EPACK DURABLE LIMITED

(Formerly Known as EPACK Durable Private Limited)
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Corporate Off.: TR-901, AltF 142 Noida, 9th Floor, Plot Number 21 and 21A, Sector 142, Noida-201304, U.P.
CIN: U74999UP2019PLC116048,
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February 07, 2025

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

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 nine months ended on December 31, 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 Monday, February 03, 2025 in respect of the Standalone and Consolidated Un-Audited Financial Results of the Company for the quarter and nine months ended on December 31, 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**

Jyoti Verma
Digitally signed by Jyoti Verma
Date: 2025.02.07 12:28:33 +05'30'

Jyoti Verma
Company Secretary and Compliance Officer

Encl.: As above

“EPACK Durable Limited Q3 FY25 Earnings Conference Call”

February 03, 2025

MANAGEMENT:	**MR. BAJRANG BOTHRA – CHAIRMAN AND WHOLE-TIME DIRECTOR, EPACK DURABLE LIMITED** **MR. AJAY DD SINGHANIA – MANAGING DIRECTOR AND CEO, EPACK DURABLE LIMITED** **MR. RAJESH KUMAR MITTAL – CFO, EPACK DURABLE LIMITED**
MODERATOR:	**MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY25 Earnings Conference Call of EPACK Durable Limited hosted by DAM Capital Advisors.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you and over to you, Ms. Nair.

Bhoomika Nair: Thank you. Good evening, everyone, and welcome to the Q3 FY25 Earnings Call of EPACK Durable. We have the Management today being represented by Mr. Bajrang Bothra - Chairman and Whole-Time Director; Mr. Ajay Singhania - Managing Director and CEO and Mr. Rajesh Mittal - CFO.

At this point, I will hand over the floor to Mr. Singhania for his "Initial Remarks" post which we will open up the floor for Q&A. Thank you and over to you, sir.

Rajesh Mittal: Bhoomika, thank you. This is Rajesh Mittal, just giving the opening remarks. Thank you and a very good afternoon everybody. Welcome to our Earnings Conference Call to discuss the performance of the 3rd Quarter and year-to-date results of the Financial Year 2025. Let me first thank you our host, for today's Earnings Call, DAM Capital.

Now, let me give you some of the key "Financial Highlights" for the quarter and period under review:

For the 3rd Quarter under review, revenue from operations stood at INR 377 crores, which increased by 35% year-on-year. The EBITDA was **INR 24 crores** which increased by around 1.3% year-on-year with EBITDA margin reported at 6.37%. The net profit was around INR 2.5 crores.

Talking about the 9 months under review:

Revenue from operations stood at INR 1,528 crores, which increased by 71% on a year-on-year basis. EBITDA was reported at around INR 86 crores, which increased by around 41% on year-on-year basis with the EBITDA margin reported at 5.60%. The net profit was around INR 17 crores as compared to around Rs. 8 crores in the 9 months ended for the previous financial year, which represents an increase of 132% on a year-on-year basis. The PAT margin stood at 1.14%.

Now, I would request our Managing Director and CEO – Mr. Ajay DD Singhania to brief you on the operational highlights. Over to you, sir, please.

Ajay DD Singhania: Thank you, Rajeshji. And once again, good afternoon everyone. So, like shared, we had a strong performance in Q3 FY25 with revenue surging 35% year-on-year due to strong industrial tailwinds as well as addition of new customers across all segments. EBITDA grew substantially vis-a-vis the previous quarter by 150% driven by a better product mix resulting in higher gross margins.

On a year-on-year basis, the EBITDA growth is lower because of higher cost related to our new facility at Sri City which has not yet reached optimal utilization. The capacity utilization at Sri City is gradually being ramped up as we get up to meet customer demands with enhanced production efficiency to support the growing needs of key customers across multiple product categories. And as we reach optimal levels of utilization in the coming quarters, this plant will contribute considerably well to our margins.

For the 3rd Quarter, the product business has contributed 98% of total revenue and revenues from room AC segment contributed 66% of revenue, which has grown by 37% year-on-year. Overall, in last quarter, some key operational highlights were, one we laid the foundation of our wholly-owned subsidiary at Sri City for which the construction has already begun and for this new subsidiary, we are targeting to start Hisense production of room ACs around Q3 of the next financial year that is in August-September is what we are targeting to start production for the Hisense product. At the same time, we believe that our diversification strategy has definitely helped us in this quarter. Despite growing at 37% in RAC, the overall dependence on RAC has reduced to 66%.

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

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. Anyone who wishes to ask questions may press "*" and "1" on their touch tone phone. If you wish to withdraw yourself from the question queue, you may press "*" and "2". Participants are requested to use only handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. Thanks for the opportunity. Sir, just 2-3 questions from my side. One, we have seen the other expenditure as the percentage of net sales has gone up and as you rightly mentioned about the initial expenses at Sri City new plant, so in light of this, how do we see the margins for the whole of FY25-26 panning out and essentially, when do we see the normalization happening at Sri City plant? That is question number one. Question number two is, if you can share more details in a sense what are the products that we will be initially manufacturing and is there any road map in let us say 2-year, 3-year road map as far as the production is concerned? This is the second question. Third is Media News flows indicated about in a way, Hisense taking a stake also at the subsidiary level, so any progress on that front as well? Yes, these are the questions from my side. Thank you.

