



“IFB Industries Limited Q2 FY-24 Earnings Conference Call”

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MR. RAJSHANKAR RAY – MD & CEO (HOME APPLIANCE DIVISION), IFB INDUSTRIES LIMITED
MR. ARUP DAS – HEAD MARKETING (ENGINEERING DIVISION), IFB INDUSTRIES LIMITED
MR. ANAND REDDY – CEO (MOTOR DIVISION), IFB INDUSTRIES LIMITED

MODERATOR: **MS. NATASHA JAIN – NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 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 Ms. Natasha Jain from Nirmal Bang Equities. Thank you and over to you.

Natasha Jain: Thank you, Yashashri and good afternoon, everyone. Nirmal Bang Institutional Equities welcomes you all to the Second Quarter FY24 Results Conference Call of IFB Industries.

I would like to thank the management of IFB Industries for giving us an opportunity to host the call. Management is represented by Mr. Prabir Chatterjee – Director and CFO, Mr. Rajshankar Ray – MD and CEO Home Appliance Division, Mr. Arup Das – Head of Marketing, Engineering Division and Mr. Anand Reddy – CEO of Motor Division.

I now handover the call to the management for opening remarks, post which we will take questions from participants. Thank you and over to you sir.

Probir Chatterjee: Thank you Natasha. Good afternoon, everyone. I welcome you all for IFB Industries investors call for the Second Quarter FY24. Joining with me today are Mr. Rajshankar Ray – MD and CEO of Homer Appliance Division, Mr. Arup Das – Head of Marketing, Engineering Division and Mr. Anand Reddy – CEO of Motor Division.

I will now start with the Result of this quarter:

During the quarter revenue was below our expectation and marginally was in the same quarter last year. The company has reported a total income of 1074.12 crores compared to Rs. 1101.92 crores during the same quarter last year. During the second quarter EBITDA was Rs. 74.83 crores with a margin of 6.97% compared to Rs. 73.98 crores with 6.71% for the same period last year.

The margin was marginally higher than last year. Despite lower revenue, the gross margin improved mainly because of the reduction of material cost but was partially offset by the higher sales promotion, staff and our operating expenses. We have already initiated a number of cost reduction actions to further reduce the other operating expenses to improve the margin. For the first half of the year, the company has reported a total income of Rs. 2136.97 crores of revenues compared to 2151.19 crores for the same period last year. EBITDA margin for the first half was 115.54 crores, 5.41% compared to 112.42 crores, 5.23% of the same period last year. EBITDA margin during the period was marginally higher compared to last year. The improvement in

margin is mainly due to the reduction in material cost. During the current year company's net cash position improved.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Manoj Gori from Equirus Securities.

Manoj Gori: We went through the presentation very detailed one and what you have highlighted probably the cost savings that you would be doing during Q3 and Q4 on account of RM benefits and probably if you look at secondly on the fixed cost operating expenses. So, can you throw some light, when we say about benefit of COGS of roughly around 44 Cr in Q4, so what do we refer here? Is it basically from the lower RM prices or we are doing some value engineering? Can you throw some light over here?

Rajshankar Ray: The estimate of the cost reduction on the material cost side is based on three factors. One is of course the lower commodity baselines. The second and the third are the consolidation in the purchases where we had independent purchases from two different suppliers for washers and air conditioners and we are combining those purchases. The third is the redesign including VAV. So, the bulk of this estimate of 44 Cr benefit is from the second and the third which is related to consolidation in purchases and VAV and redesign. About maybe 20% to 30% will be a result of the reductions in the commodities overall.

Manoj Gori: The reason why I asked this question was basically if you look at if competitive intensity moves on the higher side, probably peer companies will also pass on the RM benefit. So that was the key reason, just to understand where we would be saving on the gross margin side. Secondly if you look at we have also highlighted about 8 crores of savings on monthly basis on the fixed operating. Can you throw some light over here?

Rajshankar Ray: So, these are on 7 or 8 heads and these relate to areas of nonproductive manning. They relate to areas of freight, warehousing costs. They are in office expenses in terms of better organized travel. They are in terms of the cost of—let us say these—e-waste related area where we're having costs and we put a different process in place in terms of realizing more from machines that we scrap. So, there are about 8 or 10 heads on the fixed cost areas and the work that we are doing on them, our committed target is to reduce 8 crores a month on that. This will be on the same level of sales as last year base March.

Manoj Gori: So here we are not assuming any sales growth, just basis on the last year figure we are expecting the savings.

