"IFB Industries Limited
Q4 FY2022 Earnings Conference Call"

June 06, 2022

ANALYST: **MR. PRASHEEL GANDHI - NIRMAL BANG EQUITIES**

MANAGEMENT: **MR. PRABIR CHATTERJEE – DIRECTOR & CHIEF FINANCIAL OFFICER – IFB INDUSTRIES LIMITED**
MR. RAJSHANKAR RAY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER (HOME APPLIANCES DIVISION) - IFB INDUSTRIES LIMITED
MR. ARUP DAS – HEAD OF MARKETING (ENGINEERING DIVISION) - IFB INDUSTRIES LIMITED
MR. ANAND REDDY – CHIEF EXECUTIVE OFFICER (MOTOR DIVISION) - IFB INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the IFB Industries Limited Earnings Conference Call 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: Thank you Diksha. Nirmal Bang Equities welcomes you all to 4Q FY2022 results conference call of IFB Industries. The management today here is represented by Mr. Prabir Chatterjee, Director and CFO; Mr. Rajshankar Ray, MD and CEO of Home Appliances Division; Mr. Arup Das, Head, of Marketing, Engineering Division and Mr. Anand Reddy, CEO of Motor Division. I now hand over call to management for opening remarks post which we can take questions from the participants. Thank you and over to you Sir!

Prabir Chatterjee: Thank you. Good afternoon everyone. Welcome you all for IFB Industries call for the fourth quarter FY22. Hope everyone is fine and healthy. Joining me today are Mr. Rajshankar Ray, MD & CEO of Home Appliances Division, Mr. Arup Das, Head of Marketing (Engineering Division), and Mr. Ananda Reddy, CEO of Motor Division. Now I will talk about the result. During the quarter we witnessed a low growth of 10% and YTD growth for the year was 22%. The growth during the year was affected mainly because of the low sales during April and May because of pandemic and thereafter growth was moderate. During the quarter we had EBITDA Loss of 6.77 Crores and very low YTD EBITDA of 68.19 Crores. The reason for lower YTD EBDITA was because of low sales and high commodity price throughout the year which included high freight cost for imports, higher semiconductor prices and as stated earlier moderate performance in few branches . Continuous increase in material cost could not be recovered through price increase from customers. With this I will request you to start the question answer session.

Moderator: Thank you very much. We will now begin the question and answer session. We take the first question from the line of Bhargav from Kotak Mutual Fund. Please go ahead.

Bhargav: Good evening Sir and thank you for the opportunity. Sir my first question is that if we look at your gross margins on Q-on-Q basis also there has been a decline so is it possible to sort of elaborate a bit on this in terms of why was there also Q-on-Q decline in gross margins?

Rajshankar Ray: By Q-on-Q margin you mean Q3 versus Q4 right?

Bhargav: Yes.

Rajshankar Ray: There were two things which have impacted that one is that the percentage sales of air conditioner is higher in Q4 compared to Q3 and as on date the air conditioners are running at a lower gross margin compared to the washer segments so the rise in the percentage contribution from ACs reduces overall gross contribution amount and the second is that there were further material cost increases in Q4 which were not recovered within Q4 and to be recovered in subsequent quarters so the combined effect of the two has caused the drop.

Bhargav: Within ACs is it possible to break it up between B2C and B2B which is the outsourcing piece?

Rajshankar Ray: You will see in the investor report this time that we have actually shared the losses that we have made on the air conditioner as a segment. We would not want to give a breakup of the OEM versus the brand split between the two, the gross margins on home sales are definitely higher but overall for both the gross margins are much below what they need to be which is something that we need to finish work on between this quarter and the next quarter.

Bhargav: In terms of utilization what would be the utilization of your AC factory as of now?

Rajshankar Ray: In Q4 actually the demand on the plant was more than what the capacity is and we lost sales in the month of April and May because we could not supply. If you look at the current situation we are fully booked. For example if you look at specifically in the last two months where our total sales has been around 70000 and that is about 35000 a month and our capacity is about 40000 so we are nearly fully booked.

