February 05, 2025

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

Dear Sir/Madam,

Sub: Transcript of earnings call pertaining to the Unaudited Financial Results for the quarter and nine months ended December 31, 2024.

This is with reference to the intimation dated January 20, 2025, filed with the stock exchanges in terms of regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015, regarding the earnings call to discuss the financial results for the quarter and nine months ended December 31, 2024, scheduled on January 29, 2025. The audio recording was filed with the stock exchange.

We are enclosing the transcript of the Earnings call. The same is also being uploaded on the website of the Company at https://www.vguard.in/uploads/investor_relations/V-Guard-Industries-Q3-FY25-Transcript.pdf

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

Thanking You,

Yours Sincerely,

For V-Guard Industries Limited

VIKAS KUMAR TAK Digitally signed by VIKAS KUMAR TAK Date: 2025.02.05 14:38:55 +05'30'

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

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

Encl: As above

"V-Guard Industries Limited
Q3 FY25 Earnings Conference Call"
January 29, 2025

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

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

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

MODERATOR: **MR. ADITYA BHARTIA – INVESTEC CAPITAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the V-Guard Industries Q3 FY '25 Earnings Conference Call hosted by Investec Capital Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aditya Bhartia from Investec Capital Services Limited. Thank you, and over to you, sir.

Aditya Bhartia: Thank you, Sejal. Good afternoon, everyone. A warm welcome on behalf of Investec India to the Q3 FY '25 Earnings Call of V-Guard. We have with us the senior management team represented by Mr. Mithun K Chittilappilly, Managing Director; Mr. Ramachandran V, Director and Chief Operating Officer and Mr. Sudarshan Kasturi, Senior VP & Chief Financial Officer.

Now I hand over the call to the management for initial comments, post which we'll open the floor for Q&A. Thank you, and over to you, sir.

Mithun K Chittilappilly: Thank you, Aditya and Investec team for hosting today's call. A warm welcome to everyone joining us today to discuss our company's operating and financial performance for the third quarter of FY '25. I trust all of you had the opportunity to review the investor presentation that we had shared earlier.

In Q3 FY '25, we reported consolidated net revenues of INR1,269 crores reflecting a Y-o-Y growth of 8.9%. Overall consumer demand remained moderate during the quarter. Our Electronics segment continued its strong performance with a revenue growth of almost 28% Y-o-Y, building on a robust first half. This segment maintained the momentum well into Q3.

In the Electricals segment, we registered a growth of 1.2%. Demand for wires, which is the largest category under the Electricals segment was impacted due to commodity price fluctuations. The Consumer Durables segment grew by 8.1% Y-o-Y during the quarter. Demand for kitchen appliances continues to be muted, while water heaters also were impacted by a late onset of winter.

Sunflame reported a top line growth of 4% Y-o-Y in Q3. General trade business registered a healthy growth while the orders from CSD continued to be lower. In Q3 FY '25, the Non-South market demonstrated a strong performance with 15.8% Y-o-Y revenue growth, contributing now 48.4% of total revenues, while the South market grew by 3.7% Y-o-Y.

Gross margin improvement is sustaining on back of higher share of in-house manufacturing, cost-saving initiatives and gradual shift to premium portfolio. We have reported a gross margin of 36.2% in this quarter compared to 33.7% in Q3 last year, an increase of almost 250 bps. EBITDA, excluding other income was INR104 crores in Q3, an increase of 2.5% on a Y-o-Y basis.

Higher A&P spends, particularly in Sunflame, led to an EBITDA margin of 8.2%, which is 50 basis points below 8.7% in the previous year. Employee costs rose significantly Y-o-Y due to significant reversals in the previous year's third quarter.

Working capital remains steady, ensuring strong cash flow generation. The repayment of long-term debt relating to the Sunflame acquisition is progressing as planned. We are on track to fully repay the loans by the end of the financial year.

Our Board has approved around INR100 crores investment in VCPL (V-Guard Consumer Products Limited) facility at Hyderabad, which will produce both TPW and ceiling fans. It will be funded in phases through internal accruals.

Overall, our performance for the 9 months is in line with our annual plan. We look forward to the upcoming summer season with the expectation to deliver a robust performance.

With that, I conclude my opening remarks. And I would like to thank Aditya and the team at Investec for hosting this call and would like to request the moderator to 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 Nattasha Jain from Phillip Capital. Please go ahead.

Nattasha Jain: Thank you for the opportunity and Good afternoon, sir and Congratulations on a good set of numbers. Sir, my first question is on your Southern region growth. Now the growth has considerably moderated compared to the past quarter run rate. So, any particular reason why such a low growth here in the Southern region?