Rajshankar Ray: Yes, that's right. The internal brief is on the same base level as March. These savings have to be made.

Manoj Gori: Lastly on the demand side, so even in the festive season we have got a very mixed feedback. During the discount period sales have been very robust. But during non-discounted have dipped and accordingly probably the entire festive season might not be as healthy as industry was expecting. Can you throw some light like what's happened in the washing machine category and probably on the overall categories that you are present into?

Rajshankar Ray: So, I'll answer this with three points Manoj. The first is that your feedback is right. The sales that happened during the events period of e-commerce, I wouldn't call that a discount period but they were an online event. Let me put it that way. The sales were actually very good. But post that in terms of general sales over the last 3 weeks or if I can add up October-November together, even though they have been better than the initial period of the end of Q1 and Q2 middle, the sales have still been subdued. It's not typically what you would expect in a season. So those are the first two points. The third point is that, how we look at it internally is that we still feel that given the network that we have, we are not doing a good enough job as far as sales is concerned. So, in terms of our performance on the AC category or what we can get out of washers given the network and position we have, we still feel that we have a lot of headroom for growth but we're not just doing simply a good job on the sales side as we should be doing. So, in terms of restructuring the sales force, making the changes that are required, we think that on point three, the plus side is much more than any market-related conditions on point one and point two. Have I been able to explain this?

Manoj Gori: Yes. And so, all the efforts that we are taking for better extraction, probably by when should we see this flowing into our revenues?

Rajshankar Ray: So, Manoj, our internal commitment is that we have been doing this for about two-three quarters now and in a much more intense manner over the last 3-4 months in terms of changes in the sales team restructuring. There is a lot of effort we are making on the distribution network that we have in terms of rationalizing distribution, changing distribution and also in terms of the large account extractions etc. So, our internal commitment is that we will finish whatever we have to do by end of this quarter. So that starting the fourth quarter, ending this year and full benefit next year, we need to complete whatever is on the agenda in terms of sales effectiveness.

Manoj Gori: One last question. If you look at in the refrigerator probably, we have highlighted in the profit and loss from associates which was more than 7 crores. Can you throw some light like what should be the normal steady run rate that we can expect here? So, in this quarter it was roughly around 7.5-7.83. So, what should be the steady rate that we can expect over here?

Rajshankar Ray: I'll sort of give you a market view on this and then Mr. Chatterjee can sort of answer the financial side of it. IFB Refrigeration Limited, the company is servicing some markets directly and IFB Industries Limited is servicing some markets. Both combined, the estimate that there is that we will reach sales of roughly about 50,000 a month from the Q4 in the first phase. And as far as IFB Industries Limited is concerned, that figure will be in the range of 15,000 to 20,000

refrigerators a month. That you could call as a Phase 1. As far as the commercials around this are concerned, I would request Mr. Chatterjee if you could please answer that.

Probir Chatterjee: During this quarter, we sold around 11,419, revenue of 14.62. We made a PBIT of 0.94 crores. And for IFBRL, I think they are revamping the products and other things. It will stabilize over a period of the next 3 to 6 months.

Moderator: We have our next question from the line of Nisarg Vakharia from NV Alpha Fund Management LLP.

Nisarg Vakharia: At the outset let me just say that, this is one of the best corporate governance standards that we have seen across companies in the market on how firmly the company wants to walk the talk and has given in extreme detail on the cost savings that the company will sort of do over the next two-three quarters. Never seen such a guidance in any consumer company for that matter. I have a slightly broader question, that we have had effective sales growth for the last 10 years but have never focused on sustainable margins. Just want to understand the broader thought process on why there is a certain emphasis on margins now and were there so many cost inefficiencies when we have sort of drilled down into why we were not making margins? I hope I sort of expressed my question clearly.

Rajshankar Ray: This is Rajshankar here. I will try and answer that. And then Mr. Chatterjee can also add. The third quarter of FY2021 was when we actually registered a very healthy financial performance. Then from the fourth quarter of that year onwards when the material cost indices really went up and we couldn't pass the input side increases onto the market side, since then actually the financial performance was well below whatever we would have been happy with. Now given the investments that we have made, for example in the air conditioner related area. IFB Industries Limited, the investment it has made in IFB Refrigeration the new company and also investments that we are making in terms of a range overhaul on the washer side, the need for us to be sustainable in terms of profit margins and the need to ensure that we get the market revenue right. I will not say that we have not been doing this earlier but yes, definitely over the period of the last two odd quarters the focus on getting the material cost profile to the best level possible and getting the sales side right where we are actually quite unhappy with the kind of revenue side that we have been registering for some time. The amount of detailing focus, regularity of internal reviews has definitely been much more before that. Have I been able to answer the question that you asked?