Ajay DD Singhania: Thanks, Aniruddha. So, the first question around margins, the normalization, like what we have been contemplating or what we have been guiding the market also from the very beginning is that as this new Sri City facility is getting stabilized and we have seen quarter-on-quarter improvement in its capacity utilization. By end of this calendar year, we will definitely see the Sri City facility, reaching its normalized capacity utilization to around 50% from current 15%-20% utilization. And for this current fiscal year, we believe that our EBITDA margins would be around 7.25%-7.5% range which we have been also guiding previously to the market. So, we will be targeting to keep the margins somewhere around 7.25%-7.5% and further normalization of Sri City would definitely help us drive margins better in the coming years. In terms of the Hisense product road map, like I started seeing that our construction of facility for AC has already started and we are looking to complete the construction around the end of July and then the testing and everything set up of equipment will take another 2 months. So, by September, we foresee that we should start the OEM production of air-condition. At the same time, our washing machine which is currently being already set up at Sri City is now in the final stages of testing, so the washing machine will be rolled out earlier, around Q2 of the next financial year and in Q3, AC. And a more detailed road map in terms of the other appliances like refrigerators and all what we have been talking about are definitely at least 2 years ahead. So, those would be somewhere in FY28.

Aniruddha Joshi: Understood.

Ajay DD Singhania: In terms of the stake, like I think, the clarification was also given. A maximum of 26% stake is what is under discussion with Hisense in this new wholly owned subsidiary EPACK manufacturing. So, this is currently under discussion and because it is also subject to lot of regulatory requirements and approval by the Government of India, so Hisense is waiting for us to complete the construction of the new facility and by then, we will be initiating the process.

Aniruddha Joshi: Sure, sir. Understood. And just lastly, one question, sir, now, how do you see in a way season panning out and considering the announcements regarding income tax and budget, definitely there is a potential that the consumer discretionary segment should logically benefit like if you are in a white goods or auto etc., so how do we see the in a way demand panning out in the coming season? Yes, thanks. That was the last question.

Ajay DD Singhania: Aniruddha, in terms of our core product the Room AC segment, the strong demand continues since last 9 months or so and even currently also, the inventory levels in the trend are much lower or well within the normalized inventory levels and the demand continues to grow. The order book for the season is extremely good and with this additional impetus given by the Government of India in terms of additional discretionary income, we believe that AC is definitely one segment which we will see a lot of better traction. So, I think it is definitely the good news for the overall durables and AC, especially with the heat wave continuing even in Feb, definitely we are on for a very good time.

Aniruddha Joshi: And there are some indications that there are issues in supply chain of compressor, so is it largely resolved, or we may see some issue in Q4?

Ajay DD Singhania: So, issues in supply chain definitely have impacted the industry even in the last quarter. Q3, we had a lot of disruptions in the critical raw material copper which kind of disrupted the industry. There was no local supply available, and the BIS approval was not given to the Chinese manufacturers, so that definitely impacted the industry. Currently, the BIS approval has been given to a few suppliers abroad which will help us normalize the copper requirement. Compressor is something which is not directly or currently impacting the industry, but definitely June onwards when a few suppliers lose their BIS certificate unless a renewal is done, that will definitely lead to certain disruption. So, till June-July, we believe that there are no critical disruptions in terms of compressor, but yes, copper has already impacted us.

Aniruddha Joshi: Sure, sir. Thank you.

Moderator: Thank you. The next question is from the line of Rohit Tiwari from Finvesters. Please go ahead. Rohit, I have unmuted your line. Please proceed. Rohit, we are unable to hear you, actually, can you please use your handset? As the current participant is not answering, we will move on to the next question, which is from the line of Harshit Saini from Samar Wealth Advisors. Please go ahead.

Harshit Saini: Good afternoon everyone. So, Harshit here from Samar Wealth Advisors. My first question is regarding the sales growth. So, it seems to be quite lower than the previous quarters, we have also seen drop compared to the last quarter; however, one of our competitors has reported strong numbers. So, what do you think, what is driving behind the performance?

Ajay DD Singhania: Thanks Harshit, overall, if we see our 9-month growth for only air condition is 83% and in 9 months, we have already crossed INR 1,500 crores which is 10% more than the overall 12 month of previous year. So, especially AC we talk about, the company has performed remarkably well by delivering 83% growth in last 9 months and previous quarter also, we have grown by 35%, but like I mentioned, there were certain supply chain disruptions in terms of availability of copper, which not only disrupted us, but also the entire industry wherein maybe few coverage from some suppliers might have held them to sustain, but it definitely impacted us of the whole industry.

Harshit Saini: And what would be our revenue target for the next year or the next quarter?

Ajay DD Singhania: Our previous guidance to the market was that we are looking at the overall revenue of INR 2,150 crores for the 12 months. That has been our guidance previously also. So, we would like to maintain the same guidance that we are looking to close the year at INR 2,150 crores plus.

Harshit Saini: And the next year guidance?

Ajay DD Singhania: We have not shared any next year guidance as of now. So, at the right time, we will share the guidance of next year as well.

Harshit Saini: That is all from my side. Thank you.

Ajay DD Singhania: Thanks, Harshit.

Moderator: Thank you. We will take the next question from the line of Kaushal Sharma from Equinox Capital Ventures. Please go ahead.

