To
Listing Department
BSE Limited ("BSE")
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001
Scrip Code: 544095
ISIN: INE0G5901015

To
Listing Department
National Stock Exchange of India Limited ("NSE")
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051
Symbol: EPACK
ISIN: INE0G5901015

Subject: Transcript of Investors' Conference Call on the Standalone and Consolidated Un-Audited Financial Results of the Company for the quarter and half year ended on September 30, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of Investors' Conference Call held on Wednesday, November 13, 2024 in respect of the Standalone and Consolidated Un-Audited Financial Results of the Company for the quarter and half year ended on September 30, 2024.

A copy of the same shall also be posted on the website of the Company.

You are requested to take the above information on record.

Thanking You

For **EPACK Durable Limited**

Arjit Gupta
Digitally signed by Arjit Gupta
Date: 2024.11.20 09:41:14 +05'30'

Arjit Gupta
Company Secretary and Compliance Officer

Date: November 20, 2024
Place: Noida

Encl.: As above

"EPACK Durable Limited
Q2 FY '25 Earnings Conference Call"
November 13, 2024

MANAGEMENT: **MR. BAJRANG BOTHRA – CHAIRMAN AND WHOLE-TIME DIRECTOR – EPACK DURABLE LIMITED**
MR. AJAY DD SINGHANIA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – EPACK DURABLE LIMITED
MR. RAJESH KUMAR MITTAL – CHIEF FINANCIAL OFFICER – EPACK DURABLE LIMITED

MODERATOR: **MR. NILESH PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to EPACK Durable Limited Q2 FY '25 Earnings Conference Call, hosted by ICICI Securities. 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 the star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nilesh Patil from ICICI Securities. Thank you, and over to you, sir.

Nilesh Patil: Thanks, Steve. Good morning. On behalf of ICICI Securities, we welcome you all to Q2 FY '25 results conference call of EPACK Durable Limited. We have with us Mr. Bajrang Bothra, Chairman and Whole Time Director, Mr. Ajay DD Singhania, Managing Director and Chief Executive Officer; and Mr. Rajesh Kumar Mittal, Chief Financial Officer.

Without any further delay, I request the management to start with the opening remarks. Thank you, and over to you, sir.

Rajesh Kumar Mittal: Thank you, Nilesh. Thank you all and very good morning, everyone. Welcome to the earnings call. Let me give you some of the key financial highlights for the second quarter and first half of the financial year 24-25. The quarter 2 financial year 25 revenue from operations stood at INR 377 crores which increased by 112% on year-on-year basis.

The EBITDA was reported at around INR 9.6 crores which increased by around 25% year-on-year basis with the EBITDA margin reported at 2.55%. The net loss was around INR 8.5 crores as compared to the net loss of INR 6 crores in the corresponding quarter of the last financial year.

Talking about the first half of the financial year 24-25, revenue from operations stood at INR 1,151 crores which increased by 87% on year-on-year basis. The EBITDA was reported at around INR62 crores which also increased by 66% on year-on-year basis with the EBITDA margin reported at 5.34%. The net profit was around INR 15 crores which represents a significant increase of 452% on year-on-year basis. The profit after tax margin was around 1.29%.

Now I would request our Managing Director come CEO, Mr. Ajay DD Singhania to brief you on the operational highlights.

Ajay DD Singhania: Thank you, Rajesh ji. Good morning, everybody. As already shared by Rajesh ji, in second quarter revenue from operations increased 112% year-on-year supported by strong industry demand, extended summer season as well as addition of new customers and correspondingly EBITDA increased by 25% year-on-year due to higher sales.

Our product business remains the cornerstone of our success, contributing 98% of our total revenues in Q2 of this year. Revenue from air conditions contributed to 70% of our total product revenue and achieved an impressive growth rate of 187% year-on-year. This has been possible because of the strong growth momentum driven by three strategic initiatives like commissioning of our Sricity and Bhiwadi plant, its utilization which played a pivotal role in expanding our manufacturing capacity to meet the rising demand.

These efforts collectively reinforce the company's positioning and growth potential in the competitive landscape. Consequently, EBITDA increased by 66% year-on-year due to higher sales. However, the capacity utilization of Sricity plant has just been 10% in first half of this year. although our fixed overheads have already started. This has ranked down the performance in the short term. Since by this investment we have created an additional capacity of 50%, hence in the long term, we are working to enhance the capacity utilization of Sricity facility.

We are extremely confident of utilization of its full potential and hence improvement in our overall performance metrics. Some significant developments over last quarter towards our Sricity utilization are approval from marquee customers for production of AC, air conditions, approval again from marquee customers for our component business. In this regard, the company had made two significant announcements in last quarter. I will touch upon them as well.

Setup of our small home appliances lines in Sricity. Sricity, we started only with air condition production. Now our small home appliances lines have been set up and will start utilization from Q4 of this year. Similarly, washing machine, our new product lines are getting set up in Sricity. The pilot production was successfully done in Q2 and Q3 we will see its utilization.

Further, we are also setting up cooler lines in Sricity which will be commissioned towards Q4. On top of Sricity, the company has made two significant announcements in last quarter which will set the course of future. First, the company partnered with Hisense to manufacture its air conditioners and home appliances locally in India.

Company will be investing in a new facility in Andhra which is set to start production from June of '25. This alliance aims to generate $1 billion revenue over next five years serving both India and global markets and leveraging our manufacturing expertise to drive innovation in home appliances. The notable thing here is that the current facilities of the company will be utilized for supply of components to the new company.

