PG Electroplast

Operator: Ladies and gentlemen, good day, and welcome to PG Electroplast Ltd. Q2 FY27 earnings conference call hosted by JM Financial Institutional 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 an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shalin Choksey from JM Financial Institutional Securities Limited. Thank you, and over to you, sir.

Shalin Choksey – JM Financial Institutional Securities: Thank you, Anam. Good morning, everyone. On behalf of JM Financial Institutional Securities, I welcome you all to the Q2 FY27 earnings call of PG Electroplast Ltd. We have with us the management of the company, represented by Mr. Vishal Gupta, Managing Director, and Mr. Pramod Gupta, Chief Financial Officer.

Before we start, a brief disclaimer: this presentation has been prepared for informational purposes only and does not constitute a prospectus, offering circular, or offering memorandum, and is not an offer or invitation to buy or sell any securities, nor shall part or all of this presentation form the basis of or be relied on in connection with a contract or investment decision.

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With this, I will hand over the call to the management for their opening remarks, after which we can open the floor for questions and answers. Thank you, and over to you, Mr. Gupta.

Vishal Gupta – Managing Director: Thank you, Shalin. Good morning, everyone. Thank you for joining the PG Electroplast Ltd. Q2 FY27 earnings call. I am Vishal Gupta, the Managing Director, and I am joined today by Mr. Pramod Gupta, our CFO. Mr. Vikas Gupta, our Managing Director, Operations, is also joining this call.

The second quarter has panned out along expected lines, and we have seen good secondary sales in the room AC business for the industry, resulting in a strong order book for us as well. Our teams are gearing up for strong execution in the second half of FY27.

For the first half of FY27, consolidated revenues crossed 2,950 crores for the first time in the company's history, and the room AC and washing machine verticals posted their highest-ever first-half sales. Growth in the first half came from a combination of volume and price. We saw double-digit volume growth and a similar quantum of ASP increase as commodity costs and rupee depreciation were passed through to our customers. Our order book remains healthy across all product lines.

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I will let Pramod take you through the numbers in detail, and then I will come back to cover our capacity roadmap and a few other operating priorities for the current financial year. Pramod?

Pramod Gupta – CFO: Thank you, Vishal. Good morning, everyone. Consolidated revenues for the quarter were 934 crores, up 42.5% year-on-year. EBITDA came in at 69.14 crores versus 44.68 crores last year, a growth of 54.8%, with an EBITDA margin of 7.4%. Net income was 13.67 crores versus 2.76 crores in the same quarter last financial year.

For the first half, the product business contributed 70.3% of sales revenue, growing 41.1% year-on-year. Within that, the AC business saw growth of 36.2% to 1,561 crores. Washing machines crossed 500 crores of sales and grew 60.7% in the first half. Coolers were muted, with approximately 4.8% growth, and contributed 19.3 crores.

The electronics business saw very sharp growth of 90.3% and contributed 12% of revenues for the first half. Plastic molding and components contributed 521.6 crores and were up 7.5% year-on-year.

Our JV, Goodworth Electronics, posted revenues of 623.8 crores in the first half versus 483.4 crores last year, and EBITDA stood at 22.7 crores versus 10.3 crores last year.

Our subsidiary, PG Technoplast, which is obviously a part of the consolidated sales that I mentioned above, reported 2,130 crores in sales this quarter this year in the first half.

On margins, I want to clarify once again that gross contribution as a percentage has softened on a year-on-year basis, largely because of the pass-through of commodity prices, particularly copper, aluminum, plastic, and so on, along with rupee depreciation. As you all know, on a per-unit basis, the margin remained stable, and we receive a fixed amount on a per-unit basis rather than a percentage margin for contract manufacturing.

On the balance sheet, things remain quite healthy. Cash and bank balance stood at 422.5 crores, and most of the capex for this year has already been paid for. Basically, capex payments that are not in gross fixed assets are either in CWIP or advances to suppliers.

With this, I will now hand it back to Vishal.

Vishal Gupta – Managing Director: Thanks, Pramod. Let me cover some business outlook and our strategy, along with a couple of other developments for this quarter.

Following the commissioning of our flagship washing machine manufacturing facility at the new campus in DMIC, Greater Noida, Uttar Pradesh, last quarter, our new campus at Salarpur, Bhiwadi, is now operational, and we are consolidating operations by relocating some of our Greater Noida operations to this new facility. This facility will have cooler, sanitaryware, plastic component, and mold-making facilities.

Second, our refrigerator facility at Sri City in South India is progressing well. We are targeting commercial production, as committed earlier, in the last quarter of the current financial year, with this becoming a meaningful revenue contributor for FY28. We have already tied up with our anchor customer, and we are in active discussions with other customers as well, with some soft commitments already in place. The facility will have a capacity of 1.2 million units and will start in

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phase one with direct-cool and side-by-side refrigerators, and add frost-free and multi-door refrigerators in phase two.