Mithun K Chittilappilly: So the South market has a larger contribution from the wire segment. So a lot of our categories, especially the well-established and older categories, we have a very decent share of revenues coming from non-South. But in the case of wires, due to the way the market is structured, the price competitiveness, our inability to offer differential pricing, et cetera, our revenue, a lot of it still comes from South. So the decline in wire has impacted South market more adversely than non-South.

Nattasha Jain: Understood, Sir, our channel checks also suggest that I think barring Andhra Pradesh, central government has curtailed certain spending, which has led to a slowdown in broader southern markets. So is that also any is there a phenomenon that you are also observing on the ground?

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

Ramachandran V: Yes. So fundamentally, what we are observing is like the wire performance is more linked to commodity volatility and typically, whenever there is a commodity increase or decrease, there is up-stocking or down stocking that happens. And this is related to that. If you look at our broader portfolio, which is a non-wire portfolio, we've had the challenges mainly in water heater because the winter has been not as expected, particularly October and November. It was a delayed winter.

So the summer category sales have been good and winter category sales have been weak, okay? The only area where we have observed underlying consumer demand challenges is in kitchen. Kitchen as a category now I think is the third consecutive year, we are seeing some challenges in growth.

Also, I think if you look at the three Southern states, yes, AP and Telangana seems to have a bit more challenge in terms of demand compared to the other 3 states. That's what we have witnessed over the last 3-4 months.

Nattasha Jain: Got it sir thank you so much . my second question, so just in continuation to that, so fourth quarter, you mentioned about wires that's a high contributor in your southern region. So fourth quarter, are we seeing some kind of up-stocking happening in terms of wires as a category?

Mithun K Chittilappilly: So yes, I think there has been an increase in copper prices in January. And there has been a round of price increases that has been announced in the market, and that has restarted the up-stocking for wires, at least in January. So we are only 1 month finished in the quarter. So it's very difficult to talk what's going to happen in the quarter, but January looks good.

Nattasha Jain: Got it. And sir, my second question is on your Electronics segment. Sir, a very good set of numbers. Congratulations once again for that. Can you throw some light as to what was the growth between batteries and stabilizers? And in terms of margins, are we done in terms of getting there where we wanted to or we can still see some kind of expansion going forward in margins?

Mithun K Chittilappilly: So the first part is we don't give out product-wise numbers due to confidentiality. The second part, I'll give a qualitative answer. Yes, we have invested in manufacturing batteries at our new factory near Hyderabad. And it's completely now online. All the equipments have been installed, and they have started to produce in good quantity. So definitely, that is also helping us.

So the margins in batteries have improved considerably because that was our hypothesis to set up the factory. So in that sense, yes, it is helping us in the Electronics segment. But we have noticed that sales have happened across categories with maybe a slightly higher growth happening in our solar rooftop solutions business, which is a very new business. It is small, but it's growing very fast. So apart from that, there has been growth across other Electronic categories.

Nattasha Jain: Got it. And sir, in terms of margin expansion, are we there or we can still expect some more expansion here on?

Mithun K Chittilappilly: So I think we have had continuous improvement in gross margin. I'm talking about a company-wide gross margin. And last 2 years, we have significantly taken up and improved our margins. I think most of our investments are over as far as manufacturing is concerned. There is one more plant that is coming up to manufacture TPW fans and ceiling fans where already work has started, and we hope to commission in the next 18 months.

So with that, a little more, maybe there could be some more improvement. But I think largely, I think our gross margins, we have increased. As we go forward, definitely, we will work on increasing it. But a lot of the initial reasons for us setting up the plant, they've all kind of; a lot of it has come through. Some is yet to come through because like I said, as these factories mature, they will start producing more benefits for the company.

Nattasha Jain: Got it. And sir, at least in qualitative sense, can we say that room air conditioner was one of the stronger drivers for our electronics segment?

Mithun K Chittilappilly: Yes. So, Q1 and Q2, RACs were a very strong driver for the stabilizer business. But our other businesses like inverters and batteries have also done well. Our, like I said, solar rooftop solutions have also done well. So these are the 3 broad categories within Electronics, and all of them have done well.

Nattasha Jain: Sir, inverters and batteries, I just want to understand, is it a more Tier 2, Tier 3 led demand because metro cities, I have not seen a lot of people picking up batteries. So is the demand completely coming from rural and Tier 3 below?

Mithun K Chittilappilly: Yes. Inverters have a higher skew towards; it is not only rural. Rural, like if you look at NCR, there are suburbs of NCR where there are power issues. Delhi, there is no problem, but I'm saying suburbs like Ghaziabad and all those, there are power issues there. So I think I wouldn't call it rural, but yes, it is more rural than or skewed than other categories. That product and pumps, these are the 2 products that are more rural skewed.