Further, another notable announcement done in last quarter was a strategic tie-up with Panasonic Life Solutions India Private Limited for manufacturing of its components both in Bhiwadi and Sricity and supplies to Panasonic. This also includes utilization of our printed circuit board controllers as an EMS to Panasonic.

With this, we can now open the floor for Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Kunwar, an individual investor. Please go ahead.

Manish Kunwar: Good morning sir. As we see that there is increment in the revenue in year-on-year growth and EBITDA percentage, but there is a nominal hit on -- not nominal, it's a tremendous hit on the margin side, sir. Can we elaborate it, sir? Because if we are going to see the margin, then the OPM margin and that bottom line margin, both had been hit tremendously sir…

Moderator: Sorry to interrupt, sir. The current participant has been disconnected. We'll move on to the next question. It's from the line of Amarnath Bhakat. Please go ahead.

Amarnath Bhakat: Yes. During your opening statement and also in your previous presentations, you have used this word strong growth and the strong, almost $1 billion of the target. Now if we look at the financials which you presented this time, revenue growth is very strong for sure but the margin continuously getting down.

On the same side, the cash coming from the operations are completely coming out of the negative side. Now this growth what you are talking about, what is your plan to fund that growth? Your cash flow from the operation is not positive. Your cash balance which was there before, that is also now almost reduced. So this growth will be funded from where? From the loan?

Ajay DD Singhania: Thank you, Amarnath. First of all, like you can see in the results, yes, there has been an extremely strong growth in demand and revenue. However, on the margin side, I think if you look at H1 to H1 of last year, you will see that the margins have been fairly stable. So there is no degrowth in margins as such.

Obviously, when you compare Q2 of last year to Q2 of this year, we might see some dip in the margin which is actually because of the increased contribution of sales from air conditions. So air conditions being a slightly low margin business, can support slightly low overall margins.

However, the overall margin throughout H1 as compared to last H1 has been fairly stable. There is no dip in margin as such. In terms of cash flow, yes, in the short term as the sales increase in Q2, we see that the working capital limit getting fairly highly utilized.

But this has actually helped the company to secure additional sales and new customers. And our term loan has actually reduced. So it's only working capital margins. And on top of it, if you see the inventory levels have fallen sharply. So there has been a lot of positive developments to look at. The steps we initiated over the last year have actually benefited and given us this opportunity.

Amarnath Bhakat: Sorry, I agree with your point of the strong fractions in the sales. The question is the return on equity of this particular business is continuously falling down. Now, when you're growing at a rate of 30%-40% on a year-to-year basis. And with an ambition of reaching a sale of $1 billion, where your return on equity is on a single digit, your margin is 2% and 3%, your working capital limit is getting exhausted.

I'm just trying to understand, to grow that high speed with a low return on equity, what is your plan to fund that growth?

Rajesh Kumar Mittal: With this return on equity and this ROCI, which you are saying that it is on the lower side, it's a single digit, I can understand you please treat as basis. This is on a six-month basis. Whether the net worth and all the capital employed data on an year-end basis -- the balance sheet date, but practically, this is a half-year data.

And you know, in a seasonal industry, we get a much more amount of profits in the last quarter and the third quarter. If you analyze this number and if you see the trailing number of the previous 12 months, the return on equity will be around 11%. And this return on equity will be also 7 point something percent.

It is not like that. And also, we see that the amount of this IPO amount will be utilized, and this has already been parked, and it has been added to the net worth of the company. This will also give the fruits in the coming quarters.

Ajay DD Singhania: So actually, Mr. Amarnath, in terms of funding the upcoming new projects that the company is planning, the company already has a kitty from the IPO proceeds, which currently lies unutilized. Hence, we have a fixed deposit of INR 230 crores with us lying in the bank, which will be used towards funding the new upcoming projects.

Amarnath Bhakat: Okay, sir. The next part of the question with respect to this growth, we just talked about $1 billion in the next three to four, I think, five years' time. Now, the product contributions, the product composition will be more or less same with this coming, because this AC unit, which is giving the highest revenue to you, it also comes with the lowest margin.

Now, I'm trying to understand this product mix, how this product mix is going to change in the upcoming years, in order to make a higher margin, because if this margin continues to be in this 2% or 3% range. And I don't know what will be the inventory turnover, the return on equity going above 20% looks very minimal.

I agree with your point that your return on equity can go up to 10%, 11%, 12%. But if you're growing at a rate of 40%, 50% year-on-year, with a 10%, 11% return on equity, at some point of time, the funding gap will be huge. So, I'm just trying to understand the plan for the business mix in coming years.

How this mix is going to change in order to generate a higher EBITDA margin. And also, if you can highlight the expected inventory turnover.

Ajay DD Singhania: I can. Thank you so much, Mr. Amarnath, for asking this question. I was actually waiting for somebody to ask this. So, first of all, the company is extremely confident and positive that we will achieve ROE, ROCE of minimum 15% in time to come, very shortly, within a span of two to three years, for sure.

And especially now, in terms of this new opportunity, what we're talking about $1 billion revenue over the next five years. Let me put it on record that this is not alone related to air-conditioned business. This is one significant achievement because it has air-conditioned, it has washing machine, it has going forward, it has other appliances like refrigerators.

And new age appliances as well. So, this actually helps us utilize our capacity, not only for the season, but actually throughout the year. So, each product segment, what we are adding to this new company, will actually help us not only improve our overall performance, but overall capacity utilization and the fungibility of the investments that we have built will improve significantly because it will cater to the appliances of every season.

