



ICE Make Refrigeration Limited

5th Investor and Analyst Conference Call

August 03, 2020

Moderator: Good afternoon, Ladies and gentlemen I am the moderator for this conference call. Welcome to the fifth Investor and Analyst Conference Call of ICE Make Refrigeration Limited arranged by Aaryana Matasco, Reputation PR and Communications Focused PR and IR Consultancy to discuss the financial results for FY20 and the road ahead. ICE MAKE Refrigeration Limited is a leading supplier of innovative cooling solutions and manufacturer of refrigeration equipment's. The company has been successfully satisfying the needs of its customers from production to after sales service for the last thirty years. The company is engaged in the business of providing customized cooling solutions to diverse set of clients across wide range of industries by manufacturing and supply of fifty plus high-quality refrigeration products and equipment's. We have with us today Mr. Chandrakant P. Patel, Chairman & Managing Director; Mr. Nikhil Bhatt, Vice President Strategy; Mr. Ankit Patel, CFO and the key management from Ice Make Refrigeration Ltd. At this moment, all participant lines are in the listen-only mode. Later we will conduct a question & answer session. At that time, if you have questions, you may press '*' and '1' on your touchtone keypad. Please note that this conference is being recorded. I now hand the conference over to Mr. Patel. Thank you and over to you, Sir.

Chandrakant Patel: Good afternoon, I am Chandrakant Patel, MD of Ice Make welcomes you all. I hope everyone is well, the world is going through a very major change right now. Corona has forced people to think in a new way, irrespective of whether it is a business, health or immunity power, there are many such things which will change. As far as the businesses been affected or not, apart from essential services business there will not be any other business which might not have been affected directly or indirectly. At this moment, more than the impact on business, it is more important to know whether the business will survive or not, for investor as well as employees also. Even after such a situation arose, we have not retrenched any single employee from the company which proves our philosophy that we are one family; **"The Ice Make family"**. Due to Ice Make's good fundamentals, I can assure you that we are ready to work with strong determination. We have proposed a dividend of 12% for this year, that shows our commitment towards investors. The company is also planning for main board migration on NSE Platform, and our team is working on it, within next two or three months it will be completed. The company has taken many steps to fulfill the **'Atmanirbhar Bharat'** dream like In house

manufacturing of coil, Chiller Re-designing and in PUF Chemical, we are using C5 Technology. It will make us more competitive. We have also reduced our dependency on China upto certain extent. From 22nd April, the company has gradually started the business operations taking all the precautions following the government's guidelines and the business has become regular up to a certain extent now. We expect the whole of the universe comes back to normalcy as early as possible by getting rid of this disease and move forward and expectation for a better world should start. Now our CFO, Mr. Ankit Patel will take give you update on finance part and Mr. Nikhil Bhatt, VP Strategy will give the business updates to you. Over to you Mr. Ankit.

Ankit Patel:

Good afternoon to all of you. The company has maintained its financial performance for the financial year ended 31st March, 2020 despite slowdown in demands and economic growth in pre-COVID-19 period. The company's total revenue increased by 5.5% to Rs. 136.62 crore for full year of FY2020 compared to Rs. 129.58 crore posted in corresponding last financial year of FY2019. The net profit for the full year ended 31st March, 2020 marginally declined and stood at Rs. 7.17 crore compared to Rs. 7.83 crore posted in FY2019. Compared to first half of FY2020, the company performed much better in second half backed by strong order book and total sequential revenue for the second half of FY2020 increased by 38.4% over first half of FY2020. The company crossed total revenue of Rs. 79.32 crore in the second half period compared to Rs. 57.31 crore in first half. The net profit for this period second half of FY2020 stood at Rs. 6.22 crore compared to Rs. 95 lakh posted in first half of FY2020. EBITDA margin of second half of FY2020 stood at 14.05% and full year FY2020 stood at 10.74%. Our export of FY2020 grew by 3 times and stood at Rs. 6 crore versus Rs. 2.19 crore in the previous year. Our cold room business vertical is the major contributor and to total revenue with 58% share, commercial refrigeration vertical has contributed 21.66%. Transport, Industrial and Ammonia refrigeration contributed 9.6%, 7.17% and 3.59% respectively. The contribution of Ammonia refrigeration business has almost doubled, our pending order book strives as on date is Rs. 28 crore. I conclude my financial highlights, over to Nikhil Bhatt.

