

## EPACK Durable

**Operator:** Ladies and gentlemen, good day and welcome to the EPACK Durable Ltd. Q1 FY27 earnings conference call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in 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 the operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manan Goel from ICICI Securities Limited. Thank you, and over to you, sir.

**Manan Goel – ICICI Securities:** Thank you. Good morning to everyone. On behalf of ICICI Securities, we welcome you all to the Q1 FY27 results conference call of EPACK Durable Ltd. Today, we have with us senior management represented by Mr. Ajay DD Singhania, Managing Director and CEO, and Mr. Rajesh Kumar Mittal, CFO. I now hand over the call to the management for their initial comments on the quarterly performance. Then, we will open the floor for the Q&A session. Thank you, and over to you, Mr. Rajesh.

**Rajesh Kumar Mittal – CFO:** Thank you, Manan. Good morning, everyone. Welcome to our earnings conference call for the first quarter of financial year 2027. I would like to thank ICICI Securities for arranging today's earnings call.

The key financial highlights for the first quarter of financial year 2027 are as follows. For the first quarter under review, revenue from operations stood at 886 crores, which grew by around 24% year-on-year. During the current quarter, the company has not accrued any PLI income. However, the company had accrued PLI income of 13.31 crores during the first quarter of financial year 2026. EBITDA for the quarter was 55 crores, an increase of around 0.70% year-on-year. The EBITDA margin was reported at 6.21% as against 8.24%. Net profit for the quarter was 11.8 crores.

Before going further, I would like to flag one item that affects how we should read the margin comparison. The company has not accrued any PLI income in the current quarter of financial year 2027, whereas it had accrued around 13.3 crores of PLI income in the previous quarter on a year-on-year basis. This PLI was included in quarterly revenue and, because it carries no associated cost, flowed almost entirely into EBITDA. If you strip that 13.3 crores out of both the revenue and EBITDA base for financial year 2026, last year's underlying EBITDA margin was closer to 6.4% and not 8.24%. On a like-to-like basis, our year-on-year margin improvement this quarter is closer to 15 basis points and not {? 203 ?}.

I would now request our Managing Director and CEO, Mr. Ajay DD Singhania, to brief you on the operational highlights. Over to you, sir.

**Ajay DD Singhania – MD & CEO:** Thank you, Rajesh. Good morning, everyone. EPACK Durable Ltd. continues to strengthen its position as a leading appliance original design manufacturer. While Room Air Conditioners remain an important part of our portfolio, we are steadily expanding into higher-growth, better-margin categories as part of our long-term diversification strategy.

Over the last few quarters, we have made significant progress in scaling our Small Domestic Appliances and Large Domestic Appliances, as well as our component business, which are seeing encouraging customer traction and a growing order pipeline. This is steadily delivering a more

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balanced revenue mix and reducing our dependence on a limited set of customers or products. Our focus remains on broadening the customer base, deepening relationships with existing customers, scaling new product categories, improving resilience, supporting margin stability, lowering customer risk, and building a stronger foundation for sustainable profitability.

As the results have already been shared by Rajesh, I am pleased to report a strong start to FY27, with the company delivering its highest-ever quarterly revenue of 886 crores, with growth of almost 24% year-on-year. This reflects healthy momentum across the portfolio. Our core RAC business continues to grow strongly, while Small and Large Domestic Appliances, as well as components, are scaling up encouragingly, led by air fryers and washing machines.

The growth was broad-based and reflects the continued benefits of our diversification strategy. We now serve more than 72 customers across 19 product categories, thereby sharply reducing our customer concentration and materially de-risking our revenue base, even as absolute revenue from these customers has grown significantly. We have added 2 new product categories in this quarter alone, while 4 new categories are in the pipeline for later in the year.

On the brand side, our partnership with Hisense continues to build value. Through the peak season up to June, that is, January to June, we sold close to 60,000 air conditioners under this partnership. This contributed approximately 65 crores of revenue in just the first quarter of this financial year.

While the quarter saw some pressure on margins due to prevailing commodity and currency conditions, our focus remains on sustaining good momentum while improving operational efficiency and strengthening profitability as we scale. Our path for the quarter is straightforward: We are gaining share, scaling the top line strongly, and near-term profitability is being enhanced by the investment cycle and increasing focus on cost, rather than by any weakening in demand or competitiveness.

The path ahead is to convert this scale into operating leverage. Our priorities are threefold. First, scale the RAC business, sustain RAC margins while building washing machine and large-capacity appliances, which remains our fastest-growing and most margin-effective category. Second, deepen strategic partnerships and position EPACK Durable Ltd. as a preferred manufacturing partner across multiple product categories with our key customers, enabling deeper integration and long-term comfort. Third, rebuild margins and convert scale into operating leverage as new facilities absorb volume, utilization deepens, and our value addition and product mix move more toward high-margin categories.

We have new products and a new customer pipeline across RAC, SDA, and components heading into the rest of FY27, and we remain confident in the long-term growth opportunity across our business, supported by our expanding product portfolio, strengthening order book, new customer acquisitions, and ongoing capacity expansion. With this, we now open the floor for Q&A.

