November 24, 2023

To

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400001

Scrip Code – 543597

Subject – Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript for H2 and FY 2023-24 Post Earnings Conference Call held on November 20, 2023.

Dear Sirs,

With respect to above captioned subject, please find attached herewith transcript of the Conference Call for Analyst and Investors held for H1 and FY 2023-24 on November 20, 2023 at 12 P.M. IST (12:00 hours)

Kindly take the same on your records.

Thanking You,

Yours Faithfully,

For **Virtuoso Optoelectronics Limited**

HARIOM RAGHURAJ KUSHAWAHA
Digitally signed by HARIOM RAGHURAJ KUSHAWAHA DN: c=IN, o=Personal, postalCode=422402, st=Maharashtra, serialNumber=44D2F52D7B05F59A8E436FE189ACDA479C3109A53EA6AF5054908E0D393AA778, cn=HARIOM RAGHURAJ KUSHAWAHA Date: 2023.11.24 11:21:49 +05'30'

Hariom Kushawaha
Company Secretary & Compliance Officer
Mem. No. ACS 68173

Virtuoso Optoelectronics Limited

H1 & FY24

POST RESULT CONFERENCE CALL

Management Team

Sukrit Bharti – Managing Director
Sajid Shaikh - Chief Financial Officer

Call Coordinator

Presentation

Moderator: Ladies and gentlemen, I welcome you all to the H1 FY '24 Post Earnings Conference Call of Virtuoso Optoelectronics Limited. Today on the call from the management we have with us Mr. Sukrit Bharati, Founder and Managing Director; Mr. Sajid Shaikh, Chief Financial Officer.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risk and uncertainties. Also a reminder that this call is being recorded.

I would now request the management to detail us about the performance highlights for the quarter that went by. The growth plans and visions for the coming year, post which we will open the floor for Q&A. Over to you, Sukrit.

Sukrit Bharati: A very good morning to everybody and thank you for taking the time to attend the call. It is good to have the second review call with all of you. So the last three months for the company or the last six months as a whole has been very good. We've grown almost 111% year-on-year for H1, which is in line with what we had planned. We are also in line with achieving this year's number both in terms of top-line and EBITDA. So that is the track that we are currently on. As far as existing business is concerned, we are also happy to announce that we've started water dispenser manufacturing this month onwards and we are getting our first export order.

So we will also start exporting water dispensers starting next month, which is also on a positive note. And the final update that I have from my side is that we are getting into commercial refrigeration as a product category in the next financial year. Investments for which we have started this year, and we are hoping to commission the plant in the first H1 of FY '25. So that has been the journey of the company over the last six months. We've added manufacturing units.

So we now have three primary units for manufacturing. One is IDU, one is ODU, one is lighting and EMS. And we have added three more feeder units. One is for moulding components, one is for copper tubing, and the third one is for brass components and aluminium pressure diagnostic. So all these units are now operational and we are on track as planned as far as manufacturing capacity is concerned to increase manufacturing capacity. And we are also on track for the top-line like I mentioned.

So that was a brief update from the company. I think we can open the floor to questions.

Question-and-Answer Session

Moderator: Yeah, thanks Sukrit. Anybody who wants to ask a question may use the option of raise hand. If there's a problem at your end, just drop us a message on chat and we'll invite you to ask a question. Varun, you can go ahead, please.

Varun Agarwal: So congratulations Sukrit for the wonderful performance. These new products which we are manufacturing, can you give me an idea as to what is the size of the opportunity and the margins in the new products?

Sukrit Bharati: Right. So I mean, you already know AC, lighting and EMS. So how the company is now shaping as we are growing. One is, of course, the AC vertical is one vertical. Lighting vertical is the second vertical. EMS is also structuring into EMS and other components, I will club it to one vertical. So we are also that as a vertical is growing. We've got into water dispensers. So initially, water dispensers, we are setting up a capacity of 150,000 units, and we can scale this up to almost 400,000 to 500,000 units over the next couple of years. As far as the market size is concerned, the Indian market for water dispensers anticipated to be about 10 lakh to 15 lakh units.

There's no exact figure, because there's a lot of combination of important domestic manufacturing. Also, India is exporting water dispensers. So the global market is about ₹2.7 billion for water dispensers, and it is growing at almost to 9% CAGR. So globally, water dispensers is very big in Middle East, in Iran, Iraq and Africa. So as a product category, that is the scope of that product. That is one. The reason why we got into water dispensers was because it was using most of the infrastructure, which is common with our ODU manufacturing.

So it gives us a better capacity utilization for the off-season utilization as far as ODU capacity is concerned. So it was a natural hedge for us. And hence, we got into water dispensers. The other category that we are getting into is commercial refrigeration. So commercial refrigeration, India is a $475 million market. And which is expected to grow at 25% CAGR over the next nine to 10 years. So there, the potential is much bigger. And if things go right over the next three to five years, it can be a ₹500 crores to ₹600 crores or ₹700 crores product vertical for us.

Varun Agarwal: And how are the margins in these new products similar to old?

Sukrit Bharati: So these products are better by a couple of percentage points, by a couple of percent, the EBITDA margins are better.

Varun Agarwal: And who are the others making the same products?

Sukrit Bharati: So water dispenser, the major players are Veeline in India, who's doing this. And commercial ref, of course there are brands who are manufacturing like the Voltas and Bluestar. And I think there are a couple of more. But as far as OEM, ODM segment is concerned, the biggest is Western Refrigerator in this segment.

