

Operator

Ladies and gentlemen, good day and welcome to the V-Guard Industries Limited Q2 FY14 post results conference call hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhargav Buddhadev from Ambit Capital. Thank you and over to you, sir.

Bhargav Buddhadev, Analyst

Thank you, Mallika. Good evening, everybody and welcome to the 2Q FY14 post result conference call for V-Guard. We have with us Mr. Mithun, who is the MD of V-Guard and Mr. Jacob, the CFO. I would now request Mr. Mithun to share a few opening remarks, post which we'll kickstart with the Q&A session. Over to you, Mr. Mithun.

Mithun Chittilappilly, Managing Director

Yeah. Thank you, Bhargav. First of all, a very warm welcome to everyone present and thank you very much for joining us today to discuss the operating and financial performance of V-Guard Industries Limited for the second quarter and half year ended September 30, 2013. We've had a fairly subdued quarter with top line growth of about 7% YoY. While Q2 performance was muted, we see this as a result of some specific factors and our longer-term outlook remains positive. The improved power situation in South India and the extended monsoon season impacted sales of both Digital UPS and Inverter segments and the Pumps segment. The Inverter -- the segment was down by 48% YoY in the second quarter and the Pumps segment was down by 22% YoY in terms of sales.

These products combined contributes -- combined together contribute about 28% of total of V-Guard's revenues of Q2 of last year. Further, our performance has to be measured also against a very high base of Q2 last year when an extended summer and extreme power cut boosted sales of these products. The non-South markets continued to expand at a fast pace, recording a growth of about 34% in Q2 and now accounting for a total of 28% of total revenues as compared to 23% in Q2 of FY13. The housewiring, cables and electric water heater segments were key growth drivers, with the housewiring and cables growing at 32% and electric water heater segment growing at 45%.

The South markets however were soft and down by about 2% YoY. We have been able to drive a 2.7% improvement in our gross margins this quarter, however EBITDA margins were down by about 150 bps at 8.4% this quarter. This was largely on account of higher advertisement expenditure as compared to last year's Q2. The ad spend were at about 3.3% of sales vis-a-vis 2.1% of sales, Q2 of last financial year. For the full year, we are expecting the ad spends to be maintained between 3.5% to 4% of sales. Further impact on EBITDA was due to higher staff costs and other expenditures, which could not be absorbed fully owing to muted sales growth.

In terms of our new product categories, switchgear and induction cook tops recorded sales of 12.6 crores this quarter. In addition to this, we had launched mixer grinders in Kerala, a new product category in Q2. This is our second addition to the home appliances category and we will leverage the existing distribution and marketing setup of induction cook tops.

We have generated strong cash from operations during the first half of the financial year to the tune of 87 crores compared with 21 crores last year H1. This has been mainly driven by an improvement of 18 days in working capital cycle for the first half of the year. We have seen an improvement of seven days in the debtors' position, compared with last year September and also seen an improvement of -- increase of 17 days of expansion in the creditor days. We will carry on with our vendor financing and bill discounting initiatives and also increase the proportion of channel financing going forward.

We believe that the demand growth is stable with the weather related quarterly swings. However after delivering a sales growth of 17% in the first half of the financial year, we marginally revised our outlook in terms of top line growth to 20% for FY14. We expect to maintain the EBITDA margin in the region of 9% to 9.5% for the full financial year.

At this point, I would like to thank each and every one of you for your participation and request the moderator to open this call for questions. Thank you.

Questions And Answers

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda, Analyst

Yeah. Just to understand what went actually for a declining -- such decline in our electronics product? And second question would be, in spite of the lower guidance that we are looking at around 20%, do you think we can actually make EBITDA margin guidance that we're looking at 9, 9.5? And these are the two broad questions.

Mithun Chittilappilly, Managing Director

So first regarding electronics segment, the main reasons for decline of sales in electronics segment is the inverter segment. The inverter segment contributes probably to -- almost 30% to 40% of the total electronics segment. And the electronics -- and the inverter segment has de-grown by almost 50% for the Q2. So that is what has led to the decline in electronics segment.

As far as the EBITDA is concerned, yes, we have -- for the first half, have a total EBITDA of about 8.12%. So obviously, it is going to be -- it would require us to have higher EBITDA, higher than 9% [ph] in the next two quarters and -- which we are confident of achieving as of now. So we will be holding on to those estimates of 9% to 9.5% for the full financial year.

Sanjeev Panda, Analyst

Looking at the product numbers, we understand that inverter was a primary decline of -- at sales. But if you can just give some color to us like how the demand scenario or is it because of the decline of a one-time seasonal effect or you really see that as a trend, we want to understand the scenario?

Mithun Chittilappilly, Managing Director

See, actually, usually, typically, for V-Guard, in the last many years, Q2 has not been a very great quarter, because most of the products we are selling are summer dependent products. And Q4 and Q1 are the strong quarters for us. Q2 is typically the quarter with only Onam season being there for some improvement in sales. But last financial year, what happened is the rains did not -- I mean there was continued summer, continued hot weather till August '15, which gave us an additional 1.5 months of summer during Q2. This has propelled the demand for most summer related products like inverters, pumps, air-conditioners, stabilizers, fans etcetera.