**Operator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '\*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '\*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Sukrit Patil with I-Sight

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Investment Trade. Please go ahead.

**Sukrit Patil – I-Sight Investment Trade:** Good morning to the team. I have 2 questions. My first question for Mr. Ajay is to understand the power dynamics. Beyond the regular outlook, what are the top 2 to 3 execution priorities you are focusing on in the next few quarters? Alongside that, what do you see as the biggest risk in terms of demand shifts, regulatory changes, or competitive pressures, and how are you preparing to manage them while strengthening EPACK's position in the appliance manufacturing space? That is my first question. I will ask my second question after this. Thank you.

**Ajay DD Singhania – MD & CEO:** Sukrit, your question was not very clear, with a lot of noise on the machine side, I think. Because of the background, I will try to answer what I understood.

In terms of the outlook for the appliance industry for the coming quarters, first of all, stabilization remains on the table and continues, and we see a long-term growth story for RAC and our core manufacturing and product categories. In addition, the other appliances in which we are expanding very aggressively, such as Small and Large Domestic Appliances, are seeing strong growth momentum in each of the newer categories that we are adding, along with a lot of customer traction.

As we continue to add newer customers across categories, we believe that the growth momentum for Small Domestic Appliances and washing machines within Large Domestic Appliances has long-term growth potential. The growth momentum is going to be much stronger than what we have been seeing.

**Sukrit Patil – I-Sight Investment Trade:** Thank you. My second question to Mr. Mittal is, from a financial point of view, what key risks or challenges do you anticipate in the coming quarters, and what specific measures have been taken to manage margins and cash flow and strengthen the balance sheet, especially in areas such as raw material cost volatility, receivables, or compliance? Thank you.

**Rajesh Kumar Mittal – CFO:** The top line has already been discussed. We have grown by around 24% in the current quarter. As far as the cash flow situation is concerned, the cash flow situation of the company is stable, and we do not see any requirement to increase working capital or other requirements with respect to the growth in the business.

**Rajesh Kumar Mittal – CFO:** With respect to the cash-to-cash cycle, we have working capital days of around 50 to 60, depending on the seasonality of the company.

**Sukrit Patil – I-Sight Investment Trade:** Thank you, and best of luck.

**Operator:** The next question comes from the line of Tanay Shah with DAM Capital. Please go ahead.

**Tanay Shah – DAM Capital:** Hi, sir. Good morning, and thank you for the opportunity. I have a couple of questions, and congratulations on the strong top line. I wanted to understand if you could break up the 44% growth that you have reported in RAC between volume and value.

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**Management:** Good morning, Tanay. First of all, in terms of the breakup, the total growth reported for RAC is 44%. Approximately 30% of this is volume growth, and 12-15% is typically value growth in terms of the increase in AOPs, including the pass-through of commodity prices. So, the breakup of 44% is 30% volume growth and 14% value growth.

**Tanay Shah – DAM Capital:** Sure, and this 30% volume growth would be largely driven by our anchor customers, correct?

**Management:** Absolutely.

**Tanay Shah – DAM Capital:** Understood. While we spoke about this 12-15% pricing growth, what percentage of the pricing has actually yet to be passed on, or, let us say, what portion of the cost escalation still has to be passed on in terms of pricing to our customers, which would then normalize our margins?

**Operator:** I am sorry to interrupt, sir. Your voice is breaking up every now and then. I would request you to come closer to the microphone. Thank you.

**Management:** Tanay, am I audible now?

**Tanay Shah – DAM Capital:** Yes, sir. If you could just start again, please.

**Management:** Tanay, first of all, since our contracts with the larger customers are updated every quarter, most of the price increase was normally passed on. There is always a time lag between passing on the price increase and when it actually has an impact, especially amid the turbulence in the global supply chain and the global situation, particularly affecting March and April.

There was a period when the price increase was not fully passed on, but the contractual price increases were passed on, and there is hardly anything remaining to be passed on as of now. What impacted us most in the last quarter was the foreign exchange rate, so that is one line item we would like to flag. The foreign exchange loss is something that impacted us significantly. Otherwise, most commodity increases were effectively passed on after a time lag.

**Tanay Shah – DAM Capital:** Understood. So you are saying that a significant portion of the commodity price increases has been passed on, and foreign exchange is what impacted our margins?

**Management:** Absolutely.

**Tanay Shah – DAM Capital:** Understood. My other question is that, given that the season is largely behind us, what are the current inventory levels? Are they comfortable, or can you provide some insight in terms of demand trends, inventory levels, and so on?

**Management:** Tanay, I think, especially for the AC industry, the current situation is one of the most comfortable situations for the entire industry from an inventory point of view, particularly from a finished-goods point of view. Compared to last year, when there was a lot of pain in the industry because of inventory overflow and accumulated inventory, I think this is one of the best times. The trade has mostly liquidated its inventory, and inventory levels are at their lowest or below

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acceptable levels.