Varun Agarwal: Is this Ice Make refrigeration based in Ahmedabad also one of our competitors?

Sukrit Bharati: Ice Make is, but they are more into busy coolers as far as I understand. But yes, they are also part of the commercial refrigeration space.

Varun Agarwal: And in our air conditioners, as of now, what is our capacity utilization?

Sukrit Bharati: So IDU, we are running at almost, so during season, we are hitting 100% or are booked 100%. Off season, we are running at 50%, 60%, 70%. So we are almost at 75%, 80% at the annual level capacity utilization per IDU.

Varun Agarwal: And we are planning to add more ACs in the near future?

Sukrit Bharati: For the next year, we don't see a major capacity addition in AC, because I think across the industry, sufficient capacity utilization has happened. And I think for a year or two, we need to observe what the market does in terms of demand. If the demand grows at 15% or 20% on double-digits, I think all the capacity that is getting created or has been created so far will get utilized and there will be a further requirement of new capacity.

But if the market does not grow, grows only in single-digits, I think for the next year, we are sufficiently covered as an industry. So I don't think it makes sense for us to invest more in expansion as of now. Incremental expansion or debottlenecking, wherever required, we will continue to do, so that the incremental increase we get in capacity, but a new significant CapEx we are not planning in the next financial year.

Varun Agarwal: So the main growth in the next 12 to 18 months would come from ACs as well as the new products will also have a significant contribution on it.

Sukrit Bharati: Correct, so ODU in AC is growing. Lighting business is expected to grow decently over the next year, component business is growing and the new product edition is also planned. So all of the other four segments are going to grow except for IDU. IDU will probably grow at 25% to 30%, but the other product segments will grow more.

Varun Agarwal: And how do you see the debt after one year from now?

Sukrit Bharati: So debt equity, I mean, we are hoping to maintain about 1.2, 1.3 debt equity, but definitely less than 1.5 is our target, depending on how much equity we end up raising. But as of now, internally, our target is to be below 1.5 and ideally between 1 and 1.3.

Varun Agarwal: Okay. And if there is any further referential round, what we do, will the promoters also participate in that or is there a chance of promoter holding going down?

Sukrit Bharati: As of now, we've not decided on that. We'll take a call.

Varun Agarwal: Sure. I'll come back in the queue. Thank you and wish you all the best.

Sukrit Bharati: Thank you so much.

Moderator: Thanks Varun. We'll take the next question from Suruchi. Suruchi can go ahead, please.

Suruchi Parmar: Hello sir, just a few questions from my side. In half year you have achieved around about ₹238 crores of sales. So are you sticking to the same target of ₹550 crores of revenue this year? And will you be in like half year, the second half will be more as strong as the first half?

Sukrit Bharati: We are expecting a stronger second half as compared to the first-half, because second half we have season across the six months. But we are continuing to keep our guidance at ₹550 crores to ₹600 crores for this year.

Suruchi Parmar: And your guidance of ₹1,000 crores in FY '26, that is also intact?

Sukrit Bharati: That is also in line, yes.

Suruchi Parmar: Okay. So will your current facilities are enough to deliver all these or you are planning for more capacity expansion?

Sukrit Bharati: So current capacities with the addition of commercial ref, which is ongoing, will be sufficient to take us to ₹1,000 crores.

Suruchi Parmar: Okay, fine. And what is the percentage of sales coming from Voltas right now, presently?

Sukrit Bharati: So about 60% to 65%.

Suruchi Parmar: Okay. And are you tying with any other players or from export market in AC segment?

Sukrit Bharati: We are, yes.

Suruchi Parmar: Domestically or export?

Sajid Shaikh: No, the question was for AC, Sukrit. The question was for AC specifically?

Sukrit Bharati: So for ACs as a product, we're not looking at any other customers for now. But other product segments, we are talking to other brands and also looking at export as a potential market. We have also started getting export orders for water dispensers.

Suruchi Parmar: Okay, fine. And any other products you are eyeing for in the future for manufacturing? Are there any other…?

Sukrit Bharati: So there are two, three product segments that we are evaluating. But we've not signed off on any yet, depending on, we will sign-off based on where we get customer confirmations. So as of now, for the next six months, the focus is of course on establishing commercial ref and improving ODU and water dispenser utilizations.

Suruchi Parmar: Thank you so much for your answer.

Sukrit Bharati: Thank you.

Moderator: Thank you, Suruchi. We will take the next question from Garvit Goyal. Garvit, you can unmute, please.

Garvit Goyal: Hi, thanks for the opportunity and congrats for a good set of numbers. Coming to the commercial refrigeration side, so can you put some colour on what is the exact synergy we will get from this segment to our existing segment? That is one. And secondly, I think you mentioned about the overall opportunity size. So I missed that. So can you please repeat?

Sukrit Bharati: So the overall, it's a two parts to your question. One is what is the synergy? So there is one is of course, the core concept is similar as far as the product category is concerned. Second is there a lot of infrastructure as far as sheet metal and injection moulding if it is concerned is common between air conditioner and commercial ref. So we'll be able to use the capacity fungibly. That is one.

Second is deep freezer market is not as seasonal or we are not expecting it to be as seasonal as AC, which is also good for us. So our capacity utilization during off-season improves. As far as the market is concerned, the deep freezer market in India is about ₹475 million last year in 2022 and is expected to be ₹3.2 billion by 2031, which is almost a 25% CAGR year-on-year for the next 10 years. So the deep freezer market is growing because of two, three factors. One is of course because of retail sale growth of dairy and frozen foods.

