To
Listing Department
BSE Limited ("BSE")
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001
Scrip Code: 544095
ISIN: INE0G5901015

To
Listing Department
National Stock Exchange of India Limited ("NSE")
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051
Symbol: EPACK
ISIN: INE0G5901015

Dear Sir/Ma'am,

Sub: Transcript of the Investors' Conference Call on the Standalone and Consolidated Audited Financial Results for the quarter and Financial Year ended as on March 31, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, please find enclosed herewith the transcript of the Investors' Conference Call on the Standalone and Consolidated Audited Financial Results for the quarter and Financial year ended as on March 31, 2024, held on May 29, 2024.

The said transcript has also been uploaded by the Company on its website and the same is available at https://epackdurable.com/wp-content/uploads/2024/06/Transcript-EPACK-Mar-2024.pdf

We request you to kindly take this on your record and oblige.

Thanking You

For **EPACK Durable Limited**

ESHA GUPTA
Digitally signed by ESHA GUPTA
Date: 2024.06.03 17:44:33 +05'30'

Esha Gupta
Company Secretary and Compliance Officer

Date: June 03, 2024
Place: Noida

"EPACK Durable Limited

Q4FY24 Earnings Conference Call"

May 29, 2024

MANAGEMENT: **MR. AJAY SINGHANIA - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - EPACK DURABLE LIMITED**
MR. RAJESH KUMAR MITTAL - CHIEF FINANCIAL OFFICER - EPACK DURABLE LIMITED

MODERATOR: **MR. DHRUV JAIN - AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to EPACK Durable Limited Q4FY24 Earnings Conference Call hosted by Ambit Capital. 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 star then zero on your touchstone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you and over to you.

Dhruv Jain: Thank you. Hello everyone. Welcome to Q4FY24 Earnings Call of EPACK Durable Limited. From the management side today, we have with us Mr. Ajay Singhania, Managing Director and Chief Executive Officer and Mr. Rajesh Kumar Mittal, Chief Financial Officer. Without any further delay, I request Mr. Ajay Singhania to start with his opening remarks. Thank you and over to you, sir.

Ajay Singhania: Thanks, Mr. Jain and good afternoon everybody. Welcome to the earnings conference call to discuss the performance of Q4FY24. In interest of some of the people who are new to the company, let me start by giving a brief overview of EPACK Durable.

EPACK Durable Limited is the second largest air-conditioned original design manufacturer in India in terms of number of indoor and outdoor units manufactured in fiscal 2023 through its ODM journey route. Our journey started in 2003 when we started as an OEM for RAC brands. Over the years, we have consistently grown by adding new customers, increasing our capacities and backward integration.

The expertise of EPACK Durable lies in manufacturing a diverse portfolio of room air conditions and small domestic appliances which we call SDAs. We cater to all aspects of room air conditions and SDA value chain including extensive ODM and OEM service across our product line. We are a customer centric company where business is driven by a focus on continuous innovation and operational efficiency.

EPACK Durable works jointly with customer team and customizes the product according to different client requirements. Our strong manufacturing and design capabilities including developing, designing and manufacturing of room ACs of various designs and technical specifications. Further, the current RAC product offering enable the company to perform more customization to RAC brands in terms of completely built-up units of IDUs and ODUs separately as well.

Our integrated manufacturing facilities help us manage operational costs and logistics efficiently. In line with our focus on bringing in operational efficiency, our manufacturing operations involve a degree of automation which reduces the margin of error and manual inefficiencies. Our manufacturing facilities are strategically located to facilitate product transportation to customers across India.

We have three manufacturing facilities, the first one in Dehradun, Uttarakhand, second in Bhiwadi, Rajasthan and the recently operationalized facility at Sri City in Andhra Pradesh. We strongly believe in staying ahead of the curve and the key role that R&D plays in product development. We have dedicated R&D centers at each of our manufacturing locations and almost close to 60 plus employees in our R&D team.

Our R&D activities focus on development of new products, optimization of existing products and manufacturing methods, process improvement, environmental protection and energy efficiency. With the help of our R&D, we have registered one patent, filed a couple of them and also have numerous design decisions in India. Due to this strong operational capability, EPACK Durable today is one of the key ODMs for most major brands in India.

We are also constantly expanding our product offerings in both Room ACs and Small Domestic Appliances and have also invested heavily in expanding our capacities and capabilities to cater to the growing demand. Apart from this, we have a highly experienced Board of Directors with two Nominee Directors, one each from ICICI Venture and Affirma Capital and other Independent Directors. Now I request our CFO Mr. Rajesh Mittal to brief you on the Financial highlights after which I shall brief you on key operational highlights. Thank you.

