PG

PG ELECTROPLAST LIMITED

CIN-L32109DL2003PLC119416

Corporate Office :
P-4/2, 4/3, 4/4, 4/5, 4/6, Site-B, UPSIDC Industrial Area, Surajpur
Greater Noida-201306, Distt. Gautam Budh Nagar (U.P.) India
Phones # 91-120-2569323, Fax # 91-120-2569131
E-mail # info@pgel.in Website # www.pgel.in

June 08, 2021

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

Scrip Code: 533581

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

Scrip Symbol: PGEL

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

Dear Sir,
Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings Conference Call held on Monday, June 07, 2021.

This is for your information & Records.

For **PG Electroplast Limited**

SANCHAY DUBEY
Digitally signed by SANCHAY DUBEY
Date: 2021.06.08 19:49:44 +05'30'

(Sanchay Dubey)
Company Secretary

■ *Registered Office*
DTJ-209, Second Floor
DLF Tower-B, Jasola
New Delhi-110025
Tele-Fax # 011-41421439

"PG Electroplast Limited Q4 FY-21 Earnings Conference Call"

June 07, 2021

MANAGEMENT:	**MR. VISHAL GUPTA – MANAGING DIRECTOR (FINANCE), PG ELECTROPLAST LIMITED**
	MR. VIKAS GUPTA – MANAGING DIRECTOR, (OPERATIONS), PG ELECTROPLAST LIMITED
	MR. PRAMOD GUPTA – CFO, PG ELECTROPLAST LIMITED
MODERATOR:	**MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY21 Earnings Conference Call of PG Electroplast Limited hosted by PhillipCapital (India) Private Limited. During this call company may make certain forward-looking statements based on currently held beliefs of the management of the company which are expressed in good faith and in management's opinion are reasonable. The forward-looking statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, financial conditions, performance or achievements of the company or industry to differ materially from those in forward-looking statements. These forward-looking statements represent only the company's current intentions, beliefs, or expectation and any forward-looking statements speak only as of the date on which it was made. The company assumes no obligation to revise or update any forward-looking statements.

As a reminder, all participants' 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. I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Deepak Agarwal: Thanks. Good afternoon everyone. On behalf of PhillipCapital, we welcome you all to PG Electroplast Limited Q4 FY21 Earnings Conference Call. Today we have with us the management represented by Mr. Vishal Gupta – Managing Director, Finance; Mr. Vikas Gupta – Managing Director, Operations and Mr. Pramod Gupta – CFO. Without taking much time, I will hand over the floor to the management for their opening remarks post which we open the floor for Q&A. Over to you sir, thanks so much.

Vikas Gupta: Thank you Deepak. Good evening everyone. Thank you for sparing your valuable time and joining this call today. As we together face the unprecedented challenge of the COVID pandemic, we hope and wish all of you and your families and friends are keeping safe and well. Our thoughts are with those who got affected. Our key priorities ensuring the wellbeing of our employees, their families and all those within the communities where we live and work. We are confident that when this pandemic is over, we will emerge stronger.

Now let me open our Earnings Call today with an overview of our operations:

All our segments have done well and our focus area, the products business has shown 30% growth in FY21 despite the sales losses in the first and second quarter of FY21 because of the lockdown and its aftereffects. The company has recorded its highest ever quarterly sales of Rs. 330 crores which is an 80% increase over Rs. 183 crores what we did in the same period last year. EBITDA for the quarter stands at Rs. 25 crores which is a 77% increase over Rs. 14 crores what we did in the same quarter last year. Net profits stands at Rs. 10.4 crores against a loss of Rs. 2.9 crores in the fourth quarter of last year. On a full-year basis, despite complete washout in Quarter 1 the company managed to add 10% to its topline closing FY21 with a revenue of Rs. 705 crores as compared to Rs. 641 crores last year. EBITDA grew at 23.6% from Rs. 42 crores Rs. 52 crores and the net profits for the year stood at Rs. 11.6 crores which is a 344% improvement over last year's profit of Rs. 2.6 crores.

