participant question, you said that second and 3rd Quarter is generally lower than the first quarter. And in the first half, we have achieved around 2000 crore and full year guidance is 4,250 crore. That means we will have to generate revenue of around 2200 to 2300 crore and given the fact that 3rd Quarter is low. So, the majority of the sales or revenue will come in the 4th Quarter is my understanding correct?

Management: Yes, it has been the trend in the company's numbers even if you see in the historical numbers. Last year for example, we did 1068 crores in the 4th Quarter, full year number was 2750 odd crores. Similarly year before that, the 4th Quarter had 828 crores of turnover while the full year numbers were 2100 crores. So, typically 4th Quarter is typically a very large quarter for us every year.

Moderator: Thank you. The next question is from the line of Jeewan Garg an Individual Investor. Please go ahead, sir.

Jeewan Garg: Sir in ACs normally compressor and other equipment were getting imported. Now we are manufacturing it here or how it is working?

Management: So, on the compressor are typically import only and almost all large companies in India, all companies in India today are actually dependent on import of compressor. There are some companies which are going to put up the compressor lines this year, but still most of the companies, almost all, almost 90% of the capacity is still today dependent on imports only.

Jeewan Garg: So, are we any if the plants get to manufacture compressor in future, maybe one to two years down the line?

Management: So, we keep on evaluating the opportunities. As of now, we do not have any kind of announcement to make on that, but as and when we have something, we can disclose it.

Moderator: Thank you. The next question is from the line of Parth Shah from Tara Capital Partners. Please go ahead.

Parth Shah: I just needed one clarification, the revised guidance for revenue and the profitability, is it after considering the PLI or is it before considering the PLI?

Management: No, after considering the PLI, as I said in one of the earlier question that we are expecting about 30 crores of PLI that is before tax and typically we have 20%, 21% kind of a tax rate, post-tax impact of that will be about 23 to 24 crores. So, that 250 crores include that 23 to 24 crores of the PLI.

Moderator: Thank you. The next question is from the line of Bhagyavanth Reddy, an Individual Investor. Please go ahead.

Bhagyavanth Reddy: Sir, at the start of your result document, you have published a standalone number. Is this related entirely to our product business or how should we look at it?

Management: No. In the standalone company right now, the businesses that are housed are actually some part of the plastic components, full washing machine business and the electronics business, full electronics business, EX of TV and also the mold making business where we make the tooling and molds for ourselves as well as for others. So, those businesses are a part of the standalone business. The 100% subsidiary PG Electroplast has a full AC business. It has a cooler business and some part of the component plastic and the sheet metal component business as well as some controller business which we have started providing, some of the electronics business also is in PG Electroplast. So, that is the way that today the division is there among the two companies.

Bhagyavanth Reddy: Okay. Thank you for the detailed explanation and the other one was on our debt, we have about 240 crores of debt. How are we, or by when are we planning to repay this?

Management: We don't actually have a plan to repay debt as of today. And given the strong growth phase that company is in, if some part of that growth journey is kind of financed by debt, it's not a problem for us. And we think if it is in control, the debt to the EBITDA and debt to equity ratios are within the limit, that we have set for ourselves, Then we don't think there is any issue or any problem or any hurry to actually repay the debt or become debt free.

Moderator: Thank you sir. The next question is from the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.

Pratap Maliwal: I just wanted some more clarity on that point you raised that the import supply chain is getting maybe an area of concern. So, which areas are affected for us in terms of, and does this pose any risk to the guidance that we have given going forward in terms of the supply chain management is going to become a key monitorable, going ahead?

Management: As of now, first of all, I want to highlight that for us till March, there is no challenge we have actually secured all our supplies for almost all critical components, and we are very sure of achieving these targets. In fact, one of the reasons why because of which some inventory increase has happened this year is that we have been extra careful, and we have been planning for the supply chain issues and therefore we are confident that we will be fine with the guidance which we have given. That's point number one, point number two is that, the government of India of late has been actually putting quality control orders, basically making the BIS certification mandatory for component factories also, which supply the components to India. And some of the key component factories have been had their BIS certification getting over and they are not getting renewed easily. And that is leading to some supply chain challenges this year and is likely to actually aggravate further next year. And that is why I am saying that supply chain issues are becoming challenging in the sector.