My estimate would be that, taken together, the trade, brands, and everything else, the inventory level would be anywhere around 3.5 to 4 million at maximum. Inventory levels are lower than what they usually are at this point in time.

**Tanay Shah – DAM Capital:** Perfect. One last question: How have our working capital and debt moved between Q4 and Q1? Rajesh, if you could possibly help us with that.

**Rajesh Kumar Mittal – CFO:** Tanay, as I have already explained, working capital days are usually lower in the first quarter because the balance sheet is essentially considered on a proportionate basis. Practically, if we look at the working capital figure, it has increased from 50 to 60 days, and this was slightly lower compared to the March-end level.

**Management:** Tanay, just to add to Rajesh's comment, the other interesting thing to note is that, especially on account of the BIS and the Quality Control Order, which has been affecting the industry, we have communicated the operational difficulties we have been facing because we have been carrying more than the requisite inventory.

The timeline we had for the compressor, for the PLI, or for the QCO was amended, and then the QCO was amended again. Therefore, the timeline or the time available at the start of the season required us to maintain more than the required inventory. For the last few quarters, inventory levels have been highly elevated on account of this.

This is one area that has led to a greater requirement for working capital. As we move through the season, at the end of the season we are again left with inventory because we build up inventory in anticipation of the upcoming season. Therefore, from a working capital point of view, our key focus remains on normalizing inventory.

Currently, inventories are at a much more comfortable level compared to last year, but they are still slightly elevated. Our efforts continue to normalize them as we move forward.

**Tanay Shah – DAM Capital:** Understood. Since you mentioned compressors, do you expect any trouble down the line into the new calendar year, given that the BIS certification would be expiring in March 2027? Or do you feel there is sufficient capacity coming on stream by the end of this year to take care of domestic demand?

**Management:** Especially in terms of compressors, the QCO allows us to import for the next few months. At the same time, domestic capacity has ramped up significantly, and as an industry we believe that there is sufficient capacity to cater to the industry for the coming season. Therefore, we do not see much of a challenge as far as compressors are concerned.

**Tanay Shah – DAM Capital:** Perfect. Thank you so much for answering all my questions, and I wish you all the best. I will come back in the queue.

**Management:** Thank you, Tanay.

**Operator:** The next question comes from the line of Nishita with Sapphire Capital. Please go ahead.

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**Nishita – Sapphire Capital:** Hello, am I audible?

**Operator:** Nishita, you are sounding quite muffled. Please use your phone in handset mode if it is on speaker.

**Nishita – Sapphire Capital:** Is it better now?

**Operator:** Yes, please go ahead.

**Nishita – Sapphire Capital:** I had a few questions. My first question is regarding the presentation, where you mentioned that PAT is lower and has been impacted by high depreciation and finance costs. I wanted to understand whether the depreciation cost that we had in Q1 should be taken as the base depreciation and finance cost for the whole year, or whether it is going to increase, and within what range?

**Management:** Nishita, to answer your question, the Q1 depreciation numbers are more or less consistent. Depreciation has increased compared to Q4 because the new capacity has been put to use. Therefore, there is no significant increase in depreciation expected for the rest of the year, and we can safely assume that there will not be any significant increase from the current depreciation levels.

**Nishita – Sapphire Capital:** What about the finance cost?

**Rajesh Kumar Mittal – CFO:** Finance cost has also gone up slightly because, as I told you, the working capital requirement has increased in line with the scale of operations. The company has seen growth of 44% in the current quarter compared to the previous one. Accordingly, there has been an increase in the working capital requirement, and finance cost has also gone up by around 24 crores compared to the previous period.

**Nishita – Sapphire Capital:** Going forward, can we expect the finance cost to come down?

**Management:** Yes, Nishita. As I was answering the previous question, for us, the area of improvement with regard to working capital and finance cost is currently inventory levels and inventory normalization. This has happened to a large extent over the last few quarters, but there is still a lot of work to be done. Therefore, there is an opportunity and scope to improve finance costs.

**Nishita – Sapphire Capital:** Understood. My next question is on capex. What was our capex spending in Q1, and what is it going to be for the whole year?

**Management:** For Q1, there was no significant capex. Approximately 10 crores was booked. Going forward, based on the earlier plans announced last year, we are looking at total capex of around 450 crores, of which approximately 340 to 350 crores has already been booked and 40 to 45 crores is currently in CWIP. Therefore, we are expecting additional capex of around 60 to 70 crores for the balance of the year.

**Operator:** Ladies and gentlemen, the line for the management has dropped. Please stay connected while I get them reconnected. Thank you.

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**Operator:** Ladies and gentlemen, the management has been reconnected. Please stay connected; the management has been disconnected again.

**Operator:** Ladies and gentlemen, the management has been reconnected. Please go ahead with your question, Nishita.

**Nishita – Sapphire Capital:** We were discussing capex. You mentioned that we have already booked 40 to 50 crores in CWIP.

**Management:** Nishita, as I was answering your question on capex, out of the total budget of 450 crores that we announced at the beginning of FY26, 340 to 350 crores has already been booked. An additional 10 crores of capex was booked in the last quarter, Q1 of FY27, and approximately 40 to 45 crores is in CWIP. Therefore, we are estimating total additional capex of around 60 to 70 crores for the balance of the year.