Now I will share about business-wise overview with all of you:

Plastic molding business was about 60% of our FY21 sales and it declined 4% on YoY basis. This was primarily due to sales losses in first quarter of FY21. Our company has one of the largest capacities of making plastics components for consumer durable industry in India. This business is supported by our strategic locations in North and West India and long-standing relationships with some of the largest brands of consumer durable industry in India. Plastic molding used to be the largest business segment in FY19 and FY20 contributing 69% and 81% respectively of the total sales. But as we are focusing on product business and due to the changing mix of the business, now it has come down to 55% in last quarter of FY21. That being said, we are still aggressively pursuing growth from our specialty plastics molding businesses. We are getting very good traction from our sanitary ware businesses, and we are further expanding by investing in key technologies with the support of our customers for making import substitution products for them in India. We are in discussions with another global brand for whom we want to start manufacturing sanitary ware products in India.

PG is continuing its strategy to invest heavily in its product businesses of Air Conditioners, Washing Machines and Air Coolers. Our company achieved a topline of Rs. 194 crores in FY21 against a top-line of Rs. 150 crores in FY20, a growth of 30% in spite of virtually nil sales in first quarter of FY21. Our AC business so far has been a 100% OEM business. Now we are focusing on developing ODM models and we are developing two new platforms of indoor units and outdoor units. With these platforms, we will be able to offer complete ODM solutions for wide range of ACs from 0.8 tonnes to 2 tonnes in both fixed speed and in inverter categories. All these models are being developed keeping mind the new BEE Energy Standards that will come in force from 2022. We have received inputs from our anchor customer from whom we have received good volume commitments for the next season. We are also in talks with the other 4-5 large customers, and they have also shown keen interest in our products for the next season.

Now coming to Washing Machines:

We are targeting good growth in both semi-automatic and fully automatic washing machines. This year could see substantial growth for our company. Last year, we launched 8 new models in semi-automatic washing machine category and in FY21, company made its first foray into fully automatic top-loading washing machine. We have invested in 2 platforms of fully automatic top loads, and we will be starting commercial production for our anchor customers within this month. We are also in discussion with several other customers also and they have also shown good keen interest in these models. The cost pressures due to high material prices are being passed on and we are hopeful of preserving the margins in all segments. We have created substantial capacities for producing washing machines in our Roorkee plant and with the roll out our new models this year we expect to see a big jump in the numbers coming from this division 2. We are also in the process of starting production on washing machines for one of the major national brands that we will be announcing very soon.

Coming to our Air Cooler business:

The sales of air coolers have been muted in this year primarily because of other customers carried forward inventories due to the lockdown of first quarter of FY21. This was further compounded by the steep rise in commodity prices resulting in lower off take from our customers. But now company is developing two new platforms of air coolers in ODM category, and we will be offering them as an ODM solution to our customers in coming quarters. In addition to this, our company has also recently tied up with a very large national brand for developing a totally new platform air coolers for them. We expect to start production by November of this year for them. The coming season of 2022 looks promising for our Air Cooler business also as we expect a good growth after two years of muted volumes.

Now coming to our tooling business:

Tooling business constitutes around 1% of our total revenues, but it has a very high potential and this business not only have high EBITDA margins, but also acts as an enabler for some of our specialty plastic molding businesses which typically have higher margins. We have recently upgraded some of the facilities and capabilities in our tool room and now we can manufacture bigger size tools in our factory in our own in-house tool room factory and we expect this to give our ODM projects faster turnaround times as instead of approaching overseas vendors we can design and manufacture critical tools in-house.

Our company is trying to rebuild its electronics business also now. Right now, we are making PCB assemblies for LED TVs for few customers on an OEM basis, but we are in the process of setting up an LED TV manufacturing line in one of our Greater Noida facilities. We are in talks with few customers, and we hope to start manufacturing LED TVs in next few months.

In an effort towards reducing our carbon footprint, our company is now sourcing some of its electricity from renewable sources. In FY21 we have installed a solar power plant at our Ahmednagar facility and this plant is capable of generating 1.28 million units annually. We have also signed a term sheet for our Greater NOIDA plants and hope to have electricity coming from this arrangement in next 3-4 months. All these initiatives will help us in lowering our energy costs.

PG, our company is also taking various steps to attract and retain high performing individuals. Company has announced an ESOP program to reward its key employees. Now in a bid to elevate some of the mental pressures brought upon by the pandemic, our company has announced a new scheme called PG Cares. As per the scheme, should any employee lose a fight with COVID-19, the company shall ensure that family of the deceased will continue receiving the former employee salary for two years and all education expenses of their children in India until the graduation from high school will be also borne by the company.

Now, I will hand over that call to our CFO, Mr. Pramod Gupta and he will talk about our financials in detail.