Nattasha Jain: Got it. And sir, one last question, if I may. In terms of kitchen appliances, you did mention that we're seeing a continuous slowdown. So I just want to understand at an industry level, sir, what is happening? Are we just over-penetrated because of COVID? Can we expect some growth in the next year? Because this year, the commentary was same that we would expect growth, but none of the listed players really have registered growth. So what's happening in that category?

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

Ramachandran V: Yes. So I think, see, our hypothesis is that probably in the COVID period, people spent a significant amount of time at home. I think that is also the period when the growth in kitchen was very, very strong. And possibly post-COVID and as the country came out of it, I think that we are seeing a moderation in demand.

The other thing is, see, particularly small kitchen appliances and all that, these are the highest penetrated items among all, what I would say, durable purchases. It may be a reflection of some amount of stress in the lower income segment. Probably as they came out of COVID, some of the household balance sheets may have been damaged and probably their priority is to restore that to good shape and probably the pace at which, in the past, either they would replace, so the replacement cycles have become longer.

And probably also impulse addition of, let's say, newer appliances, newer categories of appliances, which they are not in, have slowed down. I think these two can probably be the only major explanation. In fact, I think last 10 - 12 months, even large kitchen appliances are seeing slowdown.

So I think probably these are the 2 reasons that I could attribute to why we are seeing this phenomena. Otherwise, fundamentally, other consumption categories are growing. And what we have witnessed is it's only when the weather is not favorable. In our case, at least we are having a challenge in water heater because October and November were still warm. So I think that's what I would feel. And probably, I think it should get better. It stayed down long, yes.

Nattasha Jain: Sir, do you think that the competition from the unlisted space has increased in the kitchen appliance side?

Ramachandran V: No, not really, not in the kitchen appliances space because the kitchen appliance space is already hypercompetitive, right? So I don't think so. Definitely, I don't think so because it is a fairly secular slowdown. So it's hitting everybody. So it's not like stronger brands and weaker brands; that phenomenon is not there. And it's broad – it's on small, it's on large. So I'm not so sure. I don't think so.

Nattasha Jain: Got it, sir. Thank you so much.

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

Rahul Agarwal: Hi, good evening and thanks for the opportunity. I was looking for some qualitative comments on specific products. Wires, I think you already spoke about. Could you talk about a bit more on switchgear, switches and fans, please? How was the quarter and what are the trends?

Mithun K Chittilappilly: So switches and switchgear, in that particular category, it has been a decent growth. I think switches, there is some amount of slowdown, some amount of, what you call, sluggishness. But switchgear, we have done well because I think now V-Guard is being seen as one of the go-to options.

We have started to become large in many of the states. We have spent almost 10 years, I don't know. I mean we have spent enough time for the trade and consumers to start recognizing us as a brand to be picked up. Fans, we have done well. We also had some launches in ceiling fans in the last three, four quarters, which has been well accepted.

So it has been decent. I think overall, these 3 have been decent. On the Electricals side, if you remove wires, the growth has been decent. Switches, there has been a little bit of sluggishness, but switchgear has done well. But in the case of fans, fan also has done decently well for us. But we are, of course, smaller in terms of size when you compare with the market leaders.

Rahul Agarwal: And the new factory for fans, should I assume that the Roorkee facility is fully utilized?

Mithun K Chittilappilly: Yes. I think by the time we start manufacturing ceiling fans in Hyderabad, we expect the Roorkee facility to be fully breaching its maximum in terms of capacity. So Roorkee is making two types of products – one is the liquid painted and one is the powder coated. In liquid painted, we are having a capacity constraint. That is why we are building a second plant. Powder coating, we have spare capacity. So that's just to be clear.

Moderator: Mr. Rahul, does that answer your question?

Rahul Agarwal: Yes. Just one more question on Sunflame. I just wanted to know any specific defined goals in terms of top line EBITDA over the next 2 -3 years? Obviously, the current numbers are much below par. Any thoughts, please?

Mithun K Chittilappilly: So we won't be able to give out any figures in terms of what we are planning to do with Sunflame because it's kind of forward-looking. We still believe the brand, the strength, it's very much intact. And whatever we are facing is a result of an industry-wide issue and a channel-wide issue because in Sunflame also, we have still managed to grow well in the GT business, especially during the Diwali quarter, except the Canteen Stores Department part is really having issues because for a prior period over ordering, a significant number of new brands and new SKUs getting approved and then there has been overstocking of some things, and they are trying to correct their inventory. So we don't think that there is anything fundamentally wrong with Sunflame. It's just an industry-wide issue. Ram, do you want to take the other part?