Rajesh Mittal: Thank you, sir. Good afternoon and welcome to this earnings call. Let me give you some of the few key financial highlights for the fourth quarter followed by the financial year ended 2024. For quarter 4 financial year 2024, the revenue from operations stood at INR526 crores which declined by around 18% on year-on-year basis. The EBITDA was reported at around INR56 crores which was down by around 10% on year-on-year basis with the EBITDA margin reported at 10.56% exhibiting a growth of 92 basis points year-on-year. The net profit stood at INR28 crores which declined by around 17% on year-on-year basis. Profit after tax margin for the quarter stood at 5.29%.

Coming to the financial year ending 2024, the revenue from operations stood at around INR1,420 crores which declined by around 8% on year-on-year basis. The EBITDA was reported at INR116 crores which grew by 13% on year-on-year basis.

The EBITDA margin is stood at 8.19% exhibiting a growth of around 152 basis points on year-on-year basis. The net profit is stood at INR35 crores which grew by around 11% on year-on-year basis. The PAT margin is stood at 2.49% which increased by 41 basis points on year-on-year basis.

On the balance sheet front, I am happy to inform you that the company has significantly reduced its working capital cycle days from 91 days in financial year 2023 and to 45 days in financial year 2024. Furthermore, our debt position has also reduced significantly resulting in reduction of debt to equity ratio from 1.58x in financial year 2023 to 0.37x in financial year 2024. Now I would request our Managing Director and CEO Mr. Ajay DD Singhania to brief you on the operational highlights.

Ajay Singhania: Thank You Rajesh Ji. As I mentioned in our previous con-call, one of the primary contributors to decline in revenues for FY24 was the weather disruption which we experienced in Q1 of last year. So the disruption led to an elongated end of season period with our partner brand resulting in excess inventory liquidation which continued throughout Q4-FY24. Consequently, the demand for fresh manufacturing shifted to Q1-FY25. So the current quarter of FY25, there has been a significant increase in demand.

Additionally, the expansion of our in-house manufacturing capacity by certain large brands, particularly in AC segment, posed a challenge to our revenue stream as well. However, through our strategic initiatives such as acquiring new customers and enhancing our wallet share with existing ones, we were able to offset the decline in sales revenue from some of the significantly large customers and hence the overall year-on-year sales revenue decline was curtailed at 8%.

Despite these challenges, I am pleased to report several notable achievements that underscore our resilience and commitment to excellence. Our EBITDA margins witnessed a significant improvement from 6.67% in FY23 to 8.19% in FY24, driven by implementation of various internal strategies aimed at enhancing operational efficiencies. Furthermore, our efforts to optimize working capital management yielded promising results with a substantial reduction in working capital from 91 days in FY23 to 45 days in FY24.

By refining our account payable strategy and implementing better collection strategies, we were able to unlock cash flow and strengthen our financial position. The commissioning of our Sri City facilities in Andhra marked a significant milestone, increasing our manufacturing capacity by around 50% in FY24. This expansion equips us to meet the demands of the current summer season and gives us confidence to meet the customer's requirement.

Furthermore, our foray into new product categories such as air coolers, which we started in January, and manufacturing and supply of components for various direct requirements of brands, components like plastics, copper, cross flow fans from both our Bhiwadi and Sri City facilities demonstrate our agility and adaptability in responding to evolving market dynamics. In FY25, we will continue to diversify our product mix and expand our client base as we prepare for our next phase of growth. With our continued focus on growth while improving profitability, we are confident of delivering sustained superior performance over the coming years.

With this, we now open the floor for Q&A session.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Bhoomika Nair with DAM Capital. Please go ahead.

Bhoomika Nair: Yes. Good evening, sir. Sir, I just wanted to understand, given the current quarter, we've seen a fairly sharp decline in terms of revenues because of the reasons you mentioned. Now, how has our top customers, say the top five customer concentration, makes change versus what it was the previous year, given that you've added more customers?

Ajay Singhania: Yes. Thanks, Bhoomika. So, yes, specifically this is what we wanted to highlight that previously, if top five customers, let's say -- rather out of top five, it was top three, which contributed to almost 75%-80% of our revenue. For the last financial year, FY24, it is almost now five or six of them contributing to almost 80%. So our dependence on some of the larger clients has reduced significantly.

Bhoomika Nair: Okay. And we did about -- you mentioned that RAC was about 81%. Now, how would this have been, would this largely be finished goods or would there have been any component sales within this as well?