Pramod Gupta: Hello everybody. Good evening. We have strengthened our balance sheet this year further. Although the debt levels on net basis are same as last year at around Rs. 172 crores, the tenure has changed, and we have increased our long-term borrowings, while short term maturity loans have come down. Net debt to equity is now less than 0.9 and debt to EBITDA stands at 3.3, we believe it will further improve going forward. The working capital cycle has been normalized and stands at 37 days last year inventories, last year and even for the third quarter inventory have normalized and we are committed to improve our asset terms going forward.

In FY21, company issued 6 lakh warrants at a rate of Rs. 150, 25% initial subscription money has been received and also 1.6 lakhs out of the 6 lakh shares have converted and that has led to addition of Rs. 4.1 crores to the net worth.

Now coming to the cash flow:

Cash flow from the operations before working capital change was Rs. 54 crores versus Rs. 42.9 crores last year. This year the change in working capital was positive. So, we released about Rs. 1.74 crores versus negative Rs. 13 crores last year leading to cash flow from operations at Rs. 57 crores versus Rs. 27.7 crores last year. CAPEX payments for the year were Rs. 43 crores versus Rs. 58 crores last year.

Now I would like touch upon the recent fundraise permission granted by the board subject to shareholder permission, we will be issuing 11.96 lakh preference shares at Rs. 337 per share along with 18 months CCD worth Rs.36.3 crores having a coupon rate of 17.96%, which along with the interest will actually materialize into 13.6 lac shares at price of Rs. 337. The total dilution due to this issue will be 25.53 lac shares over 18 months and will constitute about 11.3% of the fully diluted equity of the company. Barring India private equity Tapadia and Patni family members along with some individuals will be issued these CCDs and shares. The details are already shared on earlier release to the exchange. This fundraise will further strengthen our balance sheet and give us growth capital which we need for investing for the CAPEX in FY22.

Now I would like to briefly touch upon the CAPEX plan for FY22:

Likely to have a CAPEX of over Rs. 100 crores for building plant and machinery and product development activities. We will be building a new integrated facility for AC manufacturing on the recently purchased land in Ahmednagar and we will be expanding our manufacturing facilities in NOIDA where we have recently leased a new facility for AC parts and sanitary ware business.

Now with this, I open the floor for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Deepak Mehta and Individual Investor.

Deepak Mehta: My question is around, if we utilize all of our power capacity what can be the annual revenue we can achieve? And going forward what's your expectation around margin? Is it going to be same as this financial year or we can see improve going forward?

Pramod Gupta: Most of our businesses are actually little seasonal and sales as a less production. So, given the seasonality that we have right now in some of the products, if you take that into account, we can actually have on full capacity utilization taking into the cap, the seasonality we can actually probably do close to Rs. 1100 to Rs. 1200 crores kind of a revenue with existing capacity. But with the new CAPEX plan that we have initiated that number will actually significantly increase over the next two years. Coming to the margins I would just like to highlight that margins are dependent upon the revenue mix as well as how soon we are able to pass on the increasing commodity prices that we have seen in the recent past. Till now we have been able to hold on to the prices and been able to pass on, we think that margins in each of the segments are likely to remain stable. But because of the mix-change there could be upward or downward movement of few (Inaudible) (17.01) points going forward.

Moderator: The next question is from the line of Anand Patel, an Individual Investor.

Anand Patel: In Q4 12% of revenue in one year, it is 6% of revenue came from gas charging for ODU. Can you throw some light on this segment?

Pramod Gupta: What has happened is last year in October sometime Government of India put a ban on flue gas charged AC import from overseas. But the season was already started and most of our clients had kind of pre-booked their shipments for AC imports. So, the only option they had was to actually get that gas emptied there on the overseas and they got those AC without gas charged into India. But when they had to sell it to the end customer, they have to give a fully gas filled AC in the market. So, we helped some of our customers to do that gas refilling activity which basically involved opening up the AC outdoor unit and refilling the gas into it by first doing a vacuum pumping and then filing the gas into it. So that was the activity. The margins were actually not much because it was mostly a pass-through kind of business and it was more of a relationship building, one-time exercise for some of the new customers.

Anand Patel: So, have we not yet the achieved a competitive edge in making the whole outdoor unit or can these orders convert in future orders, these gas refilling?