And also commercial ref is now started being used in households where people want to have a separate freezing device, especially in large homes, this is becoming more and more popular in Europe. This was always popular in the U.S. because the homes were larger, but now it is becoming popular in Europe and probably that trend will percolate to India very fast over the next three to five years. So we see that market growing significantly, and we hope to piggyback on that growth and establish ourselves as a significant player in that segment.

Garvit Goyal: So you mentioned ₹1,000 crore for FY '26. So what portion of this target are we expecting from this commercial refrigeration and the water dispenser?

Sukrit Bharati: So '26 is still very, I mean so '25 will be the first year of trial sampling and production. So '26, we are not expecting a massive number but conservatively I think 20% should come from water dispenser and commercial ref.

Garvit Goyal: And what kind of margin improvement do you expect from these two verticals over the existing one?

Sukrit Bharati: Like I mentioned 2% to 3% EBITDA margin improvement is expected in these two product protocols.

Garvit Goyal: And is there any expectation of improvement in the current margins from the existing vertical due to operating leverage or anything like that?

Sukrit Bharati: I don't see a significant increase in or change in margins. IDUs will remain constant. ODU runs on a lower EBITDA, so the ODU business growing will have a slight impact on the EBITDA but not on PAT. So that is where ODU is structured and lighting will continue as is. Component business is growing, so their EBITDA margins are slightly better. So blended margin for the existing business will remain on a similar trend. For the newer products, we are hoping to improve it by 2% to 3%.

Garvit Goyal: Understood. And you mentioned EMS component segment is growing very fast. So what kind of component are we catering to and what kind of customers are we catering to in that sector?

Sukrit Bharati: So as of now we are first, I mean hitting the low hanging fruit for us. So appliance components and appliance boards is what we have started doing and we are doing this with existing and new customers as well. Hopefully, there are two, three more products again, like I said, there are two, three, more products that we planned that. But once we start producing them, we will share the details with you.

Garvit Goyal: Understood. And what kind of customers are we catering into ODU and IDU? I think you mentioned the Voltas. Any other player there or we are trying to Voltas only?

Sukrit Bharati: So for the AC finished products currently we are only catering to Voltas.

Garvit Goyal: Understood. And the growth rate is looking healthy. So any risk do you see near to medium-term going ahead?

Sukrit Bharati: I mean, the growth rate will depend on of course how the industry grows as far as the AC industry is concerned. So there I think the industry grows at 10% to 15% and our growth rate also becomes significantly higher. If the industry grows at 5% to 7% then that impacts the growth rate. But the 25% to 30% CAGR guidance for the next two, three years that we have is based on a conservative growth of the market. If the market grows aggressively, we hope to improve our growth percentage as well.

Garvit Goyal: Understood. That's it for my side. All the best.

Sukrit Bharati: Thank you.

Moderator: Thank you. We'll take the next question from Bhoomika Nair. Since she is unable to raise her hand. Bhoomika, you can unmute and ask your questions.

Bhoomika Nair: Yeah, good afternoon and congratulations on a good set of numbers. You know, so you said the Voltas is about 65% of our revenues, which is and that's the only client that we have in AC. So it would be safe to assume that the balance 35% is lighting segment because the other segments are yet to kind of scale up?

Sukrit Bharati: Lighting and components. Lighting and component business.

Bhoomika Nair: And what would be the split between lighting and components?

Sukrit Bharati: So lighting will be about out of the 35%, lighting will be about 25% to 26%. 8% to 10% is component business.

Bhoomika Nair: Okay. Got it.

Sukrit Bharati: And over the next couple of years, I mean, so the spread that we see in the next couple of years is 40% to 45% coming from AC.

Bhoomika Nair: Okay.

Sukrit Bharati: 25% from lighting, about 15% from components and 20% from deep water dispenser and commercial.

Bhoomika Nair: Okay. So I mean, in lighting, I guess Panasonic is our largest client out there. And obviously, we've seen a lot of price erosion, competition, et cetera. What is your experience out here? And if you can talk about your growth and your margin profile in that segment, and how are you looking at that moving ahead?

Sukrit Bharati: So lighting, see lighting I mean the very bright sensitive products like the LED lamp or the batten LED B5 batten. They are very price sensitive and they are making an EBITDA of 5% to 7% also is an achievement for any company and many auto manufacturing company. So these product segments I agree are high in competition but lighting what we have is that we have a larger basket, so we have lamps, we have panels, we have emergency lighting, we have street lighting and we have specialized lamps also. So blended, our EBITDA is decent, so we have a 12% to 15% blended EBITDA in lighting, but as far as these -- as far as the cut-throat products are concerned, EBITDA is only 5% to 7% for those specific products.

So going forward also, I don't see I mean I see a similar trend continuing in lighting. There will always be pressure on the fast moving products or the entry level products in lighting, which we have to live with. But at the same time, we are not specializing on a product because we are catering the time to increase our market share within the customer's buying. So for example, if our customer current, if our market share within the total buying of our customer is 10%, we want to increase it to 20% and 25%. So which helps us in keeping our branded margins intact or helps also improving them to a certain extent. So if we were only manufacturing LED lamps, then I agree with you that maintaining even 5% to 7% year-on-year would be a challenge, but as a basket, it is doable.