So, there will be washing machines, there will be refrigerators, there will be other appliances. And the overall mix will help us not only achieve better EBITDA margins, but better Material margins.

Amarnath Bhakat: If you can highlight -- what should be the new investment turn -- the asset turn, expected asset turn, any idea about important new investment, what would be the asset turn?

Ajay DD Singhania: Yes. So, currently the company's asset turn is between 3.25 to 3.5. That's the current asset turn. With the way we are diversifying into new product segments, we are targeting an asset turn of minimum 4.5. And this new company, because this will not be investing into a lot of backward integration, which will be catered by our existing investment. And the new company's asset turn would be anywhere between 5 to 6.

Amarnath Bhakat: Okay. The last part of my question is, you are now running in an industry the same explained. Other than AC unit and the home appliances and the white goods. Any plan for improvement or growth on that printed circuit board, that area? Because it's very easy, the government is also quite focusing and a lot of your peers are also focusing on that part.

And being a sunrise industry, there's a lot of government support on that side. Can you talk about your plan about those parts of the business? At the moment, it seems it's quite small. But considering the government importance for manufacturing the electric circuit boards and related items in India, what's your plan to grow that side?

Ajay DD Singhania: Currently, companies plan to grow its appliances division and the core competence what we've created around the entire range of home appliances. We see a lot of opportunities in this field itself. And the potential is not, we see the potential to be further utilized in coming times, for sure. However, looking at the opportunities in the EMS space, the electronic manufacturing and the consumer electronics side.

Yes, we identify that those opportunities are there, we understand. We are carefully evaluating them. And although there are no plans to venture into consumer electronics in immediate short term, but however, in medium to long term, we are evaluating them and any further development will definitely be intimated.

Amarnath Bhakat: And what is the situation of the inventory channel now, sir, in respect of this ACs, how the inventory challenge position now, because now we are slowly moving into the winter season. And of course, that is not a season for air conditioners and others. But of course, there's some marriage seasons and other things are coming up.

So how the inventory position in the channel and as well as the inventory position for your companies where you're supplying?

Ajay DD Singhania: Based on the market intelligence and feedback from the customers, we understand that even currently, the channel inventories are fairly low or they are in an acceptable limit as compared to what traditionally the channel holds during this time of the year. So the entire trade is still very bullish on creating or in adding new products and in manufacturing.

So over next, because the season is also approaching very fast and manufacturing season generally starts from end of November or first week of December. So already most of the customers have started ramping the production.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital.

Bhoomika Nair: Sir just wanted to understand in this quarter, we've seen a very strong growth. What would have been the mix between the RAC segment and the non-RAC segment?

Ajay DD Singhania: So Bhoomika, the mix for the current quarter is, AC contributing almost again, it's 70% plus in this quarter and non-AC, nearly 30%. So just to add, traditionally Q2, we have AC 40% and non-AC 60%. This year, we had AC 70% and non-AC 30%. So AC has grown significantly well even in Q2.

Bhoomika Nair: Okay. So what you're saying is typically in the second quarter when AC demand is weak, it kind of tends to be about 40% contribution. This quarter, because of the strong demand, it has been about 70%.

Ajay DD Singhania: Exactly.

Bhoomika Nair: Okay. And this is including the components business as well for the AC, whatever little components that we supply, that's included in the 70%, sir?

Ajay DD Singhania: Yes, including components, it will be less than 75%.

Bhoomika Nair: Okay. Got it. Now, you mentioned that the trend of the growth continues into October and you're seeing that clients are already placing orders for the next season, etc. How do you expect the year to kind of close at with what kind of growth for this particular year in terms of AC, non-AC?

And as we move ahead into the next year, how do you see that the season will really pan out? What is the sense you're getting from the industry players? And if you can just talk about that, and then also earlier, we were looking at one particular customer kind of scaling down, setting up their own in-house manufacturing. Do you see the volume from that customer kind of coming down?

Ajay DD Singhania: In terms of overall current financial spending, as we have been mentioning in the past also, is to maintain the same spend that the company will be growing at 50% plus for the current year as compared to the previous year. AC business will definitely grow at 50% plus for us. And overall revenue will grow at 50% plus.

Even industry we can see is now talking about a growth of minimum 35% to 40%. So definitely that's one area. In terms of one significant customer setting up or rather starting its own facility, yes, that will have some impact on the growth with that customer. But having said that, we are very confident that our current scope of business and current supplies with the customer still continues and will continue.

So that will not impact us. But the diversification what we have done and the new customers that we have added are actually giving us better growth. So this in one way is addressing our concern around customer concentration.

Bhoomika Nair: Got it. And this will start happening from the fourth quarter onwards, right? And this customer concentration problem being resolved?

Ajay DD Singhania: We started production from July of this year.

Bhoomika Nair: Okay, okay. So I mean, in the second half, we'll see the benefit of that.

Ajay DD Singhania: Yes, and you'll already see the benefit. I mean, we could still see that it did not impact us in these Q2.

Bhoomika Nair: Right. Now, sir, on the -- if I look at the current quarter the gross margins kind of fell down quite a bit plus our expenses went up. Now, to a certain extent, you mentioned that, the expenses are up because of the Sri City expansion, which has yet underutilized, so which is where the operating margins is gotten hit.

But on the gross margin front, if you can explain, if I see last year's second quarter, it was 15.5%. And this year for second quarter, it is 14.5%. What really has happened in this gross margin kind of a decline?