Bhargav: Sorry last two months which months are you referring to?

Rajshankar Ray: We are talking about April, May.

Bhargav: Okay April, May you were already booked is what you are highlighting?

Rajshankar Ray: Yes.

Bhargav: This is a mix of both OEM as well as own sales?

Rajshankar Ray: Yes.

Bhargav: In terms of guidance you are highlighting you wanted to clock a run rate of about 150000 to 200000 of OEM sales are we on track to achieve that guidance?

Rajshankar Ray: Yes we are on track.

Bhargav: You told us that the gross margins in the OEM sales would be lower as compared to the branded sales but is it possible to highlight is it a very big difference or sort of a minor difference?

Rajshankar Ray: No it is not a minor difference it is a significant difference but what happens is that below the gross margin on the brand sales we have expenses sitting in the field whereas for the OEM sales once it leaves the gate there are no further additional costs, so as far as the current situation at the bottom let us say EBIT level is concerned both would be similar where we have to work on both, at gross margin level of course there is a difference.

Bhargav: But as the business scales up is it fair to say that we will be in high single digit EBITDA margin for the entire business as a whole the AC business?

Rajshankar Ray: Yes that is what the internal work is on because this segment has actually had quite a negative impact on our profitability over the last two to three years so this is the pre-agenda to fix for this fiscal year.

Bhargav: What would be the FY2022 sales from AC or if you can give us a breakup?

Prabir Chatterjee: l52684 nos..

Bhargav: Sorry you were saying something else as well.

Rajshankar Ray: No I thought you were asking the forecast sales for this year but Mr. Chatterjee has answered your question.

Bhargav: Okay I will come back in the queue. Thank you very much for your answers.

Moderator: Thank you. We take the next question from the line of Amish Thakkar from SG India. Please go ahead.

Amish Thakkar: Hi Sir just wanted to get more insights into your AC business so you said FY2022 volumes were 152000 can you give us the value and the second question is your presentation mentions that overall appliances division reported 43 Crores of EBITDA last year versus 18 Crores EBITDA loss this year and only 37 Crores of that was because of raw material so what is the remaining delta decline in EBITDA coming from?

Prabir Chatterjee: The value for AC was 522 Crores for FY2022.

Amish Thakkar: This was before discounts right?

Prabir Chatterjee: Yes.

Amish Thakkar: What will be net revenue?

Prabir Chatterjee: I will tell you separately.

Amish Thakkar: Mr. Chatterjee the question was also about the swing in profitability in Q4 so you could answer that as well.

Prabir Chatterjee: Can you repeat the question please?

Amish Thakkar: Q4 FY2021 you had EBITDA profit of 43 Crores versus 18 Crores loss this year so the total swing in EBITDA was about 60 Crores out of which only 37 Crores came from your raw materials so where is the remaining 25 Crores of swing in EBITDA coming from?

Prabir Chatterjee: Major reason for this variation was increase in commodity price including freight , sales promotion expenses & other operating expenses.

Amish Thakkar: What will be the difference between gross margins in AC division versus rest of home appliances division?

Prabir Chatterjee: The AC margins are significantly lower as of now compared with other products because of commodity price , high import content , but a lot of actions have been initiated . We have taken significant steps to reduce the import content as mentioned in investor presentation. Going forward ,it is expected things will improve substantially.

Moderator: Thank you. We take the next question from the line of Prasheel Gandhi from Nirmal Bang Equities. Go ahead Sir.

Prasheel Gandhi: Could you give a highlight of price hike you have taken across various segments in FY2022?

Rajshankar Ray: If you see from January 2021 to March 2022 the total increase in price has been around 12 to 13% this is the average, in some models it will be more some less.

Prasheel Gandhi: For FY2022 from April to March?

Rajshankar Ray: Another 2 to 3%.

Prasheel Gandhi: Have you taken price hike in Q1?

Rajshankar Ray: We have taken a price hike in Q1 in the month of May.

Prasheel Gandhi: Could you quantify that, is it possible to quantify?

Rajshankar Ray: About 2 to 3%.