Bhoomika Nair: Understood. So on the components bit, which also we are looking to grow at and already at 8% to 9%, here I mean, you know, a lot of the players are looking at insourcing and I assume that there would be a decent demand for components. But again, there is a lot of other EMS players who are also kind of getting into this entire component vertical and scaling up these aspects. So in that scenario, and how do you expect and within these component verticals that we are looking at any specific ones that you're expecting, we'll see a better market share versus the others, et cetera. If you can just qualitatively, if not quantitatively talk about that?

Sukrit Bharati: So the two, I'll answer it in two ways. One is your concern about whether the marketing, whether the manufacturing capacity will be in a situation where there will be over capacity. I don't see we are close to anywhere close to being over capacity as far as EMS is concerned as far as the country at a country level, because I think we are still very, very far behind the required capacity that the country has.

We are still importing a major chunk of our electronics and to get that done locally, I think for the next 10 years, if we continuously go on adding capacity, all the players that are currently there, you still not be sufficiently there. So I don't think at a country level, capacity is going to become a constraint in EMS anytime soon, that is one. Second is the component business that you're talking about.

So component business, for us, we are actually working at multiple, I mean, even plastic moulding, EMS, copper tubing, heat exchangers. So we are looking at components, not just for the AC market, but also for other products that we can make using our existing infrastructures. These can be any plastic-moulded components like we have started recently doing some parts for the toy industry also, because it uses our existing infrastructure and we can do it without any additional CapEx and it improves our capacity utilization by 2% to 3% and 4% on a yearly level for that manufacturing segment. That is also a plus for us.

So component manufacturing, I think what you are referring to is on the basis that we will only supply to other AC players in the country which is not what we are targeting. Of course there are certain products like EMS circuit boards or remotes which we will of course or brass components we will target to sell within the AC industry beyond the captive consumption that we have. But at the same time, we will also use EMS capacities to make other components not for the AC industry.

So which becomes sector agnostic and where which vertical or which product category will give us how much growth is still very difficult to predict. But here we are looking at not just domestic but also export. We are talking to a couple of customers in the export side also to make components for them and export it to Europe and U.S. So I think what has happened over the last three, four years is because of our increasing backward integration in manufacturing, it is opening a lot of opportunities on the manufacturing side where value additions can be higher, EBITDA margins can be better and we can make these products.

The capability is getting created in house. So we want to use that to a larger extent and keep strengthening our manufacturing base as such. So that is why components will continue to grow. Difficult for me to say which specific product will go. But we are looking at being sector agnostic and ensuring that we are stronger as a manufacturing company as far as component business is concerned.

Bhoomika Nair: Got it. So just one quick question now, just on terms of, we're getting into all these various verticals and expanding components, et cetera. What kind of CapEx will we require for the same over the next two years per se, not just only in the current year, but also next year, because we scale up a lot of these capacities. So if you can just talk about that very quickly.

Sukrit Bharati: So this year, our major investment is going towards commercial ref and increasing in the IDU, ODU capacity that we have planned. So we are doing almost a ₹50 crore investment this year. And next year also, we are looking at a ₹40 crore to ₹50 crore investment for debottlenecking commercial ref and component business.

Bhoomika Nair: Okay, got it. Thank you so much and wish you all the best.

Sukrit Bharati: Thank you. Thank you so much.

Moderator: We will take the next question from Mihir. Mihir, you can unmute and ask your question.

Mihir Shah: Good afternoon. Am I audible?

Sukrit Bharati: Yes, good afternoon.

Mihir Shah: So I have a couple of questions for you. Will the working capital efficiency will be better in the new products versus ACs?

Sukrit Bharati: For water dispenser it will be similar, for commercial ref it will be better because the value addition, commercial ref and local sourcing is much higher. So for commercial ref, it will be better, yes.

Mihir Shah: Okay. And I have another question like as H1 has passed, so our H1 this year, our margins loom lower versus last year H1, but similar to full-year average. Can you explain this phenomenon?

Sukrit Bharati: So last year, like I had mentioned that last year, so we are at a quarterly pricing situation in most of our products. So H1 last year, we had got abnormal gains which got averaged out in the next H2 last year. This year that has not happened, this year we are learning on target except for the, I mean we are running, I mean correctly we have no exceptionally high or low discrepancies.

So blended annual margins will be similar to last year. First half we are, on two, three months we don't have, I mean it's off season for us. So out of six months, we are effectively functioning only for three months. Whereas in the next six months, we are functioning for five to six months, next half. So the second half is expected to be better in margins as compared to the H1 currently. So blended margins annually will be similar or in line with last year margins.

Mihir Shah: I have a last question for you that what CapEx are we targeting in the new products that is water dispensers and deep freezers respectively?

Sukrit Bharati: So water dispenser is not very high on CapEx. Water dispenser, we are looking at a total CapEx of ₹2.5 crores, ₹3 crores. Deep freezers we are looking at a CapEx of almost $35 crores, $40 crores this year and another ₹20 crores, ₹25 crores in the next financial year.

Mihir Shah: Okay, I have a last question for CFO. Could you explain the higher tax rate and how it works because of the early rights to use assets as explained in your report?

Sajid Shaikh: Yeah, so this is purely because of whatever last year's depreciation is there and the taxation that you see is actually the MAT, MAT on book profit. That's why you see a higher tax of it.

Mihir Shah: Okay, thank you. Got it.

Sajid Shaikh: Yeah.

Moderator: Thanks, Mihir. We'll take the next question from Ashwin Krithik. Ashwin, you can go ahead please.

Ashwin Krithik: Hi, thanks. Am I audible?

Sukrit Bharati: Yes, good afternoon.