So last year Q2, we had an extremely good sales growth. I think it was somewhere in the region of almost 50% sales growth. So obviously, on that higher base, that is what has contributed to the lower sales growth for this year. Apart from inverters, another product that has got affected badly is the pump segment, which is done by -- down by almost 25% to 30% YoY. Pump is a large product category for us, contributing nearly 15% of total sales.

The products that have done well is the wire business has done well with about -- almost 32% sales growth. The electric water heater segment has done extremely well, with over 45% sales growth. Other product categories have been more or less mixed with stabilizer registering just 8% to 10% growth, primarily because of decline in the air-conditioner segment, although some of this decline was compensated by increase in sales in other segment.

Sanjeev Panda, Analyst

And sir, the last thing, as you have introduced new products recently, what kind of incremental sales that we can expect basically for the next one or two years?

Mithun Chittilappilly, Managing Director

The new products segment, as of now, is growing at quite a healthy pace. So we've had almost -- sales growth of about close to 50%

YoY in the new products segment. I think being new product categories, these kind of numbers can be maintained going forward. As of now, they are currently contributing roughly 3% of revenues. Maybe by the end of the year, we can hope to achieve up to maybe 4.5% of revenue. So that is the kind of incremental growth we'll get from these products.

Sanjeev Panda, Analyst

Okay, sir. Thank you. That's it from my side. In case any other question comes, I'll come back in the queue.

Operator

Thank you. Next question is from the line of Murugesh RS from Cholamandalam Securities. Please go ahead.

Murugesh RS, Analyst

Good evening, sir. I have a couple of questions. First question would be on the sales of -- inverter sales. With the power situation in the South improving, would it be fair to assume this kind of inverter sales growth would be the new normal or what is your view on that, sir?

Mithun Chittilappilly, Managing Director

See, actually inverter is also a seasonal product and it is usually -- the demand peaks during Q4 and Q1, which is again during the summer period. Last year was an extraordinary year for -- in the inverter business. The power cut situation had continued over to Q2 and parts of Q3. I think going forward, we have to be content that this will continue to be a seasonal product and we are expecting the demand for inverters to come back by second half of Q3 or beginning of Q4.

So we will -- we have modeled on those, we are expecting and estimating on those line of -- kind of numbers. However, the Q2 kind of numbers will not be repeated because they are extremely low number. We have already started to see better numbers to happen in October onwards.

Murugesh RS, Analyst

Okay. My second question would be on CapEx and what is the budgeted CapEx for this year and for the next year?

Mithun Chittilappilly, Managing Director

The total budgeted CapEx was close to around 20 crores for the current financial year.

Murugesh RS, Analyst

Okay.

Mithun Chittilappilly, Managing Director

Although the major project was the expansion of the Kashipur plant, which is most of -- most work was done -- work been done by July, August. And little more part is due by January. The Kashipur expansion total cost was estimated to be around 16 crore to 17 crore. Out of that, maybe about 8 crores or something is spent in this financial year and the balance was spent last financial year. The other parts -- other two, there are couple of other CapEx projects that are also running, which is into -- primarily on the lines of increasing warehousing space and all that.

And most of it will be completed by the end of this financial year. Put together, we are expecting around 20 crores of CapEx this year.

Murugesh RS, Analyst

Okay. What will be this on next year, sir? Can you give any number?

Mithun Chittilappilly, Managing Director

A lot of our big ticket CapEx projects are over.

Murugesh RS, Analyst

Okay.

Mithun Chittilappilly, Managing Director

We are not expecting any large ticket items, but there is some incremental CapEx, so somewhere in the region of about 10 crores is what we are estimating.

Murugesh RS, Analyst

Okay. That would be it. Thank you very much.

Operator

Thank you. Next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay, Analyst

Hi. Good evening, sir. Thanks for the opportunity. Sir, my first question is basically on the North and South markets. So if you can give me some sense of what would be our market share or what would be our market share, which we have gained over the last three, four years and in terms of profitability, where do we stand? So that's the first part.

And secondly in terms of new dealer addition in non-South market, what are the key challenges which we're facing, because we are entering markets there, there are already incumbent players like Havells or Philips. So in terms of adding new dealers, what are the challenges which we have faced in terms of margins or in terms of the insurance schemes, which the companies are already giving? So, if you can just explain those things?

Mithun Chittilappilly, Managing Director

Yeah. So as far as the non-South markets are concerned, last year, we were getting almost one-fourth of revenues from non-South markets, roughly I think about 300 crores, 350 crores was the revenue from the non-South market. From 350, we are expecting at least about 560 crores to 580 crores of revenues in the current financial year, representing close to 60% growth in sales.

Our Q2 has been slightly subdued by 35%, but we believe that some of the seasonal products will start picking up towards the end of the financial year. As far as the market share is concerned, I believe that we are at the time having very miniscule market share, if you look at the total non-South markets. We are not expanding in non-South across the place or we are choosing our territory and battle that we want to fight. So we have decided that North, couple of states in North like UP, Punjab and parts of NCR, we will concentrate. We have decided that parts of East, that is West Bengal and the Northeastern states, we will put in and Bihar, we will have some extra effort.

So we have decided to go after a few, maybe five or six states for a special focus to improve our market share, where we will be deploying disproportionately high resource in those markets. And I think in those markets now, as far as stabilizer is concerned, I think we have emerged as one of the -- now probably one of the larger organized players in those markets, so in stabilizer, we are getting there. I think in the case of wires, although we are growing very well and having fairly reasonably higher revenues, our market share in those markets are still very small because it's been a very large market.

