



June 2, 2023.

To,
BSE LTD.,
P.J. Towers, Dalal Street,
Mumbai -400001.

Script Code: 543597

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcripts for H2 and FY 2022-23 Post Earnings Conference Call held on May 30, 2023.

With respect to above captioned subject, please find attached herewith transcript of the Conference Call for Analyst and Investors held for H2 and FY 2022-23 on May 30, 2023 at 6.00 P.M. IST (18.00 hours) .

You are requested to take this into your records.

Thanking you,

Yours faithfully,

For **Virtuoso Optoelectronics Limited**

Hariom Kushawaha
Company Secretary & Compliance Officer
Mem. No. ACS 68173



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Virtuoso Optoelectronics Limited

H2& FY23

POST RESULT CONFERENCE CALL

Management Team

Sukrit Bharti – Managing Director

Sajid Sheikh - Chief Financial Officer

Call Coordinator



Strategy & Investor Relations Consulting



Virtuoso Optoelectronics Limited (VOEPL)
H2 & FY '23 Earnings Conference Call
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Presentation

Vinay Pandit:

Good evening, ladies and gentlemen. I welcome you all to the Q4 and FY '23 Post Earnings Conference Call of Virtuoso Optoelectronics Limited. Today from the management we have with us Mr. Sukrit Bharti, Managing Director; and Sajid Sheikh, Chief Financial Officer.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risk and uncertainties. Also, this is a reminder that this call is being recorded.

I would now request the management to briefly explain us a bit about the business, detail us about the performance highlights for the quarter and for the year that went by, and the plans and visions for the business in the coming years post, which we can open the floor for Q&A.

Over to you, Sukrit.

Sukrit Bharti:

Firstly, a very good evening to all of you. Thank you so much for taking the time to be on the call today. This being the first call, I'll take a couple of minutes to brief you about the company. So VOEPL, Virtuoso Optoelectronics Limited is a relatively new company. We've been in existence only for about eight years. The company was established in 2015.

In 2015, we started with electronic components and sub-assemblies as the primary line. From there we got the opportunity of manufacturing complete LED products, we did that. Then we got the opportunity of getting into manufacturing of indoor units for air conditioners, we did that. And now we are manufacturing complete air conditioners, we are fully backward integrated, and of course, we've come a long way since then. So that has been our journey.

The endeavor and effort of the company is always to grow. We are, of course, currently very small. And I think there is a lot of potential as far as the Indian market goes or the significance of manufacturing in



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the Indian scenario. I think there's a lot of potential and we have a long way to go. So we hope to contribute our bit and we hope to continue building on manufacturing capabilities on our end.

So that's where we are. As far as the overall introduction towards the last year's numbers and the performance last year. So last year, we've grown revenue by 69%, we have grown EBITDA by 72% and we have grown PAT by 97%. So, the year overall has done better than our expected numbers by almost 10%, 15% in all aspects.

Looking at the market reaction today, I understand there were certain concerns about number comparison between H1 and H2, but that was primarily, because the rates at which you buy inventory sort of rationalizes itself over the year, which is why H1, like we had mentioned before, also in wherever whichever investor meeting we had been part of that H1 was abnormally well, abnormally good for us, which would rationalize over the year, which is what has happened.

But the overall EBITDA this year is better than what we had anticipated. You were anticipating an EBITDA of 9% to 10%, but the EBITDA that we've got is about 10.3%. The other reason for pressure in H2 was because we've added the ODU manufacturing unit, which became operational only in the month of January end and in February and still is not running at peak capacities, because of which the added load of interest and expenses is what made the half looked a little skewed.

But overall, year-on-year, I think this was a very important year, because you've graduated from the definition of being an MSME both in terms of top-line and in terms of fixed investment. And I think we are laying foundation towards scaling up to be a much larger company over the next few years with the support of, of course, all our investors, our customers and our team.

There's one more point that we've got a couple of questions, so I thought I'll address it is on the acquisition of YLP. So YLP is an



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existing group company. It does about -- last year it did about, I think Rs. 90 lakhs, Rs. 92 lakhs of top-line. And so, in terms of revenue in the entire year.

So what it does is basically if we get small projects or small retail custom orders from customers, we execute it via that company. We did not want to have a conflict of interest and that is why we acquiring majority stake in that company at a nominal cost of Rs. 3 lakhs, so that we could bring it under the umbrella of Virtuoso.

So that was a brief from my side. I think we can open the floor for questions.

Moderator: Sure. Thanks, Sukrit. Anyone who wishes to ask question may use the option of raise hand. We've received some questions on the chat, Sukrit. I'll first put forward those to you. There's a question from Shikhar Mundra. What is our share with Voltas currently and how has that improved over the years?

Sukrit Bharti: So, our share with Voltas, we'll have to break it down into IDU and ODU. So, ODU we recently started, so I don't think quoting a number makes sense, but in IDU, I think our share is almost 30% with Voltas.

Moderator: Based on our revenue projection, we would be at Rs. 900 crores to Rs. 1000 crores. How much of this will come from ACs? How much from Voltas? And how much from the rest over the next three to four years?

Sukrit Bharti: So, the next year, the guideline considering a 35% to 40% growth. We are expecting a top-line of about Rs. 550 crores next year and about Rs. 750 crores to Rs. 800 crores in the year after that. So that is the broad guideline.