**Nishita – Sapphire Capital:** Understood. My last question is on the top line. We have seen very good top-line growth in Q1 of around 34%. What sort of growth can we see for the full year FY27? Is there scope to improve our EBITDA margins from the current level, or will they remain in the same range of 6% for the whole year?

**Management:** Nishita, in terms of forward-looking top-line numbers, as you know, we do not provide any forward-looking numbers. However, we are very confident about AC. The industry is expected to grow at around 20% this year, so we would definitely surpass the industry growth, as we have done in the past.

Our other sectors and product categories, namely Small and Large Domestic Appliances, are definitely growing at a much faster rate. Therefore, we are looking to grow much faster and much better than last year.

On the EBITDA side, 6.5% has currently been the typical EBITDA margin, net of PLI or excluding PLI, for the last couple of quarters. However, there is clearly potential for growth. Approximately 1.5–2% has been the PLI benefit, which was typically partly shared with and partly retained by the company.

Since the current year is the last year in which the PLI benefit is available for {? impact ?}, we have already started rolling back the PLI discount or benefit that was shared with customers. We are looking at almost completely reversing the PLI discount pass-through to brand customers by the end of the year.

Therefore, we are hopeful that by the end of the year the entire PLI discount will be reversed, and from next year onward we will be able to see a more normalized EBITDA.

**Nishita – Sapphire Capital:** Understood. Thank you.

**Operator:** The next question comes from the line of Rabindra Nayak from Nirmal Bang Securities. Please go ahead.

**Rabindra Nayak – Nirmal Bang Securities:** Good morning, sir. Am I audible?

**Management:** Yes, Rabindra.

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**Rabindra Nayak – Nirmal Bang Securities:** In this quarter, what was the total volume that we achieved in the first quarter? If you can provide the split between split units, window units, and indoor and outdoor units, and how many units we did in total for the 622 crores of sales, that would be helpful. I will come to the next question after that. Thank you.

**Management:** Rabindra, we do not typically disclose the number of units sold. As I was answering the earlier question, in terms of the number of units sold, the growth was {? 30% ?} for air conditioning vis-à-vis FY26.

Rabindra, I cannot hear you properly, sir. The voice is completely echoing, and I am not able to hear you. Rabindra, am I audible now?

**Rabindra Nayak – Nirmal Bang Securities:** There is still an echo.

**Management:** Rabindra, am I audible now?

**Rabindra Nayak – Nirmal Bang Securities:** Yes, you are audible, sir.

**Management:** In terms of the number of units, we have never historically disclosed the number of units sold. However, as I was answering the previous question, the growth in the number of units sold in the last quarter was 30% vis-à-vis FY26, while overall revenue growth was 44% as far as air conditioning is concerned.

**Rabindra Nayak – Nirmal Bang Securities:** Regarding the compressor issue, I heard this question in the previous call as well, but I could not hear you properly. Can you please repeat your comments on the compressor outlook for the industry and the compressor bookings we have made for our requirements in FY25? One of your competitors mentioned on the call that there is a notification stating that the ban will become effective on April 1 of next year. How are you placed in terms of compressor bookings, and how is the industry placed in terms of compressor bookings? Your comments would be helpful.

**Management:** Rabindra, as far as compressors are concerned, the government has allowed the import of compressors until the end of this year. Imports can be made until then. At the same time, domestic capacity has already been installed and additional capacity is in the pipeline, which we believe will be operational by the end of November.

This is largely in line with the overall industry demand, and we do not foresee any significant challenge in procuring compressors to meet demand. We believe that there is sufficient domestic capacity already installed and in the pipeline to meet the industry's demand.

Regarding your next question about a peer setting up compressor capacity, we do not comment on peer strategy. However, as far as EPACK Durable Ltd.'s strategy is concerned, we are not looking at setting up any compressor capacity in the near term. We believe that we have strategic tie-ups with both the large compressor suppliers, and we will continue to leverage our relationships with them.

**Rabindra Nayak – Nirmal Bang Securities:** Regarding the disputed sales receivable that you mentioned in the notes, is it related to the air conditioner business?

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**Management:** Rabindra, can you please repeat your question?

**Rabindra Nayak – Nirmal Bang Securities:** The disputed sales of around 190 crores that you have reported in the notes to accounts—are they related to the air conditioner business?

**Management:** Rabindra, are you on a loudspeaker or something? We are not actually able to understand you.

**Rabindra Nayak – Nirmal Bang Securities:** Regarding the revenue from Small and Large Domestic Appliances, can you please give me the breakup of how much is from each category?

**Management:** Rabindra, based on what I could best understand from your question since you are on a loudspeaker, the growth in Small and Large Domestic Appliances in the last quarter was 68%. There was growth of 68% in Small and Large Domestic Appliances compared to Q1 of FY26.

**Operator:** Thank you. The next question comes from the line of Ayush Jain with Equity Advisory Services. Please go ahead.