Ajay DD Singhania: Bhoomika, actually, this relates to your first question, wherein I see that the overall contribution from AC in Q2 has increased from traditional 45%, 50% to 75%. So like, although we are not reporting on a segmented basis, but at the same time, the margins in small home appliances is comparatively better, or slightly more as compared to AC. So when the overall revenue mix has changed, this has led to the decline in margins on a quarterly basis.

However, if you look at the half yearly basis, the margins are similar as they were in the last years. So what I'm trying to say is that since AC is now almost 80% plus of the even overall revenue, you will see that the entire margin is a representation of the margins in air condition.

Bhoomika Nair: Understood. So basically, you should see an improvement as the utilization kind of ramps up and more customers is added. Would it be fair to say that, we should what we were as a whole last year at 16% kind of a gross margin, we can achieve that? Or will that really not pan out?

Ajay DD Singhania: That definitely is what we have been maintaining this and seeing all along. So significantly, what I'm trying to also point out here is that the expenses from Sri City specially, which had dragged down the EBITDA levels, although the margins were similar on analyzed basis. This as our capacity utilization in Q3 and Q4 of Sri City starts happening, you will see that the overall EBITDA levels are also coming to the annualized levels as in last year.

Bhoomika Nair: Okay. So the other thing is on Hisense, you announced about that, when do we expect to start production? If you can talk about that, how the scale up will happen? And do we need to do another capex for that separately with a different plant? So can you just talk a little more about that entire relationship, capex, timelines, possible scale up, etc.?

Ajay DD Singhania: Surely. So in terms of the Hisense arrangement, firstly, we are targeting to start production by end of June, July or starting with July next year 2025, that the target date to roll out the first set of production. This will be for air conditions. Whereas for washing machines, the current investment what we have done at Sri City will continue to be utilized even for Hisense business.

There will be no additional capex for washing machine. And the estimated capex over next three years for AC business is around INR 240-odd crores. So we said $30 million, so that's almost INR 240 crores is what we are estimating in investment to create a capacity of 1.5 million air conditions over next 3 years.

Bhoomika Nair: Okay. And this is 1.5 million is only for Hisense or will that be for, across all your customers?

Ajay DD Singhania: So this is only Hisense, because this I'm talking with currently we're talking about the Hisense facility, the new facility. So 1.5 million over the next 3 years with an investment of roughly INR 240 crores. And this investment does not include investment in manufacturing, like sheet metal or injection moldings, which will be continued to be supplied from the adjoining existing facilities. The existing facilities will get an incremental business of supplies of components to the new company.

Bhoomika Nair: Okay. So we're expecting to start production from 2Q of FY '26 per se. And largely it will probably scale up by the fourth quarter, because that's when the season will really hit in that time.

Ajay DD Singhania: Exactly. So we'll take two quarters to stabilize the operation, do the cash markets, pilot runs, and then start ramp up from November, December of next year. And subsequently, as we move forward, as the contract length of the business is what we talked about, like aggregators, etc., we'll start to then planning those products for the next year onwards.

Bhoomika Nair: Sure. So to that extent, there will be some extra costs for the facility and, till it's kind of scaled up sometime in the second half of next year, till these production is ramped up on that.

Ajay DD Singhania: Absolutely.

Bhoomika Nair: Okay. Now, so you spoke about INR 240 crores of capex for Hisense. What is going to be the other capex for our existing business for growing the AC and the SDA capacities, backward integration, anything that we are doing in terms of the PCBA, Motors we have, etc.? Can you just talk a little bit about that?

Ajay DD Singhania: Yes. So in terms of the existing three units, the three manufacturing locations we are looking at, we are not contemplating any significant investments over the next few quarters, over the next two to three quarters, except like fine-tuning the capacities of washing machine and other small home appliances. So a max of INR 40-odd crores, INR 50 odd crores is what we're looking at in terms of investment in the existing facilities.

Bhoomika Nair: Okay. So, sir, I mean, just something which was asked from the previous participant as well, in terms of the, debt and the cash flows, one aspect is the capex, second aspect is the working capital, which has increased. And our net debt has actually gone up between the year-end and the second half and the September end.

How do we see, the debt levels kind of moving between now and 25-26 as we incur this capex of, INR 240 crores for Hisense and another, say, as you said, INR 50 odd crores, what I understood, for our non-other businesses per se?

Rajesh Kumar Mittal: Bhoomika this, for this capex, that we already have around INR 230 crores in our kitty from the IPO proceeds. This money has not been utilized yet. You are aware about it, that this money has been parked in the fixed assets, fixed deposit with the bank as per the SEBI guidelines. This is additional money which we will use.

And we, as sir has already spoken, that there will be an investment around INR 240 crores for that purpose. And if there is any other investment for the other component business, as you are mentioning, so in that case there will be some internal accruals and it will be required. So where can we use?

And secondly, which you are saying that there is an increase in the debt for this quarter, for September, actually that amount is because we did not discount the debtor's this time. And this is why you are saying that there is a dent in the working capital requirement. Otherwise, all is okay.

Bhoomika Nair: Okay. So because we had a debt of about INR 330 crores, which has gone up to INR 430 crores and our cash has also gone down from INR 340 crores to INR 240 crores. So our net cash, which we had of about INR 15-odd crores has gone up to about INR 180 crores. So debt is basically at about now INR 180 crores net of the cash that we hold on book.

So if we do about a INR 250 crores, INR 300 crores of capex over the next 12-18 months, and not to mention the working capital requirement, it seems that our debt levels will go up meaningfully. So that's where I was coming from.