Ramachandran V: Yes, I think, we've been more or less in line with what you said. I think we are growing well in the other 3 channels, which is GT, e-commerce and this one. There is a bit of sluggishness coming out of the CSD, CPC, but we believe it's temporary and it should move forward going forward.

Yes, we have a clear plan in terms of how to build and grow Sunflame. And I think it will be well helped also if the category starts to grow. Particularly, it is difficult to introduce the category to new markets or a brand to new markets in a period of slowdown or de-growth.

So there is that bit of a challenge. The headwinds are strong. So that's a bit of challenge. But I think it's a transient phase and I do hope as things recover, I think we should be able to do better with Sunflame.

Rahul Agarwal: Got it, Ram. Thank you so much. All the best.

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

Achal Lohade: Ya good after noon everyone and thanks for the opportunity, Sir, first question is if you could give a sense in terms of in-sourcing across our key categories? That would be my first question.

Mithun K Chittilappilly: So we don't give out the category-wise split, but I think as a company, we are at about 65% odd percent as a company. 65% of V-Guard's sales are sales coming from products manufactured in our own plants. And we believe in the next 3 years or 4 years, it should hit 70% to 75%.

Achal Lohade: Okay. But is it fair to say that; so wires is 100%, stabilizer, I presume we are moving closer to full in-sourcing. Is that understanding right?

Mithun K Chittilappilly: No, I don't think so. I think this wire is the only one, which we can manufacture 100%. The balance all has a mix of outsourcing, including stabilizers, even today. Just let me elaborate. These categories are highly seasonal. So there are obviously merits in also having some amount of production coming from outsourcing because otherwise; we are able to vary the production in plants to some degree, but we can't shut down the plants fully in offseason. So there are those kind of reasons why we will continue to have a mix of both.

Achal Lohade: Fair point. The second question I had with respect to Sunflame. So obviously, in terms of margins, we are seeing for the last three, four quarters, the margins have been low. Can you help us understand in terms of how do you see this margin playing out if one were to assume normalized growth playing out? And first of all, what will be that normalized growth?

Mithun K Chittilappilly: See, Sunflame, there are a few reasons why this has happened. One is that, see, once V-Guard has taken over the brand, we were aware of this when we did our DD that a large part of the NPD work, a large part of the design, product development, et cetera, was done by the promoter himself. So obviously, we needed to staff it with more professionals than what Sunflame had.

Of course, we also staffed it with a view that the Sunflame team will also contribute for V-Guard. In certain categories, Sunflame will be the lead category even for V-Guard in terms of like whether it's a chimney or whether it's a gas-stove, et cetera. So some of the staffing has been done to ensure that we are looking at the very long term. We are not very worried about what's going to happen in the next 1 or 2 years. We believe that kitchen will continue to grow.

The second is Sunflame had a very thinly staffed sales team because Sunflame was working only with super stockists for every state. So they had very few people on the ground. And we wanted to slowly introduce Sunflame to the V-Guard model where we are staffing it with more people and we directly approach retailers and we also work with modern trade where Sunflame was very weak.

So some of these staff costs have started to come in and hit and some of it is showing results also, but I think the decline in CSD is kind of negating a lot of those growths. So Ram, you want to add anything.

Ramachandran V: Yes. I think there are other expenses like consulting expenses because we are doing a lot of projects, right, to align the systems and also to develop the going-forward strategy and for the integration. So some of these costs are also sitting there. The overall, the way Sunflame was managed before and the way it's being managed now, there is some of that cost also, which is sitting.

So some of this is transient. I mean it's not permanent and will go away. Some costs will go away with the integration in the future. And yes, some costs will remain. There have also been some delays in price increases. We've also had to clear out what I would say, some of the older platforms, which were slower to move and replace them with newer platforms so that sales growth can start.

So some of those kind of expenses are also one-off kind of expenses. So it's a mixed bag. And things will definitely get better, much better compared to what you may have seen in the last one or two quarters.

Achal Lohade: And in terms of the growth, first of all, ex CSD, would this have grown in high single digit or double digit?

Ramachandran V: Yes, it would have grown. It would have grown, yes.

Achal Lohade: Okay. So is it fair to say that we can hit back to double digit in starting for next year?

Ramachandran V: Obviously, we have to see, I think, it's very hard to predict, right? See, none of us anticipated that the slowdown will hit. In fact, the slowdown in kitchen started probably in the quarter of our acquisition there. So none of us anticipated that. I think it's a forward-looking statement to be able to say what we will do. Yes, of course, our endeavor is to grow the business in, say, mid-teens to high teens.