**Ayush Jain – Equity Advisory Services:** Hello. Good morning.

**Management:** Please go ahead, Ayush.

**Ayush Jain – Equity Advisory Services:** Good morning. I wanted to know about the X-RAC outlook and capacity utilization for the whole year.

**Management:** Ayush, in terms of capacity utilization across the 3 plant categories we have—Dehradun, Bhiwadi, and Sri City—for Q1, capacity utilization at Dehradun and Bhiwadi was closer to 90%. As far as Sri City is concerned, we have seen a significant improvement in utilization from the previous reported level of less than 25%; we have achieved almost close to 50% utilization in Sri City.

**Ayush Jain – Equity Advisory Services:** How much?

**Management:** We have seen utilization of close to 50% in Sri City. For Q1, the average utilization levels at the other 2 older plants, Dehradun and Bhiwadi, were more than 85%.

**Ayush Jain – Equity Advisory Services:** This is for X-RAC, right?

**Management:** It includes RAC because the manufacturing facilities are common. It is not just the assembly line; it is the overall manufacturing operation because we have a significant amount of backward-integrated components being manufactured within the same facility. Therefore, when we talk about capacity utilization, we talk about it as a whole.

**Ayush Jain – Equity Advisory Services:** Is this level sustainable for the whole year?

**Management:** This was the Q1 number, Q1 FY27.

**Ayush Jain – Equity Advisory Services:** Yes, Q1 alone, but I am asking about the outlook for the whole year.

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**Management:** Last year, in FY26, overall plant utilization at Bhiwadi and Dehradun was closer to 55%, while utilization at Sri City was less than 25%. For the full-year outlook for FY27, we are looking at overall utilization of all 3 plants together at more than 60%.

**Ayush Jain – Equity Advisory Services:** More than 60%, including Sri City, right?

**Management:** Yes, the average utilization of all 3 plants.

**Ayush Jain – Equity Advisory Services:** I was looking at the operating leverage aspect of the Sri City plant. If it goes above 50–60% utilization for the whole year, there can be substantial upside in both the top line and the bottom line, right? When can we expect the Sri City plant to be fully operational for the company?

**Management:** Ayush, as I mentioned, the ramp-up of Sri City is improving very quickly. Compared to last year, we are already seeing double the utilization, as you have seen. With its current order book, the company is very confident that utilization going forward, especially at Sri City, where there was a concern over the last few quarters, will improve significantly.

Achieving an overall annual utilization of around 55–60% is what we are targeting. As we move closer to that level by the end of this financial year, we will continue to monitor it and achieve more efficient operations.

The overall outlook of the company is to improve utilization at all 3 plants through the product mix, especially the non-AC business. The whole idea behind setting up the non-AC business is to improve utilization during the non-AC season. With this approach, we are very confident that overall utilization of the 3 plants will improve significantly.

**Ayush Jain – Equity Advisory Services:** My next question is regarding your dealings with Hisense. How is that progressing?

**Management:** Ayush, in my opening remarks, as I mentioned, for the entire season from January to June, we delivered close to 60,000 air conditioners to Hisense.

**Ayush Jain – Equity Advisory Services:** 60,000 to Hisense.

**Management:** 60,000—six-zero. The total volume delivered in the first half, from January to June, generated revenue of approximately 120 crores from the AC business alone with Hisense. If we talk about Q1 alone, the Q1 volume was 25,000, with revenue of close to 55 crores. That was the total Hisense growth for the AC business.

For washing machines, as we had mentioned earlier, the target date is the end of Q2. We believe that pilot production of front-load washing machines will start by the end of Q2, and we are on track to begin front-load washing machine production by the end of October.

**Ayush Jain – Equity Advisory Services:** End of October. Hisense is doing a lot of marketing and has big plans for India, right? As a preferred partner, do you see the top line with Hisense growing 2–3 times in 3 years?

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**Management:** Ayush, specifically with regard to Hisense, from the day we signed the MOU and made all the announcements to date, the growth envisaged and the agreed timelines have largely been adhered to, and the plans are intact and in place.

As Hisense continues to grow and become a larger and more significant appliance brand in the country, in line with its vision, we believe that our growth in tandem with Hisense will continue and will scale up in tandem in the coming years.

**Ayush Jain – Equity Advisory Services:** Copper prices are increasing significantly, and it does not appear that they will stabilize in the near term. How do you hedge this, or do you do something about it? Do you maintain inventory for raw materials, or do you order inventory in advance?

**Management:** Ayush, as far as commodities are concerned, whether copper, aluminum, or any other commodity, we do not do any forward booking in anticipation of orders. Whatever orders we have confirmed, we make back-to-back bookings for them in line with the agreement. Any increase in excess of the quarter's price is passed on in the next quarter.

As a company policy, we do not undertake any forward trade or open booking in anticipation of a profit. We refrain from undertaking any trade without confirmed orders and back-to-back bookings.

**Ayush Jain – Equity Advisory Services:** Thank you.

**Management:** Thank you, Ayush.

**Operator:** A reminder to all participants: You may press '\*' and '1' to ask a question. The next question comes from the line of Pratap Maliwal with Mount Intra Finance. Please go ahead.