On compressors also, the project at Supa is on track for mass production in this financial year. Things are progressing well. We expect our first 2 million units of capacity to come online as planned in this financial year.

Alongside that, our strategic priorities for this year are R&D, new product development, backward integration, and capability enhancement. All of this is aimed at building longer-term resilience and improving capital efficiencies.

With that, we will now open the floor for questions. Thank you.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. 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 is from the line of Tanesh Shah from DAM Capital. Please go ahead.

Tanesh Shah – DAM Capital: Yes. Good morning, sir. Thank you so much for the opportunity. Sir, I have a few questions. The first one is that we spoke about double-digit volume growth in AC. If you can help us understand how the industry grew this quarter on a very unfavorable base versus how we performed against that?

Vishal Gupta – Managing Director: In this quarter, primary sales have been muted. We do not see particularly large or very strong growth, but secondary sales, based on the feedback we are getting from industry participants, have been very strong. However, if you compare this on a year-on-year basis, July can be compared. August was an aberration because of the GST announcement, and in September also, sales started only after September 22. But all said and done, secondary sales have still been very strong in the channel, and channel inventory is much lower compared to last year.

Yes, we did not see much action in the second quarter, but I believe that the December and March quarters will show much better numbers for our company, based on the feedback we are getting from our clients and the kind of order book that we have been able to build for ourselves through March-April.

Tanesh Shah – DAM Capital: Sure, sir. You spoke about most of the prices being passed on to the customer. If you could quantify the percentage of price hikes taken, and whether they have been completely absorbed by our customers, or whether another round of price hikes is due from our side?

Vishal Gupta – Managing Director: Price hikes have been an ongoing activity for us. The first price increase happened in January of this calendar year, and then it happened again in April, because it is normally done on a quarterly basis. It was done again in the quarter starting October. In the January quarter also, we are going to take a further price increase from our clients, which has already been aligned with most of the clients. With this price increase, which will happen from

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January 1, most of the price hikes that should have been factored in by now will largely be taken into account.

Tanesh Shah – DAM Capital: No, sir, I was asking from our second-quarter perspective, because I think we mentioned in our press release that most of the price hikes, or the complete pass-through, has happened. I want to understand whether the gross margin compression was also due to some under-absorption, or whether it is simply a function of the ASP hike, which is optically making our gross margins look lower?

Pramod Gupta – CFO: First of all, gross margins as a percentage will always be lower in a high commodity-price environment because, as a contract manufacturer, we typically receive our margins or contribution on a per-unit basis. That is point number one. Point number [cut off]

Management: To this quarter, which you have to keep in mind, is that we had very high growth in the electronics business. The electronics business has a much lower margin, and secondly, the high growth this quarter was due to rising prices of electronic components, specifically semiconductors, rather than very high volume growth. The reason this has happened is that we do a lot of contract manufacturing and also supply TV motherboards, where memory prices have risen very significantly. Because of those reasons, the gross contribution is lower for the quarter due to the change in mix and the high commodity prices. But on an absolute price basis, or per-piece basis, we are in our usual range now. Whatever price increases were required in the AC business through September, we were able to pass on in October. Again, whatever will be required in January for the quarter starting January, based on the average cost of October, November, and December, we intend to pass on from January 1.

Tanesh Shah – DAM Capital: Sure, sir. The other thing I wanted to understand was whether you could help us with the incentives booked this quarter and the corresponding incentive number for the same quarter last year?

Management: This quarter, we do not have any PLI. As you know, we book PLI on the basis of sanctions received, and we are yet to file the numbers for the last financial year. The PLI process is pending because the GST audit and related work is being completed. That number is likely to come in Q3 and Q4 for us, and we will report that number to you. For the full year, this year's PLI is likely to be close to 70 crores or more for us.

Tanesh Shah – DAM Capital: Sure. And was anything specifically booked apart from PLI in this quarter? Obviously, there was no PLI booking this quarter, but were there any other incentives from a state perspective that we booked?

Management: For PGEL, we continue to book approximately 1.55 crores of incentives, which we receive from the Maharashtra government. That has been booked.

Tanesh Shah – DAM Capital: Okay, sir. I understand. I will fall back in the queue. Thank you so much for answering my questions, and I wish you all the best. Thanks.

Operator: Thank you. The next question is from the line of Achal Lohade from Nuvama Institutional Equities. Please go ahead.

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Achal Lohade – Nuvama Institutional Equities: Good morning, sir. Thank you for the opportunity. If you could talk a little about the sales volume for RAC in Q2, and also help us with the corresponding number for Q2 last year? What is the expectation for FY27 based on the current order-book visibility?

