



“IFB Industries Limited  
Q1 FY2023 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2023 Earnings Conference Call of IFB Industries Limited hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prasheel Gandhi from Nirmal Bang Equities, thank you and over to you Sir!

**Prasheel Gandhi:** Thanks Mitchell. Hello everyone. Nirmal Bang Equities welcomes you all to 1Q FY2023 earnings call of IFB Industries. From the management team we have Mr. Prabir Chatterjee, Director and CFO, Mr. Rajshankar Ray – MD and CEO Home Appliances Division, Mr. Arup Das – Head Marketing Engineering Division and Mr. Anand Reddy – CEO Motor Division. I now hand over the call to the management for opening remarks post which we can take for Q&A. Thank you and over to you Sir!

**Prabir Chatterjee:** Thank you Mr. Gandhi. Good afternoon everyone. I welcome you all for IFB Industries investors’ call for the first quarter FY 22-23. Hope everyone is safe and fine. With me today are Mr. Rajshankar Ray, MD & CEO of Home Appliances Division, Mr. Arup Das, Head of Marketing - Engineering Division and Mr. Anand Reddy – CEO of Motor Division. Growth in revenue during the quarter was substantially high compared to same quarter last year. The company has reported a total income of 1054.69 Crores which is a growth of 88% compared to the same quarter last year; however, last year was affected due to COVID. The base was low last year. EBITDA Margin during the year was 38.4 Crores compared to loss of 29.41 Crores for the corresponding quarter last year. Material cost as a percentage of revenue during the quarter was higher by 4% due to increase in commodity price and these have substantially impacted the margin. Company is taking various measures now for cost reduction, improvement of productivity and increase in sale. With that I would request you to start the question and answer session.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Prasheel Gandhi from Nirmal Bang Equities. Please go ahead.

**Prasheel Gandhi:** Hello thanks for the opportunity. Could you highlight the price hikes that we have taken for the quarter and secondly what was the sale through e-com channels?

**Rajshankar Ray:** Rajshankar here. The price hikes taken in the quarter are roughly between 3% and 5% depending on the model of the segment and are you talking about percentage of sales in e-commerce Mr. Chatterjee would you like to answer that please.

**Prabir Chatterjee:** Around 13%.

**Prasheel Gandhi:** So this number is likely to go up for Q2 and Q3 is my understanding correct?

- Rajshankar Ray:** It would sort of be in the range of 13% to 17% I think that will be the ratio for Q2 as well.
- Prasheel Gandhi:** One more question I had regarding the AC could you give like for full year how much would be the AC contribution for FY 22-23 what we are expecting?
- Rajshankar Ray:** In volume terms for this year we are expecting between 350000 to 400000 ACs by number and if you look at it in terms of value then the average SKU value you could take it about 30000/-
- Prasheel Gandhi:** Thank you. So what is the price hike you have taken in the AC segment?
- Rajshankar Ray:** It is between 3% and 5%.
- Prasheel Gandhi:** For the AC segment?
- Rajshankar Ray:** Yes.
- Prasheel Gandhi:** For rest of the products?
- Rajshankar Ray:** It is in the same range depending on the SKU or the particular model, etc. The overall range is in this range.
- Prasheel Gandhi:** Okay. Thanks Sir. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Gori:** Thanks for the opportunity and good afternoon everyone. My first question would be on the washing machine side like how we have done during the quarter versus the industry and what has been the competitive intensity and how do we look at the competitive intensity in the coming time?
- Rajshankar Ray:** In terms of the volume growth for the first quarter if you look at growth percentage over the last year the growth is healthy. If you look at in terms of the competitive intensity then specifically a player like Samsung has been extremely aggressive in terms of pricing in the market over the last two quarters and going forward we would expect this sort of aggressive posturing to remain and that is our understanding, so in terms of competitive intensity in terms of number of players it remains the same but one or two players taking a very aggressive posture to gain shares I think that will remain the same going forward as it has been for the last two quarters or so.
- Manoj Gori:** In this case like during the second half obviously we should be having some RM benefit, so as you are saying like the competitive intensity will continue to stay and is going to stay here so in that case they definitely would be passing on the RM benefit so is that understanding correct and accordingly we also need to follow that?