Rajesh Kumar Mittal: It is not like that, but how the debt will go up. What I'm saying, there is a requirement of suppose INR 240 crores, INR 250 crores. This money we already have with us. And if there is any additional requirements, that in that case, there will be some internal accruals first. And second, I told you that we did not, why are we seeing this INR 100 crores additional debt in this one? Because we did not go for the discounting of debtor at this time.

Bhoomika Nair: Okay.

Rajesh Kumar Mittal: This is why you are seeing that there is a debt. Otherwise, practically there is, if you have discounted the bill, the debtors would have got reduced and there would be the same level of debt around INR 330 crores in September also. Practically, there is no increase if you see.

Bhoomika Nair: Understood.

Ajay DD Singhania: It's okay. Thank you.

Bhoomika Nair: Yes, I'll come back and wishing you all the best, sir. Thank you so much.

Moderator: The next question is from the line of Shraddha Kapadia from Share India. Please go ahead.

Shraddha Kapadia: Yes, congratulations on good set of numbers. So actually, I had a few questions. If you could help us explain or help us understand whether the capacities are fully fungible, so can you actually manufacture a washing machine in the same facility as your indoor unit and how does it work? Also, if you could help us understand the current capacity utilization in terms of washing machine and small domestic appliances and the margin differential between the small domestic appliance, your large domestic appliance versus the room AC . Yes, that's it from my side.

Ajay DD Singhania: Thanks, Shraddha. So first of all, in terms of setup capacity for washing machine, to begin with, we have created a capacity of almost 25,000 washing machines per month, which translates to almost 200k of washing machines in a full year. So that's the initial installed capacity for which there has been no additional capex done into manufacturing.

So when I say manufacturing, I mean the entire current investments into sheet metal, plastic and other manufacturing activities is going to be the same. So the same manufacturing capacity is going to get utilized. Only assembly lines and tools are the new investment for washing machine.

The current capacity utilization for washing machine is nil because we are yet to start production. So we will start production from last week of November, first week of December, that's when we are starting the supplies to a few marquee customers who are already associated with us. In terms of margins product wise, we are not reporting segment wise margins and we are not doing any analysis around it.

However, as a thumb rule, what I've been mentioning and maintaining is that the margins in air conditions is roughly 14.5% to 15%, which is represented in our overall number so that our overall number is a fair representation of margins in air conditions. On top of it, the small home appliance and components, the margins are comparatively better by 100 basis point or so. Similarly, we contemplate that for washing machine also, we will be maintaining almost similar kind of margins at 15% and around.

Shraddha Kapadia: And for the capacities are fully fungible? Like if you could explain that?

Ajay DD Singhania: Yes, so the manufacturing capacities are fully fungible. So manufacturing capacity means the injection mouldings and the other components what goes into assembly line, that capacity is fully fungible. Only the assembly lines where the products get assembled are dedicated for a particular product. So, and almost 60% to 70% of the investment of the overall company's gross block is into manufacturing.

Shraddha Kapadia: Sure, sir. So, you have already provided a guidance in terms of the revenue and you are expecting approximately 40% to 50% sales for this year. If you could help us with a basic margin guidance also, that would be great.

Ajay DD Singhania: The guidance on margin remains the same. We have been maintaining that last year we achieved a margin of 8.12% the EBITDA margins and we are targeting to achieve similar kind of margins around 8% for the current year as well.

Shraddha Kapadia: Okay, sir. Thank you so much. That's it from my side.

Moderator: The next question is from the line of Pankti Karania from Ashika Stock Broking. Please go ahead.

Pankti Karania: Hi, my questions have actually been answered. So, there are no more.

Ajay DD Singhania: Thank you.

Moderator: The next question is from the line of Ashish Sriram from JM Financial. Please go ahead.

Ashish Sriram: Yes, thanks for the opportunity. So, now we have Hisense, we have Panasonic. As far as our business development efforts are concerned, how do you plan to spread that? And are there any new customers or any new segment that you guys are targeting?

Ajay DD Singhania: Yes. So, Ashish, both in terms of new customers and new segments, definitely we continue to diversify our product portfolio and customer both. And this is, I think, a continuous ongoing journey.

So, in terms of immediate new product segments that we look at, we are looking at products like especially small home appliances, we are looking at products like air fryers and which will get productionized in the coming quarter. And obviously, washing machine, we have talked about a lot. Similarly, new customers, yes, definitely this month itself, we have started production of air coolers for Bajaj who is an existing customer, so it is not just new customer at times it is also same customer for a new product. So, I think that's an ongoing journey and which is where our product development team and the business development team is continuously working.

Ashish Sriram: So, lastly, anything on the international market? So, is there an opportunity for us to participate in some way or the other?

Ajay DD Singhania: Export is definitely one key area where we see significant growth coming in next three to four years. Currently, also our exports has been improving, increasing significantly, but because the overall contribution in the revenue is so small, it is difficult to report. But all I can say that we have grown probably three-fold in our exports as compared to last year.

So, there is almost 300% growth in our exports last year, but still the overall contribution is small. So, exports needs a lot of new products, I'll say additional product development. So, our team has been working and we are waiting for a few clearances on certifications from the overseas market, which we expect we should get by end of this quarter. And next quarter, we contemplate to start exports to a few of new territories like US and other markets. So, we are waiting for a few certifications to come along.