Management: We do not provide the absolute numbers on a quarterly basis. On a full-year basis, we are expecting volume growth of close to 20% for the room AC business. On a year-on-year basis, volume growth in this quarter was not significant; it was very flat. However, we have a very strong order book for the second half, and we are hoping to deliver approximately 2.1-2.2 million room AC units this year on a full-year basis, versus 1.7 million last year.

Achal Lohade – Nuvama Institutional Equities: Understood. Based on the price increases so far and the expectation for the December and March quarters, what realization increase can we expect on a year-on-year basis for the full year? Would it be more than 15-20%?

Management: It will surely be close to the 15-20% range.

Management: The average price increase across three to four quarters, including what we expect in the January quarter, will cumulatively be somewhere around 15%.

Management: 15% plus. Yes.

Achal Lohade – Nuvama Institutional Equities: Understood. The other question I have is more medium-term in nature. We have spoken about refrigerators, washing machines, and so on. Do you have any thoughts on additional growth avenues in terms of segments or products over the next three to five years beyond the current products that we are looking at?

Management: The immediate priorities for the management and top leadership team remain operationalizing these new projects, on which we have incurred sizable capex over the last three years, and trying to restore profitability in the business to earlier levels. We will look for growth opportunities, but right now we do not want to focus on anything substantial until we have been able to scale up these new initiatives that we are undertaking.

For FY27 and FY28, the key priorities remain getting these new projects on stream and achieving the requisite profitability from them. These are sizable capex projects that we have undertaken, and we believe that we can continue to see good volume momentum across the product lines in which we operate, namely AC, washing machines, refrigerators, TVs, and other products. We do not intend to lose focus on them right now or look for other new opportunities. We are currently very focused on getting these new projects up and running in a profitable manner.

Achal Lohade – Nuvama Institutional Equities: Fair point. Thank you. I have one last question, if I may. With respect to the compressor scenario, could you give us an update from the previous call in terms of how it is shaping up for the industry? Also, what is the export opportunity for RAC from a medium-term perspective? Those are the two questions. Thank you so much.

Management: The compressor project, as I said in the earlier call, is on track. Machine installation is ongoing. Engineers from China are there to help install all those machines. We are hoping to start trial production by the end of November. We hope to start trial production by the end of November,

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and I think by January-February we will be able to start mass production as well, followed by a gradual ramp-up. For calendar year 2027, we are hoping to produce approximately 1.5 million or more compressors. That is the target we have set for ourselves: 1.5 million or more. By April-May, if the season is progressing well, we might take a call on adding a second line as well. We will take a decision on that in April-May.

Achal Lohade – Nuvama Institutional Equities: And on exports, could you help us understand?

Management: We are currently undertaking a small number of exports to SAARC nations. When you try to compete with China in the European and American markets, the products are somewhat different; they are quite different. In addition, the pricing being offered in those markets, despite whatever duty benefits we receive because of FTAs and so on, still creates a very large price disadvantage for us at present. Therefore, exports to these countries are somewhat challenging at present. However, we are undertaking small exports to SAARC nations, although those markets themselves are very small, and there is not much to discuss about them right now. The products are available and are being developed, but whenever we undertake benchmarking, pricing becomes a major issue when we discuss exports.

Achal Lohade – Nuvama Institutional Equities: Understood. Thank you, sir. I will fall back in the queue. Thank you.

Management: Yes. Thanks.

Operator: Thank you. The next question is from the line of Santosh {? Sahadri ?} from Avendus Spark. Please go ahead.

Santosh {? Sahadri ?} – Avendus Spark: Good morning. Thanks for taking my questions. My first question is on the cost savings that you have achieved. There have been considerable savings in employee costs and other operating expense line items. How should we think about this going forward? Should we expect this to remain at similar levels, or would there be a step-up in the cost base given that many of the new projects, especially the compressor facilities, are ramping up in the second half?

Management: I will take this question in two parts. Looking at employee costs, we are obviously running a tight ship and trying to control them, but there is growth in that line item. In other operating expenses and manufacturing expenses, there has been a year-on-year reduction for two reasons. First, last year we had a forex loss of about 8 crores, whereas this year we had a smaller forex loss of about 3 crores only, resulting in a benefit of 5 crores on that account. Also, last year we had some one-off costs related to GST and other matters, which we incurred in the second quarter. Because of those factors, there was approximately 3 crores of additional cost that we did not incur this quarter.

That is why other expenses are appearing as they are. Going forward, as we ramp up the new facilities and production in the existing facilities, manpower costs and other expenses are likely to increase. However, they will not increase in line with sales growth, because this year a significant portion of sales growth is happening because of commodity pass-through. Therefore, costs will increase more in line with volume increases, which will be approximately 20-25% for the company

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overall. That is our internal target.