Ajay Singhania: So, currently, it is 81% as well for RAC. And components, we have seen a significant growth of almost, let's say, 700-800% because the base was small. But component is something which is growing significantly. And going forward also we have a good order book for components.

Bhoomika Nair: So would it be possible to get the component revenue separately versus, say, the RAC revenue for RAC segment alone?

Ajay Singhania: We will share that later on.

Bhoomika Nair: Okay. Sure. Sir, the other thing is, obviously 1Q is panning out to be fairly strong for the industry and we also mentioned that we are seeing a strong demand aspect into 1Q. So how is 1Q for us per se, how is the trend being given that we would already have visibility for June as well from a lot of our customers?

This whole thing of insourcing that's happening by many of these brands, is the growth in line with the rest of industry? And what we're hearing is a 30-40% kind of a growth. Are we also seeing similar kind of a profile? Some details about this aspect will give a lot of confidence on how FY25 is likely to pan out. So whatever you can share on 1Q would be much appreciated.

Ajay Singhania: Yes. So, Bhoomika, if you recall, in the previous earnings call for Q3 also we mentioned that there has been a reduction in the press manufacturing for Q4 compared to the historical manufacturing. And a lot of demand from Q4 shifted to Q1 of this financial year, FY25. So in that terms if we see, Q1 is not just strong, it is phenomenally strong. And we see an upside of almost 50% plus in Q1 as compared on a Y-on-Y basis.

Bhoomika Nair: Got it. And this would be finished goods, this would not include components?

Ajay Singhania: Yes, this will not include components. And precisely, this is the second point, which is the answer to the second question here, that a lot of insourcing, what we feared or what had impacted us in the last financial year FY24, we see most of it now settling down. And hence, there is an increase in demand from the same set of customers who had set up in-house capacities.

So that's a positive sign. We have always been saying that this in-house capacity is being set up by brand is a momentary or it's a short-term concern. It is going to get filled up very soon and we could sense it and we could feel it in the current season.

Moderator: Thank you. Ms. Nair, please rejoin the queue for more questions. Next question comes from the line of Aniruddha Joshi with ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. Thanks for the opportunity. So, two-three questions. One, in terms of what would be the revenue contribution from top three customers and how do you see that panning out in FY25 as well? Point one. Question number two, can you indicate the PLI benefits and the TLI benefits which are likely booked in Q4 and FY'24 also? And in terms of third we were also focusing on reduction in working capital. So how do you see the working capital as well as secondly the margins because there has been a pretty good jump in the margins due to great work done by the team. So, how do you see the margins spanning out in FY25. Considering we have a 50% plus growth so operating leverage should also play out so just checking on that?

Ajay Singhania: Thank you, Aniruddha. So the first question regarding the revenue from top three customers FY23 top three customers contributed almost 80% of the overall revenue. In FY24 top three customers contributed to almost 72% of the total revenue. So there is a significant reduction on dependence on the top customers. So now we will see 80% is contributed by almost top 5 customers. That's in terms of customer concentration.

With regards to PLI benefits firstly for the last financial year FY23 we received the PLI amount of INR15 crores in April. So that has already been received. Further, we have booked an income of INR30 crores against PLI for FY24. So that's the income booked against PLI. So, that's the PLI benefit. With regards to TLI which is applicable to our Bhiwadi facility. So currently we have not availed any TLI benefit. We are still waiting for entitlement certificate which we hope will be available soon and once that is available we will have incentive against TLI from the Rajasthan government as well.

The third question with regards to reduction in working capital. So like we shared earlier we have reduced our working capital from almost 91 days to 45 days. So that's reduction of 50%, almost reduction in working capital days and that has been possible because of our efforts on all the three fronts inventory, debtors and creditors all the three fronts. With regards to margin improvement like we shared. So overall, there has been a significant improvement in our material margins and EBITDA margins.

As you can see we have improved from almost 6.6% to 8.19%. So that's the EBITDA margin improvement. So despite 8% degrowth in revenue we have been able to improve both our material margin and our EBITDA margin.

Aniruddha Joshi: So sir in terms of going forward you would like to give any margin band guidance or how should we see the margin because there has been a considerable improvement.

Ajay Singhania: So going forward our estimate is we strive to maintain the material margin and our EBITDA margins at around 8% level. So that's what the internal target is.

Aniruddha Joshi: Sure sir. That's very helpful. Thank you.

Moderator: Thank you. Next question comes from the line of Divyanshu Sachdeva with Burman Family Holdings. Please go ahead.

Divyanshu Sachdeva: Sir if I understood you correctly you mentioned you're experiencing 50% growth on a YoY basis this summer in your AC segment?

