February 3, 2023

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051

Trading Symbol: ORIENTELEC

Department of Corporate Services -Listing
BSE Limited
Phiroze JeeJeebhoy Towers,
Dalal Street,
Fort, Mumbai – 400 001

Scrip Code: 541301

Sub.: Transcript of Earnings Call for the quarter and nine months ended December 31, 2022.

Dear Sir / Madam,

In continuation to our earlier letter dated January 31, 2023, filed in terms of the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regarding participation of the management of the Company in an Earnings Call, to discuss the Un-Audited financial results of the Company for the quarter and nine months ended December 31, 2022, scheduled for Tuesday, January 31, 2023 at 10:00 AM (IST).

In this regard, transcript of the aforementioned Earnings Call is attached herewith. Further, the said transcript is also available on the website of the Company.

You are requested to take the same on record.

Thanking you,

Yours Sincerely,

For **Orient Electric Limited**

HITESH KUMAR JAIN
Digitally signed by HITESH KUMAR JAIN
Date: 2023.02.03 17:06:36 +05'30'

Hitesh Kumar Jain
Company Secretary
Enc: a/a

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"Orient Electric Limited Q3FY23 Earnings Conference Call"

January 31, 2023

MANAGEMENT: MR. RAKESH KHANNA – MANAGING DIRECTOR AND CEO – ORIENT ELECTRIC LIMITED
MR. SAIBAL SENGUPTA – CHIEF FINANCIAL OFFICER – ORIENT ELECTRIC LIMITED

MODERATOR: MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA)

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Moderator: Ladies and gentlemen, good day, and welcome to the Orient Electric Q3 FY '23 Earnings Conference Call hosted by PhillipCapital (India) Pvt. Ltd.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Pvt. Ltd. Thank you, and over to you, sir.

Deepak Agarwal: Thanks. Good morning everyone. On behalf of PhillipCapital, I welcome you all to Orient Electric Limited Q3 FY '23 Earning Conference Call. Today we have with us Senior Management represented by Mr. Rakesh Khanna – Managing Director and CEO; and Mr. Saibal Sengupta – Chief Financial Officer. Without taking much of time, I will hand over the floor to the management for their opening remarks post which we will open the floor for Q&A. Thanks, and over to you, sir.

Rakesh Khanna: Thank you, Deepak. Good morning everyone. A very warm welcome to all of you and thank you for joining us for our Quarter 3 Financial Year '23 Results Discussion. I am Rakesh Khanna, and with me I have our CFO – Mr. Saibal Sengupta.

We are pleased to share that the Company registered record high revenue for the quarter with a growth of 8.9% year-on-year to Rs. 739 crores in Quarter 3 Financial year '23, owing to growth in the ECD and Lighting and Switchgear segments. Our three-year CAGR for Quarter 3 performance is 14.2%, while the five-year CAGR is 16.4%. The gross margin was 28.6%, improving by 234 basis points quarter-on-quarter and 102 basis points year-on-year, driven by better cost savings initiatives.

The EBITDA margin registered a decline of 237 bps year-on-year, partly due to one-time costs or account of investment in growth but grew by 515 bps quarter-on-quarter in Q3 Financial year '23 to 7.4%. Although pricing pressure and high-cost inventory weighed in margins, better operating leverage resulted in expansion of the EBITDA margin on a sequential basis. Excluding one-time costs, the normalized EBITDA would have been 9.1% in Quarter 3 Financial year '23, a modest decline of 70 bps compared to Quarter 3 Financial year '22 normalized EBITDA.

The profit after tax margin was 4.4% in Q3 Financial year '23 compared to 5.6% in Q3 Financial year '22. Our working capital improved to 20 days in the quarter from 34 days in Q3 Financial year '22. The incre]ase in revenue to a substantial extent was supported by 11.9% YoY and 73.8% Q-on-Q growth in the ECD segment led by fans and air coolers.

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The fan segment recorded the highest Q3 sales ever, which increased by 15% year-on-year, following aggressive restocking by trade channel ahead of BEE star rating implementation from January 2023. The current restocking of fans combined with severe cold weather in the north may cause some temporary blips in trade takeoff in the coming months, but we expect the trade to normalize as soon as consumer off-take starts in February and March.

The EBIT margin for the ECD segment was 12% for Q3, registering an increase of 755 bps quarter-on-quarter and an increase of 89 bps on a year-on-year basis. The Company has been able to sell its entire non-star rated fan inventory amidst BEE transition. Presently, we have upgraded 350 plus SKUs from non-star to star-rated fans and have attained BEE rating certification for 400 plus SKUs. The Company has maintained its leadership position in the BLDC fan segment with its established product portfolio, further supported by a planned rollout of new SKUs in Quarter 4.

In Quarter 3, air coolers registered a 2x sales growth Y-on-Y, while water heater sales grew by 21% YoY supported by a 2.5x sales growth in e-commerce compared to last year.

We are happy to share that our direct distribution strategy has generally stabilized in states of Bihar, UP, Orissa, and Karnataka, and has started yielding positive results as sales in these states grew by 60% in Q3 Financial year '23. Andhra Pradesh and Telangana, the two states which came in later, still had to stabilize and yield positive results, and we expect them to stabilize by Quarter 4 Financial year '23. Our focus is on the expansion of distributors, direct dealers and retail touch points in these states.

The Lighting and Switchgear segment recorded year-on-year revenue growth of 1.6% for quarter 3 financial year '23. The overall lighting growth was stagnant in quarter 3 financial year '23 due to the pre-placement of demand in Q2 FY23, GST increase, and the diversion of liquidity towards stock filling of non-rated fans by trade channels.

The growth in the B2C segment remained flat due to subdued demand and high base of last year. The B2B segment grew by double digits year-on-year, driven by infrastructure spending and robust growth in the facade lighting space. Further, EESL restructuring is complete, and we expect tender business to improve in line with government's infrastructure push towards highways, airports, railways, and smart cities.

The professional luminaries space saw record revenue growth with high teens year-on-year growth and improved margins over last year. The company has successfully executed multiple projects for NHAI in Chennai and Chhattisgarh, UP street lighting, HPCL, Jaipur Development Authority, and Delhi PWD. Further, the enquiry and execution levels in the building facade lighting segment remained healthy.

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The company has successfully completed three projects, the Ganga Barrage project, the Varanasi Cantt Railway Station, and the Puducherry Smart City project. We continue to make progress on Srinagar smart lights project, and our Company has been awarded the prestigious contract to design and provide façade lighting for Baroda Bhawan in Delhi.

The Switchgear segment continues to grow with healthy traction in the mass premium segment. We have also launched house wires in six states, namely, Rajasthan, Haryana, Delhi, UP East, Bihar, and MP during Q3 financial year '23.

The Company's exports grew by double digits despite the eco-political challenges in key markets: Sudan, Sri Lanka, Ghana, and moderating demand because of monetary tightening in the Western markets. We remain focused on driving the growth through Lighting and Switchgear portfolio, increasing the digital revenue, go-to-market strategy, and cost reduction initiatives. We have augmented our leadership across various functions to expand our market, brand and segment outreach.

On the Sanchay project, we have achieved Rs. 37 crores in cost savings till December '22. Our new Greenfield Hyderabad factory's construction is on track, and we have incurred Rs. 38 crores in nine months financial year '23 out of the budgeted Rs. 175 crores till date, that is being funded out of internal generation.

We continue to expand our digital revenue, which witnessed 3x growth in quarter three, although on a low base. In the quarter, the Lighting category in e-commerce witnessed improving traction on the platform.

In the quarter, we were awarded the CII supply chain and Logistics Award for 2022 along with the Fame India Safety Excellence Award and the Fame India Environment Excellence Award in the Consumer Goods electrical sector category.

With this, I would like to open this forum for question-and-answer. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, now considering the direct-to-market route, what is the total sales of the Company coming via direct-to-market route? And what is the total potential left, means what is the total scope to do the investment in expanding the depth and width of the distribution for the company? And again, secondly, what are the total savings that the company has achieved from direct-to-market?

Rakesh Khanna: Well, Aniruddha, as I said last time also, the total potential that we have addressed through direct-to-market is around 25%. We are now significantly gaining in that side. We are coming closer to our average all-India market share. In some parts of the market, now we are even higher than the average all-India market share that we have.

The kind of experience that we have gained in the direct-to-market is a great experience, and we feel that we can continue to further expand and take the market share in these states to the highest market shares that we have in any of the other states.

So, it's a great experience that we have. The idea is not to do cost savings. There are no cost savings involved, but there are no extra costs also. It's cost-neutral by and large. It is only about setting the best ground rules from zero base in these new States and creating the best practices. That's what we are gaining.

Aniruddha Joshi: And sir, second question. Considering the entire industry has seen good sales in Q3 itself of non-rated fans, so do you see any likely impact that the industry itself may have a relatively muted growth in Q4 as well as Q1?

Rakesh Khanna: There would be some kind of an impact, but I see this to be a small impact. Really speaking, if you see the entire industry, the growth in Quarter 3 is not so great that it's likely to impact Q4 and the coming Q1 and the season. It's a small growth that has happened. It's a small trade pickup that has happened. We should not forget that the channel was also reasonably empty in the last few months and maybe two quarters. And therefore, so much of pickup is not likely to seriously impact the trade going forward. And I personally believe that as soon as the consumer off-take will start, the trade pickup will again become normal very quickly.

Moderator: Thank you. We have the next question from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Congratulations on the good performance. Sir, my first question is on the fact that wherever you have seen direct-to-market, you have also rolled out DMS and SFA. So, what are the key benefits of this which you have seen? And is there a probability of this seeing a pan-India launch also in the fan market for us?

Rakesh Khanna: Yes, Bhargav. What the digital DMS and SFA allows us is to have a complete visibility. Our objective is to reach the last mile where the consumer buys from the retailer, and we would want in every state to have a retail viewership of at least 2,000 to 2,500 every state. That's the target.

How this helps us is to ensure that the counter shares on each of these addressed retailers are well managed and well influenced. A retailer is an important customer for us in that sense, and we would want to ensure that the retailer is very well serviced. And this visibility helps us to ensure that every retailer is well serviced and our reach is correct. And finally, that is what leads to good market shares.

We will be rolling out a similar DMS in the other states also. But let me clarify. We will roll out the DMS and SFA for transparency in other states and not necessarily the direct-to-market.

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Bhargav Buddhadev: Secondly, sir, I just wanted to know how has been the pricing for these star-rated fans? What we are hearing is that the same have been priced very competitively compared to the erstwhile non-star rated fans, and hence, the consumer demand may not be significantly impacted. Is that assessment correct?

Rakesh Khanna: Yes. You are right. Although the cost increase is there, we are working hard to ensure that the impact is minimized through a lot of cost reduction initiatives, through pricing initiatives. And we understand that we do not want the consumer to be significantly impacted.

Bhargav Buddhadev: And sir, last, this data-related question. You mentioned adjusted EBITDA margin of 9% plus. What was this one-time cost? And can you quantify this? That's my last question.

Rakesh Khanna: So, there are a few one-time costs.

Saibal Sengupta: Basically, there were one-time costs around, as you have seen, our employment costs have gone up. So, there were a lot of senior management recruitments, which have happened. The one-time recruitment costs have gone up. Then we are doing this McKinsey project, which was not there on the pace. That has added to the increase in the cost. And as well as though it is not one-time, but still in terms of advertisement promotion, we have seen significantly uptick on a year-on-year basis. All that put together has caused this impact.

I am not talking about the other normal expenditures, which have rolled back to pre-COVID levels, including international travel and all that. I am not regarding that. But yes, the one-time comprises of the McKinsey consultancy and recruitment costs. Those were the bigger ones plus together with the brand investment. So, all these we look upon it as an investment for long-term sustainable growth.

Bhargav Buddhadev: So, sir, can you quantify the McKinsey cost and the ad spend as a percentage of revenue?

Saibal Sengupta: We don't give that kind of a detail, but all that put together, if you can estimate around 1.7%, 1.8%, all this put together.

Moderator: The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, can you talk about a little on the secondary sales, how it has moved? Because the large part of your volumes and large part of the ECD portfolio is still fans where you have done the inventory addition, plus there was a change in states, you know, direct-to-marketing, which could have also resulted in the high inventory and pushing the volumes to the dealers. Can you talk about more on the secondary sales and as we are closer to Jan end, how the secondary sales is moving, if you can throw some light on that?

Rakesh Khanna: The secondary sales are in line. They are quite satisfactory. From whatever we understand, the market also, the secondary sales have, there is no growth that one can talk about, but it's not

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CIN No.: L31100OR2016PLC025892 240

small. So, secondary sales are going well. Consumers are buying. We are just waiting now for the summer to come up when we will see a spike in the, you know, the next level of sales going up.

Nitin Arora: Getting it. And the change in the distribution which you have done, any other states which you will be taking going ahead? Or is it largely done the first four and four, five states which you have gone through?

Rakesh Khanna: See, currently, we will be focusing on just putting these states absolutely right. And we will be putting the learnings in the other states. As I said, there are some great learnings that we are coming across.

However, we will always be open to taking any decision anytime. What is important is, whatever is more suitable in a given state, those actions will be taken in the interest of the market shares in the state.

Nitin Arora: Getting it. Just one clarification on this cost element. So, the employee cost, which is Rs. 57 crores now, generally, we have been in the range of Rs. 46 to 47 crores or Rs. 45 crores. In that, how one should take the recurring cost on the employee side? Because you said there is some recruitment cost. I didn't understand what is this one-time recruitment cost. I mean, it should get normalized, right? So, can you throw some light what is the normalized employee cost one should assume?

Saibal Sengupta: Basically, the employment cost, which has gone up, this, you should see this as a recurring cost, because now quite many of the senior management team members have already been onboarded. Their costs are coming. One or two will get added in the current quarter as well. So, what is published is the recurring cost, and it will slightly increase as well.

The recruitment cost which I talked about is the one-time recruitment for the not only senior management, but for at all levels. A lot of vacancies are also getting filled up at the junior levels as well. All that put together, it's a one-time recruitment cost.

Rakesh Khanna: But let me also add. The way you need to see it is that all of these are upfront costs for the future growth. And as we start growing, you will start seeing the advantage of these costs. So, you can see them, the increase in the cost is an upfront cost, which we are putting in, in building some part of the organization, which is a growth lever of the organization.

For example, we are building a very strong e-commerce team. Now, we know that this is an area where we want to significantly grow. So, in future, as a percentage of revenue, you will start seeing it coming down.

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CIN No.: L31100OR2016PLC025892 240

Nitin Arora: That's a well point taken, sir. I was just trying to understand that, you know, where this 170 bps coming from, from a one-off. So, it doesn't look like a one-off. It's the recurring cost, and I understand the future benefits will come as a percentage of sales.

So, on an absolute basis, I was just trying to understand that we should assume this number or not. So, then it doesn't look one-off. That's what I was trying to understand.

Rakesh Khanna: The one-off is the other recruitment cost, which is in other costs and not in the salary cost.

Nitin Arora: That would be Rs. 8, 10 crores roughly?

Rakesh Khanna: Difficult to say.

Nitin Arora: Difficult to say.

Moderator: The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Sir, I have a question on fans. Now you did indicate, you know, that fans has grown by about 15%. Could you clarify the volume growth that you have seen in this quarter and for the first nine months for the fans business?

Rakesh Khanna: Volume growth, value growth are nearly similar.

Rahul Gajare: Fair enough. Now lighting, I was looking at similar volume growth in the lighting business, because we have been flattish in this particular quarter, but in the full year, in the first nine months, we have seen a 20% plus growth. So, just want to understand the volume growth in lighting business?

Rakesh Khanna: In lighting, it is very difficult to give a volume growth. It's comparing two, three very different products. On one side, you have streetlights. On the other side, you have a bulb. So, very difficult to put the volume to value. I think one has to see only value.

Rahul Gajare: Let me put it in a different way. I understand there is some decline in the realization in the B2C lighting, some large part of the lighting. Is there a significant decline in realization that we have seen in the B2C lighting?

Rakesh Khanna: No.

Rahul Gajare: Sir, my last question is on the demand scenario and what you have done on e-commerce to see such a significant jump up. That's the last question. So, I am asking on the demand scenario. You know, for the last two, three quarters, we were talking about a slower demand that is being seen in the consumer side. So, I want to understand what is happening on the demand side on both ECD business and the lighting business?

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CIN No.: L31100OR2016PLC025892 240

Rakesh Khanna: So, the demand is not a high growth demand. I would not call it that way, but also, there is no kind of reduction. We are not seeing the demand going down. I think it's fairly stable demand. And going forward, we are more hopeful about the demand to further pickup.

Moderator: We have the next question from the line of Nikunj Gala from Sundaram Asset Management Company. Please go ahead.

Nikunj Gala: Sir, just want to understand in the last one month, what are the consumer behavior we have seen in the fan category, like still people are preferring buying one-star, two-star or three-star and above? Can you just help us with your, you know, understanding from the ground, what is the higher contribution from which star?

Rakesh Khanna: So, currently, this will be a lot influenced by the trade. And in the trade, since there is a zero-star material, the trade will continue to push the zero-star fans. But going forward, as this inventory will deplete and the awareness of the star-rated fans will increase, it's very clear that the consumers will start going for the star-rated fans.

Nikunj Gala: So, in the last month, we haven't seen any, like a pattern of people moving from like zero-star to three-star or something, like, so you must be having some order backlog for the coming months?

Rakesh Khanna: No significant shift as of now, as I said. And this is largely also driven by what the trade has stocked, because the consumer first has to go to the retailers and speak there, and the retailer will show the stock that the retailer is carrying. Therefore, not a significant shift.

Nikunj Gala: So, as of now, just want to understand from your production perspective, how the contribution will be from your production side, like large chunk would be still you would be producing zero and one-star?

Rakesh Khanna: No. There is the legal requirement, and effective 1st January, the manufacturers cannot manufacture or sell zero-star.

Nikunj Gala: I mean for one-star and two-star, sir?

Rakesh Khanna: Yes.

Nikunj Gala: I am saying large chunk of your production still will be one-star and two-star, sir?

Rakesh Khanna: Still large will be one-star.

Nikunj Gala: And just one clarification on your comment when you mentioned in the nine-month period in fans, your volume and value growth are equal. So, in the last nine months, considering the kind of inflation we have seen, is there an understanding that we haven't taken any price increase in the first nine months?

Rakesh Khanna: A lot happened because of the mix change. During this time, because there is a lot of stocking that takes place, that has taken place, a lot of it has been on the lower price side. Just a mix change.

Moderator: The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Two questions. Firstly, you know, our interactions during last quarter with the trade essentially indicated some kind of higher discounts and schemes for liquidating zero-star, your one-time cost, you know, whatever you mentioned doesn't include any kind of cost related to that. Could I understand a bit more exactly how was your experience in terms of liquidation? Did this discount thing actually impact margins? And what would be the receivables really? Because if I heard correctly, you said net working capital is actually better Y-o-Y. So, just these two things, please.

Rakesh Khanna: So, the good thing that happened with us is that we cleared the inventory. And we planned well ahead of time. And therefore, by December itself, we had sold most of the inventory that we had. We were not under any pressure to discount, to liquidate our inventory. We were much better off. And in terms of the credit, you would have seen our working capital. The stocks have improved. Receivables have improved. I think we have done very healthy selling. We are happy for that.

Rahul Agarwal: And the second question essentially was on margins. So, it looks like, obviously, 3Q has been better based on, you know, past history purely because of channel fielding on fans side. But the gross margin and operating margins have not, you know, really reverted to long-term averages. Obviously, that's a function of some one-time costs incurred right now. But how should we look at margins over the next 12 months? Any indication, any direction will be really helpful. Thank you so much.

Rakesh Khanna: So, in terms of gross margins, we have improved our gross margins. Of course, the pressure continues. There is a lot of competitive pressure in the market. But we have improved our gross margins. Going forward, we do hope that our gross margins will further come up. There are a lot of cost saving initiatives that we have worked in the pipeline. They will help us to improve our gross margins going forward. And we have not put any separate one-time liquidation costs. You see, the entire pricing is a part of the total pricing in the gross margins. So, there is no separate thing called that there is a liquidation cost for those, and it's sitting somewhere else. Nothing else is sitting anywhere else. It's the total gross margin earned is what it reflects, which has improved.

Rahul Agarwal: So, the EBITDA should improve to 9%, 10%, or will it take like real time because we are investing quite a lot on e-commerce, on people, on a lot of other things, right?

Rakesh Khanna: Yes. So, we expect the whole thing to start giving results fairly quickly. As you noticed, when we took the call of go direct to the market, our lesson was that we recovered this, the whole thing came back in a matter of two to three quarters. So, the whole GTM is a three-quarter cycle. Most of these also should start showing results fairly fast. We are already seeing in e-commerce 2x and 3x growth, which is already coming. I am sure this will stabilize and will continue to give us benefits.

So, the Spark projects, in which we have McKinsey working with us, is also a two years project, out of which one year is going to get over soon. And we are already seeing the kind of benefits that it is bringing in. And that is what is helping us maintain our margins. And with that confidence, I am saying that the margins will further grow, because these kinds of very scientifically done cost reduction initiatives are really showing good results. So, we should be seeing the profit margins improving in the times to come.

Moderator: We have the next question from Mr. Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: In terms of the, you know, the mix, can you help us with respect to the fans mix here in terms of premium and non-premium for nine months or one year?

Rakesh Khanna: See, I have always maintained that the premium way we define is very different than the way industry defines. For us, the premium is the top 10% is what we call premium, and we continue to change the definition of our opinion. Our premium is not a fan which starts at Rs. 3,000. At one time, it was Rs. 3,000. Today it is Rs. 5,000. Anything less than an Aero Series, we don't call it a premium.

All I can tell you is that the premium is continuously increasing. It is in the range of 10%. And with the new 5-Star now coming in, the definitions will once again change. A lot of premium will come in the decorative segments for us, and the premium will once again move upwards. But in the premium category, as we define, we are clearly a dominant player with more than 40% market share in this particular segment. I am glad to say that when it comes to aspirational products, Orient is by far the leader in aspirational products.

Achal Lohade: If I were to ask in a different fashion, if you were to, you know, categorize fans in terms of three or four buckets, what would they be? And what their mix would be as we speak?

Rakesh Khanna: So, the way I would look at is, one is the basic white and brown fans, and we call them the base fans. The second would be the decorative fans, which have the trends, metallic colors, etc. The third will be the premium fans. And the fourth will be the BLDC fans. And then will be the TPW fans and the exhaust fans.

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So, it's a little different way of looking at the product category. But, I think, coming out of a pure trade-based, price-based categorization, I think if we see it from the consumer perspective, the buckets will change. And that's the way we place our buckets.

Achal Lohade: And what would that mix be, sir, approximately?

Rakesh Khanna: The basic fans, the white and brown fans, will still constitute approximately 50% of the total business. And then 10% for us will be the premium fans. And today, the total BLDC will be in the range of another 10%, and the balance would be the decorative fans.

Achal Lohade: The second question I had was in terms of the season. You know, A, is there any possibility of a price change whether upward or downward for these two categories? And B, any new SKU or differentiated product or new products in this particular categories?

Rakesh Khanna: Which category?

Achal Lohade: Fans and air coolers, sir.

Saibal Sengupta: In view of the season.

Achal Lohade: Sir, from the season perspective. Yes, from the upcoming season perspective?

Rakesh Khanna: So, the pricing is already, already announced. The pricing, there is not likely to be any change. And in new products, yes, in fans, there is definitely a strong rollout that's happening. And in coolers, we have a very strong lineup. So, yes, in both of them, the lineup is strong, and prices have already been announced.

Achal Lohade: And just one last question, if I may. You know, with respect to the gross margins, you said the cost savings initiative. I think you mentioned Rs. 37 crores. I don't know if it pertains to only raw material cost at the gross margin or the other costs as well. So, what is the target here? You know, is there any particular number in mind, what you aim to achieve every year? Or is this just a one-time thing?

Rakesh Khanna: So, the target is in 12 months' time, including this, we should be able to save Rs. 100 crores. That's the target, and we'll be moving fast towards that target.

Achal Lohade: And for how much have we saved for nine months, sir?

Rakesh Khanna: As you said, Rs. 37 crores.

Achal Lohade: So, you are saying the fourth quarter would alone have Rs. 60 crore plus savings? Have I got this number right?

Rakesh Khanna: No. We talk of 12 months, rolling 12 months.

Achal Lohade: Rolling 12 months.

Rakesh Khanna: So, it's on an annualized basis.

Achal Lohade: And just in terms of market share, if you could help us in terms of fans, lighting, and air cooler?

Rakesh Khanna: Actually, we normally do not talk much about market shares, because there is no very reliable syndicated data on market shares. So, if you ask me, my understanding of market share, depending on which brands and how many players do we take in counting that bucket, I think if I take all the known, well-known brands into account, then our market share in fans would be in the range of around 18%.

Achal Lohade: So, I presume you are talking about 18% of the organized market, right, effectively?

Rakesh Khanna: Yes. So, let's not get in to market share because there is no syndicated data, and it's very difficult to define what is an organized player, what is an unorganized player. There are different perspectives to them. What's important is this is our market size, and you can compare with the market, the size of other peer group and arrive at your conclusion.

Moderator: The next question is from the line of Balasubramanian A from Arihant Capital. Please go ahead.

Balasubramanian A: Congratulations for a good set of numbers. I have one question on Lighting and Switchgear segments. Sir, we are doing a project, Srinagar Smart City project. And sir, how we are selecting the project? What is the minimum criteria in terms of margin, IRR and other criteria? Could you please explain the same? Thank you.

Rakesh Khanna: So, when we select the projects, basically, we are looking at margin and payment securities and payment terms. So, if the payment terms are secure, and the margins are good, we take up the project.

Balasubramanian A: Sir, any particular minimum criteria, like --

Rakesh Khanna: I would not be able to answer that question. Because that's, you know, competitively sensitive. You can understand. But yes, we want healthy margin. And we want to ensure that our payment is well secured.

Balasubramanian A: Sir, on the ECD segment, like, could you please share breakup for fans, water heaters, air coolers, so that would be really helpful?

Saibal Sengupta: So, basically, the fans, as I already mentioned earlier occupies around 61%, 62% of the business, and that is continuing. The water coolers and water heaters again, the same trend as I had

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

mentioned earlier, between 10% to 12%. That trends continues. As you can understand, there will be seasonal blips into this. And then as far as lighting and switchgear is concerned, 27%, 28%. So, organically, this is a trend, which has continued, and the same trend continues in the Quarter 3 as well.

Moderator: The next question is from the line of Ashish from Infinity. Please go ahead.

Ashish: Sir, couple of questions. One is that as this transition happened and the dealer refilling the inventory happened, do you believe that some of the sales this quarter were one-off kind of or do you not think that that's anything there?

Rakesh Khanna: If you see the total sales in the quarter, it is not very high. And therefore, I don't think it is wise to say the sale is one-off. Yes, the retailers, depending on the geography, have tried to overstock a few fans models, specifically the lower end where they expected the fans are highly price sensitive. But the total stocking is not very high. And therefore, I do not see much impact in the coming quarter.

Ashish: And secondly, sir, in terms of the slightly longer term and more on medium term, where do you think our EBITDA margins could stabilize? Could we get back to a double-digit, low teens kind of margins maybe in a year or two years? Or do you think that because we went through a lot of pain in the last two years in terms of market disruption, commodity prices, etc., I presume a lot of that is behind us.

Rakesh Khanna: Yes. And if you see, if you take out the one-time investments that we are putting, we are already fairly close to the double digits. So, yes, we are very clear that we will be hitting the healthy teens in some time as these one-time costs will go away and leave behind the benefits that these one-time costs will give us. All the benefits that the one-time costs are going to give us are going to be ongoing basis, long-term benefits. And once the cost is removed, you will see healthy EBITDA margins.

Ashish: And secondly, sir, on the other income side, is this a sustainable or is there a one-off in that other income?

Saibal Sengupta: No, other income has a one-off, which you would have seen the disclosure that we have given. There is a past due, which was already fully provided for earlier four, five years back from one of the distributors for which we were into a litigation. That has got close to a one-time settlement, and that is a provision reversal which has got done, which is, from an accounting perspective, it has been disclosed as other income. So, that's a one-off. So, out of the Rs. 8.5 crores that you see, Rs. 5.75 crores is the one-off, which has been disclose separately in the results also.

Moderator: The next question is from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead.

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

Saptarshee Chatterjee: My question is on the direct-to-market. Our revenue contribution from these four markets would be closer to 10% or it would be around mid to high teens.

Rakesh Khanna: It is more. As I said, we have addressed nearly 25% of the potential. And now, we are fairly close to the average market shares across the country.

Saptarshee Chatterjee: Actually, the reason I am trying to understand is, basically, if I back calculate, then for the rest of the markets is like it is kind of a single digit kind of a growth. So, what would be the reason for the same? And if that is the case, then is it not good that we really accelerate our pace and do this direct-to-market across other states?

Rakesh Khanna: First thing, you will have to double click on your calculation, because I have also said that AP and Telangana today have not given us growth. The growth that I said 60% is without AP and Telangana.

Having said that, you are right that the growth that we would expect from direct-to-market states is high. But at the same time, we have some of the states where we are already very strong. And they are normal MD operations. I have maintained it that our MDs are a very, very strong strength and a great asset that we have with us, and we really value those relationships.

Will there be some other states with low market shares where we may take advantage of the learnings of this? Answer is yes. We will see as and when it is required. However, we will also be implementing the learnings from these direct-to-market states into the MD states and try and further take up the shares in the MD states also.

Saptarshee Chatterjee: Very, very helpful. And can you please give the breakup of revenue mix between B2B and B2C in lighting?

Saibal Sengupta: B2B is around 10% to 15% of the total lighting portfolio.

Saptarshee Chatterjee: And what would be the margins differential between B2B and B2C?

Saibal Sengupta: Margin differential is nothing because it's at par, because we do not have investments and other costs sitting. There would be a small delta in the gross margin, but that trickles down to the EBITDA, which is at par in core B2C and B2B.

Moderator: The next question is from the line of Aakash Javeri from Perpetual Investment Advisors. Please go ahead.

Aakash Javeri: My first question is that once destocking is complete of non-star rated fans at the trade level and we stock the channel with star-rated fans, how do you see the market changing, especially with respect to BLDC penetration? And how does that change our profitability as a Company?

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

Rakesh Khanna: Difficult to say how the market will behave. But we can draw parallel from other products that have moved similarly from non-star to star-rated product categories. Water heater being one of them, air conditioners being another one of them. We see that the consumer tends to settle between the two sides. On the lower side is the price-sensitive side, and on the higher side is the saving side or the efficiency side.

Similarly, in this fans category, we see the one-star will be the price-sensitive size, and the five-star will be the power efficiency side. And somewhere in between the two, the consumers will settle. Fans being more price-sensitive product, the upfront cost is critical for a customer. A significantly large portion of customers will tend to settle for the upfront low-priced product category, which will be one-star. But a significant side would also move towards the five-star. We will all see how the market pans out.

But the current growth in five-star is very healthy. It's moving at a fast pace. There are some states which are already showing the BLDC fans in the rate of 25% to 30% market share already. Whereas there are many other high-volume states, which are slow starter. They have not picked up the five-star fans very fast. So, we will see how the total grows. We have to see both sides with good portfolio.

Aakash Javeri: And what would be the impact, you know, what impact can companies like Atomberg and Superfans who, you know, focus mainly on BLDC, what impact would they have on the industry as a whole?

Rakesh Khanna: So, you are right that for some time, there was a unique position for a few of the players, and they were enjoying a separate space for themselves. But as the whole space opens up and all players will tend to come in that space, it will become crowded. It will take a different shape. So, we will see how it goes, but I can tell you one thing. The margins are more or less similar as a percentage. What you can be expecting is the market to grow in revenue terms, because if the average selling price of the fan goes up by even 10%, we will see that kind of revenue growth.

And also, if we start seeing replacement happening, because of awareness of high efficiency, that will also give us growth. So, this BEE Star rating change is very likely to give a growth to fans and give it a new life, give it a more involvement from the consumer side. And we all should see a very healthy fan industry in time to come.

Aakash Javeri: And do we see the cost of BLDC fans coming down? And if yes, by how much can it come down?

Rakesh Khanna: Anybody's guess, but I can tell you, electronic products have the tendency of constantly coming down in costs. BLDC is, it would be categorized as an electronic product, because a significant part, the cost of the product is electronics, and this will continue to come down.

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

Over the last two, three years, we all have seen a significant reduction in the cost of BLDC fan, and that's going to be another reason for BLDC adoption to go up. Because the price difference between induction and BLDC is likely to continue to narrow down. And we will, therefore, see an upswing in this, and that will lead to replacement demand going up, and the average selling price going up.

Aakash Javeri: And if I could just squeeze in one more question, what are the advantages of keeping our manufacturing for fans in-house versus outsourced?

Rakesh Khanna: The make versus buy decision is based on a few things. Number one, how critical is the quality and cost in that particular product category. If you believe that technology is important, and it requires investments, then this should be in-house. If we believe that the technology can be very simply duplicated, then it can be outsourced.

The organization has to see where the organization wants to put the bandwidth of the organization. If whatever can be purchased can be purchased at a low cost from outside without affecting the design or the quality or the cost capability, then it can be outsourced. Otherwise, it has to be in-house. So, it's a little complex decision, but we constantly keep on evaluating and taking the decision.

I can also add that manufacturing is definitely very important. And it is reflected in our decision for setting up a completely Greenfield project in Hyderabad. What we want to achieve from Hyderabad project is a top-class manufacturing facility, which will give us technical ability to produce high quality products with high reliability at the economical cost. So, we will continue to take make versus buy decision. It's a great question that you asked.

Saibal Sengupta: Sorry to interrupt before taking the next question. I would just like to correct, I mentioned B2B as 10% to 15%. At the end of December, it is 25%. I just would like to correct that. Sorry for that.

Moderator: The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Just one question on this Hyderabad Greenfield project. My sense is, it's going to come in phases. We are spending about Rs. 175 crores. Could you just give us some kind of understanding when does it start and, you know, some idea on Phase-1, Phase-2? What are the kind of asset turns or sales contributions or products? I think you have explained in the past, you know, how do you want to ramp up fans. It's all premium, top class, low production. But just Phase-1, Phase-2, what kind of products should we see? What kind of sales should we expect from this Rs. 175-crore investment?

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

Rakesh Khanna: So, the initial investment, I would say the large part of the investment, of course, goes in land, building etc., and then is in terms of equipment. The equipment, because it's the tail end, will come in smaller phases. But that doesn't really define the phases of the whole project.

Initially, we will take up all our TPW fans there, and we will significantly reduce the Calcutta production and take them here. One of the reasons for taking TPW here is that we would like to focus on the export market with TPW product, and we believe that market is large. And in India, the ability to produce to TPW at that cost and quality is low. We have to fight with China as an alternate, and this factory will give us the footing to deliver that kind of a product at that cost.

We will also be looking at manufacturing the BLDC fans over there, although we have the capability within Faridabad Factory also. But we foresee that BLDC fans as a percentage will start expanding, and that's what is going to grow more. That will also come there. This is about Phase-1 where we are talking about the fans. There will be Phase-2 in which we will decide to start manufacturing other categories beyond fans, and that we will share as soon as we finalize. But there is significant space left for that.

Saibal Sengupta: Just a clarification. That Phase-2 which Mr. Khanna talked about this is not part of this Rs. 175 crores. This Rs. 175 crores is exclusively for fans, both TPW and ceiling.

Rahul Agarwal: So, Phase-1 essentially is FY '24, right? I mean, next 12 months, we are all talking about Phase-1. Phase-2 will come like two, three years afterwards. Is that the right understanding?

Rakesh Khanna: Difficult to say two, three years. As soon as we take a call, we will share with you. But currently, we will be seeing the Phase-1, and we expect the commercial production to start from June onwards. And with that, we will see the manufacturing of the TPW fans and some ceiling fans in that factory.

Rahul Agarwal: Sir, just a related question. Since it starts in June and again, you know, this will be after the season, we will obviously have the new plant cost coming into the P&L, will that by any standard impact our margin trajectory, which we are expecting to recover going into next year? Or you know, could we see some kind of pressure from that as well?

Rakesh Khanna: The whole objective will be how do we taper down the other factory and reduce the cost there and bring the cost here. There would be a little part transition cost, but our objective will be how do we minimize the transition.

Saibal Sengupta: The whole aim is to gain in terms of gross margins and cost excellence as far as Hyderabad is concerned. Those efficiencies will bring in the margin benefits in terms of growth margins and COGS. The only point is that, obviously, it does not happen from day one. There will be a little stability period, which is difficult to comment at this point of time. Yes, there could be a

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

momentary few months of the impact, but that our aim is to neutralize that through improvement of the COGS on the margins.

Moderator: We have the next question from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: I have one question. You mentioned during the discussion that eventually, the company should operate at a double-digit kind of a EBITDA margin, and for that we have been doing a lot of investment both on the ad spend side as well as the employee addition, which we have done. Now, if you look at from an angle of the categories, so fans, we have a pretty strong strength, but the other categories like coolers and all, which are still probably subscale, so if you have to achieve that double digit kind of EBITDA margin, would it be necessary for these subscale categories to become a larger part? Or would it be more driven by the growth in the fan category? And how are you looking at, eventually, the mix for these categories? And would you see addition of few more segments in our P&L? Or largely, we will operate around these segments and try to scale up the segments which are subscale? So, how are you thinking over a three, five year our mix of P&L and our direction for achieving double digit margins?

Rakesh Khanna: So, if you see, even as of now, if you remove the one-time exceptional costs, we are close to the double-digit margin. We have in the past delivered double digit. We are now investing in some development projects. You remove those costs. We are close to double digits. So, double digit is not a big concern for us. That will happen. How will it be driven? Fortunately, in all the segments we are in, the growth possibility is huge. In fans itself, the growth possibility is high, because we still are not the market leader, and we do believe that we have all the capabilities to be the market leader, be it from the brand perspective or from the product perspective.

The other categories, coolers, water heaters, yes, a lot can be done over there. And once again, we have a strong brand. We are getting a good traction. As I said just now, in Quarter 3, the coolers have really grown very, very well. They did face a headwind because of the unfortunate two years where COVID hit during the peak season, and the entire industry got hit. But I think coming years are going to be great years for coolers as a category.

Water heater is showing a very good traction for us. And we have good plans for water heater growth again.

Lighting, you would see it is one of the fastest growing in the industry. We are continuously growing very well with very good margin. So, lighting also is a high growth area for us. So, because of the low base of these categories, obviously, their shares will start growing more, and we will see an organization which is not only fan dependent but has a large share of other products. But within them, we can do a wonderfully good job. Margins are likely to continue to grow in all of them.

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Investor Relations: investor@orientelectric.com
CIN No.: L31100OR2016PLC025892 240

Nikhil: And just, I am not asking for any direction or guidance, but if we look at companies in the consumer durable, brown goods segment, the kind of scale which company achieved, say, a Rs. 3,000 or a 4,000 crore, where would you say a company should operate at? Should it be like a 13 to 15 kind of a margin with the scale the business has, a company can easily achieve, then the management can always take a call of investing to grow and all? But if we have to get a sense of where can a company or where the company is operated at a scale of say three to four or 5,000 crores, what's your sense? Where should, as a company, you would say that we should be at least operating at?

Rakesh Khanna: See, the rate of growth that we have been talking about, barring some period of COVID, otherwise, we have constantly been talking of a high growth rate. We should be reaching in this kind of a terrain that you are talking about 3,000 to 5,000 crores; we should be soon reaching. And in terms of profit, as I am saying, we have already been demonstrating a, you know, double digit profit if we remove the exceptional cost. And it's all contextual to time zone. By the time we will be 3,000, 4,000 crores, I am sure the aspiration will be to reach 7,000 or 10,000 crores. So, it's all within the time zone.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Deepak Agarwal for closing comments.

Deepak Agarwal: Thank you. We like to thank the management for giving us opportunity to host this call, and also, we like to thank all the participants for joining the call. Management, do you have any critical remarks? Thanks.

Rakesh Khanna: Thank you, Deepak. Thank you so much for hosting, and thanks to all the participants for continuously taking interest in Orient Electric. I would like to just reassure you once again that we are doing our best to ensure that we deliver the best performance in the coming period. Our investments are going to be giving us great results at a great trajectory going ahead. And we are very confident about our performance in the coming years. We do take up the kind of questions that come from you telling us that there is a lot of expectation about the growth and aspiration. We do take those aspirations, and we will want to deliver the best. Thank you so much. All the best.

Saibal Sengupta: Thank you, Deepak. Thanks all the participants.

Moderator: Thank you. On behalf of PhillipCapital (India) Pvt. Ltd., that concludes the conference call. Thank you for joining us. You may now disconnect your lines.

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CIN No.: L31100OR2016PLC025892 240