Ashish Sriram: Yes, perfect. And now from here on, at least for the next two to three years, a 40% to 50% revenue growth and EBITDA margins remaining steady at 8%. So, this is a doable task, right?

Ajay DD Singhania: Yes, absolutely.

Ashish Sriram: Perfect. Thank you so much and all the best.

Moderator: The next question is from the line of Pratap from MountIntra Finance. Please go ahead.

Pratap: Hi, sir. Nice interacting with you again. A peer of ours that has also, you know, in the AC vertical had pointed out that the supply chain issues are coming up now at a high level, particularly for the import supply chain. And the sourcing of raw materials is also getting maybe a little bit challenging. So, are we seeing any of these challenges come up and particularly for FY'26, can these challenges kind of increased for us, which might make inventory sourcing a challenge?

Ajay DD Singhania: Pratap, I think this is an ongoing general issue in terms of securing supplies from import. So, the company is aligned in this direction with the government of India's initiative of localizing component supplies to the maximum extent possible. And hence, we have made significant investments in the past to counter any such disruption in supply chain. So, like currently, almost 75% of the components for us are manufactured in-house.

So, that's one way in which we have tried to create an import substitution in-house. And last quarter, like we made an increase our equity from 26% to 50% for motors business as well by investing in Epavo . So, that's another step we have taken in this direction to secure our supply chain. So, we are continuously working on it to move away from import dependence as much as possible.

Pratap: So currently, we don't foresee any challenges coming up on our raw material procurement. Is that it?

Ajay DD Singhania: No, visible, nothing visible as such.

Pratap: Okay. My next question is around the Hisense partnership. Is this purely for the domestic market as of now or do we have an export component here as well?

Ajay DD Singhania: It's both for domestic India market as well as for exports to overseas market in Hisense brand. So, they will be evaluating the possibilities and looking at markets from where supplies from India are effectively better as compared to their current supplies from China and other markets. So, that's an ongoing exercise they will be continuously working on. So, they have brands like Toshiba, they have a brand in small home appliances like Gorenje. So, all these products which is very popular in Europe.

So, they will be catering to the world from India. So, that's the overall objective of creating this capacity and capability in India.

Pratap: Okay. So, and finally, just for the next FY'26, what growth drivers we may have? Assuming that there might be some normalization coming in for the growth rates in AC, which for this year has been one of the best ever year. So, assuming some normalization comes and what products maybe are we launching in the next couple of quarters that can scale up to a reasonable level, perhaps by H2 of FY'26. Can you just point out maybe which products and what capacity we've created?

Ajay DD Singhania: First of all, obviously, the growth rate works you've seen for air conditioning this year is something abnormal. I can use the word abnormal, but even AC would continue to grow. That's how the market is expecting. So, AC will continue to grow and we will continue to outpace the overall market growth for AC.

On top of it, the product diversification, what we've initiated this year, like coolers, washing machines and all, the utilization will only happen or we will get maximized towards the Q4 and then next year is when we will see its full potential getting utilized. So, the key growth drivers for us in FY'26 would be our coolers, washing machines and the component businesses, what we have secured in this year, they will start giving us far greater growth and returns in FY'26. And then obviously, the Hisense opportunity would also start kicking in from Q2 of next year.

Pratap: Okay. So, and just one final question. This year, again, as you said, almost an abnormal kind of growth rates for air conditioners, assuming that as someone in the call earlier had pointed out that maybe one of the customers is keeping some capacity as well. Next year, if there is some kind of normalization, is it possible that customers might want to shift from maybe fully built units to components?

And are we ready for that shift? Because this year they might have needed emergency supply of fully built units because of the demand. Is it possible that there's a shift towards components next year and that might affect maybe, even if it gives us a margin uptake, that might affect maybe the top line?

Ajay DD Singhania: So, Pratap, for us, it is, what we say in Hindi, that both hands are full. So, for us, it is good in either way, whether it's the finished good or the component business. We are open for both opportunities from our customers and we continuously work with them.

So, the key thing here is that now, as an industry, we have, I mean, as a country, we have acknowledged that air conditioning is no more a luxury for that it's now a necessity and the growth rate of the last four years, I mean, now it's almost 17% of the CAGR of the last four years for the air conditioning industry, whereas this year it's obviously 40%, 50%. So, that kind of a CAGR is a reflection. That AC penetration, what we have been maintaining is highly underpenetrated.

We can see that it is becoming more of a necessity. So, air condition will continue to grow at 17%, 18% is for sure what we can see over the next three to four years. So, any normalization, especially for AC is not something we can look at.

Pratap: Okay. So, we are reasonably positioned to supply our customers both of the finished goods as well as the component side. We can scale up the components and meet our desired growth rates as well. Is that right?

Ajay DD Singhania: Definitely, yes. Definitely.

Pratap: Okay, sir. Thanks for taking my question and best of luck for the time coming ahead.

Ajay DD Singhania: Thank you so much, Pratap.

Pratap: Thank you, sir.

Moderator: The next question is from the line of Semanto from HS Securities. Please go ahead.

Semanto: Yes. Hi, sir. Thanks for providing the opportunity. Just a follow-up question on the previous participant that I heard from one of our competitors that due to the BIS certification expiry, they are seeing a challenge from the supply side. So, are we confident that it will not impact us on the import for the particular RAC unit?

Ajay DD Singhania: Especially, I think the industry is talking about BIS on plain copper, which has become effective as of 17th of October this year. So, definitely, to certain extent, because the current capacities in India are not enough to meet the industry requirement, there is definitely a challenge which is applicable to the entire - not only air condition, but refrigeration, other industries also where plain copper is significantly used. So, as an industry, one, we are putting up representations to the government to further extend the timeline.