Ajay Singhania: More than 50%.

Divyanshu Sachdeva: And this is mainly the value growth that you're talking about?

Ajay Singhania: Yes, both value and quantity.

Divyanshu Sachdeva: So it is both value and quantity. So there has not been a lot of price increase are you saying?

Ajay Singhania: Compared to last -- actually compared to FY23 we already had a price fall in FY24. So just to add there has been almost a 10% roughly around 10% reduction in average selling price for ACs in FY24 as compared to FY23. Now, current financial FY25 we are seeing some upward movement which has started off late because of rise in certain commodities especially copper and others. So that is going to impact us probably from in Q2. So currently let's say it has been more or less stable, but yes it has already started impacting the industry.

Divyanshu Sachdeva: I'm sorry I missed your point initially. You mentioned there has been a decline in the revenue 18% due to some budgeting constraint or something like that you mentioned. Can you please repeat that?

Ajay Singhania: There was a decline in revenue from FY23 to FY24 by almost 8%

Divyanshu Sachdeva: No I was asking about the main reasons that you mentioned initially in your comments.

Ajay Singhania: The reason for this is Q1 which is April, May, June which is the main month for a seasonal product like air conditioners. We had unseasonal, untimely and erratic rains throughout North of India which contributes to significant requirement of ACs. So that Q1 itself saw a huge degrowth for the entire industry which led to huge inventory, leftover inventory with the brands and the brands are able to liquidate that inventory only by end of Q4.

So that means the peak manufacturing season which generally is Jan, Feb, March Q4 got delayed and a lot of the manufacturing overflowed into Q1 of the current financial year. So there are practically two reasons for this substantial increase in requirement in Q1. One is the overflow demand from the previous quarter and second is obviously the heat wave what we are experiencing throughout the country.

Divyanshu Sachdeva: And are you experiencing some sort of oversupply situation in the industry over the next 2 years, 3 years?

Ajay Singhania: So I think this was precisely the question which Bhoomika had also asked. So the current concern around certain brands putting up or expanding their own in-house capacities which happened in FY24. We see a lot of it not only getting utilized, but even a shortfall in whatever capacities they have built up. So number of those brands are already out in the market sourcing quantities for the current quarter. I mean the current quarter in FY25. So that's I think kind of precisely answers the concern around overcapacity. So currently if we see there is an under capacity situation.

Divyanshu Sachdeva: Okay understood and same is expected over the next 2 years, 3 years as well?

Ajay Singhania: Yes.

Divyanshu Sachdeva: And also I was hearing one of your competitors they mentioned that although a lot of brands are now focusing on insourcing, but they are actually following a component strategy here. So instead of actually building the entire CBU they were preferring to manufacture only the components part?

Ajay Singhania: Yes, Divyanshu I think it's again a question around the same lines. So yes there were some capacities has been set up by brands who are sourcing components and like we mentioned our component business has also grown significantly in the last quarter and going forward we still believe that the component business will grow at multiple times in over the next 2 years to 3 years with regards to these brands putting up expanding their capacity. So that's definitely one key area for growth, but at the same time we see continued growth in our finished goods business as well.

Divyanshu Sachdeva: Understood and last question for me. So right now you're not expecting any further clients? I mean is there any I mean to your knowledge there is no other client which is expected to let's say insource in the future. So, this is just a momentary thing that you're looking here?

Ajay Singhania: Based on the information available in public domain out of four or five known brands which had announced their plans to expand their capacities almost all have completed. So one larger brand Voltas is expected to enhance the capacities by end of this quarter or beginning of next quarter. So that's the only significant brand which is further expanding its capacities. Besides this, almost all have almost completed their plans.

Divyanshu Sachdeva: Okay. Thank you so much, sir. Thank you.

Moderator: Thank you. The next question comes from the line of Rushin with Krupa Exports. Please go ahead.

Rushin: In September 2023, the sales were INR178 crores. What is the expectation for Q1 of FY24?

Rajesh Mittal: Can you repeat your question, please?

Rushin: In last year, September 2023, the half yearly sales were INR178 crores. What is the expectation of Q1 this quarter?

Rajesh Mittal: In current quarter you are saying, financial year 25?

Rushin: Yes.

Ajay Singhania: Q1 of this financial?

Rushin: Yes.

Ajay Singhania: We will see -- like I mentioned earlier, there is more than 50% growth. So Q1 of this FY25 if we talk about, we are looking at anywhere at INR600 crores of revenue.

Rushin: In numbers, how many crores?

Ajay Singhania: INR600 crores I said. INR600 crores plus.

Rushin: INR600 crores plus in this quarter.