Nisarg Vakharia: Yes broadly, I was looking at your sales growth right from 2015-16. We have never delivered more than 3.5%-4%-5% operating margin in any single year. And now within two quarters we are sort of guiding towards almost 9%-10% sort of operating margins. So, I'm just trying to understand how has this shift sort of happened overnight? Of course, not taking away from the fact that you have worked really hard in sort of these cost efficiencies.

- Rajshankar Ray:** I think when sometime around mid of last year when the material cost detailing had really reached a mature level in terms of what is possible for us on the cost side, simply by consolidating, resourcing, renegotiating that figure was a very large figure. So, we delivered part last year which you can see in the gross margin improvement this year but there is still a (+50%) to be delivered by the end of this year. And now that we've also detailed the fixed cost side which definitely is something that we've done only over the last 3-4 months, getting our cost profile right for the same level of sales is priority number one right now within the company.
- Nisarg Vakharia:** Does this also mean that now going ahead, we will have base case high single digit EBITDA margins and sustainable margins that we have guided for over the next two-three quarters as we build on the organization in the future?
- Rajshankar Ray:** Mr. Chatterjee would you like to answer that please?
- Probir Chatterjee:** Depending upon the consistency on the revenue and our efforts that action that we have initiated in terms of operating expenses and the material cost, we are expected to do well. And with the increase in the revenue in all products, especially in the AC in the fourth quarter.
- Nisarg Vakharia:** My last question on this is that have we employed some consultant to sort of work on these efficiencies for us or have we done all these things internally?
- Rajshankar Ray:** This is all done by internal database.
- Probir Chatterjee:** In-house.
- Moderator:** We have a next question from the line of Sumil Sethi from Sigular Guff India Advisors.
- Sumil Sethi:** I have questions across three categories. One, I wanted to understand a few things on the gross margin side. So, you mentioned that you are doing cost improvement to the extent of 12 crores and 46 crores in the respective quarters. I just wanted to understand what's the base which we are referring to while calculating these improvements? Is it on the expected sales that we are about to do in Q3-Q4 or is it on the sales that happening over last year?
- Rajshankar Ray:** So, all the savings targets which are given here are on the base of March '23. So, these are on the same level of sales. Whatever is additional by higher sales is separate.
- Sumil Sethi:** And these cost improvements will be largely from a particular product let's say EC or it's kind of blended across from appliances?
- Rajshankar Ray:** They are coming across all products.
- Sumil Sethi:** Till last quarter you used to give a cumulative PBT loss for ACs. Any sense of what that number is in this quarter?

- Probir Chatterjee:** Overall till this thing is around 45 crores during the first half.
- Sumil Sethi:** Do we have numbers around what depreciation or interest cost we are looking to....?
- Probir Chatterjee:** The interest for this thing is 5.51 crores for the quarter and depreciation is 6.75 crores for the quarter.
- Sumil Sethi:** This is as allocated to air conditioner.
- Probir Chatterjee:** Only AC. Half year is 11 crores is for the interest and the depreciation is 13.49 crores.
- Sumil Sethi:** What I understand from the previous calls as well that we have been giving slightly higher sales promotion for air conditioners versus the home appliances. Can I get a sense of what that differential is? Is it a 10%-12% kind of a differential or is it a 20%-25% kind of a differential? Just an indicative range.
- Rajshankar Ray:** So, in the first half of the year in terms of promotions, we invested behind two categories. One was the air conditioner and the second was a new range of front loaders under umbrella platform called Deep Clean that we had introduced. And in the first half in terms of what we've invested in news print in digital etc., it is an incremental expense of about 11 to 12 Cr for the year so far. In terms of the results, we feel that in air conditioners we've still underperformed. So, the investment hasn't really returned results for the company so far. As far as the new front loader platform under the umbrella Deep Clean, we feel that campaign or that investment has had an impact in terms of the traction that we are seeing in September-October and November, and we have to sustain that kind of growth that we are getting from this new platform.
- Sumil Sethi:** And do you think we are getting good realization of our ACs on a market operating price vis-à-vis competition or do you think there's still some gaps regarding that?
- Rajshankar Ray:** So, we are more or less, the market is segmented in two sorts of categories. One could be the entry or the lower level of pricing which is operated by some players and the other is the set of players who we benchmark which would be used our LG liking, so vis-à-vis them our price in the market in terms of customer price is more or less benchmarked.
- Sumil Sethi:** Just one last question. We witnessed a significant degrowth in our front loaders over H1 of last year in sales terms, so some 6%-7% of degrowth. I just wanted to understand, is this because of a delay in the festive season by 2 or 3 weeks and consequently is the entire industry affected here or are we losing market share in this category?
- Rajshankar Ray:** So, we have lost market share and we specifically lost market share in two places. One was that the capacity segment of 9 and 10 kgs is a segment that has been expanding and that was a segment till last year we had no representation in. And this year when we sort of introduced models for the 9 and 10 kg segment and they have now ramped up to a volume of roughly about

