"IFB Industries Limited Q3 FY'23 Conference Call"

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MANAGEMENT:	**MR. PRABIR CHATTERJEE – DIRECTOR & CHIEF FINANCIAL OFFICER, IFB INDUSTRIES LIMITED.** **MR. RAJSHANKAR RAY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER (HOME APPLIANCES), IFB INDUSTRIES LIMITED.** **MR. ARUP DAS – HEAD (MARKETING & ENGINEERING DIVISION), IFB INDUSTRIES LIMITED.** **MR. ANAND REDDY – CHIEF EXECUTIVE OFFICER (MOTOR DIVISION), IFB INDUSTRIES LIMITED.**
MODERATOR:	**MR. PRASHEEL GANDHI – NIRMAL BANG INSTITUTIONAL EQUITIES.**

Moderator: Ladies and gentlemen, good day, and welcome to the IFB Industries Limited Q3 FY'23 Conference Call, hosted by Nirmal Bang Institutional Equities.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prasheel Gandhi from Nirmal Bang Equities. Thank you and over to you.

Prasheel Gandhi: Good afternoon everyone. Nirmal Bang Institutional Equities welcomes you all to 3Q FY'23 Earnings Conference Call for IFB Industries.

On the onset of the call, I would like to thank the management for giving us the opportunity to host a call. From the management team, today we have Mr. Prabir Chatterjee – Director and CFO, Mr. Rajshankar Ray – MD & CEO of Home Appliance, Mr. Arup Das – Head of Marketing, Engineering Division and Mr. Anand Reddy – CEO of Motor Division.

I would now like to hand over the call to management for opening remarks, post which we can take questions from the participants. Thank you, and over to you.

Prabit Chatterjee: Good afternoon everyone. I welcome you all for IFB Industries Investors Call for the 3rd Quarter, FY'23. Joining me today are Mr. Rajshankar Ray – MD & CEO of Home Appliance Division; Mr. Arup Das – Head of Marketing, Engineering Division; and Mr. Anand Reddy – CEO of Motor Division.

Now coming to the results, growth during this quarter was 4.5%. YTD growth for the period ending December was 26.9%. Growth during Quarter 3 was flat mainly due to lower-than-expected revenue in Appliance division, mainly during November and December 2022.

The Company has reported a total income of Rs. 981 crores compared to Rs. 938 crores during the same quarter last year. During the 3rd Quarter, EBITDA was Rs. 33 crores which is 6% higher compared to 3rd Quarter last year. As a result of lower commodity price, material price reduced by 2%, material cost. Reduction of material costs and a marginal hike in revenue resulted in higher EBITDA during the quarter.

YTD revenue up to the 3rd Quarter December was Rs. 3,132 crore compared to Rs. 2,468 crore for the same period last year. YTD growth in revenue compared to last year was 26.9%. EBITDA margin during the period was significantly higher at Rs. 145 crore compared to Rs. 75 crore for the same period last year. YTD growth in EBITDA was 93%. The major reason for higher growth in EBITDA was higher revenue.

With this I will request you to start the question answer session please.

Moderator: Thank you. We will now begin the question answer session. We have the first question from the line of Dhananjai Bagrodia from ASK Investment. Please go ahead.

Dhananjai Bagrodia: I wanted to ask you in your Home Appliances business what are we seeing? Are we seeing a general slowdown across the board or is the Company losing market share? What is the situation for Home Appliances?

Rajshankar Ray: So, if you see the market slowdown in November and December, this was across the board affecting all companies. So, the Company has not lost any market share, but November and December unfortunately were two very bad months as far as the industry is concerned.

Dhananjai Bagrodia: So, was it bad for any particular segment or for all?

Rajshankar Ray: It was bad across the Board. The only thing that happened in the month of December, there were some very high deliveries of air-conditioners by companies through their channels. But this is not customer uptick this was basically building up of stock. But as far as washers, microwave, dishwashers etc. were concerned, in general the customer movement in these two months is very low.

Dhananjai Bagrodia: And was it across or was it like rural or urban, where are we seeing such of the impact --?

Rajshankar Ray: So, we have seen the impact across, there wasn't any specific urban or rural bias to this; it was a general slowdown across. Now typically, what happens is that post Diwali, in the month of November there is generally a lull. And there is some offtake that starts from the month of December, but this time it was an extended lull.

As far as we are concerned, our focus remains on expanding our network and getting more out of our network. So, IFB per se, even in a market like this has enough levers to grow if we execute all our levers properly. But the fact is, it was across the board demand slowdown in November, December. There is no share loss, there is no market share loss.

Dhananjai Bagrodia: Just to have an idea what would our approximate share be in each segment, market share?

Rajshankar Ray: So, can we give you those figures separately, because what we do is that we estimate market share based on data from suppliers, what we understand their sales. So, there is one index of GSK data that we use, and there is an internal estimate we make because GSK doesn't cover all areas.