Prasheel Gandhi: My second question was could you highlight your capex spend for FY2023?

Prabir Chatterjee: For engineering division other than routine capex there is no additional capex,, Appliance division is working on it, for motor we have a plan of around 34 Crores because of the new BLDC line.

Prasheel Gandhi: We expect this BLDC line to go live by September 2023 so could you highlight what would be the incremental cost of BLDC motor versus a normal motor?

Anand Reddy: Actually the regular motors are one which we are using today is much more expensive than the BLDC solution that we are offering. BLDC motor will be cheaper in comparison with the universal motor, but that savings whatever we get will get mitigated by increasing cost of the controller so net-net as a package motor and controller the cost may increase by 1000 to Rs.1500.

Prasheel Gandhi: We recently amalgamated with Trishan Metals Private Limited so could you throw some light on that, what is the company, what are your plans for the company going ahead?

Arup Das: Actually this is a downstream project. It is a rolling mill which rolls sheets which are used for captive consumption as well as for external sales because the fine blanking or the stamping uses the CR coils which will get produced from this plant and used for manufacturing. Now the thing is that as far as the future projection is concerned the present capacity of the plant is 1400 metric ton per month which gives additional improvement as well as some capex in it will go up to 2500 metric ton per month. It would be advantageous for all the units which are into engineering business to get material just in time of the right quality because the material scarcity here and there creates huge issues for the OEM supply so this being a downstream project helps all the plants in meeting customer requirement in full.

Prasheel Gandhi: Could you quantify some of the cost savings that is likely to come through from this amalgamation I am assuming that downstream would lead to a lot of cost savings am I correct on that front?

Prabir Chatterjee: The cost savings mainly will come from the area of the reduction in generation of scrap , reduction in repair maintenance cost & elimination of quality issues.

Prasheel Gandhi: Could you quantify if I look two or three years down the line what is the cost savings?

Prabir Chatterjee: We are working on it.

Prasheel Gandhi: Question pertaining to dishwasher I think our dishwasher sales have come down drastically compared to the last year quarter so could you throw a light or is it the normalcy that we should expect going further?

Rajshankar Ray: The overall market demand has come down that is the correct point. However, we still believe that the market can be grown by expanding displays, focusing on marketing of the dishwasher and that is what we are working on internally, but the market demand has significantly gone down, there was a sort of an unnatural demand during the lockdown period that has gone.

Prasheel Gandhi: Going forward it is safe to assume we would be doing about 150k revenue?

Rajshankar Ray: I will have to cross check on the revenue side, but in terms of numbers of dishwashers at the current run rate we are looking at about 40000 to 45000 dishwashers a year. We are working to increase this to about 70000 to 75000 dishwashers a year so if you take that figure of 70000 at the rate of 30000/- each that is about 225 Crores of revenue.

Prasheel Gandhi: Lastly on the e-commerce segment could you quantify how much our sales for Q4 as well as FY2022 were through e-commerce channels?

Prabir Chatterjee: E-commerce Q4 was only 9% of total sales and during whole year it was 16% of total sales.

Prasheel Gandhi: Going forward do you think our e-commerce sales are likely to go up to 20% to 25%?

Rajshankar Ray: No, we would expect the offline and online sales both to rise so on an average 15% to 16% would be the e-commerce sales that is more like a stable level. In some months and some period it rises to 20% and beyond but overall on let us say YTD basis 15% to 16% is what it would be.

Prasheel Gandhi: Thank you. I will get back in the queue.

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

Chirag M: Thank you. I just wanted your comment on the competitive intensity on the industry currently. We have seen a trend for **(inaudible) 22:31** despite such high cost inflation a lot of players have not taken requisite price hike and the competitive intensity has increased so just wanted your comments on that and in that light how do we see FY2023 operating margin translate into?