Now, coming to the question of the breakup. So, out of the Rs. 800 crores, we expect Voltas to be about Rs. 500 crores, lighting business to be about Rs. 100 crores, Rs. 150 crores. And there are a couple of components business to be about Rs. 50 crores to Rs. 80 crores and



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there are a couple of other product verticals that we are launching this year to be another Rs. 150 crores.

Moderator: His third question is why is our interest cost so high Rs. 14 crores on a debt of just Rs. 88 crores?

Sukrit Bharti: So, the interest cost is higher, because the invoice discounting component, which is off books, the interest of that also gets added in the entire interest cost.

Moderator: There's a question from in the chat. And I would request all participants please use the option of raise hand and you can ask the questions instead of putting it on chat. There's a question on chat from Mitesh Vora. When will the PLI benefit start accruing and any tentative deadlines?

Sukrit Bharti: So last year our PLI incentive accrued, but not boring. Accrued in the sense, accrued in terms in principally accrued is about Rs. 3 crores, but the claim filing application is still not open. So, we'll probably file claim for that in the next month. And so, in this quarter, we'll accrue the first Rs. 3 crores of PLI benefit.

Moderator: There's a question from Vasu Gupta again in the chat. What is the in-house and bought out components' ratio for IDU and ODU manufacturing?

Sukrit Bharti: So backward integration that we've been able to achieve over the last three years for IDU is we've got injection molding in-house. We have heat exchanger and the entire coil shop in-house. We have started crossflow manufacturing in-house from February. We have sheet metal components, which we have taken in-house from January.

And so, the only bought out components in ODU that we have now are motors and I mean we are still buying some controllers and remotes from outside, but we have also developed them in-house. So, the only component that we are really dependent from outside on



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making an IDU, at least the fixed speed version is our motors. That's all.

Moderator:

There is another question in chat from Ayush Saraf. Guys, I would request you all to please use the option of raise hand and unmute and ask your questions. Ayush, would you like to unmute and put forward your question?

The question that Ayush has put in is what is the proportion of ODM versus pure manufacturing services/OEM? Is there a focus of the company to increase this percentage going forward?

Sukrit Bharti:

So yes the lighting business is completely ODM. The AC business is majorly OEM for us, yes. But as we are investing more on components, we are being able to add more value towards design contribution in terms of how we can add value. So, our skills as an ODM are improving year-on-year. As we are adding more and more backward integration, we are understanding the product better.

Going forward the new products that we plan to add will be completely ODM. So, there we are developing ODM capabilities. In AC also, we are developing ODM capabilities, but the requirement of these capabilities is not as significant, because the customer that we are currently catering to being Voltas has these capabilities in-house themselves.

Moderator:

The next question is from Nabil Sayed. His first question is why has the net profit margin reduced from 4% to 1% when compared to H1 of FY '23, which I think you already answered, but would you like to explain that again?

Sukrit Bharti:

Correct. So, see the pricing for us is done on a quarterly basis. So, in case the raw material that is expected in a specific period, which is actually bought in the period before that. So, we got unusual price benefit in the first half, which is why the profit ratio was more than our trend in the first half, which normalized over the second half. That was one.



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Second was, second half, our pressure on expenses and salary was higher because of the addition of the ODU line, which was not running at full capacity, because it got added only in the fourth quarter. These two reasons combined; it seems that there was the pressure on profitability. But overall, the predicted profitability was between 1.5% and 2% for the year, which we have already, which we beat that number. And the overall profit, I think was 2.3% for the last FY.

Moderator: His second question is are we planning to repay our debts? If yes, then by how much percentage?

Sukrit Bharti: Currently, we are not planning to repay debt. See, it's very important for all of us to understand that we are still very small compared to the two, three listed companies in the space and the opportunity base or against the opportunity base. I think there's a massive opportunity base and if we have to make any mark for the next 3, 4, 5, 10 years, however, as long as we have opportunity, I think we should really make use of the opportunity and grow and scale the business.

So, the idea is to of course to give preference to growth and not debt repayment.

Moderator: We will take the next question from the line of Shikhar Mundra. Shikhar, you can unmute and ask your question.

Shikhar Mundra: Just a follow-up for my previous question, which I asked. For the interest cost of Rs. 14 crores. What is the breakup between the actual interest paid and the invoicing component?

Sukrit Bharti: I don't have the number with me, but I believe we have on an average at about Rs. 5 crores out of the Rs. 14 crores, Rs. 4 crores to Rs. 5 crores would be of the invoice discounting and rest would be for the working capital internals.



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Moderator: All right. Got it. Thank you. We'll take the next question from Monic. Monic Shah, you can unmute and ask your question.

Monic Shah: Hi, I just wanted to know the current this capacity utilization, okay. What is right now and is there any scope of increasing the margin? Since we are a lot of backward integration is happening. So if you can brief on that two segments, it will be great?

Sukrit Bharti: Sir, capacity utilization as far as the IDU is concerned, during the season we were at peak capacity for IDU, and margin improvement, I believe has already -- so I mean margin improvement product wise is a cycle. So, in IDU, I think we did a better margin than anticipated and that is why the overall margin for the year has improved.