Kaushal Sharma: Sir, my question regarding on the compressor price that we see, is there short supply of the compressor as we can see that we are importing largely from outside India and also now one of the competitors is also making compressor in-house. So, are you planning any manufacturing on the compressor side, so that we can also get backward integration with that as well?

Ajay DD Singhania: Thanks, Kaushal. We definitely understand the current concerns around the supply chain and especially compressor availability in the long term. Having said that, we also believe that as we have been meeting regularly with the government agencies, DPIIT and a lot of rounds of discussion along with the compressor manufacturers has happened and the kind of assurances given by the two leading manufacturers, both Highly and GMCC, has been that they are going to increase their capacity in India next year and at the same time two more plants went from Daikin along with his JV partner Rechi has been also initiated and then LG has also started its production, so we believe that within next 12-18 months, sufficient capacity will be developed within the country to meet the domestic requirement and hence any challenge long term is not contemplated. However in the short term, yes, there are some challenges wherein we seek the government interference to grant further BIS licenses that is for next 12 months. But in the long run, we don't foresee much challenge in terms of domestic capability available for compressors. Especially, one more thing I would like to highlight here is that definitely last quarter there were some challenges in terms of compressor availability as well. The reason was very obvious that China was kind of pushing its exports to especially US market in light of the changing government there and the contemplation that the duties are going to be increased, the import duty from China going to be increased. So, there was a lot of push from China to the US market and that definitely led to a short-term supply shortage to other countries like India. But this quarter, we definitely see that supply shortage is getting normalized and there is no big challenge, at least for next 2 quarters are the peak season for the AC season.

Kaushal Sharma: Sir, thank you very much for your detailed answer.

Ajay DD Singhania: Thanks, Kaushal.

Moderator: A reminder to all the participants to please press "*" and "1" to ask questions. The next question is from the line of Deepali from Ventura Enterprises. Please go ahead.

Deepali: Good afternoon, sir. My first question is regarding would you be able to provide us a timeline regarding your small domestic appliance and larger appliance? Like has the production begun and what is the capacity utilization of all these products?

Ajay DD Singhania: So, Deepali, in terms of our diversification into newer larger appliances like coolers and washing machines, cooler is something for which we have already ramped up our production and for the season, we are looking to produce anywhere between 60,000 to 70,000 coolers per month and an annualized number 2.5 lakh is what we are looking at in terms of cooler especially. For washing machine, the lines have been set up. The trial production has already been completed since the beginning of the previous quarter and currently, we are waiting for a lot of approvals from our client side which we see that would be granted by end of this quarter. So, definitely, Q1 of next financial year should be the period from where our real mass production to start for washing machine. And therein, we are looking to ramp up our capacity in a phased manner to 100,000 per month on an annualized capacity of 1 million in the first calendar year of the financial year, 25-26 for the washing machines. Similarly for the timelines for the small appliances, if you see, from our current product portfolio of just Mixer-grinders and Induction Cooktops, we are further expanding our product offerings and we are starting air fryers to begin with from the end of next month. So, towards mid of March, we should be starting our production for air fryers and then more categories are in their addition and we will see lot of newer products coming in Q2 of next financial year. Your second question on capacity utilization, the annual capacity utilization for AC for EPACK as well as entire industry is around 50%-55%. That holds true for our both the older facilities, Dehradun as well as Bhiwadi whereas for Sri City, the annualized capacity currently stands at around 15%-20%, which we are now ramping up and we believe that by end of Q3, we will touch the normalized levels of 50% capacity utilization for Sri City as well.

Deepali: Sir, my second question is regarding the working capital requirements. As you previously discussed that the trade receivables were not discounted in the last quarter, are we seeing something similar happening in the coming quarter or in this quarter, did we observe anything like that? And what are our working capital levels like and how are we maintaining our inventory levels?

Rajesh Mittal: Deepali, this working capital requirement, actually we are maintaining around, as we quoted last time also, for this December, around INR 350 crores. And if the requirement comes with respect to the discounting the business needs, then there will be some amount of discounting which we will need because in the month of this March, which is the major business period for us to the Quarter 4, there might be some requirement that we will get the bills discounted in this Quarter 4 also. And we will be maintaining this requirement around INR 350 - INR 360 crores.

Deepali: So, do you think we will require an additional amount of debt to finance any of our CAPEX requirements or any other additional capacity which we want to ramp up?

Rajesh Mittal: No, for capex requirement, there would not be any requirement. You know that we already have some funds which will be utilized in the time to come. As far as the capex requirements, there is no requirement of any fresh loan.

Deepali: Do we have any revenue guidance regarding the EPAVO motor supply, the BLDC motors that we want to sell from Epavo?

Ajay DD Singhania: So, Deepali, for our joint venture company, EPAVO Motors, the new Greenfield facility is being set up at Bhiwadi, which will be completed by the end of Q1 of next financial year. So, currently, we are still continuing production at the makeshift facility in Silvassa. So, we will continue production at the makeshift facility for under 3 months of this peak period and then the Greenfield facility will be started in Bhiwadi around end of May or June. And we are definitely looking to achieve our PLI targets in terms of revenue for the first year of operation for this new facility. So, we are targeting to achieve revenue of almost Rs. 150 crores at the new facility for financial year 25-26.