Ashwin Krithik: Hi, yeah. So my first question is on the new product lines, right? Have we signed up the anchor customers for these product lines? And also just want to generally understand what are learning curve for manufacturing these products have been? Have we sort of developed these in-house completely without external help?

Sukrit Bharati: So we have developed these internally without external help. That is one. So water dispenser, the learning curve is not very long. And in about two, three months of development and two, three months of manufacturing learning curve is sufficient to get into that product vertical. Of course, there will be further learnings that will come as we go forward. But for the initial phase, I think six months to eight months is what is required.

For commercial ref, I think it is slightly longer. So next year, we are not considering that we'll get a substantial number from commercial ref next year, because the learning curve there can be 12 to 18 months. We've already started that journey, I mean, this year. So probably by end of next year, we should be fully comfortable with the product vertical.

Ashwin Krithik: And regarding the anchor customers for these product lines?

Sukrit Bharati: So we have, I mean principally, agreed with these customers. But sign off on paper is pending.

Ashwin Krithik: Okay. Next up, just want to understand in earlier conference calls, you'd mentioned that we should look at something at a 2% to 2.5% kind of like PAT margins. Is that kind of a number should we still work with? And also just want to understand with the finance costs, what we should look at it as the revenue base sort of scales up?

Sukrit Bharati: Right. So finance cost as a percentage will improve slightly this year, as compared to last year. And PAT margins, you're right, we can still expect 2% to 2.5% as a guidance level for this year as well.

Ashwin Krithik: Understood. And also on the export side, so how are we placed right now? What is the competitive intensity there for the product lines that we're operating in? And also, will we be able to piggyback with the same sort of customers or we'll have to do new customer acquisitions to sort of expand into the exports market?

Sukrit Bharati: So exports, of course, I mean, what we are doing as exports for existing customers, we are not considering as exports when we give you a number for exports. We are still considering that as domestic sales for us. Export is what new customers we add specifically for export. And these are new customer acquisitions that we are doing with the intention of growing internationally. Second, as far as the competitiveness is concerned, I believe in products where our value addition is more than 70%, we are becoming competitive on the world scale. Products where our value addition in-house is less than 70% we are still outplaced.

Ashwin Krithik: Understood. Just last question. Is there any further scope for backward integration into ACs? Because I understand you've already done quite a bit of backward integration in terms of multiple modules and quadrants?

Sukrit Bharati: So the two things that we're looking at is one, brass components, which is currently in the pipeline is something that we're doing. And the second thing is we've developed solutions, EMS solutions for fixed speed boards. But for inverter boards, we are still under development and by next year, we hope to be ready with our solution. So those are the two major aspects, after that the only component that will be left is the BLDC motor and compressor. So, BLDC motor also we are evaluating and if we get price competitiveness in BLDC motors, we will do that next year. If not, BLDC and compressor are two products that will be bought out, apart from that everything else will be manufactured.

Ashwin Krithik: So, since you mentioned BLDC motors, is this BLDC motor that same that would be used across multiple applications, so you will be serving multiple use cases or this will be exclusive to ACs?

Sukrit Bharati: No, no. This is, I mean these are common across multiple segments.

Ashwin Krithik: Okay. And just one other thing on the P&I incentives and the Maharashtra government GST incentives, have you started approving these in our P&L?

Sukrit Bharati: We have, yes.

Ashwin Krithik: Okay, that's it from my side. Thank you.

Moderator: Thank you, Ashwin. We'll take the next question from Garvit Goyal. Garvit, you can go ahead, please.

Garvit Goyal: Thanks for the opportunity again. Can you put some colour on the margin profile for ACs, lighting and EMS separately?

Sukrit Bharati: So, in lighting, like I mentioned, 12% to 15% is our blended EBITDA margin. For IDU is about 9% to 11% or 9% to 10% in IDU and 7% to 8% in ODU.

Garvit Goyal: And EMS?

Sukrit Bharati: EMS and component business, it varies, but blended again, it is about 10% to 12%.

Garvit Goyal: So, we have a target of ₹600 crores for FY '24. So, can you tell me what will be the portion of ACs, lighting and EMS in that?

Sukrit Bharati: So, AC will be again about 60%, 65%. I mean, like I mentioned, the similar ratio and about 25% to 30% will be lighting, and rest will be components.

Garvit Goyal: 15% will be the components, somewhere around?

Sukrit Bharati: 10%.

Garvit Goyal: Understood. So going ahead, if you see, like you mentioned, 40% to 45% will be AC. So, if AC getting reduced.

Sukrit Bharati: 60% to 65%. Going forward.

Garvit Goyal: Going forward, right, you mentioned earlier, 40% to 45% will be from AC. So, if AC's percentage is getting reduced in other verticals which are having the higher margin, so it will be a product mix improvement? And blended margins will improve, right?

Sukrit Bharati: Yes, we are working towards that.

Garvit Goyal: Understood. And 65% of our sales is currently from Voltas. So, can you tell me the reasons? Why are we not able to add on the other brands?

Sukrit Bharati: So, the reason why, so when we entered AC industry, we entered with the help of Voltas and with their guidance and support. So, also, whatever capacity we have are being almost completely booked by Voltas. So, we don't want to add a customer and we are because we are exclusively currently giving finished products to Voltas, we are able to align our manufacturing capabilities with their requirements. Our entire supply chain is aligned with their requirements. And we want to continue giving that service so that we can maintain our wallet share in Voltas purchase.