But at the same time, ODU is a newer product category for us where we'll still take time to optimize the margin levels. So, I think that is a cyclic thing also, that being one factor. Second factor is ODU has a lesser value addition component, because compressor and the controller board both put together contribute almost about 45% of the cost.

So the value addition component is lower and hence the EBITDA level margins are lower. This year if in our top-line almost we are anticipating about Rs. 200 crores to come from ODU business, which will further put stress on our overall EBITDA margins. But the average EBITDA margins that I think we can maintain is about 9% to 10%.

Monic Shah: Thank you. Thank you so much.

Sukrit Bharti: Thank you.

Moderator: Thanks Monic. We'll take the next question from Nitesh sorry, from Nirav Vasa. Nirav, you can go ahead.

Nirav Vasa: Would it be possible for you to share the kind of volume growth that has happened in the month of April and May of this year considering



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there was massive unseasonal rainfall? How has been the offtake in Q1 FY '24 happened with your key customers in air conditioners?

Sukrit Bharti:

So, our numbers from January to May have been constant in terms of top-line. So, we have still not had any impact on sales numbers. For the next month of June also, we don't see significant impact. I think this year first quarter will be a very good quarter for us, because we are still running at 100% ideal utilization capacity.

Nirav Vasa:

With regards to lighting, most of the names which are there in the -- most of the brands in the lighting segment are, I would say not in the best of the shape. According to your assessment, by what time are you expecting markets to revive and pricing action to happen and overall growth can come in the lighting part?

Sukrit Bharti:

So, our strategy in terms has been very clear. So almost 70% of our business this year came from Panasonic as a primary customer. The reason for that is Panasonic is a very structured customer and they have a set pattern and they do business in a very methodical manner. So, there we don't get impacted by the market directly.

So as far as we are concerned, we have been isolated from any fluctuations in the market. Of course, I think the larger players there has been a shuffle where Syska came in, became strong, and then Syska is struggling now. So there has been a struggle, but I think all this will settle down.

As far as our business is concerned, we are very selective in terms of working with lighting customers, because this we understand. So we understood it very early in the first three, four years of our -- I mean, from 2015 to 2018, when you were dealing with smaller players in lighting, we understood that if we rely heavily on Tier 2, Tier 3 brands, the fluctuations are much higher.

So, for us the predictability becomes lower and we cannot make a business model out of it. So, what we started doing then was we started focusing on fewer customers and customers who are consistent



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in terms of their projections, volumes, and margins for us, because that is where we are and we are not really looking to abnormally grow or abnormally degrow both in revenue or margins.

Nirav Vasa: With Panasonic being the anchor customer, do you think our exports Panasonic, we can ride on exports using Panasonic as a brand or?

Sukrit Bharti: So, we are already exporting via Panasonic to Nepal and Sri Lanka. We are also recently in talks with somebody in the U.S. for exporting some of our lighting products to the U.S. We had last year got the U.S. certification, but because of COVID things had gone on hold again. This year we have reinitiated talks. So, yes, lighting we are hoping that we can get some export business coming in the next one, two years. But of course, the quantum will not be very high.

Nirav Vasa: Thank you, sir.

Sukrit Bharti: Thank you.

Moderator: Thanks, Nirav. We will take the next question from Mitesh Vora. Mitesh, you can unmute and ask your question. We'll move ahead to Samir. Samir, you can unmute and ask your questions.

Samir Palod: Hi, am I audible?

Moderator: Yes, you are audible.

Samir Palod: Yeah, hi Sukrit. Just you mentioned sales turnover target in the next two years of about Rs. 750 crores, but also some reduction in margins given that ODU is a slightly lower EBITDA margin product. Is that correct? So, 9.5%, 10% overall company margin?

Sukrit Bharti: 9% to 10% EBITDA margin, yes.

Samir Palod: Sorry, can you repeat that?

Sukrit Bharti: 9% to 10% EBITDA margin. Yes, that's correct.



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Samir Palod: So, with the doubling of scale, there is no operating leverage flowing through where you can possibly make a slightly higher EBITDA margin than where you are today?

Sukrit Bharti: So, if you see the product mix, even if again for IDUs, let's say our operating margins are between 10% and 12%. We were able to optimize it from 8% to 10% to 10% to 12%. But with ODO coming in, the operating margins in ODO are only 6% to 8%. So that is why the average does go down. We'll have to keep optimizing. But looking at the industry trends and I mean our peers or much larger players in the segment are working at EBITDA of maybe 5%, 4% to 6%.

So we are, I think still better. I don't think making it further, improving EBITDA further is possible at this stage. Of course, we can optimize in terms of our interest costs and depreciation and improve PAT. But then if we want to continue growing, which we intend to do for the next three to five years, and if we continue investing, then those two components will continue to be heavy.

Samir Palod: So, what would be the flow through below EBITDA line over the next two years? The PAT margins will continue to remain in the 2%, 2.5% rate?

Sukrit Bharti: Correct, they will. Yes. Like I said, we want to not. So, we are on a very small base right now in terms of investment and in terms of turnover. And if we want to stay competitive in the industry, we cannot lose space with our competitors and fall too far behind. And there are a lot of products and lot of segments that we have to explore or we are exploring and we are getting a lot of inquiries from.