That's our endeavor. But I think realizing that endeavor will also require external support, right, more favorable, what I would say, demand environment, which will certainly make our job easier to achieve this kind of growth. We have to grow this business because we have made investment in the business, but I think it is hard to say how it will take shape because it's also a function of the external environment.

Achal Lohade: Understood. Okay. And just last 1 question, if I may, with respect to solar rooftop. Is it fair to say that over the next, let's say, 3 to 5 years, could this be a INR500 - INR700 crores category? Is that a road map one could imagine or it could be much higher than this?

Mithun K Chittilappilly: See, we are very cagey about giving out any numbers about our products because it is something that we don't want to give out. But I can say that we entered this business 36 months back in a serious way. We got one of our existing team members to head up this division and build a team around it.

And the results have been phenomenal. I think there is a huge demand for a brand, which is giving not only a product, but impeccable service. I think where we found a huge gap in the market is that many people are selling this product, but very few of them are actually providing good aftersales support. So we got impeccable reputation for this particular quality.

We think that South India has definitely accepted this and we are growing very fast. I don't want to give out any numbers. So once it gets a certain size, we will tell you how big it is.

Achal Lohade: Understood. Thank you. I will fall back in the queue for follow up. Thank you.

Moderator: Thank you. The next question is from the line of Nattasha Jain from PhillipCapital. Please go ahead.

Nattasha Jain: Sir, I missed your commentary on the TPW and ceiling fans. If you can just elaborate in a little detail as to what's the time- line in terms of when this plant is going to come alive and what's the capex that we've incurred for this?

Mithun K Chittilappilly: So the capex of INR100 crores will be spent over 3 financial years. It will be like INR50 crores in year 1, that is next financial year, and then in phases in the following two financial years. The initial part of the plant will produce table, pedestal and wall fans and some part of ceiling fans and the rest will be to scale up the production. We expect the first phase of the plant to be open in the next 18 months. We have started work, so there is a time required. The ground-breaking just happened a few weeks back. So 18 months, we expect commercial production to start, and this plant will be near Hyderabad.

Nattasha Jain: Okay. All right. And sir, in terms of margin improvement, how we have seen your margins improve in Electronics because of backward integration. Likewise, do you have any numbers that you can share in terms of where Consumer Durable margins are expected to then move in the medium to long term because of the backward integration plan?

Mithun K Chittilappilly: Yes. So I think in Electronics, there has been a substantial work that was done and our hypothesis to set up the factories were also to actually substantially get the improvement in margins, especially inverter battery space. Stabilizer already, we had decent margins. But in the case of fan, the issue is that pre-2000, I mean, till last financial year, we were importing a bulk of our ceiling fans from Vietnam and China.

First, it was China and when China got the anti-dump duty, people moved to Vietnam. But I think we are now very clear on how this will go. So this is roughly 25%- 30% of our business, and we want to have supply security. We don't want to keep importing stuff because we do believe the government will bring in BIS and then they will eventually block out Vietnam as well.

And a lot of the fans are today getting made in India. We have a lot of vendors which are making table, pedestal and wall fans for us. But we are still not very comfortable this way because these are not exclusive vendors. They supply to everyone in the industry. So we want to have our own plant so that we can come out with better products, innovative products, differentiated products offering better quality.

So that is the reason. So some of this is not done only for margin improvement. It is also done for our own long-term growth of the category.

Nattasha Jain: Got it, sir. And I know this is too early to ask, but any mix you can share in terms of our manufacturing into premium and non-premium products here from this new factory?

Mithun K Chittilappilly: I think it's too early to say that. I think what we can tell you is that after we set up our first ceiling fan factory in Roorkee about 3- 4 years back, our share of premium products in fans substantially increased. And we have one of the best product mixes in the industry today, and we hope to replicate that with this factory as well.

Nattasha Jain: Got it. Sir, I'll just leave the queue with the feedback we got for V-Guard fans on the ground. So we've got feedback in terms of the quality and the aesthetic appeal of your premium fans that you've recently rolled out. So yes, the distributors are quite happy. Thank You so much Sir.

Mithun K Chittilappilly: Thank you.

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

Keyur Pandya: So first on the margin side, so we have been investing in many of the aspects, whether it is manufacturing or branding. And because of that the gross margin has not say trickled down to EBITDA margin. So I just want to understand that whatever gains we have seen in terms of higher gross margin or in terms of higher Electronics EBIT margin as well.

I mean when do you see Electrical and Consumer Durable margins improving? And what would be the drivers? If you can just throw some light on those 2 segments' margin and then the overall margins?