So, rather than trying to work with multiple customers, we want to focus on fewer customers and try to increase our market share or wallet share with these customers. So, that has been our strategy and that is, I mean, that gives us certain advantages. Also, it has certain disadvantages. But I think overall, for us as a company, the advantages outweigh the disadvantages significantly. And hence, we will continue to work with Voltas as long as they have requirements. And I mean, we don't specifically get a confirmation from them saying that we don't need any more quantities and this is sufficient.

So, then we can look at other customers. But till we have good orders and requirements from Voltas, we will continue servicing their requirements.

Garvit Goyal: Understood. And this 40% to 45% AC mix you mentioned, so is it for FY '26?

Sukrit Bharati: '26, yes.

Garvit Goyal: Okay. Thank you, sir. Thank you.

Sukrit Bharati: Thank you.

Moderator: Thank you, Garvit. We will take the next question from Piyush Jain. Piyush, you can go ahead, please.

Piyush Jain: Yeah, thank you. Thank you, Sukrit. I want to understand this deep freezer opportunity. Because I thought I heard today only this deep freezer thing. So just want to understand what is our plan on this opportunity and you mentioned some CapEx also for next two years or something. So can you just give us more clarity on this, what we are trying to do this, what is our size of CapEx, what is expected revenue and what could be the end user customer segment?

Sukrit Bharati: Right. So, deep freezers, I will start with the market. So, the deep freezers are sold in three primary segments. I mean, so we have three primary sales categories for deep freezers. One is of course, the OEM, ODM model, where we sell to other brands. That is one. That is where we have an anchor customer also that we hope to sign up with. The second category is where the larger players like the frozen food companies or the beverage companies buy deep freezers and distribute within their supply chain. So, that is the second B2B opportunity that we have. And the third opportunity is for export. Because export, India, like I said, the deep freezer value addition in-house is very high.

So, with that value addition, we are competitive in exports as far as our current pricing estimates are concerned. And if you are able to continue on that path, exports of deep freezer will open up going forward. So, all these three segments in deep freezer is open. Second, like I mentioned earlier, deep freezer as a category or commercial ref as a category is expected to go under 25% CAGR across India. Because we are rapidly expanding our retail network and also domestic consumption of commercial ref.

So, because of those two reasons, we decided that it was a good category to enter into. Plus, there are not too many players who are currently in the OEM, ODM space as far as this product is concerned, there is one significant player which is Western Refrigerator. And there are a couple of more smaller players. But I think Western is the biggest player so far in this segment.

Piyush Jain: Any idea on this Ice Make refrigeration? I think that is also a player who is in this deep freezer and they have a multiple end use also. They are doing some deep freezer or ammonia and other than your ice cream and beverages, any idea of that player?

Sukrit Bharati: So, there are two players. One is in the North and one is in the West. So, the North player, I'm forgetting the name, but I think they are more in Visi coolers. So, Visi coolers are the vertical coolers in as a subcategory of commercial ref where you store the bottles for cool drinks and other beverages. So, that is a Visi cooler, which is also a subcategory in commercial ref. And the second is commercial ref which is non-standardized. So, non-standardized commercial ref, what I mean is you have your cold chain, whether it is on transportation, whether it is on cold storages, whether it is on specifically large freezers, odd size that you want to make. So, there are two players who are operating in these categories. But I don't have their numbers and figures with me as of now.

Piyush Jain: Okay. And this will be like where the raw material would be Puf panel and all that, if I'm getting it correct or deep freezer and all?

Sukrit Bharati: No, no, so the Puf panel that you are mentioning is for non-standard size freezers or the cold chain. Here there is foaming operation as an operation, but it is, so deep freezers are the ice cream freezers that you see in the market. So, there you have a sheet metal, first is sheet metal, the second is moulding. Then you have your foaming operation, which is an insulation foam which goes between the sheet metal walls of the deep freezer.

And then you have your evaporation, evaporator and condenser connected to a compressor, which gives the cooling. So, the one that you are referring to is the non-standard installations of freezers. What we are talking about is the mass production of, I mean commercial refs like Visi cooler and deep freezers.

Piyush Jain: Okay. And who is the anchor customer you mentioned today?

Sukrit Bharati: We have not signed off officially yet. Once we do, we will share with you.

Piyush Jain: So, this will be largely ice cream Visi cooler or maybe a Thums Up, Coca-Cola beverage cooler. Is it, my understanding is correct?

Sukrit Bharati: So, we are targeting to have an OEM, ODM play in anchor customer, where we have a large brand coming with us. That is the logic of having an anchor customer because other players like Coca-Cola, or Pepsi or I mean any other beverage companies, so their market, their demand is tender-to-tender is my understanding. So as of now we are looking at an ODM or OEM customer as an anchor customer for us.

Piyush Jain: Okay and as you mentioned Western Refrigeration, what I know they are supplying from long time to Coca-Cola and PepsiCo and something so?

Sukrit Bharati: Correct. So they are supplying domestically also and they are exporting as well. And I think they are by far the biggest players in the country.

Piyush Jain: Correct. So we would be competing with them or it would be a different segment?

Sukrit Bharati: In certain products we will be competing with them, but from what I understand they are not very aggressive as an OEM, ODM supplier to large brands. So that segment is still open.

Piyush Jain: Okay. So what would be the difference?

Sukrit Bharati: In the B2B segment of course we will be competing with them.

Piyush Jain: Okay. So what is the difference here in OEM or ODM? I didn't understand.

Sukrit Bharati: One is if we are doing private labelling for another brand, we design and we manufacture, we sell it to a brand. So the end sale is not sort of our responsibility there. So that is the primary category for us.