So, if we are able to capitalize one, one at a time and then keep growing, then I think the incremental investment will of course be required. Every investment that we do will take one or two years to sort of mature and for that one or two it is going to put pressure on the existing business.



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- Samir Palod:** Sobasically, at Rs. 750 crore turnover as well, we should expect an inline growth in profitability, 2%, 2.5% PAT margin, given that you're investing and you're looking for growth and all of that. Is that right?
- Sukrit Bharti:** That's correct, yes.
- Samir Palod:** Okay. Thank you so much and all the best.
- Sukrit Bharti:** Thank you, sir.
- Moderator:** Thanks, Samir. Mitesh, you can go ahead and ask your question.
- Mitesh Vora:** Yeah, hi. Am I audible?
- Moderator:** Yes, you're audible.
- Mitesh Vora:** Yeah, just wanted to ask, with respect to the increase in turnover for the next two years and with the economies of scale, with the increased volume coming in, do you expect the margins to improve in the next two years? Because with respect to overheads and all and with any increase in raw material, if we are able to offset that with the increase in volumes? Yeah.
- Sukrit Bharti:** So I mean, of course we continue. We always try for that and that is the intention with what we work. But the practical challenges are that even if we improve our EBITDA margins with all these, there also might be pressure from the customer. There also might be volatility on the raw material side, which might impact us by a 1%. So, I mean 9% to 10% guidance, I think is a good guidance in terms of EBITDA, because we will strive to beat it always like we did last year. But saying that we will definitely be able to do it is difficult.
- Mitesh Vora:** Okay. And with respect to other than Panasonic, any other larger or bigger customer likely to be in at least, who might have just visited your site or some vendor assessment, something like that?



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- Sukrit Bharti:** We are talking to two, three other customers also, one being a larger one.
- Mitesh Vora:** Okay. Because recently in news also several large customers, something like a Walmart or something are looking on for vendors in India. So something on that scale?
- Sukrit Bharti:** Not on that scale yet, but we will definitely explore that also.
- Mitesh Vora:** Okay, thank you.
- Sukrit Bharti:** Thank you.
- Moderator:** We'll take the next question from Bhoomika Nair. She's unable to use the option of raise hand. Bhoomika, you can unmute and ask your questions.
- Bhoomika Nair:** Yeah, hi. Thanks. I wanted to first understand, what is our current ODU and IDU capacity and what are our plans for expansion, given that we are looking at almost Rs. 750 crore of revenue next year. So from that perspective, just wanted to get a sense on capacities and expansion that we are looking at?
- Sukrit Bharti:** Right. So our current investment is sufficient to achieve next year's top-line. So we are already on a Rs. 60 crore run rate as far as these last four or five months is concerned.
- Bhoomika Nair:** Sorry, Rs. 60 crores?
- Sukrit Bharti:** Correct. So the IDU capacity that we have currently is about 6 lakh units, and we plan to expand this to 8 lakh units by end of this year. The ODO capacity that we currently have is 2.5 lakhs and we want to expand this to 4 lakhs by end of this year.
- Bhoomika Nair:** Okay. And from a backward integration perspective, you said we started off with CFF and other kind of components, heat exchanges, et cetera. So, we would be completely 100% backward integrated into all



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these components, or is there just a part bit that we are able to do, or entirely there is 100% backward integration?

Sukrit Bharti: So, for example, let's say heat exchanges, we started with zero integration, now we are 100% integrated. Injection molding was similar, we started at zero, we are now almost at 90% of in-house backward integration.

So similarly, every product we are at different percentages, but these percentages will over the next year grow for us to be 80% on an average, 80% to 90% on every component to be backward integrated in-house.

Bhoomika Nair: Okay, okay. Got it. In FY '23, what would have been our volumes for IDU and ODU that we would have sold out of this capacity?

Sukrit Bharti: IDU, we almost sold about 4.5 lakhs last year, because our capacity grew towards the end of the year. And that is why we peaked numbers from December to March, which was also part of the season. And ODUs, we only started in January. So, we did about 25,000, 28,000, ODUs in the two months February and March.

Bhoomika Nair: Okay, okay. So basically, a lot of the growth will really come out not only of ODU, IDU kind of seeing expansion. But also, from the ODU ramp-up in the capacity.

Sukrit Bharti: Correct.

Bhoomika Nair: And your -- currently a key customer is Voltas. What is it that they're talking about in terms of growth and what is the thought process of adding more customers for the AC segment?

Sukrit Bharti: So, for us, the thought process is very clear. One is, of course, in ACs right now, Voltas has not told us to. I mean, Voltas is buying whatever we've been able to make. So, we don't want to add another customer while not satisfying their expectations as far as AC is concerned.



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So, there we are first trying to meet their expectations. Once we are satisfied that, when we completely satisfy their requirements, then we can look at other customers. We do have some inquiries, but we'll only do after them seriously, after we can satisfy Voltas because they have helped us sort of grow in the AC industry. We want to give them that priority.

So, and of course, we are learning from them. We get a lot of support from them. So that is why we want to continue doing that. That is part one. Part two is we are also not just adding not just in AC, but we are also adding a couple of products this year, at least two, if not three.

So, there are different product categories now. So, with these product categories, we will get, of course, our existing customers are most welcome, but we are also talking to other customers to sell these additional categories. So we will diversify not just in terms of customers, but we'll also diversify in terms of products by end of this financial year.

