Crompton

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Date: July 30, 2019

To, The General Manager **BSE Limited ("BSE"),** Corporate Relationship Department, 2nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001.	To, The Secretary **National Stock Exchange of India Limited ("NSE"),** "Exchange Plaza", 5th 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: 49/2019-20	**Our Reference: 47/2019-20**

Dear Sir/Madam,

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

With reference to our earlier intimation regarding the earnings call on audited financial results for the quarter ended June 30, 2019, kindly find enclosed the transcript of the same, held on July 25, 2019.

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

Thanking you,
For Crompton Greaves Consumer Electricals Limited

Pragya Kaul
Company Secretary and Compliance Officer
Enclosed: A/a

"Crompton Greaves Consumer Electricals Limited Q1 FY19-20 Earnings Conference Call"

July 25, 2019

ANALYST:	**MR. NILESH BHAIYA – MOTILAL OSWAL FINACIAL SERVICES LIMITED**
MANAGEMENT:	**MR. SHANTANU KHOSLA - MANAGING DIRECTOR - CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED** **MR. MATHEW JOB - CHIEF EXECUTIVE OFFICER - CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED** **MR. SANDEEP BATRA - CHIEF FINANCIAL OFFICER - CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED** **MR. YESHWANT REGE – VICE PRESIDENT, STRATEGY AND FINANCIAL PLANNING - CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Crompton Greaves Consumer Electricals Limited Q1 FY19-20 Earnings Conference Call, hosted by Motilal Oswal Finacial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Bhaiya from Motilal Oswal Financial Services. Thank you, and over to you!

Nilesh Bhaiya: Thank you, Steven. Good morning, everyone, and welcome to the earnings call. Representing the management, we have with us, Mr. Shantanu Khosla, Managing Director; Mr. Mathew Job, CEO; Mr. Sandeep Batra, CFO; and Mr. Yeshwant Rege, VP, Strategy and Financial Planning.

I will now hand over the call to the management for their opening remarks, post which we can open the floor to question-and-answer session. Over to you, Sir!

Shantanu Khosla: Good morning. This is Shantanu here in our offices in Mumbai and thank you all for dialing in for our analyst call for the quarter. As usual, I will try and provide some colour over the business and our results for the quarter, and then we will be happy to take as many questions as time permits.

Let me start today by first talking about our Lighting business. The LED part of our Lighting business grew 4% in value terms. The volume, of course, was stronger, with the LED volume growing at 12% along with the fact that our conventional business, which now represents less than 20% of the total Lighting business, continues to decline by about 21%.

As I talk about the Lighting business, I would like to separate and give you some color on the two parts of our Lighting business. The first is B2C and second the B2B, both representing about half of our total Lighting business.

Starting with the B2C business, as we have talked before, our focus is to continue to introduce new consumer meaningful products which we price at a premium and support them with advertising and aggressively driven distribution. In this quarter, we introduced one of our biggest potential initiatives in Lighting, which was the 'Antibacterial bulb', which is a first-time breakthrough product, which kills up to 85% of bacteria.

A few quarters ago, we had also introduced LYOR, our 5-star rated bulb. Now both of these variants are at about 20% premium to the base bulb pricing, and they are continuing to do well and are growing. Their business is on an uptrend, and by this quarter, these two variants themselves contributed to about 15% of our lamp sales, and we are confident that this will keep increasing. This is really important for our long-term strategy of restoring value in this market by bringing in premium

initiatives. The 'Antibacterial bulb', which was our most recent initiative is doing well. We have got strong customer and consumer feedback in terms of its performance.

Though its early days, we are very hopeful that we will continue to strongly support our Lighting business with advertising because we believe that advertising is one of the key investment areas to drive the B2C Lighting business.

The second part of our business, which we have not talked too much about in the past, but I would like to talk a little about today, is our B2B business, which represents about half of our total Lighting business. The quarter just ended, and it was definitely a little soft for our B2B business, and this was primarily driven by the fact that a number of government and institutional orders were delayed due to the elections which happened in that quarter, and the fact that a lot of our customers were occupied with the elections.

That being said, we believe that this is a key growth area for the future. Over the last quarter, we have made significant investments in strengthening our capabilities to drive B2B. We have now created a dedicated field force under the single national sales leader for our B2B Lighting business. We have also created 12 new key account manager positions, who will look after the key B2B accounts across the country. We have also invested in technology by enabling this entire field force with Salesforce.com, which helps us better manage the entire flow from lead to delivery and improve our supply capability also. So, we do see that the B2B business will continue to be a key driver.

Obviously, there is price erosion which continues, but our 2-pronged approach, if you will, to this, is going to be on B2C, continue to make success by introducing premium price variants with consumer meaningful distinctive benefits, and investing strongly in building our B2B business.

I also wanted to just make a couple of comments on the Lighting margin and how that has panned out. Like most of you are aware, a few quarters ago, our margin had declined from a double-digit margin to mid-single digits and then we had worked to drive cost and we had begun to restore the margins. This quarter, I just wanted to clarify that though the EBIT margin has declined, on Lighting, our gross margin has actually improved by 100 basis points quarter-on-quarter. The reason for the decline in EBIT margin on Lighting this quarter is actually driven by three key things: number one, was our investment in advertising where we had almost 300 basis points higher investment in advertising, specifically behind the ICC Cricket World Cup versus the previous quarter; the investments which I mentioned earlier which we have made in our B2B business which we believe is going to significantly help accelerate that movement forward; and the third and last item was an adjustment in provisioning which we made this quarter. So, we continue to believe that on an operating basis, our Lighting business should aim to and we will continue to work it towards a double-digit growing sustainable EBIT margin.

Moving on from Lighting, I would like to talk about our second segment, which is ECD. The ECD business obviously had a very strong performance this quarter, which is in continuation with somewhat acceleration of the ECD performance over the past few quarters. All three ECD segments of ours -Fans, Pumps and Appliances, have delivered strong double-digit growth. I would like to actually start with our Appliances business. It is a business we do not often talk much about. I think I had mentioned this a few quarters ago, that after having driven our way through choices in Fans, Pumps and Lighting, the next choice for us is to make ourselves a meaningful player in the Appliance business, again, driven by consumer meaningful innovation, investing in the brand and driving our go-to-market.

We began this program by saying that over the next couple of years, our first step is to work to drive Geysers and Coolers from their very small and insignificant position, to a leadership position.

The program started, like you may be aware, with Geysers. We entered in the last season, in Q3 with an entire revamp of our Geyser portfolio. Just to refresh your memory that in the last two quarters, this program did quite well, and our geyser business grew by 28%.The momentum of this program has continued and this quarter our geyser business has grown 44%. We are now continuing to work and have a lot of initiatives set up because we still see a lot of headroom for growth as we move into the coming winter season, but we will obviously talk more about that as we put our programs and initiatives in market.

The second big area for us in Appliances after Geysers was obviously Coolers, where really, we wanted to do the same thing - improve our products, drive our distribution and invest in branding, with an objective of getting to a leadership position over the midterm. One of the key initiatives which we introduced this summer was the desert cooler called ‘Optimus’, which was again specifically designed to better meet the consumer needs. It had superior air delivery, an easy drain feature, which is something that the consumers want and it also had an unique design to enable an easy cleaning of the product. This test program has also started very encouragingly, and though it is over a small base of last year, this quarter, our Cooler business grew 138% in value terms, which is more than double. So, we will continue to drive these programs, but our fundamental objective here is, over the next couple of years to create a strong, robust fourth leg to our business by building our businesses in these areas.

Quickly moving on to the balance of ECD; Fans obviously did very well, both in topline and bottomline. We are continuing to gain market share in our Fans business. Our latest share is again up by plus 1 market share point. It has been driven by the strategies which we had already chosen and have been driving for a while. Premium fans remain the focus. In this quarter, our Premium fans business grew 24%. New meaningful consumer initiatives remain our focus. Our ‘Aura Fluidic’, which was an entirely redesigned motor and fan, enabled us to confidently offer for the first time in the industry, a 5-year warranty, and has been a key driver of the business. But along with that, our

other segments of fans continue to grow well as we are driving deeper and deeper distribution in smaller towns in our overall program.

Domestic pumps, also, again, had yet another wonderful quarter. The topline grew and our bottomline grew as well. In fact, here, the volume growth was slightly ahead of our topline growth, though both were in healthy double digits, driven by the fact that we are continuing to see significant traction and growth opportunities from Crest Mini, which we still see having the potential to drive growth for many quarters to come.

I would also just like to mention that this quarter versus the previous quarter, we have spent an incremental Rs. 45 Crores behind advertising and sales promotion, with primarily the focus being behind advertising. This is a part of our ongoing strategy to keep investing in the brand to build our business.

Despite this incremental spending, we continue to make good margin progress, with now having leading margins in our industry. This has been enabled by a couple of things - One is our ongoing strategic cost reduction program; the second is our continuous focus on improving mix and third, our efforts towards driving Premium products. So, these investments are possible, which will pay off in the long term without taking short-term hits on total company margin, in fact, slightly continuing to grow it.

With that, I would just like to end, and then we will turn it open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Thanks for the opportunity. Mr. Shantanu, thank you for your comments. On the Lighting segment, I understand the reasons to stress as articulated, but as things stand today, it has been 2 months since the election. Are you seeing the B2B contracts coming back to life? And from a margin accretion perspective, do you think you would be able to claw back that 3% - 3.5% that we have lost in LEDs from Q2 onwards?

Shantanu Khosla: As far as the first part of your question goes, the answer is a strong yes. We have, in fact, now with the investments in things like salesforce.com got far better visibility on our order pipeline. So yes, the orders are definitely coming back to life in the B2B segment.

Secondly, in terms of how we bring the advertising cost to come down, we will actually bring that down as we continue to build scale and cost. So, it will be a gradual reduction because we really believe, especially for the B2C part of the business, that advertising is a critical investment area. And as we place our business and look at our history, if you go back 2 years, we had tremendous growth in

B2C. And then, when we got into the period which was driven by demonetization and GST implementation, we were forced to cut back on advertising. And I fear we had a detrimental impact on our growth rates at that point in time. So, we are committed to continue to spend. We will bring the margins back over time by driving mix and driving cost, but we see ourselves continuing to spend on an average somewhere between 2% and 3%.

Baidik Sarkar: That's helpful, Sir. On the ECD front, the numbers do not seem to reconcile, because I think the segment revenues in ECD are up about 16%, but like you said, Premium fans grew 24%, geysers grew 44% and I am assuming pump was already seeing a decent double-digit growth as well. So, each of these segments seemed to have grown about 15%, but the overall ECD revenue momentum is 16%. So clearly, we are missing some segment which might have de-grown. I mean, is that recall right?

Shantanu Khosla: Nothing de-grew. So, we do not talk about, obviously, our specifics by subcategory, but let me leave it at this, that if I just look at total pumps, total fans and total appliances, which are our 3 sample segments, those totals, all of them, were within a couple of points of 16%.

Baidik Sarkar: Sir, that is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good morning, Sir. Just an extension on the Lighting segment, as you mentioned there were certain provisions which were increased in the first quarter. So, if you can elaborate a little more on that as to what kind of provisions were these in Lighting and the nature of the same? Should we expect some of these costs to recur in the quarters to come? And as you mentioned, the margins in Lighting to improve gradually. So, in that case, despite the lower base, should we expect the margins in Lighting to be single-digit levels for a few more quarters and thereafter increase? And also, what was the ad spends pertaining to lighting alone for the quarter? Thanks.

Sandeep Batra: Let me just address the question on advertising first. I think the Lighting ad spend was about 2.5%-3%.So, if you just adjust that from the fourth quarter margin, you will still look at high single-digit margins in lighting, despite sales in the first quarter being significantly lower than fourth quarter. So, despite the negative operating leverage, which to some extent, got adjusted by higher gross margin.

So other than advertising, the additional impact of provisioning is because of the kind of provisioning policy that we follow. We have a very conservative provisioning policy, which recognizes a provision for a doubtful debt at the time of sale itself. And in this quarter, because of the other things happening in the political world, payments of the government and institutional customers got a bit delayed. So, in line with our prudent accounting policy even for delayed payments, we have recognized a charge. Obviously, we are very confident that the money will get collected and once that is collected, the charge will automatically get written back.

Renu Baid: Alright.

Moderator: Thank you. The next question is from the line of Deepak Krishan from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, this is Pulkit from Goldman Sachs. It is good that you threw some light on the B2B business and the slowdown. Can we ask you that other than various government orders which obviously got impacted because of the election, is there a general slowdown that you also witnessed on the institutional side, non-government? So, I mean the private sector, commercial Lighting business, has that also been impacted in the quarter? And what is the outlook for that segment going forward?

Shantanu Khosla: We did not notice too much of a slowdown or change in the private or corporate institutional business. That being said, in terms of our B2B business, a large percentage of it is our biggest strength, which is in the area of street lights. So, street lights, whether they are bought by EESL or not, they tend be government business - for small municipality or a large institution. So, currently, we are a little overweight, if you will, on government buyers.

Pulkit Patni: Understood, Sir.

Moderator: Mr. Patni, sorry to interrupt. But if you have a follow-up question, request you to the rejoin queue, please? The next question is from the line of Venkatesh Balasubramaniam from Citi, Research.

V. Balasubramaniam: Yes. I had a couple of queries, which are both related to the Lighting business. Now, when I look at the Lighting business sales, I see that for the last 3 quarters, not including this quarter, but the prior 2 quarters at least, we noticed that Havells is delivering a much higher sales number than you in Lighting. Much smaller prior to the third quarter. So, is it like you ceded your #2 share in Lighting to Havells now? And if that is the fact, why is this happening, especially given the background that you have launched this Anti-Bac LED and that should have in fact given an impetus to sales? That is the first part of the question.

The second part is the fact about the provisions which Sandeep was talking about. You say that it is very conservative and you are making these provisions at the time of the sales - bad debt provision at the time of the sales? I mean how can you be making provisions for bad debt at the time of sales? When you are making the sale, you already know if it's going to be a bad debt? I got a little confused with that answer.

Shantanu Khosla: Let me address the first part and then Sandeep will talk about the second part. As for the numbers we have, we are still bigger than Havells in total Lighting. Though, you are right, the gap is narrower than what it was a while ago. I do not know exactly what Havells is doing, but, of course, as everyone does, we do study competition.

And I will tell you what our 2 key learnings are. Number one, we had a significantly larger conventional business than Havells. And therefore, the decline hits us harder.

The second thing, and I think the more important and substantial thing is that Havells invested in a stronger B2B program significantly before we did. As it stands, you could say that maybe that is a miss on our part. And that is why I think that they've gotten ahead, but that, on the flip side, has given us a lot of confidence that by putting those kinds of dedicated resources and structure, it will help our business grow.

So, these are the two reasons we see. One is the business match based on the relative size of conventional business, and the second is, in B2B, we were not investing as strongly as we should have. Sandeep?

Sandeep Batra: Yes. On the process for these provisions earlier, maybe a couple of years back, the accounting standards allowed you to recognize debts when actually the customers stopped paying, but 2 years back, the Indian Accounting Standards have changed. And like you do in the case of banks, even companies like ours have to make a provision based on what we call 'Expected credit loss method'. We can maybe discuss the details separately, but that expected credit loss is a bit like what you would do in banks. So, every time you make a sale, you have to recognize what could be the expected credit loss on that account and that is something that is computed using historical charts and data. So, we could discuss that separately.

But for the moment, I am very confident that this whole elevated provisioning was because of a temporary slowdown and whatever was happening in these institutions over the last 4/5 months and which will auto-correct.

V. Balasubramaniam: Thanks a lot.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra I wanted to ask a question on the other Appliances businesses, i.e., Geysers and Air coolers. Now, your bases are low here, so Y-o-Y growth is going to look high and it is very hard to fathom what it means for your business. So, I was wondering if you could give us a slightly better sense, either in terms of what do you expect could be the contributions from these in your overall sales, or within these categories, what market share do you think you could have now that the season for air coolers is also over and geysers is also over last year. So that will be helpful in gauging the overall context of this?

Shantanu Khosla: Okay. Our objective is to achieve at least a #2 position and if not a #2 position, a #3 which is on path to become a #2 over the midterm, and that is for the midterm 3 years. That is how we have set our

goals and the reason is that we believe that all the value is captured in these markets by people who are #1, #2 or #3. We do not want to be a #7 or #8 player. Obviously, this will not happen overnight. We will continue to have season-by-season a number of new initiatives which will keep driving us to our path. We have really only talked about the first season of Geysers and the first season of Coolers. As far as the first seasons go, we're slightly ahead of our drive path.

Moderator: Thank you. Sorry to interrupt, Sir, but if you have any follow-up questions, request you to rejoin the queue, please. The next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: Just a continuation of Arnab's question earlier. On one hand, you say that your new products like coolers and geysers on very low base have delivered growth rates which are 30%, 40% or even 100%. And then you talk about Appliances growing in a couple of percentage points around your overall growth rate of around 16%...

Shantanu Khosla: Inderjeet, sorry, I misspoke. Pumps and fans grew plus/minus 1 point on the average ECD growth; Appliances, in total grew 40%, but its impact on the total ECD business was only about 1 point or so, because of its relatively smaller size. I misspoke, I apologize.

Inderjeet Singh: So, you are saying that the contribution of the Appliances within ECD or, only 1% of the incremental growth that has come from the Appliance segment.

Shantanu Khosla: Yes. I would estimate about 1%.

Moderator: Thank you. Mr. Bhatia, sorry to interrupt, Sir. Perhaps you can rejoin the queue for any follow-up. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Sir, you spoke earlier about the price erosion continuing in the Lighting segment. So, what we understood earlier in your comments was that the LED lamp pricing had kind of stabilized, so if you can just give some more color whether within the B2B or within B2C what is Q-on-Q kind of decline that you're seeing in terms of pricing?

Matthew Job: For example, if I look at bulbs, LED bulbs which we just spoke about, I think the prices have more or less stabilized. But if you look at the other categories in B2C which is panels and battens, I think on a sequential basis, we are seeing price erosions at an average for the market of close to 10%. For B2B, of course, I think, especially in the street lighting and outdoor segments, we still see about 5% to 7% price erosion sequentially compared to the previous quarter for the market as a whole.

Bhoomika Nair: Okay. And what is the possibility of that provisioning number, Sir?

Sandeep Batra: Yes. Provisioning would be about 250 basis points impact.

Bhoomika Nair: Great, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Sir, just a couple of data points which you spoke about. What was the advertising spend?

Shantanu Khosla: The ad spend for the quarter, was Rs. 29 Crores.

Achal Lohade: And what is the corresponding number?

Matthew Job: Last year was about Rs. 24 Crores and this year is Rs. 29 Crores.

Achal Lohade: And just the EESL revenue for the quarter?

Matthew Job: Rs. 41 Crores for the quarter.

Achal Lohade: Thank you so much.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, just wanted to understand the cost line items a little better. If we look at our staff expenses, those have risen quite sharply, especially if you adjust the reduction in ESOP charges as well. What is that on account of?

And conversely, if we look at other expenses line, given that our ad spends have risen by almost 20%, other expenses don't appear to have risen all that much. So where is it that we are seeing cost savings over there and can that continue over a longer period of time?

Sandeep Batra: I think if you look at Q4, employee cost was Rs.77 Crores; that is now Rs.82 Crores. So, between Q4 and Q1, the only change would have been a reduced ESOP and whatever annual increments that happen, like our salaries cycle is the fiscal year. So, April 1, everybody's salaries get revised. So, from Rs.77 Crores, the employee cost is now Rs.82 Crores. That is due to two elements - reduction in the ESOP charge and annual increments, which have been in the range of 9%-10%.

Moderator: Thank you. The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead. A there is no response from the current participant, we move to the next question, which is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: Thanks for the opportunity. I just wanted to understand in the pumps business, what is the share of agri pumps as of right now? And secondly, is 'Har Ghar Jal' an opportunity for us?

Matthew Job: Agri pumps is about 20% of our business. And what was the second?

Ashi Anand: Sir and would 'Har Ghar Jal' – a water initiative - piped water to every house, is that an opportunity for pumps business? And if so, would it be large and could you quantify that?

Matthew Job: The residential pump market has been growing roughly 5% to 7% every year. So that kind of growth is what we project will also be true for the time going forward.

Moderator: Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: Couple of things on the Lighting business. One, Is this provisioning amount one-off for the quarter and you expect absolute 0 next quarter? Two, your investments that you are making in B2B, what is your expectation of how much sales bump up in percentage points could you see in the year to come? Do you have a pipeline of orders or your own expectations? And three, because of all the investments you have made, does your 10% or thereabouts segment margin guidance stay for the year or that got pushed back?

Sandeep Batra: So, provisioning, I don't think the right way to look at it would be on a quarter-to-quarter basis. Obviously, there are many variables in deciding the provisioning. One is the sales pattern and the collection pattern. So, for example, if we are able to collect some of the debts – like the older receivables, particularly from institutions, then you could see a credit in a particular quarter. So, the right way to look at it would be on an annual basis. And I think bulk of what we would have expected in the cost for the year has got charged in the first quarter.

Shantanu Khosla: On the other part of your question. On the B2B business, with the investments that we are putting in, I guess the best way to put it would be, up until now, we have not been growing ahead of the market. Moving forward, like the rest of our business, we expect to be growing ahead of the market in revenue terms.

Second was with regard to what is our margin. We believe a 10% margin in Lighting as we have stated before, is the right sustainable margin. We fully believe that our margins will keep improving from where they are. Now, when it is important, when there are competitive areas in a particular quarter, we will make investments to drive this business, and we will manage our company, because we are one company and not two companies in totality, right? So, there is nothing that stops us that if we can find competitively superior cost reduction on say Fans, and we need to spend more on advertising to just stay competitive and grow our business on Lighting. Because we operate as a single company and the benefit is really the scale of the company. But we do expect our margins to increase from where they are. And we fully believe that 10% is the right sustainable margin target for this business.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My question is on fans. I know you have registered a mid-teens revenue growth for the quarter. It was also enabled by good seasonality. Looking at the general industry environment, any comments on how is the industry growth panning out? And are you very confident that the mid-teens growth can continue for the rest of the year? And also, any comments on the new construction-related demand?

Shantanu Khosla: Well, first, in terms of how the market is doing, like I said, our latest market share is, I think, for the month of May, and we have gained 1 share point. So obviously, the market is growing slower than us.

Second was how do we see this moving forward? Again, I believe that with our program of innovation, investment in branding and go-to-market, we can aspire to continue to gain share, which means that we can aspire to continue to grow in the teens.

Finally, in terms of construction and how that is impacting us, if I look at the retail uptake market data, there was an extended period where the market was actually declining. That decline has leveled off and now the market data is indicating that the market is growing in kind of mid-single digits. So, I'm assuming that this is because of the high correlation with construction, i.e. part of it is because of construction coming back.

Latika Chopra: Alright, thank you.

Moderator: Thank you. The next question is from the line of Anshuman Dev from ICICI Securities. Please go ahead.

Anshuman Dev: Thanks for the opportunity, Sir. My question is regarding the Fans segment. Now we are very strong in that segment. However, there is a significant competition in the fan space and also in the premiums fan space. Do we envision any kind of a brand investment also in the fan space in the coming time frame to be able to retain our competitive advantage?

Shantanu Khosla: Absolutely. In fact, even, if you might have noticed in the previous quarter on the Cricket World Cup, we were advertising both Fans and Lighting, and we have advertised Fans in the past. We believe that when we bring out a strong consumer initiative, whether it was anti-dust in the past or Aura Fluidic now, it is absolutely essential to support that initiative with meaningful consumer advertising, and we will continue to do so.

Anshuman Dev: So that can lead to some amount of margin softening in the ECD segment?

Shantanu Khosla: Not really, because that is actually built-in in the base, because we have been advertising in the past. In fact, in the past, most of our advertising spends have been on fans, including in the previous quarter.

Anshuman Dev: Great.

Moderator: Thank you. The next question is from the line of Smita Sharma from Motilal Oswal Securities Limited. Please go ahead.

Smita Sharma: Sir, last quarter, we were talking about continuing double-digit margin in Lighting. And in this quarter, we reported the lowest offering that we have ever reported as far as the margin is concerned in that segment. Sir, I was just trying to understand the source of such a meaningful surprise. You have already discussed 3 reasons, they seem more like a part of the strategy than surprise to me. So, the question is, the double-digit margin, was that an aspirational target more than the guidance for the year? And can you also just throw some light on what was the reason for the surprise?

Shantanu Khosla: First, one part is that we had not forecasted the impact of the elections on our B2B topline. So, our topline was lower than what we had expected largely because of the delay in various orders on B2B. If we had got the volume which we had expected, the incremental investment in advertising would have largely been awash. It might have been a little here and there, but not that significant because it would have been covered by incremental revenue.

The provisioning was obviously something which we had originally not planned on, and like Sandeep said, it tends to vary from quarter-to-quarter, it can also come back one quarter.

The third one was the investment that we made in B2B. As we have been implementing and executing the B2B program over the previous quarter, we saw clear opportunities, especially based on competitive benchmarking, etc., where we need to invest more. So yes, that was, to some extent, also unplanned.

Smita Sharma: Yes. So, was there an aspirational target for the year or was that guidance for the year, does that still hold - the double-digit margin number?

Shantanu Khosla: Okay. First, to again clarify, we do not give guidance, right? We have never given guidance as such in terms of either top or bottomline.

Second is, as I mentioned earlier, in terms of how we are looking at the margin, we do see a continuous margin improvement. Given the volatility of Lighting, there may be quarter-to-quarter needs to invest a certain amount, right? But we do see ourselves moving towards a double-digit margin, and we fully think that the double-digit margin is sustainable. If you look at over the past, I

guess, maybe 8, 10 quarters, you will find that about half the quarters, we have delivered double digit and half we have not delivered double digit, right? So, it is a bit of a volatile business. And like I also mentioned, we work more towards the total margin and profitability as a company as a whole. So, where we do need to fund more competitive businesses, for example, if a competitor drops price, we will not let the competitor just get away with it, right? And we will look for other opportunities to fund.

Another key source of funding, which we are continuing to do and we have done in the past, is we double down and work harder on cost reductions. And there still is a lot of opportunity for cost reduction, especially on our Luminaires and B2B business in Lighting. So, we will glide fast to that. Yes, there may be an odd quarter here or there where you hit a different number given the nature of the market as it currently is.

Smita Sharma: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Sir, I just want to understand the demand from the newly electrified households. Are you seeing demand from these houses? Has it already come or not, or lot of it is still to come? And the second question is that I want to understand how much of the demand for a more matured category like Fans comes from the distribution expansion? And how much is more from an existing penetrated market?

Shantanu Khosla: Well, let me take the second one and try and provide some perspective on it. On Fans, our volume growth is slightly below our value growth. So, we are also growing volume in healthy double digits. So, what is happening is that a part of our growth is coming from premiumization, which is current fan users buy more premium fans because they appreciate the benefit. But given the fact that we are having double-digit volume growth, obviously, we are getting new applications because there is not that much replacement demand. This is coming really from everywhere. It is coming from new house sales, it is coming from new houses in urbanized areas, it's coming from low-cost housing In Mumbai City, it is also coming from small villages, which are getting electrification for the first time, right?

But the volume growth indicates that we are getting new users with a little bit of premiumization, which means they are upgrading , which is also very much part of our strategy. Because on fans, one very important thing is that we are the market leaders. And if you look at our competition, most of our competition tends to have its business focused either on the premium segment or on the popular segment. We, on the other hand, bridge all the segments, which is why we are market leaders. So, for us, we cannot just focus only on premiumization. We need premiumization, but we also have to keep driving distribution extension to make sure we're getting new users because as market leaders, we have to be adding those new users across the entire pyramid.

Moderator: Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: The Lighting revenue, you said the LED business grew 12%, commercial declined 21%, but the math does not add up because I thought LED was about 85%-odd of your total sales. So, you should not have been declining on a combined basis. That is one. It should have still grown at, what, 7%, 8%.

Shantanu Khosla: I will just quickly clarify that question. When I said 12% LED, that was our volume growth. 21% decline was value decline in conventional. Our LED value growth is 4% which tallies with the kind of price erosion which Mathew was talking about earlier?

Vinod Bansal: Sure. Could you break those down, this 12% volume, into B2C/B2B?

Mathew Job: I would say bulk of the growth in terms of volume was in B2C.

Vinod Bansal: So, B2C would have grown more like 24% and B2B is almost 0-ish to 12?

Mathew Job: B2C has 3 parts, which is bulbs, battens and panels. The biggest growth has come in bulbs and battens. Panels - was relatively soft.

Vinod Bansal: Overall, what is B2C growth?

Shantanu Khosla: Well, I think overall B2C growth is a combination of both - the growth, and the decline in conventional as well. So, I do not think there has been significant growth in B2C's total because most of the conventional decline also is happening in B2C.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, I just had a question on Lighting. I just wanted to know the margin profile of B2B and B2C and in which it is more profitable?

Shantanu Khosla: We have always worked and we continue to work on the basis that the margin profile across the different segments and channels is not materially different. And we consciously do that because then we are sort of freed up to drive everything. So, our margin profiles are really not materially different between our different channels and segments.

Ravi Swaminathan: Got it, Sir.

Moderator: Thank you. The next question is from the line of Sreemant Dudhoria from Green AIF. Please go ahead.

Sreemant Dudhoria: Thank you for the opportunity. Sir, just wanted to understand, given that we have paid off half of our debt, do we anticipate the interest cost to come down in the quantum?

Sandeep Batra: Yes, of course. I think we paid out Rs.300 Crores of the Rs. 650 Crores bond, which was at about 9% interest. Obviously, all of it has got paid out of internal approvals. So, you would not get the full saving on to your P&L because the surplus funds are also earning some amount of return. So only the differential is what you will save.

Sreemant Dudhoria: Sir, tax rate of the guidance?

Sandeep Batra: We had one unit in Himachal which was having a tax holiday. That has got completed on March 31, last year. So, this year, we are at the maximum rate of tax.

Sreemant Dudhoria: Thank you.

Moderator: Thank you. The next question is from the line of Damad Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: Sir, this is Tanuj Mukhija. Just one question. Can you please quantify the cost savings from your project UNNATI and how much margin improvement can we see in the next 2 to 3 years?

Shantanu Khosla: Roughly, UNNATI has been delivering now for a pretty sustained period Rs.25 Crores to Rs.30 Crores every quarter. Now that being said, we do not take all these INR 25 crores to Rs.30 Crores every quarter into the bottomline. This money is used for funding the investments we want to make in the business.

In the past, most of this has gone in 3 areas. Area number one is investment in brand building. Area number two is investment in capability. We have been as a company on the journey for 4 years, and we have invested significantly in the different capabilities, skills, people, systems. So that's the second area. And the third area has largely gone into helping fund the price erosion of Lighting.

So, UNNATI, is really not a margin driver. It is more providing us the flexibility to invest. Because if you track our business over time, we have made all these investments, done all these things while continuing to gradually build our margins to levels where they are today. Our margins are among the leading margins in the industry. And that's how we do it. So please do not take the Rs.25 Crores / Rs.30 Crores and assume that you can plum this into higher margins in the forward quarters.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: Thank you for taking my question. Sir, my question is pertaining to the margin profile of both the segments. So, in the Consumer Durable segment, as we understand that geyser and coolers are newer products for you, which is yet to break-even to my sense and the Pumps and Fans are running good margins. So as these two newer product segments become larger and start contributing, do we believe that the current margin profile, which is very healthy at least from the last 2 quarters, we are seeing that the EBITDA margin is now probably at 14%. So, what kind of sustainable margin for the company you see in the next 2 to 3 years' timeframe?

Shantanu Khosla: First, just to clarify, obviously, we are investing in geysers and coolers, but both of them are operating on a positive EBITDA even today. Secondly, as we build the business and as we understand these segments in industry, we fully believe that these segments, as they grow can deliver the same kind of margins as the rest of our ECD business.

Moderator: Thank you. The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: Sir, congratulations on a very good set of numbers in a very challenging environment where we have seen a slowdown in various consumer discretionary segments. Sir just have one question. Like you spoke a lot, but still, I am trying to understand the provisions in the Lighting business, i.e., this is on the B2B EESL business only, right? Can you confirm that?

Sandeep Batra: Largely, yes. Largely, it would be on the institutional side of the business.

Mayur Patel: Yes, but we have not seen any other listed players taking any kind of provisions on the EESL business.

Sandeep Batra: Our policy does not recognize or distinguish the solvency of the counterparty. It is maybe a fairly conservative policy and does not distinguish between the solvency or the sovereignty of the counterparty. So, we would take our EESL debtor and give it the same risk weightage as a trade debtor would.

Mayur Patel: And there is literally no provision on the retail B2C side, right?

Shantanu Khosla: Not very material.

Mayur Patel: Thank you, gentlemen.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

Shantanu Khosla: Thank you, all. As always, we tried to be as open and transparent as we can be to help you better understand our business. If you have any further questions or any further clarifications, please do not hesitate. We are here and available for anything you may want. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Finacial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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