So, as far as front loads are concerned, our market share estimate is roughly in the range of 34% to 35%, considering all the data points that we have. And there has been an increase in that from the last year. And there is one segment in the front loaders, which is the 9 and 10 kg segments in which we did not have modules present, where IFB shares was effectively zero. So, over the last quarter, we have begun the introduction of the 9 and 10 kg into the markets and we expect the overall market share gain from that introduction. As far as top loaders are concerned, our market share is in the range of around 8% to 9%.

Dhananjai Bagrodia: Just to understand top load-front load market share 3% to 4%, how much would it be let's say three years ago?

Rajshankar Ray: Our market share over a three-year period I think has reduced by roughly around 4% to 5%. And that reduction primarily came around two years back, because the last two year period market share has been more or less constant. But if you take a three year period, then the market share reduction in front load would be a 4% to 5% reduction, and the top loaders would be an increase by about a percent and a half.

Dhananjai Bagrodia: And so what about the other segments?

Rajshankar Ray: So, if you look at microwaves the IFB share has been constant and it is about 22% to 23%. And the position sort of rotates between LG, Samsung and IFB in terms of who comes in at number one. If you look at dishwashers, our market share is about 35% to 36%. In air-conditioners our market share is still very low, it is in the range of around 2% to 2.5%.

Dhananjai Bagrodia: In air-conditioners now with more and more competition coming in, what would be our strategy now to grow the segment? How would we look to compete against the others?

Rajshankar Ray: What we have done is that we, if you look at the introduction of the manufactured range that we have in 2020, and two years of the pandemics, and the associated problems with that we are actually quite unhappy with the way the overall air-conditioning business is around that. And we have also reported that we have made significant PBT level losses, after the investment on this segment. Now, there were two major agendas to profitability and also to revenues on this segment. One was the material costs. And that exercise we had started about a year back. And starting this January, the material cost reduction program is almost complete. So, the effects of that will starts from this quarter onwards. So, this was reason number one.

The second was that in terms of placement of our products on all the channels where IFB is present, in the areas where we need to penetrate more through our distribution network etc. so all the learnings that we have acquired over the last two, three quarters where we didn't make much headway, from this quarter onwards in terms of the placement strategies, the strategy around how to handle the channel mix, sort of the basic SKU structure or the commercial structure with the channels, all that has been sorted out, and we are quite hopeful of good volumes on that segment from this quarter onwards. So, currently, these are the two important elements for IFB on this segment.

Dhananjai Bagrodia: I just had a one more question, just, sorry a follow up on the AC part, like how are we trying to improve because every player is actually **(Inaudible) 11.24** would we looking at more movement in terms of going online or could it be limited shelf space also in a store? So, how would we get that?

Rajshankar Ray: Yes, so the fight for the shelf space is a real fight. But what we have done is that we have stayed at let's say premium mid-end to a slightly higher-end position consistently. And we haven't lowered that positioning for the last two years. And in the areas where we have made sales taken counter shelf, the product feedbacks has been very good. The channel retentions have been healthy.

Now based on that experience is where the expansion of the placement and the shelf space enlargement is taking place from this quarter onwards. So, are we going to be present everywhere? Definitely not, that will take more time, because our price position is also more towards the higher end of the price range basically. And we believe that is right because of the performance and the features that we have. But in terms of getting what we want to ensure that our factories will utilize that volume, we are quite hopeful that we will start delivering from this quarter onwards based on all the works that has been done on the placement side.

Dhananjai Bagrodia: You mentioned that our price point in AC is on a relatively higher side, would we look to like really focus more on mass segment now?

Rajshankar Ray: No, right now, we are not looking at any reduction in prices or a change in the model range per se. The pricing that we have versus the features and the values, there is a settled approach in the market that is now building, so at least for this quarter and the next quarter, we will stay focused on what we have. And at the end of maybe the 1st Quarter of the next fiscal year then we will look at the future developments that we need to do.

Moderator: Thank you. We have the next question from the line of Abiral Jain from SG India. Please go ahead.

Abiral Jain: I have a couple of questions on the Appliances business. One is if you could just help us understand the gross margin across product categories. So, you have front loader and top loader as one, you have dishwashers, and you have ACs as a separate category. What sort of gross margin is the Company realizing across and even a broad understanding would be helpful. And how much the fixed cost expense has increased because of AC plant coming in. It is now a full-fledged division versus earlier it was a purely a trading strategy in terms of fully built unit being imported from China and being sold.

Prabir Chatterjee: Please note we do not give any product specific margin, basically. The AC plant has fixed expenditure specific to AC plant . How ever manufacturing AC is better than trading of AC [roduct.

Abiral Jain: What I wanted to understand was say for example, if Appliances division as a whole was operating at say a 45% gross margin before --; what we understand is AC gross margins are substantially lesser. So, is that right? I mean we do not want to know the exact numbers but just want to understand the variations.

Prabir Chatterjee: Yes, that is right, AC margins are lower than our other products.

Abiral Jain: And by what quantum, is it 10%, 5%, 15%?

Prabir Chatterjee: Do not please ask about the quantum --. But I will say AC margin is lower compared to other products that we manufacture, But it has improved over the past, because we have done a lot of localization and volume is also going up, so gradually margins are going up. But even then it is lower than the front loading and other products.