**Rajshankar Ray:** We have to wait and see. If you see what has happened over the last year-and-a-half approximately we all know that the material cost increase was anywhere between 13% and 16% and that was true for everyone but if you look at the two main players their price change in the market was between 4% and 6% so there was a significant amount of the material cost percentage which was subsidized or addressed in some other manner. Now my own personal understanding is that remains as something to be observed, so if you see our price increase it is more or less in line with the raw material increase so going forward when the commodity prices begin to ease from this quarter onwards whether that will be used by the other players to address that segment of material cost which was not addressed or will it be used for further aggression in the market we have to wait and see. My own understanding is that the aggression level will not increase it will remain similar because there is a large financial portion which has not been addressed by them. Does that answer your question?

**Manoj Gori:** Yes, but on the flip side if you look at you have taken price hikes in line with the overall impact but if you look at the segmental margins for home appliances that has definitely deteriorated over the period of time so if you look at there have been quarters where we have reported high single digit to double digit margins as well and over if you look at last five to six quarters especially when the RM inflation has definitely kicked in our margins have deteriorated significantly and if we have taken the price hikes then what is the reason for this margin deterioration?

**Rajshankar Ray:** So what has happened is that if you look at the last 12 months the price increases we made were delayed because we were unable to pass through the full impact primarily because of the position that the two main players took so we have taken the percentage increases but they came maybe a quarter late or two quarters late, so as on date what we are doing is that as far as the market pricing is concerned we have taken the percentage equivalent or more than what was the price increase at the commodity level but what we are also doing now is that we have an internal material cost reduction programme to get back through the margin profiles that we had for example the reference that you took of the quarter where we had double digit margins which was the third quarter of FY 2020-2021 that is what we have benchmarked and the material cost reduction programme we have in place is to get back to that level.

**Manoj Gori:** So in this case if you look at so probably now you are seeing like overall from Q2 onwards at least on sequential basis we can see significant improvement on the profitability side?

**Rajshankar Ray:** That is our internal target yes.

**Manoj Gori:** Already if you look at we have crossed roughly around 30 to 40 days of this quarter so broadly you are confident that this would improve significantly on sequential basis?

**Rajshankar Ray:** The reason I am saying this is that if you look at our margin profile and results of Q1 of the previous year and you also look at the last Q4 that we had you will see that there is some improvement that has already happened in Q1 because of those cost reduction related things that we have been doing

so if you see on a sequential basis also Q3, Q4, Q1 of this year you will see the improvement. If you see it with respect to Q1 of last year also you will see some improvement so we have just have to now complete the entire material cost reduction exercise which has been kicked in.

**Manoj Gori:** Sir secondly what I understand that during Q1 IFB has relatively grown faster than the industry and on the other side we have taken higher than larger two players of the industry giants with regards to price hikes so what was the key reason for that market share increase?

**Rajshankar Ray:** If you remember what we have been discussing also in our previous calls is that we have a large channel extraction agenda which we have been working on for let us say the last year-and-a-half or so which was having a large number of retailers not extracting enough from them in terms of using the current product range we have more intelligently in terms of what to place, where to fight against, the relevant competition, etc., so the growth of the gain in market share that you have seen is coming because our extraction from the channel side has begun to show results for the work that is being done over the last four or five quarters basically.

**Manoj Gori:** Right. Understood and lastly on the AC side so obviously when you look at versus the base quarter obviously that was distorted base we have done extremely well so when you say about 3.5 to 4 lakh units so roughly 1.5 lakhs to 1.75 lakhs will be our own branded sales and the rest would be as an OEM model?

**Rajshankar Ray:** Our estimate is that about 2.5 lakhs or 2.3 lakhs is going to be IFB brand sales for this year and the remaining will be the OEM.

**Manoj Gori:** Okay so far looking at the first quarter performance obviously the numbers looks extremely encouraging in sales part so we remain confident based on the order book and based on the visibility for IFB branded sales so we remain confident for these 3.5 to 4 lakh units?

**Rajshankar Ray:** Yes.

**Manoj Gori:** Sorry to take it bit longer. Lastly on the washing machine sales how is the current environment with regards to consumer demand do you see any slowdown because there have been multiple categories where there has been some pressure on the consumer purchases so in July and August what are the early trends that you are picking up and how do you see demand for the upcoming festive season because even if you look at last year probably for the category festive season was not so encouraging so that would be my last question Sir?

**Rajshankar Ray:** This is an interesting question because the months of May and June in terms of customer offtake has been subdued The first festival or the start of the so called festival season is Onam and if you look at the general feeling about how the customer movement will be or the early trends most of the retailers and the market seems to be confident that things will be as estimated. If you look at it specifically from IFB point of view then we have two agenda one is of course the festival demand

and harnessing the demand. The other is that even if the demand is a little subdued as some people are expecting it to be broad basing extraction from the channel that we have gives us more than adequate growth that we require. So personally I do not believe that there will be a problem on the season demand because there is a lull normally before the season so there is nothing unusual per se about this but for us the demand from the normal season trend that getting more growth like we have done for example in Q1 by broad basing channel growth we have two agendas both equally important for us. Have I been able to answer your question?