12,000 14,000 in a month, our agenda is to take it to about 20,000 in a month and the segment size right now is about 25,000 a month. We expect it to go to about 35,000-40,000 a month. So that is one area we've lost share and till about September we have also lost share in the 8 kg capacity in front loaders. That was because there was a price undercutting which was being done from LG and Samsung. We have answered that now sort of in terms of rejigging the range and ensuring that the price differential reduces. That segment we still have to regain the share. So, the degrowth that we are having is because of loss of share in these two segments. Also, on the overall point that I said in the beginning to Manoj, that in terms of sales effectiveness we are quite unhappy with what we are delivering to the company as on date. So given the network we have even though we may have issues on 9 and 10 kg, we should be doing far higher numbers overall. That we have to complete within this fiscal year to work on that.

Sumil Sethi:

We're really impressed to see the improvement in margin in your engineering division and it continues to put profitability on a quarter-on-quarter on an annual basis. Just wanted to understand is this margin growth, is this margin profile stable for the quarters or years to come or is there a onetime kind of an impact?

Bikram Nag:

I will answer that. This is Bikram Nag here. I think the margin thing as far as the company is concerned, we are very clear. As far as the engineering division goes, we should be operating at a higher margin than whatever we have achieved in Q2. We are not happy with Q2 numbers. The reason we are not happy with Q2 numbers you will see, there's hardly any growth in Q2. And on the sales front, we have not done well at all and we have taken up this point. Margin growth is one thing sales the growth is equally important. Anything sub 20%, the board is not at all happy with and the board is absolutely clear on this. We have spoken to the division and by end of Q4 our numbers have to be in place. Getting those numbers in place on top line will further expand bottom line. If you see the stamping business, also our internal target is to do about 7.5 Cr or so a month and we have done like below that. We are not happy with that as well. Engineering and Appliance division we are very clear, the board is clear, we need double digit margin which means 10% at least we should hit and AC has to hit a certain number which is 300,000 plus washing machines have to be at a certain number also which the board is clear on which is about 65,000 per month. Top loader has to be at around 35,000-40,000 a month. Our sales team is being rejigged in order to meet these immediate ambition goals. As I said last time the sales team is being thoroughly rejigged and Mr. Ray is doing this state by state wherever requirements are there. The states are being looked at district wise to see where are weak in a district and changes are being made. We will do this meticulously in order to achieve our ambition. These questions are coming up quarter after quarter. The fact that we not kept pace with requirements is something that the management and I are not happy with and we will deliver as per street expectations. That is what we need to do. I am also saying on this call now I'm in Singapore because my father has been very unwell. He is in the hospital. I'm in the hospital here now. So, at some time I may just log off. He has been in the hospital since the 23rd of July. So, it's been a long time. He is in HDU, a high dependency ward. He is stable but his condition is serious. Having said that the company has to perform, and nothing is stopping and whatever we need to do in order to put margins and sales back on track we will do. Next question please.

Moderator: We have a next question from the line of Vivek Kumar from Bestpals Research and advisory LLP.

Vivek Kumar: My question is regarding the same thing that you've been repeating quarter after quarter, so pardon me because the sales and the extraction from the channel is what you're using that you're not able to get the sales. So, my doubt is that as the customer enters any big retail shop where these are sold every category has a fixed number of brands. Like if you take AC or washing machine or microwave or whatever you take 5 to 6 brands are there and retailer also beyond a point will not just put your products just for the discount that you give because he has to have the retail asset turnover for him that inventory turnover. So where are we lacking in the terms of product wise? Because retailer can't definitely have 20 brands like which can happen in small FMCG products. So definitely there is room for 5-6 products because of the space constraint and all in every retailer, so how do you go and take space for yourself with such a huge competition across categories? How are you thinking from a product perspective and ability to extract from this channel, ability to convince the distributor that you really can generate sales for them? So, what are the steps you're taking if you can go in more detail so that we can understand?