Ajay Singhania: Q1 of -- you are asking me the current quarter, right, Q1 of FY25?

Rushin: INR600 crores plus. So you've already ordered in hand, or you are expecting more orders to come this quarter?

Ajay Singhania: I shared earlier, we have a very strong order book for the current quarter and with 45 days already passed, this is something forward-looking statement which I can share with you definitely that is we are looking at a very significant growth in the current quarter.

Rushin: Thank you.

Moderator: Thank you. Next question comes from the line of Rahil Shah with Crown Capital. Please go ahead.

Rahil Shah: Hi, sir. Good afternoon. Sir, you guided for 8% EBITDA margins for FY25, which is your internal target but you have already achieved that in FY24. So based on the quarter 4 numbers, which will be when you achieve 10% plus margins, why do you not expect it to continue?

Ajay Singhania: Mr. Shah, this is an internal target to sustain an 8% margin at EBITDA level. See, the industry is definitely going through a lot of evolutions and every year we need to come out with newer products and in the growing market wherein I think it is more important for us to focus on operational efficiencies and leveraging our assets. So maintaining an EBITDA margin of 8% definitely is itself a task to sustain.

Rahil Shah: Okay. So you say that based on the market conditions.

Ajay Singhania: Yes.

Rahil Shah: Yes. Got it. And I am just clarifying something. Did you say you received INR50 crores in PLI for FY24?

Ajay Singhania: No, it was INR15 crores for FY'23. So there was a delay in receiving the funds. So this is why I mentioned it. FY'23 was received only in April of this year and for financial year '24, it is INR30 crores, which we have booked as income.

Rahil Shah: Okay. And just lastly, you just mentioned about having INR600 crores revenues in Q1, which is substantial growth. What are your expectations for the entire FY'25? Can you just give any ballpark guidance?

Ajay Singhania: So, Mr. Shah, it's more about like I said, Q1 definitely is an extremely, significant growth is what we are experiencing on two counts, which I shared earlier, is one is the overflow of demand from the previous quarter and second, the unexpected or rather the intense heatwave what the entire country is experiencing. So this is one of phenomena we believe wherein such a significant increase, multi-fold increase is being experienced by the industry.

So obviously, we would want this momentum to continue throughout the year. But on a realistic basis, yes, we anticipate the industry to grow by almost 17% to 20% for this financial year, FY25. So the industry is expected to grow anywhere between 17% to 20%. And at EPACK, we would definitely want to maintain that kind of a growth in line with the industry.

Rahil Shah: Okay, sir. Thank you and all the best.

Moderator: Thank you. Next question comes from the line of Bhoomika Nair with DAM Capital. Please go ahead.

Bhoomika Nair: Yes. Thanks for the follow-up, sir. I just wanted to actually just touch upon the small home appliance business, because it appears that that business has also degrown in the current year. So is that understanding correct? And second aspect is if you could also talk about the cooler business where we had gotten a couple of customers, how that business has scaled up, what is the kind of revenues we are doing out there?

And thirdly, the other question is, have you spoken about getting into the washing machine segment? So if you can just talk about, have you got any anchor customer out there? How are we looking at this business, given that some of your peer set is also entering this business, plus there are existing EMS players which are already there, how do we intend to kind of scale up? So if you can just talk about SDA, the cooler business and the washing machine.

Ajay Singhania: Sure. Thanks, Bhoomika. So firstly, with regards to the small domestic appliances, your understanding is partly correct. So we have not grown in the SDA category in the last year in terms of revenue. So this is an extremely marginal degrowth or very marginal growth as the overall. Again, this is on count of the average selling prices getting reduced. So even in SDA category, there was average selling price reduction by almost 12% to 15%. So overall SDA was almost flattish or with a very slight marginal growth.

In terms of cooler, we started off cooler in January with our first customer as an OEM. So the last quarter, we have experienced three months of, let's say, ramping up the operations and understanding the product. Going forward, we definitely believe that we will be able to align more brand customers and attract. So, that definitely is an area which we believe will give us growth in business around the year business.

In terms of our announcement of starting the washing machine, we are on track with our product development. And as we had shared earlier, our plan is to start washing machine sometime around end of September. And we are going ahead with development of only the fully automatic top-load washing machines in Phase 1.

So, we are not getting into semi-automatic, which we definitely believe is an overcrowded market with intense competition. So, to stay ahead of the competition, we have developed certain unique features in our fully automatic top-load washing machines. So, that's Phase 1 of our washing machine development.

And in terms of the customers being aligned, the only information I can share here is some of the key customers, top brands, both domestic as well as multinational, we are at advanced level of discussions with them. And they have been involved with us right from the design stage.