Abiral Jain: And before the plant came up there was substantial Rs. 300 crores of AC revenues that the Company used to do or had gotten to a scale. Was the margin comparable back at that time and margin actually is lower now, when you have your own plant?

Prabir Chatterjee: No margin is not comparable . Investment in AC has resulted in higher cost & will stabilize once we achieve revenue.

Abiral Jain: All I am asking is say on a 4 year rolling average basis, your AC gross margins pre-2020 was, is it true that it was higher than what you have been able to deliver say in FY'21 --?

Prabir Chatterjee: No the current position is better.

Abiral Jain: And fixed cost expense because of the plant, the whole manufacturing overhead, how much will that be on a yearly basis because I see a number being called out of PBT loss because of the AC business in your Investor Report. So, just wanted to understand what's the fixed cost annual addition that has come because of AC plant?

Prabir Chatterjee: Ac loss is mainly due to lower than expected revenue & higher fixed cost due to higher investment.

And in operating expense there is not much, there are in fact quarter-to-quarter if you compare there is a reduction. And operating expense like I said around 80% to 85% is variable in nature. And the fixed cost is very minimum there. So, I don't think we have impacted much, we have reduced some fixed cost and there is further scope for reducing it. But of course, AC related fixed cost if it is there it has to be recovered by higher revenue in it.

Abiral Jain: Broadly, and see I keep asking this question every quarter is what and given material cost reduction program is mostly complete you have worked on **(Inaudible) 19:09** and pricing is something that you would like to keep at the premium side. So, what sort of steady state

Appliances division margin that you would want to work with and which is achievable in the short term, both at the gross margin level or maybe at an EBITDA level, because we have seen quite a lot of fluctuation around gross margin and EBITDA margin in the appliances business which were for genuine reasons of raw material, supply shortage and high commodity price inflation. But I am assuming a big assumption is that things are settling down now. So, what is achievable in the near term in the next two, three quarters? And what is the steady state that you would be gunning for?

Rajshankar Ray: If you look at what we have also stated in many investor calls our internal target is to be able to deliver double digits EBITDA margins. Now, the areas where we have not been able to deliver as per our own internal targets, one has been the material cost size which was in a lot of troubles seems the commodity prices moved up from Jan '21 onwards, that exercise we have now stabilized and a lot of the pressure will come off from this sort of.

And the second has been that there is a certain network that we have, there is an extraction which we should get out of it. The progress on that is not in-line with our own expectations. So, if you see up to the period of the 2nd Quarter or even up to October end, we did have a healthy growth rate, but even we believe, I mean internally, our feeling is that even that what growth we should have can be much more than what we are delivering. So, if we are able to do on the revenue side what we are supposed to be doing, which is to be able to get extraction out for which a lot of work is being done internally integrated to ensure sales extraction, and the combined effects of the material cost work, which is 99% complete. Both put together, we wouldn't want to give a specific forecast on this, but we can be very close to double digit margins, which we have also said in previous investor calls.

Abiral Jain: One clarification I need, and all this pertains to AC per se, rest of the divisions or product categories there is no margin or volume challenge, so to say, am I fair in saying that?

Rajshankar Ray: So, if you see our financial results, the fact that we are losing money on the AC segments has definitely affected the overall P&L. And what we internally have targeted is that in Quarter 4 and in Quarter 1, we need a specific improvement on the AC segment. When the AC improves, it has automatic positive effects of a significant decrease on the overall business. So, you are right in this.

Abhinav Jain: And there would be a very high salience of Q4 and Q1 given it's a summer product, any which way.

Rajshankar Ray: Yes, Q4 and Q1 for the AC segment are the two main quarters, you are right.

Abiral Jain: And what we also, you had said earlier was the OEM part will also help you increase the utilization of the AC plant. So, by now you would have significant visibility on the OEM volume. So, is it per expectation of what you have guided for?

Rajshankar Ray: Yes whatever we have been given in terms of orders for Q4 and Q1, what we need to ensure that the plant runs to the capacities it is in line with that, you are right.

Abiral Jain: And obviously a part of the BOM reduction the pricing improved or sorry, the improvement in terms of lower cost must have been passed to the OEM customers as well?

Rajshankar Ray: So, with the OEM customers, there is an index pricing mechanism which is based on commodity fluctuations every quarter the pricing also adjust every quarter. So, we have a quarterly understanding with them.

Abiral Jain: Because all I am assuming is, I understand the indexation part for key components, but you would have been engaging or at least broadly in terms of pricing with the OEM customers. And given you have been able to achieve the material cost reduction program. So, does that sort of improve your envisaged margins from the OEM segment at all or it stays the same, as in your pricing to them was always keeping in mind that you would be able to achieve the targeted material cost reduction?

Rajshankar Ray: So, yes, you are right to the extent that the material cost reduction program versus the price expectation from OEMs will help the profitability on the OEM segments. But the larger part of the profitability on the AC segments is the brand sales and the cost structure on the brand sales side. So, yes, there will be an improvement on the OEM side, but the AC, P&L per se improves if we sells to our target and the material costs exercise from this quarter onwards will start showing the benefit.

Moderator: Thank you. We have the next question in the line of Manoj Gori from Equirus Security. Please go ahead.