Santosh {? Sahadri ?} – Avendus Spark: Understood. As a follow-up, how should we think about margins in the second half and going forward, considering the further price increases that you are planning to achieve?

Management: The second half is typically slightly better for us seasonally because there are somewhat higher sales, and operating leverage also comes in. In addition, the way we book PLI means that the fourth quarter typically sees better margins. Therefore, we hope to have slightly better margins in the second half than what we reported in the first half this year.

Santosh {? Sahadri ?} – Avendus Spark: Lastly, on finance costs, can you provide some color on how we should expect them to develop going forward? Is there room to optimize working capital and bring finance costs down? Any color on that would be helpful.

Management: We are trying to optimize working capital, but what is happening is that, because of high commodity prices, even with this optimization, the amount of inventory we need to maintain is actually high. That is leading to high investment in working capital and higher interest costs. We are trying our best to optimize wherever possible. Hopefully, because all the capex has been paid for, only working capital requirements will increase. We have some inventory, and we are hoping that interest costs in the second half will not increase significantly from the first-half interest costs. That will be a focus area for the company in the second half.

Santosh {? Sahadri ?} – Avendus Spark: Thank you very much, sir.

Management: Thank you.

Operator: Thank you. The next question is from the line of Bala Murali Krishna from Oman Investment Advisors. Please go ahead.

Bala Murali Krishna – Oman Investment Advisors: Good morning, sir.

Management: Good morning, Bala.

Bala Murali Krishna – Oman Investment Advisors: Regarding the new subsidiary you have created, do you have any plans for other new projects, or what are the thoughts behind it?

Management: No, we have not created any new subsidiary. We already have a subsidiary called PG Technoplast, and PG Technoplast has a subsidiary called Next Gen Manufacturing. That structure remains. We have not created any new company right now.

Bala Murali Krishna – Oman Investment Advisors: Okay, sir. On inventory, the inventory levels are similar to Q2 last year. So—

Management: Yes, inventory levels are slightly higher. The reason is that, as I mentioned, we have a stronger order book in AC, washing machines, and electronics. Therefore, we are keeping material for those products. That is one reason. Second [cut off]

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Management: ...thing, as I explained earlier, raw material prices are generally higher. Despite maintaining and optimizing volumes, that is leading to higher inventory levels in the company. We are trying our best to manage inventory levels at our end, and we hope that in the coming quarters, if commodity inflation is not high, we should be able to control inventory going forward.

Bala Murali Krishna – Oman Investment Advisors: Okay, sir. What could be a rough breakup of finished goods and raw materials in these inventory levels?

Management: I will give you this number. Just give me some time. I will give you the breakup. If you have any other question, you can continue. I will give you the breakup of this.

Bala Murali Krishna – Oman Investment Advisors: No problem. On the washing machine front, we have good growth of 60-70% year-on-year. Since we have also commissioned the new facility, what growth potential are you expecting in washing machines on an annual basis?

Management: We are looking at at least 40-50% growth in washing machines. Washing machines will enter the off-season after a couple of months, but we have seen very strong growth there. We continue to have a strong order book, and for the full year we are likely to see the growth I mentioned, of approximately 45-50%.

Bala Murali Krishna – Oman Investment Advisors: Okay, sir. Lastly, regarding the POS machine under development, is there any update? Is any progress happening?

Management: I did not understand your question. Can you repeat it?

Bala Murali Krishna – Oman Investment Advisors: The POS machine is a payment—

Management: Yes, POS— [cut off]

Bala Murali Krishna – Oman Investment Advisors: Earlier, we had an order from—

Management: Yes, can you hear me? That business is not progressing right now because there are some issues at the customer end. Therefore, there is no progress on that project at present.

Bala Murali Krishna – Oman Investment Advisors: Okay, sir. Thank you. Best of luck, sir.

Management: Thank you.

Operator: Thank you. The next question is from the line of Yash Kothari from CR Kothari and Sons. Please go ahead.

Yash Kothari – CR Kothari & Sons: Hello, good morning— [cut off]

Management: Yes, just before that, I would like to provide some color on the—just a minute. You go ahead with your question; I will come back to that.

Yash Kothari – CR Kothari & Sons: Okay. Hello. Good morning, sir. We had discussed the super compressor unit starting. I wanted to understand the expected EBITDA margins after this commissioning. What EBITDA margins are we looking at?

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Management: Since we are going to utilize a large part of the production in-house, it will be margin-accretive. We will share that number with you once we start production, probably in the second quarter—sorry, at the end of the third quarter.