Bhoomika Nair: Understood. So, just to circle back on small home appliances, SDA what would have our absolute revenues been in FY24 from that segment?

Ajay Singhania: Revenue in FY24 was INR209 crores as compared to almost INR191 crores in FY23. Sorry, as compared to INR209 crores in FY23, in FY24, it was INR198 crores. Okay.

Bhoomika Nair: INR198 crores was the FY24 revenue.

Ajay Singhania: Yes.

Bhoomika Nair: Right. So, sir, I mean, now, you know, with the coolers kind of ramping up, I would assume cooler revenue would have not been very meaningful.

Ajay Singhania: We have categorized cooler separately. I mean, for internal purposes, we have categorized cooler separately now as the large home appliances.

Bhoomika Nair: Understood. Now, for SDA perspective, how are we looking at the growth here? And where I'm trying to get at is that over the next two years, how do you see this non-RAC of SDA coolers and washing machine kind of shaping up? You know, from a growth category, you spoke about washing machine and coolers, but even from a SDA perspective?

Ajay Singhania: Yes. So, our Non-AC revenue, if you look at currently, it is roughly 80%, 81% of our overall revenue. Going forward, definitely, as we have shared on our earlier calls and discussions also, the company is definitely working hard to diversify its product portfolio, both in small domestic appliances as well as the larger appliances like coolers and washing machines.

And we strive to bring down the overall dependence and also the component business, which is growing significantly. So, all this put together, we definitely aspire to bring down our overall dependence on the highest-selling product as we see down from 80% to, let's say, less than 70% in the next two to three years.

Bhoomika Nair: Okay. I'm sorry, if I may just squeeze in one last thing, the PLI of INR30 crores is recognized in the revenue line, right?

Ajay Singhania: Yes. Yes.

Moderator: Thank you. Next question comes from the line of Rashim Mehta, an Individual Investor. Please go ahead.

Rashim Mehta: So, one question that you said that you have repaid the debt, but your interest expense has gone up versus last year. So, FY23, INR315 million versus FY24, INR389 million. So, how much reduction do you expect that it will be in coming time? Or maybe for FY25?

Ajay Singhania: Interest expense. You know, so why the interest expense has increased as compared to last financial year?

Rajesh Mittal: Interest expense has gone up because in the previous year, if you see, we have recently paid. First, we have recently paid INR80 crores out of this term loan, which was paid in the month of, initial month of February. And the second part that initially, in the initial part of the year, we have taken some additional loan from bank, which was capitalized before this IPO came into picture.

And the second part was that we were having the additional funds out of our private equity fund, which we received in the previous year. That fund was also utilized in the previous year. So, because we were having the additional funds earlier, so in the earlier period, the finance cost was lower. And you will find a significant reduction in the current year because this loan was paid recently.

Ajay Singhania: To be very precise, Mr. Mehta, since the IPO was done on 31st of January, so the money had come to the company only on 1st of Feb. So, the loan repayment was only in first week of Feb. So, its impact will be seen in the FY25.

Rashim Mehta: Understood, sir. Sir, one more question that you said that your demand for Q1 last year was around INR430 crores, INR436 crores. And you said 60% jump. Now, one portion is spill over demand. Secondly, you have increased the capacity also. So, wouldn't that be more than 60%? Are you running at lower capacity? Capacities are not getting utilized? Is that the case?

Ajay Singhania: See, Mr. Mehta, if we are trending, to be very precise, we have increased our capacity by almost 50% only in Q4 of the last financial year, FY24. So, this increased capacity, obviously, there is a certain lead time for us to utilize this capacity. So, in the current quarter FY25, we are seeing significant utilization of the capacities that we have built up. And going forward, definitely, this increased capacity will help us get newer and more business, both in components as well as finished goods. So, this capacity creation will give us results over this FY25 and FY26.

Rashim Mehta: So, nothing would come in FY25? Or there is a portion within FY25 as well? For the initial capacity, what do you have built up in Sri City? So -- last year, INR1,538 crores, and this year you are INR1,419 crores. So, I understand the Q4, some of the demand got a bit lower. So, if that INR100 crores might be coming here, then it will be similar to what you have in FY23, FY24 comparison. But then, what about the capacity? That is what I am trying to understand. What could be the revenue when you have full capacity running? And what could be the optimum revenue, what you can think about?

Ajay Singhania: Mr. Mehta, we will pass this question and come back to you later. Somewhere, your voice is also not very audible.