Manoj Gori: My question here is if you look at the employee cost from sequential basis has increased by roughly around Rs. 9 crores to Rs. 10 crores. So, Mr. Chatterjee just highlighted like there were increments but normally what I assume is or probably what I understand is that formally the increments happened during Q1. So, why this time during Q3, any reasons specifically?

Prabir Chatterjee: No, the appraisal process took l longer time & that is why it was delayed. There is no other reason, because normally, In other tears normal increments comes late first quarter or in second quarter --

Manoj Gori: In 3Q, Yes.

Prabir Chatterjee: Yes.

Manoj Gori: And when we say about incremental employee or headcount that we have added during the quarter, so for those headcounts probably if you look at the factory has been running for AC. So, probably like those new employee count would be for which category, can you throw some light over there?

Prabir Chatterjee: Not so much in factory, mainly in marketing and other areas to increase the network.

Manoj Gori: So, Rajshankarji, this question is for you. So, probably when we say like you just highlighted like, we have not been able to get the desired level of extraction from the channel. And still we have been deploying new headcounts and obviously --. And in fact, one compliment that I would like to give is if we look at the product quality and the product aesthetics, IFB definitely has an edge over competitors. So, whether we talk about the industry giants as well, I do believe like products are relatively better. So, what are the major challenges that we are finding on the extraction side, because this thing is something we have been aspiring for long now on the extraction part?

Rajshankar Ray: Yes, so you are 100% right and we are also internally quite unhappy with progress per se on this. And if you ask me, there are a primary channel is that there is a large part of the network in India which is fed through distributions, which is the indirect retail network. And this was a network that we sort of, were not present in at all. And over the last two, three years, there have been a lot of focus in getting the network right. But in terms of having the right set of distributors, ensuring that the KPIs in the system probably settle down well, and everyone knows what they have to do if you are a IFB distributor or the IFB employees that we have the product placements properly done etc., it is taking us some time to really do this well. And we are also not very happy with the pace. But in terms of the extraction increase from the network that we have, the largest area of ensuring is through the distribution network.

Now to some extent the distribution network is dependent on products that are more mass in nature, so let's say a top loaders or air-conditioners. Now the air-conditioner story is still taking us some time, I believe that from this quarter onwards the distribution network will really see AC the way that we should have been present let’s say few years back. The top loaders etc. our range is still positioned high, so even though large parts of the distribution network are able to sell it, 100% of the network is unable to sell it because our price points are higher. So, to some extent, it is the product basket that we have, but more it is to do with how we are running the distribution channel effectively. And you know, that is the work that we have to complete, Manoj basically. So, if our progress is slow, it is slow because on that area we are behind our own internal targets.

Manoj Gori: One more observation has been even in the washer, when we look at. So, even in the west or in the north when we visit the stores or any of the large format stores like Croma or Vijay Sales or Reliance Digital, we are able to see your front load washing machines. What is missing is your top load fully automatic washing machines are not even in display. So, if we look at probably when it comes to pricing, we are very near to these largest players in the industry. But still we are not able to see that washing machine and the one feedback that we are receiving, especially in the west market is that IFB normally should be preferred as a front load washing machine, not for the top load one. So, what's actually like this negative perception among the channel or probably what's happening over there, because now if we look at we have done our in-house manufacturing, since many years now, it's more than four or five years, if I am not wrong, for top load washing machine, but still we are not able to see even in the large format stores.

Rajshankar Ray: Yes, your feedback is right that the placement of the top loaders in the larger stores is below par. And in fact, from this quarter onwards, in terms of the expansion of the placement of the top loaders in let’s say a Reliance or a Croma we have taken that as our primary target in terms of the large key accounts how to increase placements of the products that we have. So, that is a agenda to be completed in this quarter or in the next quarter. But your feedback is absolutely right. So, the top loader needs more placement from our side because it's a good product and the expansion in the placement itself will be a significant rise in volume.

Manoj Gori: Because see, I personally use it and I am very comfortable with the product quality. So, I think it's a low hanging fruit for us because it definitely goes well with our front load washing machine.

Rajshankar Ray: Yes, you are absolutely right, it is a very low hanging fruit. And you can get much more out of revenues quickly on this, and the increase in the placement is something that we have taken as a specific task for this quarter, especially with channels like Reliance, Croma, etc.

Manoj Gori: One more question on the gross margins, you have answered a lot, but when I look at the gross margins in last quarter, if I am not wrong, you highlighted like we have taken some pricing actions and also then if you look at the commodity prices have also cooled off significantly. But when I look at the sequential gross margin improvements, probably if we look at the gross margin, probably those have declined on sequential basis.

Rajshankar Ray: I think the effect of the reduction in the commodity prices or the material cost action that we have completed comes into full effect, once the pipeline inventory clears up. So, this impact of the material costs on the gross margin we will start seeing from this quarter onwards.

Manoj Gori: From Q4 onwards?

Rajshankar Ray: Yes, so in this Q3 for example --

Prabir Chatterjee: In Q3 we have got in appliance around 2% reduction in material cost.