Pramod Gupta: What we are doing right now the CAPEX what we are going to do this year we are putting up a backward integrated manufacturing facility where we will have our in-house sheet metal plant powder coating, heat exchanger and all those things. Once we have all those things in place, then we will be competitive in outdoor unit also. Right now, we are competitive in indoor unit and that is why this facility is being put up. In addition to that we are adding in ODM category also. Till now we are doing OEM business for air conditioners. Now we are creating our own solutions where we will be offering complete products to the customers. So, doing both the things will further add to our margins.

Moderator: The next question is from the line of Satish Singh from Motilal Oswal.

Satish Singh: Could you just give us a sense on the PLI scheme for AC and what is the status over there, have we applied across the scheme and what could be the outlook in terms for our business over there?

Pramod Gupta: The government has just recently 2-3 days back have notified the rules and guidelines for the PLI scheme for air conditioners. And now the government's clear focus is to create component ecosystem in India and whatever new facility we are putting up, we are going to apply for PLI in AC components category and we are hoping that whatever backward integration we are going to do is going to help us in getting more business from our customers and improving our margins also.

Satish Singh: Also, you just spoke before this on the gas charging part. Were we able to convert any of those customers for supplying IDU units?

Pramod Gupta: Yes, there are customers who have already tied up for our next year season business, where we will be offering a complete product to them or it's too early for me to disclose their names. s and when the time comes, we will announce these names also. See, the

CAPEX what we are going to do right now in our business industry whatever CAPEX you do you do on the basis of some commitments from your customers only.

Satish Singh: Just one last question from my side, in terms of overall and broader outlook in terms of our stake, how has that been, have the customer started taking whatever orders they had given for or are we seeing any pileup of inventory because of the shutdown in April and May?

Pramod Gupta: This year, the business model what we did we made a little change in our business model. Till last year we were doing lot of inputs of components on behalf of our customers for making indoor units for them. But after last year's COVID lockdown, we changed the business model and where all the material is being imported by our customers now. After this lockdown, we had a very limited inventory and there was not a major issue with the inventories as of now for us.

Satish Singh: So, customers have already picked up whatever material they had ordered in terms of whatever was agreed to be taken, right?

Pramod Gupta: There is not a much of pileup. Initially what happened, normally the lockdown happened in the second half of the April and that is normally that downward tempering also started in the business for the AC. There was no major concern unlike last year which happened in the second week of March. This time it happened in the second or third week of April so overall things are much better than as compared to last year.

Moderator: The next question is from the line of Neerav from Anand Rathi.

Neerav: My first question pertains to the CAPEX of Rs. 100 crores that we are planning in FY22. Can you dwell a little bit more on the Rs. 100 crores CAPEX with the breakup of that in regard to plant machinery and other aspects? And what can be the asset turns that we can expect from this?

Pramod Gupta: So, I just want to highlight like this Rs. 100 crores CAPEX, large part of it will be used for the AC business in Ahmednagar. We are going to increase our AC IDU capacity from currently 50,000 to close to about 1.5 lakh over a period of next 2 years and also a fully integrated outdoor unit facility of about a million pieces a year. Right now, we only have an assembly facility, we don't not have a backward integration in the outdoor unit. So, this facility building up will require basically a new build-up area of close to 200,000 square feet in the first phase. Apart from that there will be machineries which will be used for plastic molding as well as sheet metal plant and also, we are developing two new platforms. So, right now I just can say that this Rs. 100 crores is a very rough estimate. Final figures are being worked out and we are placing orders. More details we will share with you later as we finalize these things. But suffice to say that almost 80% of this Rs. 100 crore is likely to be spent in FY22 in the AC IDU and ODU business and the capacity that we have told you to build that kind of a capacity.

Neerav: On the estimated asset turns that we can expect?

Pramod Gupta: On a fully ramped up basis this can get us a turnover of probably close to something like Rs. 400 crores to Rs. 500 crores at least when we fully ramp up the production in this.

Neerav: My other question pertains to the BEE rating. What I am hearing is that there are some mixed views on BEE rating. I wanted to get some sense from your side on this, like do you expect the BEE ratings to be applicable from January 2022 or some delay can be seen?

Pramod Gupta: What has happened on this BEE ratings were supposed to be implemented from 1st of January 2021. They have been already postponed by the government for one year. Yes, industry is requesting to the government, but we don't see any concrete thing coming out of that. But right now, what we are doing, we are preparing our model lineup as per the new energy rating norms and let us see how things proceed, but we are preparing ourselves as per the new energy rating norms only right now.

Neerav: My last question in the start of this call you stated that there has been now 30% growth in our product business. Would you be willing to share volumes across each category?