Yash Kothari – CR Kothari & Sons: Okay. Thank you, sir. That is all.

Management: Thank you.

Operator: Thank you. Sir, you wanted to say something?

Management: No, I will come back to the inventory question slightly later. I am asking somebody to get that number.

Operator: Sure, sir.

Management: Breakup of the inventory in finished goods and— [trails off]

Operator: The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain – Ambit Capital: Thank you very much for the opportunity. I have two questions. The first question is on the electronics business. You mentioned that raw material prices have gone up, which could be one part of the reason, but could you provide some more color on what went right and which products typically helped? That is my first question.

Management: There are basically three or four product lines on which we are currently working in the electronics business. One is TV motherboards, the second is AC controllers, and we are also working on battery management systems and CCTV cameras. These are the four key products that currently contribute the bulk of the electronics business for us.

We have seen growth across all of them. Last quarter, we had higher growth mainly in TV motherboards because of the season. In TV motherboards, the memory component is significant, and prices have risen very substantially. Therefore, the contribution in terms of sales looks much higher for the electronics business during the quarter. That has led to very high growth in the electronics business for the quarter and for the first half as well.

Dhruv Jain – Ambit Capital: How should we look at the growth for the full year and for FY28 in this vertical?

Management: This year, we are expecting very high growth because of pricing, as I mentioned, and volumes are also decent across all the products. For the full year, we should have approximately 550-600 crores of sales in this business on an annual basis. For next year, we will let you know once we finalize our plans for the next year.

Dhruv Jain – Ambit Capital: Understood. My second question is on incentives. Last year, as part of your annual report, we saw that you had booked approximately 130 crores of incentives. I wanted to understand whether that was clubbed for a couple of years. For FY28, while you mentioned FY27, my understanding is that PLI gets over in FY28. What would your incentives be from the state government and PLI? Could you provide some clarity on that?

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Management: The way it will work is that we will have PLI incentives in two companies: NGM and PG Technoplast. For PG Technoplast, this is the last year for sales, and obviously, we will receive that incentive next year. We will have approximately 60 crores in PG Technoplast next year from that.

In NGM, because we applied in the third round and the incentive is valid only for 3 years, we will receive an incentive for last year, which will be received this year, and this year's incentive will be received next year. That will be approximately 20 crores. This year, it will receive 15 crores, and then again in the last year it will receive 20 crores, which will be in 2029.

Apart from that, we will have a state incentive of approximately 28-30 crores every year, which will continue for the next 10 years in PG Technoplast. For NGM, we have yet to file under the Government of Maharashtra's incentive scheme. We have committed close to 500 crores in NGM, and that number should also qualify for incentives. Those incentives will probably start after 1.5-2 years, once we start filing for them. This is how it is going to work.

Dhruv Jain – Ambit Capital: Is it safe to say that your incentives for FY28 would be anywhere between 105 and 110 crores?

Management: Correct.

Dhruv Jain – Ambit Capital: Thank you very much, sir. All the best.

Management: Thank you. Thank you.

Operator: Thank you. The next question is from the line of Vedant Rathi from Blue Square Corporate Services. Please go ahead.

Vedant Rathi – Blue Square Corporate Services: Hello, sir. Thank you for the opportunity, and congratulations on your results. I wanted to ask about our capex guidance for next year and whether we have achieved the current year's guidance. I also wanted to ask about our capability with respect to the compressor plant—sorry, the refrigerator plant—in Sri City. Will we also be adding an additional compressor line at our Sri City plant?

Management: Vedant, I will take these two questions. Capex for this year, which we guided at approximately 400 crores, is on track, and largely that capex has been completed, as Pramod mentioned in his comments earlier. For next year, I think our idea is to consolidate the business right now, focus on the capex we have undertaken over the last 2 years, build on those capabilities, and grow that business. Still, in FY28, we should undertake approximately 150-200 crores of capex.

Coming back to your question on the Sri City refrigerator plant, that plant, as mentioned, will start production in the last quarter of this financial year. Regarding a refrigerator compressor, we are already discussing that technology with a couple of companies, but we will take a decision on that compressor facility after refrigerator production has stabilized and we understand the market behavior for this product. Once we are comfortable and confident, we might also proceed with a refrigerator compressor facility.

Vedant Rathi – Blue Square Corporate Services: Understood, sir. With respect to our refrigerator business, how much approximate margin accretion can we see, since we will now be manufacturing

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our refrigerators end-to-end as well?

Management: The margin profile will be similar to our current business. However, we can provide a definite view after the end of the last quarter of this financial year, once production stabilizes. We can then provide better clarity, but it should be in line with our existing numbers at the company level.

Vedant Rathi – Blue Square Corporate Services: Okay. Thank you.