Bhoomika Nair: And these product categories would be lighting and which else?

Sukrit Bharti: Lighting and AC of course is the existing category. We are adding two more categories. Once we have signed with our customers, we'll share it with you. We right now don't want to share the details.

Bhoomika Nair: Okay. And while obviously, as you mentioned, Voltas is something which is very large for us and we're trying to satisfy them, but would it be fair to say that we should kind of start seeing new client additions in the AC segment from '25 onwards, because by next year, if we double our volumes, et cetera, I'm sure there would be a scope to kind of add more clients into FY '25?

Sukrit Bharti: That discussion I think we want to openly have with Voltas before we do anything. So, I think we want to give them first benefit. If benefit or we should first talk to them, they being our primary customer. If of course, they don't need more volumes from us, then we can look at other customers. Yes.



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- Bhoomika Nair:** Sure. And just last question, if I can just squeeze in in terms of the CapEx for FY '24 and '25 from all the segments, including the new segments, product categories that you are planning to get into, what would be the broad CapEx number?
- Sukrit Bharti:** So, we are expecting our CapEx of almost Rs. 60 crores in this FY.
- Bhoomika Nair:** Okay, got it, got it. Thank you very much and wish you all the best sir.
- Sukrit Bharti:** Thank you so much. Thank you.
- Moderator:** We'll move ahead to Shrikant Bandaru. You can unmute and ask your question.
- Shrikant Bandaru:** Yeah. Hi, Sukrit. Thanks. Firstly, congratulations to you and your team on very good performance this year. And I hope this continues over the next few years. I have two questions. One is on the market size, where do you see the company going to in, let's say, five or six years? I know you've given some kind of a guidance for the next two, three years, but how large do you see the company getting to in, let's say, five to 10 years?
- And the second is on cash flows. What are your thoughts on your operating cash flows going forward? Do you see them getting positive? And at what stage do you see free cash flows going positive as well? Thank you.
- Sukrit Bharti:** So, the first part of your question being, how do we see the -- what is the potential size? So, I mean manufacturing, so if you take a small step back from the entire situation and Virtuoso as a company, the current -- India as a market does not have, there are not enough manufacturing companies for any large product category as far as the finished product is concerned. You take any product in the segment and you will find that there are only two, three or four OEMs that are active in any particular product segment, which when compared to a country like China, would be a 10x or maybe a 20x number, where



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there might be 70, 80 people who are active in that industry. So as an industry, as a country growing in the manufacturing segment, we are not even scratching the surface. We need multiple large companies in India, in manufacturing space to come close to the capability of what probably our country is envisaging as far as manufacturing is concerned.

So, the bottlenecks that we see are for the growth of the company are a combination of financial resources, team, and our ability to manage the operations. I don't think market or prospective customers or localization challenges should be the real growth inhibitors.

So I mean to answer your question now, shortly, I don't think there is a limit to how much we can grow. The limit will come based on combination of these three factors. Giving a longer-term indicative number is very difficult. But for the next three years, we're looking at a I mean 30% to 40% or maybe a conservative side of 30% to 40% CAGR. So that was the first part.

The second part operating cash flows. As the operating cash flows, whatever, the operating cash flows will continue to be under pressure as long as we keep increasing our turnover, because we will need more and more inventory. The beginning of the year when we started the year, we were at a run rate of maybe Rs. 20 crores, Rs. 25 crores a month and we ended the year at a run rate of Rs. 60 crores a month.

So, our inventory went up in a similar fashion, because we almost need to have a 45 day to a 60 day inventory. So as and when as if till we don't stop growing, I don't think cash flows can become positive, because they will continuously keep requiring more money to sort of scale. I mean, I hope that answers that question.

Shrikant Bandaru:

Yeah, it does. But do you have any thoughts on your ideal return on capital employed? I mean, do you have any thoughts on capital allocation and the kind of returns you want on that?



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- Sukrit Bharti:** So, we are ideally targeting at least 6x on our capital employed, but 5x being the minimum.
- Shrikant Bandaru:** Okay. Thank you so much, Sukrit. Thanks.
- Sukrit Bharti:** Thanks.
- Moderator:** Thanks, Shrikant. Shikhar, you may unmute and ask your question.
- Shikhar Mundra:** Yeah. So, as you said, our current share in IDU is 30% with Voltas. So, what was this a few years back? Let's say four or five years back and what has enabled us to gain this market share?
- Sukrit Bharti:** Sir four, five years back we were not in AC at all. We started AC business in Voltas in '19-'20. That was the first year of operations and the numbers are hardly anything. So, we were at almost 0% in '19-'20 and this has steadily grown to 30% over the three years. I think the year before this, we would have been at about 14%, 15%.
- Shikhar Mundra:** And who are these players from which we are gaining market share? Like who are the other players?
- Sukrit Bharti:** I will not be able to comment on that. I mean I don't know where Voltas is exactly buying from. A lot of it was import. That I know for sure. But so the import has been substituted. Yes. But within India, I don't know if you've taken anybody's share or you've just majorly taken the import share.
- Shikhar Mundra:** All right. Got it. And is the realization of IDU and ODU roughly the same, or is there a difference in realizations?
- Sukrit Bharti:** You're talking about EBITDA?
- Shikhar Mundra:** I mean the revenues and the EBITDA. EBITDA I understand ODU is slightly lesser. What about the realizations on the top-line?