Nikhil Bhatt:

Good afternoon, now I would like to highlight some business updates regarding the FY2020 as well as the coming year. Here, our PM Sir rightly says there is no deny that COVID-19 has brought the Indian and global economy down on its knees but we at Ice Make believes this cyclical setback are opportunities to offer solutions innovate and re-invest ourselves. The first quarter of this financial year has been badly affected due to lockdown; however, we are hoping that the second quarter to be better in terms of business as we have a good order book as our CFO rightly said that is around Rs. 28 crore or for order book on hand. We have also developed last year, reefer van section, we have tie-ups with some of the leading manufacturers of vehicle chassis like Ashok Leyland and the others are on the way. And we also got a good response and good orders from this type of arrangement. We are also under process of one of the International brands that is Volvo with one of the projects, we are under process and we are looking forward that it will be beneficial to the Ice Make a long way. We have started to provide a dairy milk solution, dairy process units and we have also received a good response at almost

Rs. 1.6 crore of orders which we are awaiting. Before one or two years, we have developed our R & D Department for development of new products like low temperature, low humidity dryers that which we have developed in past, now we are getting a good response and also in terms of business which was Rs. 60 lakh in last year, now it is already Rs. 1.60 crore order are on the way during this current financial year and we are now focusing on our Chiller segment, that is we are re-designing and from the focusing on the Chiller business that will give a competitive base to the business. Company is also now focusing on semi-automation for some of the process for quality results and to reduce business dependency on the human resource. We have been using C5 Technology, we have become more competitive in the market. Last year we have forwarded into fast emerging online core business which has started showing results as we have received our first few orders from leading brand like Swiggy, etc. We are now strongly focusing on strengthening this further by providing solutions on their specific requirement. India's online retail market is growing multifold. Company is consciously making news about in joining hands with new brands and leading an online food companies which will help not only widen our competition in the market but also build long term prospects for growth of our refrigeration and cold storage projects. We are planning to put some products on online portal to provide solutions and we believe that it will be a new business opportunity for our company. We are also focusing more on export as well as to get some new markets. Yes, we were able not only to maintain our financial and business performance but also gain in our new focus areas like Ammonia Refrigeration, exports, reefer van division and providing turnkey solutions. As our CFO rightly said that our Ammonia Refrigeration business is almost doubled and export is also three times we have achieved on last financial year and last year our business motto is that to gain and maintain the business, now our motto is that 'Stay Safe and Stay Strong' and we hope to deliver on this promise as well. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question, may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Our first question is from the line of Shefali Shah, please go ahead.

Shefali Shah: Congratulations for second half results. Our company's H2 results were good but then why were we not able to grow in the financial year 19-20?

Management: Our H1 was average, so the company planned the overall growth and had set our target between Rs. 145 crore to Rs. 150 crore and now this quarter which is the second half which is generally the season time and the company's peak period but due to this Corona lockdown, our ten days' dispatch was impacted. So, our total dispatch of Rs. 10 crore to Rs. 15 crore approximately could not happen, so because of that our topline has moved up to Rs. 136 crore and has come to a halt. We also had around Rs. 9.5 crore of advanced amount from the customers, despite of that, we could not dispatch it. And if we go to see its financial impact, for this much of sale so our PAT has been impacted for around Rs. 1.5 crore to Rs. 2 crore due to

this. If this would have been dispatched then the scenario would have been a little different from what it is now. See if we compare H1 and H2, then in H2 we have done enough growth and if we also compare the current H2 and the previous H2 then also we have a growth in this H2. Our PAT is of around Rs. 5 crore odd to Rs. 6.22 crore this time. So, disruption of ten days' dispatch in season peak period is the main reason that our top line could not go up further.

Shefali Shah: Okay and Sir what is the reason behind reduction in profit?