So if you ask me about market share, it will be very small and we have long way to go. As far as challenges are concerned, yes, there are large incumbent players in those markets, but we are also seeing that there is an opportunity for a brand like us to be present in those markets. Even though there are large incumbents like I just mentioned, those players are also not having such dominant share that a new brand cannot get in.

So even though there are incumbents on this market, there is possibility for a brand like V-Guard to enter. We have demonstrated that in the last five years and we will continue to do so. As far as challenges are concerned, it's very obvious that

being a new brand, being a less known brand in those markets, it will be tougher for us to enter.

But our brand building activities over the last two years have helped us to gain foothold in those markets and enter the minds of both trade and consumers. We will continue to spend money in those markets to build brand awareness for at least these large four product categories that is namely stabilizers, wires, inverters and water heaters.

These are the four large categories we are aiming to build our channel within those markets and I think the strategy is favoring us and because even in such tough environment, we are seeing -- if you remove a couple of categories, we are still seeing about 50%, 60% growth in most of those markets. So I think overall, we are there. I think it will probably take us another five to six years to establish properly in those markets wherein we can say that we have a reasonable share.

Nikhil Upadhyay, Analyst

Just last question sir, as you mentioned that for the year, we should be closing by with EBITDA margin of 9% to 9.5% and for the first half, if we see we are in the range of 8 and 8.5 around. So for the second half, if we do a rough calculation with your 20% growth, it means that major the EBITDA margin for the second half should be in the range of 10% to 11%. Where do you see the major cost savings happening basically in like -- would we be cutting down on our selling and distribution expenses or on the brand building initiatives, which would be more long-term or how do you plan to achieve this?

Mithun Chittilappilly, Managing Director

So if you look at closely our numbers, you will find that we have actually managed to increase our gross margins by about 2.7%. Had our sales growth been around 20%, we would have definitely posted much higher EBITDA margins than what we posted today because of better cost absorption. We believe that in Q3 and Q4, our sales growth numbers will be better and with better gross margin, definitely these kind of EBITDA margins is usually possible. So we have already taken the necessary price hikes that were required to compensate for whatever inflation that has crept in in the last one year. But the issue is that some of the product categories unfortunately have not performed.

And the overall -- as a company, we have not been able to absorb the cost. So, we are not expecting any cost saving to come. It is just the -- on an improved gross margin with higher volumes, the EBITDA margin should grow [ph].

Nikhil Upadhyay, Analyst

Okay, sir. Thanks a lot. I will join back the queue.

Mithun Chittilappilly, Managing Director

Okay.

Operator

Thank you. Next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Unidentified Participant

Hi, sir. This is Pritesh here. I just wanted to understand what would be the category growth in first half for heaters and fans?

Mithun Chittilappilly, Managing Director

Heaters and fans. You want in the -- for the first half?

Unidentified Participant

Yeah.

Mithun Chittilappilly, Managing Director

Okay, I will just give first Q2 figures. The electric water heater growth has been about 45% in Q2 and the fan growth in Q2 has been flat at about 3%.

Unidentified Participant

So, I'm -- this is your growth. I'm looking at the category growth.

Mithun Chittilappilly, Managing Director

Category growth, I don't have the category figures with me as of now. But I believe the fan business, fan segment has been impacted by the onset of extended monsoon and general cooler temperatures across the country. So although some players have grown -- or as a category, we believe that fan segment has been under -- fan sector has been under some pressure in terms of growth.

So I don't think the category would have probably grown at all in the current financial year vis-a-vis last year, because last year was a good year for the fan industry. As far as electric water heater is concerned, I think the category growth could be somewhere in the region of 10% to 12%, owing to cooler climatic conditions than what we had last financial year. Again I'm giving you very rough figures, because we -- the category -- I don't have those kind of numbers with me in front of me as of now.

Unidentified Participant

Okay. Direction wise, would the category growth would have been lower in quarter two vis-a-vis quarter one and quarter one would have been lower vis-a-vis quarter four, so direction wise, is the category growth only slowing since the last three quarters?

Mithun Chittilappilly, Managing Director

I think as far as the electric water heater industry is concerned, it's an industry that is primarily driven by the climatic conditions. So I think last year, since the winter was not too long and all that, last year was a pretty tough time for the entire industry and the electric water heater industry for the last financial year. And this year it looks like it will be a slightly better year, because we've had a good start and it looks like it's going to continue with cooler climate owing to better rains across the country.

So I think a better way to look at it is that of course generally, if you see the sentiment in terms of -- consumer sentiment to spend and generally the real estate activity, that's the construction of new houses and all that, most of these activities have slowed down, yes. So if you look at -- directionally, if you look at both these categories, yes, I would expect that the tendency of consumers to go out and buy these products, the propensity for them to go and buy has come down, definitely, yes.

Unidentified Participant

Okay. So in case of heaters, it's good because of a function of a very good base, a low base last year?

Mithun Chittilappilly, Managing Director

Absolutely, yes.

Unidentified Participant

Okay. Can you extend this discussion to cables as well, and your assessment of home cables?

Mithun Chittilappilly, Managing Director

Yeah, in wiring business, we've done reasonably well at about 32% growth over last year Q2. So as far as in the wiring business is concerned, we're not seeing those same pressures like where I talked about in terms of consumer spending. But we're seeing those pressures in some durables. So our stabilizer segment, for example, has grown by only 8% and the Onam season this year in Kerala has not been that great. You would have probably seen that from the numbers that have been reported by some of the other durable companies.

So generally, as far as the consumers are concerned, there is a significant change in mood -- recovery last year and people are

probably thinking twice or thrice before going and buying products. So that's definitely happening.

Unidentified Participant

And just last question if I can put in. I looked at your presentation and you have given some mix of organized, unorganized in categories, just wanted to understand when we look at fan in your opinion, how much of the total category would be B2B and B2C in nature or if you could just give me one, how much of the category would be actually straight B2C, so where brands directly sell to the final consumers.

Mithun Chittilappilly, Managing Director

So I think, something like a fan, there are three types of sales -- three dimensional sale that will happen. One is the company will sell to the retailer and the retailer sells to an individual consumer. Retailer themselves will sell to a builder. Yeah, the third type of sale is the company will directly sell to the builder. In this scenario, we're not present in the third type of sale, that is companies directly selling to institutions, those kind of companies are also there. For us, most of the sales come through our retail channel, so when we return to retail channel, it is a little bit difficult for us to put a finger on which is going to end consumer and which is going to several smaller projects. But my sense is it varies from place to place and probably, if you look at the country as a whole, probably the institutional segment is somewhere around 25% to 30%, directly and indirectly that is the builders and all that, builders government institution, and all that could be in the region of 25% to 30%. And this figure will be higher for city and lower for non-metros.

Unidentified Participant

So one-fourth of the category sales would be B2B in nature?

Mithun Chittilappilly, Managing Director

B2B, but I don't know whether you can clearly call it B2B, but --.

Unidentified Participant

Let's say the final consumer is your institution.

Mithun Chittilappilly, Managing Director

Could be, yes.

Unidentified Participant

Is it valid even in heaters?

Mithun Chittilappilly, Managing Director

No, electric heaters usually is not provided by the builder unlike a fan sometimes the builder provides. Electric water heater sometimes, most of the times is put in by the consumers. Although in some case some high end apartments and high end villas, builders are providing heaters. But most real estate people do not provide for heaters and it's a consumer's choice to put -- buy and put the heater, because usually people do not buy and put water heater for all the bathrooms, only for the bathrooms they regularly use.

Unidentified Participant

In case of cables, obviously the B2B would be higher than the fans right? One-fourth if it is in fan --.

Mithun Chittilappilly, Managing Director

Yeah, it is probably higher, maybe that figure will be higher, yes.

Unidentified Participant

Okay. And are you -- actually you missed out on one thing, what could be the cables category growth?

Mithun Chittilappilly, Managing Director

The wire category as far as we are concerned, we have done about --

Unidentified Participant

I know your number, so --

Mithun Chittilappilly, Managing Director

The category growth, I don't have the figure with me as of now. You have to also understand that wire and other categories, they are not as organized as some of the FMCG categories and it is very difficult for agencies to go and do retailer census for these kind of categories. So these numbers usually come only out by the industries [ph].

Unidentified Participant

Okay. Okay. Many thanks to you and all the best to you, sir.

Mithun Chittilappilly, Managing Director

Thank you.

Operator

Thank you. Next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel, Analyst

Sir, good evening. And my first question is on your gross margins. In this quarter, you have witnessed an improvement in gross margins?

Mithun Chittilappilly, Managing Director

Yes.

Ankit Babel, Analyst

In the first quarter, you had witnessed a decline in gross margin. Considering your guidance of 9% to 9.5% EBITDA margin, which implies a margin of around 10.5% to 11% for the remaining two quarters. Just wanted to ask that whether that improvement in margins will come from improvement in gross margins or a decline in your advertisement and other expenditure?

Mithun Chittilappilly, Managing Director

See, as I mentioned earlier, I think the gross margin improvement has happened in terms of almost 2.5%. So I am not expecting any further improvement in gross margins because most of the (inaudible) to offset inflation has been done. The improvement in EBITDA margins will primary come from higher volumes that we will do in Q3 and Q4, which will mean that the costs will get absorbed better and those other overhead costs, be it employee cost, advertisement costs, all the other overhead to a percentage of sales will come down and help us in getting better EBITDA margin.

Ankit Babel, Analyst

No. But sir, in the coming two quarters, will you see it around 2% to 2.5% improvement in gross margins on a YoY basis?

Mithun Chittilappilly, Managing Director

No. What I meant is for example in Q2, if we had done at least 20% sales growth, our EBITDA margins would have been at least 1.5% higher than what we did just now. So, I am confident of doing better sales numbers in Q3 and Q4, which will help us in doing those EBITDA margins. We are already having better EBITDA margins than what we had last year; the only thing that was missing was the sales growth, which we are expecting to come. So that is how I believe the EBITDA margins will improve. I hope I was clear.

Ankit Babel, Analyst

Last year, you had a high base of advertisement cost in the second half, means it was around 50 --

Mithun Chittilappilly, Managing Director

Obviously, the H2 advertisement cost last year was really high, because we actually did not spend much in the first six months and we decided to spend in the last six months, whereas in our current financial year, most of our spend has happened in the first six months and the -- so obviously, advertisement expense to a percentage of sales will come down vis-a-vis last year Q3 and Q4. Yes.

Ankit Babel, Analyst

But, can there be an absolute decline in cost also, like last quarter -- last year second half, it was 56 crores. Can we see an actual decline in the advertisement cost?

Mithun Chittilappilly, Managing Director

Yeah. Definitely, last year, definitely, one second, see, last year, we had spent about 18 crores in the first half of last financial year and for a year, we spend about 58 crores. So, we spend roughly around 40 crores in the last six months. In the current year, we have already spent about 32 crores and obviously, we will not need to spend 40 crores. We will probably, the spend will be somewhere in the region of 30 odd crores, so definitely those kind of benefits will flow to bottom line because as absolute number also, it will come down and of course, with higher sales volume, as a percentage also, it will definitely come down.

Ankit Babel, Analyst

Exactly. Okay. Okay. Thank you so much sir.

Operator

Thank you. Next question is from the line of Nikit Shah from Motilal Oswal. Please go ahead.

Nikit Shah, Analyst

Yeah. Sir, just two questions on my end. I wanted to know on your Kashipur facility which has just kind of come in. Has it been completely stabilized and some amount of gross margin benefit that we would have got in this particular quarter also reflects the excise duty benefit that we get from there?

Mithun Chittilappilly, Managing Director

No, Kashipur -- yeah, Kashipur definitely we are getting some excise duty benefit, but the gross margin benefit has not been to that, because if you look at -- if you -- i.e., when we look at our gross margins for wires, of course, wire gross margins has improved, but it is not because only of Kashipur, we have also taken several round of price hikes to offset the inflation of raw materials, that is primarily copper, that is caused, it has been caused both in terms of the rupee depreciation and other absolute increase of copper in dollars.

So the gross margin improvement cannot be attributed to just the Kashipur plant coming online. We have taken price hikes of 3% to 4% in various categories like stabilizers, electric water heaters, wires and many products, solar water heaters, so many products wherein which -- and even products which were not moving, like even pumps we have effected price hikes. So we have taken a call to effect price hikes to offset inflation and that has been the case with almost all category for us.

Nikit Shah, Analyst

Sure. And also wanted to know, you mentioned on the second half, how much will be the ad spend that we plan to incur in the second half of this year?

Mithun Chittilappilly, Managing Director

See, we have decided to have the ad spend in the region of about, one second. See, the original advertisement budget has been at about 70 crores, out of which we have spent about 34 odd crores. So the balance we are planning to spend will be about 35 odd crores for the next six months. But we may cut the spend by another additional 6 crores or 7 crores if the Q3 Diwali sales are not at very encouraging level. And in that case, we will probably push more spends for Q4 because we'll probably try and catch the summer season for most of those products.

Nikit Shah, Analyst

Sure, sure, sure. Got the point. And out of the 70 crore which you mentioned, is it safe to assume that the most part of it will be ad spends and balance will be your sales promotion?

Mithun Chittilappilly, Managing Director

See, I think if you look at the total advertisement expenditure, almost 70% is going for ATL and about 20% for BTL and maybe only 10% is going for other sales promotion. Most of the sales promotion activities will be also accounted as separately as sales promotion.

Nikit Shah, Analyst

Right.

Mithun Chittilappilly, Managing Director

So we have a separate hedge for that.

Nikit Shah, Analyst

Sure, sure. Thanks so much. That's all from my side.

Operator

Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade, Analyst

Yeah. Good evening, sir. Couple of queries. One on the induction cooktop. I wanted to get your perspective as to -- in terms of the growth, has it been different for south, non-south region? And also in general, how has been the industry doing actually for the induction cooktops specifically?

Mithun Chittilappilly, Managing Director

See, induction cooktops, as you would have known has been as -- sector has been under some strain in the last one year, nine

months to be exact. But we have done reasonably well. Our Q2 induction cooktop sales have improved from 5 crores to 7.2 crores, representing almost 43% growth. We seem to have done extremely well in the Kerala market for the Onam season. We are selling this product only at the time -- at the moment only in south, so I am not able to comment what's happening for this product outside south India. Once we get a better foothold in south, we are intending to take this product to the other parts of the country.

As far as this product is concerned, we believe that Tamil Nadu market has been deeply affected, there has not been much sales. However, we see some revival in the Karnataka market. Of course, Andhra Pradesh, as a market is completely bombed due to the, all the other disturbances that have been happening there. So we believe that, at least for us, most of this sales will come from Karnataka and Kerala for some time, post which we can look at, but definitely Tamil Nadu and all, the market is flooded with excessive inventory of almost all large players. So definitely the market is not very favorable for this product in Tamil Nadu.

Achal Lohade, Analyst

And how about the INR depreciation, because most of the sales will be through imports for induction cooktop?

Mithun Chittilappilly, Managing Director

Yeah, for us anyway most of the products that we've sold in Q2 were already in our inventory and already had come in before the sharp decline in rupee. We have -- and also I think post that the rupee has also corrected from 68 to 61.

So that means the effective increase is at about from INR55 to INR61. Most of the players in the industry are still having inventory and including us some inventory is there in the -- with our distributors. Definitely, post that, I believe that the industry will take some pricing correction.

Achal Lohade, Analyst

Understood. Just another question on the fans part of it. You know, I see that fans, the unorganized still is about 25%, 30%. How do you see that changing? Do you think that most of the growth now -- it will be more in line with the industry growth or you think there will be continuous decline in the unorganized side even going forward?

Mithun Chittilappilly, Managing Director

See, definitely, fan as a category is very old and matured category and the growth is very small. So, obviously, all the branded players are enjoying much more higher growth, even the larger players are enjoying higher growth than the category growth.

That is definitely a sign of the raining unorganized market. As we go, as the government tightens the rules and all that, we will find that most of these, most of the trades which were into doing unorganized electrical retailing is also slowly being forced to move into the organized segment that is forcing them to account their business from the earlier cash business system.

This will mean that more and more branded players like us will gain more share because the benefit of dealing with smaller local brands vis-a-vis a larger brand will reduce, because once the taxes and everything is being accounted and paid, the difference -- then margin what a dealer earns from dealing with these two different type of products are not very high. So definitely that is what we have been seeing in the last many years.

Achal Lohade, Analyst

Understood. That's all from my side, sir. Thank you so much.

Operator

Thank you. Next question is from the line of Bhalchandra Shinde from B&K Securities. Please go ahead.

Bhalchandra Shinde, Analyst

Good evening, sir. Actually, I would like to know regarding the South market, South India market, since the power supply improvement is there and still your UPS business has not shown that kind of a decline. Any specific reason, because is North market is growing well and South is declining by 20%, 30%. What kind of scenario is that?

Mithun Chittilappilly, Managing Director

See, actually if you look at our DUPS, that is the digital UPS which is actually the inverter segment, it has declined by about 47%. And that decline is much sharper in South, maybe close to 50%, 60%. Whatever growth has happened, it's happened only outside South India. So there has been a steep decline in the inverter business in the South due to the improvement in power situation. So I think that really reflects the kind of issue that we are facing with inverters.

Bhalchandra Shinde, Analyst

And do we expect this kind of scenario to continue for like next six months or mostly to up to elections also?

Mithun Chittilappilly, Managing Director

Definitely there is a tendency by different state governments to make sure the power-cut does not happen for -- till the election time. But having said that, one of the main demand -- one of the main drivers for electricity demand is people using air-conditioning. That is one the main reasons why suddenly there is a huge peak in the electricity consumption in various parts of the country because everyone switches on their air-conditioning at that time.

So definitely when the weather cool at this moment in Q2 and part of -- in Q3 definitely that demand will not happen. But definitely in Q4 onwards we will start to see that. Definitely, there will be still this supply and demand gap and definitely power outages will happen.

Already we have started to see some positive signs in this area because of -- we also believe that post-monsoon the wind, the almost 12,000 to 11,000 megawatts of wind energy generated in Tamil Nadu will drastically come down.

So definitely it is looking better. And we believe that the worst is over for the inverter. And I don't think this kind of numbers will be -- I mean, definitely the numbers we report for the next quarters will be better.

Bhalchandra Shinde, Analyst

Okay. And, sir, in electric pumps, since monsoon was good, then why we were not able to give a good growth in the pumps?

Mithun Chittilappilly, Managing Director

See, the pump business, how it works is people generally buy pumps either in Q4 or Q1, because in Q2 and Q3, there are usually rains. So definitely one of our main markets like Kerala and Karnataka this year has received a very abundant rainfall. And usually in such a situation what happens is the water table is generally high and demand for replacement pumps is low.

But as we are seeing, slowly the monsoon will recede and a couple of months after that, we usually start to see the demand pick up. So usually it is good that we have a good monsoon because post that, it is followed by a good season for pumps.

But, of course, at the time when it's raining obviously people are not going to buy, so the demand will come post, maybe a month, a month and a half after the monsoon is over.

Bhalchandra Shinde, Analyst

Okay, okay. Thank you sir. Thank you.

Operator

Thank you. Next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan, Analyst

Sir. Good evening, sir. I just wanted to know regarding the non-south market, to gain a foothold, are we giving more incentives to the dealer network over there? And broadly as to what would be the margin difference between south and non-south as such? Just wanted to --?

Mithun Chittilappilly, Managing Director

If we look at the -- if we look at various product categories, the margin difference between south and non-south could be in the region of 3% to 4% on an average. Some products we're giving maybe 5% to 6% and some products we are giving much less like 2%. So but on an average it could be about 3% to 4% difference.

Ravi Swaminathan, Analyst

Okay, sir. Thank you.

Operator

Thank you. Next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha, Analyst

Hi, sir. Thanks for the opportunity. Sir, I joined in little late, so I don't know whether this is a repetition. Basically, I wanted to ask you that have you seen lower competition from the foreign players across categories because of the rupee depreciation? And if yes, then what are these categories?

Mithun Chittilappilly, Managing Director

Definitely, there are -- people who are importing products and selling are at a clear disadvantage now than with people who are having some domestic manufacturing.

But I have not seen -- I think the rupee depreciation happened a month and a half back, a couple of months back onwards it started happening. So the full effect of rupee depreciation may have not started to hit the market because still, I think there is still inventory with some players which were imported earlier.

But definitely some of these players will have -- we have a clear disadvantage if we are fully importing, because if you're making something in India vis-a-vis importing definitely if, let's say, the rupee is depreciated by 10%, the Indian manufactured product may have an increase of only 4% whereas the imported products will have 10%. So definitely that impact will be felt by people who are fully importing the products.

Amit Sinha, Analyst

Right, sir. And broadly what will be the categories where this will be prominent?

Mithun Chittilappilly, Managing Director

See, for example, in the electric water heater category, we are importing about 15% to 20% of our total requirements, but there are several players which are importing 100%. So those guys who are importing 100% of the products will probably feel the pinch much more than us.

But I don't know, I've not seen -- that doesn't mean that I've seen them to reduce their spends, no, we'll have to really watch and see what happens in this quarter.

Amit Sinha, Analyst

Sure, sir. And the last question is the unorganized market which you referred to. Is most of this unorganized market is imported materials products --?

Mithun Chittilappilly, Managing Director

No, not imported. I'm talking mostly about domestic, so -- for example, I'm talking about small domestic manufacturers who is either making wires or fans or water heaters. Earlier, you used to find a lot of brands from, local brands from Delhi and all that.

Increasingly, we are seeing that a lot of these brands are disappearing and people are dealing with more better -- the share of smaller and unorganized brands who are primarily selling it for cash and without tax and all that is reducing, that's what I'm --.

Amit Sinha, Analyst

Sure. Okay. That's it from my side. Thanks a lot.

Operator

Thank you. Next question is from the line of Sandeep Raina from Edelweiss Securities. Please go ahead.

Sandeep Raina, Analyst

Hi, sir. Good afternoon. Just two, three quick questions. One, I just want to understand that how the house wiring sector segment is doing so well for us. I mean, because if we are talking about overall consumption decline, why this segment (inaudible)

Mithun Chittilappilly, Managing Director

See I think what's happening is as far as we are concerned, we are seemed to be gaining some share away from some of our peers both in South and non-South, because if you see, we have -- we were having some capacity constraints over last couple of years and which is now de-bottlenecked and we have started to spend money on ATF for this particular category. I think it has been well received and we are finding more and more traction, that is one part.

The second part is when I am talking about consumer spending, the large ticket item like consumer durable like television and fridges are facing a lot of challenge where people are not going and buying. But maybe people are not buying apartment as well, but individual housing demand and all that smaller construction are still happening. So I think that is the only explanation for this, because like you said ideally there is a slowdown in the wire segment also, so slowdown. But we have not seen, at least in Q2, we have not seen that. So that's a bit of contradictory way that product has performed, but we have seemed to have done very well.

Sandeep Raina, Analyst

Okay. And just talking about the Digital UPS, I know standalone UPS, maybe you are trying the strategy last time you told us, so that's okay. But for Digital UPS, if my electricity issue will be resolved in South and I'm sure this election kicking in, government will try all the moves so that they are able to give sufficient power to the consumers. Will this be a norm for us that Digital UPS would see a lower growth, I'm not saying a de-growth but a lower growth, because it was one of my prominent products which are growing very successfully.

Mithun Chittilappilly, Managing Director

So, I think when we have modeled on this 20% revenue, we have not modeled for a very aggressive growth in Digital UPS, that was the Inverter segment. Both the Inverter and pump segment, we have assumed a very moderate growth or even no growth for the year. But it's my -- it's the other products like electric water heater and wire and all that, that is helping us grow, they are growing much faster. But on an overall basis, we should be able to do this 20%. So we are also very well aware that for us to expect a very high growth from these two categories will be difficult after having a very bad Q2.

Sandeep Raina, Analyst

Okay. Okay. My next is question basically, see, we are targeting 20% growth and 9% margin, am I right in saying that?

Mithun Chittilappilly, Managing Director

Yes.

Sandeep Raina, Analyst

So effectively that means, for the next two quarters, my margin should be around 10%. So would I be right in saying that?

Mithun Chittilappilly, Managing Director

Yes.

Sandeep Raina, Analyst

Because I have done only 8%, so effectively it has to be close to 10% to basically lead the guidance of 9%?

Mithun Chittilappilly, Managing Director

Yes.

Sandeep Raina, Analyst

Okay. So that's from my side. Thanks very much.

Operator

Thank you, Next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel, Analyst

Sir, just two short follow-up questions. One is, what will be your tax rate for the year as a whole? Last year it was somewhere around 23%.

Mithun Chittilappilly, Managing Director

It's actually coming, further coming down with the production is Kashipur going up, can be something like 21% -between 21% and 22% for the current year, since the production from the -- our tax exempted unit at Kashipur is going up, will be an enhancement in the capacity.

Ankit Babel, Analyst

Okay. So in the next quarters it can even be less than 20%?

Mithun Chittilappilly, Managing Director

Not 20%, it will remain at 21%, between -- because it has been for this quarter also, part of the sales from that factory has come in.

Ankit Babel, Analyst

Okay. And, sir, second was, you just mentioned that the margin difference between south and non-south market is around 3% to 4%. Now every quarter-on-quarter we are increasing the contribution from non-south market. Will it have an impact on the margins in the longer-term?

Mithun Chittilappilly, Managing Director

I don't think so. Because as we are going every quarter, we are also correcting this issue of higher discounts and incentives. If you see in the -- in Q2 of this year almost one-third 28% to 29% of sale has come from non-south and only the balance has come from south. And even with that our gross margin as a whole has gone up by 2.7%. So I think as we grow stronger in non-south, we are also slowly taking back some of these extra incentives that we have been given.

Ankit Babel, Analyst

Sir, this 3% to 4% difference you expect to come down going forward?

Mithun Chittilappilly, Managing Director

Definitely. Our aim is to, in the next four years to five years we should have a near-parity in terms of the selling rate across the country.

Ankit Babel, Analyst

Okay. And when you say about this margins, you talk about EBITDA level margins right?

Mithun Chittilappilly, Managing Director

I am talking about the gross margin.

Ankit Babel, Analyst

Gross margin difference of 3% to 4%. Okay, okay. Thank you.

Operator

Thank you. Next question is from the line of Renjith Sivaram from B&K Securities. Please go ahead.

Renjith Sivaram, Analyst

Sir, just to touch up on the previous question. In the wiring, we have taken some market share from other, so did we do any pricing action?

Mithun Chittilappilly, Managing Director

Actually, I think wiring business, we have not given any extra discounts, if that is the question. In fact, we seem to have improved our margins compared to last year. I think in wire also, we have been helped by the fact that there was successive increases in copper rate in Indian rupees in Q2, which has meant that more of our retailers were keen to purchase the product before the prices were still going up.

So that is also one of the reasons. But I think our gaining share has not come at the expense of margin.

Renjith Sivaram, Analyst

And sir again like where do you see this demand, is it new construction or is it like pukka to (inaudible), where do you see this demand?

Mithun Chittilappilly, Managing Director

So we've seen a good growth in wire demand in -- even in a very matured market like Kerala, we've seen some growth. There has been lot of NRI fund inflow in to this place. So definitely some construction activity is going on here. We've seen some good growth happening in AP, that's of course not the affected area, but Hyderabad has done well. We're also seeing good growth happening in Karnataka. And our non-south markets are really doing well, I think almost doubling in revenue.

Renjith Sivaram, Analyst

Okay. And sir when we look at fans for the half year, we have grown by 25% and for the quarter it was 2.5%. So is it true for the industry also?

Mithun Chittilappilly, Managing Director

I believe it would be because of -- last year if you see, we had a very good summer, which had extended all the way till August, wherein which, every people buying products like fans and air conditioners, up to maybe July, August. Whereas this year, I think since June, the sales have completely taken a betting because of sufficiently cool temperatures across the country.

Renjith Sivaram, Analyst

Okay. And overall finally, how do you see this Diwali like, how is the inventory buildup and from your dealer interaction, what do they say?

Mithun Chittilappilly, Managing Director

Generally, of course like every year we're also hoping that the Diwali sales will be good. But to be honest, the Onam sales have not been very great. So we're also a little bit cautious going into the festival season. We're expecting better sales to happen in second quarter of Q3. Because I think the prime driver this year will be the cooling of food prices, which will drive consumer demand. So I think the form output and all that and cooling parts, cooling of food prices will probably happen only towards the middle of Q3 and post which we're expecting some good sales.

Renjith Sivaram, Analyst

Okay, so year-on-year, it will be kind of flattish kind of Diwali?

Mithun Chittilappilly, Managing Director

Yeah, I think we're expecting nothing, no major blockbuster Diwali this year. But I think post Diwali, we're seeing -we're expecting some good growth. And some of our products, if you look at our products, only something like a stabilizer is actually dependent on Diwali sales. And maybe some of the appliances, but most of our products like wires, pumps and all that is not that linked to Diwali purchase.

Renjith Sivaram, Analyst

Okay. Thank you, sir.

Operator

Thank you. As there are no further questions, I now hand the conference over to Mr. Bhargav for his closing comments.

Bhargav Buddhadev, Analyst

Certainly, I have got couple of questions, when you say 20% revenue growth, sir, can we break it up into volume and price broadly?

Mithun Chittilappilly, Managing Director

I think we've taken a price hike on an average of about 3% to 4%, so the volume growth could be, if you say 20%, could be about 16% volume growth.

Bhargav Buddhadev, Analyst

And sir on cash generation, we seem to have done well, your day to days have come off big time. So is that a one-off or can we sustain at these levels?

Mithun Chittilappilly, Managing Director

Actually, since last January, last December onwards, we have been starting to clean up and tighten our debtor situation and if you look at the last nine months, we have done a pretty good job of progressively cutting down on debtors. I think, it is definitely not a one-off. We intended to maintain these levels of debtors.

Bhargav Buddhadev, Analyst

And sir last bit is that is this moderation in sales in digital UPS also one of the reasons for our gross margin improvement, given margins are lower here or I would be wrong in that?

Mithun Chittilappilly, Managing Director

Well, of course, the inverter business for us is fairly new and pricing and policies are quite aggressive. But it is not a very low margin business for us, even DU has a reasonable contribution. And pump also has a high contribution. So definitely, it is not -- that is not the only reason. It is also because of we've taken price hikes across categories.

Bhargav Buddhadev, Analyst

So there has been a genuine gross margin expansion in other product categories?

Mithun Chittilappilly, Managing Director

Yes, we've taken price hikes in many categories, yes.

Bhargav Buddhadev, Analyst

Okay, sir. All the very best. Thank you very much for giving us an opportunity to host the call. Thank you.

Mithun Chittilappilly, Managing Director

Thank you.

Operator

Thank you. Ladies and gentlemen, on behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your line.