**Manoj Gori:** Yes Sir. That was very helpful and lastly on the capex side what are we planning for home appliances and other business category?

**Rajshankar Ray:** For capex per se as of now there is no significant capex required. As far as capex for the large projects for the next year those are being re-evaluated and they will be internally assessed maybe in this quarter so whatever is decided I think in the next quarter we will be able to let everyone. For the engineering side of the business Mr. Chatterjee and Mr. Das can answer it.

**Prabir Chatterjee:** No capex for Engineering division other than normal routine capex. Motor division there is BLDC project with Rs.40 crore as capex.

**Manoj Gori:** On this BLDC how do we see the overall scale, market opportunity, what could be the margin profile because obviously this seems to be the trend going forward like probably for the next two to three years at least there would be larger shift happening from your traditional induction motors to your BLDC motors so any update or outlook over there?

**Anand Reddy:** In the installed capacities that we are installing would be around 1 million motors for washing machine BLDC and 1 million motors for air conditioner BLDC and we are targeting both domestic as well as overseas customers and the margins would be somewhere around 8% to 12%.

**Manoj Gori:** Right. Got it Sir. That was very helpful. Thanks a lot Prabir Sir, Rajshankar Sir. Thanks a lot everyone.

**Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

**Bhargav Buddhadev:** Good afternoon team and thank you for the opportunity. My first question is on the gross margin in the AC business is it possible to separately tell us what is the gross margin which we are making in the AC business?

**Rajshankar Ray:** My suggestion would be that you could speak to Mr. Chatterjee please separately on this.

**Prabir Chatterjee:** As of now AC margins is lower than other product & we are working on this to improve the margin and we do not give any guidance on margin. You can talk to me later on please.

- Bhargav Buddhadev:** In the first quarter if I look at your press release we made a loss of about 21 Crores in the AC business at the PBT level so given that first quarter is typically the best quarter in a year how confident are we that we would be profitable this year in the AC business?
- Rajshankar Ray:** The issue of the margin profile of the AC business was a very large problem in the previous financial year it has reduced in Q1 but it remains the problem so the material cost reduction plan or the new range plan that we made our internal target is that in Q4 of this year we would have finished this issue and this will remain a challenge in Q2 and Q3 but we are working to eliminate this issue of losses but this will be fully fixed in Q4 of this year.
- Bhargav Buddhadev:** So our guidance would be to make losses in FY2023 or breakeven?
- Rajshankar Ray:** Breakeven.
- Bhargav Buddhadev:** Because earlier we were looking at being profitable I guess in FY2023?
- Rajshankar Ray:** Yes that is right that is still the attempt but in any case as per the plan that we have detailed the bear minimum will be what I just told you of course we are working to improve this.
- Bhargav Buddhadev:** How many customers now would we be servicing in the OEM market for AC?
- Rajshankar Ray:** Three customers.
- Bhargav Buddhadev:** Okay so in this guidance where we are sort of looking at huge ramp up are we expecting any more signups or we are assuming that these three OEMs will only help us to bring that volume.
- Rajshankar Ray:** The estimates are based on the current customer base, if we do place other customers with whom discussions are going on then that is incremental over this number.
- Bhargav Buddhadev:** Okay understood. Any plans to ramp up further capacity in AC or we are happy with the current 500000 odd capacity?
- Rajshankar Ray:** If you look at the ramp up beyond 500000 that will require additions of tooling at the supplier end, the plant going from single shift into two shifts, some equipments running three shifts, so the response time for that is not very large so right now our immediate focus for let us say the next three quarters of this fiscal year is to ensure that we run the plant at 100% capacity utilization or maybe 110, 115, a step beyond that we will evaluate maybe towards the middle of fourth quarter.
- Bhargav Buddhadev:** Lastly Sir is it possible to elaborate what steps are we taking to reduce this material cost in the AC business?
- Rajshankar Ray:** The material cost reduction plan comes on the heads of service one is the electronics where we have localized the design and manufacturing completely within India; however, there is

opportunity for cost reduction through consolidation what I mean is that we have the electronics sourcing for our present washer business and now we have the sourcing for the AC business if we combine both together the source then the volume will be bigger and therefore we should get much better pricing so this is one agenda. The second agenda is in terms of the value engineering around the AC including product planning so let us say you have 1.5 ton three star configuration what can you do to reduce the material cost of that and also to create 1.5 ton four star configuration where the realization would improve but the material cost would probably not change that much so the heads of basically the material cost reduction programme are on consolidation with the existing purchase of the washer business and the second around VAVE which is the design led savings these are two heads.