Pramod Gupta: Right now, we don't give volumes in absolute numbers, but suffice to say that basically almost in terms of, out of this Rs. 200 crore slightly more than half of it is AC in terms of turnover, probably close to about 44% will be in washing machine and the rest is coolers. Coolers are a very small portion.

Moderator: The next question is on the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: This is a question on the market share side. You are putting a sizeable capacity already put in few of your segments and you are saying clients are getting added. Can you throw some light how you see your market share really moving amongst this space in the next over let's say 2-3 years' time, because majority of the capacity line would come in FY22 and I am assuming if you are putting such a big CAPEX, it looks like that the volumes somewhat are close to you in terms of getting finalized? So, are these capacities also getting streamlined, I just want to understand more from a market share perspective in the next 2-3 years how you are looking at it?

Pramod Gupta: As we look at market, I'll give you whatever understanding we have. Today out of the 7 million ACs that are sold in India, almost 40% to 45% are getting imported. See the market today, we think that out of the 7 million AC market that we had about in 2018-2019 which was a normal year and 2019-2020 and 2020-2021 both years growth has got impacted and numbers are probably lower than that. There is a pent-up demand in the market in our opinion which will probably be getting fulfilled in 2021-2022 season. Almost 45% of the ACs are getting imported which is more than 2 million ACs in India, 2.5 million probably. Out of the total 22-23 brands that are marketing and selling in India, only 8 or 9 of them have their own manufacturing capacity. Most of them are actually doing outsourcing or importing. There's a huge market which needs to be serviced. Initially when the PLI was being talked about, there was a fear or there was an expectation that it will be given on the end product. Now government has actually given it only on the component. So, a lot of these brand owners are actually not putting up the capacity as aggressively as they were planning initially. So, this gives a lot of window to players like us who are planning ODM offering in the AC. We right now have a very-very small shares in the AC market and that also it is an OEM business only which we are doing. Our ODM product will be actually coming up in this current season, by October we should be able to give it for the testing and test marketing to our partners. We are already in talk with almost six leading brands in India and we are hopeful. So, as I was mentioning that out of the total 7 million market which was there in 2018-2019 which was a normally year, almost 40%-45% of that is getting imported today. For the last two seasons the seasons have been very muted because of COVID shutdown. We think that 2022 could be a significant year for the AC market. Today there are 23 brands which operate and 8 of them have their own manufacturing set up in India. Almost as I said, like more than 2.5 million AC are getting imported. So, opportunity is very huge for the players like us that are putting up the capacity and have their own product. Till now our market share is actually very small in the AC market if you look on an overall basis because we are actually doing OEM business where we are assembling the product for some of the OEs where they have their own design and tools. Our own product will be ready by August-September when we will be giving it to our customers. We are in talk with six leading brands, given a good commitment of the volume and we have taken all their inputs in designing the product. We are very hopeful that we will be able to garner a significant market share in coming years in the AC market.

Moderator: The next question is from the line of Pravin Gala from I-Wealth Management.

Pravin Gala: I just wanted to understand in terms of our ATR, so what will be the optimum asset turnover for our company?

Pramod Gupta: Asset turnover right now you can calculate, we have given you the balance sheet, but it will improve going forward significantly. Last year has been significantly impacted because of the COVID, otherwise the asset turn ratio would have been much higher than what we have it today.

Pravin Gala: So, based on current asset turnover, I am asking what would be optimum for our company?

Pramod Gupta: Optimum thing is like, as we get more into the product business which is…see, today we have four business lines. One, the largest is the plastic molding business whereby design by nature asset turns are low. Even getting an asset turn of 2-2.5 is a challenge in that business. That's why we are moving our business and transforming ourselves into a full product company where we develop and give a full product to the customers in the ODM model or OEM model where we do the assembly of products for others of their design. In ODM model we have our own designs of our product. So, in the ODM business model the asset turns are much higher. They depend upon the product segment, but overall, on a company basis we remain committed to increase our asset turn because that only will lead to better return ratios and ROCE and ROE. And that is why we keep on saying and repeating that product business as a focus area, we are trying to invest more and more money and whole energies of the company are actually focused on increasing that business significantly from the current size.

Pravin Gala: Why I was asking that is because based on our current quarter revenue we are at a run rate of around 1300 odd crores. So, because you were saying that our optimum revenue would be 1200 crores based on current capacity. So, could you make me understand that please?