Moderator: This is the operator. Mr. Mehta, please fall back in the queue for follow-up questions. Next question comes from the line of Aniruddha Joshi with ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. So, thanks for the opportunity again. Just one question, basically on the industry. So, we have seen from Voltas, Blue Star experience that whenever Q1 is very strong the rest three quarters are kind of softer. But whereas, if the Q1 is very weak the next three quarters are a bit stronger. And last year also, we have seen Q1 was softer but the next three quarters were relatively better for the industry. So, do you see a similar phenomenon may unfold this time? Or do you see probably the demand might remain strong for the industry for the full year itself? Yes, that's all from my side.

Ajay Singhania: Thanks, Aniruddha. Thanks for sharing this interesting insight. See, there is a slight difference between the way a brand's numbers are reported and the way OEM-ODM manufacturing actually happens. So, there's always a time lag. I hope I'm clear on this.

So, when we say that Q1 of this year is very strong in terms of manufacturing, it is one unique situation wherein we see the demand has picked up very significantly. So, there is obviously a parallel amount of secondary sales also happening for air conditions. So, I mean, rather the market feedback is that certain brands are even out of stock.

So, that's the kind of situation the current industry is into wherein we definitely believe that the amount of inventory carried in the overall channel is extremely low. So, that gives us a certain amount of confidence that going forward the other quarters would if not, let's say, pent-up demand definitely would not be lower than what historically it has been.

Aniruddha Joshi: Okay, that's very encouraging. Yes, thank you.

Moderator: Thank you. Next question comes from the line of Arvind Kapahi an individual investor. Please go ahead.

Arvind Kapahi: Hi, good evening, everyone. I have a question related to your overall FY25 projection in line with your increased capacity to 50% in the last quarter, which you just mentioned. If you could just let me know one small detail, I would be able to phrase my question better which is, what was the total turnover for Q1 of FY24?

Ajay Singhania: FY24 or FY23?

Arvind Kapahi: FY24 Q1.

Ajay Singhania: Okay. Q1 FY24 the revenue was INR436 crores to be precise.

Arvind Kapahi: INR436 crores. Okay. So, here is the question I have. You see, your revenues for FY24 went down compared to FY23 by INR119 crores. The entire loss of your revenue was in Q4 itself which went down by INR113 crores. Now, what you just mentioned earlier in terms of that question from INR436 crores, you expect about a 50% increase in Q1 of FY25, which means INR600 crores which you referred to or a little more than that.

See, this increase of about INR150 crores or INR170 crores is only going to make up for the loss of INR120 crores of revenue of FY24, which you said has moved to Q1. And on top of that we have a 50% increase in overall capacity. So, should these numbers not be significantly higher? Because these INR600 crores is only making up for the loss of revenue for FY24, which has spilled over to Q1 of FY25.

Ajay Singhania: So, Arvind, let's understand it this way that there is a capacity to which you can defer manufacturing. So, manufacturing is based on the available capacity. So, like you rightly said if we were able to do an X amount in FY24, so that X amount correlates to X number of units being produced. So, with 50% more capacity we can maximum produce 1.5X of quantity. So, if there is any, let's say for Q4 whatever sale loss or whatever production loss happened that cannot be recovered.

So, it is not possible for us to make 1.75X of quantity in Q1. We can at max with this 50% additional capacity, we can only create 50% more quantities. So, what we are trying to say is that since we created this capacity it has become an ammunition for us to utilize in the current quarter. So, definitely that is helping us meet the incremental demand or pent-up demand which we see has come up in this season.

Arvind Kapahi: So, is this increased 50% capacity has gone fully online as of date?

Ajay Singhania: To a certain extent, yes. So, this 50% increased capacity whatever we created is definitely getting utilized in this current quarter. And going forward there will be further improvement in utilization of those capacities.

Arvind Kapahi: Okay. One small add-on to this entire capacity utilization. I also see that on an overall basis your inventory has gone up by about INR80 crores-INR84 crores compared to FY23 as well as the similar numbers in the Q4 of relevant period. So, if your inventory is up by, let's say INR80 crores-INR84 crores and your revenues are down by INR120 crores approximately on top of an increased 50% capacity may be partly utilized should your inventories given the large orders you may have in hand be not significantly higher? Because this, on the face of it shows me that there's a reduction in production.

Ajay Singhania: Yes, Arvind, this inventory numbers, what we see here, are the end of... So, this is the figure as of 31st March. So, 31st March, like we shared earlier, Q4 was kind of weak for manufacturing first. So, the inventories of imported raw materials, especially which have a very long lead time, we need to carry larger inventories, because the season is Jan, Feb, March, April, May.