Piyush Jain: Like Voltas?

Sukrit Bharati: Correct, like Voltas. So that is the primary category for us. The secondary category is the B2B sales where we are going to these frozen food companies or beverage companies and we are selling it to them and they are in turn distributing it to their supply chain. And third is export. So in all three cases, we are sure that we don't want to go B2C, because we don't have the bandwidth or the infrastructure to do B2C. So we are going to stick with B2B marketplace only.

Piyush Jain: So this will not be white labelling, this will be based on our brand, correct?

Sukrit Bharati: No, no, no. So this is white labelling is what I'm trying to say. So white labelling is the primary plan for us as far as commercial ref is concerned.

Piyush Jain: Okay, got it.

Sukrit Bharati: Where we make a customer, Western is not doing so much white labelling is my understanding.

Piyush Jain: Yes. Correct.

Sukrit Bharati: So there we will not be competing with them as much.

Piyush Jain: Okay. And what would be our CapEx guidance and revenue asset turn could be on this?

Sukrit Bharati: So CapEx this year, like I mentioned about ₹35 crores, ₹40 crores and next year about ₹25 crores, so ₹65 crores to ₹70 crores is the CapEx that we are expecting to do in commercial ref this year and next year. With that we can achieve a top-line of ₹500 crores to ₹600 crores over the next three years.

Piyush Jain: Okay. So have the CapEx on this has started or it is just one…

Sukrit Bharati: It has. No, it has started.

Piyush Jain: Okay, so how we will be funding this entirely debt?

Sukrit Bharati: Majorly debt as of now. We do intend to raise equity but as of now we are funding it by debt.

Piyush Jain: So equity raising via to a QIP or some preferential or not?

Sukrit Bharati: Still not decided but yes QIP or Pref.

Piyush Jain: So what is the overall thought process on your promoter shareholding? Because what I believe right now it is around 63 odd percent. So up to what level you are ready to dilute, because you also have to fund the growth?

Sukrit Bharati: Correct. So, I mean as of now post issue, we are not looking at going down below 60% for the next year or so.

Piyush Jain: Okay. And we are holding to our guidance which I believe earlier we have given some ₹550 odd crores for this year. Next year around maybe ₹750 crores and '26 could be a ₹1,000 crores. So with this deep freezer optionality, will this number increase or we are maintaining that number only and that optionality would be up on positive side if whatever we add on this?

Sukrit Bharati: So, '25 and '26, we are not expecting major numbers to come from your segments because they will have their own settling time as product categories. So '27 onwards, I think the real value addition of these segments will be visible but the guidance that we have given is considering a small fraction coming from the newer product challenge.

Piyush Jain: Okay. One more question.

Moderator: Piyush, we will have to allow others to ask questions as well, please.

Piyush Jain: Just, last one question. Allow please, okay. One thing, hello?

Sukrit Bharati: Yes, please tell me.

Piyush Jain: Yeah. One thing, are we thinking towards going beyond the AC, maybe a washing machine or something? And second, are we thinking to go beyond Nashik to other parts of the country because sometimes the logistics cost also become a critical factor of the profitability. And sometimes what happened our OEM are situated maybe in South side or maybe whatever side. So, are we ready to put the plant there to be in their proximity?

Sukrit Bharati: So, if we have a clear mandate from our customer to set up a plant, we will. So, that is as far as location is concerned. But as of now, we are getting better economies of scale by being in one location. So, we are doing that. That is the location part of your question. Thus, the first part of your question about we're getting into newer product categories, we are evaluating other product categories. But like I said, till we actually have a concrete plan on paper or a sign off with a customer, we don't want to take it into our projections or, I mean, assume that we will get into these categories. But yes, we are actively exploring product categories.

Piyush Jain: Okay. Thank you, sir, and all the best for the future.

Sukrit Bharati: Thank you so much. Thank you.

Moderator: We'll take the next question from Shrikant. Shrikant, you can go ahead, please.

Shrikant Bandaru: Hello, Sukrit. Congratulations to you and your team on a continuity growth so impressively. As you mentioned, the opportunities to grow are immense. But when deciding to embark on your various business expansion initiatives, how do you ensure that you're not overreaching when it comes to either the management bandwidth or the financial or the cash flow bandwidth?

Sukrit Bharati: So the three, four things that we are actively evaluating when we are evaluating new projects. One is of course the ROCE that we get with that investment. So if we at least theoretically don't see an ROCE of 25% to 30% with the potential of going to about 35%, we are staying away from such opportunities. That is point number one. Point number two, debt equity like I mentioned, we are, I mean the upper side that we want to maintain is 1.5 and preferably we want to be around 1, 1.2 as far as debt equity profile is concerned to keep our cash flows in check and not over leverage the balance sheet.

So those are the two basic financial parameters that we are looking at. The third aspect that we looked at is the potential of growth in that segment. So like commercial ref, I believe is going to grow in the next three to five years, you will see probably an inflection in the number of units sold.

So for us to be ready three years down the line, we have to start preparing now. So growth potential is the third parameter that is critical. And fourth, of course is the customer profile that we have or we can get in that segment. So if we have a very good customer coming in or a multinational customer coming in and saying that we have a five year or a 10 year requirement or something of that sort, then getting into that category also makes sense. So it is a balance of these four aspects that we are doing before deciding to get into any product segment.