Rajshankar Ray: Rajshankar here, I'll try and answer this. As far as IFB is concerned you will see this action that we have to complete in two parts. So as far as washers is concerned, we have the placements and here it is not an issue of whether the channel will place us or not. We are placed and we need to ensure extraction. This extraction has to be on two heads. One is this point about the capacity segments that I just spoke about a little while back and the other has to be in terms of manning. So, you spoke about this point of entering a counter. So, when you enter a counter there are salespeople, who assist the customer to arrive at the decision. Our completing the manning gaps we have in those counters where we don't have a person to meet and greet a customer has a direct bearing on our market shares overall for that count. So as far as washers is concerned, we just have to do a better job at ensuring that our manning is right and that we don't leave any gaps in segments like it happened to us in the 9 and 10 kg. As far as ACs and refrigerators are concerned, we think that the two will actually help the aspect of distribution. If we look at distributors that we've had, largely the products on which they have had to have sustainable revenues have been the washers and on-air conditioners where we have still to get a proper market presence. But what is happening to the same distributors with the arrival of the refrigerators, is that the ability to reach a dealer with a basket has actually improved. So, in terms of being a company that has a product range basically across both washing, cooling and cooking segments, the range actually with the investment the company has made is quite complete now. With this range our need to finish action is that much more urgent. But it is also becoming easier because we are offering a full basket to a dealer. Now we just have to complete the job. You're right that we have been speaking about this for many quarters and we failed to actually deliver whatever we have been discussing. But this is the main job to be completed and we have completely committed to this. The range is actually going to help the sales team more than anything else.

Vivek Kumar: Because my doubt is every category has occupied like let's take refrigeration. So, you will have a limited space to put up 5 to 6 brands. How will we convince him? Because ultimately the

customer decides what will move. Because beyond the point discounts will not help. Because retailer will not put up just because you are giving more discounts, so how do you win that customer? And is it just the very range of products that will help? Just placement is enough with the distributor or something else to be done from the customer angle so that we start building a brand and growing. So, I was not able to understand that.

Rajshankar Ray: It's a good question because that doubt is a correct doubt to have. Now if you see as far as washers is concerned, the product and the position is accepted in the market. Like I said it's just our efficiency on how much we can extract. The experience we've had with the refrigerator introduction is that the product has been very well accepted and why somebody should buy an IFB refrigerator vis-à-vis the three major brands. That argument is quite clear on the floor. This point that you said about why IFB should be given space is a point that we are really having to deal with as far as the air conditioners are concerned because the product at the end of the day is like a box. Even if you have a very good air conditioner, people don't necessarily give you the realization that you want and it's a problem that we faced right since the beginning. So, the problem that we have to solve as well as why should I place IFB is true for air conditioners but for the rest actually it is purely dependent on our efficiency at how much quickly we can move into the market. So, what I was trying to explain to you is that the AC can actually ride on the other products as well. That is the basic thing that we think is possible in the market.

Bikram Nag: No but this point is correct Mr. Ray. It also depends on how we are going to communicate and educate the customer as to why they should buy either Ref or AC. That communication has to be improved further.

Vivek Kumar: I was asking because ultimately distributors will not keep products which don't move for discounts and there's a limited space for every item.

Rajshankar Ray: Yes, absolutely right.

Bikram Nag: Distributor will not keep product, so we have to improve on this part.

Vivek Kumar: When will we see the results? When do you hope to see the real numbers flowing in terms of sales across categories like ACs and refrigeration and also increasing our share in washer? How many quarters or years do you think we will be able to see at least we are in the right direction?

Bikram Nag: I think we should be ready by February-March in totality because I think the sales rejig will be done and we should be ready by then fully. We are on course. We actually believe that by—is it January Mr. Ray that we should hit overall ref sales of around 40,000 to 50,000 a month?

Rajshankar Ray: Yes, January.

Bikram Nag: So, we'll have to see whether we are on course or not. As far as AC goes, we sincerely hope that by January will stabilize at about 30,000. We are nowhere near that but by January we hope to do it.

Moderator: We have a next question from the line of Aviral Jain from Sigular Guff India Advisors.

Aviral Jain: First of all, there's been a lot of discussion around revenue growth and what needs to be done. At a fundamental level what is the share of the direct customer sales which are large format stores versus a distributor to dealer driven sales? So, what's the current breakup like for the company for appliances division as a whole? How is it different or similar in the AC segment?