So, there is significant amount of inventory available for us for the peak months of April and May as well. So, that's one. And because there was definitely a reduction in demand, so the inventory carried forward for the Q1 of this year was comparatively higher. Second, there was a very significant event which happened for the entire industry in March, April. We had something called QCO on copper, which is currently 100% import for the country, especially the one used for heat exchanger is 100% import.

So, a QCO was to be implemented in April, May. And hence, we were kind of forced to build up inventories to meet the demand for the season, since there is no domestic manufacturer available for this item. However, the government extended the QCO only by end of April. So, they gave us some respite, but in response to our preparedness to meet the demand, we had to stock additional material in March.

Arvind Kapahi: Okay. Thank you.

Moderator: Thank you. Next question comes from the line of Rashi Mehta, an individual investor. Please go ahead.

Rashi Mehta: Good evening, sir. My question was asked by the previous participant, but I would still want to understand that if you are carrying higher inventory every quarter, and in the FY24 end and this inventory will also get liquidated, and you are saying you have orders in hand that will also get liquidated. So, how does your inventory pile up work usually? I mean, every year you carry some INR293 crores, this year it is INR378 crores. So, how does this inventory - do you keep inventory for longer term, or how do you plan your inventory?

Ajay Singhania: Mr. Mehta, the inventories for the high-value inventory, especially import inventories for the air conditions are at the peak in March because, as I shared, so they are at the peak in March because April and May are the peak manufacturing month, and then definitely it is kind of correlated with the overall seasonal demand. So, we will see the lowest amount of inventory in Q3.

So, Q4 again we will see the inventory levels getting to increase. So, it is like Q4 and Q1 are relatively where the inventory levels are significantly higher, where in Q2 and Q3 we see lower amount of inventories. So, it is correlated with the overall order book what we have for the next quarter.

Rashi Mehta: Can you give full-year projections? I think somebody has asked, but I did not get the full-year projections also. For FY25, if we see the kind of capacity increase as well as the kind of order book you have. So, full-year guidance can be given?

Ajay Singhania: So, Mr. Mehta, we have not shared any forward-looking view specifically in terms of numbers, but what I shared earlier also, we expect the industry to grow at 17-20 odd percent in FY25, and we are very confident that we would match that industry growth and definitely strive to better it. So, 17-20% growth is what industry is supposed to grow for this current year of FY25.

Rashi Mehta: And also, you are going to maintain the same kind of EBITDA margins? Or would it be better in coming year?

Ajay Singhania: In terms of?

Rashi Mehta: So, FY25 EBITDA margin, do you plan to continue this 8.19% within FY24 or do you have targets to increase it?

Ajay Singhania: So, Mr. Mehta, I think I answered this question earlier also. We definitely strive to maintain our EBITDA margins at similar levels.

Rashi Mehta: So, you are inflationary, so you have inflation across your expenses. So, how do you compensate that? Because, of course, your expenses, your labour expenses and other expenses might go up. So, how do you cover these expenses? So, price versus inflation, that is what I am trying to understand.

Ajay Singhania: Okay, in any manufacturing industry, inflation is something which is necessary. So, inflation will always affect the overall expenses. But as an internal control or internal operational efficiency, we always focus on innovation, we focus on operational excellence. So, there are a lot of initiatives which we take to finally control the impact of the inflation or such things which impact our expenses. So, there are a lot of measures being taken both on operational excellence and innovation.

Moderator: Thank you. Mr. Mehta, I request you to please rejoin the queue for more questions. Next question comes from the line of Arvind Kapahi, an individual investor. Please go ahead.

Arvind Kapahi: Yes, I have one question and this is, as I said, has not numbers related, but from purely an investor's point of view. Do you think that given the fact that the IPO price has never been seen in the past 4 or 5 months since the IPO happened, was nothing left on the table for investors? Or is it something to do where over a period of, let's say, 12-18 months only, the growth will reflect in the share prices also?

Ajay Singhania: So, Mr. Arvind, first of all, I thank you for continuing being an investor in the company. And definitely, the market or the IPO prices are not governed by the company. We definitely believe that we are a company which would continue its growth journey with a lot of focus and passion for the business. And we are here to deliver market results and not to guide or misguide the investors. So, all we strive for is definitely create investor value in the long-term. And we will continue our efforts in justifying the investments which are committed or the trust which is imposed on us by the investor community.

Arvind Kapahi: Sure. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of Question-and-Answer session. I would now like to hand the conference over to the management for closing comments.

Ajay Singhania: So, thank you all for participating in this earnings call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR managers at Valorem Advisors. Thank you so much and good day.

Moderator: Thank you. Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.