Mithun K Chittilappilly: So I would like to take a different view. If you look at 5 years back, the difference between V-Guard and market leaders in terms of EBITDA was 4%- 5%. V-Guard's margin was 9% and market leaders were at about 14-odd percent. Today, the gap has come down to 1% or 2%, not even 2%, I think 1% or something like that.

So we will also see this in the light of what has happened in the industry post-COVID, how more competitive it has become, how harder it has become for us to take price hikes and all that. So some of these things are also happening because the entire environment has changed. And if you look at many of our peers, you will see a sharp decline over the last 5 years in terms of EBITDA.

So on one hand, yes, we are improving margins. But there is also additional costs related to that in terms of setting up the manufacturing, and there is a journey for maturing the plant and all that. In our view, I think this year, I think when we see actually the improvement in gross margin is 1.5%, net of all the additional costs in the factory.

But even that has not happened to trickle down. That is primarily because of some one-off write-backs we had last year in Q3. So I just want you to put in perspective that if you look at last 5 years, we are not seeing us improving margins, but the gap with the market leaders is very, very narrow today.

Keyur Pandya: And just one follow-up. So then is it fair to believe that the margins would stay here only for you? Our aspiration for near term is to remain here only or...?

Mithun K Chittilappilly: We have always said we would like to get to 10% odd EBITDA margins, and we are working on it. But many things are there, many headwinds are there. But I think this quarter, especially it was that there was a lack of operating leverage. One of the largest category, which is wires has degrown in this quarter, which has pulled down the overall growth. So some of it is due to operating leverage as well.

We do believe that next financial year, we should probably come out of most of these issues unless we have some crazy inflation again happening, which I don't see any high inflation happening from here on.

Keyur Pandya: Okay. Sir, second question is on the demand side. So we are seeing this stocking and destocking and restocking based on the copper prices. But just want to understand how is the end user wire demand? I mean, just anecdotally, based on increased real estate activity, are you seeing a steady demand or improving trends or the negative growth also indicates similar growth in the end user market as well. Just some color on how the end user demand is?

Mithun K Chittilappilly: See, I think V-Guard is primarily a consumer retail company, so our project sales are less than 5% of our wire sales. But of course, the real estate demand affects the entire market because when real estate does not do well, the brands which are active, they are also coming into the retail and they create some kind of competition.

So as far as the end consumer is concerned, if you look at the individual home guys who build individual houses, not like multiple units, they don't seem to time with. They come and buy whenever they want to buy, so the end user really does not; they don't track us like the retailers do.

But if you're looking at a large developer like building like 2,000- 3,000 apartments in a year or whatever. And those kind of guys, definitely, they will also see how the commodity is moving. And just like us, they will also time their purchases. So, it depends also on whether they're able to like just to reduce; just to wait for a 2%- 3% reduction in wire prices.

They may not delay their purchase by 4 months- 5 months because the projects will also get delayed. So I think that usually, the retailers are the most sensitive with this, price changes in copper and then followed by developers and then probably the last person to bother about it would be the individual consumer.

Keyur Pandya: So do you mean end user demand continues to be healthy?

Mithun K Chittilappilly: End user demand, see, I think whatever slowdown we are talking about, I mean, this is not a slowdown only for kitchen. So there is a slowdown in FMCG, there is slowdown. So what is happening is, yes, organized real estate is growing. But if you look at real estate as the entire pie, you are not seeing any crazy demand for cement and all that.

Cement demand is weak, so what does that tell you? If cement and steel demand is weak, that what means is that the entire market is not growing. It's just that existing guys, existing small builders who used to make 20 -30 flats in a project, they have all folded up and now it is only big builders. So that's basically the market that is consolidating. And probably the earlier guys, they were not doing business in an organized way, so it was never tracked.

Keyur Pandya: Okay. Thanks a lot. We will get back in the queue.

Moderator: Thank you. The next question is from the line of Archit Shah from B &K Securities. Please go ahead.

Archit Shah: Thank you for the opportunity. Sir, first question is regarding margins. So you said 65% of your sales is now from in-house manufacturing. Now let's say, once your TPW in-house comes online and you start utilizing fully and once you reach 75%, what kind of margins on a blended basis overall can we expect going forward, let's say, in FY '27 onwards, assuming that, that will be the time when all your 75% will be fully from manufacture or in-house manufacturing?

Mithun K Chittilappilly: So I think every time when V-Guard decides to set up or ask this question internally whether to make or to buy, we do a complete detailed working on the IRR of the projects. So we do only projects that are IRR and ROCE accretive. That's all I can say. I cannot give you a guidance on how much our margins will go up or improve.

