

# Ice Make Refrigeration Limited

## Q1 FY-22 Earnings Conference Call

### August 20, 2021

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**Moderator:** Good evening. Ladies and gentlemen. I am Janice, the moderator for this conference call. Welcome to the 10th 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 Q1 FY22. Ice Make Refrigeration Limited is a leading supplier of innovative cooling solutions and manufacturer of 50+ refrigeration equipment. The company has been successfully satisfying the needs of its customers from production to after sales services 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 high-quality refrigeration products and equipment.

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 Limited. At this moment, all participant lines are in the listen-only mode. Later we will conduct a question-and-answer session. At that time, if you have a question, please press '\*' then '1' on your touchtone keypad. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Patel. Thank you and over to you Sir.

**Chandrakant P Patel:** Good evening. I welcome you all to this investor con call. New Year came with new hope. Previous year, in spite of Corona, our business was good, which we talked in the previous con call. Today, we will talk about first quarter financial performance of current financial year. Mostly if you see, in our business cycle, business will be normal in the first two quarters and it increases in the last two quarters. But if we see the performance of this quarter, it was good and in fact it was much better than the previous year's quarter comparison. Our top line has also been increased which would help us in total numbers at the end of the year. But on other side most of the raw materials prices are all-time high, we have made some changes in price policy, the effect of which can be seen in the next quarter. We feel that the business will be good in future on the basis of present situation. I again thank each of you for joining this investor con call. Now, Mr. Nikhil Bhatt – Vice President, Strategy will give business updates. Thank you.

**Nikhil Bhatt:** Good evening. Like our CMD Sir said generally our Q1 is overall average compared to other three quarters average, but this year if we see in this Q1 compared to last year Q1 and

previous quarters we are seeing a lot of progress. Leaving H-1, even in H-2 it is progressive. So, if we talk of this quarter in today's date we feel that we can perform better looking at today's order book, it is around Rs. 46 crores on hand and on export where we had focused from last year so that we would be able to see the result. Recently we received new orders from Qatar, and we have chances to get some more orders in future. The development which we had done last year with US based associate, we are getting regular orders from them. Freeze dryer, the product which we had developed about a year back, we are seeing good results, we had sell one unit in past to one client, we have already dispatched freeze dryer for more than Rs. 1 crore to the same client, installation is under process. They have a special product for camel milk, where there was a requirement that we have supplied. Apart from that as you all know, Panchmahal dairy, the dairy of Amul group, from whom we got order for 15.5 crore, there also a progressive steps, the project has gone ahead with one step, and we hope to complete it within this year. In E-commerce industry because of Corona or new trend & new development, which is happening in e-commerce and in food chain, one of the leading company which works globally, which is also working even in India, we are getting repeated orders in this quarter and its continue in future also. Netherlands company, for whom we had developed a specialized fermentation product last year, we have received a repeat order for their Indian projects. We are hopeful this year we will be able to increase our exports better than previous years and even domestic business also whatever projection and growth we have, we will surely achieve it. Thank you.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Parthasarathy from Parichay Consultancy.

**Parthasarathy:** I just wanted to ask you about the five segments which you have, last time also when I participated I just wanted to know if you can give segment-wise turnover with margin? You have some five segments at least can you give for the big segment the turnover with margin?

**Management:** Right now, we can tell you the details vertical wise. Rest are all common operations. We have multiple segments and multiple products.

**Parthasarathy:** Just want to know, for example this segment of ammonia refrigeration, which you had referred twice previously, how it's running now? How the segment is doing and what is the normal margin we can expect from this segment?

**Management:** Ammonia is a contracting business, margin is not that good, but manufacturing capacity is not required in that. You can do good business depending on the experience, the plan we had for ammonia in the previous and current year we have done a good business compared to the target we had set. I can tell you the exact figures, our dispatch is Rs. 2.65 crore and on hand orders for ammonia vertical is Rs. 15 crores plus. There are some more orders in pipeline, so current year in ammonia vertical we can do a business of around Rs. 30 crores.

**Parthasarathy:** What can be the margin in the segment approximately?

**Management:** Because of raw material like commodity, metal prices going up, we can say margin around 14% net margin.

**Parthasarathy:** Is the capacity utilization is full in these 5 segments? Or is it working less than full capacity?

**Management:** Our utilization is around 60%.

**Parthasarathy:** In almost all the segments?

**Management:** It's not segment-wise.

**Parthasarathy:** I got it. Let's not waste time on that. Overall, your capacity utilization is around 60%, is it okay?

**Management:** Yes 60%.

**Parthasarathy:** The turnover of this first half, the next three quarters which will come, can it double in the next two quarters compared to that at least?