Rajshankar Ray: This is a good question and what you are saying is right. There are two of the larger players who have actually held back on price increases right through the previous fiscal year and from a pricing point of view it has caused disturbance in the market. As far as we are concerned you cannot respond to what they are doing which is basically losing profit for market share kind of a strategy so we have been focused on completing the material cost reduction work which is our biggest agenda and the second is to continue to focus to broad base our sales from all channels including the smaller retail networks which are led through distribution, looking at how we can increase model mix or favorable gross margin, so those are the actions we have been working on, the results have not shown in the previous fiscal year but we are trying to ensure that we are able to deliver it in this fiscal year. You cannot specifically respond to the kind of things that have been happening in the market in the last fiscal year from the two larger players. Does that answer your question?

Chirag M: Sir it answers that. Is it possible to give any kind of indicative margin profile that our internal measures can result in assuming the level of competitive intensity remains same throughout the year?

Rajshankar Ray: What Mr. Chatterjee and I have said for quite some time is that we think that with what we have on our plate the double digits margin profile is deliverable, but we have not delivered it and that is what we have to work on so we still feel that even with what is happening in the market today with the actions that we have on our plate a double digit margin profile can be delivered or has to be delivered by us.

Chirag M: Sir specifically in terms of washing machine are we seeing any trend of premiumization in the sense that is a front load washing machine gaining in terms of outperforming growth compared to a semiautomatic washing machine or are all the three categories still growing at more or less equal pace?

Rajshankar Ray: For many years now the fully automatic has been growing faster than the semiautomatic. Top load specifically has been growing quite rapidly and even the front loads have been growing but the semiautomatic market is not going away in sheer volume terms it is still quite large and it is growing it is not that it is stagnant or degrowing. Your question of premiumization is an interesting one because even within the category there is a lot of premiumization. So if we look at just front loads and we look at the last two financial years or even specifically the last two to three quarters the percentage of the higher end capacity which is 8 kg, 9 kg have been growing. They are growing more in upcountry areas but overall they are growing. So premiumization is happening within the category that is a segment like front load or top load and the fully automatics are growing faster than the semiautomatics that is also happening.

Chirag M: Realization for us is it pricing in line with the price hikes that we are taking or because of competitive intensity even in front load washing machines the realization is not raising as much as you would have expected to?

Rajshankar Ray: No, the realization is rising in line with the price hike so we have not increased discounting in the market, but what has happened is that we have not been able to pass through the material cost increase as quickly as it should have been done and not still to the full extent so even today there is a 3% to 4% lag in terms of what we need to pass through the market so the realizations have improved in line with the price increase.

Chirag M: Thanks Sir. That is it from my end.

Moderator: Thank you. We take the next question from the line of line of Prasheel Gandhi from Nirmal Bang Equities. Please go ahead.

Prasheel Gandhi: Sir couple of questions on my side. First on the motor division we have said that we are exploring opportunities in the EV space so could you throw some light on that what are we targeting in that part of area?

Anand Reddy: Actually on the EV side on motors we are looking at opportunities in two wheelers and three wheelers to start with as well as we are looking at opportunities in commercial vehicles that is 1 tonner, 2 tonner kind of vehicles motor and controllers.

Prasheel Gandhi: Do we have a product that is ready or we are also into the R&D?

Anand Reddy: We are in the R&D stage. We do not have a ready product yet.

Prasheel Gandhi: Something to **(audio cut) 28:37** would be somewhere during FY2024-2025 am I correct?

Anand Reddy: Right.

Prasheel Gandhi: Second question is we have turned EBITDA positive in our motor segment after quite a long time so do we expect the trend to continue?

Anand Reddy: Yes we expect the trend to continue. If the commodity price is cooling down we hope to have positive EBITDA.

Prasheel Gandhi: Thank you Sir. I will get back in the queue and all the best.

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

Aviral Jain: Thank you Sir. Sir could you please help us I have two questions one is specifically pertaining to Q4 FY2022 versus Q4 FY2021 there is obviously a gross margin compression, but from an absolute perspective what were the key deviations on absolute cost incurred which led to such a large deviation in profitability that is the first question and also for the first time there was some detailed mention of the P&L for the AC business so could you also breakup the appliances business, the P&L between AC and non-AC how are we looking at it, what are the dissimilarities in terms of gross margins, in terms of promotion expenses and some of the other expenses?

