

4 2020 V Guard Industries Ltd Earnings Call

Jun 3, 2020 (Thomson StreetEvents) -- Edited Transcript of V Guard Industries Ltd earnings conference call or presentation Tuesday, June 2, 2020 at 10:00:00am GMT

TEXT version of Transcript

=====

Corporate Participants

=====

* Mithun K. Chittilappilly

V-Guard Industries Limited - MD & Executive Director

* Ramachandran Venkataraman

V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director

* Sudarshan Kasturi

V-Guard Industries Limited - Senior VP & CFO

=====

Conference Call Participants

=====

* Achal Lohade

JM Financial Institutional Securities Limited, Research Division - VP

* Aditya Bhartia

Investec Bank plc, Research Division - Analyst

* Ansuman Deb

ICICI Securities Limited, Research Division - Aviation Analyst

* Charanjit Singh

* Koundinya Nimmagadda

JM Financial Institutional Securities Limited, Research Division - Analyst

* Manish Gupta

Solidarity Investment Advisors - Founder & CIO

* Naval Seth

Emkay Global Financial Services Ltd., Research Division - Research Analyst

* Prashant Kuttu

Sundaram Asset Management Company Ltd. - Research Analyst

* Ravi Swaminathan

Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP

* Renu Baid

IIFL Research - VP

* Sonali Salgaonkar

Jefferies LLC, Research Division - Equity Analyst

* Sparsh Raina

=====

Presentation

Operator [1]

Ladies and gentlemen, good day, and welcome to the V-Guard Industries Q4 FY '20 Earnings Conference Call hosted by ICICI Securities Limited. (Operator Instructions) Please note, this conference is being recorded.

I'd now like to hand the conference over to Mr. Ansuman Deb of ICICI Securities. Thank you, and over to you, sir.

Ansuman Deb, ICICI Securities Limited, Research Division - Aviation Analyst [2]

Good afternoon, ladies and gentlemen. ICICI Securities is extremely pleased to host the Q4 FY '20 and FY '20 results conference call of V-Guard Industries Limited, represented by Mr. Mithun Chittilappilly, Managing Director; Mr. Ramachandran V,

Director and Chief Operating Officer; and Mr. Sudarshan Kasturi, Senior Vice President and Chief Financial Officer.

We will start the call with initial comments from the management, post which we will open the floor for Q&A. Over to you, sir.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [3]

Thank you, Ansuman and ICICI, for hosting this call. A very warm welcome to everyone present, and thank you very much for joining us today to discuss the operating and financial performance of our company for the fourth quarter ended 31st March 2020.

Collateral impact from the nationwide lockdown in the last few days of the financial year had a significant adverse impact on our fourth quarter revenues, which is visible in the quarter's performance. Typically, the second half of March tends to be big due to prebuild of summer products at the trade and also due to closing of annual schemes and incentives. This year, the timing of the lockdown resulted in V-Guard not being able to capture these revenues. Even before the lockdown, FY '20 has been a slow year of growth.

For the first 9 months of the year, revenue have increased by 6.5% in the framework of prevailing market conditions. Thus, the growth momentum had been much lower than our historical growth rate. Currently, the lockdown situation has eased to varying degrees in different markets. We expect the effect of the pandemic to last for a few months before the situation reverts back to normal.

During this period, consumer demand for discretionary items is expected to remain subdued. During the month of May, markets were partially open. After 4th of May, our warehouses are progressively functioning to limited capacity in adherence to government regulations and protocols. Prior to opening any facility as and when permitted, the company has taken all appropriate measures to ensure the safety of its employees at its workplaces.

Currently, our head office at Kochi is open and functioning with about 33% attendance. As I mentioned earlier, all warehouses have started functioning. Our wire factories at Chavadi and Kashipur have reopened the last week of May and are currently operating at about 30% capacity. The company plans to reopen its other factories and branch offices progressively this month. We expect that it will take a few more weeks for the supply chain to revert to normal capacity as factory workmen return to factories, raw material availability normalizes and vendors restart their operations.

Over the next few weeks, we are hopeful of ramping up production based on consumer demand pickup and normalization of inventory levels at our warehouses and our channel partners. As the sales during April were near zero and business only partially opened in May, with revenues -- the May revenues are at about 70% of

last year May revenues. Performance during Q1 FY '21 is expected to be impacted, and it may take some more time for consumer offtake to revert to normal levels.

We have not resorted to any layoffs or salary cuts, but other cost containment measures are being undertaken to partially offset the impact. We have a strong balance sheet and do not foresee any liquidity risk. The company has a strong, long-term-oriented relationship with its channel partners and a track record of managing its working capital prudently. The inherent discipline and various measures undertaken to support channel partners during this crisis should allow the distribution network to operate in a robust manner despite these challenges.

While this has been a phase of extraordinary weakness in the market, at V-Guard, we have in the past continued to launch new products with focus on quality and technology. We are also leveraging existing investments in brand, marketing and distribution to diversify the portfolio. In addition, we are balancing the revenue profile by growing non-South markets. Contribution has now exceeded to more than 40% of the total business for the first time in FY '20, which is an important milestone for us.

Our disciplined pricing action and focus on premiumization of the portfolio has enabled us to expand gross margin. We have also derived benefit of greater contribution from in-house manufacturing, stable currency and a benign commodity prices environment prior to the lockdown period. We have reinvested some of these gains in the system, processes and capabilities required to create a stronger, future-ready organization, which should hold us in good stead in the current year and into the future. Therefore, beyond this extraordinary phase, we expect our strong brand innovation-driven products and solid business fundamentals to further strengthen our market position nationwide. We believe V-Guard has a robust and resilient business, which should allow us to bounce back relatively fast and continue our path of delivering to the strategic business plans.

On that note, I would like to thank you once again for your participation. And I would like to hand over the floor to the moderator for Q&A. Thank you.

=====

Questions and Answers

Operator [1]

(Operator Instructions) We have a first question from the line of Renu Baid from IIFL.

Renu Baid, IIFL Research - VP [2]

Sir, my first question would be to understand on the business outlook. As we move in FY '21, amidst the first quarter of lockdown, which segments in your view should be able to drive growth and lead with respect to demand pickup? And also from the context of, do you see consumers down-trading to relatively lower-priced brands or lower-priced SKUs from a business perspective? And could that be a risk to the premiumization strategy, which has been driving margin for us?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [3]

So our experience in May tells us that all products are selling. It's not that 1 category is selling and 1 category is not. And like we mentioned, the May sales are roughly 70% of last year May sales. This is keeping in mind that only maybe 50% to 60% of the retailers are actually open. Many of the retailers in the red zones and orange zones are not able to operate freely. So what it tells us is that whoever is open is getting sales. We are seeing good traction in Southern and Eastern markets because I think also the relatively number of cases are low in these 2 zones. So these 2 are areas that are doing well for us. We are also seeing that towards the later end of May when the weather picked up in terms of summer weather picked up in North India, even North sales has also started.

In terms of particular categories, I'm not able to make any comment. Like I said, we are not able to make that call right now because we have only completed 4 to 5 weeks -- I mean, at least 4 weeks after the lockdown. So maybe it's too early to call that. In terms of trend, yes, I think, definitely, very, very expensive products or products that are considered super premium could get down-traded. Having said that, bulk of our revenue anyway was coming from, I would say, mid-segment products. We were not in a very high-priced product segment to begin with. And also not all our categories are discretionary. Something like a pump, fan, switches, switchgear, especially pump and fan, I would say, they're essential because if 1 of this breaks down in your house you will have to go and replace it. There are discretionary items like stabilizers, which go for air conditioners, which only gets sold if an AC gets sold. But some of the other products are more like -- not -- we didn't call it discretionary in nature.

Renu Baid, IIFL Research - VP [4]

Sure. And attached to this question would be my second question. In the last quarter, because of South getting more impacted in the season going by, we saw the heat. Now as we move in the first half of the year, the intensity of COVID has been far more severe in the non-South market. So to that extent, do you think overall as a portfolio your growth could get knocked out a bit because non-South markets were driving growth meaningfully for you in the last 2 to 3 years and that could taper off in the current year for you?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [5]

No, I think what we think will happen is need-based buying will happen. So if the summer is good -- irrespective of the number of cases, if the summer is strong, I think the summer products will sell, and that's what we've seen even in South. In South also, we were actually surprised to see the kind of offtake it happened for some of the products like fan. So I think it will be need-based buying. I think people -- if something breaks down people may replace. I don't know whether people will go and buy new stuff. So I think that is the way we like to see it.

Renu Baid, IIFL Research - VP [6]

Sure. And my last question, if I can. What would be the kind of cost-out actions that you planned, given that all the wage expenses or salaries -- nothing much can be done? But as a company as a whole, what are the key aspects on cost-out that we have planned and which can help OPMs in the current year and forward for us?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [7]

Yes. See, there are a number of areas we have looked at where any kind of discretionary expenses can be cut down, a range of items across overheads. Just to give you some example, we have not cut salaries, but we have deferred increments. So that is something we will take a call later, depending on how things progress. A few things like discretionary elements of BTL is another example, where without compromising the effectiveness in the market, there are some expenses that we can cut down. And some things like conferences and travel, et cetera, they sort of go without saying. So there are quite a few areas like this. We can save costs and at least partially offset.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [8]

Even rental agreements are being renegotiated as we speak, so in terms of rents and fixed costs.

Renu Baid, IIFL Research - VP [9]

But broadly, as a company, I mean even if we see volumes being relatively lower in single digits for us next year, do you think a 9 to 10 -- a 9% kind of margin or just 100 basis points lower than what you have been guiding for is feasible or margins could actually face higher headwind?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [10]

I don't want to venture into EBITDA margins now. We don't know what the rest of the year is.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [11]

Yes. So I think we will not talk -- we wouldn't like to comment on what's going to happen, but we can tell you what has happened. We can tell you that the indications are very positive as far as May is concerned because not only sales are happening, collections are happening. If sales are 70% -- I mean 70% of last year's sales, the collections are even better. So what it tells us is actually the products are getting sold out. This is the only comment we can make. We really can't make sitting today whether there will be a lockdown 2.5 or whatever you call it, second round of lockdown. We don't know.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [12]

Internally what can -- what we can sort of influence or control is our ability to maintain margins -- gross margins. Yes, EBITDA -- what EBITDA we get depends on how much turnover we get. I mean, difficult to say.

Operator [13]

We have next question from the line of Aditya Bhartia from Investec.

Aditya Bhartia, Investec Bank plc, Research Division - Analyst [14]

Sir, you indicated that roughly INR 250 crore of revenues were lost in fourth quarter on account of COVID disruption. That's almost 33% of revenues that we had booked in Q4 of last year. The impact appears to be slightly higher when we compare it with peers. Is it because Kerala sales were impacted a lot more initially and then during recovery, also, we are seeing a faster growth out here?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [15]

So I think there are a couple of reasons for that. One is that, for us, at least -- if you look at us, March is typically a big month, because if you -- barring South India, we are a new player in the non-South markets. So in the non-South markets, what will happen is we are not the market leader in many of the geographies. We are probably the #3 or #4 brand. So in that environment, retailers typically will wait till the -- to last 15 days of March to buy products to achieve certain scheme slabs. That buying has not happened for us. But it's different for market leaders where more even billing will happen. This is one. Second is, I think many other companies which are into air conditioning will also say the same thing that March is typically a big month. So for us, something like stabilizers, March is a big month for selling because the summer for South India picks in April and May and for non-South picks in May and June. So the sell-in for many of this happens only in March. And dealers also take advantage, so that they can get these schemes.

Aditya Bhartia, Investec Bank plc, Research Division - Analyst [16]

Understood, sir. And also, sir, if you could guide us as to how the channel inventory for various product categories, specifically for things like some of the summer-centric products like stabilizers and fans, and then for some of the products that get sold through the year like wires.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [17]

So I think, typically, the channel will be keeping anywhere between 20 to 35 days of inventory, depending on off-season, in-season. But what we found as we went into lockdown is the channel was holding quite a bit of inventory because the summer sales had not yet started. So this is the reason why we had waited to start our factories. But contrary to our expectation, May sales was decent. So we have, in

fact, fast-tracked reopening of factories. So channel inventory usually should be early 21 days to 30 days, but it would have gone to something like 40 days or 45 days because of the lockdown.

Aditya Bhartia, Investec Bank plc, Research Division - Analyst [18]

Understood. And just 1 last question. You mentioned that South is appearing to be a lot better than other regions. If you could just indicate that on a pan-India basis in May we have achieved 30% of last May sales. How would South be looking like?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [19]

So we have achieved 70% of last May sales, not 30%. Okay. So please understand that we have achieved almost 70% of last year May sales. If you look at South, Kerala -- Karnataka is doing very well, followed by Andhra Pradesh and Kerala. East, Orissa, Bihar is doing exceptionally well. And so these are the markets that are really firing. This also mean that the sales are kind of universally proportional to a number of cases. Tamil Nadu, for example, Chennai is really badly affected. So we are not getting much sales in Chennai, but the rest of Tamil Nadu is selling.

Operator [20]

We have next question from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [21]

Sir, my first question is approximately how much percentage of sales emanate from metros or Tier 1 cities for us?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [22]

So our metro sales is very low. I think if you look at the 4 metros are maybe like 15% or something like that. Not more than that. Because our market shares in Bombay city and Delhi city is actually quite low. Our sales are more in the outer areas.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [23]

Got it, sir. Sir, my second question is the gross margin expansion, and we have seen a sustained gross margin expansion throughout the year and all the quarters for us. So what are the key medium-term drivers that we will take into account while probably expanding the gross margins from here on?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [24]

So we have undertaken a supply chain project from the year of 2016 onwards. So we have almost 4th year running, and it's now in the third hydration of the supply chain project. So each time we take up this project, we go deeper into the supply chain. So first, it started with us reducing inventory. Then it started us with consolidating sourcing and improving margins. And now we are working on new product development as a access which we also look at standardization, platformization and simplification. That means basically working with lesser number of vendors for competence and driving more pricing efficiencies. We would have saved at least 1% to 1.5% of revenue, at least for the last 2 or 3 years, just doing this kind of work. So that is 1 driver. The second driver, of course, is killing less profitable products and launching better products. We have killed the LT cable business, which had a gross margin of something like 8%, 9%. We are -- we have killed the industrial UPS business, which is also a low-margin business. And within categories, also we keep killing SKUs that are suboptimal in terms of margin. So all this will drive gross margin efficiency. And of course, last year, if you see, out of the 3%, at least 50% is explained by these actions and the balance 50% is explained by price increases.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [25]

Got it, sir. Sir, what about the focus categories? What will be the key focus categories going forward?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [26]

So I think we have 5 large categories, which contribute more than 10% of revenue each. And when in this times of crisis, these are the categories that are doing well for us. Apart from these categories, some of the other smaller categories have done well for us, surprisingly, is the modular switches. So we've had a new launch in modular switches range just before the lockdown. So that is doing well even after the lockdown is over. Other than that, I cannot comment. Like I said, in this kind of an environment, when things are not very stable, retailers also tend to go and only buy those brands, which are very strong -- which are having strong market position.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [27]

Got it, sir. Sir, my last question is, during this disruption, what's the feedback that we are getting from dealers and distributors? In the sense, how are we supporting them and the way forward for them in terms of expansion?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [28]

So I think, as a company, like I mentioned, we are very prudent in our working capital management. But we understand that whenever like, for example, Kerala flood happened, whenever demonetization happened, even GST happened, there was an elongation of working capital. And we have relaxed a lot of terms for retailers to come back. And we will do the same this time as well. For example, we may not charge P&L interest, et cetera, even if a dealer pays a little late because we understand that if he is in a red zone he's not able to operate. But like I said, actually, the collections have been very encouraging. So I don't think -- as of now, we don't see any of our retailers requiring huge amount of support. But definitely, dealers in Chennai, dealers in Mumbai, Pune, all these areas where the lockdown is very, very strict, we may have to support.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [29]

And do we expect the spike in year-end inventory days to iron out over the coming quarters with demand resuming?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [30]

I think so. I think we have abnormally high inventory. Like I said, March is typically a big month. I think already the inventories have started to normalize end of May.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [31]

New sales already, to some extent, the inventory has come down. I think by June, July, it will come back to normal levels.

Operator [32]

We have next question from the line of [Harshal Mehta] from Edelweiss.

Unidentified Analyst, [33]

Sir, I have 2 questions. The first 1 is on inventories. So (inaudible) inventories are now one-third of balance sheet, which was earlier 25%, 27%. So what is our strategy with respect to inventory? Are we expect to see some price cuts going ahead? Can you throw some light on that?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [34]

So you're talking about inventory?

Unidentified Analyst, [35]

Yes, yes, yes.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [36]

So inventory, like I said, just mentioned in the earlier call -- I mean, earlier question, I think it has gone to over 100 days. We expect it to come to about 50 days by the end of July. I don't think we will require any price cuts because it's basically a function of March sale not happening, and now the sales are happening. So we don't see any desperate discounting required to sell those products.

Unidentified Analyst, [37]

Okay. Okay, sir. Sir, my second question is respected to consumer durable segment. So in that, our capital employed increased significantly and our margins are contracted. So what is the outlook on this segment going ahead?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [38]

Yes. It's basically the fan and water heater plants are coming up. Most of the CapEx is done, so that will reflect the capital employed. The other thing is unsold inventory of March, and we'll have a significant amount. So that is the reason capital employed will go up.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [39]

I think with in-sourcing of manufacturing for both water heaters and fans, we are expecting a significant improvement in gross margin, and that's how the payback will happen.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [40]

Yes. The margin contraction is a question of top line.

Operator [41]

(Operator Instructions) We have next question from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research
Division - Assistant VP [42]

Just wanted to get your outlook on stabilizer sales in financial year '21, given the fact
that demand for air conditioners, et cetera, would have been really weak. So -- and
the ACs contribute a significant portion of our stabilizers. So if you can give a sense
on that, it would be great.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [43]

Ram, can you take the question?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business
Responsibility Head & Whole Time Director [44]

Yes, yes. So I think on stabilizer, basically, we have to look at it as 2 parts, South
and non-South. As far as non-South is concerned, typically, the season is starting
middle of April, going into May and June. So we still have opportunity to sell in that
area. As far as South is concerned, I think parts of South like Kerala and all is getting
into monsoon. So some challenge will be there in that area. So what we observe in
the market is that the secondaries, like in the case of air conditioners, after, I think,
around 15th of May, secondaries of air conditioner has been good. Similarly, what
we observe is the secondaries of stabilizer are also good. However, I think given the
uncertainty, the trade partners are not stocking up with the same velocity that they
would have done in the previous season.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research
Division - Assistant VP [45]

Got it, sir. Got it. And from a cost perspective, so this year, what is the plans in terms
of ad spends and CapEx? If you can give some broad outlook, it will be great.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [46]

So I think in terms of CapEx, whatever is product-related CapEx certainly happens, so that means all plants that has been envisaged to create products and fulfill, which are in progress, will be completed. New product launches also -- those molds and dies investments will go ahead. But nonessential CapEx, we will hold. For example, renovations, offices, these kind of things will be nonessential -- at least view as nonessential we will hold. The good news is we are done with a lot of the CapEx as far as the plants are concerned. So this year, these CapEx spend won't be as high as last year. Last year was close to, I think, INR 70 crores to INR 80 crores.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [47]

INR 90 crores.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [48]

INR 90 crores. This year should be about INR 40 crores or INR 35 crores.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [49]

Okay. And in terms of ad spend, sir?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [50]

Ad spends, I think we will take a call. I think let us see the revenue visibility, and then we'll take a call on how much to spend. I think every company is in a wait and watch mode. No one is planning -- I don't think anyone is planning to spend heavily at least in the first quarter.

Operator [51]

We have next question from the line of Achal Lohade are from JM Financial.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[52]

Congratulations for the good performance on the gross margin front. Would it be possible to kind of break it up with respect to South and non-South for FY '20?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [53]

Gross margin?

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[54]

Yes.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [55]

Yes. I think the...

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [56]

Gross, it's about 1.5% difference between South and non-South.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [57]

The increase would have happened in both. I think...

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [58]

Both South and non-South have improved more or less to the same extent.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [59]

Sorry, could you please repeat, sir?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [60]

I said both South and non-South gross margins have improved, equally. Difference between the 2 is about 1.5%.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [61]

Understood. And with respect to EBITDA margin for South and non-South, for the full year FY '20, sir?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [62]

I don't have it handy. Again, I'll share it with you offline.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [63]

We are -- we have disturbance in the line anyway.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[64]

Hello. Can you hear me, sir?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [65]

Yes, yes, please.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[66]

Yes. The second question I had, given the expectation of normal monsoon, do you see it as a positive as kind of negative with respect to certain key categories?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [67]

See, I think, like I said, the only data point we have for the sale is May. And in May, we have seen the rural markets doing well. So it looks like the rural economy is doing well. It appears for us.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[68]

Right. Okay. And just to reconfirm, you said 70% of May 2019 sales we achieved in May 2020. Is it for us? Or is it at the retailer end, you say?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [69]

It is for primary sale. That means company sales.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[70]

So would it be little higher for retailers? Would that be a fair assumption?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [71]

Yes. It will be higher for retailers because, in this we have -- like Ram mentioned earlier, in stabilizer, actually, the secondary sales have been good, but primary sales have been not so good.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[72]

Right. Right. And just I don't know if you could elaborate a bit. I mean, we've seen like Kerala normalize faster before the renewed high number of cases off late. But in that situation, I mean, what kind of trend did you see? In terms of retail demand, for which product category you saw a faster recovery and so on and so forth?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [73]

So in Kerala, they had allowed fan shops to open earlier than other places, and they are actually allowed air conditioning shops to open once in a week. So there was some decent sales during this time. But however, I can say that fan sales have been much more stronger than air conditioner sales, maybe because of the affordability factor or maybe also because of the fact that for AC units, someone to come and install it. At this time, many households are worried about having someone coming over to their house. Whereas in the case of a traditional fan, you don't need any installation. You can just plug-and-play.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP
[74]

Right, right. And with respect to the premium mix, would it be possible for us to kind of highlight how much would be premium mix within our entire revenue basket?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [75]

See, I think if you look at us -- if you look at something, I'll give an example like something like a fan. Like a fan, if you see, we can say that about 30% to 35% of our sales come from decorative segment. And 65% will be coming from the -- I wouldn't say economy, but not -- between INR 1,500 to -- I mean, between INR 1,200 to INR 1,800 kind of pricing. Maybe 35% comes from above INR 1,800 kind of price.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [76]

Right. But would there be a similar categorization in the other product categories or not?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [77]

It may be a little difficult. In the fan, it's very easy. In the others, it's a little more heavy. It may be a little more difficult to do that.

Operator [78]

We have next question from the line of Manish Gupta from Solidarity Investment Managers.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [79]

How much revenue should a product category do for you for it to be relevant in your larger scheme of things?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [80]

So I think we don't look at it that way because we have different -- products are at different stages of maturity. But I can say that those we consider like our large category, at least 10% of our revenue should come from it, then we would consider it as a fairly large category. Otherwise, all the categories below that are small and growing. They're in the incubation stage. So it doesn't mean that they get less bandwidth or something like that. It's just that they may be products that have launched in the last 6 years or 7 years.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [81]

Okay. Could you -- you shared earlier that on LT cable your gross margin was 8%, 9%. So gross margin is defined for you as revenue minus raw material cost, right?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [82]

Sudarshan, revenue minus...

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [83]

Yes.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [84]

Revenue minus direct factory costs.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [85]

Yes.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [86]

Raw material costs and direct factory costs.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [87]

And direct factory costs. So that would be -- labor would be included in calculation of gross margin?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [88]

Factory labor is included, yes.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [89]

Yes.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [90]

Okay. So okay. So it would be raw material, labor and any other direct -- okay, I get that.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [91]

Direct factory cost.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [92]

Okay. My next question is that you said your gross margin in LT cable was 8% to 9%. How much would it be in air coolers?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [93]

Air coolers gross margins are between 35% to 45%, depending on the model.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [94]

Okay. And would this gross margin increase with scale? Or would it broadly remain the same?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [95]

So to be put in perspective, we don't manufacture air coolers. It's a vendor-based manufacturing. But yes, when the volumes do grow, there is a definite advantage. So the market leader can have between 5% to 8% further advantage on our cost.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [96]

Okay. And how would -- so when you say the market leader has 5% to 8% advantage in cost in air coolers, how much would this differentially be in fans?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [97]

Ram, you want to take this question?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [98]

I think there are 2 kind of differences that happen, right? So 1 is the differentials that happens at a gross margin level. The other is a differential that happens at the EBITDA level. Generally, a larger player who is a market leader who has market-leading scale is able to convert gross margin into EBITDA in a particular category far more efficiently, yes, compared to let us say, yes -- generally speaking, gross margin differences between leader and follower can be 3% to 4% -- 3% to 5% difference -- 2% to 5% difference can be there between a leader and a follower, okay? But at a EBITDA level, depending on the size of the company and scale of the company, it can go to 7%, 8% also. Because if you have very strong scale -- for example, if someone is doing INR 6,000 crores and the other person is doing INR 100 crores, you can even have a 10% difference at EBITDA level. So it's a question of how your fixed overheads are getting converted into EBITDA, yes?

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [99]

Very clear. Are there differentials between the market leader and subscale players, even on working capital cycle in this business?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [100]

Not on working capital cycles -- sorry, Mithun. I'll just take a minute. Not on working capital cycle. Again, right, it is not necessary that a market leader and follower needs to have a difference, right? It depends on the model. For example, let us say that, see, where can the difference come from? The difference can come from positioning. That is one is able to position its product at a more premium compared to the other, okay, which means he's able to convert his raw material to better value. The second area that it can come with was related to design more efficiently, that is consumed less bill of material. That is on a manufacturing scale that he has a factory of a certain scale (technical difficulty) it's efficient. So I think -- so these are the factors, but I think it's possible to neutralize this by even different strategies. So I would say gross margin difference is handleable. It's more a question of how would I put it at, what strategy you follow-on the supply chain side and the positioning side. The EBITDA -- the gross margin to EBITDA conversion, that is a matter of organizational scale.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [101]

What about working capital? So for example, would your working capital in terms of the amount of credit you give your dealers be different from, let's say, an air cooler vis-à-vis, say, a stabilizer?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [102]

No, it can be different from product to product. For example, air cooler is sold on cash, okay? From -- the trade is investing money in air coolers ahead of buying the product. They even give advance. Whereas in the case of stabilizer, the trade practice is the normal terms of trade. So I think that there is category-specific nuances. I think, generally, scale can to some degree help in working capital efficiency. For example, if you are a very large player, you might move your output trade of factory to retailers, okay, whereas if you are at the other end of the spectrum where you are a smaller or a midsize player, you might move it into a warehouse and then again redistribute it, right? So there can be -- and therefore you are keeping some inventory in the warehouse. So it can be.

Manish Gupta, Solidarity Investment Advisors - Founder & CIO [103]

Right. And sir, would you be able to share what your return on capital is for the stabilizer as a category?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [104]

No, we don't give category level information. The overall is there in the results presentation.

Operator [105]

We have next question from the line of Charanjit Singh from DSP Mutual Funds.

Charanjit Singh, [106]

I just wanted to understand from a restocking perspective from South versus non-South, how is the trend? And being not still established there in the non-South, are we facing kind of issue in terms of the restocking? Because a lot of dealers, state-wise, they may not be keen to restock because of fear of again lockdown happening or maybe liquidity issues. So if you can give some understanding on that.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [107]

So I think, like we said earlier, I mean, if you look at South India, barring Chennai, we are getting reasonable traction. That would mean that the retailers are basically investing again because they have sold out whatever they have. So they're only buying after they're selling it out. So that is happening in both South and parts of East. North, the summer has just started, so we heard -- we could feel that in the last week of May sales have picked up even in North for summer products like fans and air conditioner stabilizers. So definitely, retailers are very, very smart. They are very, very astute as far as working capital is concerned. So they will definitely not take any risk in this kind of an environment. So whatever sales we are seeing is not push sales but more of a pull sales.

Charanjit Singh, [108]

So in terms of our growth trajectory in non-South, so can it get impacted much more than Southern market because of this issue and the push from our side in terms of deeper penetration non-South can get pushed out longer? Can that happen?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [109]

I wouldn't say that because the non-South summer is not yet over. In Kerala, the summer is pretty much over with the onset of monsoon in the last couple of days. So it has been raining and the temperatures have gone down from 35 degrees to 27 degrees. So no one is going to buy any summer products in this kind of a weather. Whereas parts of South India and definitely non-South, the summer is still going on. So we will have to wait for the first quarter to be over to make that comment. It may be too early to say that. But yes, our sales in West is the most impacted because West has got most number of effective case. And our market position is relatively weaker in this.

Charanjit Singh, [110]

And sir, so overall channels, in terms of our dependence on wholesaler channel, what we are seeing is the wholesale markets are still not open and that could have an impact in terms of how the product moves. Thus also it lengthens the overall cycle of money movement for any consumer electricals players. So how is our structuring right now in the channel? And how much dependence would be there on the wholesaler level?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [111]

Yes. So I think working with wholesalers is unfortunately something that every company has to do. So I think we are today not getting much sales from wholesalers because all the wholesalers are situated in the large cities. In fact, it is the Tier 2 and Tier 3 town dealers, which are buying well today because the wholesale dealers are not supplying. So as a company, this situation is preferable to us because it is -- we are able to manage the MOP and all that. But it may not be a sustainable one because as and when the larger markets open up, the wholesalers will start sending materials all throughout the country.

Charanjit Singh, [112]

And sir, just lastly from my side, in terms of the digital fan, regarded as being putting in terms of the investments in the technology and doing a lot of up under processes. So how it would have helped us during this time frame of lockdown and this kind of event, the technology platform, if you can give some color on that. Yes. That's all from my side.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [113]

Okay. Ram, can you take this one?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [114]

Yes. I think, fundamentally, in the lockdown phase, our operations have been -- that is minus of the manufacturing and the distribution part of it, our remaining operations have been seamlessly running because of the platforms that we have invested in. So we have, what I would say -- we are MS Teams enabled. And we have a video conferencing system, which can take input from any means. So this like be it mobile, be it remote and even from on the road. So I think, mainly, our teams have been working right through seamlessly and effectively through the period. So our long term work, right, which is fundamentally in terms of transformation agenda, progress on new product development, right, to the extent that it does not involve testing in the labs, these -- and they're in progress on strategic initiatives, these have been going on seamlessly. Including our usual monthly revenues, these have been happening seamlessly at our end.

Second thing is we have a strong learning management platform, which we have deployed, and we use the downtime to, what I would say, train and enable our people. So even some transformation programs in many functional areas of the company had been running, including where technology transformation is happening. These have been running with people located offsite in multiple locations and working from their homes. So fundamentally, the investments in technology in terms of this COVID period has helped us to keep our operations running to be -- barring manufacturing and sale which -- since the trade was closed and the people were locked up at home. So that's fundamentally how we have used the technology. I think our journey on technology investment has been like over the last 4, 5 years. And we have a road map, and we will accelerate the deployment of road map in response to what we have experienced from the COVID.

Operator [115]

We have next question from the line of Koundinya from JM Financial.

Koundinya Nimmagadda, JM Financial Institutional Securities Limited, Research Division - Analyst [116]

Sir, my question is basically on the demand side. What percentage of your end touch points are currently operational at the dealer network or on the retail side?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [117]

So I think about 60% to 70% of the dealers are open, I can say. And they are not opened in one shot for week 1. It was -- week 1 of May it was 25%, week 2 it was

50% and week 3 it was 70%. So it was progressively opening. There are still areas like Chennai. There are areas like Chennai, Bombay, Delhi, the hotspots, where still movement of material, et cetera, is still not very free. And there business is still affected.

Koundinya Nimmagadda, JM Financial Institutional Securities Limited, Research Division - Analyst [118]

Sir, so when you said that the demand in March -- May is looking at around 70% of traction of what May 2019 was, are you saying that in the 60% to 70% touch point where demand has been at 70% levels?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [119]

Yes. You can say. In fact it may be a little more because we found that the retailers who are present in the Tier 2 and Tier 3 towns away from the hotspots, their sales are highly higher than their normal sales.

Koundinya Nimmagadda, JM Financial Institutional Securities Limited, Research Division - Analyst [120]

Understood. Sir, I was about to ask on that front. So what percentage of our sales was contributed by rural, for this Tier 2, Tier 3 cities?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [121]

I think it's been all to rural, for us at least. I mean, because see, for us, the big markets of Bangalore, Chickpet, et cetera, are closed. Chennai, central electrical markets are closes. Hyderabad also, I think, more or less it is closed. So May was, I would say, at least 90% of the sales would be rural.

Koundinya Nimmagadda, JM Financial Institutional Securities Limited, Research Division - Analyst [122]

Understood. Sir, if I may also ask you...

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [123]

I have 1 more modification to that. I wouldn't say fully rural, rural and suburbs. For example, Bangalore city may not open, but suburb market will open. Like suburbs of Bangalore was open.

Koundinya Nimmagadda, JM Financial Institutional Securities Limited, Research Division - Analyst [124]

Understood. Sir, if I may also ask. Usually, we look at South versus non-South, but in the current scenario, given that East is also driving the results, trying to understand what percentage of our sales are formed by the Eastern markets within the non-South? And within the South market also, what is the contribution of Tamil Nadu or Chennai? If you can help us with those details.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [125]

East is about 15% of overall sales. Maybe during this May, it would have been higher because East has done well because of more markets were open in East. Tamil Nadu will be another 15% of sales. Tamil Nadu, as a state put together, will be 15%. Chennai, maybe about 5%.

Operator [126]

We have next question from the line of Naval Seth from Emkay Global Financial Services.

Naval Seth, Emkay Global Financial Services Ltd., Research Division - Research Analyst [127]

Yes, sir, my question is on competitive intensity as rural is now picking up for all the company's sales happening in May post lockdown is in rural. So do you envisage any -- or increase in competitive intensity there? Or any pricing action you have already seen by any competitor because everyone will be chasing revenue this year because they have lost everything in the last 2, 3 months?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [128]

So I think contrary to that, for the time being, we are not facing any pricing pressure because it is only those companies, which have deep distribution system that can actually serve those markets. If you are a company that is serving only the wholesalers, suddenly, overnight, you cannot say that I will start selling into rural market because you don't have the distributors in place. You don't have the infrastructure in place. So as of now, only those companies, which are focused on distribution, are probably able to sell.

Naval Seth, Emkay Global Financial Services Ltd., Research Division - Research Analyst [129]

Okay. And second, as this year would be challenging, so price increase or pricing action would not be seen across the product lines. So is it fair to assume that gross margin expansion will get restricted to few bps over there? Because as in earlier comments, you stated 50% of the gross margin expansion of 330 bps last year came from price hike and remaining was from the internal efficiency improvement?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [130]

So I think we'll have to take a call because it depends on how intensive and how far and how long this lockdown is going to be. If we are going to have social distancing rules for a long time to come, definitely prices will have to go up because the cost of manufacturing any product will go up. The cost of transporting it will go up. In fact, even our warehouses are running only at 25% to 35% capacity because of the rules. So there is the cost of warehousing, and everything will go up. So contrary to what you're saying, it depends really on how fast we can go back to normal. If we go back to normal yes, companies will start competing again on price because they want to get volumes. Today, when volumes are anyway limited and their ability to produce is also limited and ability to supply is also limited, maybe pricing cut may not be the right way to go. At least so far, we have not felt it.

Operator [131]

We have next question from the line of Prashant Kutty from Sundaram Mutual Fund.

Prashant Kutty, Sundaram Asset Management Company Ltd. - Research Analyst [132]

Sorry. Is it audible now?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [133]

Yes.

Prashant Kutty, Sundaram Asset Management Company Ltd. - Research Analyst [134]

Sir, you just spoke about that Q4, obviously, the last 15 days kind of does get impacted because of the pre season and also because of the SKUs and all. How does -- obviously, that has not shown for the -- into the April month as well. So what does one assume? Does one assume over here that this is completely lost in that sense? Is there any scope of any revival to any extent as far as sales is concerned? Or what extent...

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [135]

Are you asking whether the April sales will come back?

Prashant Kutty, Sundaram Asset Management Company Ltd. - Research Analyst [136]

Yes, to whatever extent possible, because you lost March. It's a very significant number.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [137]

Yes. So I think at this point, like I said, it's very difficult to make that call whether April sales will come back. But I think we should assume that it probably will not come back. But I think what's more important is how the trajectory is going forward into the future and how confident people are going out and buying products. So far, the news we get from the ground is positive. But like I said, this is a very volatile environment. So we don't know really what's going to happen. But May has been, like I said, very, very encouraging for us.

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [138]

I think if I may add, Mithun, 2 observations. I think one is that summer products may behave a bit differently from products that sell round the year, because maybe the figure varies in some geography. And discretionary products or replacement products, the timing of that will depend on how consumer demand will evolve and consumer sentiment will evolve. But right now, things are looking okay.

Prashant Kutty, Sundaram Asset Management Company Ltd. - Research Analyst [139]

Just a clarification over here. I mean, we have seen almost a 27% sales drop. And despite that, our gross margins have been about 33%. Is it a fair assumption to make? Has it been a normalized quarter, we would have probably, let's say, reach something like a 35% set of a gross margin number, maybe 150 basis for addition? Is that a fair assumption to make?

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [140]

No, the gross margin is not that sensitive to volume. It is EBITDA, which really gets impacted.

Prashant Kuty, Sundaram Asset Management Company Ltd. - Research Analyst [141]

Okay. No, I was just asking more so from a mix perspective. There hadn't been a stabilizer good quarter. It's a very high-margin from a high-margin segment and even more reference on that [value-add].

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [142]

No, I mean, we would have sold more stabilizer. We'd also have sold more fans, so which is more or less gives you back...

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [143]

Every product sales had dropped for us. It's not just 1 product.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [144]

The drop is more or less...

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [145]

Broad-based.

Sudarshan Kasturi, V-Guard Industries Limited - Senior VP & CFO [146]

Broad-based across.

Prashant Kutty, Sundaram Asset Management Company Ltd. - Research Analyst [147]

Okay. Okay. And last question is in terms of, let's say, a lot of our business is also dependent upon how the new housing demand on, especially if we look at cables and all. How does the outlook on that change? I mean, while you said summer is under -- was under pressure and probably like we'll see how that kind of comes back. But what about a segment like maybe cables and all? How will that shape up? Or how are you seeing demand in that bucket?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [148]

So contrary to what we expected, actually, demand for construction products has been strong. So that -- what it could mean is even during the lockdown some amount of construction activity was going on in a small way, in places where the lockdown was not very severe, which is probably what it's telling us. So products like wires, modular switches have done well for us in May.

Prashant Kutty, Sundaram Asset Management Company Ltd. - Research Analyst [149]

So when you're basically saying 65%, 70% will come back to normalcy across product category?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [150]

No. It varies. Like I said, it varies product-to-product. For example, in South India, the summer products, especially the products like stabilizers, would have not done well because AC installations are not happening. Even if you buy an AC, you are not able to call anyone to come and install it in your house, at least for a good part of May. And now we're almost at the end of summer. So that sale will not happen. But I think in non-South, stabilizer sales are going on because summer is still on its way to peak.

Operator [151]

We have next question from the line of [Abhirav Jain from SG India].

Unidentified Analyst, [152]

I had a small question for the management, Mithun. If you were to draw a matrix of which geographical regions and what products has had good response vis-à-vis last year because you said you've already -- you were able to achieve 70% of last year's sales in May. So is it across the board in terms of -- as in keeping in mind seasonality or there are certain product categories, which have done better in some - certain geographies versus what you saw last year? Is there a different SKU versus -- in geography and products versus last year in May?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [153]

Yes, Ram, you want to take that?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [154]

I think, broadly, if you may say, right, products selling through the electrical counters, right, which are the smaller counters, more widely distributed, more in numbers, yes, electrical counters are more in number, more widely distributed, more like next door, those are recovering faster, yes. And if you look at maybe the consumer durable kind of counter where you have larger counters in the city areas, obviously, because the chains are there, those are recovering slower, yes. And therefore, the categories associated with them would recover slower compared to categories associated with the larger neighborhood electrical stores, yes. That's what you can put. And then you can overlay the development of COVID impact across the country onto that, and you will get the picture.

Unidentified Analyst, [155]

Okay. So again, specifically, any particular product categories which have done better than the electrical counters...

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [156]

See electrical counters, right? So electrical counters will typically sell wires, switches, switch gears, those kinds of products, right, maybe fans. Yes, those are the electrical counters, right? And the consumer durable counters will be selling maybe kitchen appliances, water heaters or stabilizers. They will be. Those are larger outlets, okay. And mostly in urban, larger cities, yes, which are more impacted by COVID, right? So those -- so suppose, you did 100, maybe the electrical kind of varieties of the products that you sell to them or would do 110 and this would move to 90 like that, right? So that's how. So you can -- what I'm saying is electrical-based categories would have done better than average, yes. Consumer durable would have done a little lower than average. Well, there are many factors, right, like discretionary, they can postpone, yes. It's not a priority, yes. Whereas if you have some work happening at home, which has been interrupted, electrical work happening at home, you have to necessarily complete it, right?

Unidentified Analyst, [157]

And how about the fans as a category? Fans...

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [158]

So that's what I was trying to tell you that wires, switches, switch gear, fans, right, these are like -- there are larger number of outlets more widely spread and into the neighborhoods, right? So those outlets would have done better than...

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [159]

See, what we're saying is that the government of India had announced that the neighborhood stores can open much before the large city-based stores. So the neighborhood stores for electrical had opened earlier, but only the wholesale markets like lower chawl, et cetera, were closed. So other markets -- other smaller stores were open and they have all have been able to get good sales.

Unidentified Analyst, [160]

Okay. So would it be fair to say that there was more SKU from distributor-driven sales rather than direct sales in May?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [161]

Yes. Distribution-driven sales have been much higher than large wholesalers-based in city centers. Yes.

Operator [162]

We have next question from the line of Sparsh Raina from Mirabilis Investment.

Sparsh Raina, [163]

I just wanted to confirm first thing that if I'm not wrong, AC stabilizers contribute maybe 50% of the revenues within the stabilizer segment versus 25% each in TV and refrigerator. So is this driven mostly by the higher average price in AC stabilizers? Or is there volume difference in terms of the volume growth?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [164]

I think no. I think yes, value -- average value is high. That is 1 reason. Volume-wise, actually, TV stabilizer sales is probably equal to AC stabilizers, but the value is much lower. So I think volume -- it is because of the average selling price, mostly because of average selling price.

Sparsh Raina, [165]

Okay, sir. Sir, then my second question would be on the kitchen appliances segment. As of now, kitchen appliances has predominantly in the -- have been launched in Southern region, like rice cookers in Telangana, AP and mostly in Karnataka and Kerala. So how do you see the distribution strategy for expanding into non-South regions? And how long do you think that phase would go on?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [166]

Right now, currently, the environment is not that great to make launch for new products. But having said that, we have started to sell kitchen appliances in some of our Eastern markets like Orissa, where we have very good presence in the consumer durable outlets. So they have already started to sell. But like Ram mentioned earlier, these are large stores located in city centers. And they have to -- they are more prone to be by -- inspection by cops and all that. So their functioning is not fully back to normal.

Operator [167]

We have next question from the line of [Dinesh Gundecha from Click].

Unidentified Analyst, [168]

Sir, first of all, I mean, to all the management, the big congratulations for having even a good performance in spite of the disruption. My questions are 2, sir . Number one is that in this unorganized market for the various segments, a lot of disruption has taken place. Some may slow down. Some may go down. Now what is our strategy to benefit from such disruption of the unorganized market?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [169]

Okay. Ram, you want to take it?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [170]

Yes. So I think, fundamentally, we -- there are, I think -- I would say that there are 2 major disruptions likely. One is the acceleration in business moving to larger partners and -- which includes e-commerce, also. So I think the proportion of business coming from key accounts, which has been accelerating in the last 3, 4 years, is going to get further accelerated. So I think we will be strengthening our capability towards addressing the key account related business. So this is, I think, going to be one aspect, which we will be focusing on. I think the other thing that we see is a lot of small and midsize guys, right, so they are going to struggle. Yes, they're going to struggle. And that will create opportunity for brands which are well distributed. I think it may be a bit of a challenge for very large brands to also pick up because that will require, what I would say, more wider availability and penetration, which is sometimes a challenge in the -- in our kind of business because you can have competition between 2 stores on price. So I think there is a good opportunity for a brand like us, right, to enhance our distribution reach, right, and gain out of this kind of business, right? So I think these are 2, so distribution -- enhanced focus on distribution and enhanced focus on key account management, right? I think also, we have been -- we have a road map for digitizing our business, and we have been working on it progressively over the last 5 years, yes. And we have a long way to go. The pace at which we have been doing it, we have been keeping in mind opportunity to balance our priorities. But I think in this environment, we will probably accelerate the deployment of technologies, which will help us to digitize our operation and our reach. So I think that's the third area that will receive focus from us.

Unidentified Analyst, [171]

Second question is the ad and the promo spend. What is expected for the current year?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [172]

Sorry, can you repeat the question?

Unidentified Analyst, [173]

The ad and the promo spend, what is expected for the current year, the percentage and the amount both?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [174]

So I think, like I said earlier, first quarter will be very low because demand visibility is not yet there. I think May has given us some confidence. June will give us more confidence. And once the confidence is resumed, we will restart that activity. Because as of now, we still don't have visibility in terms of demand. We also don't know whether this is the only lockdown we are going to face, whether we are going to have a second shutdown sometime during the year again. So all these theories are floating around. So -- and we also don't see any of our competitors doing anything much on A&P. So A&P spends will remain muted at least for the first few months.

Unidentified Analyst, [175]

Okay. Sir, last question is, any strategic shift from in-house manufacturing, looking to outsourcing?

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [176]

Ram, you want to take this?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [177]

Yes. So I think we have been progressively moving business in-house. There was an earlier question by someone talking about how to, what I would say, improve competitiveness, right? So one of the things that we have been doing is wherever possible we have been moving manufacturing in-house. And in the last 4 years, we have moved to manufacturing of stabilizers, water heaters and now fan factories also up and running. We are evaluating the other remaining products. And based on business case and payback hypothesis, right, we will be moving in that direction.

Unidentified Analyst, [178]

Sir, lastly, any -- the road map you have said that we have made a road map for the future. Any course change in that?

Ramachandran Venkataraman, V-Guard Industries Limited - COO, Business Responsibility Head & Whole Time Director [179]

No course change in that. I think we will be accelerating, what I would say, (technical difficulty) and probably on the market side, yes?

Operator [180]

Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Sir, over to you.

Mithun K. Chittilappilly, V-Guard Industries Limited - MD & Executive Director [181]

So thank you, ICICI Securities, and thank you, Ansuman, for hosting this call. We would like to wish all of you a very safe and healthy few months ahead. Please listen to all the directives from the local government. And let's hope that we can overcome this pandemic. Thank you.

Ansuman Deb, ICICI Securities Limited, Research Division - Aviation Analyst [182]

Thank so much, sir. Thank you.

Operator [183]

Thank you very much, sir. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. Thank you for joining with us, and you may now disconnect your lines.