Operator: Thank you. The next question is from the line of Rabindra Nath Nayak from Nirmal Bang Institutional Equities. Please go ahead.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: Thank you, Vikas and Pramod, for the opportunity, and congratulations on a good set of numbers. You mentioned that in the first half we achieved approximately 36% growth in the RAC segment. Can you please tell me what the volume growth was in the first half?

Management: Approximately 20-22%; the volume growth was around 22%.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: You are now guiding for 30% growth for the full year. Can we therefore expect the second half to be much better than the first half for RAC?

Management: No, I am not guiding for 30%. I am guiding that volume growth should be 20-25%, with a variance of approximately 2-3% on either side, for the full year. That is what I am guiding. We have a very strong order book, and now we have to execute it in the second half.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: Does that mean we can cross approximately 4,000 crores in RAC this year, or come close to that?

Management: Yes, that should be possible.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: In washing machines, you said that we could cross approximately 1,000 crores this year. Is that correct?

Management: I would not say cross, but we will be close to that number.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: You mentioned that the electronics business has seen significant growth this year, from approximately 80 crores to approximately 251 crores. You also mentioned guidance of 560 crores for the full year in the electronics business. Is that correct?

Management: I said 500-600 crores. The number we should target is 550 crores. This quarter, and in the first half, TV contributed significantly to the electronics business, particularly TV motherboards. Motherboards have a memory component, and memory prices have risen significantly. Therefore, price appreciation has led to the high number in the electronics business.

In the second half, the electronics business is typically driven by AC controllers and other businesses such as CCTV cameras. Those products do not have such high memory content, so volume growth there will be much more normalized. Value growth will also be much more

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normalized based on volume growth.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: If you look at Goodworth, one of your joint ventures, growth has been spectacular, from 180 crores to 455 crores this quarter. Is that related to the electronics business to some extent?

Management: That is also largely driven by the TV business, because Goodworth deals largely in TVs. TV prices have moved up sharply, again because of electronics, motherboards, and related components.

Management: Because of that, the price-related growth is also appearing higher. Volume growth is in line with what we were expecting, but it is pricing that has increased significantly in the TV business this year.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: What would be the guidance for {? Good Earth ?} for this year in terms of sales?

Management: Maybe 800-900 crores.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: If the second half is expected to be much better in the RAC segment, and the electronics business will contribute less compared to the second quarter because the second quarter saw a decline in gross margins due to the increase in electronics component prices, can we expect gross margins to improve in the coming second half if RAC dominates and electronics takes a back seat in terms of growth?

Management: No. Gross margins in the second half, on a percentage basis, may not appear very high for the simple reason that commodity prices are being passed through and we receive money on a per-unit basis. The bill of material for AC has increased from 14,000 rupees, which it was approximately 2 years ago, to almost 18,500 rupees now, while the amount of money we receive for manufacturing an AC remains the same. Therefore, that number may appear lower as a percentage.

That is why the gross contribution margin or gross margin may appear lower. We actually focus on per-unit margin, which is an absolute amount, and we believe we are comfortable there. We hope to continue receiving that amount, and we are trying our best to control other expenses to ensure that our conversion costs remain low. Therefore, do not look at this business as a percentage-margin business, because that is not how we track it internally.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: That is a fair point. You guided 800 crores for {? Good Earth ?}, but in the first half we have already achieved approximately 632 crores. So, why [crosstalk]

Management: That is 800-900 crores. TV season is slightly slow this year because of the very high price increase, and the TV season is almost coming to an end. Therefore, we will not continue to see very high growth in the TV business in the second half, which is always the case because it is typically a low season.

As I was telling you, there has been a price increase this year. Because of that price elasticity, we are seeing a negative impact, and volume growth is not very high in TVs.

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Rabindra Nath Nayak – Nirmal Bang Institutional Equities: My last question is about coolers. We have seen significant degrowth in coolers. Is this currently a trend, or is the market going to revive? How should we view the cooler market?

Management: The last 2 years have been unusual for coolers. First, we had a poor monsoon last year, and then there was very high inventory in the channel, which was low-cost inventory.

This year, as you know, coolers have a very high proportion of plastic injection-molded components. Approximately 65-70% of the bill of material for coolers is plastic. Because plastic prices increased very significantly, the raw material price, or bill of material, for coolers increased substantially. That led the channel to avoid taking large inventories of coolers, and it was focused on getting rid of its earlier inventory.

The coming season should be much more normalized, and we believe that the next season should see decent growth for the cooler industry because temperatures are rising and inventory levels have now normalized across the channel. We hope that we will be able to pass on the price increase and that the entire value chain will also be able to pass on the price increase.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: What percentage of price increase are you expecting for RAC so that we can cover a good portion of our costs?