Prabir Chatterjee: Like I have already said the difference in 4Q this year versus last year mainly because of high & continuous increase in commodity price and we could not pass on the entire price increase to customer during the QTR. We did some sales promotion expenses to increase AC sales because in last two years during April - May we lost considerable sale due to outbreak of COVID. These are the two main areas and beside that volume was also not up to our expectation. As mentioned earlier we do not give any guidance or details on the product margin,

Aviral Jain: There is no internal product acceptance issue per se it was mainly because of shortage of parts or materials for which you were not able to meet whatever internal aspirations on the AC side is that fair to say?

Rajshankar Ray: Yes that is right. In fact on the product acceptance side the product has done quite well in the market and the quality levels, performance levels are all in line with what we have targeted.

Aviral Jain: Sir related question was again there was an update on the AC target versus actual and the actual is going to be significantly short of the schedule any reason for that is it because the season has gone or again you have supply issues?

Rajshankar Ray: We have supply issues on areas like the compressors, etc., and there have been a lot of shipping related problems with China for which a lot of the key imports did not come on time so those were the problems that we have been struggling with.

Aviral Jain: But just to understand the AC our last highest sales in a fiscal year has been around 320 Crores and we did 174 odd Crores of sales in the first quarter or in the last Q4 itself so would it be fair to say that this will achieve a very significant scale once the supply chain issues get sorted out the numbers look like 600 to 700 Crores plus in the near term?

Rajshankar Ray: You see in air conditioners there were two points one is to get the range right because when we introduced the range in January 2020 after that about a year-and-a-half the price positioning, etc., that we had taken was more on the premium side and we had issues in terms of placements in the market. The profitability of course was a problem in the first year itself so we had two agendas one was to get the range right and that was completed in January 2022 with the introduction of a new series which has actually significantly contributed to the rise in volumes because by March or so it was fully available in the market and it was received quite well so that part of the job is over in terms of the range that we have now. The profitability is the area that we have suffered quite significantly in the last year and this year we have to fix the profitability so the combination of the volumes that we will get this year and the profitability that we will need yes this segment will have a significant impact.

Aviral Jain: Have you introduced a lower price affordable range or it just took more effort to get the placement for the initial range that you launched?

Rajshankar Ray: We actually segmented the market into key accounts, small dealers supplied through distribution network and the market was segmented into five segments and we actually have rooms for each of the five segments, so it was not the question of lowering the price but it was getting the specification right for the segment in which the AC was going so we have corrected all of that specifically.

Aviral Jain: If I may say that the endeavor would be to have the premium range also pushed into accounts where the indexation is low obviously you are first applying what the channel demands basis their comfort with whatever price value creation they want to offer to their end customers.

Rajshankar Ray: Yes that is right. You are absolutely right so if you see for example on the 2 ton air conditioner which is premium and we were very short of demand, we have not been able to supply the market properly in the last three to four months and if we do supply 2 tons AC to the requirement that is there and automatically the profitability profile improves so it is not just about supplying the more expensive or better spec ranges to some accounts it is also about supplying the higher capacities in full, both the things need to be addressed by us.

Aviral Jain: Does that require specs tweaking, is there a significant margin difference for the realization that the company is seeking or there is material input cost change as well because you would use more, I do not know maybe the compressor remains the same frankly I do not know?

Rajshankar Ray: It does not change the profitability profile but the specifications are different so you might have something at a particular voltage and another range at a lesser voltage with a different compressor the application would be different so it is not about reducing the margin on the particular end it is about the specification which is a material input change as well.

Aviral Jain: Thank you so much Sir and automobile business now I would assume that it is coming back obviously two wheeler business is still suffering major OEMs are reporting 15%, 20%, 30% decline but four wheeler is reporting same level of sales as 2019 I guess?