Management: We have also said this in our previous con call that we had recruited trained professionals and the manpower, so its impact reflected in the second half of the last year. And in this current year has been impacted completely on their salary cost. Other than that, our labor cost, rent, interest, commission, even depreciation has increased a little this time and our expenses have raised a little higher slightly this time, so because of that our PAT has reduced marginally.

Moderator: Thank you. Our next question is from the line of Abhishek Mehta, an Individual Investor, please go ahead.

Abhishek Mehta: Sir I wanted to know, what is the impact of this worldwide Corona on our business and has company taken any action how to mitigate this in reduction cost, etc., something like else?

Management: As said earlier, Corona has impacted all lines of industries and businesses, it has also impacted our business as well. Initially, April and May was completely washed out, we can say but still we could see a growing stage in the month of May and in the months of June and July which has just ended, we have received quite a lot of orders even though the Ice Cream industry and hospitality industry has suffered a lot, so accordingly that business has also gone down but since we have got enough segments, in this the Pharma sector and Dairy and the cold chain solutions; these segments are running good, due to which the impact is not that bad on our company, it's a time of concern, however we feel it will get balanced by the end of this current year. And still whatever we have suffered in the last two months from business and financial point of view, taking future into consideration the company has implemented steps for the cost saving, we have stopped any new recruitment at the moment, we will control new recruitments. During the lockdown, many of our employees have left the company, not because the company has removed them, but we will not do any new recruitment in those employees' absence, we will manage from whatever we have. We will try to control the inventory and we will plan something to reduce the interest cost, so according to this there are chances to build company's financial strength.

Abhishek Mehta: Okay, the second questions is; what is our total order book now and compared to last year, are we receiving enough orders due to this situation?

Management: As said earlier, the order book is of the approximate priced out and if we talk about as on July, then comparatively almost 50% business is taking place but it is less than how much it should

have been but we have many orders pending for this year as well, say about Rs. 16 crore of new orders after lockdown. So, we feel that this is a good beginning and remaining we are supplying quite a lot to Government Institutes and Government departments as well through tenders or directly. So, in that also, we have received orders in the Pharmaceutical segment. Secondly, we have also received good response in our exports, so in that our new product, 'Dehydration Dryer' in that we have received orders from countries like Australia, Canada and Rwanda. In Dairy solutions as we told earlier, we have got a response and as we have informed you earlier, we have already received an order of Rs. 1.60 crore in our R & D product.

Moderator: Thank you. Our next question is from the line of Deepti Sharma, an Individual Investor, please go ahead.

Deepti Sharma: Sir what is your current business planning and what are your key focus areas?

Management: We are focusing a little more on export in our current business planning, our focus was on exports from last year only, we have increased our focus a little in the new year' project in comparison with individual products. People are demanding Turnkey solutions nowadays, so we have increased our focus more on that part. Also, we have many new innovations in food processing where we are having a new opportunity. We have focused on new solutions taking refrigeration-based product into consideration also, we can increase our top line with this.

Deepti Sharma: Okay and in this pandemic situation also our company has declared a good dividend, so will you take promoters' dividends or waive it off?

Management: Last year also as you know, we had amended the article to waive off the dividend. So now we are under the planning of waiving off the dividend, our final decision will be after the approval of AGM. Now you can take it as yes, we will waive off the dividend.

Moderator: Thank you. Our next question is from the line of Lokesh Behl, an Individual Investor, please go ahead.

Lokesh Behl: Sir, actually I am tracking your company from sometime only, so I needed some information regarding the company in between. I may ask you few basic questions; my first question what is your average ticket size of sales in each segment amongst these 4-5 segment that you have?

Management: If we proportionate average ticket size in percentage then if we talk about cold rooms vertical, it is share is approximately 6%.

Lokesh Behl: Sir, this information I got through your annual report. What I wanted to ask is, how much is the per order sales for let us say, Rs. 1 crore, Rs. 2 crore, Rs. 3 crore or Rs. 50 lakh, this was my question that what is the ticket size per order?

Management: What is the individual product's average value, that is what you want know?

Lokesh Behl: Right.