Management: RAC prices and commodity-related price increases are always based on a moving average. Whatever average prices you have for the last quarter are implemented for the next quarter. Therefore, it is always an ongoing activity.

As we said earlier, we have already taken the price increase required to date to maintain our normal margins. From January onward, we expect a further price increase, keeping in mind the commodity movement during this quarter. From one OEM to another, we largely assess where copper, aluminum, and the dollar are moving. Accordingly, we have a pricing mechanism with our clients, and we are able to implement it with them.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: One last question, if I may. There has been a change in auditor at one of the subsidiaries, Next Gen Manufacturing. Is there anything to look at in this, and what product or services does this subsidiary provide?

Management: We now have a single auditor across the whole company, BSR & Co. Earlier, there was another auditor whose term came to an end. Therefore, from this quarter onward, which is Q3 onward, BSR & Co. will be the statutory auditor across the whole company.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: Thank you very much for answering my questions. All the best, sir.

Management: Thank you.

Rabindra Nath Nayak – Nirmal Bang Institutional Equities: Thank you.

Management: Thank you. Thank you.

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Operator: Thank you. As a reminder to all participants, you can press star and one to ask questions. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya – ICICI Prudential Life Insurance: Thank you. Keyur from ICICI Life Insurance. Congratulations on the good numbers. I have two questions. First, on RAC, last year's Q3 saw strong growth because of inventory stocking. Based on current channel inventory, do you think Q3 will also have volume growth? What are you guiding for in terms of volume? Will it all be back-ended toward Q4?

Management: We see early-teens volume growth for us in the third quarter as well, keeping in mind the volume or commitments we are receiving from clients at present. Q4 will be much better.

Keyur Pandya – ICICI Prudential Life Insurance: You mentioned early teens, correct?

Management: Yes, early-teens growth.

Keyur Pandya – ICICI Prudential Life Insurance: If I take a base assumption of 20% volume growth, based on what you delivered in the first half, current channel inventory, and last year's very weak second-half base, do you see any possibility of an upside? Is this guidance more conservative, or are there other reasons why you are keeping the volume growth guidance lower? I thought 20% was low versus the current scenario and last year's base.

Management: Keyur, our financial year ends on March 31. Any growth achieved will also be carried into FY28. April and May are always strong primary-sales months for companies like us. Therefore, what we are saying is that we are not guiding to any specific number. We do expect decent volume growth and much better value growth in RAC in FY27, and some part of that growth will carry over into FY28.

Keyur Pandya – ICICI Prudential Life Insurance: Understood. My last question is on newer categories, such as refrigerators and compressors. Where have we reached in terms of approvals or validations, and do the guidance or numbers you are discussing for FY28 take that timeline into account?

Management: First of all, for compressors, as I mentioned, trial production will start at the end of November. We should have trial production by the end of November, and we will submit our compressor samples to our clients. They are very similar to the designs they are currently using, so we should not face much difficulty in obtaining approvals. Largely, we will be using those compressors for our in-house consumption. Based on our understanding with the clients, we will not need to obtain approvals from most clients. If we are able to technically clear those compressors ourselves, we will not need to seek their approvals.

This is regarding compressors. We have already guided that the target for FY28 should be between 1.5 million and 1.8 million units, and we might take a call on the second line in April or May next year.

Coming to refrigerators, we will start trial production in January-February. The designs and model selection have been completed in consultation with our anchor customer. The model being developed is in consultation with that client. Therefore, when production starts, approvals will most

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likely not be a significant bottleneck for the refrigerator either.

Keyur Pandya – ICICI Prudential Life Insurance: Is that 1.2 million in the first phase?

Management: 1.2 million is the installed capacity for that facility. For FY28, I think we are targeting production of 700,000 units, not more than that. That is the base number we are trying to achieve in FY28.

Keyur Pandya – ICICI Prudential Life Insurance: Understood. Is the 700,000-unit target based on the anchor customer plus a few other customers, or is it based only on the anchor customer since the commitments from other customers are softer?

Management: This is based on the anchor customer, soft commitments from other customers, our experience, and our assessment of this business.

Keyur Pandya – ICICI Prudential Life Insurance: Fair enough. Thank you very much, sir, and all the best.

Management: Thank you. Thank you, Keyur.

Operator: Thank you. The next question is from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah – White Pine: Hello, am I audible?

Management: Yes.

Operator: Yes, please go ahead.

Chirag Shah – White Pine: Thank you for the opportunity, and congratulations on a good set of numbers. My first question is regarding inventory. If you compare it with the September 2024 closing level, how would it be today? You mentioned estimated inventory of approximately 1.7 million in the system today. Would it be lower or higher than September 2024?