Deepali: My last question would be regarding the PLI scheme. A few companies did get the PLI scheme, which was recently announced regarding the AC. Did we apply for any additional PLI or initial PLI scheme is only valid for us? And what was the receivable for PLI during this year and how much has been received already?

Ajay DD Singhania: So, in terms of PLI 2.0, EPACK did not apply for any additional PLI in the new 2.0, continuing with our first application of INR 300 crores in EPACK Durable and INR 50 crores in Epavo. So, we limited our application to that amount only. In terms of receivable, our last receivable of approx INR 30 crores is expected to be received before end of March. So, technically, last year also, we received it in the month of March. So, this year also, we are contemplating that March should be the time by when we should receive this Rs. 30 crores which has been included in the previous financial year. And this year, we are allowed PLI of INR 37.5 crores of which close to INR 28 crores has been accrued in the last 9 months.

Deepali: One another question, if I can squeeze it. There was something regarding QCO on copper and you said that there is some local manufacturer that has promised you to deliver the QCO copper by December end. Is this still happening or is the production delayed or are we procuring copper from some other source?

Ajay DD Singhania: So, in terms of copper QCO, so this is what I was addressing in the previous question also that the domestic manufacturers who had promised to set up facilities by September-October or before the start of season did not complete their facilities and none of them could start production. So, the entire industry was put at a scenario where the domestic manufacturing capacity was not available and imports were stopped so that highly disrupted the supply chain for copper. Now, a few import supplies have been granted BIS, so at least that will provide us relief in the short term. At the same time, we definitely wish that the domestic suppliers who had been promised to set up capacities come with it as soon as possible so that we can start sourcing the copper locally.

Deepali: Sir, thank you so much. That is all from my end.

Moderator: Thank you. You may please press "*" and "1" to ask questions at this time. The next question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Good evening, sir. Thank you so much for taking my questions. Sir, my first question regarding RAC side, is there any approximate or any breakup for IDU, ODU and WAC and the domestic air cooler on the revenue side for 9-month basis?

Ajay DD Singhania: Bala, for 9 months ended December, we have done the revenue of almost INR 1,240 crores for AC. Hope that answers your question.

Balasubramanian: Sir, I am asking like percentage terms of AC itself IDU, ODU and Window Air Conditioner and Domestic Air Cooler in percentage terms?

Ajay DD Singhania: I don't have the number in front of me right now. Only if you can drop in the line, I will ask somebody to reply to it.

Moderator: Mr. Balasubramanian, do you have any further questions?

Balasubramanian: Yes, ma'am. My next question, sir, regarding this CAPEX for AC business, like around INR 240 crores over the next 3 years and what is the current status on it?

Rajesh Mittal: We have already capitalized INR 55 crores in the first 9 months actually and we are on the track. As we mentioned last time that there will be around INR 220-INR 240 crores investment in next 2 years, the company has already invested around INR 55-INR 60 crores in first 9 months.

Balasubramanian: Sir, on the PLI side, how much have we realized as 9-month basis?

Rajesh Mittal: Sorry, come again?

Balasubramanian: PLI.

Rajesh Mittal: PLI I understood, what is the question on PLI?

Balasubramanian: Sir, how much till the 9 months FY25 basis, how much is realized?

Rajesh Mittal: Total amount would be around INR 37 crores. Out of INR 37 crores, INR 28 crores has been accrued in the first 9 months.

Balasubramanian: Thank you.

Moderator: Thank you. The next question is from the line of Subhajit Das from Clover Capital. Please go ahead.

Subhajit Das: Thank you for the opportunity, sir. Sir, I just wanted to know the future growth path. So, somebody mentioned that our company will be going by 50% 2-3 years down the line. Sir, are you on track on the bottom line and topline. How do you foresee, sir?

Ajay DD Singhania: Thanks, Subhajit. I don't recall having mentioned anywhere that we will be bringing 50% over the next 3-4 years. But definitely, we said that for this current financial year 24-25, we had mentioned 50% plus growth, and we are on target to achieve that growth. We have already grown at 77% in the last 9 months. I think our projection in terms of the current financial year hold good that will surpass our initial target of 50% plus growth.

Subhajit Das: And one more thing, sir, are we also doing something to enhance our PAT margin which is about 1.1% in future?

Ajay DD Singhania: Yes, Subhajit, see enhancing PAT margin, I think we already started addressing that the current dent in the PAT has definitely been because of the increased expenses of the newer facility at Sri City. And as our utilization of this facility improves in the coming quarters, we will definitely see a better improvement in the PAT and overall margins as well. So, definitely, our company is working on improving the PAT margins as we improve our utilization and at the same time the diversification journey which we started 6 months ago is definitely paying us that our product diversification and the overall product mix is helping us further improve the overall PAT and margins. So, like the last quarter, we see that our dependence on AC, despite growing at 37%, has come down to 66%. So, this in itself is an indication that we are also growing well with our other areas like the components and the small appliances and also the large appliances. So, each of the levers which we have put in place has started firing and we definitely see that with all these combinations, we will be able to enhance our PAT further in the coming quarters.

Subhajit Das: Have you kept any ballpark figures for that in the future?

Ajay DD Singhania: So, revenue guidance, I have definitely shared with everybody.

Subhajit Das: Yes, I am talking about the PAT margins like, have you any ballpark figure in mind or in your calculation from 1.1% to somewhere in future?