In the domestic manufacturers who had committed to start production are in line. So, yes, to that extent, only for plain copper, in the short term, there is a challenge. However, a few players are expected to start production from next quarter. So, at December onwards, a few players have committed that they will be starting production. So, that's the kind of commitment they've given to the government of India. So, we are also watching the development that either the industry or the government will take in this direction. But yes, only for plain copper, there is some challenge which the entire country is facing today.

Semanto: Okay. Yes. Thank you. All the best.

Moderator: The next question is from the line of Anshul Jethi from LKP Securities Limited. Please go ahead.

Anshul Jethi: Yes, sir. So, this is kind of a repetitive question. I know you have already answered it. But regarding the capex plan for the partnership with Hisense, both for the new plant you are going to set up, which will be set up by June 2025. I just wanted to know what are the capex plans that will be done by you or what will be done by Hisense?

Ajay DD Singhania: The overall capex, like I mentioned is INR 240 crores over the next three years for setting up the air-conditioned capacities. There will be further investments required once we decide on getting on with other appliances as well. So, the current estimated capex is almost INR 230 to INR 240 crores only for air-conditioned lines and capacities. This currently has been done 100% by EPACK Durables in a new subsidiary company, whereas there is no investment. So, this does not include any investments from Hisense. This is the total investment.

Anshul Jethi: Okay, sir. And regarding the capacity utilization for the Sri City plant, you know, you said that it is currently underutilized. Can you quantify how much was it utilized in the quarter 2?

Ajay DD Singhania: Yes. So, the overall capacity of the company's total capacity today is 4.2 million units, of which Sri City is almost 1.2 million. So, it is roughly 40% of the company's overall capacity. This was utilized almost 10% in terms of revenue. So, Sri City contributed 10% of the overall company's revenue in H1 in six months, whereas, I mean, the utilization, especially in Q2, dropped significantly because, one, we did not have small home appliances which had not started in Sri City.

It was only AC and its components what it was contributing to. So, now we have already installed and taken approval for the small home appliances line also in Sri City. Washing machine line is something which is now operational. The pilot production has already been done. Cooler is something we are starting from next quarter. So, a lot of diversification which is required to utilize the full potential of our plant is now on track for Sri City as well.

Anshul Jethi: Okay. So, what is the future outlook in terms of capacity utilization in quarter 3 and quarter 4 for Sri City plant?

Ajay DD Singhania: So, by end of this year, the overall capitalization what we are targeting should be a minimum of 30 percent from Sri City in this year. And next year onwards, we definitely look to further improve it to at least 60 % onwards and then improving it from the overall contribution level.

Anshul Jethi: Okay, sir. Thank you. That's all from us.

Moderator: The next question is from the line of Tanay Shah from DAM Capital. Please go ahead.

Tanay Shah: Yes. Hi, sir. Good morning. So, I just wanted to know about the PLI benefits in this quarter and the update on the PLI for our plant.

Ajay DD Singhania: So, Tanay, in terms of PLI, we have an accrued of INR 30 crores from the last year which is yet to be - so that is receivable what we have of towards our achievement in last year. Whereas this year, the total contemplated PLI income is going to be INR 37.5 crores of which the company has already accrued INR 21 crores in H1 of this year.

Tanay Shah: Okay. So, and the other bit is, so given that a gross debt that has gone up by INR 100 crores in the first half, do we expect any increase in the interest cost for the second half of this year or do we think we can kind of manage it somehow?

Rajesh Kumar Mittal: This debt, actually, you are saying that is INR 100 crores have jumped because we didn't, I earlier also replied to this question that we didn't go for discounting this time. This is why you are saying that there is a dent in the working capital and increase in the debt. You will see the debtors amount also has increased by the same amount, but we will maintain the finance cost for the next period.

Tanay Shah: Okay, sir. Great. Thank you.

Moderator: The next question is from the line of Amarnath from Ministry of Finance. Please go ahead.

Amarnath: Thank you for the follow-up. Just a little understanding on this raw material side, how much of your raw material contained is imported out of the total basket?

Ajay DD Singhania: So, Mr. Amarnath, there are actually two ways to look at it. First of all, if you look at the component side of especially air conditions, the company manufactures 75% by value of component in-house. So, essentially, what we don't manufacture is only the compressor. So, that is one part of the answer. Having said that, the other way to look at it in terms of, because especially for the heat exchanger, the copper and aluminum are still imported. So, if you look at from that point of view, almost 45% to 50% of raw material is imported. And equivalent of almost 50% to 55% is domestic. …

Amarnath: Yes, go ahead, sir. Go ahead. Sorry.

Ajay DD Singhania: Yes. So, on one side, we see that 75% components are manufactured in-house. However, for those components, a lot of raw material required is imported.

Amarnath: So, in that context, on that imported raw material side now, entire industry is facing two different challenges. One, with respect to the depreciation of the rupee, which is continuous, and going ahead also, the things will be in that direction. Plus, there is a kind of logistic related issues, which is happening with Red Sea and others.

That's also making the increase in the cost. So, I'm just trying to understand, is there arrangement with your customer is any type of the increase in the raw material price due to for exchange or logistic or whatever, is it a completely pass-through? Of course, it is a time lag should be there. But is it a completely pass-through or is beyond the limit, you as a company has to absorb the part of the increase.