Pramod Gupta: See what happens is our businesses in India unfortunately both AC, TV, and coolers and even the business which we do in the plastic are all very seasonal in sales as well as manufacturing. So, in India ACs are mostly sold in the period between February to say June-July maximum, and then manufacturing cycle proceeds that by about two months or so or three months or so. So, the manufacturing starts picking up in November-December and then it peaks out in May-June maximum. So, for the rest of the season, for the rest of the year, the assets are not optimally utilized. Say in a season you may work at 80% to 90% of your capacity and in off-season the same capacity utilization falls to as low as 40% or in some cases 35%. Same case is there in washing machine which has a complimentary kind of a period in the sense that washing machines are sold more in winters and their production cycle starts from April- May and then it peaks out sometime in November-December. So, that is why I am trying to say that if we take that seasonality into account, we could have a revenue of 1100 to 1200 crores because in no case we will be able to utilize our washing machine and AC capacity at very peak utilization levels on a full-year basis. On a full-year basis the average peak utilization in these businesses seldomly goes beyond 60%-65% at best.

Moderator: The next question is from the line of Ramakrishnan V from Equity Intelligence.

Ramakrishnan V: I have two questions. Post the expansion what will be our capacity in making Air Conditioner, Washing Machine, and the Cooler? And the second thing is we are giving that convertible bought at 17.96% per annum which is on a very higher side. So, what is the reason for that?

Pramod Gupta: Well, these investors which are coming are quite good names and they are convertible with 18 months lock-in in that. First of all, I want to highlight it is a non-cash expense, whatever interest will come it is going to get converted into equity shares at Rs. 37 and you will appreciate that it has also unsecured. Third thing is that the names that we have got in our investor list are all very marquee names and they will do value addition to the company.

Ramakrishnan V: Because I have not come across of any convertible debenture issued at some interest rates. Because we have seen people have been issued warrants and all that, but there has not been any interest rate. But this is the first time I have come across. That's all right. Sir, what is the capacity we will have both for the AC, washing machine and the air cooler?

Pramod Gupta: For air conditioners, the capacity but we are going to have expanded capacity for indoor unit will be around 1.5 lakh units per month basis. But if you talk because of seasonality, the numbers might be a little different. And for outdoor unit it will be around 75,000 pieces per month. And for washing machines we have already told people that our capacities will be around, we will be doing around 0.8 million which is the annual capacity for washing machines. And for air coolers, again the monthly capacity what we are creating is around 25,000 pieces per month but that is a peak capacity what we are creating. Annual numbers might be different depending on the seasonal off take.

Ramakrishnan V: And this LRD TV will be?

Pramod Gupta: LED TV line we are installing. Right now, it's kind of a pilot project what we are putting up. It is around 0.6 million capacity what we are creating, it is a very small capacity just to test the waters. Once things are looking good and we are confident upon the business then we can ramp up the capacity. Ramping up capacity does not take much time; it takes around three to four months only. It doesn't take much of the time in TV business at least.

Ramakrishnan V: What is the import content?

Pramod Gupta: For LED TV, the import content will be around 85%.

Ramakrishnan V: And other products like water cooler and AC?

Pramod Gupta: In air conditioner I think around 50% will be the import content and for washing machines it is around 25%.

Moderator: The next question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: My question is on the PLI scheme. Would we be applying for the low value in scheme of ACs or high value, which one would we be applying? And the 100 crore CAPEX that you had mentioned so how much of that would be imported and how much of that would be locally sold? Any rough sense that you can give.

Pramod Gupta: See, for PLI scheme we are right now evaluating the options. As the scheme rules have been notified few days back, last Friday only, and we are internally discussing all the options and I can assure you that we will be taking a decision keeping in mind the long-term growth prospects for the company. That is one thing. And for the CAPEX what we intend to do, it will be around 60% of that CAPEX will be imports. It has to come from companies outside India and balance will be from the local companies.

Moderator: The next question is from the line of Rahul Soni from Smith's Limited.

Rahul Soni: Have you taken any price hike during the March quarter or in the start of this current quarter?

Pramod Gupta: The price hikes we have taken across all our product categories for washing machines, air conditioners. See, normally every business has a different behavior. For plastics, it's largely OEM business, so it's always a cost-plus base working so the pass through is immediate. Every month there is a pass through. For air conditioner also the current business was OEM business, so it was again a monthly pass through to the customers. In case of washing machines, yes, it is an ODM business, so there is some price lag, but we have been able to pass on the price hikes to them and I think we will be able to preserve our margins.