Rajesh Mittal: So, if you see, the last 9 months also, we were having PAT around 1% for the first 9 month on Apple-to-Apple basis practically. And if you see the business in Quarter 4 is better, because of the seasonal industry, you can compare the numbers which we have already declared with the stock exchanges, you have the annual reports also with you. You can compare the number on quarter-on-quarter basis. It will give you a better idea.

Ajay DD Singhania: So, actually Subhajit, we are not sharing any forward-looking numbers over any of the concalls. We have only shared the numbers in terms of revenue. In terms of PAT guidance, till date, we have not shared any guidance on the PAT numbers, and we definitely curtail ourselves from sharing any such numbers.

Subhajit Das: And sir, one more last question is like.

Moderator: Sorry to interrupt you Das. I would request you to rejoin the queue for follow up questions please. There are others waiting. Thank you, sir. We will take the next question from the line of Jalaj from Svan Investments. Please go ahead.

Jalaj: First of all, thanks for the opportunity and congrats on the recent set of numbers, specifically on the margins. So, I have a few questions. First of all being, I just wanted to understand what explains this thing partially, I do understand that the gross margins have improved sequentially over the quarter, but if you could give some pin to it as what is the reason why and exact reason behind the improvement in gross margins and in fact, the EBITDA margins?

Ajay DD Singhania: So, Jalaj, in terms of the improvement in gross margin, like I shared earlier, in the previous quarter our dependence on AC was somewhere around 77%, which has come down to 66%. So, this means that our overall product mix in this Q3 has helped us get better margins, especially if I say that our component business, something which has grown almost fourfold from Q2 to Q3. So, that definitely something which is even driving our both improvement in material margin as well as overall EBITDA margin as compared to Q2. So, our diversification strategy, definitely we see is helping us improve our overall gross margins.

Jalaj: Got it. Understood. And sir, a little more long-term question understanding of the business and how we are seeing, so next 2-3 years down the line, how do we see the business setting up moving away from the RAC industry per our RAC share because I understand RAC itself for contract manufacturers is growing decent at 15%-20% or even north of that. So, how do we see, what would the revenue mix or in which direction are we moving the business? Then how are you seeing that thing happening, maybe 2 years, 3 years down the line, I am not asking for any guidance, just to from a perspective.

Ajay DD Singhania: So, Jalaj, especially RAC definitely is now growing, the market is growing at anywhere between 18%-20% is the kind of growth the market has started talking about in the near medium term for next 3-4 years and we at EPACK definitely see that we will outgrow this number and we will grow at a much better percentage in terms of AC RAC sales. Despite growing at let us say, above the market growth of 20% in AC, we believe that our overall dependence on AC on an annualized basis will come down from 80% to somewhere around 60%-65% in next 2-3 years, which essentially means that our small appliances, the new segment of larger appliances like washing machines and coolers as well as component business is deemed to grow at a much faster rate. So, this overall diversification of product mix will help us achieve both enhanced margins as well as also improve our overall capacity utilization in 12 months period. So, that is the overall strategy on which the company is working in a medium-term basis if we talk about.

Jalaj: Got it. And one last question, quickly on what sort of target ROCE profile or ROE profile do we target like we assume to be reached to peak capacity utilization on to our Sri City plant, And otherwise, what directionally do we see as a peak ROCE or an ROE profile for the business?

Ajay DD Singhania: The current capacity utilization on an annualized basis for RAC limits us to anywhere between 50%-55%. In recent few years, we have seen that the seasonality keeps improving or the demand also coming in the non-season of typical for AC. So, going forward, we definitely are working to improve our RAC utilization from 50%-55% to at least 60%-65% in near short term and medium term, let us say, 3-4 years as the market is maturing. So, that is where we see the utilization for RAC.

Jalaj: I meant more on ROCE profile, what I meant was return on capital employed for the business basically in terms of what we have invested capital, I guess we sit on a capital base of almost INR 530 crores on the plant and equipment and there will be some sort of working capital also invested in the business. So, I meant what sort of returns are we expecting on that more from an IRR perspective or an ROE/ROCE perspective?

Ajay DD Singhania: In terms of ROE/ROCE, we are looking at anywhere around 15%-16% in next 2-3 years, so FY27-28 onwards, we definitely will be able to improve the ROE to 15% plus level.

Rajesh Mittal: The reason is that because as of now the capacity as has already mentioned, capacity has not been utilized completely, it will give the fruits in the coming years.

Jalaj: Got it. And one last question is if I may squeeze in. So, sir, this is per se with regards to the 50%-55% capacity utilization we mentioned for RAC. So, as a conceptually I wanted to understand is there a possibility of fungibility of the RAC capacity is being used for other components or other, let us assume the same line being used for a washing machine or a deep cooler freezer, is there a possibility because as a contract manufacturer, that is what differentiates us from a pure clip brand who has a OEM who doesn't have a much more product portfolio that way?

Ajay DD Singhania: Absolutely Jalaj, we agree with you and I think this is one area where we are working and when I see that we will improve our overall transition from 50%-55% to 65% plus. That is the whole idea that most of the manufacturing capability is fungible and can be utilized for similar other larger appliances like washing machines and coolers and etc. And this is the direction we have taken. So, like the impact we can see in the previous quarter also, the more we balance our capacities by adding other appliances, we definitely see the impact coming on the margins and the overall return matrices as well.

Jalaj: Got it. Thanks a lot and best of luck.