Rajshankar Ray: So, the distribution that sales overall for the company as a whole is about 25%. 6% increase when we do well on air-conditioners and refrigerators because a lot of that sale is distribution led. If you look at the percentage of consumers directly you could look at the sales from our IFB points which hover between 14% to 15% or you could look at the ecommerce sales which is also essentially direct to consumers. That percentage depending on the month of the year varies between 15% to 20%. Is that the detail that you were looking for?

Aviral Jain: No, my question was more about, there is a channel which is distributor led which goes to the dealer and in turn so it's a two-tier distribution net there, where as you mentioned the distributor once you have a bigger basket of product the ACs and refrigerators could ride on washers as well as on microwaves. But there are direct sales to large format stores where there is no distributor where there is actually a fight for space which are direct customer sales from IFB which in turn. So, it's a single-tier distribution structure. So, I'm not talking about e-commerce or IFB points where there is no middleman so to say or intermediary but between a distributor dealer at sales and direct customer to consumer sales. Customer I would mean as a chain.

Rajshankar Ray: So, if you look at multi-brand sales directly serviced by IFB which includes the large chains and from our total sales we take out a distribution which is two tiers and IFB points and e-commerce. Then roughly around 45% to 50% of sales is what is going through the directly serviced brands. The multi brand sales directly serviced which includes the chain counters and the large format retail stores. From our total sales if you subtract distribution, IFB points and ecommerce then roughly around 45% to 50% of sales is to this channel. This is direct from IFB to a retailer and retailer to customer.

Aviral Jain: So, it's far more challenging for a newer product, our ACs or a refrigerator to create that space and to create and manning is that more important in this channel? Is this the channel where we are under indexed versus competition for ACs and the refrigerator is a new product as such. But is there where Acs were sort of not performing to your plan?

Rajshankar Ray: Yes, you're absolutely right. For air conditioner specifically the market segment or the market or the percentage of the market that this channel has versus what we are getting out of it, we are severely under indexed.

- Bikram Nag:** Also, I think Mr. A you could just talk to him that there are about 50 of these retailers and we've now made a team to actually go out and target all of them. Out of 50, I think we've already got through to 15 for AC and the balance is in. Can you just expand on that Mr. Ray?
- Rajshankar Ray:** So we call them key accounts. These are accounts which have multiple counters and they could be within the same state or across states. So, the identified number is 50. We've put a process and a team in place to actually go and ensure that we get extraction. The discussion with them is that look at IFB as a full basket player and like Mr. Nag just shared, we have sign offs with about 15 of them done. And by end of this quarter, we would expect to be in at least 75%-80% of them with all the product categories.
- Aviral Jain:** And how many counters do these 50 key accounts have?
- Rajshankar Ray:** These 50 accounts are about 2,600 to 2,700 individual store counters across the country.
- Aviral Jain:** And would it be fair to say that, I am just trying to get that with ACs the presence is just say 20% or 30% and in the kind of quantities or stock weights that you would be happy with, till now which is what you're changing.
- Rajshankar Ray:** Can you just repeat that? I didn't understand it.
- Aviral Jain:** My question was out of these 2,600 individual touch points or counters; the AC penetration would be 20%-30% while washer could be 80-90%. Is that the kind of gap you are talking about here?
- Rajshankar Ray:** Effective presence in AC right now would be only 10%-15% percent. And washers is yes, it is 75%-80%.
- Aviral Jain:** But on the other direct to consumer channel which is IFB point, e-commerce you mentioned and distributor led there the AC salience of sales is much better versus washers, fair to say?
- Rajshankar Ray:** The salience in an IFB point for ACs has improved since last year. In e-commerce till now we have kept the ACs away from e-commerce. Our main concerns were on whether we'd be able to control pricing. But the decision we've taken is that in this season we will be having an effective presence of ACs on e-commerce. For ACs there is also a significant opportunity in terms of direct sales which is in terms of institutions, direct to customers, there are lots of sales and service channel partners that we can sell to. So, we've begun to put a team on this. We've had success this year but the numbers are still very low. That is also a segment for air conditioners that has to be expanded.
- Aviral Jain:** And this loss of market share which you mentioned on the washer side, that given IFB is the market leader in front loaders that is what our primary research had suggested. That's temporary in nature as in this is more indexed to primary but effectively there is no change in offtake

percentage. Given the MOP, the market operating price for the end consumers or end purchasers is still pretty much well indexed. I mean there could be higher channel promotion so to say which is what led to some loss of sales in the first half, is my understanding correct?