Ajay DD Singhania: So, any change in commodity forex is a complete pass-through to most of the larger brands. So, all the key customers, if we talk about who contribute on the 95% of overall revenue, we have an arrangement whereby all the commodity fluctuations and forex fluctuations are passed on. And obviously, like you said, there's a time lag of a quarter in this. So, yes, it's a complete pass-through.

Amarnath: And you're talking about only two customers, what about others?

Ajay DD Singhania: I'm saying the key, the larger customers, whereas smaller customers, since they don't understand this kind of quarterly price adjustments, so obviously, we will have a better - the pricing mechanism is also different for them and hence, it is a pass-through for them. So, but there are contingencies built into the pricing when we discuss with them. So, but for the larger clients and the organized customer, yes, it's a complete pass-through.

Amarnath: Okay, one question relating to that, you highlighted before that you are trying to do some kind of an import substitutions by building your own back volume integrated project. But normally, when you start something like that, it always has a little higher cost compared to what the imported material is? Now, if that understanding is right, now, because of your indigenous initiative, and if there's any cost inflation, compared to what it could have been, if you import the item, even that part of the cost increase, you are able to pass on?

Ajay DD Singhania: Look, see here, first of all, the import substitution on which the company is working on is at the component level. So, the components which were earlier imported, we have transferred most of those components to our in-house manufacturing. So, we've already created capacities for it. And today, the economies of scale for us help us completely justify those investments.

So, we are highly competitive in all each of the components, which we have done backward integration within our facilities. Obviously, the company has not invested into the raw material side of it. So, the current imports today, like I said, are into commodities and raw materials like copper, aluminum, etc. Obviously, it is a different business altogether.

Amarnath: Sorry, I'm coming back to the original themes of this cash flow part of it. Now, it's very clear from your all explanations so far in one hour - last one hour, that your growth is continuing to be 40%-50% in at least for next two, three, four years, in order to achieve that a billion-dollar sale. And if I assume your targeted EBITDA margin of 8.1%, as well as your asset turn between three to four, if I assume that is all normal state, what kind of ROE or ROCE you are invited to make if that all gone right, a 40%-50% rate, 8.5%, 8.2%, or 8.5% margin, all went right or all gone right what kind of an ROE or ROCE profile can we expect?

Ajay DD Singhania: Next three years, if we're talking about continuing the same pace of growth and meeting the target plans what we have shared just now, we are looking at an ROE, ROC of minimum 17%.

Amarnath: So, 13%, sir. Your cost of capital, I'm sure, including of that, are your cost of capital is below 13%?

Ajay DD Singhania: Cost of capital is 8.75% to 9%.

Amarnath: 9%.

Ajay DD Singhania: Almost 9%, 8.75% to 9%.

Amarnath: You're talking about the cost of debt? Yes, I'm talking about the overall cost of capital, including the cost of equity of the business of your kind with nothing less than 14%-15%. Now, I'm trying to understand, just to give us an elaboration on this, even in the best case scenario you are saying you are going to make 12%-13% ROE, ROCE, where is your business required to grow? Even 25%-30% all your cash.

Ajay DD Singhania: Mr. Amarnath, we are looking at an ROE, ROCE of 17%. I did not mention 12%-13%.

Amarnath: So, ROE is almost 12%?

Ajay DD Singhania: Both are 17%.

Amarnath: Okay, in a normal state of business. Okay. So, in that case, at least, because what you are saying so far, that all your cash which is there in the fixed deposit or IPO proceeds, whatever, is being going to be used for your funding your future capex plan for your own business, plus this items business as well.

So, that means that growth has to be funded - the extra growth has to be funded from the internal cash generation from the business. Now, looking at your working capital heaviness of this business nature, I'm just trying to understand this internal cash equivalent for funding the future growth, how it is being planned over a longer period of time. And I'm not worried about one-quarter, two-quarter or three-quarter time.

Even if I assume you wanted to grow 25% on an average over a longer period of time, your current ROE, ROCE require that your internal cash generation should be sufficient enough to fund that growth. Otherwise, eventually the growth has to come down. So, I'm just trying to understand the internal cash mechanism in a normal state of the business to fund your growth.

Ajay DD Singhania: Mr. Amarnath, like you said yourself, the current working capital deficit, let's say what you are looking at, is an intentional thing because the company had sufficient liquidity in hand not to discount the customer invoices. So, this is two-pronged impact. The moment we discount, we will see the receivables and the debt coming down and working capital being normalized.

However, intentionally we did not because the company was not in need of any fund. So, the moment we discount the invoices, it has a two-pronged impact. So, there is sufficient liquidity in the business. The liquidity is not a concern.

Amarnath: Okay. So, you're saying the bill discounting facility will be used and that will provide the cushion to the incremental working capital requirement. And to that extent, the company will be able to generate the internal capital, right?

Ajay DD Singhania: Yes. So, we had access. So, what we have essentially done here is that we have accessed the working capital from the bank, which is a lower interest limit as compared to getting it discounted from the customers, which is a higher interest bearing instrument.

Like a customer would discount an invoice at nothing less than 11% to 12%, whereas the bank discounting is at less than 9%. So, the company accessed those funds, which are lower interest bearing, although this is showing in utilization of working capital. I hope I am being able to answer. I think this was the last question.

Moderator: Yes, sir. Due to time constraint, this was the last question. I now hand the conference over to the management for their closing comments.

Ajay DD Singhania: Thank you all for participating in this earnings conference call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR managers at Valorem Advisors. Thank you so much.

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