**Pratap Maliwal – Mount Intra Finance:** Hi, am I audible?

**Management:** Yes, Pratap.

**Pratap Maliwal – Mount Intra Finance:** Thanks for taking my question. Can we break up the revenue from SDA and LDA? Can you tell me what the current revenue from washing machines is and how this is expected to scale up with Hisense production from Q2 onward? That is my first question.

**Management:** I can answer your question in a way that makes it simpler. Total revenue of 806 crores, approximately 660 crores, comes from RAC, and the balance is non-AC, which includes SDA, LDA, and components. That is the answer I have with the numbers currently available to me.

SDA and LDA revenue has grown from approximately 50 crores last year to 110 crores. That is the Small and Large Domestic Appliances business.

**Pratap Maliwal – Mount Intra Finance:** What I am trying to understand is that, if I look at the last 2 quarters, Q2 was a loss-making quarter at the PAT level, and EBITDA margins were closer to 2-2.5% in the last 2 quarters, including the September quarter. Now that we are getting into washing machines, which I believe would be a higher-margin business, this should also reduce seasonality in the top line and margin attrition.

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Going forward, structurally, can our Q2 or September quarter become better not just in terms of top-line seasonality but also in terms of profitability? That is what I am trying to understand.

**Management:** Absolutely. Pratap, you are exactly right that Q2 and Q3 have historically been loss-making quarters because of our heavy dependence on air conditioning. The entire SDA and LDA category is intended first to neutralize the loss, and we are on track in terms of scaling up washing machines and the other SDA businesses.

As I said in my opening remarks, we are constantly adding newer categories in SDA as well, which are also non-AC seasonal products. As we continue this journey, we believe that over the next 4 to 6 quarters, we should definitely see the seasonality situation come largely under control in Q2 and Q3. Washing machines are definitely a significant lever.

**Management:** As we see the scaling up of washing machines, Q1 is currently the stronger period, while Q2 and Q3 are significantly weaker for washing machines compared to other SDA categories. However, this is a journey that we have undertaken, and we hope to see results in line with our expectations over the next 4 to 6 quarters.

**Pratap Maliwal – Mount Intra Finance:** You mentioned that the pilot project would be carried out from the end of Q2. For the current year, will Q2 still be relatively weak on margins and result in negative PAT? I am not asking for guidance, but can you provide any directional view on Q2?

**Management:** As far as washing machines are concerned, we are currently manufacturing top-load fully automatic washing machines, which are already in production, and we are serving 3 large national and multinational brands in this category.

What I was mentioning, especially with regard to Hisense, is the front-load washing machine. This is one category in which we would probably be the first indigenous manufacturer to manufacture front-load washing machines as an ODM and OBM. This is currently under pilot production, and we believe it is a newer, more lucrative, and higher-priced category.

For front-load washing machines, we are targeting the start of mass production at the end of September or in October. The other category, namely top-load fully automatic washing machines, is already in production, and we are already serving approximately 5 to 6 multinational brands.

**Pratap Maliwal – Mount Intra Finance:** I am trying to understand whether we are still on track for the FY29 target of 5,000 crores that you have given. I know Q1 was largely on track, but achieving it requires a revenue CAGR of approximately 35% or more. Therefore, we should have a plan for significant scale-up going forward. Are we largely on track for that?

**Management:** We are largely on track in terms of our overall guidance. The seasonality factor needs to be minimized, and every quarter we are looking at and working toward achieving a situation in which every quarter is profitable and the revenue mix is maintained.

**Pratap Maliwal – Mount Intra Finance:** I am sorry to harp on the issue again, but do we anticipate being PAT-positive in Q2? No guidance is required; directionally, do we believe we can be PAT-positive in Q2 so that we can see the business model actually turning around? Any color on that would be helpful.

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**Management:** As far as the amount of profitability is concerned, as I think I already answered, historically Q2 and Q3 have been the weakest quarters. Our efforts are ongoing, and we are working on this. It is a journey that will take some time. Over 4 to 6 quarters, we definitely believe we should be in a situation where we can completely eliminate this seasonality issue.

**Pratap Maliwal – Mount Intra Finance:** One last question from my side. The depreciation input that you had given was unclear. I believe it was approximately 15–17 crores. Did you mention that we do not expect it to increase, or can you provide some further detail on the outlook?

**Management:** In terms of depreciation, we do not see any significant increase in the current Q1 depreciation over the next 3 quarters. There is a marginal investment that will hit the books every quarter. Overall, during the remaining 9 months of this year, we expect additional capex of approximately 60 to 70 crores to be booked. It will be booked in parts over each quarter, but overall capex of 60 to 70 crores is in the pipeline and will ultimately be booked by the end of this year.

**Pratap Maliwal – Mount Intra Finance:** One last question: What was the reason for the large rise in other expenses? An increase of more than 50% was recorded.

**Management:** Regarding the increase in other expenses, as I already mentioned, one reason is a product launch during the current quarter, which resulted in an expense of approximately {? 6 to 7 crores ?} in the books. Otherwise, there is no other reason.