Manoj Gori: And last question on the room AC side. So, obviously, when you look at the current scenario so, with intensified competition, most of the brands have been going very aggressive in pricing. So, I would just like to understand your strategy obviously you gave a brief description about the product portfolio. But on the channel side, when we look at probably there would be something which even channel would be positive on because of the higher teams or margins that they would be able to generate on the MOps. So, what sort of margins we would be offering to channel as compared to other players in the industry?

Rajshankar Ray: This varies tremendously across India. And typically, you might find that the channel operates ACs in many places on a margin of let's say Rs. 500 to Rs. 1500, because of the excessive presence of some of the mass brands there is a lot of discounting that happens. Now, what we have understood based on our previous season's experience, because we sort of pursued this idea of proper pricing based on our conviction was about the product then the additional retention because of the lesser discounting that people need was to get anywhere between Rs. 1,000 to Rs. 2,000. Hence I was saying that as far as the IFB retentions are concerned, the experience in the channel has been good. And that is also helping us to increase the channel size from this quarter onwards.

Manoj Gori: And we have our service network in place as compared to the other players in the industry.

Rajshankar Ray: Yes we have a very wide and a very well presence service, equal to the best in the industry.

Manoj Gori: Right.

Prabir Chatterjee: And same is also expanding.

Manoj Gori: And lastly if we look at temperatures have definitely been picking up over the last few days. And what we hear is the south has been witnessing some demand uptick. Are we seeing any green shoots or probably any revival in demand whether in rural or in urban markets or anything?

Rajshankar Ray: So, January was better than November and December, definitely. February seems to be similar to January, but we have to wait a little bit. But the excessive downward dip of November and December has definitely reversed in January.

Manoj Gori: But we are witnessing on YoY basis at least we are seeing some growth in the Home Appliances?

Rajshankar Ray: YoY growth till October was much higher, it's actually November, December --

Prabir Chatterjee: YTD growth is around 26%.

Manoj Gori: But again, so probably if you look at majority of the growth has come from the Q1, because obviously it was base was a COVID impacted period. But when we look at Q2, it was 10% growth, and Q3 was roughly around flattish on YoY basis. So, I am just like whether in Q4, at least so far, we have been seeing that growth momentum.

Rajshankar Ray: So, if you see, we haven't seen it as yet, but based on what is happening in the market in January and February at the end of the quarter, yes we should see it.

Moderator: Thank you. We have the next question from the line of Bhargav .B from Kotak Mutual Fund. Please go ahead.

Bhargav B: In the press release, we read that we are sort of upgrading our IFB points at a very aggressive pace, 30 store in '23, 150 store in FY'24. So, what is the rationale for doing this? Is it sort of a brand strengthening exercise that we are sort of trying to emulate LG, Samsung who also sort of spend a lot on their EBOs and that sort of brand building strategies to push premium products.

Rajshankar Ray: So, our investments on our IFB point has been consistent over many years now because we believe that's good for the brand and also it is good for the revenue. What we have put in the newsletters is that there is a new design that we piloted, we just enhanced the customer experience. So, now the earlier design of the IFB stores that we have, we are going to change them to the new design and that is the roadmap. So, we will be doing 30 odd stores in this fiscal year, and then a bulk of the stores in the next fiscal year.

So, per se our spending on the IFB points has remained consistent to what it has been, not just in terms of investment in bringing up the store but also in the marketing and the activations around the IFB point. It's a very important channel for IFB.

Bhargav B: And how profitable is this as a channel?

Prabir Chatterjee: This is profitable and from my IFB point, on a yearly basis, we have at least Rs. 410 crores to Rs. 415 crores of revenue. And margins are profitable.

Bhargav B: And what is the revenue of IFB points?

Prabir Chatterjee: Rs. 410 crore plus.

Bhargav B: And on profitability is it similar to the company average or lower than the company average?

Prabir Chatterjee: It’ is making good margin.

Bhargav B: And my last question is that the given that our positioning in ACs is on the premium side. But if you look at the Indian mindset, typically for a Indian brand they would sort of compare that on pricing and if it is at a premium they would go for an MNC brand. So, eventually channel incentives will play a significant role in order to push the product. So, is it fair to say that, our channel incentives would be one of the highest in the industry if we have to succeed in premium ACs?

Rajshankar Ray: Actually, no, because one is the point on the incentives and the other is the point that I made earlier on retention. So, you can give a lot of incentives, but if it gets discounted in the market at the end of the day the channel is still left with something very small. So, if you look at incentives per se then we are in line with industry. But if you look at retention ours would be healthier than others. So, it's not that our strategy is to offer any additional money to be able to grow this business.

Bhargav B: So, will we be spending on ad spend, meaning how do we plan to attract the customers?

Rajshankar Ray: Yes so, for let's say the period March onwards in terms of the campaign required to create customer demand yes, we would do that this year. Those details are being worked out, but in the period, let's say March to June this year we will be investing in creating demand.

Moderator: Thank you. We have the next question from the line of Chirag Muchhala from Centrum Broking. Please go ahead.