Arup Das: You are absolutely right. It is showing early signs of improvement as far as four wheeler is concerned. Chip shortage is a plaguing issue which is continuing now also. Demand is there in the market. Waiting period has increased considerably for the four wheelers. Once the chip supply chain issue is resolved I think four wheeler numbers will drastically improve. As far as two wheelers are concerned yes you are also correct that last quarter or more the demand on two wheeler was very, very poor, but again showing signs of improvement going forward, so overall scenario I would say is positive going forward in coming quarters.

Aviral Jain: One last question did the freight rate also hit the cost side out of proportion in Q4 and even now that is what we hear because there is still 40% to 45% **(inaudible) 39:28** for front loaders as well which is imported?

Rajshankar Ray: The freight has increased but that is not explanation for the reduced margin. Due to issues in China supply chain freight rates has been high in Q4 but they were also high in Q3 per se but that is not an explanation for reduced profitability but supply yes.

Prabir Chatterjee: Freight cost during third and fourth quarter was quite high & is now gradually coming down like Mr. Ray was mentioning the issue is the irregularity of the supply.

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

Bhargav: Yes thank you for the opportunity once again. On the OEM side is it possible to share how many clients would we be servicing to and what are we doing to ensure that this business is sticky in nature and we do not lose out any client?

Rajshankar Ray: We are currently supplying to three buyers I would not want to mention them here but we can separately give them to you and this point about sticky thing is absolutely right. In terms of servicing them at the right time ensuring that the costs are always mutually agreed. This is an area that we have to work on. Currently they are regular buyers but that does not mean that they will remain regular buyers so we have to put in that effort on the OEM side to keep the utilization up and we are working on that.

Bhargav: So is there any order book where we have a visibility of say maybe next 6 months or 8 months or something like that or no?

Rajshankar Ray: Yes we have a three-month order book which is discussed with them and which we are working with, so let us say if we are sitting in the month of May then post the new energy norms arriving on July, July, August, September we have an order book.

Bhargav: Given that we have not been able to service the demand as we have shared in your presentation there is no risk of any of these customers leaving on the back of that right?

Rajshankar Ray: There is no risk per se because of this but of course there is dissatisfaction because we did not supply. We will have to ensure that we address that concern by explaining what we are doing to ensure that this does not repeat.

Bhargav: So given that shortages on the compressor side was one of the key reasons so are we doing anything to mitigate our import dependence is it possible to elaborate on a bit?

Rajshankar Ray: So you want us to elaborate for the air conditioner specifically or overall. On the air conditioner the electronics has been completely localized from February this year so that job was completed. There are some critical areas like a part which is called cross flow fan that the supplier is investing in and that will be localized over the next four to five months before the next season comes. As far as the compressor is concerned which is coming exit China there is a supplier in Gujarat that we are working with and there is also a supplier who is investing in Pune and both the suppliers are good suppliers so by next year the compressor will also be significantly localized that leaves the aluminum sheets that are used in making the condensers these are currently 100% imported into India but under the PLI scheme Hindalco has begun a project along with the industry to localize this into India and I think over the next two to three years this work will also be completed. For IFB and also for the industry a great deal of import substitution will take place under the PLI scheme which is the government's intention as well and this should happen over the next two to three years.

Bhargav: Fair to say that as the level of localization increases the cost will also sort of come off a bit?

Rajshankar Ray: The related risk will go. As far as cost is concerned for the suppliers to acquire scale will take a little bit of time so I would put it at let us say four to five year kind of horizon. As far as IFB is concerned our biggest lever was on the electronics and with the localization yes the cost will drop, the impact of which we will see in Q1.

Bhargav: Now that the utilization in AC has improved fair to say that FY2023 we are looking at this business to turn profitable?

Rajshankar Ray: Yes.

Bhargav: Thank you very much for your answers and all the best.

Moderator: Thank you so much. As there are no further questions I would like to now hand the conference over to Mr. Prasheel Gandhi for closing comments. Please go ahead.

Prasheel Gandhi: Thank you Diksha. We would like to thank the management of IFB industries for giving us opportunity to host this call. I would also like to thank all investors and analysts for joining the call. Any closing remarks from members of management who want to give to your investors?

Prabir Chatterjee: Thank you all for participating.

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