As far as managerial bandwidth or capacity is concerned, we are fortunate to have a very robust team now. And our team has been becoming fundamentally stronger over the last one and a half years. So let's hope we are able to continue building a good team and the newer opportunities that does not become a hassle.

Shrikant Bandaru: Okay. Thank you so much and all the best.

Sukrit Bharati: Thank you.

Moderator: We'll take the next question from Anurag Agrawal. Anurag, you can go ahead please.

Anurag Agrawal: Thank you for the opportunity, sir. Congrats on the amazing set of numbers for this half-yearly. So my question is, since currently are like about 60%, 65% of our revenue is based on Voltas. So I just wanted to understand, has there been any escalations in terms of quality or timely delivery issues which has been raised by Voltas in the recent one year?

Sukrit Bharati: I mean, so the Voltas has, I mean a dedicated persons fitting out of our factory. So all the routine issues are addressed routinely. Apart from that, there have been no escalations as such. Of course, there is pressure of supplying during the season, which is very high, which of course comes every season because of the seasonality of the product. Suddenly during season we are expected, I mean, there's a lot of pressure sometimes to max out our capacities. But beyond that, nothing significant.

Anurag Agrawal: And let's say if Voltas sells 100 ACs, how much of those ACs do we supply to them?

Sukrit Bharati: So we are supplying more IDUs and less ODUs to them, because Voltas is doing manufacturing of more ODUs in their Pantnagar factory, so that offset is being set off. So it is difficult to give an accurate number. But I believe out of 100, about 15 to 20 ACs are supplied by us. Or maybe 10 to 15, somewhere between a 10 to 20 sort of number.

Anurag Agrawal: Okay. So another question, you mentioned that Voltas also has their own manufacturing of ODUs. So going forward, what motivates them to outsource those contracts to us rather than build those capacities on their own?

Sukrit Bharati: So I don't think this is specific to Voltas, but even if you take Voltas for that matter, I don't believe for any large brand to have 100% in-house manufacturing or value addition is possible or makes sense. Theoretically it is possible, but practically I don't think it's possible, neither does it make sense. So I continue to believe that only 30% to 50% of the total value addition will happen in-house for large customers. The remaining 50% to 70% will continue to be outsourced because of multiple reasons, because of reasons like when a large brand is putting up capacity, they have multiple things to evaluate, whether it is government regulations, whether it is and they put up capacity in steps.

So if you put up a capacity of 0.5 million and then you put up a capacity of 0.5 million, but you don't grow like that, you grow in a linear fashion. So you might and you cannot ever anticipate your demand exactly. So there will always be a float. Second is, for them to specialize in manufacturing also, I mean getting into component manufacturing to a level where we can because we are focusing on manufacturing is also going to be a challenge.

So if we are backward integrated to an extent of almost 80%, 85% and they are only doing about 40% of backward integration, then our backward integration value addition in-house. So then again for them to be price competitive or for us to out-price them becomes possible. So there is competitive edge in outsourcing, there is flexibility in volumes in outsourcing and third, the investment term that you get when your outsource is better as far as compared to in-house manufacturing. So all those three reasons will always force larger companies or any company which is focusing on developing a strong sales network to have 100% manufacturing in-house.

Anurag Agrawal: Got it. Thank you so much sir.

Sukrit Bharati: Thank you.

Moderator: We'll take the follow-up question from Piyush Jain. Piyush, you can go ahead, please.

Piyush Jain: Yeah, just one small thing sir. On EMS side, do we have any plan to go into this manufacturing of PCBA, RFID, because a lot of opportunities are coming in this export side of this EMS side of manufacturing and there are a PLI scheme and also there. Any thoughts on this?

Sukrit Bharati: PCB manufacturing as of now we've not planned anything. The product manufacturing we are open but component backward integration on the EMS side we have still not, we've still not found synergy there as of now. If we do come across a customer, we are open to that idea. But as of now, we don't have anything on the table.

Piyush Jain: Okay, thank you.

Sukrit Bharati: Thank you.

Moderator: We'll take the next question from Shyam Desai. Shyam, you can unmute please.

Shyam Desai: Hi, thank you for the opportunity. I just wanted to ask regarding the previous answer you just gave. Since OEM have their manufacturing capacities and probably they as well would look to increase at certain point of time gradually what you said, is there any chance that we may end up as well supplying the components of ACs to them?

Sukrit Bharati: No, like I mentioned I mean, so there will be a certain percentage which is always outsourced to cater to the variation in the demand. And second, it becomes a big risk for them to have for any large person to have 100% manufacturing in-house because then that is like putting all the eggs in one basket. So we are and we will continue to supply components. I'm not saying that we will not supply components but at the same time the product supply will, I mean go down to zero or will stop completely is not something that I foresee.

Shyam Desai: Yeah, understand. So basically what I can make out of this is, there will be always a possibility that we can supply or rather we can increase the supply of components even if they are going to increase their manufacturing. So one or the other way we will have a substantial pie of their total revenues. Is that assumption is correct?

Sukrit Bharati: Correct.

Shyam Desai: Thank you. That's it from my side.

Sukrit Bharati: Thank you.

Moderator: That was the last question for the day. Would you like to give any closing comments?

Sukrit Bharati: I thank everybody once again for being here today. I hope you've been able to do some justice in answering your questions. And we look forward to meeting you again in the next quarter.

Moderator: Thank you sir. And thank you to all the participants for joining on this call. We thank the management as well for giving us their time. You may all disconnect now. Thank you.

Sajid Shaikh: Thank you.

Sukrit Bharati: Thank you so much.