Chirag Muchhala: So, the question is actually on IFB Refrigeration, so wanted to understand which all products are we planning under this Company, and what is the rationale behind not having this business in IFB Industries itself rather than having, you know, another group company?

Prabir Chatterjee: So, it's just a separate company, we have only participated in the equity in that Company. And as of now we have planned Rs. 97 crores of investment .Our share would beto 44.4%. As of now,

Chirag Muchhala: So, 37% will grow to 44% you are saying.

Prabir Chatterjee: 44.44%, when we pay the entire amount of Rs. 97 crores.

Chirag Muchhala: And what all products are planned under this. So, I mean residential refrigerator or commercial refrigeration, if you can please elaborate?

Rajshankar Ray: So, it's an independent company making its own product plans, but it will cover the entire spectrum of refrigerators in the mass segment, mass and mid-premium segments when it launches. So, I think by the end of this quarter, those details will be publicly available --. Right now, they are in the final stages of putting together the product plans --

Chirag Muchhala: Basically, the Direct Cool and Frost Free refrigerators which are you know basically residential refrigerators that is what you were earlier into right?

Rajshankar Ray: Yes.

Chirag Muchhala: Just, you know, if you can elaborate since IFB Industries has been a company dealing with Home Appliances, right from washing machine, AC, microwave, oven, dishwashers, then why not refrigerator in the same company, because future growth for profitability prospects will not flow through 100% in IFB Industries. So, from that point of view, I was asking.

Rajshankar Ray: If I were to answer you it would be answering on behalf of IFB Refrigeration Limited per se and it might not be the right answer. So, the advantages of having a focused independent company on a segment that is very large in India are the principles behind this Company has been created. So, maybe you could take this question offline and then we could discuss it more.

Chirag Muchhala: Moving to AC, for this upcoming summer season on OEM basis how many units have we contracted thus far, and which clients, is it possible to share?

Rajshankar Ray: So, see OEMs don't contract per se, but they give indications or sign-offs on a overall season volume. And then there are lifting plans that come month wise or week wise etc. But in terms of the capacity utilization of the factories, which is roughly about Rs. 45,000 odd per month, we have enough to uncover the factory utilization. So, from that point of view the factory will be fully utilized.

Chirag Muchhala: So, essentially what we believe is that 24 we will see roughly around 5 lakh volumes in AC 3 lakh as you have mentioned in the presentation from brand IFB and similar possible through OEM sales, is that right understanding?

Rajshankar Ray: Yes. So, that has been our intention right from few years ago and we couldn't deliver it, but with the combination of the actions that we are taking on our own brand sales and indications from OEM based on the value price equation whatever, which is now much more settled than it was let’s say a year back. And the fact that our material cost reduction program is now over. So, now we believe that figure that we had wanted to deliver we are now in a position to deliver.

Chirag Muchhala: And assuming you deliver that volume as per your target now, will the AC division be in double digit operating margins in FY24, assuming that volume comes?

Rajshankar Ray: See I wouldn't want to comment specifically on the results for the AC divisions, but at those sort of revenue levels and the common fixed costs let’s say in sales etc. the company becomes a very healthy margin situations so, because the overhead distribution across the volumes will be much better than what it is --

Moderator: Thank you. We have the next question from the line of Dhananjai Bagrodia from ASK Investment. Please go ahead.

Dhananjai Bagrodia: Maybe I missed this, but so how is the demand shaping up now for all our segments considering festive season is done for most of them. ACs which you mentioned, how would the remaining segment be in terms of industry demand?

Rajshankar Ray: So, the industry demand or the customer demand for the air-conditioners actually starts moving from March onwards. So, right now, it has mostly been from companies through the channels and stocking up. The customer’s movement per se has not started as yet for the season. And as far as the other products are concerned like let's say washing machines, microwaves etc. the period now is better than it was in November and December definitely. But we still have to wait and see. It is definitely not at the levels of October, which was the seasons, but that is normally the trend. But it is better than the November/December situation.

Dhananjai Bagrodia: How would it be let's say the same time let's say pre-COVID this month like Jan, February was it incrementally higher, are we on similar levels?

Rajshankar Ray: Right now, it is similar.

Dhananjai Bagrodia: So, we are not seeing much growth as such.

Moderator: Thank you. We have the next question from the line of Veenit Prasad from Investech Capital. Please go ahead.

Veenit Prasad: I just wanted to get a sense on how competition is playing, particularly the Top 2, Top 3 guys, does aggression still continue from them?

Rajshankar Ray: The aggression is similar to what it was. So, it's not that somebody has become more aggressive. If you look at players like LG, Samsung they have always been aggressive. Samsung, specifically over the last two years has been more aggressive than before, this is what we had also shared in the previous investor conference. But it is similar I mean there is nothing special that is happening from the top player.

Veenit Prasad: Why I was asking this is what we understand is Samsung has increased prices after delaying it for so long. And has that helped companies like us and others to also take up price increases along?