**Management:** The projection for this year which is 30% growth compared to the previous year. We can easily achieve with this current order book, if we compare the previous two months order, whatever booking is there for June and July, we have secured booking almost double of that in this month.

**Parthasarathy:** In which segment you are receiving orders? Any particular sector because there was vaccination drive from the government, is there any special sectors like health care where you see more growth which can translate into business for you?

**Management:** Actually, in health care the top line business was 15% which used to come from pharma related segment. We have received an order for Rs. 4.5 crore, which is related to vaccine program. If we take business related to vaccine it is Rs. 6 crores.

**Parthasarathy:** So, there is not much of big benefit in this vaccination drive, you have not received benefit from transport or any other sector?

**Management:** Actually, in transport we have done vaccine only 4 to 5 vehicles.

**Parthasarathy:** Were you expecting that you will get good business from this transport segment? Did you feel that you can catch big business from this transport segment when government announced?

**Management:** As a matter of fact, we already knew the fact, in spite of what the government was saying that they don't have a very lengthy cold chain but vaccine does not require much volume, as such the adjusting infrastructure was quite enough.

**Parthasarathy:** What do you expect for the whole year, top line with margin, can you give if possible?

**Management:** If we talk on margin, the volatility in the raw material is very high, according to that, to predict margin with this volatility it is difficult for us. Because of that we had hiked selling price of a product, in the first quarter we could not see the impact. From second quarter the impact may start coming, like I had told you before according to 30%, we can do nearly Rs.170 crore this year.

**Parthasarathy:** Do you have any clause of this price escalation in your contracts, or you have lag effect after six months. Because commodity prices are increasing, everybody in this industry are suffering from this raw material especially the metals, there is problem everywhere. Is it immediate or it has some lag effect, like you will get say after six months or three months?

**Management:** If you see the general price policy, we revise the price once in a year. Looking at the overall scenario we review quarterly and revise partly, because we cannot give immediate effect in the market.

**Parthasarathy:** Yes it cannot be given, that's why I was asking, and if there is any lag effect you have to bear the increase for some time. Isn't it?

**Management:** Because in one or two quarters it gets set, if it is on higher side overall somewhere limit will come for that, overall, in industry if everyone has to increase the prices, then we too will have to increase the prices.

**Moderator:** The next question is on the line of Kunal Poddar from ATO

**Kunal Poddar:** I actually wanted to ask you that what sector is your main customer. When I say that is, is the main customer from the transportation sector, so are you getting orders from the transportation companies or is your main sector are FMCG companies or are you getting mostly orders from FMCG companies?

**Management:** Our main market is from where we get maximum business, which is dairy and ice cream, which is the main segment. After that it is hospitality, healthcare, logistic, pharma and chemical.

**Kunal Poddar:** What percentage of your sales is export versus domestic?

**Management:** If we talk of current Q1, in Q1 export was about Rs. 3.5 crore and if we talk of the previous full-year i.e. 2020-21, exports was about Rs. 6 crores, in which SEZ was Rs. 1 crores included,

if we deduct SEZ, around Rs. 5 crore is pure exports. We were not focusing much on exports previously, we started focusing from the previous year and previous year's export turnover was Rs. 6 crore. If we talk of the existing order book, still Rs. 4 crore is pending for dispatch in exports. So, we can do Rs. 8 crore exports as per the order book, maybe we can dispatch more this year. So, we can expect export between 8 to 10 crores in this year easily.

**Kunal Poddar:** You have told that you're expecting growth of 30% for the coming year, so how was the growth jumped so much, is there any tailwinds?

**Management:** Actually, every industry has a normal growth of 5 to 10%, which depends on the product. But we can always expect a normal growth of 5 to 10%, rest whatever development we have done in the previous 1 to 2 years on the basis of product and the demand which is coming from the new vertical in health care products, we feel we get excess demand, in addition the ammonia vertical which got good business this year compared to the previous year and if we see list of orders we will get in future also. Even the processing industries are in a boom, and the demand from them which is coming and the orders which we are getting, we take all this into account, and even the increase of demand in e-commerce due to which we got many orders for supply of equipment. We see all these sectors we feel we can achieve 30% easily.