Pratap Maliwal: Okay, understood sir. Thank you for the detailed clarification and just one more question. Now, you also said that the ASPs are coming down for product. So, I am just trying to understand our revenue model, how does it affect our top line and margins when the average selling price for commodities, for the products comes down as commodities are a pass through. So, how does the revenue model work here?

Management: So, typically the bill of material is a pass through. We get a conversion cost or basically the contract, basically the making charges for the product. So, commodity prices are reset every two months or a month or three-month basis. And we therefore do not take the risk of commodity prices. So, if the commodity prices go up the margins optically look low and in percentage terms and vice versa and they happened other way like in a sense and when the commodity prices go down, we see our margins optically looking better in percentage terms.

Pratap Maliwal: But that resets in a quarter's time when the prices are reset again and margins come back to kind of a steady state level. Is that it?

Management: See it's a kind of moving thing every quarter there are different kind of contracts. Some clients actually have a contract for the full season, some clients have a contract for two months the price revision or three-month price revision. So, based on that, the overall pricing actually gets set. And we also according to the contracts that we have try to hedge our commodity risk.

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 just had a question on the AC, you mentioned that the growth in the AC segment was 212% right?

Management: Right.

Mythili Balakrishnan: And this is in terms of revenues which you are talking about?

Management: Yes, for the quarter.

Mythili Balakrishnan: Volumes would have been even higher because ASP you mentioned has come down.

Management: Yes, volumes were even higher than that.

Mythili Balakrishnan: This is like significantly higher than what the industry has been doing. So, just wanted to get a sense from you as how are we gaining share, are we gaining share from other players, are we gaining share from their insourcing, what exactly are the drivers for this kind of significantly ahead of industry growth?

Management: So, this 212% is obviously an aberration especially because see this quarter, the last year base was extremely low. As I clarified in the subsequent question that last, the better way is to probably look at first half or on a trailing 12-month basis. But nonetheless, the growth there also has been pretty high in the first half. Our growth is probably close to 143% in the AC business and we have obviously been gaining a little bit of market share in some of the company's existing clients. Also, we have seen our share of business increase, and we have been able to add a lot of new clients in the last 1.5- 2 years, which have ramped up well with us. So, all those things have actually helped us to gain market share and show this kind of volume growth in the AC business.

Mythili Balakrishnan: Got it. And when you look into the next year, in terms of the visibility that you are seeing, obviously it will depend a little bit on what happens in monsoon, etc. But is there a sense that some of the larger companies are looking to insource because we hear at least the market leader has some large factories which will come online et cetera. So, just wanted to get a sense on that?

Management: We also keep on hearing what you are saying, but as of today the outlook on the business remains extremely robust in fact, we are seeing to put things in perspective, we have increased the capacity even this year by almost 50% on a base of last year. And we think in the season given the kind of order book that we have, we will be probably out of capacity even on the increased capacity this year.

Mythili Balakrishnan: Got it. And plans for looking at export or is that not exactly on our agenda right now?

Management: No, it is very much on the agenda. We have started planning for that, so we have a separate team of both sales marketing as well as the product development and R&D which we have set up in the company and in next one, two year, export is something which we will be looking at. So, we have started developing products for the Middle East and African market on the AC side and we are working towards it. So, we hope that in next one, two year we should see some start or beginning in the export side as well.

Moderator: Thank you. Ladies and gentlemen we take that as the last question for the day. I would now like to hand the conference over to the management for closing comments.

Management: Thank you all of you for participating in the conference and taking your time out. I again want to reiterate, we remain very bullish on the product business at our end, we have shown a very strong first half and even in the second half, we see significant growth opportunities. Thank you everyone.

Management: Thank you everyone.

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