Rahul Soni: So, in the washing machine it is 100% ODM, both fully automatic and semi-automatic?

Pramod Gupta: Yes. We are offering our complete products to the customers.

Rahul Soni: How are the margins in this ODM segment and how they are different from OEM?

Pramod Gupta: Typically, in ODM business the margins are a little better. They are better than the OEM business. But we don't give any individual product-wise margin guidance and the volume guidance as of now.

Moderator: The next question is from the line of Rajat Setiya from ithought Financial.

Rajat Setiya: My question is about the competitive landscape. One of our larger competitors is actually quite big in terms of size and can offer economy of scale and quote a lower price to the customers. So, what are the incentives that a client will come to us for business. Why would a client come to us and not go to the bigger competitor when they have much higher economies of scale at the moment?

Pramod Gupta: See, first of all I want to highlight that in each of the segments the dynamics works differently. Say for in plastic molding we are one of the largest companies in the appliance industry in India who are supplying the plastic molding to the appliance makers. That is point number one. Point number two is, in most of the industrial sourcing companies never rely 100% fully on one vendor only. They like to diversify, and they like to develop multiple vendors for even the similar product or the same product, point number two. Point number three is that actually, assuming that economies of scale will come to a vendor just because he has a higher scale is a very immature-ish kind of an assumption. The reason being is that a lot depends upon the location, where are you servicing the client and what are the cost structure you have on running your operations. And just to assume that if somebody has a bigger size is going to be much more efficient is actually probably not right. In our industry where value additions are typically not very high and labor cost constitutes significant portion, it is dependent on how efficiently you run your systems and processes, how good is your quality system, how best you can manage your shop floors and with less rejection, etc. That decides the cost structure. And believe me a client doesn't pay extra to any of the OEs who are supplying the product to them. I can assure you this thing that in our industry most of the players give a very similar pricing.

Rajat Setiya: Got it. This is helpful that you clarified this point is that there are no economies of scale and that we have to be present in different locations. Related question is, in terms of different (Inaudible) (48.53) is there anything that you would say that one company differs from the other and one here or there, or there is no really differentiation in this space as such?

Pramod Gupta: Differentiation are there, they are in individual companies DNA, how you are running your operations. In our industry actually there are three things which we keep on telling our investors also, which is called (QCD) quality, cost, and delivery. So, quality and delivery is same for anybody and cost is same for everybody. Actually, if you look at it all the three things you have to match consistently to retain the client and grow your business. If you are matching and doing that then the customer has no reason to actually change the vendors. Once they develop a vendor then typically the relationships last very long, and it is the company which has to work on all the three things always to meet the client's requirement. And we have had relationships with some of the clients for more than 20-30 years also actually and some of the leading brands in India.

Rajat Setiya: All of our plants in the product business are nearer to the clients?

Pramod Gupta: What happens for plastic business it is important to have your plants near your client's location. But when you are doing product business, then your plants need not be very near to your client's location. But since we have a very strategic location of the plants in North India and West India, so we are able to cater to our customer's requirement in a very effective manner and we are able to offer solutions to them at different locations on a pan-India basis.

Rajat Setiya: Over the last 3-4 years we have spent some 50 plus crores of CAPEX. If you can spend a minute on which kind of capabilities, did you spend money on and how did that help, these were on capacity expansions as well as what could be really the impact of the same?

Pramod Gupta: As we have been always telling you and we are repeating again, that last few years company has been trying to transform itself from a plastic molding company to a product company. And that is the journey company has undertaken for last 3-4 years and whatever CAPEX has been done, has been done in that direction only. Few years back we started air coolers, then we started washing machines and then we started air conditioners. And now we are trying to expand our volumes and our business in these categories only. When we started our business, the core idea was wherever the plastic is a major cost below material costs and that should be our easy business entrance. And our existing plastic business, where we are the largest consumer durable player for the plastic components in India, that gives a very good entry point to different customers. They know our credibility, they know our delivery, so they are very happy, and they are comfortable in entering into new business arrangements with us.

Moderator: The next question is from the line Ashok Agarwal an Individual Investor.

Ashok Agarwal: My question is that about two months back the company announced some disruptions at Ahmednagar manufacturing facility due to COVID and all, are those operations restored to normalcy now?