I think a lot of our journey is already done. But I think that many of our plants are not working 100% capacity. So we really hope that in the next 2 to 3 years, what you get to see is the operating leverage of plants kicking in, and there could be some benefit. But like I said, we are not targeting margins more than; today, we are only targeting the margins for our goal which is to hit 10% EBITDA margins because we find that most of our market leaders are also not able to go beyond that.

So we have to understand the environment is also competitive. So our first phase would be to target a 10% margin, and that's where we are at.

Archit Shah: Okay. So directionally, at least it will improve from FY '24, FY '25 levels, but 10% is what you are currently targeting?

Mithun K Chittilappilly: Yes.

Archit Shah: Okay. And sir, second question is a bookkeeping question. Sir, since 4Q FY '24, we have seen this unallocated corporate expense increase multi-fold. Like on a consol basis, it was at around INR5 crores in 3Q, then INR30 crores, and it has been at this level since in last 4 quarters. So can you explain like what has led to this increase?

Sudarshan Kasturi: Fine. So there were some one-offs in that. The revaluation gain of Gegadyne came in during that quarter. So that's probably why.

Mithun K Chittilappilly: So last year, the other expenditures were,; it was artificially kept lower by a revaluation gain in one of the investments in our subsidiary, of about INR14 crores.

Sudarshan Kasturi: INR17 crores.

Mithun K Chittilappilly: INR17 crores. So yes, you'll probably have to add INR17 crores for the previous year to get the like-to-like comparison.

Archit Shah: And sir, even in these three quarters of FY '25 also, it has been at around INR36 crores, INR33 crores and INR34 crores for each quarter. So is this the new normal like these are going to be our unallocated expenses, corporate expenses?

Sudarshan Kasturi: That is the normative level.

Archit Shah: Okay. That’s it sir. Thank you so much.

Moderator: Thank you. The next follow-up question is from the line of Keyur Pandya from ICICI Prudential Life Insurance Limited. Please go ahead.

Keyur Pandya: Thanks for the opportunity again. Sir, 2 questions on 2 line items, first is employee cost and second is A&P. So significant increase in both the line items. So just want to understand strategy or thoughts on how we should see these line items growing from here on? And specifically to employee cost, was it for specific SBU or headquarter or I mean, where it is being targeted?

Mithun K Chittilappilly: Okay. So on A&P cost, we had done activity in Sunflame for Diwali. I think the previous year, that is last financial year, things continue to be rough for kitchen. But last financial year, we had not done any much activity because we were focusing on the integration part and product refresh and all that.

So this year, there was some activity that was done. And not only in Sunflame, there is a 10%-15% increase in V-Guard's own A&P spend, V-Guard brand's A&P spend. So this is as far as the A&P is concerned.

As far as the employee expenditure is concerned, last year, I think, there was almost INR25 crores worth of reversals in Q3. There are primarily the 2 things. One is that in last financial year for Q1 and Q2, we have provided for variable pay for employee costs for employees, and that was reversed in Q3 because by 30th September or by Q3, we realized that we are not going to hit the parameters to achieve variable pay. Whereas this year, I think for the first 9 months, we are on track to achieve the AOP and try to pay out the variable pay. So that is one. That's bulk of it, the difference. The other thing is, this year is again the first year of new ESOP grant. Last year, it was not there, so I think INR6 -INR7 crores of this INR25 crores is belonging to that.

Sudarshan Kasturi: Plus. INR25 crores plus INR7 crores.

Mithun K Chittilappilly: So INR25 crores plus INR7 crores. INR7 crores is ESOP grant expenditure that has come. That is not going to remain INR7 crores every year. It is only the first year it's going to be elevated and it tapers down in year 2 and year 3. And in last year, the variable pay was reversed in Q3. So what you're seeing is employee cost almost as of INR30 to INR32 crores worth of expenditure sitting in this year which is more than last year and this is one-off.

Keyur Pandya: And from here on?

Mithun K Chittilappilly: It is a one-off think only variable pay will be happening. Yes, it's a one-off. We may not see because the previous year's quarters will also probably have some of this.

Keyur Pandya: Okay, noted. Thanks a lot. Thank you.

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

Achal Lohade: Sir, just to clarify on Keyur's question. ESOP charge, INR7 crores, is it per quarter or for the full year, you mentioned?

Mithun K Chittilappilly: Yes, Sudarshan.

Sudarshan Kasturi: It is for INR7 crores is for the quarter.

Achal Lohade: Sorry, INR7 crores is for the quarter, so INR21 crores for the 3 quarters. Is that sir?

Sudarshan Kasturi: Right.

Mithun K Chittilappilly: So the ESOP grant issue only happened. So like our ESOP cycle for bulk of the people who are under ESOP starts, that cycle happens in Q3 for whatever reason because it's the third round of something like that. So it happened.