Management: In cold rooms, it is between Rs. 3 lakh and Rs. 4.5 lakh average size. In commercial, it is between Rs. 50,000 and Rs. 75, 000 and in reefer vehicle it will be between Rs. 3 lakh and Rs. 3.5 lakh of an average and in our Industrial vertical which is our fourth vertical, there also the average order can be between Rs. 2.5 lakh and Rs. 3.5 lakh. In this value given to you, the maximum orders can be ten times bigger than this and if it goes lower, the small orders will not be less than 50% of the limit that I have given to you, maximum orders are big orders, they are even ten times bigger than this.

Lokesh Behl: Apart from this, do we have competitive bidding or in what way is it, the orders that we win, do we win these orders through competitive bidding?

Management: Yes, many a times we win the orders with good branded competitors and our price is pretty competitive and apart from that our main focus is on service because in this product service is more important, so the customer sees that and the long term past track record of our company and accordingly they give us a priority.

Lokesh Behl: Sir when we win any order, do we have to give any bank guarantee, etc. and also do we have any clause of retention money in our agreements? Because generally in these types or orders there is a provision of bank guarantee and retention money, so do we also have this clause or not?

Management: No, generally for private customers this clause is pretty rare, unless otherwise it is a big corporate. However, the government business, which is there, in that normally we do have these terms of bank guarantee and retention money. So, the government business or tender business basically is 5-6%, so it will not have any major impact as such.

Lokesh Behl: Ok sir. And apart from this, once you deliver a product, the after sales service is such that it is done only for a period of time or we do not have any such clause generally?

Management: In our retail business we give 1-year warranty.

Lokesh Behl: Ok sir. And apart from this let us say you have sold a product so is it possible that a customer could do its maintenance and service from a third party and not from you, is it possible or not?

Management: After 1 year it so happens, we do not have the service track, we do not focus more on this business so that we can build up our strength and liabilities against that business' income. It does happen, there are chances and with some big customers, they have their own in-house engineering team, so they do this by themselves.

Lokesh Behl: Ok sir and what is the percentage of our total sales where we get repeat orders from the same customers? Any estimate?

Management: Same repeat customer, let us say if we remove the dealer and talk about only pure retail customer, 20% I could say but the business that we get from reference of old customers, the recommended business that we get is higher.

Lokesh Behl: Ok and sir apart from this the product that we make, we do import a lot of raw material, like I understand that the compressors used in AC are not made in India but are rather imported from China, so sir what would be the raw material percentage that we import from foreign or China of the total cost?

Management: If we talk about the total percentage if let us say we are purchasing Raw Material of Rs. 95 crore out of which Rs. 4.5 crore will be total import and from China on an average total import of 45% is what we had up until now, 40-50% of the total imports and slowly we are working towards eliminating the dependency on China and we have already taken steps. And there was one component i.e. coil, earlier we did not used to manufacture coil in house, so we used to order readymade coil from China, there was local procurement also that was done but now since we have started in-house manufacturing and our dependency on China has lessen to a major extent. And the raw material we are now majorly ordering from Thailand and SAARC nations. And for China, we are planning to reduce our import maximum to an extent upto Rs. 50 lacs to Rs. 1 core.

Lokesh Behl: Sir what I heard approximately Rs. 4.5 crore as import and total raw material is of Rs. 95 crore, so is this understanding correct?

Management: Yes, you are right.

Lokesh Behl: And sir in your business what is your competitive intensity, like who are your major competitor, are they domestic players or foreign, what is the competitive scenario in your business and what is your competitive strength that we can compete with them in the market.

Management: If we speak about the competitor, the 5-6 verticals in which we work and our product basket is also big, so we do not have exact peer competitor, but in a lot of vertical in the domestic market also there are a lot of companies and mostly in domestic even outside of India companies but still they do business with India only, so basic Indian company if we talk about then Blue Star is in competition in 3-4 verticals, Voltas is also in the same line, Carrier is one more. All of these majorly work in these 3-4 verticals. And apart from that, if we speak about Transport Refrigeration, then there are 2 big companies which are Suraksha and Sub Zero they are big competitor. In Ammonia, Rinac is there, Frick India is there and there are few 3-4 companies that are our competitors. So, in all 5 verticals we do not have any single company that is in competition. And if we talk about order received like I said earlier, our network of service and the support that we give during the warranty period, we have a good track record, so because of which we do competitive pricing and we can bag these orders because of this.

Lokesh Behl: Ok sir and apart from this sir you told capacity is about 50% utilization and from this capacity you can generate a total turnover of maximum Rs. 300 crore, so in near future as such you would not have any big capital expenditure as such, is this understanding correct?

Management: Yes, you are right.

Lokesh Behl: Ok sir what would be our maintenance CAPEX per year and how are we treating it, are we capitalizing it or displaying in the P&L?

Management: No, the small tools that we purchase for machinery, so tools quality is directly charged in the P&L but the small running CAPEX if we tell, around Rs. 50 lakh to Rs. 1 core CAPEX we can say, not more than that.

Lokesh Behl: Ok sir and apart from this, in your first conference call that I had heard, so after listing in your first conference call you had told that now you will grow around 35 % of growth in the future, though till last year we had grown at good 20-25%, so do you feel the 35% growth guidance that we had given would we be able to follow that in the future, now?

Management: See, the H1 for this year, the Indian economy was in recession, lot of capital investments were not taking place, so in the first two quarters of H1 our business did not grow and in H2 due to Corona we missed Rs. 10-12 crore, we missed 10 days sales, or else there would had been an 18% growth, the 35% growth that we had indicated, as economically the condition did not support it but 5% growth is fairly easier, maybe in the current year in the first two, three months if there was no effect of corona, then we could have had done it but now whatever objects' investments we had made earlier, now we are starting to get their actual returns, which you can see from our consumption also, so after this object we can do growth in the range of 25-35% but in current year there is Corona so it is difficult to do this year's prediction now. But we should be able to do in the range of 25-35% leaving this year, we do believe this.

Lokesh Behl: Great sir, apart from this the EBITDA margins are in the range of 10-14%, what number can we hit maximum on this, when the economy is good and our business is growing in the range of 25-35%, so what can be the maximum EBITDA margins, 20%, 15% or 18%, how would this look like?

Management: We have to grow our topline as well so we have to sustain our EBITDA margins in the levels of 10-12% and the rest of benefits we can transfer to the topline and maintain our bottom line as well, so in accordance to that we have to start growing now. So, our focus is also to increase our topline and the margins of EBITDA that we now have, so our priority now is to sustain this at 10 to 12 %.

Lokesh Behl: Ok sir apart from this in the annual report that I saw that we have our major presence in the western region in India and some presence in South and East, so in North we do not seem to

have any presence as per what was mentioned in the annual report, sir are we planning something to increase our presence in the North as well. Because in North also there is a good amount of heat and in UP and all Cold Storage business the government is also focusing upon? So, do we have any plans regarding this?

Management:

Actually in North, market and economy condition is not growing as much as it seems, for our industry opportunities are not that great, in West we are localized that is one benefit but the local business size is also that big in the West. And as you may have seen, in the East we did work, so over there every year we see topline growth. In North we did try but Delhi's market is a little more price-based market, we have to do competition with price. So, we feel that if we increase our business there, we can only increase our topline and not the bottom line. There are some specific projects in Delhi, there are many reputed food processing units within Delhi, who are our clients, we do Rs. 1-2 crore supply to our customers yearly, so the customers who are aware about our quality and understand the product better, such customers work with us, rest the market is mostly price based, we can say that.

Lokesh Behl:

Ok Sir and apart from this in our business like you projected in today's date after Corona, are there any chances of having any bad debt, how would that be?

Management:

Because of Corona nothing would happen, bad debts will be the same as per the routine business. We do not have any major supply wherein our customers are affected by Corona and will pay our bad debt, so Corona will not have any impact on this.

Lokesh Behl:

Generally, what is our bad debt level, means how much provision we do for the sales?

Management:

If you go to see, maximum we do not have a major bad debt, one or two bad debts that are there I think it was prior our IPO period we had cleared our books, few debtors are such whose realization comes in a little late but now also if you see our previous books also, our bad debts are not that much, you can take it but in that material is not included in it, it is around 0.2% or 0.3% of the top line.

Lokesh Behl:

Apart from this, we are gradually increasing our focus towards exports, like you said in your opening remarks also. So Sir is the profit margin of the export orders comparatively more and if yes, then how much more is it?

Management:

It is a little bit more over there, in export also what happens is, you should have a good relation and tuning, we have started export focus from past one or two years only. So at present, in comparison with the domestic, the difference in the profit will not be more than 10%, we cannot say that one gets good margin over there, it is not like that in the export orders now at present but maybe after it is regularized, it will happen.

Lokesh Behl: Also, apart from this, you are also focusing a lot on R & D, so how much percentage of our sales annually our expenses on Research and Development is in today's date and are we planning to increase this in future?

Management: If we remove the top line expenses percentage wise, then our R & D expense is of 0.3% and this depends on the business as to how much is the dependency but in the current scenario and up to some extent of the situation, our this R & D expenditure will be continued in the same way, we may not try to increase it more. At present our expenditure is 0.3% of the top line and in near future this expenditure may not fluctuate that much, will remain in the range. And due to R & D in the last year, our sales have been around Rs. 1 crore, in that our low temperature, low humidity dryer is doing well. So, its pending order book of this year is around Rs. 1.6 crore and in the last year we had done a sales of around Rs. 45 lakh, in that we had sold few Dehumidifiers also.

Lokesh Behl: I have one book keeping question; the employee cost that we show in our P & L, I read that we had 252 on-roll employees and 252 off-roll employees. So are we considering this 252 off-roll employees under other expenses or under employee cost?

Management: That is considered as other expenses, it does not get added in our employee cost, it gets added separately in the schedule under 'labor expenditure'.

Lokesh Behl: And sir, one second last question in fact. Our cash flow looks negative, though it is quite normal for new businesses, so regarding this are we having any plans that in future we will be able to reduce our deters a little more or reduce the inventory so that our cash flow will also become positive in future?

Management: We had also spoken to someone regarding the cash flow in our previous con call. So cash flow is such a thing which we are considering as a debt that for us it is in the red zone for us all the time, so we have to maintain it only and move on. If we compare the current H1 and H2 cash flow, so it was negative Rs. 6.5 crore, it is now Rs. 1.5 crore negative only. So that means in the second half we had generated a cash flow of Rs. 5 crore though we could not mitigate the H1 impact, the main reason for that was that our Rs. 10 crore to Rs. 12 crore of our dispatch could not take place in the last ten days. That is the reason our inventory is also at an increased level now. Our deters were also like that, like our realization was nearly Rs. 3.5 crore to Rs. 4 crore which was their commitment but it could not get realized due to Corona lockdown. Otherwise, our cash flow would have been positive this year only.

Lokesh Behl: Apart from this, the debts that you have, like that we do not need any capital expenditure in today's date but in future at what percentage of our total debt to EBITDA is our comfort level that we will not go beyond it. Have we decided anything as such within the organization that this level is optimum for us and we would not want to go beyond this?

Management: By the way, our current debt of Rs. 3 crore is a long term debt only, apart from it is our working capital. In future if anything happens, our majority try will be that we should manage it from our internal accrual and positive cash flow but in case if we need anything as such, then around Rs. 2 crore or Rs. 3 crore, we will not take extradite more than that in today's date because as per the situation now, we are also managing our cash flow a little conservatively.

Lokesh Behl: Sir one last question; where do we see our business in the coming three to five years, only direction, no one can give fixed in today's date that this many crore of sales will take place or this much of profit will be there, but Sir what is our vision, where do we stand in the coming three to five years, where do we see our business and in what shape?

Management: Actually, during this Corona times, it is very difficult to say about five years, there is no mindset that we can say a little positive and in the current scenario if I say, it will not be attractive. So I feel we will not be able to reply on this question in this con call.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor over to Mr. Mandar Desai, Company Secretary for closing comments.

Mandar Desai: Before we close the session, on behalf of Ice make Board of Directors and Management, we would like to thank you all for your participation in this earnings conference call. Thank you for listening and have a great time ahead. Stay Safe, Stay Strong. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen, with that we conclude this conference. Thank you for joining us and you may now disconnect your lines.