**Bhargav Buddhadev:** Is currency a risk for us, currency depreciation?

**Rajshankar Ray:** The currency depreciation is definitely a risk. Currently we have built the value chain structures at Rs.80 to a dollar. If there is a swing of Rs.1 here and there it is something that can be managed but should the rupee depreciate to something like 82 or 83 then there is definitely risk sitting there if we are unable to recover that from the market. There is a currency risk definitely sitting.

**Bhargav Buddhadev:** If the currency appreciates does it benefit or we pass it on?

**Rajshankar Ray:** The impact of currency depreciation till about a year-and-a-half, two years back was something that the market would accept. Over the last year, year-and-a-half the whole acceptability of the pricing in the market against the commodity rise including forex rise has been something which has been difficult that is what we all experienced.

**Bhargav Buddhadev:** Okay Sir thank you for the answers and all the very best.

**Moderator:** Thank you. The next question is from the line of Mr. Prasheel Gandhi from Nirmal Bang Equities. Please go ahead.

**Prasheel Gandhi:** Question regarding the B ratings which were implanted from July 1, 2022 so what is the cost increase for a portfolio posts these B ratings could you throw some light on that?

**Rajshankar Ray:** The platform that we had was already quite optimized so we have moved into the new range energy certification with not too much of a material cost impact so let us say it would be in the range for midline models of between Rs.300 and Rs.500 per AC the impact for us has been low. That is a part of what is being produced and positioned in terms of price and specification from July onwards in any case so that has been factored into the planning for the business.

**Prasheel Gandhi:** That is very helpful and secondly on the imports what percentage of our raw materials do we import?

**Rajshankar Ray:** You are talking about the overall business or air conditioner?

- Prasheel Gandhi:** Both.
- Prabir Chatterjee:** It is different for different products. Import for FL is 18%, TL is 31%, AC as of now is 45%. The traded products are imported.
- Prasheel Gandhi:** One question on the cost saving programme if I were to look at the margin profile from a medium term so what would be like post implementation of this cost savings programme?
- Rajshankar Ray:** So as I have said a little while before the benchmark internally that we have taken is the third quarter of FY2020-2021 and that is what we are internally working towards.
- Prasheel Gandhi:** To reach this kind of margin?
- Rajshankar Ray:** The internal programme that we have taken is something that has to be completed in Q4 this fiscal.
- Prasheel Gandhi:** Okay. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Kuvam Chugh from Aditya Birla Sun Life AMC Capital. Please go ahead.
- Kuvam Chugh:** Good afternoon. Thank you for the opportunity. Is there anything we can do on the operational cost front to optimize margins further or are we fairly optimized in that front?
- Prabir Chatterjee:** If you see the change in the operating cost from the last quarter to this quarter is mainly variable in nature & that has happened because of the service expenses due to AC installation and service consumption. The other operating expenses are in line and we are working the scope for reduction in different element of cost in operating expenses.
- Kuvam Chugh:** The advertising and promotion spend for the last fiscal year was around 6.5% of revenue is that what we are expecting for the next few years as well?
- Prabir Chatterjee:** Spent on sales promotion during ist qtr. was 1.95%
- Kuvam Chugh:** On full fiscal what are we expecting?
- Prabir Chatterjee:** As indicted earlier we do not give any forward guidance on Margin.
- Rajshankar Ray:** Yes that is right.
- Kuvam Chugh:** Finally what would be the breakeven volumes for our AC business what volume would we have to get for plant utilization?

- Rajshankar Ray:** If we look at this number with the complete material cost reduction programme implemented then the breakeven volumes would be in the range of around 15000 ACs in a month so let us say 200000 to 225000 kind of number.
- Kuvam Chugh:** Just one more question when we do value engineering on our appliances is there a quality method in terms of the finished product going to the customers?
- Rajshankar Ray:** No, not at all.
- Kuvam Chugh:** Alright thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to members of the management for closing comments.
- Prabir Chatterjee:** Thank you all for joining the call.
- Moderator:** Thank you. On behalf of Nirmal Bang Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines.