

Crompton

Crompton Greaves Consumer Electricals Limited

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Date: November 14, 2023

To, BSE Limited ("BSE"), Corporate Relationship Department, 2 nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai - 400 001.	To, National Stock Exchange of India Limited ("NSE"), "Exchange Plaza", 5 th Floor, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (East), Mumbai - 400 051.
BSE Scrip Code: 539876	NSE Symbol: CROMPTON
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Our Reference: 186/2023-24	Our Reference: 186/2023-24

Dear Sir/Madam,

Sub: Disclosure under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015) – Transcript of Earnings Call

With reference to our earlier intimations dated October 13, 2023 and November 6, 2023, regarding the Earnings Call on the unaudited financial results for the quarter and half year ended September 30, 2023, held on November 6, 2023, kindly find enclosed the transcript of the same.

You are requested to take the above information on your record.

Thanking you,

For **Crompton Greaves Consumer Electricals Limited**

Rashmi Khandelwal
Company Secretary & Compliance Officer
ACS - 28839



**“Crompton Greaves Consumer Electricals Limited
Q2 FY24 Post Result Conference Call”**

November 06, 2023

**MANAGEMENT: MR. PROMEET GHOSH – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – CROMPTON GREAVES
CONSUMER ELECTRICALS LIMITED
MR. RANGARAJAN SRIRAM - MANAGING DIRECTOR –
BUTTERFLY GANDHIMATHI APPLIANCES LIMITED
MR. KALEESWARAN ARUNACHALAM – CHIEF FINANCIAL
OFFICER – CROMPTON GREAVES CONSUMER
ELECTRICALS LIMITED
MR. YESHWANT REGE – VP, STRATEGY & FPA
MS. NATASHA KEDIA – HEAD – INVESTOR RELATIONS**

HOST: MR. ANIRUDDHA JOSHI – ICICI SECURITIES

Divya-Purohit:

Good morning, everyone. On behalf of ICICI Securities, I welcome you all to Crompton Greaves Consumer Electricals Limited Results Call. Today we have with us, Mr. Promeet Ghosh, Managing Director and Chief Executive Officer; Mr. Rangarajan Sriram, Managing Director, Butterfly Gandhimathi Appliances Limited; Mr. Kaleeswaran Arunachalam, Chief Financial Officer; Mr. Yeshwant Rege, Vice President, Strategy and FPA; Ms. Natasha Kedia, Head of Investor Relations. Over to you Mr. Ghosh.

Promeet Ghosh:

Thank you, firstly ICICI for hosting this call. Has already been said about Sriram, Kaleesh, Natasha, Yeshwant and me. Thank you everyone for joining our Q2 earnings call. What I am planning to do is to take you through some comments, then we can get into Q&A. You have most probably already seen the presentation that we put up. I am not necessarily just tracking the presentation, because I want to make a few more detailed comments, which I hope will be useful to give you colour and then we can take it from there.

Firstly, macroeconomic environment. The environment is still challenging. Discretionary purchases have been softer than anticipated as a result of inflationary pressures and lower than anticipated consumer confidence. However, from September '23 onwards, we did see an uptick in consumer sentiment, which we hope will sustain in this coming festive season.

Unseasonal weather conditions and regulatory changes further added to the volatile demand environment, which impacted channel inventory and pricing actions. These pressures have had an impact on overall margins, but the efforts of premiumisation, mix improvement, cost optimisation have partially offset that impact.

Inflation continues to be a concern. And FY '24 inflation, as you know is forecast about 5.4. An expected slowdown in inflation, we expect will bolster volume growth and having said that, high food prices may act as dampener.

In so far as the Board is concerned, as you are also already aware, at the end of his second term, Mr. Hemant Nerurkar, who is our Chairman for seven years, and has therefore stepped down from the Board.

Mr. Sundaram, who has also been on the Board since the beginning, since 2015 when the company became listed, has assumed the Chair of the company. He will be relinquishing his position as the Head of the Audit Chair, again a position he has held for over time, and he will be replaced by Ramesh, who is a Former Head of Deloitte as you are probably aware. He is going to become the new Audit Chair, and Mr. Sundaram becomes the Head of the Chair of the organisation.

He, as you are also aware, was the Chair of HUL for many years and now also serves on the Board of TVS Capital Funds. He has also been on the Boards of several companies like SBI General Insurance, GSK and Trent. We are also very delighted to welcome two new board members in line

with our tradition of having individuals particularly noted for their achievements in their respective fields. We have two more people who have joined. Anil Chaudhry has joined as an Independent Director. Anil was the MD of Schneider Electric India Private Limited. This was the entity that acquired L&T Switchgear some years ago. So, Anil was the first CEO of the combined entity and was quite instrumental in transforming that combined entity, which is of course is the largest Switchgear company by some distance in India. He has four decades long experience in energy, automation and infrastructure, now also has interest in sustainability, energy efficiency and diversity.

Sanjiv Kakkar again, quite well-known. He has had a 38-year long career with Unilever. He was a Member of the Executive Board of HUL before he moved on to head the very large, Unilever business to expand the Middle East, Russia, Ukraine, Turkey, North Africa as well as Central Asia and that is what he did until he retired. So, we are delighted to have them on board and also have a lot of gratitude to Mr. Hemant Nerurkar, who has stewarded us for many years.

In so far as Crompton 2.0 is concerned, we have embarked on the 2.0 journey. There are several key elements to that, premiumisation, go-to-market excellence, brand investments and new product development and innovation. In so far as premiumisation is concerned, we improved our premium fans saliency to about 28%, which is about a 2.5% higher than it was previous year. Executed some very successful product launches, making us the player with the largest range of premium BLDC fans in the industry and obviously that is showing up in larger numbers, but this is kind of the detailing that has going into the numbers, so to say.

We deployed a new brand architecture in pumps, added variants such as Shield and Smart series under our 'Mini' category and in the lighting, we have also actually improved our premium saliency, which is now 12% having improved about one percentage point. It is worth noting that we have been growing, both our traditional go-to-market channels, which is general trade as well as some pretty strong growth in alternate channels. So, we doubled our e-commerce business over the previous year. This quarter, it is now more than ₹100 crores per quarter, hopefully that growth momentum will actually sustain even in the future. This growth can be attributed to our expanded product portfolio selection, enhanced product availability, and increased investments in digital marketing.

Our alternate channel saliency, this is basically everything other than GT (general trade) has improved to 17% from what used to be about 13% in Q2FY23. We also crossed the 2,500 mark in retail transformation in terms of Crompton branding with our direct channel partners.

We continue to make consistent investments in brand building, which has led to an increase in brand saliency across categories. In Q2, we launched a high impact campaign for mixers and grinders. Hopefully some of you have seen that, which has garnered a high share of voice campaign. "The Secret of Fine Taste" witnessed a 40% increase in reach on a year-on-year basis.

Multiple content assets were deployed in other categories as well. Six new influencer videos with 3.8 Mn plus subscribers, covering 1 lakh plus views in fans. In small domestic appliances we had 15 influencer videos, 8 million plus subscribers, and 3.5 lakh plus views. All of these are obviously going to help further construct our alternate channel, which we continue to drive for digital discoverability. Our “*Always-On Fan*” campaign garnered 70% SOV vs competition at 50% share of voice.

We also launched a seasonal water heaters campaign. Overall, our A&P spends actually grew 31% year-on-year in line with seasonal trends and in line with what we talked about in the past. And we implemented focused initiatives to increase awareness, consideration, and preference across categories and channels.

Now, in so far as the financial numbers are concerned, we delivered an industry leading growth of 17% YoY in ECD segment, due to a strong momentum in both fans as well as small domestic appliances. The pumps registered a growth of 10% led significantly by Agri, also being defined at about 17% YoY.

In lighting, where competition remained taut with industry level challenges due to price erosion in B2C, margins improved on account of cost optimisation measures and product mix. Lighting EBIT margins improved by 250 basis points with an absolute EBIT growth of 16% YoY. We have talked about building our lighting business, so that we have a right to win. We have made a bunch of changes on the lighting side to revive growth there. But in the interim as that begins to fire away, we are building up a very strong leading profitability, which gives us the right to grow in that business. In some of that, you will see flowing into growths in the future.

For Butterfly, retail and modern trade continue to grow amidst industry-wide demand slowdown. There was a shift in festive season. The festive season is later this year, approximately by a month, I think and 2Q as compared to last year, so there is a little bit of an impact of that is happening. Last year resulted in season pre-buying moving to Q3. And we will talk about Butterfly in greater detail in a moment.

Segmental performance, let me first take Fans. In ceiling fans, again, some of the emphasis that we had on premiumisation is beginning to bear fruit. I told you about the improvement in premium saliency. The premium segment grew by 30% plus year-on-year, which was the standout growth driver. TPW fans, which is, table pedestal and wall fans is growing faster than the category with the high-speed segment within TPW, leading the growth. Laddering actions that we took coupled with new launches boosted our presence in this premium segment.

We have achieved a milestone by beginning to manufacture this sub-economy segment in-house that should help to give us greater control on our manufacturing, but also help improve the cost structures as we go forward. We undertook pricing actions, despite the competitive nature of the

market, we took pricing increases. I can't say a lot of our competitors followed, but we took pricing increases, showing our intent on protecting margins in the last quarter and we will see how that goes. Maybe we will take some more in the future.

We are really driving premiumization across the board with embedding that into various parts of our growth market and various parts of our demand generation mechanisms. We are also focused on reducing costs. As you are aware, the BEE transition which happened earlier in the calendar year has had some impact, not all of which the industry has been able to pass on in the segment. But we are working quite diligently on trying to mitigate those impacts as we go forward.

In so far as Appliances is concerned, and this includes both what we call the large domestic appliances as well as the small domestic appliances. As you are aware, we segregated those two segments internally from our rewarding point of view. And appliances overall grew about 17% YoY driven by both underlying segments.

Kitchen appliances maintains robust growth propelled by mixer grinders where we have introduced a 750-watt mixer recently that has been vital and the kettle category, which grew 100% over the last year. We are empowering on-ground Feet on Street (FoS) and sales team in small domestic appliances. And frankly it is all about taking a slightly different approach to small domestic appliances and that which can see a bit more Feet on Street training, reviews, etc. And that is showing up in how our small domestic appliances is growing, which as I said earlier has been one of the drivers of growth for ECD overall.

Water heaters and coolers, which is large domestic appliances, the growth of the segment was backed by water heaters doing extremely well for us. In the last quarter, we sold the largest number of water heaters that we ever had, which is in excess of 10 lakh units. And frankly, that translated into a significant 10% plus market share in the water heater segment combined with market share needs.

So far as our Pumps is concerned, I noted earlier that as you are aware we have got pumps both now in the Agri as well as the residential segment. The residential segment is an area that we have a significant market share in, close to 30%. Now our pumps growth was further bolstered by about 17% growth in the Agri sector, particularly in the Res and we also saw growth in the residential submersible segment. In fact, actually in the resi-submersible segment, I think we can disclose that also growth about 20% YoY. We have come out with a new brand architecture in the Mini segment, which is the largest part of our residential segment and we have seen volume growth there as well. Quality improvement actions in resi-submersibles and focus on panel sales also helped growth. We sell panels and now we have significantly improved attachment ratio where the pumps that we sell now are much larger number of pumps also have our own panels, which are attached to the pumps that we sell, needless to say at margin, adds to growth.

And so far as our large kitchen appliance business is concerned, this is the business that we are integrating and there we have seen growth being driven by channel expansion and material increase

in EBOs that have a particular channel that we are experimenting with, in selling out large kitchen appliances. So, there was an improvement in EBO productivity and expansion in modern retail.

The revenue run rate for the quarter climbed about 5 crores per month versus about 2 crores in the previous month. And the risk and improved traction that we are seeing in Hobs where already we have introduced Wave 2 model that is translating into the recent growth. We are working on rolling out a 360-degree marketing initiative to drive awareness and store footfalls. This is also the quarter where we opened the 75th signature store for selling large kitchen appliances.

Now coming to lighting, overall the lighting segment declined about 11% year-on-year as industry challenges loomed particularly in bulbs, battens and even now in the ceiling light segment. A little bit in the B2C part of the business, there was a price erosion that we saw happening particularly in battens and lamps. We are working on the go-to-market, which we have talked about a little bit in the past as well with the structural changes that we introduced early in the quarter. We are also working on sourcing and manufacturing strategy that would further bolster our capability in this segment. We however witnessed some early signs of recovery in the B2B side of the business with flattish demand. Focus continues on growing distribution, leveraging both traditional channels as well as now strengthening our modern trade and e-commerce in the lighting segment as well.

We are working on building a comprehensive portfolio that is focused on ceiling lights and there is a new segment which some of you may will be able to see and there's a few more which are expected to be introduced in that segment on short order. The new sales structure that we talked about was implemented through the 1st of September and we think that will help go-to-market which was a challenge in the B2C segment earlier.

EBIT margin in lighting improved to 10.5% from 8.5% and despite the growth challenges there was an EBIT growth of 16% year-over-year. Like I said earlier, as we work towards strengthening our go-to-market in lighting, we are simultaneously working diligently on strengthening the right to win in this segment and that is showing up in our margin, but we believe that these margins will help quite a bit in the journey going forward, when we have the GTM also fall into place.

Next is Butterfly, you will be aware, we had initiated the process of amalgamation of Butterfly with Crompton and that process received three-fourth votes of majority in terms of equity shareholders did not pass the majority of minority vote and therefore the amalgamation is being withdrawn. We respect the decision of the public shareholders and we believe the independent valuers has offered a fair valuation that was fair to Butterfly as well as to Crompton shareholders.

And having said that if the shareholders turned it down, we fully respect that, and ofcourse we will be continuing to be the controlling majority shareholder of Butterfly with the 75% shareholding and we do believe that, our process of realising synergies both on the revenue side, cost side, leveraging the strengths of the two organisations, those will continue unabated. While the legal structure of the two companies continues and it is being our standalone, because they are interested in the

stakeholders and that is the way that we have approached the business so far and that's the way that we will continue to approach it in the future.

Overall, and so far as Q2 FY24 performance of Butterfly is concerned, revenue of Rs. 308 crores, decline of 16% YoY due to festive season shift and one-off corporate sales in Q2 FY '23. Retail and modern trade channels continue to grow despite demand slowdown. Specifically in the Kerala region, the growth was boosted by Onam activities. During the quarter, several activities were conducted to drive customer engagement and reinvigorate the channel. EBITDA was at Rs. 25 crores with a margin of 8.2% post investments in people capabilities and brand building initiatives. We anticipate an uptick in demand in Q3 with a shift in the festive season.

Consolidated performance, consolidated revenue growth, this is for all of the segments, revenue growth of 5% YoY. This we said, has moderated because of Butterfly's de-growth driven by industry leading growth in ECD, which was at 17% YoY. We have material margins of 31.3%. EBITDA margins at 9.8%. This was down about 1.6%, partly due to lower material margins and higher investments in brand and capability building.

PAT declined by about 13% for Q2 FY24, excluding one-off tax adjustment. As you are going to call this tax adjustments, tax right backs, we got tax refunds in the previous quarter. Standalone PAT was a decline on a like-for-like basis for Q2 and the decline on standalone basis would be 5.6% YoY. During the quarter, we paid out of Rs. 192 crores of dividend. The net debt stood at Rs. 261 crores versus Rs. 145 crores as of 30th June 2023. The annual fee this quarter, as we said is on account of the dividend that we paid out.

In conclusion, we have materially streamlined business post strategic review, which we have been talking about in my earlier days. We continue to take the right actions I hope to transform the business into a growth-oriented organisation, which is profit-led to deliver strong TSRs.

We are focused on our core categories of fans, pumps, large appliances, and small appliances and have demonstrated success in the large kitchen appliances category, which we entered about a year ago but again, we are seeing a new business being incubated there. While through Butterfly, we also obviously are endeavouring to win in the kitchen appliances business and as you can see the growth in our small domestic appliances business, which is also in essentially kitchen appliances, continues to be very robust in that one of the drivers of the ECD growth of 17% YoY that we reported this year.

We think our kitchen foray is on track. At the same time, we are developing a long-term strategic manufacturing and supply chain footprint which will support our important aspirations and also working on go-to-market excellence apart from greater emphasis on building our brand which is already very strong.

Our focus continues to be on building our innovation capabilities consistently led by consumer needs and our portfolio transformation efforts in addition to delivering on operational priorities.

You have already seen as I talked a little bit about how premiumisation journey has so far been. Hopefully we will be able to adapt as we will be going forward. Thank you for listening.

Aniruddha Joshi:

Thank you sir. Thanks for detailed presentation. Now we will now open the floor for question-and-answer session.

First, we have question from Renu Baid. Please go ahead with your question.

Renu Baid:

My first question, I have three questions here. First, can you just summarize the overall demand momentum in the B2C segment? You did mention that optimism was seen through September and you expect this to be maintained through festive. Are the B2C or consumer offtake headwinds which were witnessed over the last 9 to 12 months, you think they are broadly behind? And any more colour in terms of any regional colour in terms of offtake or segments would be helpful here?

Promeet Ghosh:

Let me clarify it. When we say B2C, we usually mean B2C lighting, so I will clarify that. There may be B2B business as in the rest of our categories.

Renu Baid:

My question is broadly on the consumer demand and offtake?

Promeet Ghosh:

So, I just want to clarify first before I answer. So yes, consumer demand continues to be moderate. This is not a market segment where we are seeing a strong boost in consumer demand. Now that may be because of inflation, it maybe because people are not spending as much. There are a bunch of reasons. Frankly, I do not think anybody in the market quite understands why this may be exactly so.

Having said that, what we have done in order for us to keep ahead of it is to simultaneously also strengthen our premiumisation journey. And strengthen our position in not only developing the go-to-market, the traditional GT, what we call general trade, but developing our e-commerce and rural platforms as well. And that is the reason why you are seeing the kind of growth that you have seen in recent times.

I cannot say I am seeing a strong revival in consumer demand yet. Yes, there is some uptick that we are seeing because of festive season, but that is a simple uptick that you see every year. It is a little later this year than it is every year.

Renu Baid:

Got it. Second question on the fans and ECDs where fans has come back very strongly with respect to volume growth, while most of the other peers are still grappling from a higher base and slower offtake in the market. So, this kind of volume growth, do we think should be broadly sustainable over the second half and incrementally moving how do we look at the share of premiumisation in the fan's portfolio over the next 12-18 months?

Promeet Ghosh:

So far as higher base is concerned, I do not think that our base was lower last year.

Kaleeswaran A.:

Absolutely. I think first of all, as you know, we do not want to give any forward guidance in terms of what we are trying to achieve in the coming quarters. See, as we talked about, we are looking at an opportunity to grow fans category across various divisions. Fundamentally, one is premiumisation. Maybe compared to the industry, our share of premium to the portfolio is probably on the lower side. So, there is enough headroom available for us to grow on that segment and try, which is something that we have been consistently executing on ground and we are starting to see results of that when it comes to premium fans.

We also believe there are categories within fans like the table, pedestal and the wall category, which is an opportunity that has not been tapped by us. We have started actions around it, and we are seeing good amount of growth coming in from that also.

Coming to the core fans, which is our value segment that we operate in, there we do see it is something that we will move along with the industry trend. I do not think that we would be differentiated from there. Wherever there are opportunities on distribution and penetration, we continue to address that. That is on the brand product side. Channels also tend to play a very, very strong role in this, as Promeet was earlier referring. We do see consumer preferences are now slowly moving away from general trade and it is becoming broad based into channels like e-commerce, channels like modern trade and RCS (Retail Chain Stores). Our execution opportunity remains very, very high in those areas also.

A combination of these four or five initiatives, we think there is good headroom available for us to look at the future in terms of how fans as a category can do.

Promeet Ghosh:

And so far as the channels are concerned, it is a very interesting thing. Our understanding is that a large number of people who look at fans on the e-commerce space, eventually go and buy the fan on the GT, on general trade. So fortunately, we have the strengths that we have on GT. We are building up our strengths on the e-commerce as well. The reverse is more difficult to do as you can imagine. So, we are filling in some of the gaps perhaps that we have had in the past.

Renu Baid:

And just last question, while the Butterfly demerger is now called off, can you help quantify the targeted savings both in terms of the net savings, probably in terms of cost and revenues that you were expecting for the parent company Crompton and I know getting earnings accretion could be even challenging in fiscal '25 if demand looks so. But how is the way forward in terms of synergies coming in from Butterfly?

Kaleeswaran A.:

One of the things Renu we called out as part of Crompton 2.0 is we have been very good in identifying savings that are above the gross margin via the Unnati programme that we have now been consistently driving for about five, six years. What Butterfly gave us an opportunity is to look at our costs below gross margin. So, we talked about the entire pool of indirect costs, which we

have about say Rs. 800 crores sitting in there, which is what we shared when we announced the Crompton 2.0 strategy.

We think Crompton and Butterfly coming together in this area, there is a good headroom for us to look at 7%, 8%, 10% cost reduction on that base, which would start evolving as we close this fiscal and move into early next fiscal. Now largely we think there are opportunities in warehousing and logistics. There are opportunities in after-sales-service, etc that we are looking at. So, all those things continues to stay. We do not think any of those things were tied into a legal merger.

And to give you a little bit more colour from the time of Butterfly acquisition to now, there were two tracks that were running in parallel. One is an operational integration of Butterfly with Crompton in spite of a legal merger that we need to do. And the last six months when we announced the intention to merge the company, we opened up a legal track house. So the operational integration track continues, where also prima facie focuses on the revenue and cost synergies that we need to get together for both the organisations and both the shareholders which we do not think so will get significantly hampered by the merger now going through.

Renu Baid: Got it. Thanks so much.

Aniruddha Joshi: Next we have a question from Mr. Keyur Pandya from ICICI Prudential Life Insurance. Please unmute your line and go ahead with your question. Thanks.

Keyur Pandya: The question is on the ECD sales. So, the kind of growth that we have seen with the other players versus the growth we have seen in Crompton, is this in line with secondary or tertiary sales or this is more of stocking for the channel? I just want to understand this and in second half of previous year, I think the commentary was that the company did not push the non-rated fans. In that context, should we outperform in second half also versus the industry? Thank you.

Kaleeswaran A.: So, Keyur, as we said, we do not want to provide a forward guidance on what would our second half could be. We continue to strive and do the things that we talked about for each of the categories we talked about earlier. Let it be fans, appliances, pumps, or kitchen for that matter including lighting. Now as far as the channel is concerned, you would see that the growths are divided into two buckets. Our alternate channels that outperform significantly and these are largely consumer offtake driven channels like a modern trade or regional chain store or for that matter e-commerce, which is phenomenally almost doubled our business in e-commerce as compared to the same time last quarter.

So, I do not think so there is a stocking that comes in here. GT works in line with the market, it is not that you need to look at a significant fill-in that happens. We have been following the market trend as it happens and we would see we are already seeing good festive momentum happening in October. Let us see how does that move forward as we close the quarter for Q3.

Keyur Pandya: Fair enough. Just one follow-up on this. So basically, there is nothing abnormal in this growth as you mentioned just the breakup of GT, modern retail and e-commerce either for ECD or for the company level as a whole, any broad numbers for this breakup?

Kaleeswaran A.: We do not give a channel mix split, Keyur. We would see that maybe we are going let's say 2x in alternate channels compared to our GT business.

Keyur Pandya: Understood. Last and second question is on the raw material side. Now have we seen the worst in terms of raw material, now it is up to the company whether the benefits are passed on or retained, but directionally should we see things improving as far as profitability is concerned? Just raw material as well as improving mix? So raw material getting favourable and improving mix towards premium. Should we assume, that profitability should improve?

Kaleeswaran A.: See the fundamental strategy that we talked about in Crompton 2.0 states, which is as an organisation, we want to drive growth by reinvesting back into business towards marketing, innovation and premiumization - that should provide us a sustainable revenue growth and a sustainable margin model for us. Keeping that as the base, the way we would look at this on the two questions that you have raised, one is on the raw material prices.

Interestingly, the categories that we operate in, while there is a commodity play into it, there is a lot of regulatory impact that comes in. Let it be the regulatory changes that we are seeing in fans or the changes that we have to go through in geysers etc in the past. It means that post BEE transition, while the commodity super cycle is over and it is moving into a stabilisation mode, the cost increase that we have to absorb on account of BEE rating is yet to be fully passed on.

And we think as a market leader, it is important that apart from the cost actions, we also need to take price actions. That is where you have seen us doing one round of price increase already in the month of September. As the demand scenario develops through festive and we get better clarity, we may have to look at a couple of price actions further in the coming quarters also, beyond the other cost benefits that we need to see where it is.

So, in a nutshell, the way we need to look at this, at what level the ECD portfolio margin needs to stand at. And we think structurally, there is a headroom to improve on account of the regulatory cost their increases being recovered either through price or cost action that needs to be done. Beyond that, we want to focus on investing behind the brand and driving growth. That is the way we would look at it. Yes, obviously, premiumisation will help us in driving share of profits. The profit pool with premiumisation is always higher at an absolute level as you compare to a non-premium category. But also, you need to keep in mind that a premium category is going to be innovation led and that is a consumer innovation led, which also gives us an opportunity to invest behind the brand to take the brand to the next level. So it will be a calibrated call as to how do we balance growth and profitability and ensure that the absolute profit growth comes in.

Keyur Pandya: Understood. Thanks a lot and all the best. Happy Diwali.

Aniruddha Joshi: Next we have a question from Rahul Gajare. Please go ahead with your question. Thanks.

Rahul Gajare: This is Rahul Gajare. So, I have one question on your built-in appliances. In this particular quarter, you did report an EBITDA loss of about Rs. 6.5 crore on a revenue of Rs. 14 crore. Could you give us a sense on the total EBITDA loss that you have done in the first half? If I were to adjust for this, your other business is not as bad as what it appears because of this loss. So some financial numbers on this will be helpful. And connected with this, while you are in the midst of transitioning to Crompton 2.0, could you also highlight if you have plans in the built-in appliances to add more product category in this specific basket? Thank you.

Kaleeswaran A.: So Rahul, allow me to state by saying results are always comparative in market and good or bad does not happen but what you choose to do in one category. With that, I think total losses that we have incurred at H1 level on a built-in kitchen is about Rs. 14 crores. Structurally, the gross margin of this business is in-line with what we do in other ECD categories. So the unit economics are being built in a strong manner.

It is also important that we invest behind this business to get the penetration up over a period of time. It is also a funnel approach where you get your customers through a combination of organic and inorganic route, which means it is at a size where you do not want to do too much on brand awareness, but you need to calibrate how much you want to spend behind the brand also, which is where you see the upfront investments that we need to make into the business is going towards losses, which we think will continue for a few more quarters before the scale helps it to start making money as a product category and channel.

Now, in terms of the overall product additions that we can do into the entire built-in kitchen, I think we are looking at two-pronged approach. One is how can we first improve the touchpoints even before getting into the product? The channel opportunity as we talked earlier, we have already opened a 75th exclusive signature store. What we also need to keep in mind is do not see built-in kitchen appliance as a standalone business of Crompton. Look at an opportunity for Crompton to start commanding and selling premium products to their consumer. Prior to having this entire category operated, it would have been very difficult for a consumer to relate to a brand like Crompton selling a product that is upwards of Rs. 20,000-25,000. Now, probably we are moving towards one of the fastest to get an annual run rate of Rs. 100 crores in this segment that also means consumer acceptance, that states as to premiumisation as a strategy that you are working up, resonates extremely well with the market. So that's the second benefit that we are trying to get in.

Third, outside the EBOs, we are also looking at touch points within modern trades and RCS for the category to expand and move. That is on the channel side. On the product side, yes, within the

category that we are playing in built-in kitchen itself, we are looking at new initiatives to come in. It will be a combination of refreshing the product portfolio, what we are having today with better features, and adding few new sub-categories also within the built-in kitchen space.

Promeet Ghosh: Fundamentally, to your question, Rahul, the answer is yes, we are incubating a new business for good reason. We believe that it has contributed Rs. 15 crores EBITDA loss in the first quarter. And needless to say, the profitability of the rest of the businesses is what it is, excluding those Rs. 14 crores. And we think it is a good investment to make.

Rahul Gajare: Sure.

Aniruddha Joshi: Next we have question from Abhilasha Satale. Please go ahead with your question. Thank you.

Abhilasha Satale: So, my question is on ECD margin outlook. So, as you have mentioned that the lower margin is largely because of the channel mix change and that is what has impacted to a large extent. Going forward, how do we see your channel mix like do we see this 2x growth in alternate channel to continue and therefore, we might face margin pressure in the near-term and then improve thereon. How do we see our near-term margin outlook and long-term? And secondly, if I just exclude this channel mix, whatever the impact on the margin for GT channels, are our margin same what we were making previously or there also we have seen some kind of erosion?

Kaleswaran A.: Abhilasha, allow me the opportunity to correct you. Channel mix has got nothing to do with the ECD margins coming down. ECD margins is largely on account of structural shift in the product cost of fans, which is due to the BEE regulatory changes that has been brought in. So that has led to incremental input cost that we need to factor in to make a fan that is star rated, which was introduced from 1st of January. So we are in the process of figuring out what is the optimal level of price increase and cost decrease we need to work upon to restore our ECD margins over the period of time.

So, as we cross over some of these milestones in the respective quarterly meetings we will call out all the progress that has been made on this.

Promeet Ghosh: So Abhilasha, we have been doing this for a while that we worked quite hard at dealing with cost pressures quite successfully, particularly at the gross market level. There was a bit of a stretch because of the BEE transition and we are in the process of being able to recover that through internal cost actions as well as through price increases which we talked about. It is not related to a change in GT versus other channel mix.

Abhilasha Satale: Actually you mentioned that there is a room for improvement. So, by when can we say whatever the initiatives we are taking and because of the premiumisation increasing in the overall portfolio, by when are we expecting that margin impact to get nullified and improvement in the margin?

Promeet Ghosh: I do not want to give a forward-looking number there, Abhilasha, but I mean I think it is fair to say that we are actively engaged in this process and over a period of time we have talked about Project Unnati, for instance. We have been reasonably successful in neutralising cost increases. So I do not know, but if you have any question about whether we hope to continue to step up our alternate channel, yes, absolutely. We have a strength in GTM and we are going to continue to step up our alternate channel reach.

Aniruddha Joshi: Thank you. Next, we have a question from Mr. Ajit Motwani. Please go ahead with your question. Thanks.

Ajit Motwani: So, one is the question on the regulatory cost that you highlighted, that the BEE rating had impacted the regulatory cost and that sort of nullifying the benefits of commodities. As you know, more than six months that these things came in, so what would have been the price increases or let's say the net impact that you are yet to recover from regulatory costs increases, and as far as small domestic appliances and fans are concerned, how is the festive season started for us which you can highlight? As far as the small domestic appliances are concerned mixer grinders, water heaters as well as the fans category, how is the festive season started for us?

Kaleeswaran A.: So first and foremost on the margin side when we moved into the entire BEE transition, roughly the cost increase was about say 15% on account of the energy rating transition that we need to meet up with. About 8%-9% percentage of that has been met with the cost decreases and the value engineering work that has been done. Industry as a whole, as you would remember early in last Q3, everybody called out for a price increase that will be taken in the range of 5%-6% effective January post-energy rating.

But as we have seen the demand scenario that it has panned out in the last two, three quarters, it has been pretty difficult to do any kind of pricing actions. Either many organisations have rolled it back or held back the entire price increase that they are to take in. Now, as we move forward probably two to three quarters down from the entire BEE rating, we believe from a unit economics perspective, we need to balance both price and cost increase. So we had announced roughly about a 1% price increase to 1.5% across the portfolio in the month of September, that has factored in. We are now also working upon further cost decreases that we can do via the Unnati programme that we are working upon. And outside that it might warrant one or two more price increases also, which we are open to take it up to get the margins restored.

In terms of festive demand, October has been positive. We could see there has been an uptick in terms of October's momentum, but we will see that more as the quarter gets completed as orders pan out.

Aniruddha Joshi: We have one question on chat box from Mr. Bhavin Vitlani which I will read out. Could you please help with breakup of ECD divisions, absolute revenue numbers for Q2 and H1. And YoY

growth for A. fans, pumps and appliances; and B. break up of appliances into water heater, mixers and air coolers? Thanks.

Kaleeswaran A.: We will ask Natasha to share the data by portfolio and that might be helpful for us.

Promeet Ghosh: To the extent that we disclose, please connect with Natasha for those details.

Aniruddha Joshi: So next we have a question from Mr. Siddhartha Bera. Please go ahead with your question. Thank you.

Siddhartha Bera: What I understood is that there is a 3% to 4% under recovery in the costs like you have mentioned where we need to do some more price increase or cost reduction. So after doing this say in some time, what is the margin level we aspire to owe back to? Will it be closer to 16 or it can be higher than that given that we had delivered even better margins in the past?

Kaleeswaran A.: So I think Siddhartha, fundamentally as you rightly pointed out, we talked about the action that we are going to work upon continuously on the fan segment to improve the margin and how do we need to recover it. At the end of the day when it comes to EBIT margin delivery, we need to look at Crompton as an organisation that needs to deliver revenue growth and that is fundamental. And therefore, it is extremely important that we balance our revenue growth versus our profitability growth which is when we said the revenue growth is not at the cost of price or cost actions, it is going to be investment behind the brand and we need to have innovation. So, we talked about premiumisation as a driver. We have talked about progress that has been made in fans as a category on the premium growth. Now this is coming in only with interventions being made with products that are coming in from our tech centre with consumer insights and not only led by competitive intensity.

Second, it also means that that product that is going into the market needs to be backed by stronger brand communications. That is why if you see H1 as a whole, marketing spends have gone up by 50%, so that is a significant amount that has been put behind the brand to drive the growth engine up. So we do not want to get into a near-term EBIT margin guidance. As we talked about, we are conscious of the fact that we need to grow the business and deliver profit growth rather than profitability expansion.

But in the journey of profit and profitability, structural unit economics would not be left behind, which is why we are reiterating that in spite of the growth agenda that we are working upon, we need to restore our margins in fans via the cost or the price action that we need to take. So, these are two different sets of actions that will be taken. You will see cost and price actions to help to improve the ECD margin profile. At the same point of time, we want to take that as a fuel to reinvest behind the brand and continue growth momentum for many more quarters to come. That's how we wanted to balance our portfolio approach on both growth and profitability.

Siddhartha Bera: Got it.

Aniruddha Joshi: Thank you. Next, we have a question from Utkarsh Mehrotra. Please go ahead with your question.

Utkarsh Mehrotra: This is Utkarsh from Schonfeld. Just one question, in terms of the price hike that you have taken, has the competition followed and then since that you are planning a couple of more price hikes because to your point given the industry dynamics and demand, do you think they would follow and if they don't, then would you roll back? Thanks.

Promeet Ghosh: I think the price increases that we have taken are an indication of, while they are modest price increases, they are an indication of the approach that we want to take. And look, at the end of the day, it is a mix of how we are going to approach this. It is all about intent and what we are saying is that we want to continue to grow, but we also want to protect our margins. So, we are the leaders in the market, so you will see a mix of this playing out in the market, whether other competitors will follow or not, we will see, but look you want to do what is the right thing to your business.

Utkarsh Mehrotra: Got it. Thank you.

Aniruddha Joshi: Yes, we have last question from Mr. Rahul Agarwal. Please go ahead with your question.

Rahul Agarwal: Thanks for the opportunity. Just one question on the manufacturing side. I think you talked about some changes there. Could you elaborate a bit on fans, appliances, pumps, and B2C lighting? What are the changes should we expect over the next 12 months on manufacturing from Crompton Greaves?

Promeet Ghosh: Rahul, I think we announced earlier that we are currently in the process of creating a strategic sourcing footprint, whether that be from own manufacturing or outsourced. So that is still under preparation and we will come back to you when it is possible for us to disclose it to the market. Having said that, we are in so far as fans is concerned, on a journey of more in-housing particularly of our seed category, because that is something that will lead to cost savings, greater manufacturing facility and needless to say other strategic benefits.

So that is already continuously going up, and you can expect will be expanded in the next few quarters. What that will do is, not only bring in greater in-housing, but step-up the capacity utilisation of our own units. Hopefully that will also go towards improving our margins. That is a part of the journey. So, but in so far as the rest of the businesses are concerned, it is work-in-progress is what I'd say. Today our footprint is that about 50:50 in fans between what we do in-house and what we outsource. In so far, as small domestic appliances are concerned, it is largely outsourced.

And so far as lighting is concerned, B2C and B2B is largely in-sourced currently. And we will see how this will go and obviously the idea would be what maximises margins, what maximises the strategic benefits for us.

Rahul Agarwal: Okay. Thank you.

Aniruddha Joshi: Yes, thank you. On behalf of ICICI Securities, we thank the management for the conference call. And now I hand over to the management for closing comments. Thanks and over to you.

Kaleswaran A.: Thank you, everyone and wishing you a very, very Happy Diwali. We will connect in the next earnings call. Thank you.

Promeet Ghosh: Thank you.

Aniruddha Joshi: Thank you. Happy Diwali.

(This document has been edited to improve readability)

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