**Kunal Poddar:** The government has given more focus on cold chain in previous 2-3 years, do you think because of this the competition in your sector will increase or do you think it will have a pressure on your margin?

**Management:** What the government is focusing on is our market. With the government focus if this movement comes then our market size will improve. Overall, this will be a benefit for our industries, this will be a big opportunity for us.

**Kunal Poddar:** Next what I want to ask is, like when you make equipment for refrigeration, so why don't you do warehousing yourself, cold chain, or warehousing. Why are you not entering that industry? Is it on the cards?

**Management:** Our base is a manufacturing base, we provide equipment and solutions. Warehousing what you are talking of goes into the service segment which is not our specialization. We don't want to disturb our manufacturing focus that we have as of now. In that there are different issues and requirements. It will be better if we focus more on manufacturing, and we get good results.

**Kunal Poddar:** What is your entry point in the industry? Is technology your point of entry or is it relationship with customers?

**Management:** Relationship with customer is very important, as well as we have a very wide product range. Like the requirement, which is there for cold chain, we can provide our equipment for it in a big way. Other than that, we have 30 years' experience. We give customized solution. We have

a record for our service. We have recently started dairy solutions also since the last 1-2 years. Our specialty is that we have got multiple segments and multiple products, therefore the customer gets a wide range of choice, and the customer can get a single solution.

**Kunal Poddar:** You just now spoke of ammonia segment. Would you say that your ammonia segment is your fastest growing segment or is any other segment your fastest growing segment?

**Management:** If we see according to the numbers, we can say that ammonia is the fastest growing. Because since the last 3-4 years the business that we have started, we see its growth more in numbers and that is a future for us. From an environment point of view also, ammonia is a good refrigerant. Other than that, The Refer Van Business for food processing industries and health care, if the overall cold industry develops then this Refer Van business is very important.

**Moderator:** The next question is from the line of Pawan Kumar from Shri Ratna Capital.

**Pawan Kumar:** You said your raw material prices have increased, how much has it increased? Secondly, how much price hike will we have to take so that we can bring our margins to a normalized level?

**Management:** Raw materials which have increased are chemicals, copper, aluminum, etc. if we compare the raw material prices since the last one year, raw material prices have increased from around 60% to 100%. The existing bookings that we have done they have a validity of around 3 months. We have entered into contracts at that time. Because we have entered into contracts, we cannot immediately pass on the escalation because these are fixed rate contracts. Its only when we enter into new contracts, its then that we pass on the benefit of price increase. In maximum two quarters that effect is passed. We have to clearly bear the effect for one quarter.

**Pawan Kumar:** So, in one of two quarters?

**Management:** In one or maximum two quarters. We have also increased our selling prices whose impact was not visible in Q1 but in Q2 we will get its visibility.

**Pawan Kumar:** Who are our competitors who make the same type of customized products like us?

**Management:** We work in 5 segments, and there is no one-to-one competitor who work in all these products. If we see the vertical wise competitors, then we can say Blue Star is one who works in commercial, industrial and cold storage. Voltas & Carrier also working in same three segment. As far as vehicle (Refer Van) is concerned, there are 2-3 companies in India like Suraksha and Sub-Zero are competitors for vehicles. For panels we have Jindal and Rinac are there. In Ammonia, Frick India is there from quite some time.

**Pawan Kumar:** Who in Ammonia? What did you say?

**Management:** In ammonia there is Rinac and Frick India, these are the two big players in India and are there since quite some time.

**Pawan Kumar:** Talking about long term, if we don't talk about this year because there has been a raw material inflation, but when we take orders do we have some margins in our mind? What will you say about margins?

**Management:** Our long-term EBITDA projection is around 9%-10%. If we remove the raw material abnormality which exists right now, we have a target to sustain an EBITDA margin of 9%-10% and to increase the topline.

**Pawan Kumar:** What is your ambition for the next 5 years, till where can you take the topline?

**Management:** We are projecting a normal growth rate of 25%-30%. Our 5 years projection is around (+) 400 crores.

**Pawan Kumar:** Will there be any change in our working capital cycle, or will it stay the way it is right now?

**Management:** The CC limit that we have kept sanctioned for the working capital that is 25 crores. And our CC utilization is around 12 to 15 crores. We will not need to make any major changes in our working capital in the next 2 years. And whatever additional requirement will be there, around 75% business is direct and 25 % through dealer. So, we don't think there will be any major change in that business. And whatever gets dispatched we do it according to the standard terms by taking an advance and this will continue in future also. Because the nature of the product is the capital, therefore we will take advance and then work. So, we will not be stressed on working capital. And in case we would want to go a bit aggressive then we can give a credit period to the dealer network, but that will not be a material change.

**Pawan Kumar:** Will anything happen on debt, CAPEX?

**Management:** We don't have any additional plan for the next 1 or 2 years on CAPEX. There is no major CAPEX.

**Pawan Kumar:** Based on our current plants, how much turnover can we do with that?

**Management:** There can be small here and there but otherwise around 300 crores topline we have adjusting capacity; we can plan for that.

**Moderator:** The next question is from the line of Manan Patel, individual investor.

**Manan Patel:** You are talking of a 30% growth, as you said the new orders which are coming now we will be able to pass on the raw material prices, so, I wanted to understand the breakup of volume and realization growth. In that 30% growth how much will the volume and realization increase?

**Management:** As I have stated earlier that the raw material price increase from the second quarter we will be able to pass it on. But you will always see in business that when there is a high increase in raw material prices, it will depress the margin. It's not that you can pass it on 100% to the customer. Topline growth will remain our focus because we cannot say much about it keep in mind our infrastructure and manufacturing capacity. Next year net margin 10% and EBITDA we will maintain the margin. Because some business and cost is there, we will get a benefit for it.

**Manan Patel:** I wanted to understand regarding our growth, will the growth come on the number of units you sell? And the sales price increase which has been there, let's say, 5% or whatever number it is, how much growth will be there out of that? I wanted to understand that bifurcation.

**Management:** The difference in raw material cost, you can say is 5% average. And the real growth is 25%.

**Moderator:** The next question is from the line of Kunal Poddar from ATO.

**Kunal Poddar:** What does your competition feel in this market? Is your competition large players like Blue Star or is your competition more smaller players?

**Management:** We can say both. Like in corporate it's Blue Star, a national player competition. And there is a segment of medium and lower sized orders or the customers, there are local players also there. The competition is same from both.

**Moderator:** The next question is from the line of Pawan Kumar from Shree Ratna Capital.

**Pawan Kumar:** What is the overall revenue percentage from the top 5 customers or the biggest customers? And what is the percent of repeat orders in our order book?

**Management:** Our top ten business is around 23% to 25%, which includes OEM and retail. The OEM is more a repeat business for us, and we get continuous orders from them.

**Pawan Kumar:** What is the split between OEM and retail in our revenues?

**Management:** 75% and 25%. 25% is through dealer or OEM and 75% is from direct retail.

**Moderator:** The next question is from the line of Parathasarathy from Parichay Consultancy.

**Parathasarathy:** I just wanted to check, in exports you said there is some small increase, say just about some 6-8 crores. So, is the scope still large or you are not able to tap the export markets?

**Management:** We have not focused earlier because considering the nature of the product, it is a serviced based product, so it is not that much comparative looking to the other products for the exports. So, accordingly we are focusing step by step to different countries. We are developing the associates in African countries as well as other areas. So, gradually it will increase. But we will



not get that much jump. Because of COVID the travelling is restricted in many countries. If we have to do export as a routine and regular business, then that is possible only through dealer OEMs networks. Now, because of the travelling restrictions it is a bit difficult to take an immediate jump. When the COVID scenario and travelling improves then we can focus on it aggressively.

**Parathasarathy:** Will the exports have better margins than domestic?

**Management:** It will always be better than normal margin.

**Parathasarathy:** Will the company be able to easily face competitors abroad also?

**Management:** There will be competition there also because there is the European and American market.

**Parathasarathy:** We are competent to compete with them, isn't it?

**Management:** Yes.

**Parathasarathy:** The potential is a lot, therefore I asked. Because of COVID it's more in health care, so I was wondering whether we will be able to concentrate more on exports. As you rightly said, the restrictions are reducing, so whether we can pitch in for higher exports at least in the future?

**Management:** Yes.

**Moderator:** Members of the management, that seems to be the last question in queue. I would now like to hand the conference back to you all for any closing remarks.

**Management:** Thank you. Before we close this session, on behalf of Ice Make board of director 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. Thank you.

**Moderator:** Thank you. On behalf of Ice Make Refrigeration Limited, this concludes this conference. Thank you all for joining. You may now disconnect your lines.