Ajay DD Singhania: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Bhoomika Nair: Yes, sir. Sir just wanted to understand how are component revenues scaling up and how do you see that kind of first in the 9 months, how much it has contributed and which areas you are seeing brands kind of sourcing from us and how do you see that scaling up over the next couple of years?

Ajay DD Singhania: And Bhoomika, for 9-months ended period, our component sale stands at almost 6% of the total revenue. And for the previous quarter Q3, it was almost 14%. So, that is in percentage terms. And in revenue terms, it is currently close to around INR 90 crores, which we believe we should ramp it up to at least INR 190-INR 200 crores from this entire financial year. That is the number we are looking at. And the major components we see being outsourced for the brands are especially like Cross Flow Fans, copper tubular parts and controllers. So, all these three major components which are both high value as well as category components are something in which EPACK has been getting business from all the brand customers.

Bhoomika Nair: Got it. And we are seeing a lot of compliance kind of coming and certifying and lifting material from us on this component business per se. So, this can definitely grow faster than the finished good part of it. Components will probably grow at a faster pace. So, over the next one or two years, where do you see the contribution from that broadly, about a 10% level moving over the next 2-3 years?

Ajay DD Singhania: Bhoomika, like I shared, in all we are looking that AC from 80% will come down to 60-65% in the growth phase. So, the component definitely from 4% in the last year currently at almost 6% and then up to 12%-15% is definitely one number we are looking at in the medium term in next 2-3 years.

Bhoomika Nair: Sure. Sir, the other area is on export, so I know it is very small right now. But how is that demand kind of scaling up, any outlook in terms of that business?

Ajay DD Singhania: Exports definitely for us has grown substantially in this current financial year as well as last year. Currently, it is 4% of the overall revenue in AC, so exports contributed was 4% for the total AC revenue which used to be typically 1% or 2% in the previous year, so it has already like grown by 200% in this current year. And going forward, we definitely see much better growth in AC as our own manufacturing is helping us, drive a lot of cost leadership as compared to China. So, within the next 3-4 years, we see a much larger and better growth in export as well.

Bhoomika Nair: Sure.

Ajay DD Singhania: In the current financial year, it is a 9 months ended period, it is already 4% of the total AC revenue.

Bhoomika Nair: Got it. And lastly, so if I may just have the gross debt and the net debt numbers, net cash numbers?

Rajesh Mittal: Yes, Bhoomika, if you see the total debt as of today in the books is around INR 490 crores.

Bhoomika Nair: And cash on book sir?

Rajesh Mittal: And cash and cash equivalent is not much, it is around INR 13 crores around. INR 480 core or INR 478 crore is the net debt numbers.

Bhoomika Nair: Fair point. Sir, I will come back in the queue. Thank you.

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

Shraddha Kapadia: Thank you so much for the opportunity and congratulations on the good set of numbers. Sir, basically, my question was on the capacity utilization. If you could provide the capacity utilization for all your manufacturing facilities, which are there? And also brief idea of capacity utilization for your products, mainly RAC and the components?

Ajay DD Singhania: Thanks Shraddha. So, the capacity utilization like I shared in the previous question also, both for Dehradun and Bhiwadi, it has been close to 55%-60%. For AC as a whole, the plant as a whole has been rotated to 60% where at Sri City is something which definitely is a concern for us currently and it stands at 15%-20% and this is an area we see that will help. At least in Q4, we should see a better utilization in Sri City and going forward in next 3-4 quarters, we believe that we will achieve a similar utilization what we are achieving at Dehradun and Bhiwadi in an annualized basis and Sri City as well.

Shraddha Kapadia: Sir, could you provide product wise for RAC and the components?

Ajay DD Singhania: The product wise utilization actually, because this is a mix of the manufacturing facility. So, since we are not reporting numbers on a segmental basis and the manufacturing capacities are fungible, so they are not aligned. Except heat exchanger, everything is fungible. Hence the utilization is on an overall basis only currently.

Shraddha Kapadia: Sure. Thank you so much for taking my question.

Ajay DD Singhania: Thanks.

Moderator: We will take the next question from the line of Amit Agicha from HG Hawa. Please go ahead.

Amit Agicha: Thank you for the opportunity and congratulations, sir. Sir, my question was with respect to the employees like what is the current workforce size and are there any plans to increase hiring and is there a skilling and development program in place for employees, particularly in research and development and manufacturing?

Ajay DD Singhania: Total number of employees in white collar currently is around 800 and in blue collar because it is seasonal, so we have a lot of contractual workers joining us on a seasonal basis as and when required, so that exact numbers won't be there with me handy. In terms of skill development, yes, especially for AC skill development, both in terms of the manufacturing skill as well as R&D is something for which we were highly committed and where we focus a lot. So, like in manufacturing, we have special skilling centers and Brazing Training Centers, Brazing Schools and all those things, I mean, which are like the best practices in the industry, we are already doing it. In R&D, our current manpower strength stands at around 80 people, so which is almost like 10% of the total white collar manpower what we have and it has been growing rapidly since last 2-3 years, so R&D manpower, our focus on R&D is very high for us and this is what makes us spend out as 100% ODM for ACs.

Amit Agicha: And sir, what is the total proportion of percentage of the revenue which is being spent on research and development?