Pramod Gupta: Pune was having a very strict lockdown and Ahmednagar was also having a very strict lockdown, whole Maharashtra probably was seeing very tough conditions. We were making ACs here for AC in making the heat exchanger you require oxygen which the company, the supplier has actually stopped providing us. And even the clients were not picking up the materials because of the closure of most of the shops, etc. There was a big inventory pile up at the customer or the dealer's end and because of which there has been a disruption. But in the last 1-2 weeks what we are seeing is that there has been a little bit of a positive improvement, plans are getting revised upwards, after a very long time like almost 6-7 weeks where we were continuously seeing a down movement of the production plans. Last week and this week for the first time some of our customers have actually started reopening and we are seeing some pick up in the volumes. But still, we are not running anywhere near to the full capacity, utilization levels are pretty low. We are just kind of coming back to the business and hopefully in the coming weeks and months things should normalize.

Moderator: The next question is from the line of Mr. Vishal Shah, an Individual Investor.

Vishal Shah: I just wanted to know how we are going to strengthen our R&D facility?

Pramod Gupta: Actually, if you look at our company, we have been trying to rebuild the businesses, in the sense that we are building each segment carefully, so we have been aggressively hiring across all segments. Each of the segments has its own R&D team, own design team which has been kind of built and has been strengthened every year. So, it is not that it is a one-time exercise, and it is a continuous thing which is happening, and we are a growing organization hiring. Also, in the call in the initial comments we mentioned we have now an ESOP plan, and we are matching the salaries or benefits to the employees and prospective employees and trying to recruit the best employees in each of the segments from the industry.

Moderator: The next question is from the line of Deepak Mehta, an Individual Investor.

Deepak Mehta: My question is around the utilization, as so you said that our products seasonal basis demand is there. So, on aspirational level what is the desired utilization you would be looking for a financial year in an annual basis?

Pramod Gupta: It is not about my desire; it is actually the market and how my clients do. They perform in the marketplace if they do well, I will do well as well. We will ideally like all our clients do well and gain market share and do their volumes. Last one year has been a very difficult year for whole of the industry and as we know there has been disruption time and again in terms of production, selling, etc. Once things normalize, we will all be back to our normal levels of production and utilization levels which vary across each segment and across the time period. Like say, in the summers when we are making the products, the AC manufacturing unit run at about 90% plus utilization but as the winters approach or in the month of the rainy season that utilization comes down significantly and it has nothing to do with anything, it is just that the sales do not happen in India in the rainy season in AC. Same things happens for other things also. So ideally, we will like the things to be good all around the year but seasonality we do not have control over. We are hopeful that next year when things normalize, we will be back to our good utilization levels across multiple segments which are optimal to give good profitability throughout the year.

Deepak Mehta: My second question is that what is the revenue distribution, it is 100% from the domestic market or we have some exports as well?

Pramod Gupta: At present everything is domestic only. We are not doing any export. Very small export we tried in washing machine last year which was a very-very small number nothing to really mention about.

Deepak Mehta: And what is the typical contract period or years of contracts which you are signing new contracts for new CAPEX so it is for 5 years plus if you can throw some light Sir.

Pramod Gupta: In our industry the contract that we sign with the customers have little meaning. It is actually depending upon how the customer is doing in the market. He will give you some assurances or he will give you some kind of a commitment that is if he is able to sell, he will source from you. You will be his prime vendor, or you will be his second vendor or whatever. But the issue is that he has to do well in the marketplace and your product which he is selling has to gain market share in the market for him to do well. Now if the products are doing well and they are getting sold well in the market you continue to do well, and our endeavor is always to add more customers, do more sales, take input from customers in designing the product and bettering the product every year in terms of features and ratings, etc. And R&D team and design team keeps on working on those initiatives on how to make the product look better, perform better and they give good value for money. So, based on that if the client gains market share, the product does well. The commitments have very little value actually in our industry. Even if the client gives you a commitment in the product business I am saying, especially if he is not going to sell, he is not going to source.

Moderator: As this was the last question for the day, I would now like to hand the conference over to Mr. Deepak Agarwal for closing comments.

Deepak Agarwal: Thanks everyone for joining this call and thanks a lot management for giving your valuable time for this call and also giving us this opportunity to hold this call. Sir any closing remarks that you want to make.

Pramod Gupta: We just want to wish everybody a safe and happy this year hopefully we all recover well and come out of this pandemic in a healthy manner and without any accident. That is all from our side. We are trying our best to keep our plants and working conditions safe and good and healthy, and we wish the same for everybody. Thank you.

Deepak Agarwal: Thank you so much and thanks everyone for joining this call. Thank you.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.