**Pratap Maliwal – Mount Intra Finance:** Thank you for answering all my questions.

**Operator:** The next question comes from the line of Karan Gupta with Asit C. Mehta Investment. Please go ahead.

**Karan Gupta – Asit C. Mehta Investment:** Again, regarding other expenses, I could not hear properly. What was the reason for the spike?

**Management:** I mentioned earlier that other expenses have increased for one particular reason, as I explained. There was a product-launch expense of approximately {? 6 to 7 crores ?} on a quarter-on-quarter basis. Since the sales value or production value of the company has increased by more than 35% overall, the variable cost has also increased accordingly.

**Karan Gupta – Asit C. Mehta Investment:** Product launch and—

**Management:** Variable costs have increased.

**Karan Gupta – Asit C. Mehta Investment:** The second question is on channel inventory. Last quarter, you said that most of the old-rated inventory was at the channel end and that you did not have any old-rated room air conditioners. This growth is purely from the new-rated products compliant with the BEE norms, right? As you said, the growth was 44%. What is the situation at the channel end? Have the old-rated products already been flushed out, or do they still remain in channel inventory?

**Management:** Karan, first of all, as a manufacturer, we were mandated to start production of new-rated products with effect from January 1. Therefore, the entire growth in both the last quarter and the Q1 quarter is attributable to new-rated products. Manufacturers were not allowed to

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manufacture old-rated products from January 1, 2023.

In terms of channel inventory, the channel was allowed to sell old-rated products until the end of June. Based on our understanding—this is purely our understanding and estimate—we believe that the channel has largely liquidated its entire old-rated product inventory, which is why there has been growth in new-rated products.

Our estimate and approximation is that the old-rated room AC products have mostly been flushed out of inventory. There may be some units remaining somewhere, but I cannot estimate that. However, they have largely been flushed out because, for the past 6 months, only new-rated products have been manufactured and sold to the trade. I hope that answers your question.

**Karan Gupta – Asit C. Mehta Investment:** On the SDA and LDA side, what is the overall inventory in Q1? To add to that, inventory buildup is taking place on the SDA and LDA side.

**Management:** Karan, SDA and LDA is a very large category, with more than 100 SKUs. There are thousands of SKUs in the SDA and LDA categories taken together. Typically, as we all know, the festive season is the key season. October and November are the months during which the entire buildup happens.

Therefore, my only estimate or answer here would be that this is the period when ramp-up and inventory building are taking place for this product category. Any estimate for a single category or a single SKU within this product category is beyond my estimation because there are thousands of SKUs.

**Karan Gupta – Asit C. Mehta Investment:** I mean the broad bifurcation between non-AC inventory and AC inventory.

**Management:** To answer your question, as far as our in-house inventory is concerned, room AC is one category that is larger in value, and dependence on imports is still there, so we have to order commodities for it. Our in-house inventory is probably 70–75% AC inventory and 30% non-AC inventory. That is the only type of number I can share with you based on my understanding of your question.

**Karan Gupta – Asit C. Mehta Investment:** Non-AC?

**Management:** Yes, 25–30% is non-AC.

**Karan Gupta – Asit C. Mehta Investment:** On the margin side, as you said, washing machines and LDA have comparatively higher margins. Overall, SDA, LDA, and components now constitute approximately one-third of your total business. To reduce seasonality in Q2 and Q3, we need to ramp up this portion of the business faster than the AC side, correct?

I want to understand the margin profile of these 2 segments and what we can expect in Q2, Q3, or overall in FY27 in terms of the growth of these segments. Also, can you explain the reason for the 23% decline in components?

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**Management:** Karan, first of all, I acknowledge that overall margins in the non-AC categories, namely SDA and LDA, are comparatively higher than those of AC by almost 1.5 to 2 basis points. That is the additional gross margin; it is not at the EBITDA level because EBITDA is blended EBITDA, and there are several limitations at that level. However, at the gross margin level, SDA and LDA gross margin is typically 1.5 to 2 basis points higher than that of AC.

Therefore, our entire focus on improving SDA and LDA is driven by this fact. As we continue the growth journey for SDA and LDA, we are reaffirming that, as we achieved growth of almost 60% in the SDA and LDA non-AC business in the last quarter, our growth momentum is going to be much stronger compared to AC.

AC will definitely continue to grow, but at the same time we see greater scope for growth in SDA, LDA, and components.

**Karan Gupta – Asit C. Mehta Investment:** The component segment has declined.

**Management:** The component business itself continues to grow. Currently, component sales are largely AC components, controllers, cross-flow fans, and copper tubing. These are also seasonal. Therefore, we are exploring opportunities to cater to non-AC components, but currently they are in line with AC growth.

**Karan Gupta – Asit C. Mehta Investment:** On the SDA side, how many OEM customers have we acquired? This segment is very competitive, particularly because there are multiple players in the kitchenware segment. I wanted to know how many customers we are acquiring or how we are growing our customer base in the SDA segment.