Sudarshan Kasturi: Okay. Achal, let me explain in detail. The cost for the quarter this year versus last year, difference is INR7 crores.

Mithun K Chittilappilly: Yes, for ESOP.

Sudarshan Kasturi: It's not that the cost itself is INR7 crores.

Mithun K Chittilappilly: The delta itself is INR7 crores.

Achal Lohade: Right. In the base quarter, I see somewhere around INR83 crores of employee cost. That had some reversal you mentioned?

Mithun K Chittilappilly: Achal, last year, in ESOP, there was a reversal. This year, there is an additional cost. So the total delta is INR7 crores.

Achal Lohade: Okay. Understood. That's all. Thank you so much.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec Capital Services. Please go ahead.

Aditya Bhartia: Hi Sir**.** you spoke about competitive intensity in the sector going up and thereby margins for the entire industry is pretty much coming down. How are you seeing this shaping up going forward? Would you anticipate margins to be moving up to 10% to 11% kind of a range that you used to speak about without considering other income?

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

Ramachandran V: Yes. We will continue to endeavor to expand our margins, maybe 0.5% every year. But on the other side, this is also competitive, and that's the point that Mithun was making, which is basically the profitability for the industry overall has been under stress. The margins, overall margins have come down for our competitors also, mainly because partly growth has been muted and partly commodity inflation, the pricing transmission has been weak.

So these are two factors, which have caused this situation. Yes, we have plans and we continue to grow. And that's the reason why, because we have these plants, we have been able to hold out our EBITDA margin, although the general environment has been one where over 4 - 5 years, there has been erosion.

So I think we continue to remain optimistic to be able to; we would like to grow 0.25%, 0.5% every year. I think that still remains our objective. But as I said, it has to be seen in an external context also. There are some efficiencies, which will come through from our manufacturing programs and all because there is some operating leverage, which is likely as we go forward because many of these plants are still stabilizing.

That's there, but I think that we will also have to improve premiumization and we will also have to do a better job with the pricing transmission. And both these are competitive also.

Aditya Bhartia: Sure, sir. And sir, like earlier, we used to speak about there being a scope of increasing margins in categories like batteries. But now you mentioned that a part of that benefit has already been extracted. Do you see further scope of expansion in certain specific categories or it is now going to be; I mean, we have categories broadly at normal levels, and it's going to be broad-based expansion?

Mithun K Chittilappilly: So okay. So let me answer like this. The benefits in Electronics has largely come through. I think because the battery plant is online and it's delivering and the Pantnagar plant for Electronic products is also online and delivering. So this has come through. What has not achieved the scale and benefit transmission is the kitchen plant in Vapi.

So obviously, the plant is yet to be inaugurated. We are inaugurating it next month. So kitchen plant will take some time to stabilize. And of course, the second factory for fans that is TPW and fans is also yet to be commissioned. So these are the items where I think there is some operating leverage possibility happening.

So maybe Electronics, margins may not be there, but in kitchen appliances, which is in Consumer Durables; and fans, again, I think it's in Consumer Durables. Both these, there is scope for some improvement in margins. So with this, I think, CD, the Consumer Durables segment margins, we also hope to take it back to pre-COVID levels.

Aditya Bhartia: Great, sir. And one last question. The manufacturing facilities, which we had started in the last 2 years or 3 years, roughly at what utilization would they be operating? And do you see a big scope of operating leverage benefit coming through as utilization keeps improving or largely, this is now in the base?

Mithun K Chittilappilly: So like I said, in the Electronics segment, which is the stabilizer and inverter plant and the battery plant, all of them are sitting in Electronics. A lot of the benefits have already started to come in, and that's what we have seen in the last 18 months. Some more benefit could be there in the battery because the battery plant is still new and there could be some optimization, some work could be done.

But I think it's largely, I think, come through with some more benefit yet to flow through. Whereas in Consumer Durables, I think there is still scope for this to happen.

Aditya Bhartia: Understood, sir. That’s very helpful. Thank you so much.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Aditya Bhartia from Investec Capital Services Limited for closing comments.

Aditya Bhartia: I would just like to thank the management team of V-Guard for giving us a chance to host this call. It was a very interesting and informative call. Thank you so much, sir. And thank you, everyone for joining us. Sir, do you have any closing comments?

Mithun K Chittilappilly: Yes. Thank you all for taking out time to join our earnings call. I would like to thank Aditya Bhartia and team at Investec for hosting this call. On behalf of the V-Guard family, I would like to wish all of you a very wonderful year ahead. We look forward to interacting with all of you in the next quarter. Thank you.

Moderator: On behalf of Investec Capital Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.