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- Sukrit Bharti:** So, I mean as far as our capacity is concerned, our capacity for ODU is lower than IDU, much lower than IDU. But the value so if we make 2 lakh ODUs, the value is equivalent to 4 lakh IDUs.
- Shikhar Mundra:** Okay. Got it. Got it. And one last question, out of the Rs. 337 crores we did this year, how much was it from the lighting segment?
- Sukrit Bharti:** About Rs. 70 crores, I think.
- Shikhar Mundra:** Okay. And in units, how much would that translate to number of...
- Sukrit Bharti:** So it's a mix of a lot of products, but I think that would be about Rs. 2 crore LED lamps I think, if I'm right, Rs. 2 crores is the average cost of Rs. 30. About Rs. 2 crore LED lamps.
- Shikhar Mundra:** And what is our capacity for the LED lamps?
- Sukrit Bharti:** Blended capacity, I think we can do almost Rs. 3.5 crores.
- Shikhar Mundra:** All right. Got it. Thank you.
- Moderator:** Thanks, Shikhar. We'll take the next question from the line of Aditya Shah. Aditya you can unmute. Yeah.
- Aditya Shah:** Yeah. Sorry. Just one question. Most of my other questions have been answered. This 750 crore top-line we are targeting in two years, is it consisting only of ODU, IDU and lighting or does that also include the two potential new products that we are targeting?
- Sukrit Bharti:** Conservatively the two potential products that we are adding. Yes.
- Aditya Shah:** Okay. And any rough split we would have of, let's say from the 750 crore, how much would be the AC and the lighting?
- Sukrit Bharti:** So AC and lighting would be about 600 crores, 600 plus minus 30, 40 crores.



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- Aditya Shah:** Okay. And the main growth that we're seeing going forward from today's -- let's say around 260 crores of ACs and taking us to the 600 crores, the main growth would be coming from AC or we think that the 600 crores would be split and similar as it is today.
- Sukrit Bharti:** Similar split. I mean, barring AC currently is about 70%, 75%. Full AC is about 70%, 75%. Components will be about 5%, 7%. But if you see AC as a full category, I think AC will go down to about 50%, 55%. Lighting will be about 15% and the rest could be the newer categories.
- Aditya Shah:** Okay, understood. And is there any difference in components margin versus ODU, IDU or is it all similar range?
- Sukrit Bharti:** Components, the asset turn is lower, but margins are better. On the product, the asset turn is much better, but margins are lower.
- Aditya Shah:** Okay, understood. Thank you, sir.
- Sukrit Bharti:** Thank you.
- Moderator:** Thanks Aditya. We'll take the next question from Vasu Gupta. Vasu, you can go ahead.
- Vasu Gupta:** Yeah. You have said your requirement is 60 crores for CapEx for FY '24.
- Sukrit Bharti:** Correct.
- Vasu Gupta:** Just wanted to know how you are going to fund it. And I think it is for the expansion for IDU and ODU and CFF. When will it come online?
- Sukrit Bharti:** So, the investment is both for the newer categories that we are talking about and expansion of IDU, ODU, like you mentioned. So, this will come online in phases. The first phase will be online by second quarter and the second phase will be online by the fourth quarter. But



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of course, we have already started incurring the CapEx required for this. Most of it is right now planned by debt.

If we do get a good opportunity, we will look at raising funds, but primarily we have already tied up for this investment by debt.

Vasu Gupta: Okay. Also, are we seeing any export opportunity from Voltas?

Sukrit Bharti: We are. We are already exporting a lot of products for Voltas -- we're manufacturing products for Voltas, which are being exported to Middle East. For the last two months, we've been exporting a lot of products.

Vasu Gupta: Okay. Thank you. That's it for me.

Sukrit Bharti: Thank you.

Moderator: Thanks, Vasu. We'll take the next question from Varun Agarwal. Varun, you can unmute and ask your questions.

Varun Agarwal: Thank you for the opportunity. As you said that the cash flows will remain under pressure. So how do we fund the growth going forward?

Sukrit Bharti: So debt is our easier go to methods of funding cheaper for us at our size and valuation. So debt is of course, primary funding will come from debt. And like I said, if we get a good opportunity, we will be open towards equity, but maybe not in the next two, three months at least.

Varun Agarwal: So, in terms of debt, do we have any internal understanding that this will be the maximum debt we will raise or any debt equity ratio, which we want to maintain as a ceiling?

Sukrit Bharti: So, the debt equity ratio that we want to maintain is about -- I mean this year, because we raised the capital, our debt equity has gone below one, which I think is very healthy. But I think having a



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guideline of -- I mean the range of 1.5 to 1.75 is, I think, a decent enough number for us at this stage.

Varun Agarwal: And if there is an equity funding in the future, will promoters also participate in that?

Sukrit Bharti: As of now, we've not decided anything, but let's see.

Varun Agarwal: Okay, I'm asking because the promoter stake will get diluted if you don't participate.

Sukrit Bharti: Correct. I will.

Varun Agarwal: Okay, thank you.