Ajay DD Singhania: The percentage of revenue wouldn't be significant here because we are in OEM, ODM manufacturer for us, I think it is more important to look at our R&D expense in terms of the total employee cost which currently stands at around 15%-17% of the overall employee costs.

Amit Agicha: 15% to 17% of the overall employee cost?

Ajay DD Singhania: Yes, is our spend in R&D alone.

Amit Agicha: Thank you, sir and all the best for the future.

Ajay DD Singhania: Thank you so much.

Moderator: Thank you. I request to all the participants' kindly limit your questions to two per participants. Should you have a follow up question, please rejoin the queue. We will take the next question from the line of Rahul from LKP Securities. Please go ahead.

Rahul: Hello, sir. Thank you for the opportunity. I just wanted to know the bifurcation of debt, how much is current debt out of INR 490 Cr? And my second question is that how we are going to fund the working capital for the Hisense production? So, do we have enough internal accruals or are we going to raise any current debt?

Rajesh Mittal: Out of this 490, I will say that because this is mainly the working capital and the term loan is around INR 60-INR 70 crores only from major amount is because of the working capital requirement which you know the cash credit and the bill discounting amount, the INR 400 will be the current amount, INR 420. And as far as the second question is concerned, there is no such requirement to raise any further term loan because we already have the funds with us available for further expansion which will be utilized for the capital purposes.

Rahul: And I just wanted to know the contribution from RAC for the quarter 3 of FY2024?

Ajay DD Singhania: Sales contribution for?

Rahul: RAC contribution.

Ajay DD Singhania: Sales contribution from RAC was 66% of the total revenue of INR 370 crores of this Q3.

Rahul: For the Q3 of FY24?

Ajay DD Singhania: FY24 AC volume 65%.

Rahul: Thank you, sir.

Moderator: Thank you. The next question is from the line of Kunal Tokas from Fair Value Capital. Please go ahead.

Kunal Tokas: If this question has already been asked and I am sorry because I was a little late to the call, but my question is about the washing machine industry and specifically if you can share of the overall industry, how much volume is outsourced versus made by the OEMs themselves and what sort of trade-offs happen here because we have seen strong outsourcing momentum in air conditioners, can a similar thing be expected in washing machines?

Ajay DD Singhania: Thanks, Rahul. So, washing machine segment if you see today, the overall market size of washing machine is around 14 million of which 45% is semi-automatic by value and 55% is fully automatic. Of this fully automatic, there are two types, the top load and the front load. Top load is something which is currently almost manufactured in India and front load is something which is essentially imported. There are only a few manufacturers which produce front load. And there has been almost 8%-10% CAGR in washing machines in last 4-5 years. And the growth has been mainly driven by the fully automatic segment of top load and front load both and this is one area where EPACK has invested currently. So, we are starting production with the fully automatic top-load machines, 8, 9, 10 kg and then also we are coming up with other platforms. So, our entire range of platforms will be ready by end of June for the top load fully automatic machine and then at the same time we have also decided to get into the semi-automatic machines because like you said semi-automatic is something which currently is an OEM ODM driven product and we see a good growth even in this segment and as the brands are not increasing their own in-house capacities, the dependence on OEMs and ODMs is increasing with this kind of replicating growth in RAC as you rightly mentioned. So, definitely, the growth prospects for washing machine is very high and for us the best thing is our manufacturing facilities are fungible and can be utilized similarly for washing machine which kind of also helps us beat the seasonality of AC. So, this definitely is one product where we see a lot of growth and helping us drive continuous growth and better capacity utilization.

Kunal Tokas: And another question I had was, are there significant synergy opportunities for making washing machines as well? Like you said, your facilities are fungible or will that washing machine be a separate vertical with a separate cost structure?

Ajay DD Singhania: So, Kunal, definitely, there are a lot of synergies in terms of manufacturing like I shared earlier also, the facilities are fungible and only the thumb rule, I see that the manufacturing infrastructure required for one indoor unit of an AC is almost equal to the infrastructure required for making one desert cooler for one washing machine. So, it will be the high level of synergy within the manufacturing capability required.

Kunal Tokas: Understood, sir. Thank you very much.

Ajay DD Singhania: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Deepali from Ventura Enterprises. Please go ahead.

Deepali: Sir, thank you for taking my question again. I want to know your opinion about why we are not able to have the expected capacity utilization from the Sri City plant because I think initially we were expecting higher levels for this quarter, which we were not able to achieve due to some reason. Can you explain what reasons can be behind us?

Ajay DD Singhania: Deepali, Sri City is a facility we started in Jan of 24. It is a 12-month-old facility and already we have brought up the utilization to almost 17%-18% on an annualized basis. And a lot of larger customers, brands take a lot of time to validate the facility and approve. So, it takes 3-4 months for us to get the approvals on the brand customers for a newer facility and this has been slightly delayed, but then we are on track to utilize it in the current quarter wherein we believe that utilization was significantly improved. And as we get further approvals from other brand customers, not only for RACs, but also the small domestic appliances line, which are currently being set up at Sri City, we believe that utilizations will significantly improve in next 2-3 quarters.

Deepali: So, we actually require new approvals from our regular clients again for the Sri City plant as well?

Ajay DD Singhania: Every new facility is subject to an audit and approval by the clients.

Deepali: So, that you think is taking a little longer than expected?

Ajay DD Singhania: Yes. It should, but now I mean as we have entered the current high season time, it is already approved by most of the key customers.