Rajshankar Ray: No, so the loss in share came from product segment not represented which was the 9 and 10 kg higher end segment. And in terms of 8 kgs we had a particular price position. But LG and Samsung specifically undercut by a significant amount and that was effective price reduction for consumers. That problem we have addressed last month by introducing a new product which is appropriately priced. As far as IFB is concerned, there have been no reductions as far as the market operating prices are concerned. That position we still held; we've not discounted.

Aviral Jain: If we talk to volume wise, the overall market would have probably still grown by 10% odd from last year first half, value wise probably much more?

Rajshankar Ray: We don't have market figures per se but our understanding is as far as front loaders are concerned, it is flat or slightly less this year so far.

Aviral Jain: And your first half numbers take into account the festive season delay by two weeks this year or has it had any bearing on the reported numbers? If we were to take say primary till October end or first two weeks of November, is the fall still as stark or has some bit of recovery in terms of percentage decline in sales been addressed?

Rajshankar Ray: So, October plus November together will definitely be a recovery. But we have still two weeks to go for November and normally post Diwali the channel replenishes etc. So, we will know by end of November. But if we look at last year's base October plus November will definitely better.

Aviral Jain: My question was April to November this year versus April to November this year?

Rajshankar Ray: We'll have to wait for November to be able to answer that.

Aviral Jain: What you mentioned is you'll have to increase manning because obviously AC sales are only 10% of the counters as you mentioned. And one of your points of fixed cost expense reduction what you had mentioned was, you are also focusing on unproductive manning. While I understand there is a big difference between productive and unproductive manning but how much of this unproductive manning is constituted by sales staff not being able to deliver the kind of volume numbers that you would expect them to deliver on the counter? Is that a big number because these are two counterintuitive points that you've laid out? You need manning to improve sales and you need to cut manning to cut fixed costs.

Rajshankar Ray: So that's an interesting question and there are two parts to this. One is that there is one manning which is the in-counter manning which is when you walk into a store as a consumer somebody meets you and explains the product to you. We call them counter sales representatives and we have gaps there. So, if you see in terms of these 2,600 key account counters that we were

speaking about, currently we are only present with our representatives in about 75% of those counters. So, 25% counters is effectively empty because if you don't have someone present you cannot sell. That is what happens on the shop floor. So, this manning is inherently a variable manning. There is of course a salary. But the component is that if you do well you earn an incentive, you sell more and you earn more. So we have only focused on making this manning productive. There is no focus on reducing these numbers per se. In fact, this is an area that we are investing in. As far as the other manning is concerned, which is the fixed manning in terms of people in the plants, people in sales, in service and warehousing, in logistics. So, there we think that there is definitely scope to reduce based on restructuring. So, for example, we would have people in warehouses. But when we move to CNX arrangements, the cost becomes variable and if negotiated well the costs actually reduce. So that is the agenda that is being pursued on the manning side.

Aviral Jain:

I understood it very clearly. One final question is, what you mentioned about—sorry we've repeated this question many times—there's always been a big differential between the realized gross margin on AC side versus appliances as a category ex of ACs. So how is that looking like? I mean obviously we've given certain fixed or gross profit or material margin improvement numbers which is 12 crores and 44 crores for the next two quarters. But is ACs coming in line with the appliances in general or how do you at a steady state maybe two quarters from now or four quarters from now once all the older inventories flushed out and you will have the ideal cost structure from a sourcing efficiency or design perspective, what's the steady state gross margin profile would look like? The biggest point that we are saying is there is no pricing action or adverse pricing action in the market which the company will have to match.

Rajshankar Ray:

If you look at the first phase, if I can use that word, when we have finished the material cost reduction within the fourth quarter, the gross margins on the air conditioner will improve. But they will still not be in line with the washer segment because the washers are also improving. So as far as the company is concerned between the average gross margin of the company to the air conditioner there will still be a gap. But this improvement in the air conditioner from where we are today to what will be completed by Q4 will improve the overall profitability of the company significantly. Now once we've completed that, essentially the largest job is in getting the sales that we should get and this is an area that we've failed in for many quarters now. Even though we have been internally talking about it and it's also been something discussed quite frequently in this investor call. We've just failed to deliver the results and we just have to go out and do it and show that in Quarter 4. So, if we get the sales right, the figure that was mentioned a while back was roughly to a level about 300,000 a year and the material cost works will be completed within Q4. I think both put together will give the company level double digit margins that to be accommodated to. I hope that answers your question.

Moderator:

We'll move on to the next question from the line of Keshav Garg from Counter Cyclical PMS.