Management: I cannot recall the September 2024 numbers. I can say that September 2025 was much higher, but I do not recall the September 2024 numbers right now, Chirag.

Chirag Shah – White Pine: My second question is whether your 20% or higher indicative volume guidance takes into account the expected rural and semi-urban slowdown. If yes, how does this slowdown generally affect RAC demand? Is rural demand a significant contributor to RAC demand, and therefore is the impact generally higher based on your past experience?

Management: First, try to understand the AC business. Whatever sales we make are converted into secondary sales with a gap of 2-3 months. The numbers we are guiding or discussing on this call are the numbers through March. Through March, we do not see much challenge with respect to the primary numbers we are receiving from our clients.

Going forward, depending on how the agrarian economy behaves, we will have to assess the situation. However, I still see the automobile sector and the two-wheeler sector performing

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reasonably well. We will come to know more about this going forward, but until March, I do not see much challenge in the numbers we are receiving.

Management: In any case, AC is not a rural product. AC is largely an urban product. At least based on the sales we have seen in the last 2-3 months and the feedback we are hearing from our clients, the momentum appears reasonably strong. The industry itself is likely to record growth of more than 15% this year on a full-year basis. That is the estimate most brands have.

Chirag Shah - White Pine: Generally, from tier 3 onward, the rural-urban definition becomes intertwined. Tier 1 and tier 2 cities are clearly urban, but from that perspective, if a large part of industry volumes is driven by tier 1 and tier 2 cities, perhaps 70-80%, is that the right way to understand it?

Management: Yes. However, expansion is also happening in tier 3 cities because some saturation is visible in tier 1 cities in India for these product categories. But all said and done, Chirag, as I told you earlier, our primary numbers through March are looking very strong. We are quite confident about those numbers, but we will see how they translate into secondary numbers.

Chirag Shah - White Pine: That is a fair point. You cannot take a call as of now, which I appreciate. Lastly, on compressors, I need a clarification. We are starting with one anchor customer, but generally, how can this one anchor customer's requirement become four or five customers? Or can the customer profile of AC—

Chirag Shah - White Pine: Be converted into compressor customers, or could there be different tie-ups with different AC customers for compressors, given the industry's requirements for localized sourcing?

Management: The compressors we are making are largely for our in-house consumption, and there is not one anchor customer for compressors. We have a large variety of customers who have already given in-principle approval for this product to be used in the RAC units that we will manufacture for them in our factories.

Chirag Shah - White Pine: Understood. That clarifies it. I thought it was only for one key customer who had given the go-ahead. That is clear. Thank you.

Management: Thank you.

Chirag Shah - White Pine: Thank you.

Operator: Thank you. The next question is from the line of Pulavarthi Sai Kiran from Pulavarthi FinServ. Please go ahead.

Pulavarthi Sai Kiran - Pulavarthi FinServ: Thank you for taking my question. I have a broad question. Five years ago, India's AC manufacturing was not very backward-integrated, and then PLI was introduced. Looking back now, how far has India come in that journey, and where does PGEL stand in terms of complete manufacturing and backward integration? Thank you.

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Management: I think it is a good question. Please understand that, 5 years ago, India started on this journey, and we are largely moving from being an assembly country to being a manufacturing country. Barring electronic components, most things will now be manufactured in India, including compressors, copper tubes, aluminum, and motors, which constitute a very large part of the BOM value.

For electronic components, we undertake assembly in India, but largely, all those electronic components are still imported from outside India. That is one area in which I do not think we have progressed very well as a country. However, copper tubes, aluminum, compressors, and motors will largely come from India.

We expected this to happen somewhat earlier, but there have been some delays. From FY28 onward, we will see very large-scale production of these products taking place in India, and companies will largely buy from local sources. In the case of compressors, compressor imports will not be allowed after March 31, 2027. Compressors will have to be made in India, and the government has said that compressors cannot be imported after March 31, 2027.

In the case of copper tubes also, the government has now prohibited imports of copper tubes. Therefore, companies are increasingly buying from local sources.

Pulavarthi Sai Kiran – Pulavarthi FinServ: Understood, sir. We understand that you are entering electronic components. Could you also explain PGEL's journey and how well we are backward-integrated? As a follow-up, while compressor manufacturing is happening in India, is the technology also owned by Indian companies, including our company in this case?

Management: Technology is a difficult subject to answer, but let me tell you that we have currently acquired the technology from outside India. Going forward, we believe that once we start manufacturing these compressors in India, within the next 2-3 years we will have the capability to develop these products and components in-house.

Pulavarthi Sai Kiran – Pulavarthi FinServ: Thank you very much, sir. This has been really helpful.

Management: Thank you.

Operator: On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Management: Thank you. Thank you, everyone. Thank you. Goodbye.

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.

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