Sukrit Bharti: That is why we are also being conservative, because we have already - - I mean, we are at 65% as promoter holding.

Varun Agarwal: Yeah. Thank you for the opportunity and all the best for the coming quarters.

Sukrit Bharti: Thank you.

Moderator: Thanks, Varun. Anybody else who wishes to ask a question may use the option of raise hand. Or you may unmute and ask your questions. Aditya, you can go ahead.

Aditya Shah: Thank you. Sir I wanted to ask, why is Voltas going ahead with working with us versus working with like, what is making Voltas want to work so much with us versus who they had earlier? That's number one.

And number two is, with a lot of these contract manufacturers now coming up, what is protecting us from Voltas going to somebody else?

Sukrit Bharti: So two parts to your question. One is, see right now we are manufacturing -- so our factory is manufacturing only for Voltas. The



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factory is almost dedicated to Voltas, so it gives them more autonomy in terms of how they want to operate the factory, which I think is one of the factors that work in our favor. Point number one.

Point number two, AC is not a product which you can I mean, if you're manufacturing an AC where tools have been supplied by Voltas to us, so the ideal tools have been supplied by Voltas. So it is not something that you can just pick up and move to a new location, start manufacturing. It is almost a six-to-nine-month process to be able to do that and settle the entire line. So, I mean that gives a certain stickiness for them to operate with one vendor.

Otherwise, it is a loss on the productivity of the tool for Voltas and also it is a loss of production capacities. So that is why that gives us the confidence that we will continue getting business from Voltas. That is one reason. As far as if we are getting any preference or not, I think we entered IDU at a time where it was getting replaced, import was getting substituted, and to substitute this import, we sort of entered at the right time. We got entry at the right time.

And I think that sort of opportunity, we were able to capitalize during the last three years. Hence, we are enjoying whatever share we are. I don't think we have actually sort of taken any share from the Indian manufacturers. Maybe a little bit but not too much.

Aditya Shah:

Understood. But sir today, we have a lot of larger players as competition who we are of course growing faster than, but what is preventing them from setting up a dedicated factory for any of these guys to just avoid losing that domestic market share?

Sukrit Bharti:

Theoretically, there isn't. I mean theoretically a larger company can set up a factory very quickly for every customer, but like I said it is a combination of them getting comfortable, I mean very difficult to understand why they get comfortable in place A over place B.

Second is because we started early, we were one of the first people who they trusted with their tooling, so I think we've been a little ahead



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in that race, both factors combined, third of course, I think the price wise, I believe we are comparative, at least, if not better. So, which gives them no reason to move away. And price service and I think a little bit of timing as a combination has put us in this position.

Aditya Shah: Understood. And sir you mentioned the lighting you had approximately two CR LED lamps you made in the last year. The capacity of 3.5 that you mentioned, would that translate approximately evenly like if you did...

Sukrit Bharti: So, the thing is we are doing regular LED bulbs which is the cheapest I mean the lowest value product. Then we are also doing emergency-based lighting, which is the battery backup lamps that are there. So that series also we are doing. We are also doing panel lighting, which goes as downlighters. We are also doing street lighting. So, we are doing the entire range. So, one street light would be, making one street light is equivalent to almost making 20, 25 lamps. So, we are currently giving you capacity in terms of lamp equivalents, but it is very difficult to sort of quantify the capacity where you have so much product mix.

Aditya Shah: Okay, so this potential 3.5 crore capacity, is there a range of revenue we can hit, or is it?

Sukrit Bharti: Yes, so we are looking at growing in lighting also at 30%, 35% at least year-on-year. But capacity wise, I believe we can almost do 120, 130. And if we get the right product mix, anywhere between Rs. 100 crores and Rs. 150 crores, depending on the product mix and specific machine utilizations.

Aditya Shah: Okay, and how long would it take you to set up further capacity in AC as well as lighting? Is it a six-nine-month process?

Sukrit Bharti: So, the capacity expansion for us is twofold. One is expanding capacities incrementally in the existing facility. That is something that we are doing on a regular basis and adding a new facility to expand capacity. So, this year, we plan to add two facilities, one being a larger



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facility and the other one is a smaller facility where we are doing some component backward integration. But the larger facility will be required for the additional growth in the new products that we plan to do.

Aditya Shah: Okay, and how long does it take for these to come online, existing facility versus new facility?

Sukrit Bharti: Existing will come online by second quarter and the new facility will come online by fourth quarter.

Aditya Shah: Okay, fair enough. Thank you, sir.

Sukrit Bharti: Thank you so much.

Moderator: We'll take the next question from Pankaj Sali. Pankaj, you can go ahead and ask your questions.

Pankaj Sali: Hi, sir. This is Pankaj here. My simple question to you, how much percentage of raw material you are importing from outside of India and is there any plan to develop backward integration further for your all-upcoming products as well as ongoing products?

Sukrit Bharti: So, in IDUs, the only major components that we import are copper, aluminum, and motors. Copper and aluminum, still there is no supplier in India where two, three companies do plan to set up the facility. But none of these facilities are up and running. So, in the next one or two years, I don't see copper and aluminum being sourced locally.

Motors, yes, there are companies setting up motors locally. There is some production of motors locally. So, motors is now mixed of local and import. But copper and aluminum will continue to be imported for the next one or two years at least.