Keshav Garg:

My question is regarding; I want to know your thoughts about contract manufacturing that we already have some contract manufacturing plans for our AC division. So, what about the rest of

the verticals? Can't we ramp up our capacity utilization by contract manufacturing and exports so that our fixed costs can get distributed? That was the first question.

Rajshankar Ray:

So it's a very correct point and as far as exports is concerned, we really didn't look at it the way we should for quite some time. And two quarters back we put a formal structure in place and specifically for the air conditioners and also the washers we are looking at opportunities for export markets and there is a lot of work happening on that. We are setting targets which we will also present to all of you from the next financial year onwards. As far as contract manufacturing is concerned, we are still talking to the same set of players. There is a projection we have on the air conditioners which will help in terms of capacity utilization. On washers we've really not discussed this option in terms of contract manufacturing. It is being evaluated but we haven't reached the conclusion as yet. With the new investments that we are making for the new platforms for a product like top loaders for example there will be an opportunity for contract manufacturing. But we have to still evaluate it internally and conclude.

Keshav Garg:

Secondly, I wanted to understand that why are we trying to get into modular kitchen which is not even clocking sales of 5 crores? It is not enough to move the needle for the company as a whole but it is diverting the management bandwidth and our time and effort. So instead, will it not better to focus on the major categories like AC which can have a meaningful impact on the company even if we succeed? Whereas modular kitchen even if we succeed how much on an overall company basis will it move the needle for us?

Rajshankar Ray:

It's a good point and the way we are thinking about it is that we have a lot at stake as far as the IFB points are concerned because that is the only channel where we have a complete range representation and there is a dedicated customer base we have and we have a need for them to see IFB and all that it offers in an IFB point. And it's a segment on which we've been very serious in terms of building a right retail presence. Now if you see the markets where we have the IFB points with modular, it actually significantly increases the way you represent your products to the consumer which is the modular kitchen itself and the products that go with the modular kitchens, so kitchen appliances because when someone does modular kitchens, they change a lot of the products in the kitchen. So, we think that the modular kitchen business actually has a great impact on the overall IFB point presence and in the markets that we are in it also contributes to the profitability of the various state level branches that we have. Because even though volumes may be small but realizations are high and it is very helpful to the gross margins. The point about it not having a significant impact on the company overall is a correct point. It may not be the case today but in future definitely this can be a segment which can grow quite significantly. That's why we are still committed to it.

Keshav Garg:

And lastly all said and done sir your aspiration about reaching 10% margins of the home appliances business, by when do you foresee us reaching there? There must be some timeline in your mind that maybe in the first half of next financial year or second half of next financial year.

- Rajshankar Ray:** Our internal commitments which we've given, like it was discussed just a little while back on the call, is to finish whatever work we have to do for these sustainable margins within Q4. So, our internal commitment is to be able to show these sorts of sustainable margins when the new fiscal year starts.
- Moderator:** We have a next question from the line of Sumil Sethi from Sigular Guff India Advisors.
- Sumil Sethi:** Just a follow up question on contract manufacturing of air conditions. Can you throw some light on what percentage of AC revenues are from contract manufacturing of ACs versus our own brands?
- Rajshankar Ray:** Mr. Chatterjee would you like to answer that?
- Probir Chatterjee:** Sorry I couldn't follow the question. Can you repeat?
- Sumil Sethi:** What percentage of our AC revenues are from contract manufacturing versus our own brands?
- Probir Chatterjee:** It is now 25% as of now up to first half.
- Sumil Sethi:** And this is for the first half.
- Probir Chatterjee:** Yes.
- Sumil Sethi:** And what kind of the volume split between the book?
- Probir Chatterjee:** Total we have done around 105.349.
- Sumil Sethi:** Just one question on refrigerators. Last time you mentioned that since the refrigerators are being manufactured by the associate company IFB Refrigeration Limited, you are sort of finalizing the terms of transfer pricing arrangements with them now, that the commercial production has started to happen. I think there are roughly 20 crores of sales of refrigerators sitting in IFB Industries book. I just wanted to get a sense of what the commercial terms are with regard to transfer pricing arrangement with IFB Refrigeration Limited?
- Probir Chatterjee:** So that is all done on arm's length basis as per norms. I don't think there is any issue there.
- Sumil Sethi:** And are we making a similar kind of a gross margin on refrigerators compared to otherws
- Rajshankar Ray:** Refrigerator margin will be higher than ACs.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you.
- Probir Chatterjee:** Thank you everybody for joining the call today.



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