Rajshankar Ray: It's a good question that you are asking we haven't seen any impact of the so-called price increase as yet. So, we will have to wait and see. And as of now the price positions in Samsung are similar to what it was before. We will have to wait --

Veenit Prasad: The second question is on the Refrigerator business. Why this tie-up for taking the business into the other subsidiary, why not do it in a standalone entity given that we have already done trials and testing in the past, if I am not wrong sometime in 2016/2017 we had done a trial launch as well at that time. So, what has been the rationale for this? And if I may ask, who holds the remaining 55% to 56% stake in the IFB Refrigeration business?

Prabir Chatterjee: Can you just repeat, I just missed it?

Veenit Prasad: I was asking is the second part of the question was in the IFB refrigeration business who would be holding the remaining 55% to 56% stake?

Prabir Chatterjee: Other companies such as IFB Agro Ind LTD , ABPL ,IFB appliance LTD, Other – Employyes of Company & associated companies.

Veenit Prasad: Why haven't we tak.en this project up, in the standalone entity itself given we have had some experience in the past where we have done trial runs, just made a pilot launch maybe sometime in 2017/2018.

Rajshankar Ray: As I said a few minutes back it wouldn't be right per se for us to talk on behalf of IFB Refrigeration Limited, because it's a standalone company. Now, what I was saying a few minutes back also was that the focus that a standalone company brings to a very large segment with high investments and high revenues and the advantages around that would have probably been the valuation criteria. But we could take the subject offline, per se for us to represent --, the reasons IFB Refrigeration Limited per se is an independent company would not be exactly right. And they are still in the process of the final product development, separation roll out, etc. Maybe we could take this offline or in the next quarter when things are more final, we could actually put across the note for everyone on this.

Veenit Prasad: Lastly, can you give some timelines on the Refrigeration business how IFB Refrigeration or for that matter IFB Appliances or IFB Industries is looking at this business let's say in the next year or two year perspective or maybe five year perspective, what are we trying to do here? What type of products will be launched? Will we be targeting a particular segment any thoughts there.

Rajshankar Roy: So, IFB Industries Limited is equity investor in IFB Refrigeration business and this is a long term investment for IFB Industries Limited as a company. As far as the product plan etc. for IFB Refrigeration Limited are concerned they are still in the final stages so I think we can wait a quarter and you will know. My understanding is that they are planning a presence across the mass and mid-premium segment and a product range that is competitive in the market.

Moderator: Thank you. We have the next question from the line of Abiral Jain from SG India. Please go ahead.

Abiral Jain: It's just a question about the demand and the strategy going forward for the other division the Engineering division, how is the scenario looking like there in terms of obviously from a demand perspective how is the automotive industry we hear is doing well, but is IFB the Engineering division winning more market share in the current existing products and how the Motor division is doing some broad comment on in the next, from today's vantage point, how does the next few years or a few quarters look like?

Arup Das: Answering the first part of your question as far as the Engineering division is concerned, the last quarter the performance was quite reasonable. And of course, the month of December was a bit lull generally all the OEMs shut down their plants for a week or more. Going forward in this quarter I think the two-wheeler segment will have muted requirements because there is a regulation of OBDI, OBDII which is the Onboard Diagnostics. So, that regulation, the OEMs are trying to control the stock so that non-compliant vehicles are not left with the dealers. So, February and March is expected to be bit a lull as far as the two-wheeler is concerned. As far as four-wheeler is concerned, the demand is reasonably strong and is expected to grow in the same fashion. Commercial vehicle also is expected to grow. So, barring the two-wheeler this quarter, the automotive sector must do reasonably well.

Abiral Jain: And from IFB's positioning perspective, are you able to increase your share for vehicle with your existing customers?

Arup Das: Yes, we try to be there where we were not there. So, in many product categories of different OEMs where we were not there we have ensured we got our business there. So, the dips which happened in the market fully does not affect us, because where we were not there, we were zero at till now, with our presence in that segment, we are able to increase our growth higher than the market.

Abiral Jain: One question related, with the shift in powertrain, from IC engine to a electric powertrain does that impact on an as is basis in your portfolio? Does that impact your sales, because are there a lot of transmission components which are connected to an internal combustion engine in your portfolio or it does not impact you much say for example if 100% we were to move to an EV today as an industry for four-wheelers what percentage of IFB's revenues would get impacted because you have a transmission ICE powertrain related transmission components in your product portfolio.

Arup Jain: You see the market segment or market movement in the EV category, it's mainly scooters, which has picked up numbers, it's around 1 lakh volume per month where total ICE engine, two-wheeler is about 18 million per the year. So, that comes to around 1.2 million going by the current volumes which the EV has taken. So, it is about 3% to 4% of the market. Now that's too in the scooter segment, our main pie is in the motorcycles segment and that too on the higher CC, more than 125 and above. We have also parallelly moved into the EV segment, the OEMs who have already started going for localization, the big players, even the smaller players we have already pitched in, we are developing components. So, localization is happening. Once it happens, we will be ready. As far as four-wheeler is concerned other than Tata Motors, the main player the numbers other than them are pretty low. It's around 6000 to 6500 or 7000 a month compared to the 3.5 lakhs volume of four-wheelers which happens every month. So, going by this numbers, I think the disruption which we you are talking is very logical. We feel we don't envisage any risk at least at this juncture as far as dropping our sales because we are getting into businesses in the non-automotive sector also, which is **(Inaudible) 1:00:31**. So, it is not impact much as far as IFB is concerned. We are placing our product category in such a way we don't get much impacted.