Deepali: Alright. Would you be able to comment on the realization for AC or how much do we earn from one AC, would you be able to share that?

Ajay DD Singhania: At the gross margin level certain thumb rules of ballpark figures that I can definitely share since we are not reporting numbers on segment basis. But yes, RAC as a whole is something which has a lowest material margin. So, like our current annualized material margins are around 14.5%-15%, that is a better reflection of the AC margins gross margins, whereas the material margins for components and the small domestic appliances are significantly better. So, that is the broad guidance that I can give you.

Deepali: Alright. Did we observe any depreciation of the rupee effect on our margins as well during this quarter?

Ajay DD Singhania: No. Last quarter, there was no loss on account of rupee depreciation. For us, both commodities as well as the exchange rate or something which are passed through in terms of our price revision with the customers on a quarterly basis, so generally the impact is not significant for us as a whole.

Deepali: Would you be able to share the gross block numbers and what is the current asset turnover ratio projected?

Rajesh Mittal: The gross block as of today is around Rs. 850 crores. And the turnover ratio, actually it will be 2.5 to 2.75 during the time to come.

Ajay DD Singhania: And definitely, we are looking to improve this asset turnover like we have repeatedly been saying about the product mix and a better capacity utilization, so we are definitely looking to improve the asset turn as we move forward.

Deepali: Alright, sir. Thank you. That is it from my end.

Moderator: Thank you. The next question is from the line of Gayasuddin Siddiqui from GS7 Security and Trading Private Limited. Please go ahead.

Gayasuddhin Siddiqui: Hello, sir. Good afternoon. I just wanted to know the current financial year EBITDA margin and is there any chance that we will be able to increase our EBITDA margin, let us say 2-3 years in the double digit?

Ajay DD Singhania: Current EBITDA margin for the 9-month ended period is 5.6% and historically, the EBITDA margin is 7.5%-8% is what we have been maintaining historically since last 2-3 years. And like I shared our guidance remains that for this year also, we should be able to maintain anything between 7.25%-7.5%. And going forward, as we change our product mix and revenue mix, definitely there is scope to improve, but double digit is something that we have not shared and we are not giving any guidance on that. But yes, we definitely look to improve it beyond 7.5% in coming 2-3 years.

Gayasuddin Siddique: Thank you so much and best of luck.

Ajay DD Singhania: Thank you.

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

Jalaj: Thanks for the opportunity again, just two quick questions. So, you mentioned that the gross block currently is around INR 850 crores. So, what is the sort of peak revenue we can clock on this assuming the seasonality and everything, so that was the first question? Second, I had one, I wanted to understand the unit economics across washing machine, if you could give some broad numbers on that?

Ajay DD Singhania: Jalaj, the peak revenue for our kind of industry with so much of investment in manufacturing is anywhere between 3-3.5x kind of asset turnover. So, with 850, we can see that anywhere between INR 2,800 crore to INR 3,200 crores is an ideal or a max limited revenue possible. And the second question was around.

Jalaj: Second question was I wanted to understand the unit economics, the asset turns and specifically margins on the washing machine business?

Ajay DD Singhania: See now for that like I shared earlier, it is about fungibility. So, all this we are doing to improve our asset turn, so with AC, the highest limit of asset turn possibly is around 2.5-3x. So, by addition of washing machines and then utilizing the capacities in the offtake in season, we are working to achieve an asset turn of 3.5-4x kind of figure which is what we are trying to achieve in next 2-3 years.

Jalaj: And the margin growth in washing machine?

Ajay DD Singhania: Overall, the gross margin for a larger product like washing machine is generally similar to that of an AC. So, again, this would be a broader number, but yes, 15%-16% kind of a gross margin is definitely something which can be achieved even for washing machine.

Jalaj: Got it. Thank you.

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

Mayank Kapoor: Thank you, ma'am. My questions have already been answered. Thank you.

Moderator: Thank you. We will take the next question from the line of Chavali Sarveswara Sharma, an Individual Investor. Please go ahead.

Chavali S. Sharma: Yes, sir. Regarding the AC, what percent of compressor was in AC and are the ACs manufactured in India or imported? My second question will be do you have any plan to manufacture this compressor in the future?

Ajay DD Singhania: Sarveswara, the compressor value of the total bill of material cost for AC is anywhere between 25%-30%. That is the value of a compressor in an AC and currently for India, 40%-45% of compressors are manufactured domestically and 55% of the compressors are imported from China or other countries. In terms of EPACK getting into manufacturing of compressors for AC, especially if I talk about, there is no plan currently for us and within next 3-4 years, definitely not what we are looking at.

Chavali S. Sharma: Thank you, sir. All the best.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Ms. Bhoomika Nair for closing comments. Over to you, ma’am.

Bhoomika Nair: Yes, I would just like to thank all the participants for being on the call and particularly to the management for giving us an opportunity to host and answering all the queries. Thank you very much, sir, and wishing you all the very best.

Ajay DD Singhania: Thanks, Bhoomika. Thanks all participants in this Earnings Call. I hope we have been able to answer your questions satisfactorily. If you have further questions or would like to know more about the company, please reach out to our IR Managers at Valorem Advisors or any of the numbers mentioned on our website. Thanks a lot.

Rajesh Mittal: Thank you.

Moderator: Thank you, members of the management. On behalf of DAM Capital Advisors, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.