**Management:** Karan, as we mentioned in our investor deck, at the close of FY23 we had 72 customers across AC and non-AC. In the current quarter, we have added 2 customers, and there are another 2 to 3 customers in the pipeline.

At this point, we have closed with 76 customers and have already productionized 19 product lines. Pilot production has already been completed for another 2 to 3 lines. By the end of this year, we are looking to have approximately 75 customers and 20 product lines.

**Karan Gupta – Asit C. Mehta Investment:** Thank you. That is clear.

**Operator:** The next question comes from the line of Ayush Jain with Equity Advisory Services. Please go ahead.

**Ayush Jain – Equity Advisory Services:** My questions have already been answered. Thank you.

**Operator:** The next question comes from the line of Ganesh, an individual investor. Please go ahead.

**Ganesh – Individual Investor:** Good morning. First of all, congratulations on an excellent set of numbers. My first question is about the recent MOU regarding the tailor-made incentive package from the Andhra Pradesh government. Can you provide some details on that? We have already spent a substantial amount since November 2021, I believe.

**Operator:** Ganesh, I am sorry to interrupt you. You are not audible. Please speak a little louder.

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**Ganesh – Individual Investor:** Is it better now?

**Operator:** Yes.

**Ganesh – Individual Investor:** First of all, congratulations on an excellent set of numbers. My first question is about the recent MOU for the tailor-made incentive package from the Andhra Pradesh government. Can you provide some details on that?

**Management:** With regard to our MOU with the Andhra Pradesh government, the MOU relates to the investment we have committed over the next 5 years, starting from this period, amounting to {? 1,085 crores ?}. Recognition of the initial investment starts from January 24, 2024.

**Ganesh – Individual Investor:** For 1,000 crores of capex?

**Management:** Yes, 1,085 crores.

**Ganesh – Individual Investor:** Understood.

**Management:** We have already been allocated land of close to 35 acres, and we are looking at additional capacities going forward. That is something that is in the pipeline, not an immediate requirement, but it will move forward on a momentum basis.

**Ganesh – Individual Investor:** My second question is on the PLI. Will we be receiving the PLI benefit for the next 5 years?

**Management:** The state incentives are available from the state of Andhra Pradesh. Approximately, though not exactly, {? 15% ?} of capex will be provided as a subsidy over the next 10 years under the current state scheme. There is a state government scheme that refunds {? 15% ?} of total capex as an investment subsidy over 10 years.

**Ganesh – Individual Investor:** My second question is on EBITDA margins. As we stated earlier, the EBITDA margin was around 7.5% without PLI, correct? Is that the operational EBITDA level?

**Management:** Generally, current EBITDA without PLI is closer to 6.5%. We also receive PLI income, which is practically shared between us and the customers. Over the last 2 years, since we have been receiving PLI, we have been sharing it approximately 50:50 with customers. Therefore, almost 1% was coming to us and 1% was being passed on to customers.

As I mentioned in the earlier question, we have already started negotiations with customers to roll back that PLI discount. We are working toward a situation in which, by the end of this year, we should be able to retain the entire PLI discount that has been passed on until now.

**Ganesh – Individual Investor:** Were we eligible for PLI in FY24, which was the last year for the PLI?

**Management:** FY27 will be the last year for the current PLI benefit.

**Ganesh – Individual Investor:** We have again projected revenue of 8,000 crores from the Hisense partnership over the next 5 years, correct? With this scale, can we expect to achieve revenue of 5,000 crores by FY28?

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**Management:** As we already mentioned, we have invested approximately {? 210 crores ?} in Hisense. As we had mentioned in the earlier call, total investment was around 462 to 470 crores. We will make the remaining investment in the current financial year. We already have around 60 crores in CWIP, which will be capitalized over the next 2 quarters.

**Ganesh – Individual Investor:** My question is about the revenue from the Hisense partnership plant. We have projected around 8,000 crores over the next 5 years. With this scale, could we achieve the 5,000-crore target by FY28 itself? That is what I am asking.

**Management:** [muffled/inaudible]

**Operator:** Sir, you are not audible. Please come a little closer to the microphone.

**Management:** Yes. The total expected revenue from the Hisense partnership is 8,000 crores over 5 years. FY27 will be the first year. Cumulatively over the next 5 years, we expect to cross 8,000 crores from AC and other appliances, washing machines, and all products taken together. That is the 5-year cumulative revenue we had expected from Hisense.

The current year, FY27, is the first year. Whatever was estimated for the first year, we are largely on track to achieve. I shared the numbers in the previous question: For this calendar year, we have already achieved close to 220 crores of revenue with Hisense, and we have already crossed close to 6,000 ACs as well.

Therefore, we are largely on track for the current calendar year. In total, over the next 5 calendar years, the expected revenue from the Hisense partnership is 8,000 crores.

**Ganesh – Individual Investor:** Thank you.

**Operator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing remarks.

**Management:** Thank you all for participating in the analyst call today. I hope we have been able to answer your questions satisfactorily. I again thank ICICI Securities for arranging this analyst call today. Thank you all.

**Operator:** Thank you, sir. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

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Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.