Pankaj Sali: Thank you.

Sukrit Bharti: Thank you.



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- Moderator:** Anybody else who wishes to ask a question?
- Shrinidhi Karlekar:** Yeah. Hi, this is Shrinidhi. Can I ask?
- Moderator:** Yeah, yeah. Go ahead.
- Shrinidhi Karlekar:** So, Sukrit, you alluded that your margins are superior to some of your listed peers, despite being a lower scale. In your assessment, what is really driving this superior margin despite weaker scale?
- Sukrit Bharti:** So right now, our overheads are much lower than theirs, I believe. That is one reason, that is why we are better at EBITDA levels, but PAT levels we are similar or maybe lower. So, our overheads are lower. That is the primary reason. And I think we've been able to keep our investment base smaller than them. That being the second reason.
- The second part to the second reason is that our capacity utilization as far as the equipment is concerned is currently, I believe better than a lot of our competition. That is what is giving us an edge of about 1% or 2%.
- Shrinidhi Karlekar:** We also got to learn that Maharashtra state offers lot of incentives for MSMEs putting up new plants in the State of Maharashtra. So, wondering, is that a substantial benefit that Virtuoso enjoys?
- Sukrit Bharti:** So, we have one sanction for that. But we are expecting a couple of more sanctions this year under the electronic policy of Maharashtra. So, over the next three years, we do anticipate subsidies of, so this year we are anticipating subsidies of Rs. 8 crores to Rs. 10 crores and this figure should go up to about Rs. 25 crores in the next three years Maharashtra and PLI put together.
- Shrinidhi Karlekar:** Okay. And is there a GST reimbursement also in the State of Maharashtra for putting up plants, particularly in the backward areas of Maharashtra?



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- Sukrit Bharti:** It is not GST reimbursement in a manner of speaking. So, the subsidy is against your GST paid to the state.
- Shrinidhi Karlekar:** Right and that we quantified being Rs. 8 crores to Rs. 10 crores this year going up to Rs. 25 crores?
- Sukrit Bharti:** Correct, correct. This is including PLI and state electronics incentive.
- Shrinidhi Karlekar:** And do you get to retain large part of it or you need to share it with your anchor customer, Voltas?
- Sukrit Bharti:** I believe we should consider that we'll have to share it. I mean sharing is a more realistic consideration to have.
- Shrinidhi Karlekar:** Thank you for answering my question. And all the very best.
- Sukrit Bharti:** Thank you so much.
- Moderator:** Thank you, Shrinidhi. I think there's a follow-up question from Aditya.
- Aditya Shah:** Yeah, just one small bookkeeping question. In this current EBITDA margins and PAT that you've reported, there is no PLI and state government subsidy, correct?
- Sukrit Bharti:** So there is no PLI benefit. PLI will start coming in from this year. State government this year, over the year we have accrued about 2.6 I believe, 2.6 year of incentive, but that has been taken care of in these numbers.
- Aditya Shah:** Okay, got it.
- Sukrit Bharti:** Rs. 2.6 crores has been accounted with these numbers, yes.
- Aditya Shah:** Understood sir. Thank you.
- Moderator:** We'll take the next question from Sagar.



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- Sagar Gokani:** Hi, so just a couple of questions actually. So first one is you mentioned that you are already in a run rate of Rs. 60 crores per month. So does that mean that next year itself we are going to achieve the Rs. 700 crores, Rs. 750 crore kind of revenue? Is that the right understanding?
- Sukrit Bharti:** We hope to. But the reality is that normally second quarter and third quarter is not as good for the AC industry in general. So, the sales numbers do drop in the second and third quarter.
- Sagar Gokani:** So, there's a seasonality in the business?
- Sukrit Bharti:** Correct, correct.
- Sagar Gokani:** And the second question is in the deck you mentioned about manufacturing BLDC Motors. Is that only for in-house consumption or do you plan to manufacture it just sell it to third-party as well?
- Sukrit Bharti:** So initially we are exploring only for captive consumption. If you are able to successfully validate it, then of course we can scale it. But first we are trying to work out prototypes and see if we can manage our captive requirements.
- Sagar Gokani:** Like there is some regulation around using it in fan, do you have the regulation in AC also? So, I'm not very well aware about this market?
- Sukrit Bharti:** So AC, there are BIS regulations already, and we are complying with all those regulations. Fan of course, now the regulations been introduced recently. AC has been having this regulation for a couple of years now.
- Sagar Gokani:** Got it. Thank you. Thank you and best of luck.
- Sukrit Bharti:** Thank you, sir.



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- Moderator:** Thanks, Sagar. I believe that is the last question for the day. Sukrit, would you like to give some closing comments?
- Sukrit Bharti:** First of all, thank you so much for all your faith in VOEPL. I think investor confidence, customer confidence, and employee confidence is what is very important and vital for the growth of the company. We will continue to strive and do our best in terms of contributing towards the manufacturing vision of the country.
- And once again, thank you for attending. A very good evening to all of you. Have a good day.
- Vinay Pandit:** Thank you so much. Thanks to all the participants for joining on this call, and thanks to the management for giving us their time. That brings us to the end of today's conference call. Thank you.
- Sukrit Bharti:** Thank you.