Anand Reddy: On the motor side right now the appliances motor, we are investing around the Rs. 40 crores to build up the capacity of 2 million washing machine motor and air-conditioner motor, 1 million each for which there is a huge demand outside of our captive requirements. We plan to sell 50% of our capacity outside of this captive needs. And on automotive motors we have augmented our product line by introducing wiper motors and other new products like BLDC engine **(Inaudible) 1:01:36** motors which we should start production within the next two, three quarters. And we hope to have an increase in top-line by around 40% for the next financial year in our automotive motors.

Abiral Jain: And the 2 million that you talked about does not include automotive and BLDC motors?

Anand Reddy: No, it's 1 million of washing machine BLDC motor and 1 million of air-conditioner BLDC motor.

Abiral Jain: And again a moonshot question not a moonshot, but say a three to five year horizon question is, what would be the total revenue potential, both captive and outside for the motor division?

Anand Reddy: It would be roughly around Rs. 350 crores.

Moderator: Thank you. We have the next question from the line of Sudarshan Mall from Dhanshree Investments. Please go ahead.

Sudarshan Mall: My questions were more pertaining to that Refrigeration business. While Raj sir, has said that it would be inappropriate for him to comment. However, if I just can know the financials of the business currently?

Rajshankar Ray: Financials of which business please, Refrigeration?

Sudarshan Mall: Refrigeration business.

Prabir Chatterjee: It has not started yet, actually, it will start from April 2023.

Rajshankar Ray: I have a suggestion, because there were two questions before this also and now you have also asked this, what we can do is that in the next quarter, there can be a formal note on the refrigeration company per se, and their product range, product plans, pricing etc. would have been mature by then, would that help?

Sudarshan Mall: Certainly, that would help because we are sparring pretty good amount of funds from our balance sheet. So, it will be interesting to know what is the opportunity size there --; it will be very big.

Rajshankar Ray: So, far the opportunity in IFB Refrigeration Limited, that IFB Industries sees as a result of its investments and what the plans are for that company etc. I think what we can do is that because there is two to three questions on this, Mr. Chatterjee can actually share a formal note on this in the next quarter. And the plans for IFB Refrigeration Limited will also be much more mature by then. So, I think it will be the right time to share. If that is okay with you then we will do this.

Sudarshan Mall: Just one question regarding this -- who wants the brand IFB, IFB Industries or Refrigeration Company?

Prabir Chatterjee: IFB brand is with IFB Industries Limited.

Moderator: Thank you. We have the next question from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: My question is more to do with the slowdown in demand. So, Rajshankar ji, if you can highlight because see normally when we look at over the last three, four months even the inflationary pressures are definitely seem to be behind us. And things have cooled off significantly, when we look at the RM prices or probably the freight costs or even the food inflation. So, what's actually weighing on the consumer sentiment like based on your internal assessment or probably the feedback that you would be receiving from your partners and from your employees, it would be great if you can shed some light over there.

Rajshankar Ray: Manoj and you will remember that, on this point, we also had several rounds of discussion before; I will tell you how we look at it. So, if you speak with the large partners across India, if you look at what's happening with competition, etc. then the voice that you will get is that there is definitely a tempering of the demand. And you will hear that November/December was bad for everyone. So, if we were to look at the voice from the market, the voice would be that demand is tempered from let's say the peak of the post-lockdown period or what you would generally expect from the counters where the flow of customers is more or less regular.

But the way internally we see this is that given the network size that we have, and this agenda of extraction, we still need to do much better. And the opportunities that we have by doing the distribution piece very well, which I was explaining to you a little while back --

Manoj Gori: Sorry to interrupt the question was more from a macro point of view, because I know obviously, you have been making efforts and obviously you are not the one only to get impacted in the current slowdown. So, it was more to do with the consumer mindset, like what's actually stopping them to buy consumer durable products or home appliances products. Because I personally believe that inflationary pressures, especially the last three, four months are definitely behind us.

Rajshankar Ray: So, if I were to tell you honestly, Manoj, we don't really know. So, if you were to ask me, why did demand go down in November and December, the honest answer is that we really don't know. There is yes, in fact of let's say higher prices across the board, but there is also a reality that the financing available to consumers currently is mitigating a lot of that inflationary pressure. Now what I mean by that is that assuming that a product is costing Rs. 3000 and now it costs let's say Rs. 3500, if you really look at it in terms of the financing options available to customers, then the actual format impact is very little. So, it is not that you know everything can be answered by inflationary pressure. There is much more that we can do at IFB to get more demand. And if you really look at what happens to the demand per se you may see two or three months of subdued demand, but then invariably another month or two comes where the demand is much normal. So, if you look at the macro picture the way you are wanting given the low penetration in India medium term, the demand problem should not be there at all. That is my personal belief.

Moderator: Thank you. That was the last question. I would now like to hand it over to the management for closing comments.

Prabir Chatterjee: Thank you everybody for joining the call.

Moderator: Thank you very much. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.